INTERIM FINANCIAL REPORT

AT 30 JUNE 2018

EVOLVING ENERGIES

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Courtesy translation

INTRODUCTION

The condensed interim consolidated financial statements as at for the six months ended 30 June 2018, prepared on the basis of the indications contained in Article 154-*ter* of the Italian Consolidated Finance Act, was prepared in condensed form in compliance with IAS 34 "Interim Financial Reporting".

Unless otherwise indicated, the amounts included in the Interim Report are expressed in euros.

The Condensed Interim Consolidated Financial statements where reviewed by the independent auditors KPMG S.p.A. in compliance with CONSOB (the Italian Commission for listed companies and the stock exchange) regulations; the results of their work will be published as soon as they are available.

Disclosure pursuant to Articles 70 and 71 of the Issuers Regulations

The Group 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 increases by contributions in kind, acquisitions and sales.

Alternative Performance Indicators (APIs) and adjusted results

On 3 December 2015 CONSOB issued Communication no. 92543/15, which transposes the Guidelines regarding the use and presentation of Alternative Performance Indicators in the context of regulated financial information, issued on 5 October 2015 by the European Securities and Markets Authority (ESMA). The Guidelines, which updated the CESR Recommendation on Alternative Performance Indicators (CESR/05-178b), aim to promote the usefulness and transparency of alternative performance indicators so as to improve their comparability, reliability and comprehensibility.

Some of the APIs used in this document are different from the financial indicators expressly provided for by the IFRS adopted by the Group.

These alternative indicators are used by the Group in order to facilitate the communication of information its business performance as well as its net financial indebtedness.

Finally, in order to enhance understandability of the business segments' performance, the operating results are shown excluding special income items: these results are indicated with the term "**Adjusted results**".

A definition of the indicators and the reconciliation of the amounts involved, are provides in the "Alternative Performance Indicators" section.

Restated comparative data

- The sale of **TotalErg** on 10 January 2018 marked the ERG Group's definitive exit from the Oil industry. Since 2018, its business has therefore been focused exclusively on the market for the generation of energy from renewable sources. The comparison of the 2018 results with those of the same period of 2017 is therefore affected by this change in scope. As such, in order to enhance understandability of the group's performance in the two periods and in view of its new strategic and industrial positioning, the comparative figures for the corresponding period of 2017 were restated so as to exclude the adjusted results[1] of the TotalErg joint venture which had previously been measured using the equity method and reported in the line "Net gains (losses) on equity investments". In the first half of 2017, this contribution was a positive EUR 15 million (EUR +24 million for the whole of 2017).
- **IFRS 15 - Revenue from Contracts with Customers** has been applied from 1 January 2018, with no significant impact on the Group's consolidated financial statements. In particular, for some contracts, ERG is identified as an "agent", requiring revenue to be presented at its net value to show only the brokerage margin.

MAIN INCOME STATEMENT DATA

(EUR million)	1st half 2017	TotalErg deconsolidation	IFRS 15 reclassifications	1st half 2017 restated
Revenue from sales and services	538	0	(4)	534
Adjusted EBITDA	**258**	**0**	**0**	**258**
Adjusted EBIT	**133**	**0**	**0**	**133**
Profit	84	(12)	0	72
of which attributable to the owners of the parent	*84*	*(12)*	*0*	*72*
Adjusted profit attributable to the owners of the parent	**87**	**(15)**	**0**	**72**

Segment reporting

Operating results are presented and commented on with reference to the various production technologies, in line with the Group's internal performance measurement methods.

The results by business also reflect the energy sales on markets by Group Energy Management, in addition to the adoption of effective hedges of the generation margin. The above mentioned hedges include, inter alia, the use of instruments by ERG Power Generation S.p.A.'s Energy Management department to hedge the price risk. In order to give a clearer representation of the businesses in terms of technology, the wind and hydroelectric power results include the hedges carried out in relation to renewable sources ("RES") and the thermoelectric results include the hedges on the "spark spread".

1 Net of special items and inventory gains (losses).

Risks and uncertainties in relation to the business outlook

With reference to the estimates and forecasts contained in this document, and in particular in the section "Business outlook", it should be noted that the actual results may differ from those announced due to a number of factors, including: future price trends, the operating performances of plants, wind conditions, water availability, irradiation, the impact of energy industry and environmental regulations, and other changes in business conditions and competitors' actions.

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CORPORATE BODIES

BOARD OF DIRECTORS [2]

Chairman
EDOARDO GARRONE
(executive)

Deputy Chairman
ALESSANDRO GARRONE [3]
(executive)

GIOVANNI MONDINI
(non-executive)

Chief Executive Officer
LUCA BETTONTE

Directors
MASSIMO BELCREDI [4]
(independent)

MARA ANNA RITA CAVERNI [5]
(independent)

BARBARA COMINELLI [5]
(independent)

MARCO COSTAGUTA
(non-executive)

PAOLO FRANCESCO LANZONI [4]
(independent)

SILVIA MERLO [5]
(independent)

ELISABETTA OLIVERI [5]
(independent)

MARIO PATERLINI [5]
(independent)

BOARD OF STATUTORY AUDITORS [6]

Chairman
ELENA SPAGNOL

Standing Auditors
LELIO FORNABAIO
STEFANO REMONDINI

MANAGER IN CHARGE OF FINANCIAL REPORTING (ITALIAN LAW NO. 262/05)

PAOLO LUIGI MERLI

INDEPENDENT AUDITORS

KPMG S.p.A. [7]

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2 Board of Directors appointed on 23 April 2018.
3 Director in charge of the Internal Control and Risk Management System.
4 With reference to the provisions of Article 148, paragraph 3 (Or: article 148.3), of the Italian Consolidated Finance Act.
5 With reference to the provisions of Article 148, paragraph 3 (Or: article 148.3), of the Italian Consolidated Finance Act and the matters contained in the current Corporate Governance Code recommended by Borsa Italiana S.p.A.
6 Board of Statutory Auditors appointed on 3 May 2016.
7 Appointed on 23 April 2018 for the period 2018-2026.

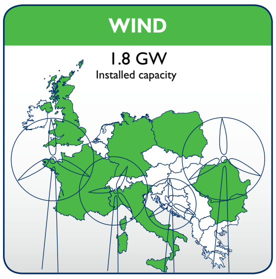
BUSINESS DESCRIPTION

In 2017, the ERG Group completed a radical transformation process, evolving from a leading Italian private oil operator to a major independent operator in the production of energy from renewable sources (wind, solar, hydroelectric and high-efficiency cogeneration thermoelectric). It also expanded abroad, increasing its presence on the French and German wind markets.

Management of the industrial and commercial processes of the ERG Group is entrusted to the subsidiary ERG Power Generation S.p.A. which directly carries out:

- centralised Energy Management activities for all the generation technologies in which the ERG Group operates;
- the Operation & Maintenance activities of its Italian wind farms and part of the plants in France and Germany, as well as the CCGT plant. It provides technical and administrative services in France and Germany for group companies and third parties through its foreign subsidiaries.

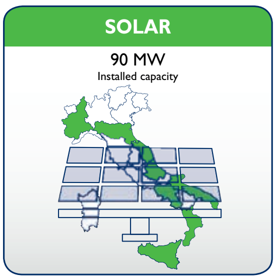
ERG Power Generation S.p.A. also operates, directly or through its subsidiaries, in the following Electric Power generation sectors:



Wind

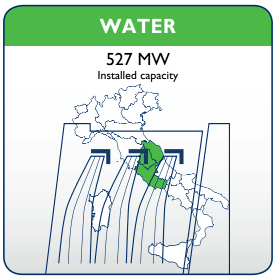
ERG is active in the generation of electricity from wind sources, with 1,791 MW of installed power at 30 June 2018. ERG is the leading wind power operator in Italy and one of the top ten in Europe.

The wind farms are mainly concentrated in Italy (1,093 MW), but with a significant and growing presence abroad (698 MW operational), mainly in France (276 MW), Germany (216 MW), Poland (82 MW), Romania (70 MW) and Bulgaria (54 MW).



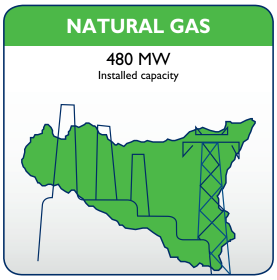
Solar

As from January 2018, ERG is active in the generation of electricity from solar sources, with an installed capacity of 90 MW, through 31 photovoltaic plants which became operative between 2010 and 2011 and are located in 8 regions between the North and the South of Italy.



Hydroelectric

ERG is active in the generation of electricity from hydroelectric sources through an integrated portfolio of assets consisting of 19 plants, 7 dams, 3 reservoirs and one pumping station, located in Umbria, Marche and Lazio, with a capacity of 527 MW.

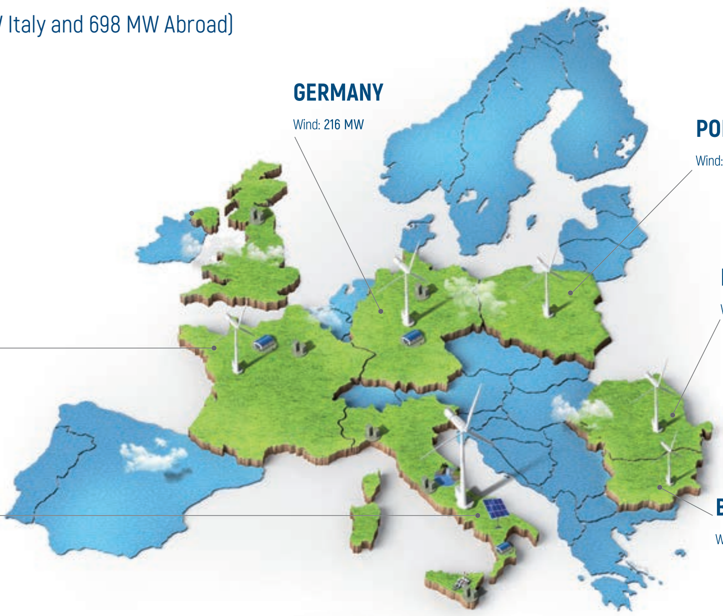


Thermoelectric

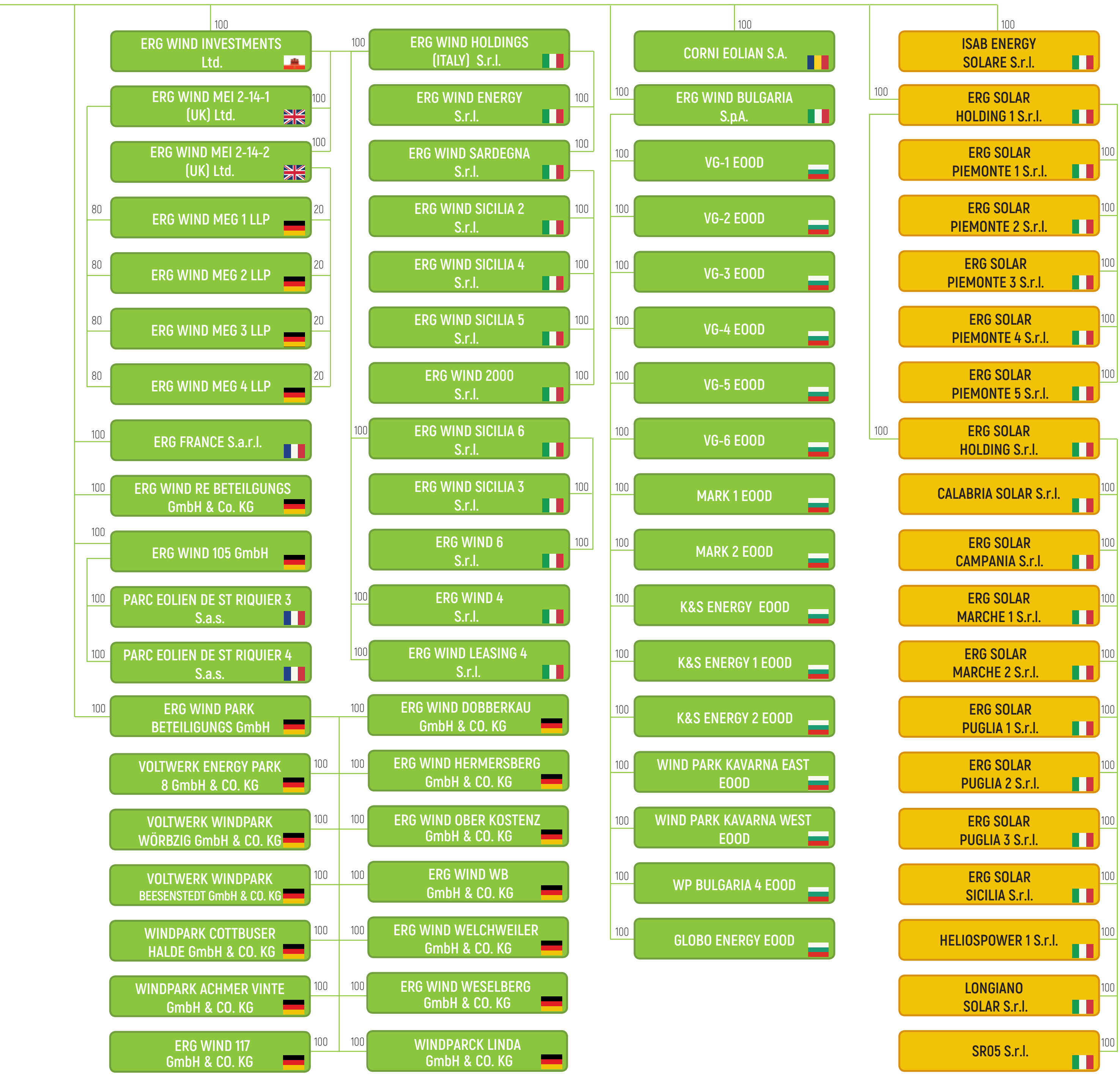
ERG is active in the generation of electricity from thermoelectric sources through the CCGT "Centrale Nord" plant (480 MW) at the industrial site in Priolo Gargallo, Syracuse, Sicily. This is a high-efficiency cogeneration plant (HEC), which uses combined cycle technology fuelled with natural gas. It came into stream commercially in April 2010 along with other ancillary plants for the production of steam and, to a lesser extent, of other utilities.

GEOGRAPHICAL SEGMENTS AT 30 JUNE 2018

Wind: **1,791 MW** (1,093 MW Italy and 698 MW Abroad)
Solar: **90 MW**
Hydroelectric: **527 MW**
Thermoelectric: **480 MW**



CONSOLIDATION SCOPE AT 30 JUNE 2018


100 ERG WIND INVESTMENTS Ltd.
100 ERG WIND MEI 2-14-1 (UK) Ltd.
100 ERG WIND MEI 2-14-2 (UK) Ltd.
80 ERG WIND MEG 1 LLP 20
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100 ERG FRANCE S.a.r.l.
100 ERG WIND 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 PARK BETEILIGUNGS GmbH
100 VOLTWERK ENERGY PARK 8 GmbH & CO. KG
100 VOLTWERK WINDPARK WÖRBZIG GmbH & CO. KG
100 VOLTWERK WINDPARK BEESENSTEDT GmbH & CO. KG
100 WINDPARK COTTBUSER HALDE GmbH & CO. KG
100 WINDPARK ACHMER VINTE GmbH & CO. KG
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100 WINDPARCK LINDA GmbH & CO. KG
100 CORNI EOLIAN S.A.
100 ERG WIND BULGARIA S.p.A.
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100 VG-3 EOOD
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100 WP BULGARIA 4 EOOD
100 GLOBO ENERGY EOOD
100 ISAB ENERGY SOLARE S.r.l.
100 ERG SOLAR HOLDING 1 S.r.l.
100 ERG SOLAR PIEMONTE 1 S.r.l.
100 ERG SOLAR PIEMONTE 2 S.r.l.
100 ERG SOLAR PIEMONTE 3 S.r.l.
100 ERG SOLAR PIEMONTE 4 S.r.l.
100 ERG SOLAR PIEMONTE 5 S.r.l.
100 ERG SOLAR HOLDING S.r.l.
100 CALABRIA SOLAR S.r.l.
100 ERG SOLAR CAMPANIA S.r.l.
100 ERG SOLAR MARCHE 1 S.r.l.
100 ERG SOLAR MARCHE 2 S.r.l.
100 ERG SOLAR PUGLIA 1 S.r.l.
100 ERG SOLAR PUGLIA 2 S.r.l.
100 ERG SOLAR PUGLIA 3 S.r.l.
100 ERG SOLAR SICILIA S.r.l.
100 HELIOSPOWER 1 S.r.l.
100 LONGIANO SOLAR S.r.l.
100 SR05 S.r.l.

ORGANISATIONAL MODEL

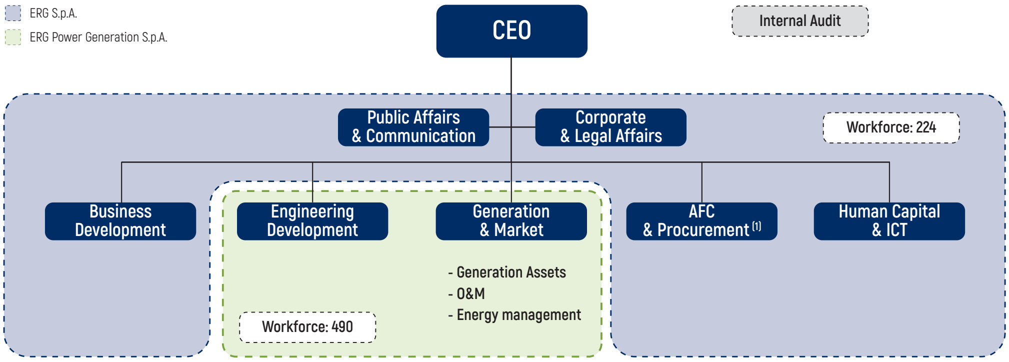
On 1 January 2017, the new organisational structure came fully into force; it is characterised by the definition of two macro-roles:

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

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

Lastly, it should be noted that, in July 2018, the Engineering Development Organisational Unit was established, reporting directly to the Group CEO, with the mission of creating value by ensuring the Group's new industrial investments (development engineering and construction), according to the objectives set out in the 2018-2022 Business Plan.

ONE COMPANY: A LEAN ORGANIZATION
TO SPEED UP DECISION MAKING PROCESS



(1) It includes Group Administration, Finance, Planning & Control, Investor Relations, M&A, Corporate Finance & Group Risk Management and Procurement

CHANGE IN BUSINESS SCOPE

Wind

- In the first quarter of 2018, ERG, via its subsidiary ERG Eolienne France S.a.s., completed the acquisition from **Vent d'Est S.a.s.** of 75% of two companies owning two wind farms with a total capacity of 16.25 MW (Parc Eolienne de la Voie Sacrée S.a.s. with 12.0 MW, which came into operation in 2007, and Parc Eolienne d'Epense S.a.s. with 4.25 MW, which came into operation in 2005). The companies have been consolidated starting from 1 January 2018. Following the close of the half, on 2 August, the ERG Group acquired the remaining 25% of the share capital of the two companies from Renvico France S.a.s.

- On **7 March 2018**, following the sale process started at the end of 2017, ERG sold to the Greencoat UK Wind PLC fund, quoted on the London Stock Exchange and specialised in investments in renewables, 100% of its subsidiary **Brockaghboy Windfarm Ltd.** ("BWF"), a UK company which owns the 47.5 MW wind farm built in County Londonderry Northern Ireland, by ERG and TCI Renewables Ltd. The wind farm, for which construction work began during the second quarter of 2016, became fully operational at the end of 2017.

  The enterprise value of the transaction amounts to approximately GBP 163 million. The proceeds were split between ERG and TCI, as stipulated in the Development Service Agreement signed at the time of acquisition of the ready-to-build project: the total cash-in for ERG was approximately GBP 95 million (EUR 106 million), of which approximately GBP 70 million (EUR 76 million) fully covered the investments made by ERG to acquire the project and build the wind farm.

  The sale of the assets on 7 March 2018 resulted in:

  - the reduction of net financial indebtedness by EUR 106 million in relation to the net sales price;
  - recognition of the realised capital gain of EUR 26 million, net of the related tax effects and of other ancillary components. The gain and the other income statement components associated with the sale of the equity investment are considered special items and therefore are not reflected in "Adjusted profit attributable to the owners of the parent".

  In view of the sale process, it is noted that the results relating to the assets being sold are presented separately in the notes to the 2017 consolidated financial statements and in the Condensed Interim Financial Statements at 30 June 2018 in accordance with the requirements of IFRS 5.

  In this Report, the results achieved in the period 1 January 2018 to 7 March 2018 by the assets sold are shown in ordinary operations, in line with the approach already adopted in the Directors' report in the 2017 Annual Report.

  For the reconciliation of these amounts, reference is made to the section "Alternative Performance Indicators".

- On **6 April 2018**, ERG, through its subsidiary ERG Power Generation S.p.A., entered into an agreement with Impax New Energy Holding Cooperatief W.A., a Dutch company owned by Impax New Energy Investors II, to acquire:
  - Parc Eolien du Melier S.a.s., owner of an 8 MW wind farm with expected output of approximately 23 GWh. The wind farm is entitled to benefit from the 2014 feed-in-tariff (FIT) for a period of 15 years following its coming on stream, which took place in November 2016;
  - Parc Eolien de la Vallée de Torfou S.a.s., owner of an 18 MW wind farm currently under construction with estimated average output of 48 GWh, scheduled to come on stream by the end of 2018. The wind farm will benefit from the 2014 FIT for a period of 15 years;
  - Epuron Energies Renouvelables S.a.s., which owns a pipeline of approximately 750 MW, comprising the following:
    - Wave I, which includes five projects that are at an advanced stage of development, with a combined capacity of 101 MW. These projects are expected to come on stream in the second half of 2021, and the authorisation procedure presently underway envisages access to the 2016 FIP tariff;
    - Wave II, which includes five projects that are at an intermediate stage of development, with a combined capacity of 143 MW. These projects are expected to come on stream in the second half of 2022, and the authorisation procedure is currently under appraisal;
    - Wave III, which includes "early stage" projects with a total capacity of over 500 MW, expected to come on stream after 2022.

  Also included within the scope of the transaction is a team of 12 people, with sound and long-standing experience in the development of greenfield projects, which will supplement ERG's existing presence in France, taking it to a total headcount of 45 comprising technicians assigned to management of the assets and professionals engaged to maximise the installed capacity.

  In terms of Enterprise Value, the total consideration amounts to EUR 57 million, of which around EUR 17 million pertaining to the Project Financing outstanding at 31 December 2017. The agreement, insofar as concerns the pipeline, also provides for an "earn-out" mechanism in favour of the Seller for a total of approximately EUR 5 million.

  On 15 May 2018, ERG, through its subsidiary ERG Power Generation S.p.A., closed the acquisition from Impax New Energy Holding Cooperatief W.A.

  The companies are consolidated from 30 June 2018.

- On **27 April 2018** ERG, through its subsidiary ERG Power Generation S.p.A., finalised an agreement with Global Wind Power France, a companyowned by Global Wind Power Europe and Fred Olsen Renewables, to acquire from Wind 1019 GmbH 100% of WP France 10 S.a.s., the holder of rights, permits and authorisations for a 6.9-MW wind farm project. The project has already obtained all the necessary building authorisations; connection to the network is scheduled during Q4 2021 and the coming on stream by December 2021.

  The wind farm will be located in Northern France, in the vicinity of ERG's other wind farms, and will benefit from the incentive tariff (2016 FIP) for a period of 15 years. Output is forecast at approximately 15 GWh/y.

The estimated investment required to build the wind farm is approximately EUR 10 million, including the amount paid to purchase the project.

This transaction allows ERG to continue to develop its French portfolio, in line with the growth objectives envisaged in the Business Plan, achieving synergies with the adjacent Vallée de l'Aa (13 MW) project, currently under construction, of which it constitutes an extension.

- On **1 May 2018**, the German company Windpark Linda Gmbh & Co. KG, which holds the permits for the construction of a wind farm in Germany, acquired by ERG during the first quarter, secured a 21.6-MW project in an on-shore wind power auction, corresponding to 10% of the capacity currently managed in the area.

  The wind farm, construction of which began in the second quarter of 2018 and whose annual output when fully operational is forecast at around 50 GWh, equal to approximately 39 kt of avoided CO_2 emissions per year, is scheduled to come on stream during the second half of 2019.

  This significant achievement, which confirms the validity of ERG's industrial strategy with regard to overseas expansion, allows it to continue to pursue organic growth in one of the most important European countries for wind power development, in line with the provisions of the 2018-2022 Business Plan.

Solar

On **12 January 2018**, ERG completed **the acquisition of 30 photovoltaic plants**, entered into operation between 2010 and 2011 and located in 8 regions between the North and the South of Italy, with an installed capacity of 89 MW and an annual output of approximately 136 GWh.

100% of the total installed capacity benefits from incentives with an average expiry date of 2030.

The enterprise value of the transaction amounted to approximately EUR 335 million. The assets were financed through non-recourse project financing of approximately EUR 180 million, and lease contracts of approximately EUR 60 million at the acquisition date.

This Report reflects the impacts of the consolidation of the companies acquired since1 January 2018: for more information on the Purchase Price Allocation for solar, reference is made to the section "Condensed interim consolidated financial statements and Alternative Performance Indicators".

In view of the aforementioned entry into the solar business, ISAB Energy Solare S.r.l. (1 MW), a company already part of the Group and previously measured using the cost method due to it not being of a significant size, is fully consolidated from this Report onwards.

Sale of equity investment in TotalErg

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

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

The consideration for the sale of the assets is EUR 194 million, EUR 14 million of which was already collected in advance in 2017, EUR 144 million was collected in 2018 at the closing and EUR 36 million is to be collected as a deferred component regulated by a vendor loan agreement with a term of 5 and a half years, signed with API S.p.A.

The equity value of the transaction was EUR 273 million which includes, in addition to the consideration indicated above, the non-recurring dividends distributed in 2017 by TotalErg S.p.A. to ERG S.p.A. totalling EUR 71 million (of which EUR 20 million paid on 11 May 2017 and the remaining EUR 51 million on 26 October 2017), the interest that will accrue on the vendor loan and the related tax effects.

For a better understanding of the data commented herein, the following impacts are pointed out in particular:

- the reduction of net financial indebtedness by EUR 144 million following the consideration collected in 2018;
- the recognition of the above-mentioned loan to api S.p.A. for EUR 36 million. This loan is included in net financial indebtedness as a deferred component of the sale price.

There were no significant impacts on profit and loss in the reporting period since the equity investment was measured in the 2017 consolidated financial statements in accordance with the requirements of IFRS 5, with recognition of the effects of the transaction in 2017.

ERG'S STOCK MARKET PERFORMANCE

On 29 June 2018[8], the closing price of ERG's shares was EUR 18.73, up (+21.6%) from the end of 2017, in the presence of a drop, in the same period, in the FTSE All Share index (-1.5%), the FTSE Mid Cap index (-4.0%) and the Euro Stoxx Utilities Index (-0.9%).

During the period under review, the listed price of the ERG share ranged between a minimum of EUR 15.08 (2 January) and a maximum of EUR 20.34 (14 May).

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

Stock price	**EUR**
Closing price at 29.06.18	18.73
Highest price (14.05.18) (1)	20.34
Lowest price (02.01.18) (1)	15.08
Average price	17.98

(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 (11.04.18)	4,438,532
Minimum volume (19.02.18)	67,856
Average volume	404,148

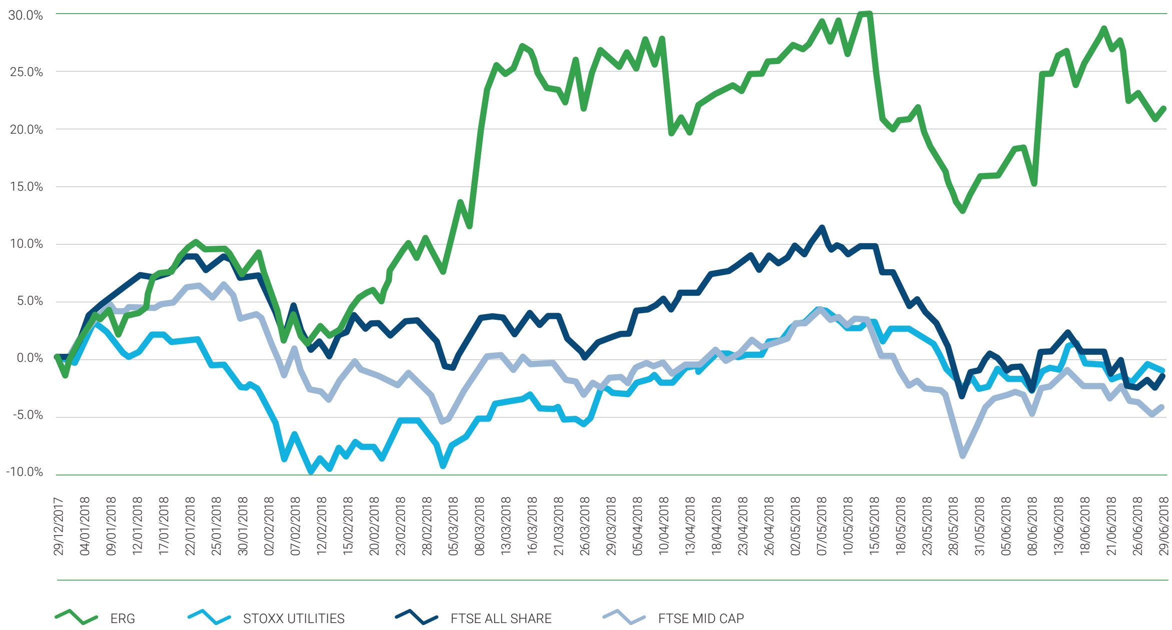
Market capitalisation was approximately EUR 2,869 million at 29 June 2018 (EUR 2,315 million at the end of 2017).

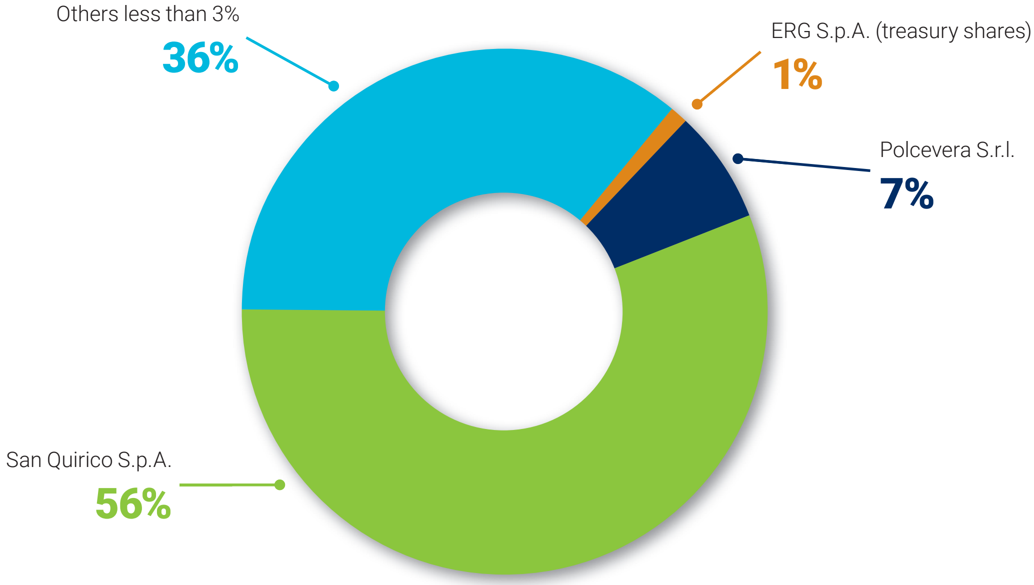
The average number of shares outstanding in the first six months of 2018 was 148,816,800.

8 Last available day for the first half of 2018.

PERFORMANCE OF ERG SHARES AND SHAREHOLDING STRUCTURE

ERG vs Euro Stoxx Utilities, FTSE All Share and FTSE Mid Cap - % Change from 29.12.2017 to 29.06.2018





SIGNIFICANT EVENTS DURING THE HALF-YEAR

Date	Sector	Significant events	Press release
10 January 2018	Corporate	**Sale** of 51% of **TotalErg S.p.A.** and 51% of Total Italia S.r.l. The transaction was concluded following approval by the relevant Antitrust Authority and the completion of the demerger of the TotalErg S.p.A. lubricants business unit to Total Italia S.r.l.	TotalErg press release 10.01.18
12 January 2018	Solar	**Acquisition** from VEI Green S.r.l., a holding company controlled by PFH S.p.A. and owned by leading Italian institutional investors, of 100% of ForVei S.r.l., the ninth largest photovoltaic operator in Italy with total installed capacity of 89 MW.	Solar press release 12.01.18
12 January 2018	Wind Germany	**Acquisition** of 100% of Windpark Linda GmbH & Co. KG, a company that holds the **permits for the construction of a wind farm in Germany** with 21.6 MW of power and an estimated production speed of approximately 50 GWh per annum.	Press release 15.01.18
7 March 2018	Corporate	Approval of **2018-2022 Strategic Plan.**	Plan press release 07.03.18
21 March 2018	Wind France	**Acquisition** by **Vent d'Est S.a.s.** of 75% of the two companies that own two wind farms in France with an overall capacity of 16.25 MW.	Vent d'Est press release 21.03.18
6 April 2018	Wind France	**Signing of agreement** with Impax New Energy Holding Cooperatief W.A., for the acquisition in France of two wind farms (26 MW) and a pipeline of approximately 750 MW. The transaction's closing date was **15 May 2018**.	Press release 06.04.2018
23 April 2018	Corporate	**The Shareholders of ERG S.p.A.** appoint the new Board of Directors, confirm Edoardo Garrone as Chairman and resolve on the payment of a dividend of EUR 1.15 per share of which EUR 0.40 extraordinary. The Board of Directors confirms Alessandro Garrone as executive Deputy Chairman, Giovanni Mondini as Deputy Chairman and Luca Bettonte as Chief Executive Officer.	Press release 23.04.2018
27 April 2018	Wind France	**Signing of agreement** with Global Wind Power France for the acquisition of 100% of the capital of WP France S.a.s., the company which owns the rights, licences and permits for a 6.9-MW wind farm project in France.	Press release 27.04.2018
18 May 2018	Wind Germany	**Windpark Linda GmbH & Co. KG**, which holds the permits for the construction of a wind farm in Germany, secured a 21.6-MW project in the on-shore wind power auction held on 1 May.	Press release WindPark Linda 18.05.2018

PERFORMANCE HIGHLIGHTS

2017 restated	(EUR million)		1st Half 2018	1st Half 2017 restated
	MAIN INCOME STATEMENT DATA			
1,056	Revenue from sales and services		516	534
472	**Adjusted EBITDA**		**277**	**258**
220	**Adjusted EBIT**		**140**	**133**
207	Profit		105	72
207	*of which attributable to the owners of the parent*		*105*	*72*
117	**Adjusted profit attributable to the owners of the parent** (1)		**76**	**72**
	MAIN FINANCIAL DATA			
3,110	**Net invested capital**		**3,275**	**3,267**
1,877	Equity		1,809	1,753
1,233	Total net financial indebtedness (2)		1,466	1,514
1,115	*of which non-recourse Project Financing* (3)		*1,223*	*1,206*
40%	Financial leverage		45%	46%
45%	**EBITDA Margin**		**54%**	**48%**
	OPERATING DATA			
1,814	**Installed capacity at period end - wind farms**	MW	**1,791**	**1,768**
3,613	Electric power generation from wind farms	millions of KWh	1,931	1,809
480	**Installed capacity – thermoelectric plants**	MW	**480**	**480**
2,453	Electric power generation from thermoelectric plants	millions of KWh	1,054	1,175
527	**Installed capacity at period end - hydroelectric plants**	MW	**527**	**527**
1,144	Electric power generation from thermoelectric plants	millions of KWh	1,001	652
n,a,	**Installed capacity at period end - solar plants**	MW	**90**	**n.a.**
n,a,	Electric power generation from solar plants	millions of KWh	64	n.a.
11,747	**Total sales of electric power**	millions of KWh	**7,085**	**6,065**
54	Capital expenditure (4)	EUR million	447	66
714	**Employees at period end**	Units	**737**	**717**
	NET UNIT REVENUE			
144.0	Wind Italy	EUR/MWh	123.2	149.8
96.4	Wind Germany	EUR/MWh	93.4	94.7
88.3	Wind France	EUR/MWh	87.0	88.6
45.5	Wind Poland	EUR/MWh	52.4	40.8
62.5	Wind Bulgaria	EUR/MWh	71.2	78.9
57.8	Wind Romania	EUR/MWh	50.0	63.1
97.9	Wind UK	EUR/MWh	100.4	n.a.
n.a.	Solar	EUR/MWh	290.3	n.a.
109.1	Hydroelectric	EUR/MWh	99.1	101.1
45.5	Thermoelectric	EUR/MWh	37.3	47.4

To enhance an understanding of the Group's business performance, adjusted revenue and operating results are shown, therefore excluding special items. The restated comparative 2017 figures do not take account of the adjusted results of TotalErg, sold in January 2018. In addition, consistent with the information contained in the Directors' report to the 2017 Financial Statements, the results of Brockaghboy Windfarm Ltd., transferred on 7 March 2018, were stated under Ordinary operations, both as regards the 2018 data and the 2017 comparative data.

(1) does not include special items and related applicable theoretical taxes

(2) includes the non-current financial loan to api S.p.A. (EUR 36 million) as deferred component of the TotalErg sale price

(3) including cash and cash equivalents and excluding the fair value of the derivatives hedging interest rates

(4) in property, plant and equipment and intangible assets. Including M&A investments equal to EUR 425 million performed in the first half of 2018 for the acquisition of the companies of the ForVei Group (solar) and for the acquisitions of companies owning wind farms in France and Germany. In 2017, M&A investments amounted to EUR 39.5 million for the acquisition of the DIF Group companies in Germany

PERFORMANCE BY SECTOR

2017 restated	(EUR million)	1st Half 2018	1st Half 2017 restated
	ADJUSTED REVENUE FROM SALES AND SERVICES		
445	Wind	210	232
n.a.	Solar	19	n.a.
137	Hydroelectric	100	76
473	Thermoelectric (1)	187	226
38	Corporate	17	20
(37)	*Intra-segment revenue*	*(17)*	*(20)*
1.056	**Total revenue from sales and services**	**516**	**534**
	ADJUSTED EBITDA		
316	Wind	159	170
n.a.	Solar	16	n.a.
94	Hydroelectric	80	54
78	Thermoelectric (1)	30	40
(16)	Corporate	(8)	(6)
472	**Adjusted EBITDA**	**277**	**258**
	AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES		
(160)	Wind	(81)	(79)
n.a.	Solar	(10)	n.a.
(58)	Hydroelectric	(29)	(29)
(31)	Thermoelectric	(15)	(16)
(3)	Corporate	(1)	(1)
(252)	**Adjusted amortisation and depreciation**	**(136)**	**(126)**
	EBIT		
156	Wind	78	91
n.a.	Solar	6	n.a.
35	Hydroelectric	51	25
48	Thermoelectric (1)	14	24
(19)	Corporate	(9)	(7)
220	**Adjusted EBIT**	**140**	**133**
	CAPITAL EXPENDITURE (2)		
75	Wind	97	60
n.a.	Solar	345	n.a.
6	Hydroelectric	1	1
10	Thermoelectric	2	4
3	Corporate	1	1
94	**Total capital expenditure**	**447**	**66**

(1) includes Energy Management contribution
(2) includes investments in property, plant and equipment and intangible assets and M&A investments

COMMENTS ON THE HALF YEAR'S PERFORMANCE

In the first half of 2018, revenue from sales and services amounted to EUR 516 million, down compared to EUR 534 million in 2017 mainly due to the loss of an important bilateral contract at the end of 2017, partly offset by the change in the scope of consolidation.

Adjusted EBITDA amounted to EUR 277 million, up on the EUR 258 million recorded in the corresponding period of 2017. The increase of EUR 19 million is a result of the following factors:

- **Wind (-11)**: gross operating margin equal to EUR 159 million, down compared to the same period of the previous year (EUR 170 million), as a result of the poorer results of wind farms in Italy (EUR -16 million), due mainly to lower incentivised production (72% of the total compared to 86% in 2017) and to the lower unit value (99 EUR/MWh compared to 107 EUR/MWh), as well as to imbalance costs. The poorer results in Italy were only partly offset by the improved results of wind farms abroad (EUR +5 million), which reflect the greater installed capacities in France, as well as the contribution of the Brockaghboy wind farm in the UK in the first quarter.

- **Solar (+16)**: gross operating margin equal to EUR 16 million, which in line with the forecasts, relating to plants acquired at the beginning of 2018 from Forvei, of which EUR 15 million for revenue from the feed-in premium and EUR 4 million from market revenue, net of approximately EUR 3 million in fixed costs related mainly to operation & maintenance costs.

- **Hydroelectric (+26)**: gross operating margin of EUR 80 million (EUR 54 million for the corresponding period of 2017), up sharply compared with the previous year, which benefited however in the amount of EUR 8 million from the recovery of previous incentives as a result of the repeal of the revocation of the IAFR qualification of some plants. The performance benefitted from the high level of water availability recorded during the period and in particular in the month of March.

- **Thermoelectric (-10)**: the results of thermoelectric generation, amounting to EUR 30 million, down by EUR 10 million compared to EUR 40 million in the first half of 2017 due mainly to the decreased contribution of Energy Efficiency Certificates which in the first half of 2017 benefited for approximately EUR 11 million from the revaluation of securities matured in 2016 and sold in 2017. These results were also affected by the less profitable performance of the spark spread insofar as energy prices do not yet fully incorporate the increase in cost of gas and CO_2.

Adjusted EBIT was EUR 140 million (EUR 133 million in the first half of 2017) after amortisation and depreciation of EUR 136 million,up EUR 11 million mainly due to new Solar investments (EUR 126 million in 2017).

Adjusted Group EBIT was EUR 76 million, a slight increase compared to the result of EUR 72 million in the first half of 2017, as a result of the aforementioned improved operating results and higher financial charges relating to the financing of the new production capacity acquired.

The profit for the period attributable to the owners of the parent was EUR 105 million (EUR 72 million in the first half of 2017 restated) and reflects, in addition to the above-mentioned improved net operating results, the capital gain generated by the sale of Brockaghboy.

In the first half of 2018, **investments** totalled **EUR 447 million** (EUR 66 million in the first half of 2017) and relate mainly to the acquisition of solar installations in Italy (EUR 345 million), two wind farms in France (EUR 12 million) and the two French wind companies acquired by Impax New Energy (EUR 67 million). **EUR 21 million in investments in property, plant and equipment and intangible assets** were also made during the period, of which 80% in the Wind sector (76% in 2017), mainly related to the development of the Linda farm in Germany, 10% in the Thermoelectric sector (14% in 2017), 5% in the Hydroelectric sector (5% in 2017) and 10% in the Corporate sector mostly for ICT (4% in 2017).

Net financial indebtedness amounted to **EUR 1,466 million**, up (EUR 234 million) compared to 31 December 2017 and mainly reflects the investments in the period (EUR 447 million), the distribution of dividends (EUR 171 million) and the settlement of a debt in relation to oil purchases in previous years (EUR 42 million), partly offset by the positive cash flow in the period (EUR 175 million) the proceeds of the sale of TotalErg (EUR 180 million) and Brockaghboy (EUR 106 million).

PROFIT FOR THE HALF-YEAR - BUSINESS

REFERENCE MARKET

Price scenario

2017		1st Half 2018	1st Half 2017
	Price scenario (EUR/MWh)		
	Italy		
54.0	PUN - Reference price of electricity Italy (baseload) (1)	53.8	51.2
54.4	Electricity price - North zone	53.1	51.7
54.1	Electricity price - Central-North zone	53.5	51.2
51.6	Electricity price - Central-South zone	54.1	48.8
49.8	Electricity price - South zone	53.2	47.5
51.5	Electricity price - Sardinia	53.6	48.7
60.8	Electricity price - Sicily	60.3	56.8
63.5	Centre North zone price (peak)	60.9	58.7
107.3	Feed-In Premium (former Green Certificates) - Italy	99.0	107.3
	Abroad		
45.0	France (baseload electricity)	40.4	44.4
34.2	Germany (baseload electricity)	35.8	35.5
45.0	Poland	63.4	43.0
36.5	*of which (baseload electricity)*	*47.5*	*35.7*
8.5	*of which Certificates of Origin*	*15.8*	*7.3*
39.3	Bulgaria (baseload electricity)	33.8	38.5
106.2	Romania (baseload electricity + 1 Green Certificate in 2018 and 2 Green Certificates in 2017)	66.0	106.4
48.2	*of which baseload electricity*	*36.6*	*48.1*
29.0	*of which Green Certificate*	*29.4*	*29.2*
93.6	Northern Ireland (baseload electricity + 90% ROC)	105.5	91.4
44.7	*of which baseload electricity*	*54.2*	*42.7*
54.4	*of which ROC*	*57.0*	*54.1*

(1) Single National Price

Italian Market - Demand and output

2017		1st Half 2018	1st Half 2017
	Italian market [1] **(GWh)**		
320,438	Demand	158,622	157,428
2,441	Pumping consumption	1,340	1,290
37,761	Import/Export	23,847	18,314
285,118	Internal generation [2]	136,115	140,404
	of which		
199,500	*Thermoelectric*	*86,181*	*96,879*
37,530	*Hydroelectric*	*26,045*	*19,074*
5,785	*Geothermal*	*2,861*	*2,899*
17,492	*Wind*	*9,615*	*8,803*
24,811	*Photovoltaic*	*11,413*	*12,749*

(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

The electricity demand of the Italian electric system in the first half of 2018 came to 158.6 TWh, up slightly (+1%) compared with the values recorded in the same period of 2017. With regard to Sicily, a region in which ERG is present with its CCGT plant, demand of approximately 9.1 TWh was recorded during the period, down slightly (-0.3%) with respect to the first half of 2017, while in the group of regions consisting of Abruzzo-Lazio-Marche-Molise-Umbria, where ERG has been active since the end of 2015 with its hydroelectric plants, the demand for electricity came to 21.8 TWh (-0.5%).

In the same period, net internal electricity generation was 136.1 TWh, down by 3% compared with the same period of 2017, whilst the net balance of trades with other countries recorded net imports of 23.8 TWh (+30% relative to the first half of 2017).

63% of (net) domestic output was covered by thermoelectric power plants and the remaining 37% by renewable sources; specifically, 19% of output was from hydroelectric power, 8% from photovoltaic plants, 7% from wind farms and 2% from geothermal sources. Compared to the first half of 2017, hydroelectric power generation and wind power generation grew (+37% and +9% respectively), while thermoelectric, photovoltaic and geothermal power generation declined (-11%, -10% and -1% respectively).

GROUP SALES

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

During the first half of 2018, total sales of electricity amounted to 7.1 TWh (6.1 TWh in the same period of 2017), in the presence of an overall output for the Group plants of approximately 4.1 TWh (3.6 TWh in the same period of 2017), of which roughly 0.8 TWh abroad and 3.3 TWh in Italy. The latter figure corresponds to around 2.1% of electricity demand in Italy (1.8% in the first half of 2017).

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

SOURCES OF ELECTRIC POWER (GWh)

		1st Half	
2017		**2018**	**2017**
2,117	Wind - wind power generation Italy	1,151	1,078
1,496	Wind - wind power generation Abroad	779	730
n.a.	Solar - photovoltaic power generation	64	n.a.
2,453	CCGT - thermoelectric power generation	1,054	1,175
1,144	Hydro - hydroelectric power generation	1,001	652
4,536	ERG Power Generation - purchases	3,035	2,430
11,747	**Total**	**7,085**	**6,065**

SALES OF ELECTRIC POWER (GWh)

		1st Half	
2017		**2018**	**2017**
539	Electric power sold to captive customers	272	262
2,015	Electric power sold to IREN	–	999
7,697	Electric power sold wholesale (Italy)	6,033	4,074
1,496	Electric power sold abroad	779	730
11,747	**Total**	**7,085**	**6,065**

Electricity sold wholesale includes 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), in addition to 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 and also hedging generation, in line with Group risk policies.

In the first half of 2018, steam sales[10] amounted to 344 thousand tonnes (397 thousand tonnes in the same period of 2017).

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 end users net of the quantities of steam withdrawn by the users and pipeline losses.

WIND

The ERG Group operates in the wind sector through its companies that own wind farms in Italy and abroad. Wind farms consist of wind-power generators that 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 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, and the regulation of organised energy markets.

INSTALLED POWER (MW)

		1st Half			
2017		**2018**	**2017**	**Δ**	**Δ%**
1.093	**Italy**	**1.093**	**1.094**	**-2**	**0%**
	of which				
247	*Campania*	*247*	*247*	*0*	*0%*
120	*Calabria*	*120*	*120*	*0*	*0%*
249	*Puglia*	*249*	*249*	*0*	*0%*
79	*Molise*	*79*	*79*	*0*	*0%*
89	*Basilicata*	*89*	*89*	*0*	*0%*
198	*Sicily*	*198*	*198*	*0*	*0%*
111	*Sardinia*	*111*	*111*	*0*	*0%*
0	*Other*	*0*	*2*	*-2*	*-100%*
722	**Abroad**	**698**	**674**	**24**	**4%**
	of which				
216	*Germany*	*216*	*216*	*0*	*0%*
252	*France*	*276*	*252*	*24*	*10%*
82	*Poland*	*82*	*82*	*0*	*0%*
54	*Bulgaria*	*54*	*54*	*0*	*0%*
70	*Romania*	*70*	*70*	*0*	*0%*
48	*UK*	*0*	*0*	*0*	*n.a.*
1,814	**Total installed power at period end** (1)	**1,791**	**1,768**	**23**	**1%**

(1) power of plants in operation at period end

Installed power at 30 June 2018, equal to 1,791 MW, was up 23 MW with respect to 30 June 2017 following the acquisition in 2018 of 3 wind farms in France (24.3 MW, 8 MW of which as from the end of the period and therefore not having any impact on the profits for the period), net of the disposal of two small non-operational wind farms in North Italy (1.6 MW).

In addition, the first half of 2018 benefited from the contribution of the Brockaghboy wind farm in Northern Ireland (47.5 MW), until the sale date of 7 March.

Highlights of adjusted performance items

OPERATING RESULTS

		1st Half	
2017		**2018**	**2017**
445	**Revenue from sales and services**	**210**	**232**
316	**Adjusted EBITDA** (1)	**159**	**170**
(160)	Amortisation, depreciation and impairment losses (1)	(81)	(79)
156	**Adjusted EBIT** (1)	**78**	**91**
35	Investments in property, plant and equipment and intangible assets	97	60
71%	**EBITDA MARGIN** (2)	**76%**	**73%**
3,613	**Total output by wind plants (GWh)**	**1,931**	**1,809**

(1) not including special items as indicated in the section "Alternative performance indicators", to which reference should be made for further details
(2) the ratio of adjusted EBITDA to revenue from sales and services

The reduction in consolidated **revenue**, of approximately EUR 22 million, is due mainly to the lower incentive unit value (from 107.3 to 99.0 EUR/MWh), in addition to decreased incentivised output compared to the same period of 2017. It is noted in particular that, compared to the first half of 2017, an additional 137 GWh of output is no longer incentivised, for a theoretical equivalent value of EUR 13.4 million.
These negative effects, as well as the effect of imbalances, were partly compensated by increased output, including incentivised, and the higher sales price of electricity in Italy.

Net unit revenue in Italy in the first half of 2018, taking into consideration the sale price of electricity, incentives (former green certificates) and other minor components, was equal to 123.2 EUR/MWh for ERG in Italy, down compared to 149.8 EUR/MWh in the first half of 2017, as a result of the expected and already discussed lower incidence of revenue from incentives.
Finally, as from 2016, the reference value for the incentives (former green certificates) is calculated on the basis of energy prices for the previous year. Consequently unlike, what took place in the past, changes in energy prices are no longer partially offset (78%) in the prices of the incentive provided for the year, but have an impact on the incentive for the subsequent year.

NET UNIT REVENUE

		1st Half			
2017		**2018**	**2017**	**Δ**	**Δ%**
144.0	Wind Italy	123.2	149.8	(27)	-18%
96.4	Wind Germany	93.4	94.7	(1)	-1%
88.3	Wind France	87.0	88.6	(2)	-2%
45.5	Wind Poland	52.4	40.8	12	28%
62.5	Wind Bulgaria	71.2	78.9	(8)	-10%
57.8	Wind Romania	50.0	63.1	(13)	-21%
97.9	Wind UK	100.4	n.a.	n.a.	n.a.

Sales by foreign farms were mainly concentrated in France and Germany, whose net unit revenue was 87.0 EUR/MWh and 93.4 EUR/MWh respectively (including refunds for limitations in Germany), and to a lesser extent in Bulgaria, Romania and Poland, as well as in Northern Ireland until the start of March. The main changes in net unit revenue abroad were seen in Poland (+28%) thanks to the significant increase in the sale price of certificates of origin and in Romania (-21%) following the reduction of the incentivised component which from 2018 is recognised for half of the green certificates pertaining to 2017.

The contribution to the output of wind farms abroad was approximately 779 GWh (+7%).

OUTPUT (GWh)

		1st Half			
2017		**2018**	**2017**	**Δ**	**Δ%**
2,117	**Italy**	**1,151**	**1,078**	**73**	**7%**
	of which				
489	*Campania*	*253*	*246*	*8*	*3%*
238	*Calabria*	*122*	*118*	*4*	*4%*
531	*Puglia*	*265*	*273*	*-9*	*-3%*
167	*Molise*	*87*	*88*	*-2*	*-2%*
183	*Basilicata*	*101*	*93*	*8*	*8%*
299	*Sicily*	*205*	*155*	*50*	*32%*
209	*Sardinia*	*118*	*105*	*13*	*13%*
1,496	**Abroad**	**779**	**730**	**49**	**7%**
	of which				
369	*Germany*	*178*	*176*	*2*	*1%*
491	*France*	*296*	*244*	*52*	*21%*
248	*Poland*	*112*	*121*	*-9*	*-7%*
157	*Bulgaria*	*74*	*78*	*-4*	*-5%*
201	*Romania*	*91*	*112*	*-21*	*-19%*
29	*UK*	*29*	*0*	*29*	*n.a.*
3,613	**Total wind farm output**	**1,931**	**1,809**	**122**	**7%**

In the first half of 2018, the **electricity output** from wind power amounted to 1,931 GWh, up compared to the first half of 2017 (1,809 GWh), with output increasing by approximately 7% in Italy (from 1,078 GWh to 1,151 GWh) and increasing by 7% abroad (from 730 GWh to 779 GWh). The increased output in Italy (+73 GWh) is linked to better wind conditions than those recorded in the first half of 2017 across most regions, in particular Sicily and Sardinia, with the exception of Puglia and, to a lesser extent, Molise.

As regards abroad, the increase of +49 GWh is attributable to the contribution of the plant, in Northern Ireland (29 GWh), up until 7 March 2018, in addition to increased output in France which also benefited in the amount of 17 GWh from the output of the French plants (Vent d'est) not present in the same period of 2017; these higher outputs abroad were partly mitigated by the lower output in Eastern Europe (-34 GWh) compared to the particularly high output seen in Bulgaria and Romania in the first half of 2017.

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

LOAD FACTOR %

Anno 2017		1st Half 2018	1st Half 2017	Δ
22%	**Italy**	**24%**	**23%**	**2%**
	of which			
23%	*Campania*	*24%*	*23%*	*1%*
23%	*Calabria*	*23%*	*23%*	*1%*
24%	*Puglia*	*25%*	*25%*	*-1%*
24%	*Molise*	*25%*	*26%*	*-1%*
24%	*Basilicata*	*26%*	*24%*	*2%*
17%	*Sicily*	*24%*	*18%*	*6%*
21%	*Sardinia*	*24%*	*22%*	*3%*
25%	**Abroad**	**25%**	**25%**	**0%**
	of which			
19%	*Germany*	*19%*	*19%*	*0%*
22%	*France*	*25%*	*22%*	*3%*
35%	*Poland*	*32%*	*34%*	*-2%*
33%	*Bulgaria*	*32%*	*33%*	*-2%*
33%	*Romania*	*30%*	*37%*	*-7%*
23%	**Load Factor** (1)	**25%**	**24%**	**1%**

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

In 2018, the overall load factor, equal to 25%, was up slightly with respect to that recorded in 2017, increasing from 23% to 24% in Italy and remaining at 25% abroad.

The above-mentioned data does not include the data relating to the plants in Northern Ireland following the aforementioned sale of the 47.5 MW plant on 7 March 2018.

The breakdown of adjusted EBITDA between the various geographic areas of the Wind business is as follows:

ADJUSTED EBITDA

2017		1st Half 2018	1st Half 2017	Δ	Δ%
241	**Italy**	**116**	**132**	**(16)**	**-12%**
76	**Abroad**	**43**	**38**	**5**	**14%**
	of which				
25	*Germany*	*12*	*12*	*0*	*0%*
30	*France*	*18*	*15*	*2*	*16%*
5	*Poland*	*4*	*2*	*2*	*148%*
6	*Bulgaria*	*4*	*4*	*0*	*2%*
8	*Romania*	*3*	*6*	*(3)*	*-53%*
2	*UK*	*3*	*(0)*	*3*	*n.a.*
316	**Total**	**159**	**170**	**(11)**	**-6%**

Adjusted EBITDA for the first half of 2018 amounted to EUR 159 million, down with respect to the figures for the same period of the previous year (EUR 170 million), following the poorer results recorded in Italy mainly as a result of the aforementioned and expected drop in incentives, partly offset by a higher performance of EUR 5 million abroad, EUR 4 million of which attributable to the increased capacity.

The EBITDA margin was 76%, which was very positive and up compared to the corresponding period of the previous year, despite the above-mentioned phase out of the incentives for some plants, and also due to the contribution of the new wind farms abroad.

Capital expenditure

Investments in the first half of 2018 (EUR 97 million) relate mainly to the acquisition by Vent d'Est S.a.s. of 75% of the share capital of two companies owning two wind farms with a total capacity of 16.25 MW, the acquisition and development costs of the Linda project for the construction of a wind farm in Germany with 21.6 MW of power and the acquisition, completed in the second quarter of 2018, of two wind farms in France, one of which is already on stream with 8 MW and the other in construction with 18 MW, and a company with a pipeline at different stages of development of approximately 750 MW.

Relevant legislative and regulatory updates during the period

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

  For the purposes of determining the 2018 feed-in premium (2018 FIP), the Authority disclosed, by means of resolution 31/2018/R/EFR of 25 January 2018, the average annual value recorded in 2017 for electricity sale prices, equal to 53.14 EUR/MWh. The 2018 incentives, equal to 78% of the difference between 180 EUR/MWh and the average annual sales price of electricity in the previous year, therefore amounts to 98.95 EUR/MWh.

- **Increase in electricity dispatching service costs: resolution 342/2016 of the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) and subsequent measures**

  In the second quarter of 2016 there were significant increases in dispatching service costs for end customers (specifically with regard to the uplift fee).

  On 27 June 2016, the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) published Resolution 342/2016/E/EEL, through which it launched a process for the timely adoption of prescriptive measures and the assessment of potential abuse on the electricity market, pursuant to Regulation (EU) no. 1227/2011 (REMIT), potentially committed in the recent past by several electricity market operators (including ERG Power Generation S.p.A. and ERG Hydro S.r.l.).

  Following the investigation by ARERA in September 2016, notifications were sent to the parties involved – including ERG Hydro S.r.l. and ERG Power Generation S.p.A., containing the results of the assessments and the potential illegal activity detected by the Authority. ERG Power Generation S.p.A. and ERG Hydro S.r.l. presented an appeal to the Administrative Court of Lombardy for the partial repeal of the notifications indicated above, deeming that there were absolutely no grounds for the issue thereof.

In April 2017, ARERA notified the companies concerned (ERG Hydro S.r.l and ERG Power Generation S.p.A.) of the resolutions issued as part of the proceedings initiated with Resolution 342/2016. The main elements of the above-mentioned notifications are the change in the method used to define the results of the assessment with respect to that used in the communication of September 2016, and a specific indication of the non-existence of unlawful behaviour pursuant to (EU) Regulation no. 1227/2011 (REMIT). With two successive resolutions approved in January and February 2018, the Authority closed the procedures related to the prescriptive measures for ERG Hydro S.r.l. and ERG Power Generation S.p.A. On the basis of the resolutions adopted by ARERA, Terna proceeded to quantify the amount to be returned, the economic impact of which is not considered significant. The companies involved proceeded to challenge, in the appropriate jurisdictions, both the resolutions of ARERA and the quantification performed by Terna.

- **Sicily moratorium on wind and solar power development**

  On 11 May, the 2018 Financial Stability Law was published in the Sicilian Official Gazette. Article 17 of the Law lays down a 120-day suspension, as from 11 May, of authorisations related to wind power and photovoltaic plants pending the introduction of an appropriate planning tool to allow the visual and environmental impacts of the implementation of such electricity generation plants to be assessed. The moratorium will be in place until 8 September 2018. The Italian Council of Ministers, at the sitting on 6 July, resolved to challenge the aforementioned Sicilian Law, identifying, for the matter in question, the conflict with the constitutional principles of liberty of economic initiative and protection of competition.

GERMANY

- **Extension of the obligation of “Cooperatives” to obtain authorisation to participate in wind power auctions**

  On 29 June, the amendment to the law on renewable energy sources, extending the suspension of the exemption for “citizen energy cooperatives” (Bürgerenergiegenossenschaft) from being required to submit previously authorised projects to auctions, came into force.

  The suspension, which aims to ensure a level playing field for all industrial operators, will be extended for the whole of 2019.

- **Second onshore wind power auction 2018**

  On 1 May 2018, the registration period for Germany’s second auction for onshore wind power in 2018was closed.

  The results of the auction, published on 17 May, showed an average award price of 5.73 €cent/kWh. The capacity volume was undersubscribed for the first time, with just 90% of the total allocated.

  The ERG Group was among the successful tenderers, with a 21.6-MW onshore wind project.

BULGARIA

- **Change to the incentive system**

  From January 2019, wind plants incentivised with FIT will transition to FIP, calculated as the difference between the reference FIT and the average market price corrected for wind profile.

POLAND

- **New onshore wind auction planned**

  Following the approval of an amendment to the RES Act of 29 June 2018, an auction has been planned for the current year in which new wind onshore plants will be able to participate for a quota of power of approximately 1 GW. ERG has a ready to build pipeline in Poland of around 36 MW which meets the regulatory requirements to be able to take part in said auction.

  This amendment, which also impacts the identification of the components of wind turbines that are relevant for the purposes of calculating the Real Estate Tax, restored, effective retroactively to 1 January 2018, the method of real estate taxation of wind farms already in force until 1 January 2017.

ROMANIA

- **Amendments approved to legislation on the incentivisation of renewable energy sources**

  On 26 June 2018, amendments to legislation on the incentivisation of renewable energy sources, which amended certain rules of Emergency Ordinance 24/2017, were approved. The main amendments concerned the increase in the annual cap on the invoice of the end-consumer, on the basis of which the mandatory quota for parties obliged to purchase GCs is defined by the Regulatory Authority; the introduction of the possibility for manufacturers benefiting from Green Certificates to switch to a Feed-In Premium incentive system (proposal to be submitted for approval of the European Commission); the requirement, for obligated parties, to purchase at least 50% of Green Certificates on the spot market, without prejudice to the effects of pre-existing bilateral agreements.

SOLAR

As from January 2018, ERG is active in the generation of electricity from solar sources, with an installed capacity of 89 MW and an annual output of approximately 136 GWh, through 30 photovoltaic plants which became operative between 2010 and 2011 and are located in 8 regions between the North and the South of Italy. 100% of the total installed capacity benefits from incentives with an average expiry date of 2030.

The results set out below include the contribution of ISAB Energy Solare S.r.l., a group company, previously measured using the cost method due to it not being of a significant size (installed capacity of less than 1 MW and an annual output of approximately 1 GWh, through solar panels installed at the Priolo site in Sicily).

Highlights of adjusted performance items

OPERATING RESULTS

		1st Half	
2017	**(EUR million)**	**2018**	**2017**
n.a	**Revenue from sales and services**	**19**	**n.a**
n.a	**Adjusted EBITDA** (1)	**16**	**n.a**
n.a	Amortisation, depreciation and impairment losses (1)	(10)	n.a
n.a	**Adjusted EBIT** (1)	**6**	**n.a**
n.a	Investments in property, plant and equipment and intangible assets	345	n.a
n.a	**EBITDA MARGIN** (2)	**86%**	**n.a**
n.a	**Total output by solar plants (GWh)**	**64**	**n.a**

(1) not including special items as indicated in the section "Alternative performance indicators", to which reference should be made for further details
(2) ratio of adjusted EBITDA to revenue from sales and services

Output in the period amounted to approximately 64 GWh and the relative load factor was 16%.

Revenue for the first half of 2018 amounted to EUR 19 million, of which EUR 15 million relating to revenue from the feed-in premium and EUR 4 million to revenue from the sale of energy.

In the first half of 2018, the relative **net unit revenue** amounted to 290 EUR/MWh, of which 236 EUR/MWh relating to feed-in premiums and approximately 53 EUR/MWh to revenue from the sale of energy.

Adjusted EBITDA in the first half of 2018 amounted to EUR 16 million, of which EUR 19 million relating to the above-mentioned revenue and EUR 4 million in fixed costs related mainly to maintenance costs, in line with forecast.

The **EBITDA margin** amounted was 86%.

Capital expenditure

Investments during the period refer to the acquisition of 30 photovoltaic plants, which came on stream between 2010 and 2011 and are located in 8 regions between the North and the South of Italy, with an installed capacity of 89 MW and an annual output of approximately 136 GWh. 100% of the total installed capacity benefits from incentives with an average expiry date of 2030. The enterprise value of the transaction amounted to approximately EUR 345 million.

Relevant legislative and regulatory updates during the period

With regard to the suspension of authorisations for the installation of wind power and photovoltaic plants in Sicily, reference is made to the final point of the same paragraph in the Wind section.

HYDROELECTRIC

ERG is active in the sector of the generation of electricity from hydroelectric sources through the equity investment in ERG Hydro S.r.l., owner of the Terni Hydroelectric Complex (527 MW), including a system of programmable and flexible plants located in central Italy; these plants are used under the related hydroelectric concessions that will expire at the end of 2029.

The total capacity of the plants of the Terni complex was 526.9 MW, of which 512.4 MW relating to large offtakes and 14.5 MW relating to small offtakes and minimum vital outflows which increased by 0.4 MW as a result of the completion of the construction of three new mini-hydro plants which access the FER (renewable energy source) tariff pursuant to Ministerial Decree 23/06/2016.

Highlights of adjusted performance items

The contribution of the hydroelectric assets to the Group's results is shown below, taking into account that in July 2016 ERG Power Generation S.p.A. became a market operator and user of dispatching of the main plants of ERG Hydro S.r.l.

OPERATING RESULTS

		1st Half	
2017	**(EUR million)**	**2018**	**2017**
137	**Revenue from sales and services**	**100**	**76**
94	**Adjusted EBITDA** (1)	**80**	**54**
(58)	Amortisation, depreciation and impairment losses (1)	(29)	(29)
35	**Adjusted EBIT** (1)	**51**	**25**
6	Investments in property, plant and equipment and intangible assets	1	1
69%	**EBITDA MARGIN**	**80%**	**72%**
1,144	**Total output by hydroelectric plants (GWh)**	**1,001**	**652**

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

In the first half of 2018, revenue, amounting to EUR 100 million, related mainly to electricity sales (mostly on the spot market) for EUR 56 million, revenue from the feed-in premium (former Green Certificates) for EUR 40 million, and revenue from MSD for EUR 3 million.

The costs, amounting to EUR 19 million, are essentially attributable to the concession fees, personnel expenses, insurance payments and costs for services.

EBITDA for the first half of 2018 amounted to EUR 80 million (EUR 54 million in the first half of 2017), up significantly by EUR 26 million, mainly as a result of the increase in water availability for EUR 33 million and despite 2017 having benefited from EUR 7.8 million in revenue from previous incentives.

The average sale prices reflect both the electricity sales price, higher than the single national price due to the zone price changes noted in the Centre-North area of Italy during the period and also due to the modulation of the plants, and the feed-in premium (former green certificate), recognised on a portion of approximately 40% of output and lower than that of 2017, amounting to approximately 99 EUR/MWh.

ERG Hydro's total output (1,001 GWh) therefore benefited from a net unit revenue, taking into consideration the sales price of electricity, revenue from MSD and from replacement incentives and other minor components, totalling approximately 99 EUR/MWh (101 EUR/MWh in the first half of 2017, excluding the recoveries of prior incentives, mentioned above).

The EBITDA margin for the first half of 2018 was 80%, up significantly compared to 72% in the first half of 2017.

The load factor recorded in the period, amounting to 44%, compared to the 29% recorded in the first half of 2017, benefited from the good rain conditions observed (output of 1,001 GWh in the first half of 2018, up compared to both the corresponding period of 2017 and to the ten-year historical average).

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

The level of the reservoirs of the Turano, Salto and Corbara lakes at the end of the period were respectively approximately 537, 532 and 133 metres above sea level, a steady increase with respect to the levels of 31 December 2017 (respectively 526, 524 and 131 metres above sea level) due to the effect of the persistent rainfall and snowfall during the period.

Capital expenditure

Hydroelectric investments, totalling EUR 1.2 million, relate mainly to maintenance orders and planned projects in the field of health, safety and the environment.

Relevant legislative and regulatory updates during the period

- **Increase of BIM hydroelectric surcharge**

  Following the adjustment of the amount of the surcharge for hydroelectric offtakes in December 2017, on 23 January 2018 a Directorial Decree was published in the Official Gazette adjusting the surcharge for mountain river basins (BIM) owed by hydroelectric concessions for the two-year period 2018-2019.

  In accordance with the provisions contained in the environmental measure attached to the 2016 Stability Law, this surcharge was unified to 30.67 EUR/kW for all offtakes with over 220 kW of power, while until the previous two-year period (2015-2017) differentiation was made between 220 and 3,000 kW and above 3,000 kW.

- **Regional regulations**

  In terms of regional regulations, in October 2015 the Umbria Region published Resolution no. 1067/2015 which determined the increase in the value of state concession fees 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 Waters (TSAP) against that measure.

  At the hearing held on 7 December 2016, the parties stated their opinions; the judge then referred the parties to the board, scheduling the discussion hearing on 1 March 2017. During this hearing, first the issue of jurisdiction was addressed, filed with the office by the Chairman of the Board, and then the merits issues relevant to the illegality of the rental increase. With its ruling submitted on 19 April 2017, the TSAP declared its lack of jurisdiction in favour of the Regional Court of Public Waters (TRAP) of Rome before which it arranged for the continuance of the appeal. With respect to the TSAP ruling, an appeal was brought before the Court of Cassation, and the fixing of the hearing date by the Court is pending.

- **Feed-In Premium (FIP) (former Green Certificates)**
  Reference is made to the Wind section.

- **Electricity dispatching service: resolution 342/2016 of the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) and subsequent measures**
  Reference is made to the Wind section.

THERMOELECTRIC

ERG is active in the generation of electricity from thermoelectric sources through the investment in ERG Power S.r.l., owner of the high output, high efficiency, low emission, highly modulable and flexible cogeneration CCGT plant (480 MW).

Highlights of adjusted performance items

OPERATING RESULTS

		1st Half	
2017	**(EUR milion)**	**2018**	**2017**
473	**Revenue from sales and services**	**187**	**226**
78	**Adjusted EBITDA** (1)	**30**	**40**
(31)	Amortisation, depreciation and impairment losses (1)	(15)	(16)
48	**Adjusted EBIT** (1)	**14**	**24**
10	Investments in property, plant and equipment and intangible assets	2	4
17%	**EBITDA MARGIN**	**16%**	**18%**
2.453	**Total output by thermoelectric plants (GWh)**	**1.054**	**1.175**

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

In the first half of 2018, ERG Power's net electricity generation was 1,054 GWh, down compared to the same period of 2017 (1,175 GWh), in relation to the less favourable market context, with decreased net generation margins due to the gradual increase in the prices of CO_2 and natural gas in the period still not reflected in the sale prices. This trend was in line with the more general one registered in Italy for the entire thermoelectric sector.

The net supply of steam to captive customers of the Priolo Gargallo petrochemical site totalled 344 thousand tonnes, down by 13% with respect to the 397 thousand tonnes in the first half of 2017.

Following the entry into force from 1 January 2018 of the legislation on internal user networks referred to in the section about legislative and regulatory updates, all of the electricity output of ERG Power is allocated to the market by capturing the Sicily zonal price, while electricity intended to cover the needs of the Priolo industrial site, which falls within the scope of the legislation on internal user networks from 2018, is purchased on the wholesale market at the Single National Price. In the first half of 2017, ahead of the legislation on internal user networks, about a quarter of output was destined to site customers, including the net supply of steam in this energy.

Adjusted EBITDA in the first half of 2018 amounted to EUR 30 million (EUR 40 million in the first half of 2017). The decrease in the result is attributable to the lower contribution of Energy Efficiency Certificates pertaining to the CCGT plant insofar as it is qualified as a high efficiency cogenerating plant, which in 2017 benefited in the amount of EUR 11 million from the revaluation of securities matured in the previous year.

These results were also affected by the less profitable performance of the spark spread insofar as energy prices do not yet fully incorporate the increase in cost of gas and CO_2.

Capital expenditure

Investments in the first half of 2018 (EUR 2 million) mainly refer to the ERG Power CCGT plant which continued the targeted investment initiatives aimed at preserving the operating efficiency, flexibility and reliability of the plants. Progress was also made on the planned Health, Safety and Environment projects.

Relevant legislative and regulatory updates during the period

- **Energy efficiency certificates**

  April 2017 saw the publication of the Italian Ministerial Decree of 11 January 2017 which, in defining the energy savings targets for electricity and gas distribution entities for the years from 2017 to 2020, had an effect on the balance between the supply and demand of energy efficiency certificates (TEE).

  On 15 February 2018, the Energy Markets Operator (Gestore dei Mercati Energetici, GME), by order of the Ministry of Economic Development, adopted an urgent amendment to the Rules of Operation of the energy efficiency certificate market, providing that market sessions go from weekly to monthly, with the aim of limiting price volatility. ARERA, with resolution 139/2018/R/EFR of 9 March 2018, approved the amendment put in place by the GME.

  The Italian Ministerial Decree of 10 May 2018, containing further modifications to the TEE system, was published in July. The main provisions focused on measures to simplify access to the incentive system, and to introduce, from 1 June 2018, a cap of 250 EUR/TEE on the Tariff Contribution granted to parties obliged to purchase TEEs, and, lastly, the possibility for the GSE to issue virtual TEEs (not associated with any specific project) to make up for any supply shortfall in the market.

- **Internal user networks**

  For operators that own "closed distribution systems", which include the "internal user network" (RIU) in Priolo, the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) published Resolution 539/2015, which introduces the need to adopt accounting and functional separation of distribution activities from electricity sale activities within the RIU (so-called "unbundling"). With its subsequent resolution 788/2016, the Authority provided for the extension of the new regulations to 1 October 2017. With its resolution 582/2017, ARERA further postponed the entry into force of the new RIU regulations to 1 January 2018, in order to align the aforesaid reform with the entry into force of the reform of the structure of the general system costs.

  Lastly, Article 1, paragraph 91, of Law no. 124/2017 (the "2017 Competition Law") provides that functional separation rules do not apply to the operators of closed distribution systems (which includes RIUs); only the accounting separation rules apply to the aforesaid operators.

  ARERA, with resolution 15/2018/R/com of 18 January 2018, adapted the sector regulations to the aforesaid legislative provisions.

INCENTIVE FRAMEWORK

WIND POWER SECTOR INCENTIVES

Italy	• **Plants that entered into operation before 2013**: feed-in premium (FIP) equal to (180 EUR/MWh -P^{-1}) x 0.78 where P^{-1} is the average annual value of the sale price of the electricity of the previous year. Duration of the incentive: 15 years. • **Plants that entered into operation from 2013**: allocation of incentives through participation in Dutch auctions. Duration of the incentive: 20 years.
Germany	• **Plants that entered into operation by July 2014**: feed-in tariff (FIT) and, on an optional basis, FIP plus a management premium (EEG 2012). • **Plants that entered into operation from August 2014 to December 2016**: FIP (EEG 2014). • **Plants authorised by the end of 2016 and in operation by the end of 2018**: transitional period provided for during which it is possible to continue to benefit from the tariffs provided for in EEG 2014 of decreasing value in relation to the actual new installed power in the period. • **Plants that entered into operation from 2017 onwards**: FIP incentives allocated through Dutch auctions (EEG 2017).
France	• **Plants that stipulated the application to purchase electricity generation by December 2015**: a feed-in tariff (FIT) for 15 years, 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. After 10 years of operation, it will be reduced for the subsequent 5 years of the incentive based on the wind farm's actual load factor if the annual number of hours of operation exceed 2,400. • **Plants that stipulated the application to purchase electricity generation in 2016**: feed-in premium (FIP). The FIP is divided into several components: the incentive component (complément de rémunération), calculated as the difference between the current FIT and the average monthly price of energy weighted on the national wind power profile, plus a management premium to cover the costs for managing the sale of energy. • **New plants that do not fall into the above categories**: recognition of incentives occurs through auction procedures or direct access in the case of plants with a capacity below 18 MW and wind turbines with unit power not exceeding 3 MW.
Bulgaria	• 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 revenue for higher production levels. These legislative amendments are currently the subject of an appeal by renewable source producers.
Poland	• **Plants in operation by July 2016**: Certificates of Origin (CO). The Substitution Fee (the penalty applied in the event of non-compliance with the CO purchase obligation) is calculated on the basis of the weighted annual average of the prices of the COs recorded the previous year, plus 25%. For 2018, after the 2017 trading closed, the penalty is set to 48.53 PLN/MWh.

Romania	• Green certificates with a duration of 15 years with delayed assignment with respect to the underlying electricity output. In particular: a) the recovery period of the Green Certificates (GCs) held from 1 July 2013 to 31 March 2017 (which must take place at constant instalments through the years 2018-2025); b) the period of validity of the GCs, which is extended to 31 March 2032 (only the GCs issued before 31 March 2017 maintain the validity of 12 months). • The cap and the floor between which the price of the GCs may fluctuate, set respectively at 35 EUR/MWh (from 57 EUR/MWh) and 29.4 EUR/MWh (from 27 EUR/MWh). • The mandatory quota for the consumers of electricity, which from 2018 onwards shall be determined according to a pre-set fixed volume of GCs on the market and a maximum average expense on the end consumer that may not exceed 11.1 EUR/MWh. • Starting from September 2017, two "anonymous" centralised markets for the trading of GCs were created: the anonymous centralised forward market of bilateral GC contracts (PCTCV) and the anonymous centralised spot market of green certificates (GCs).

SOLAR SECTOR INCENTIVES

Italy	• Incentives for photovoltaic plants are paid through a FIP tariff on energy entered into the network for the duration of 20 years. • The provisions contained in the Ministerial Decree of 17 October 2014 provided for, by November 2014, the obligation for producers to choose between various methods for remodulation of the incentives: a) extension of the incentive period by a further 4 years with simultaneous reduction of the unitary incentive by a value between 17% and 25%, depending on the residual life of the right to incentives; b) an initial period of incentive reduction followed by a period of subsequent increase thereof for an equivalent amount; c) flat reduction applied for the remaining incentive period, variable between 6% and 8% depending on the size of the plant.

HYDROELECTRIC

Italy	• **Plants that entered into operation before 2013**: feed-in premium (FIP) equal to (180 EUR/MWh -P-1) x 0.78 where P-1 is the average annual value of the sales price of the electricity of the previous year. Duration of the incentive: 15 years. • Plants that entered into operation from 2013: allocation of all-inclusive tariff through direct access for hydroelectric plants with capacity of less than 250 KW, in certain cases. Duration of the incentive: 20 years.

THERMOELECTRIC (COGENERATION)

Italy	• High-yield cogeneration (cogeneration of electricity and useful heat) is incentivised through the recognition of energy efficiency certificates (White Certificates), issued for ten years on the basis of the primary energy savings that cogeneration makes it possible to achieve when compared to the separate production of the same amount of electricity and heat. Energy efficiency certificates are exchanged in a regulated market managed by the Energy Markets Operator (Gestore dei Mercati Energetici, GME) or through bilateral negotiations between operators.

RELEVANT LEGISLATIVE AND INSTITUTIONAL UPDATES DURING THE PERIOD

European Union

- **New ETS directive**

  On 19 March 2018, the Official Journal of the European Union published Directive (EU) 2018/410 amending Directive 2003/87/EC (the ETS Directive). Member States must transpose the regulation by 9 October 2019.

  The directive aims to regulate the fourth phase of the Emission Trading System (2021-2030), promoting more effective emission reductions and encouraging measures to decarbonise the economy.

  Some of the main measures introduced in order to achieve this are:

  - increase of the Linear Reduction Factor for total annual allocation amounts available from Member States to 2.2% (compared to the current 1.74%);
  - reinforcement of the Market Stability Reserve (MSR) by doubling the amount of allowances put in the reserve for the first 5 years, and then returning to the current 12% from 2024 to 2030.

Italy

- **XVIII legislature**

  On 4 March 2018, a general election was held to elect the representatives for the XVIII legislature of the Italian Republic.

  The first party emerging from the elections was Movimento 5 Stelle, which obtained 32.68% of the votes for the Chamber of Deputies and the 32.22% for the Senate, while the Centre-Right Coalition (CDX) holds the majority of seats in both houses.

  Lega obtained most votes (17.37% Chamber of Deputies and 17.63% Senate) followed by Forza Italia (14% Chamber of Deputies and 14.43% Senate) and Fratelli d'Italia (4.35% Chamber of Deputies and 4.26% Senate).

  On 24 March, following an agreement between Movimento 5 Stelle, Lega, Forza Italia and Fratelli d'Italia, the new presidents of the Senate and the Chamber of Deputies were elected: respectively, Maria Elisabetta Alberti Casellati of Forza Italia and Roberto Fico of Movimento 5 Stelle.

- **Formation of the new Government**

  More than 80 days after the elections, Movimento 5 Stelle and Lega reached an agreement for the formation of the first Government of the 18th Legislature.

  On 1 June 2018, the Council of Ministers took the oath before the President of the Republic at the Palazzo del Quirinale, while the vote of confidence of the Parliament was received between 5 and 6 June.

  Giuseppe Conte, professor of Private Law at the Law faculty of the University of Florence and lawyer, was appointed Prime Minister. Matteo Salvini, leader of Lega, and Luigi Di Maio, political leader of Movimento 5 Stelle and deputy of the Prime Minister of the Chamber in the previous legislature, were appointed deputy prime ministers.

- **ARERA; extension of current tenure**

  On 10 April 2018, the Law Decree extending the current tenure of ARERA was published in Official Journal no. 83. On the basis of the measure, members of the Authority continue to exercise their functions, limited to ordinary administration matters or matters that cannot be postponed, until new members are appointed and in any case no later than 90 days after the establishment of the Government (beginning September 2018).

  The Decree was converted into Law on 31 May, with Law no. 64 of 31 May 2018, published in Official Journal no. 131 of 8 June.

FINANCIAL STATEMENTS

ADJUSTED INCOME STATEMENT

To enhance understandability of the Group's performance, the operating results are shown in this section excluding special items.

As already indicated in the Introduction, the restated comparative data are shown in order to take account of the change in scope linked to TotalErg and the application of IFRS 15.

For the definition of indicators, the composition of the financial statements and the reconciliation of the amounts involved, as well as for the restatement of the restated comparative figures, reference is made to that indicated in the section Alternative Performance Indicators below.

		1st Half	
(EUR million)		**2018**	**2017 restated**
Revenue from sales and services	1	515.7	534.2
Other revenue and income	2	14.1	4.7
TOTAL REVENUE		**529.8**	**538.9**
Purchases and change in inventories	3	(139.7)	(171.4)
Services and other operating costs	4	(82.8)	(77.5)
Personnel expense		(30.6)	(31.8)
EBITDA		**276.7**	**258.2**
Amortisation, depreciation and impairment of non-current assets	5	(136.2)	(125.6)
EBIT		**140.5**	**132.6**
Net financial expense	6	(37.8)	(34.0)
Net gains (losses) on equity investments	7	0.0	(0.0)
Profit before taxes		**102.7**	**98.5**
Income taxes	8	(27.1)	(26.1)
Profit for the period		**75.6**	**72.5**
Non-controlling interests		(0.1)	0.0
Profit attributable to the owners of the parent		**75.5**	**72.5**

1 - Revenue from sales and services

Revenue from sales consists mainly of:

- sales of electricity produced by wind farms, thermoelectric installations and hydroelectric plants, and, from January 2018, by solar installations. The electricity is sold on wholesale channels to industrial operators of the Priolo Site and to customers via bilateral agreements. Specifically, electricity sold wholesale includes 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), in addition to sales to the main operators of the sector on the "over the counter" (OTC) platform. And lastly, sales of other utilities and steam supplied to industrial operators at the Priolo site.
- incentives related to the output of wind farms in operation, hydroelectric plants and solar installations.

2018 first half revenue was EUR 516 million, down slightly compared with EUR 534 million in the first half of 2017. The change is a result of the following factors:

- the decrease (EUR -22 million) of the **Wind power sector** linked mainly to lower incentives in Italy and Romania partially offset by increased output, the increased sale price of electricity in Italy, and hedging activities performed by Energy Management (EUR 210 million compared with EUR 232 million);
- the new contribution of the **Solar sector**, consolidated from January 2018 (EUR 19 million);
- the **Hydroelectric sector**, up substantially on the corresponding period of the previous year (EUR +25 million) due to the increased water availability in the period (EUR 100 million versus EUR 76 million);
- the decrease (EUR -39 million) in the **Thermoelectric sector** linked to the lower sales to end customers (EUR 187 million, compared to EUR 226 million).

2 - Other revenue and income

These mainly include insurance reimbursements, compensation and expense repayments, in material chargebacks to third parties and grants related to income. The increase in other revenue and income compared to the first half of 2017 is mainly due to the recognition of contingent assets deriving from the closure of previous items.

3 - Purchases and change in inventories

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

In the first half of 2018, these amounted to EUR 140 million, down by roughly EUR 30 million compared to the same period of 2017 mainly as a result of the lower costs for gas and electricity purchases, corresponding to lower sales to customers.

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

4 - 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 agreements with local authorities, for consulting services, insurance costs, and costs for services rendered by third parties.

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

5 - Amortisation, depreciation and impairment losses

Amortisation and depreciation refer to wind farms, hydroelectric sector plants and the CCGT plant, and in the first half of 2018, to solar installations.

The increase is mainly linked to higher amortisation and depreciation due to the acquisition of solar installations and to the change in scope of the wind power plants acquired in France in the first half of 2018.

6 - Net financial expense

Net financial expense in the first half of 2018 totalled EUR 38 million, up compared with EUR 34 million in 2017, mainly due to the increase in medium/long-term debt as a result of the change in the consolidation scope.

The average cost of medium-long term debt in the period amounted on average to 3.1% compared to 3.2% for 2017. The remuneration of invested liquidity, also including the receivable due from api, was in line with that of the first half of 2017.

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

It should be noted that the adjusted net financial expense commented on here does not include positive special items of EUR 4 million relating to the financial income recognised, on the basis of IFRS 9, in reference to a refinancing operations completed during the period, net of the reversal effect related to refinancing operations performed in previous years.

7 - Net gains (losses) on equity investments

During the period, the Group sold its equity investment in Brockaghboy Windfarm Ltd., generating a capital gain of EUR 27 million, net of the related tax effects and other ancillary components. The gain and the other profit or loss components associated with the sale of the equity investment are considered special items and therefore are not reflected in the aforementioned line “Net gains (losses) on equity investments” of the adjusted income statement.

On 10 January 2018, the Group sold its stake in TotalErg: for the purposes of greater clarity, the 2017 comparative figures were amended so as to exclude the adjusted results[11] of the investee previously measured using the equity method. In the first half of 2017, this contribution was positive for EUR 15 million (EUR +24 million for the whole of 2017).

8 - Income taxes

Income taxes in the first half of 2018 were EUR 27 million, in line with those in the corresponding half-year of 2017.

The adjusted tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 26% (26% in first half of 2017).

11 Net of special items and inventory gains (losses).

STATEMENT OF FINANCIAL POSITION

The reclassified statement of financial position contains the assets and liabilities of the mandatory financial statements, indicated in the Notes to the Financial Statements published on the occasion of the annual financial report and the interim financial report at 30 June, highlighting the **uses** of resources in non-current assets and in working capital and the related funding **sources**. Said financial statements are consistent with the mandatory financial statements.

For the definition of the indicators for the main items used in the Reclassified Statement of Financial Position, reference is made to that indicated in the "Alternative Performance Indicators" section below.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

30/06/2017	(EUR million)		30.06.2018	30.12.2017
3.320,3	Non-current assets	1	3,343.8	3,260.8
210,1	Net working capital	2	224.1	150.0
(6,5)	Post-employment benefits		(5.8)	(6.4)
329,3	Other assets	3	322.2	278.7
(586,6)	Other liabilities	4	(608.9)	(573.0)
3.266,7	**Net invested capital**		**3,275.4**	**3,110.1**
1.752,6	Equity att. to the owners of the parent		1,807.8	1,877.5
0,0	Non-controlling interests		1.2	0.0
1.514,1	Net financial indebtedness	5	1,466.4	1,232.7
3.266,7	**Equity and financial debt**		**3,275.4**	**3,110.1**
46%	**Financial leverage**		45%	40%

1 - Non-current assets

(EUR million)	Intangible assets	Property, plant and equipment	Financial assets	Total
Non-current assets at 31.12.2017	**767.5**	**2,252.2**	**241.1**	**3,260.8**
Capital expenditure	4.6	16.8	0.9	**22.3**
Change in the consolidation scope	177.8	203.9	(178.5)	**203.2**
Divestments and other changes	(0.0)	(6.7)	0.4	**(6.4)**
Depreciation	(27.5)	(108.7)	0.0	**(136.2)**
Non-current assets at 30.06.2018	**922.4**	**2,357.4**	**63.9**	**3,343.8**

The change in consolidation scope relates primarily to the acquisition of solar installations in Italy and wind farms abroad, and to the sale of the investment in TotalErg and the Brockaghboy wind farm.

In line "Divestments and other changes" comprises disposals of non-current assets, the use of main component spare parts and reclassifications.

2 - Net working capital

This includes spare parts, amounts due for incentives, amounts due for the sale of electricity, and trade payables mainly concerning the purchase of electricity and gas, the maintenance of wind power plants and other trade payables. The change for the period is mainly related to the seasonal dynamics of collections relating to incentives as well as to the effects of the change in the consolidation scope. A EUR 42 million debt in relation to oil purchases in previous years was also settled in the second quarter of the year.

3 - Other assets

These mainly comprise deferred tax assets, receivables from Tax Authorities for tax advances and advance payments made against current provision of services. The increase for the period is linked to VAT assets.

4 - Other liabilities

These mainly concern the deferred tax liabilities calculated on the differences between carrying amounts and the related tax basis (mainly concessions and non-current assets), the estimate of income taxes due for the period, and the provisions for risks and charges. The increase for the period is mainly linked to the higher deferred taxes in relation to the provisional application of Purchase Price Allocation for solar assets acquired in France during the period.

5 - Net financial indebtedness

SUMMARY OF THE GROUP INDEBTEDNESS

30.06.2017	(EUR million)	30.06.2018	31.12.2017
1,841.2	Medium/long-term financial indebtedness	1,844.8	1,788.7
(327.2)	Short-term cash and cash equivalents	(378.4)	(556.0)
1,514.1	**Total**	**1,466.4**	**1,232.7**

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

MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS

30.06.2017	(EUR million)	30.06.2018	31.12.2017
669.4	Non current bank borrowings	740.7	670.6
0.0	Current portion of loans and borrowings	(129.9)	(58.6)
120.2	Non-current loans and borrowings	201.5	205.9
789.7	**Total**	**812.2**	**817.8**
1,206.5	Total Project Financing	1,222.5	1,114.7
(154.9)	Current portion of Project Financing	(153.6)	(143.8)
1,051.6	**Non-current Project Financing**	**1,068.9**	**970.9**
0.0	**Long-term loan assets**	**(36.4)**	**0.0**
1,841.2	**TOTAL**	**1,844.8**	**1,788.7**

The "Non-current bank borrowings" at 30 June 2018 total EUR 741 million (EUR 671 million at 31 December 2017), and refer to:

- a corporate acquisition loan of EUR 350 million, subscribed by seven mandated Italian and foreign lead arrangers and bookrunners concerning the acquisition of the entire hydroelectric business belonging to E.On Produzione, now ERG Hydro S.r.l.;
- three bilateral corporate loans with Mediobanca S.p.A. (EUR 150 million), UBI Banca S.p.A. (EUR 100 million) and UniCredit S.p.A. (EUR 75 million) entered into in the first half of 2016 to refinance the short-term portion of the corporate acquisition loan entered into for the acquisition of ERG Hydro S.r.l. and the project financing for the wind farm in Corni (Romania);
- a corporate loan with Mediocredito (EUR 70 million) in view of the early repayment of lease agreements by 5 solar sector companies, acquired at the start of the year.

The current portion of loans and borrowings (EUR 130 million) refers to the portion to be repaid within twelve months of the aforementioned Corporate loans.

"Non-current loans and borrowings, amounting to EUR 202 million, refer mainly to:

- net liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 97 million (EUR 106 million at 31 December 2017);
- liability deriving from the issue of the non-convertible bonds (EUR 99 million[12]) in the third quarter of 2017, aimed at raising additional funds for new capital expenditure in the renewable energies sector and to refinance the capital expenditure made for hydroelectric plants in Italy.

The payables for "Total Project Financing" (EUR 1,223 million at 30 June 2018) are for:

- EUR 54 million in loans issued to ERG Power S.r.l. for the construction of the CCGT plant;
- EUR 169 million in loans related to the newly acquired ForVei Group companies (solar) and to the subsidiary ISAB Energy Solare;
- EUR 1,000 million in loans issued for the construction of wind farms, of which EUR 386 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 56 million. 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 amount, 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 amount is consequently managed through the amortised cost method throughout the duration of the loan.

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

IFRS 9 is applied by the Group for annual reporting periods beginning on or after 1 January 2018. As regards the main effects on the Group, application of the standard does not allow for the deferment of the economic effects of the renegotiation of loans on the residual life of the liability by modifying the effective interest rate of the liability at that date: this involves accounting for a profit or an immediate loss at the date of modification of the liability, as an offset to the reduction of the corresponding debt. The application of the standard has resulted in the reduction of liabilities for loans at the transition date (1 January 2018) of EUR 7 million, as an offset to higher opening net assets, net of the related tax effects.

As a result of the refinancing transactions concluded in the period, net of the reversal effect relating to the refinancing transactions performed in previous years, the reduction in total debt as at 30 June 2018 came to EUR 12 million.

"Long-term loan assets" totalling EUR 36 million refer to the deferred component of the proceeds from the sale of TotalErg to api S.p.A. This deferred component is regulated by a vendor loan agreement with a maturity of 5 and a half years, signed with api S.p.A.

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

SHORT-TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)

30.06.2017	(EUR million)	30.06.2018	31.12.2017
41.3	Current bank borrowings	43.9	83.0
0.0	Current portion of loans and borrowings	129.9	58.6
1.8	Other current loans and borrowings	4.7	1.7
43.1	**Current financial liabilities**	**178.5**	**143.3**
(280.7)	Cash and cash equivalents	(432.1)	(679.2)
(108.1)	Securities and other current loan assets	(124.4)	(28.8)
(388.8)	**Current financial assets**	**(556.5)**	**(708.0)**
154.9	Current portion of Project Financing	153.6	143.8
(136.3)	Cash and cash equivalents	(153.9)	(135.1)
18.6	**Project Financing**	**(0.3)**	**8.7**
(327.2)	**TOTAL**	**(378.4)**	**(556.0)**

The reduction of "Current bank borrowings" refers to a partial repayment of the short-term credit lines by ERG S.p.A. The increase in the item "Securities and other current loan assets" is linked to the subscription of investment funds.

Liability Management

A number of Liability Management transactions were completed in the period, which help to improve the financial terms and duration of the Group's debt structure.

Specifically, in June, five group companies operating in the solar industry, acquired at the beginning of the year, arranged early settlement of the lease agreements relating to their assets, replacing them with a corporate loan for approximately EUR 70 million, significantly improving the overall financial terms. Also in June, ERG Eolica Adriatica S.r.l. refinanced the project financing agreement with a syndicate of Italian and international banks for approximately EUR 98 million, achieving better financial terms and duration conditions compared to the previous loan.

The two transactions form part of the broader Liability Management programme implemented during the period, which saw the overall renegotiation of around EUR 500 million of debt, with a decrease in the annual weighted average of the related cost of approximately 1%, the benefits of which will already begin to be seen in the second half of this year, and an extension of the current term of the Group's financing by around 1 year.

Cash flows

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

	1st half	
	2018	**2017**
Adjusted EBITDA	276.7	258.2
Change in working capital	(143.4)	(53.7)
Cash flow from operations	**133.3**	**204.5**
Capital expenditure on property, plant and equipment and intangible assets	(21.4)	(24.2)
Acquisitions of companies (business combination)	(425.2)	(39.5)
Capital expenditure in financial non-current assets	(0.9)	15.4
Sale of equity investment in TotalErg	179.5	–
Sale of net assets of Brockaghboy	105.7	–
Divestments and other changes	0.2	–
Cash flow used in investments/divestments	**(162.1)**	**(48.2)**
Net financial expense	(37.8)	(34.0)
Other net gains (losses) on equity investments	0.0	(0.1)
Cash flow used in financial management	**(37.8)**	**(34.1)**
Cash flow from tax management	**–**	**(15.2)**
Distribution of dividends	(171.1)	(74.4)
Other changes in equity	6.2	10.6
Cash flow used in equity	**(164.9)**	**(63.8)**
Change in the consolidation scope	**(2.2)**	**–**
Initial net financial indebtedness	**1,232.7**	**1,557.2**
Net change	*233.7*	*(43.1)*
Final net financial indebtedness	**1,466.4**	**1,514.1**

Cash flow from operations in the first half of 2018 was a positive EUR 133 million, a decrease of EUR 71 million compared to the same period of 2017, primarily due to the settlement of a EUR 42 million debt in relation to oil purchases in previous years and seasonal dynamics of working capital also influenced by TotalErg's exit from group VAT consolidation scheme.

Cash flow used in investments is mainly linked to M&A activities and in particular the acquisition of ForVei (EUR 345 million), Vent d'Est S.a.s. (EUR 12 million), and the French wind companies acquired by Impax New Energy (EUR 67 million). A detailed analysis of investments in property, plant and equipment and intangible assets during the period made may be found in the specific section.

The cash flow from divestments is mainly linked to the sale of the investment in TotalErg and of the UK Brockaghboy wind farm.

Cash flow used in financial management refers to the higher liabilities linked to interest accrued during the period.

Cash flow used in equity relates mainly to the impact of the distribution of dividends to shareholders, the effects of the transition to IFRS 9 at the date of first application (1 January 2018), net of the related tax effects, and to changes in the hedging reserve.

The **change in the consolidation scope** relates to:

- the effects of the consolidation of equity investments previously measured using the cost method since they were not yet operational (WP France 6) or were not of a significant size (ISAB Energy Solare).

Consolidation solar

On 12 January 2018, ERG completed the acquisition of 30 photovoltaic plants, entered into operation between 2010 and 2011 and located in 8 regions between the North and the South of Italy, with an installed capacity of 89 MW and an annual output of approximately 136 GWh. 100% of the total installed capacity benefits from incentives with an average expiry date of 2030.

ERG paid the seller an equity consideration of EUR 69.5 million.

At the date of this Report, the purchase price allocation procedure was performed on the basis of the available information: consistently with the indications of IFRS 3 and in consideration of the short period of time between the acquisition date and the date of preparation of the document, this procedure shall be deemed provisional and subject to changes and adjustments.

Additional details, including any updates regarding prices and the allocation of amounts, and the related accounting effects, are provided in the interim condensed consolidated financial statements at 30 June 2018.

In this regard, based on the provisions of IFRS 3, the measurement of the assets and liabilities may be subject to changes in the twelve months following the acquisition date.

The method used for the first consolidation of the acquired companies, as required by the reference reporting standards, is described below.

The acquisition was measured according to the provisions of IFRS 3 on business combinations; based on this standard, for the transaction to be properly accounted for, it is necessary to:

- determine the acquisition cost;
- determine the fair value of the acquired assets and liabilities assumed;
- allocate, at the date of acquisition, the cost of the business combination to the acquired assets and the liabilities assumed, including those not recognised before the acquisition;
- recogne any goodwill acquired in the business combination.

In the determination of the fair value of the acquired assets and liabilities, the main differences identified refer to the measurement:

- of non-current assets and, in particular, authorisations for the generation of electricity at feed-in tariffs for solar installations in operation. These assets were provisionally measured with the support of models set up when assessing the validity of the investment;
- of financial liabilities related to the derivative to hedge interest rates and to loans, some of which were originally entered into under less advantageous conditions than those currently proposed by the market.

The impact of the transaction on the Group's net financial indebtedness is EUR 343 million and refers to the price paid (EUR 69.5 million) and to the net financial position of the acquired companies, inclusive of the fair value of the derivatives and of the positive effect deriving from the fair value measurement of certain loans, as commented above.

ALTERNATIVE PERFORMANCE INDICATORS

Definitions

On 3 December 2015 CONSOB issued Communication no. 92543/15, which transposes the Guidelines regarding the use and presentation of Alternative Performance Indicators in the context of regulated financial information, issued on 5 October 2015 by the European Securities and Markets Authority (ESMA). The Guidelines, which updated the CESR Recommendation on Alternative Performance Indicators (CESR/05 - 178b), aim to promote the usefulness and transparency of alternative performance indicators so as to improve their comparability, reliability and comprehensibility.

Some of the APIs used in this document are different from the financial indicators expressly provided for by the IFRS adopted by the Group.

These alternative indicators are used by the Group in order to facilitate the communication of information on its business performance as well as its on net financial indebtedness.

Finally, in order to enhance an understanding of the business segments' performance, the operating results are shown excluding special income items: these results are indicated with the term "Adjusted results".

Since the composition of these indicators is not regulated by the applicable accounting reporting standards, the method used by the Group to determine these indicators may not be consistent with the method used by other operators and so these might not be fully comparable.

Definitions of the APIs used by the Group and a reconciliation with the items of the financial statements templates adopted are as follows:

- **EBITDA** is an indicator of operating performance calculated by adding "Amortisation, depreciation and impairment" to the net operating profit. EBITDA is explicitly indicated as a subtotal in the financial statements.
- **Adjusted EBITDA** is the gross operating margin, as defined above, with the exclusion of significant special income components (special items).
- **EBITDA margin** is an indicator of the operating performance calculated by comparing the adjusted EBITDA to the Revenue from sales and services of each individual business segment.
- The **adjusted tax rate** is calculated by comparing the adjusted values of taxes and profit before tax.
- **Adjusted profit attributable to the owners of the parent** is the profit attributable to the owners of the parent, with the exclusion of significant special profit or loss components (special items), net of the related tax effects.
- **Investments** are obtained from the sum of investments in property, plant and equipment and intangible assets. Starting from the Report at 31 March 2018, they also include the carryng amount of the acquisitions of net assets within the scope of M&A transactions.
- **Net working capital** is the sum of inventories, trade receivables and trade payables.

- **Net invested capital** is the algebraic sum of non-current assets, net working capital, liabilities related to post-employment benefits, other assets and other liabilities.
- **Net financial indebtedness** is an indicator of the financial structure and is determined in accordance with CONSOB communication 15519/2006, also including the non-current loan to API S.p.A. (EUR 36 million) as a deferred component of the TotalErg sale price, as well as the non-current portion of assets relating to derivative instruments.
- **Financial leverage** is calculated by comparing total net financial liabilities (including Project Financing) to the net invested capital.
- The special items include significant atypical income items. These include:
  - income and expenses connected to events whose occurrence is non-recurring, i.e. those transactions or events that do frequently re-occur over the normal course of business;
  - income and expenses related to events that are not typical of normal business activities, such as restructuring and environmental costs;
  - capital gains and losses linked to the disposal of assets;
  - significant write-downs recorded on assets following impairment tests;
  - income and the associated reversals recognised in application of IFRS 9, in relation to the restructuring of loans in place.

Reconciliation with adjusted operating results

EBITDA

			1st Half	
2017		**Note**	**2018**	**2017 restated**
457.6	**EBITDA from continuing operations**		**273.4**	**258.2**
2.3	*Contribution of discontinued operations (Brockaghboy)*	1	*3.3*	–
459.9	**EBITDA**		**276.7**	**258.2**
	Exclusion of special items			
	Corporate			
12.4	*- Reversal of ancillary charges on non recurring operations*		–	–
472.3	**Adjusted EBITDA**		**276.7**	**258.2**

AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

			1st Half	
2017		Note	2018	2017 restated
(250,9)	**Amortisation and depreciation - continuing operations**		**(135,5)**	**(125,6)**
(1,3)	*Contribution of discontinued operations (Brockaghboy)*	1	*(0,7)*	–
(252,2)	**Amortisation, depreciation and impairment losses**		**(136,2)**	**(125,6)**
	Exclusion of special items			
–	*- Special Items*		–	–
(252,2)	**Adjusted amortisation and depreciation**		**(136,2)**	**(125,6)**

PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT

			1st Half	
2017		Note	2018	2017 restated
107,9	**Profit attributable to the owners of the parent**		**105,1**	**72,5**
	Exclusion of special items			
9,3	*Exclusion of ancillary charges on non-recurring operations*		–	–
–	*Exclusion of capital gain from Brockaghboy sale*	2	*(26,2)*	–
–	*Exclusion of the net gain on refinancing (IFRS 9)*	3	*(3,4)*	–
117,2	**Adjusted profit attributable to the owners of the parent**		**75,5**	**72,5**

1. The results of Brockaghboy, the subsidiary sold on 7 March 2018, are subject to the requirements of IFRS 5.

   In this Interim Financial Report, to facilitate understanding of the figures, the results achieved in the period 1 January 2018 to 7 March 2018 by the assets sold are shown and commented on in ordinary operations, in line with the approach already adopted in the DIrectos' report in the 2017 Annual Report.
2. The aforementioned sale of Brockaghboy resulted in the recognition of a capital gain of EUR 26 million, net of the related tax effects and other ancillary components, which for the purposes of this Report is considered a special item.
3. The Group renegotiated a number of loans during the period. IFRS 9 does not allow for the deferment of the economic effects of the renegotiation of loans on the residual life of the liability: this resulted in a gain of approximately EUR 4 million being accounted for in the period. For the purposes of clearer disclosure of the cost of net financial indebtedness, it was considered appropriate to show in the adjusted income statement financial expense related to the debt service payment, with the recognition of deferred benefits of the renegotiation over the term of the liability and not all in one immediate entry at the time of the amendment. The aforementioned adjustment relates primarily to the reversal of the aforementioned benefit net of the effects linked to the reversal of similar income relating to re-financing operations of previous years.

Below is the reconciliation between the condensed interim consolidated financial statements and the adjusted statements shown and commented upon in this Report.

1ST HALF 2018	Condensed Interim consolidated financial statements	Reversal of IFRS 5 reclassifications - Brockaghboy	Reversal of special items	Adjusted income statement
Revenue from sales and services	512.8	2.9	–	515.7
Other revenue and income	13.2	0.9	–	14.1
Total revenue	**525.9**	**3.8**	**–**	**529.8**
Purchases	(140.3)	(0.0)	–	(140.3)
Change in inventories	0.7	–	–	0.7
Services and other operating costs	(82.3)	(0.6)	–	(82.8)
Personnel expense	(30.6)	–	–	(30.6)
EBITDA	**273.4**	**3.3**	**–**	**276.7**
Amortisation, depreciation and impairment of non-current assets	(135.5)	(0.7)	–	(136.2)
EBIT	**137.9**	**2.6**	**–**	**140.5**
Net financial expense	(33.0)	(0.6)	(4.2)	(37.8)
Net gains (losses) on equity investments	0.0	26.7	(26.7)	0.0
Profit before taxes	**105.0**	**28.7**	**(30.9)**	**102.7**
Income taxes	(28.2)	(0.2)	1.3	(27.1)
Profit from continuing operations	**76.8**	**28.4**	**(29.6)**	**75.6**
Profit from discontinued operations	28.4	(28.4)	–	–
Profit for the period	**105.2**	**–**	**(29.6)**	**75.6**
Non-controlling interests	(0.1)	–	–	(0.1)
Profit attributable to the owners of the parent	**105.1**	**–**	**(29.6)**	**75.5**

Restated comparative data for the first half of 2017

For the purposes of this Report, it was deemed necessary to amend the comparative data in order to take account of the following:

- the aforementioned **sale of TotalErg** on 10 January 2018, which marked the ERG Group's definitive exit from the Oil industry. Since 2018, its business has therefore been focused exclusively on the market for the generation of energy from renewable sources. The comparison of the 2018 results with those of the same periods of 2017 is therefore affected by this change in scope. As such, in order to enhance an understanding of the Group's performance in the two periods and in view of its new strategic and industrial positioning, comparative figures for the corresponding period of 2017 were amended so as to exclude the adjusted results[13] of the TotalErg joint venture which had previously been measured using the equity method and reported in the line "Net gains (losses) on equity investments". In the first half of 2017, this contribution was a positive EUR 15 million (EUR +24 million for the whole of 2017).
- **IFRS 15 - Revenue from Contracts with Customers** has been applied from 1 January 2018, with no significant impact on the Group's condensed interim consolidated financial statements. In particular, for some contracts ERG is identified as an "agent", requiring the netting of certain operating costs thereby reducing revenue.

13 Net of special items and inventory gains (losses).

The table below presents a summary of the above effects:

	1st Half 2017	IFRS 15 reclassi-fications	Reversal TotalErg inventory gains/losses	Reversal TotalErg impact	1st half 2017 RESTATED
Revenue from sales and services	538.3	(4.1)	–	–	534.2
Other revenue and income	4.7	–	–	–	4.7
Total revenue	**543.0**	**(4.1)**	**–**	**–**	**538.9**
Purchases	(171.9)	0.5	–	–	(171.4)
Change in inventories	(0.0)	–	–	–	(0.0)
Services and other operating costs	(81.1)	3.6	–	–	(77.5)
Personnel expense	(31.8)	–	–	–	(31.8)
EBITDA	**258.2**	**–**	**–**	**–**	**258.2**
Amortisation, depreciation and impairment of non-current assets	(125.6)	–	–	–	(125.6)
EBIT	**132.6**	**–**	**–**	**–**	**132.6**
Net financial income (expense)	(34.0)	–	–	–	(34.0)
Net gains (losses) on equity investments	11.9	–	2.9	(14.8)	(0.0)
Profit before taxes	**110.5**	**–**	**2.9**	**(14.8)**	**98.5**
Income taxes	(26.1)	–	–	–	(26.1)
Profit from continuing operations	**84.4**	**–**	**2.9**	**(14.8)**	**72.5**
Profit from discontinued operations	–	–	–	–	–
Profit before non-controlling interests	**84.4**	**–**	**2.9**	**(14.8)**	**72.5**
Non-controlling interests	–	–	–	–	–
Profit attributable to the owners of the parent	**84.4**	**–**	**2.9**	**(14.8)**	**72.5**

SIGNIFICANT EVENTS AFTER THE HALF-YEAR

Date	Sector	Significant events	Press release
12 July 2018	**Corporate**	Conclusion of Liability Management transactions for a total of EUR 500 million.	Press release 12.07.2018
01 August 2018	**Wind UK**	ERG, through its subsidiary ERG Power Generation S.p.A., completed the acquisition of a 100% equity interest in Creag Riabhach Wind Farm Ltd., a company incorporated under Scottish law, holder of authorisations for the construction of a wind farm in Scotland, to the north of Inverness, in the county of Sutherland. The wind farm will comprise 22 turbines, giving an authorised capacity of 79.2 MW and estimated electricity output, when fully operational, of around 250 GWh/year.	Press release 03.08.2018
02 August 2018	**Wind France**	ERG, through its subsidiary ERG Eolienne France S.a.s., acquired from Renvico France S.a.s. a 25% equity interest in the companies Parc Eolienne de la Voie Sacrée S.a.s. and Parc Eolienne d'Epense S.a.s., owners of two wind farms with an overall capacity of 16.25 MW, which came on stream respectively in 2007 and 2005; this follows the 75% stake already purchased from Vent d'Est S.a.s. last March.	Press release 03.08.2018
03 August 2018	**Solar**	ERG and Quercus Assets Selection S.ar.l., a European fund focused on investments in renewable sources with over Euro 350 million of assets under management, signed an agreement for the creation of a public limited company, ERG Q Solar1, to be based in Genoa under the joint ownership of ERG (60%) and the sub-fund Quercus Italian Solar Fund (40%), with the objective of consolidating the Italian photovoltaic market.	Press release 03.08.2018

BUSINESS OUTLOOK

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

Wind

ERG continues its strategy of international development in Wind power, thanks to the purchase of two wind farms in France for 26 MW and a growth company with a pipeline of 750 MW, which will allow the country to achieve an installed capacity of around 300 MW by the end of 2018.

As regards Italy, EBITDA is expected to decrease as a result of the gradual exit from the incentive system of approximately 72 MW in the course of the year and of the lower price of the incentive, the value of which is determined on the basis of the average price of electricity recorded in 2017. These effects will only be marginally offset by the slightly better than expected wind conditions than those recorded in 2017.

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

Solar

In 2018, ERG entered into the Solar sector with the acquisition of ForVei (89 MW), further strengthening its strategy of technological diversification. In addition, the considerable size of the operation will make it possible to extend and optimise the Energy Management portfolio and capitalise on industrial expertise in the management of assets.

In general, the total EBITDA for Solar will contribute to increasing Group profit with respect to 2017, a year in which the Group had not yet become involved with this technology.

Idroelettrico

ERG will continue to consolidate the hydroelectric complex in Terni over the course of 2018. Results are expected to improve thanks to the greater volumes expected compared to the previous year, which will more than compensate for the lower incentive price benefiting approximately 40% of output and the revenues linked to the recovery of previous incentives in the amount of EUR 8 million from which hydroelectric power benefited in 2017.

Termoelettrico

During 2018, ERG will continue to improve the operating efficiency of the ERG Power CCGT plant. Results are expected to decrease as a result of a less favourable price scenario, partly mitigated by participation in the dispatching services market, the maximisation of high-yield co-generation, improvements in operating efficiency and Energy Management activities.

With regard to the indications for 2018, it was deemed appropriate, starting from this report, in view of the specific characteristics of the 2018-2022 Business Plan, to express both the EBITDA and Capex forecasts within an interval so as to better reflect, from an economic point of view, the variability in the availability of the natural resources (wind, water, sunlight) that supply the production portfolio and, from an investment point of view, the flexibility in the status of the various development projects, including those that are inherently less predictable such as M&A investments.

Overall FY2018 EBITDA is forecast within a range of between Euro 490 and 500 million, with a slight growth compared to 2017 (Euro 472 million) despite the decreasing incentivised perimeter in the Italian Wind Power sector and the lower incentive price as regards both Wind and Hydro. These effects are more than offset by the contribution of the new Solar Power assets and the new overseas wind farms, as well as the forecast growth in volumes as regards the Hydro sector.

FY2018 investments are expected to be in a range of between Euro 520 and 540 million, with an increase compared to the previous indication (Euro 500 million), since it includes the estimated investments pertaining to the NewCo with Quercus in the Italian photovoltaic sector, as well as the price paid to acquire a 100% equity interest in the company Creag Riabhach Wind Farm Ltd., holder of authorisations for the construction of a 79 MW wind farm in Scotland.

ERG's cash generation, both operational and arising from the sales of TotalErg and Brockaghboy, will keep borrowing largely stable at around EUR 1.3 billion (EUR 1.2 billion in 2017), compensating for new investments in the amount of approximately EUR 500 million, the ordinary and extraordinary distribution of dividends at EUR 1.15 per share and the payment of financial expenses.

Genoa, 3 August 2018

On behalf of the Board of Directors

The Chairman

Edoardo Garrone

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX MONTHS ENDED

30 JUNE 2018

STATEMENT OF FINANCIAL POSITION

(EUR thousand)	Notes	30.06.2018		31.12.2017	
Intangible assets	1		774,182		634,569
Goodwill	2		148,271		125,932
Property, plant and equipment	3		2,357,406		2,181,860
Equity investments:	4		18,097		21,173
- carried at equity		*12,847*		*12,787*	
- other equity investments		*5,250*		*8,385*	
Other non-current financial assets	5		82,656		40,369
Deferred tax assets	6		131,779		132,861
Other non-current assets	7		44,880		47,308
Non-current assets			**3,557,272**		**3,184,073**
Inventories	8		20,978		20,597
Trade receivables	9		279,897		255,534
Other current assets	10		145,574		97,573
Current financial assets	11		124,006		29,407
Cash and cash equivalents	12		585,994		812,992
Current assets			**1,156,449**		**1,216,103**
Asset held for sale	38		**–**		**261,069**
TOTAL ASSETS			**4,713,721**		**4,661,245**
Equity att. to the owners of the parent	13		1,807,815		1,877,466
Non-controlling interests	14		1,153		–
Equity			**1,808,967**		**1,877,466**
Post-employment benefits	15		5,838		6,403
Deferred tax liabilities	16		298,128		265,257
Provisions for risks and charges – non-current portion	17, 26		145,887		127,801
Non-current financial liabilities	18		1,885,072		1,788,714
Other non-current liabilities	19		35,681		40,950
Non-current liabilities			**2,370,606**		**2,229,124**
Provisions for risks and charges – current portion	20, 26		47,812		53,242
Trade payables	21		75,978		126,796
Current financial liabilities	22		328,219		287,651
Other current liabilities	24		82,139		84,808
Current liabilities			**534,148**		**552,497**
Liabilities associated with assets held for sale	38		**–**		**2,156**
TOTAL LIABILITIES AND EQUITY			**4,713,721**		**4,661,245**

INCOME STATEMENT

(EUR thousand)	Notes	1st Half 2018	1st Half 2017(1)
Revenue	28	512,767	538,273
Other income	29	13,171	4,738
Purchases	30	(139,653)	(171,882)
Services and other operating costs	31	(82,251)	(81,043)
Personnel expense	32	(30,611)	(31,817)
Gross operating income (EBITDA)		**273,423**	**258,269**
Amortisation, depreciation and impairment of non-current assets	33	**(135,507)**	**(125,608)**
NET OPERATING INCOME (EBIT)		**137,916**	**132,661**
Financial expense	34	(50,116)	(45,378)
Financial income	34	17,130	11,438
Net financial expense	34	**(32,987)**	**(33,941)**
Net gains on equity-accounted investments	35	60	71
Other net losses on equity investments	35	(30)	(114)
Gains (losses) on equity investments	35	**30**	**(43)**
PROFIT BEFORE TAXES		**104,959**	**98,678**
Income taxes	36	(28,170)	(26,238)
PROFIT FROM CONTINUING OPERATIONS		**76,789**	**72,440**
Profit from Discontinued Operations	37	28,432	11,977
PROFIT FOR THE PERIOD		**105,221**	**84,417**
Non-controlling interests		(118)	–
PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT		**105,102**	**84,417**

(EUR)		1st Half 2018	1st Half 2017
Basic earnings per share from continuing operations	39	0.516	0.487
Diluted earnings per share from continuing operations	39	0.516	0.487
Basic earnings per share att. to the owners of the parent		0.706	0.567
Diluted earnings per share att. to the owners of the parent		0.706	0.567

(1) with respect to the indications of the Consolidated Condensed Interim Financial Report at 30 June 2017, certain Income Statement data were re-stated to take account of the application of IFRS 5 to the transfer of the company Brockaghboy Windfarm Ltd., which took place on 7 March 2018

OTHER COMPREHENSIVE INCOME

(EUR Thousand)	1st Half 2018	1st Half 2017
Profit for the period	**105.221**	**84.417**
Changes that will not be reclassified to profit or loss		
Net actuarial gain (losses)	–	–
Tax effect of net actuarial gain (losses)	–	–
	–	**–**
Changes that will be reclassified to profit or loss		
Changes in the hedging reserve	(9,595)	17,190
Tax effect of changes in the hedging reserve	2,288	(4,126)
	(7,307)	**13,064**
Changes in the translation reserve	(3,512)	(1,337)
Tax effect of changes in the translation reserve	667	586
	(2,845)	**(751)**
Other comprehensive income (expense) net of the tax effect	**(10,152)**	**12,313**
Comprehensive income for the period	**95,069**	**96,730**
Non-controlling interests	(100)	–
Comprehensive income attributable to the owners of the parent	**94,969**	**96,730**

STATEMENT OF CASH FLOWS

(EUR Thousand)	Note	1st Half 2018	1st Half 2017
CASH FLOWS FROM OPERATING ACTIVITIES (A):			
Profit for the period		105.221	84.417
- Amortisation, depreciation and impairment of non-current assets	34	135.507	125.652
- Net change in provision for risks and charges	17, 20	3.511	(337)
- Net change in deferred tax assets and liabilities	6, 16	(3.619)	8.958
- Impairment of current assets	32	23	384
- Net gain (losses) on equity investments	36, 38	(26.743)	8.480
- Change in post-employment benefits	15	(565)	(222)
Cash flows before changes in working capital		**213.334**	**227.332**
- Change in other current assets and liabilities:			
- Change in inventories	8	(340)	(1.374)
- Change in trade receivables	9	(6.616)	447
- Change in trade payables	21	(62.553)	(48.370)
- Net change in other assets/liabilities	7, 10, 19, 24	(46.365)	9.290
		(115.874)	**(40.008)**
CASH FLOWS FROM OPERATING ACTIVITIES (A):		**97.461**	**187.324**
CASH FLOWS FROM INVESTING ACTIVITIES (B):			
Acquisitions of intangible assets and goodwill	1, 2	(5.735)	(1.343)
Acquisition of property, plant, and equipment	3	(15.657)	(24.926)
Acquisition of equity investments and other non-current financial assets	4, 5	(42.976)	(4.825)
Net change in other increases/decreases in non-current assets	1, 3	7.108	(836)
Net change in consolidation method of equity investments	4	3.109	–
Impact of sale of Brockaghboy Windfarm Ltd. (2)		105.740	–
Disposals of intangible assets and goodwill	1, 2	–	–
Disposals of property, plant and equipment and related capital gains/losses	3	–	–
Disposals of equity investments and other non-current financial assets	4, 5	26	–
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B):		**51.615**	**(31.930)**
CASH FLOWS FROM FINANCING ACTIVITIES (C):			
Increase in non-current loans	18, 22	167.616	145.000
Decrease in non-current loans	18,22	(252.806)	(255.182)
Net change in current bank loans and borrowings	22	32.182	37.839
Net change in other current financial assets/liabilities	11, 22	(94.599)	46.591
Dividends paid to shareholders	41	(171.139)	(74.408)
Other changes in equity		(3.511)	13.478
CASH FLOWS USED IN FINANCING ACTIVITIES (C):		**(322.256)**	**(86.682)**
CHANGE IN THE CONSOLIDATION SCOPE (D)		**(53.818)**	**(11.930)**
NET CASH FLOWS FOR THE PERIOD (A+B+C+D)		**(226.999)**	**56.781**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	12	**812.992**	**360.226**
NET CASH FLOWS FOR THE PERIOD		(226.999)	56.781
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**585.994**	**417.007**

	1st Half 2018	1st Half 2017
Additional statement of cash flows information		
Income taxes paid (1)	–	15.220
Interest paid	16.814	14.666

(1) note that in July 2018, taxes of approximately EUR 8 million were paid, net of offsetting, as settlement for 2017 and as an advance for 2018
(2) for more information, reference is made to the paragraph Sale of Brockaghboy

STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserves	Profit for the period	Equity attributable to the owners of the parent	Non-controlling interests (1)	Total equity
BALANCE AT 31.12.2016	**15,032**	**1,538,846**	**175,222**	**1,729,099**	**–**	**1,729,099**
Allocation of 2016 profit	–	175,222	(175,222)	–	–	**–**
Distribution of dividends	–	(74,408)	–	(74,408)	–	**(74,408)**
Other changes	–	1,166	–	1,166	–	**1,166**
Profit first half of 2017	–	–	84,417	84,417	–	**84,417**
Net actuarial losses	–	–	–	–	–	**–**
Changes in the hedging reserve	–	13,064	–	13,064	–	**13,064**
Changes in the translation reserve	–	(751)	–	(751)	–	**(751)**
Comprehensive income	**–**	**12,313**	**84,417**	**96,730**	**–**	**96,730**
BALANCE AT 30.06.2017	**15,032**	**1,653,138**	**84,417**	**1,752,586**	**–**	**1,752,586**
BALANCE AT 31.12.2017	**15,032**	**1,655,619**	**206,815**	**1,877,466**	**–**	**1,877,466**
Transition IFRS 9 (2)	**–**	**4,978**	**–**	**4,978**	**–**	**4,978**
Allocation of 2017 profit	**–**	**206,815**	**(206,815)**	**–**	**–**	**–**
Distribution of dividends	**–**	**(171,139)**	**–**	**(171,139)**	**–**	**(171,139)**
Share - based payment	**–**	**1,243**	**–**	**1,243**	**–**	**1,243**
Non-controlling interests from acquisitions	**–**	**–**	**–**	**–**	**1,052**	**1,052**
Other changes	**–**	**297**	**–**	**297**	**–**	**297**
Profit first half 2018	–	–	105,102	105,102	118	**105,221**
Net actuarial losses	–	–	–	–	–	**–**
Changes in the hedging reserve	–	(7,289)	–	(7,289)	(18)	**(7,307)**
Changes in the translation reserve	–	(2,845)	–	(2,845)	–	**(2,845)**
Comprehensive income	**–**	**(10,134)**	**105,102**	**94,968**	**100**	**95,068**
BALANCE AT 30.06.2018	**15,032**	**1,687,678**	**105,102**	**1,807,815**	**1,153**	**1,808,967**

(1) for further details, please see Note 14 - Non-controlling interests
(2) adjustment on first-time adoption of IFRS 9 (net of the related tax effect)

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

THE GROUP

The core business of the ERG Group consists in the production of electricity from renewable sources such as wind, solar, hydroelectric and cogenerative high-efficiency thermoelectric power plants, mainly located in Italy, France and Germany.

BASIS OF PREPARATION

The condensed interim consolidated financial statements as at and for the six months ended 30 June 2018, prepared on the basis of the indications contained in Article 154-*ter* of the Italian Consolidated Finance Act, was prepared in condensed form in accordance with IAS 34 "Interim Financial Reporting".

In accordance with IAS 34, the condensed interim consolidated financial statements do not include all the disclosures required for annual consolidated financial statements for which, therefore, reference is made to the Group's annual consolidated financial statements as at and for the year ended 31 December 2017.

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

In application of CONSOB Resolution no. 15519 of 27 July 2006, the effects of the transactions with related parties on the balance sheet, financial and economic items are shown in the explanatory notes. Furthermore, in application of the aforementioned resolution, the income components deriving from events or non-recurring transactions are highlighted, when significant, separately in the management's comments and in the interim condensed financial report.

The condensed interim consolidated financial statements at 30 June 2018 have been reviewed in accordance with Italian CONSOB resolution no. 10867 dated 31 July 1997.

The results of this review, performed by KPMG S.p.A., will be published as soon as they are available.

ACCOUNTING POLICIES AND BASIS OF CONSOLIDATION

The condensed interim consolidated financial statements at 30 June 2018 were prepared by applying the same consolidation principles and accounting policies used for the preparation of the consolidated financial statements as at and for the year ended 31 December 2017 with the exception of the provisions of accounting standards IFRS 9 and IFRS 15, which are expected to be applied from 1 January 2018, and IFRS 2 with reference to the new LTI plan. For details please refer to the paragraph Share-based payments, as indicated hereunder.

RESTATEMENT OF THE INCOME STATEMENT FOR THE FIRST HALF OF 2017

With respect to the indications of the Interim Condensed Consolidated Financial Report at 30 June 2017, certain Income Statement data were restated to take account of the application of IFRS 5 to the transfer of the company Brockaghboy Windfarm Ltd., which took place on 7 March 2018, and considered a discontinued operation.

The Group adopts IFRS 15 and IFRS 9 for the first time on 1 January 2018 based on the selected first-time application methods, and the comparative information is not restated. The reconciliation between the 1st half of 2017 and the 1st half of 2017 restated is reported below.

	1st Half 2017	Brockaghboy	1st Half 2017 restated
Revenues	538,273	–	538,273
Other income	4,738	–	4,738
Purchases	(171,882)	–	(171,882)
Services and other costs	(81,114)	71	(81,043)
Personnel expense	(31,817)	–	(31,817)
GROSS OPERATING INCOME (EBITDA)	**258,198**	**71**	**258,269**
Amortisation, depreciation and impairment of non-current assets	(125,608)	–	(125,608)
NET OPERATING INCOME (EBIT)	**132,590**	**71**	**132,661**
Financial expense	(45,463)	84	(45,378)
Financial income	11,438	–	11,438
Net financial income (expense)	**(34,025)**	**84**	**(33,941)**
Net gains on equity-accounted investments	71	–	71
Other net losses on equity investments	(114)	–	(114)
Gains (losses) on equity investments	**(43)**	**–**	**(43)**
PROFIT BEFORE TAXES	**98,521**	**156**	**98,677**
Income taxes	(26,058)	(180)	(26,238)
PROFIT FROM CONTINUING OPERATIONS	**72,464**	**(24)**	**72,440**
Profit from discontinued operations	11,953	24	11,977
PROFIT FOR THE PERIOD	**84,417**	**–**	**84,418**

Standards, amendments and interpretations applied starting on 1 January 2018

IFRS 15 - Revenue from Contracts with Customers has been applied as from 1 January 2018, with no significant impact on the Group's consolidated financial statements. In particular, for some contracts ERG has been identified as an "agent", requiring the netting of certain operating costs thereby reducing revenue.

IFRS 15 is applied by the Group on a retroactive basis but with the cumulative effect at the date of first application (1 January 2018). As such, 2017 information has not been restated, i.e. has been presented according to IAS 18, IAS 11 or the relative interpretations.

The following table summarises the effects of the application of IFRS 15 on the individual items affected in the income statement and statement of comprehensive income for the six months ended 30 June 2018.

(EUR Thousand)	1st Half 2018	Adjustments	Balances without considering the effect of the application of IFRS 15
Revenue	512,767	8,023	520,790
Other income	13,171	–	13,171
Total revenue	**525,938**	**8,023**	**533,961**
Purchases	(139,653)	(5,010)	(144,663)
Services and other operating costs	(82,251)	(3,013)	(85,264)
Personnel expense	(30,611)	–	(30,611)
Gross operating income (EBITDA)	**273,423**	**–**	**273,423**
Amortisation, depreciation and impairment of non-current assets	(135,507)	–	(135,507)
Net operating income (EBIT)	**137,916**	**–**	**137,916**
Net financial income (expense)	(32,987)	–	(32,987)
Gains (losses) on equity investments	30	–	30
Profit (loss) before taxes	**104,959**	**–**	**104,959**
Income taxes	(28,170)	–	(28,170)
Profit from continuing operations	**76,789**	**–**	**76,789**
Profit from assets held for sale	28,432	–	28,432
Profit for the period	**105,221**	**–**	**105,221**
Non-controlling interests	(118)	–	(118)
Profit attributable to the owners of the parent	**105,102**	**–**	**105,102**
Total comprehensive income for the period	**95,069**	**–**	**95,069**

Application of the standard has had no significant effects on the statement of financial position at 30 June 2018 and had no impact on retained earnings and non-controlling interests at 1 January 2018.

As described above, the reason for the different accounting treatment compared to that under IAS 18 is Gross or Net presentation (Principal vs Agent), on the basis of which ERG Power Generation S.p.A. qualifies as an agent with revenue consequently presented at net value to show only the brokerage margin, if applicable.

ERG Power Generation S.p.A. supplies electricity to a limited number of customers. Revenue for the supply of electricity largely reflects the component for the sale of the raw material, the component for the transport of electricity and the component for the dispatching electricity. For charge-backs to customers for transport and dispatching charges billed by Terna, ERG Power Generation S.p.A. assumes the role of agent since there are different requirements, e.g. primary responsibility for execution of the agreement falls on the third party, and the entity (ERG Power Generation S.p.A.) does not have any margin in fixing the prices of the goods or services of the third party

This change resulted in a decrease in the item "Revenue from sales and services" of EUR 8 million in the reporting period and a decrease in the related expenditure classified under purchases (EUR 5 million) and services (EUR 3 million). Application of the standard has no effect on EBITDA.

IFRS 9 - Financial Instruments has also been applied from 1 January 2018. Application of this standard introduced inter alia new criteria for the classification and measurement of financial assets and liabilities (together with the assessment of non-substantial modifications of financial liabilities), a new hedge accounting model and, with reference to the impairment model, the new standard provides that credit losses be estimated by applying the expected credit losses model.

The following table summarises the effects, net of taxes, of the adoption of IFRS 9 on the opening balances of reserves and retained earnings.

(EUR Thousand)	Effects of the adoption of IFRS 9 on the opening balance
Retained earnings	
Recognition of the effect of non-substantial modifications of financial liabilities	7,435
Recognition of expected credit losses in accordance with IFRS 9	(885)
Taxes	(1,572)
Effects at 1 January 2018	**4,978**

IFRS 9 maintains the provisions of IAS 39 for the classification and measurement of financial liabilities. In contrast, for financial assets, the new standard eliminates the categories provided for by IAS 39, i.e. held to maturity investments, loans and receivables and available for sale financial assets.

The adoption of IFRS 9 has no significant effects on the measurement criteria applied by the Group to financial liabilities and financial derivatives.

The effects of IFRS 9 on the classification and measurement of financial assets are described below.

IFRS 9 provides that, at initial recognition, a financial asset is classified according to its assessment:

- amortised cost;
- FVOCI (Fair Value through Other Comprehensive Income) - debt instrument;
- FVOCI (Fair Value through Other Comprehensive Income)- equity instrument;
- Or FVTPL (Fair Value through Profit and Loss).

The classification envisaged by the standard is typically based on the business model of the entity for the management of financial assets and on the characteristics relating to the contractual cash flows of the financial asset. Derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument is assessed as a whole for the purposes of classification.

A financial asset is measured at amortised cost if both of the following conditions are met and it is not designated at FVTPL:

- the financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if both of the following conditions are met and it is not designated at FVTPL:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At the time of initial recognition of an equity instrument not held for trading, the Group can make the irrevocable election to present subsequent changes in fair value in other comprehensive income. This election is made for each investment.

All financial assets not classified as measured at amortised cost or FVOCI, as indicated above, are measured at FVTPL. All financial derivatives are included. At initial recognition, the Group may irrevocably designate the financial asset as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring the financial asset at amortised cost or FVOCI.

Except for trade receivables that do not contain a significant financing component which are initially measured at the transaction price, financial assets are initially measured at fair value plus, in the case of financial assets not at FVTPL, transaction costs directly attributable to the acquisition of the financial asset.

The following measurement criteria apply to the subsequent measurement of financial assets.

Financial assets measured at FVTPL	These assets are subsequently measured at fair value. Net gains or losses, including dividends or interest received, are recognised in profit/(loss) for the period.
Financial assets measured at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is decreased by impairment loss. Interest income, exchange gains and losses and impairment losses are recognised in profit/(loss) for the period as well as any gains or losses on derecognition.
Debt instruments measured at FVOCI	These assets are subsequently measured at fair value. Interest income calculated in accordance with the effective interest method, exchange gains and losses and impairment losses are recognised in profit/(loss) for the period. Other net gains and losses are recognised in other comprehensive income. At the time of derecognition, gains or losses accumulated in the other comprehensive income statement are reclassified to profit/(loss) for the period.
Equity instruments measured at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised in profit/(loss) for the period unless they clearly represent a recovery of part of the cost of the investment. Other net gains and losses are recognised in other comprehensive income and are never reclassified to profit/(loss) for the period.

The following table shows the original measurement categories provided for by IAS 39 and those introduced by IFRS 9 for each type of Group financial asset at 1 January 2018.

(EUR Thousand)	Original classification in accordance with IAS 39	New classification in accordance with IFRS 9	Original carrying amount in accordance with IAS 39	New carrying amount in accordance with IFRS 9
Financial assets				
Derivatives	Fair value - Hedging instruments	Fair value - Hedging instruments	19,688	19,688
Financial securities classified as current assets	Available-for-sale	FVOCI	137	137
Other assets	Loans and receivables	Amortised cost	277,742	277,742
Cash and cash equivalents	Loans and receivables	Amortised cost	812,992	812,992
Trade receivables	Loans and receivables	Amortised cost	255,534	254,650
Loan assets	Loans and receivables	Amortised cost	40,369	40,369
Equity investments	Fair value	FVTPL	501	501
Total financial assets			**1,406,963**	**1,406,078**

IFRS 9 - Impairment losses for financial assets

IFRS 9 also replaces the 'incurred loss' model under IAS 39 with an 'expected credit loss' model ('ECL'). The new credit loss model applies to financial assets measured at amortised cost, contract assets and debt instruments at FVOCI, except for equity instruments. In accordance with IFRS 9, credit losses are recognised earlier than with IAS 39.

Financial assets measured at amortised cost include trade receivables, cash and cash equivalents and corporate debt instruments.

In accordance with IFRS 9, loss allowances are measured using one of the following bases:

- 12-month ECL: i.e. expected credit losses that result from default events that are possible within 12 months after the reporting date; or
- Lifetime ECL: i.e. expected credit losses that result from all possible default events over the expected life of the financial instrument.

When determining whether the credit risk relating to a financial asset has significantly increased since initial recognition in order to estimate the expected credit losses, the Group takes into consideration any reasonable and supportable information that is available without undue cost or effort. Quantitative and qualitative information is included, as are analyses, based on the historical experience of the Group, on an assessment of the credit and on forward-looking information.

For the Group, the credit risk of a financial asset increases significantly when contractual payments are more than 30 days past due, while a default on a financial asset is when the financial asset is more than 90 days past due.

Expected credit losses (ECL) are an estimate of losses on credit weighted on the basis of probabilities. Credit losses are the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECL are discounted at the financial asset's effective interest rate.

ECL have been calculated on the basis of the historical experience of credit losses over the last seven years. Provision rates have been calculated by the Group separately for wholesale customers and other customers.

Exposures contained in each group have been segmented on the basis of common credit risk characteristics, such as credit rating classes, geographical area and, duration of the relationship with the customer.

The application of the provisions of IFRS 9 in relation to impairment at 1 January 2018 generated an additional loss allowance of EUR 885 thousand.

IFRS 9 - Non-substantial modifications of financial liabilities

On the subject of modifications of financial liabilities that do not lead to the derecognition, IAS 39 did not provide for the recognition of any effects in profit or loss, since these are not a substantial modification of the financial liabilities. IFRS 9, however, does not allow the economic effects of renegotiation (and the related costs) to be spread over the residual life of the financial liability by modifying the effective interest rate of the financial liability at that date. According to the standard, the modification or exchange of a financial liability, which would not qualify for derecognition/extinguishment (and the consequent recognition of a new financial liability at fair value), should be treated as a modification of future cash flows arising from the instrument itself. With the application of IFRS 9, this involves the recognition of a gain or an immediate loss at the date of the modification of the financial liability, instead of incorporating the changes in future cash flows by modifying the effective interest rate of the financial liability and therefore in interest expense accounted for over the remaining useful life of the financial liability, as required by IAS 39. During first-time adoption, the effects of the adoption of the new standard in relation to modifications of financial liabilities that do not lead to the extinguishment of the original financial liability are quantified in a positive amount equal to EUR 5,651 thousand (reduction of the financial liability for project financing by EUR 7,435 thousand and related tax effect of EUR 1,784 thousand) for 2015, 2016 and 2017 recognised in equity at 1 January 2018.

In addition to **IFRS 9** and **IFRS 15**, listed below are the new provisions issued by the IASB applicable to annual reporting periods, coinciding with the calendar year, beginning on or after 1 January 2018.

- Amendments to IFRS 2 - Classification and measurement of share-based payment transactions;
- Amendment to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts";
- Amendment to IAS 40 "Transfers of Investment Property";
- Amendment to IFRS 1 and IAS 28 "Annual Improvements to IFRSs 2014-2016 Cycle";
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

The afore-mentioned amendments/provisions do not have significant effects for the Group.

IFRS 2 - Transactions with share-based payments

The fair value, at the date of assignment of the incentives recognised in the share-based payments regulated with instruments representative of the capital, granted to employees, is recognised under costs with a corresponding increase in equity, over the period during which the employees acquire the right to the incentives. The amount recognised as a cost is adjusted to reflect the actual number of incentives for which the service/vesting conditions are met and non-market results were achieved, so that the final amount recognised under costs is based on the number of incentives that meet the afore-mentioned conditions at the vesting date. In the case of incentives recognised in the share-based payment, the conditions of which are not deemed to be met, the fair value at the date of assignment of the share-based payment is designated in order to reflect said conditions. With reference to the non-vesting conditions, the difference between the hypotheses set forth at the assignment date and the actual ones will not impact the financial statements.

On 23 April 2018, the Shareholders' Meeting of ERG S.p.A. has approved the 2018-2020 long-term incentive plan, in compliance with the terms and condition set forth in the related Information Document. For further details, see Note 31 of this document.

Standards, amendments and interpretations endorsed by the European Union, not yet mandatorily applicable and not adopted early by the Group at 30 June 2018

Below are the new standards or amendments to the standards, applicable for annual periods beginning on or after 1 January 2018 and for which early application is allowed. However, the Group has decided not to adopt them in advance for the preparation of these condensed interim consolidated financial statements.

Below are the Group's updates to the information provided in the last annual report relating to the standards published but not yet adopted that could have a significant effect on the consolidated financial statements of the Group.

IFRS 16 - Leases

IFRS 16 replaces the current provisions on leases, including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the substance of transactions in the legal form of a lease.

It applies to annual reporting periods beginning on or after 1 January 2019. Earlier adoption is allowed.

IFRS 16 introduces a single model of accounting for leases in the financial statements of lessees according to which the lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There are exceptions to the application of IFRS 16 for short-term leases and for low value assets. The accounting procedures for the lessor remain similar to those foreseen by the standard currently in force, i.e. the lessor continues to classify the lease as operating or finance.

The Group has concluded a preliminary assessment of the potential effects on the consolidated financial statements, but has not yet completed a more detailed analysis. The actual impacts of the application of the IFRS 16 on the consolidated financial statements for the period of first application will depend on future economic conditions, including the financing rate at 1 January 2019, the composition of the lease portfolio of the Group at that date, a more recent evaluation of the Group as regards whether or not any lease renewal options are exercised and the extent to which the Group will decide to make use of practical expedients and exemptions.

Currently, the most significant effect identified is the recognition by the Group of new assets and liabilities for the operationing lease of land, warehouses, buildings and equipment.

Furthermore, the nature of the costs relating to the above-mentioned leases will change when IFRS 16 replaces the accounting in equal installments of costs for operating leases with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

In addition to IFRS 16, recent amendments made to the IFRS, that can be applied in advance, although this is not mandatory, starting from annual peporting period, beginning on 1 January 2018 related to IFRS 9: Prepaiment features with negative compensation, endorsed in March 2018 and applicable to annual reporting period beginning on or after 1 January 2019.

Standards, amendments and interpretations not yet endorsed by the European Union

- IFRIC 23 “Uncertainty over Income Tax Treatments” (entry into force 1 January 2019);
- Amendment to IFRS 9 Prepayment Features with Negative Compensation (entry into force 1 January 2019);
- Amendment to IAS 28 Long-term interests in Associates and Joint Ventures (entry into force 1 January 2019);
- Amendment to IAS 19 Plan Amendments, Curtailment or Settlement (entry into force 1 January 2019);
- Improvements to IFRS 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (entry into force 1 January 2019);
- IFRS 17 Insurance Contracts (entry into force 1 January 2021);
- Amendment to IFRS 19 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (date of entry into force postponed indefinitely);

The assessment of the eventual impacts of the aforementioned is ongoin

Use of estimates - Risks and uncertainties

Preparation of financial statements and notes pursuant to IFRS requires ERG to make estimates and assumptions that affect the carrying amounts 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 assumptions.

By their very nature, the estimates and assumptions used may vary from year to year, and therefore, it cannot be excluded that, in subsequent years, the current carrying amounts 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 revenue which referred to the thermoelectric business;
- loss allowances, allowances for inventory write-down and impairment of assets;

- the definition of the useful life of non-current assets and the related amortisation and depreciation;
- provisions for environmental risks and for liabilities related to legal and fiscal disputes; in particular, the valuation 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 settlement and renewal of tax consolidation schemes.

Estimates and assumptions are revised periodically and the effects of any changes are reflected in profit or loss in the period of the change.

Impairment test

IAS 36 specifies that at each reporting date, an entity must assess the existence of an indication that an asset may have undergone impairment. If there is any such indication, the entity must estimate the recoverable value of the asset.

In assessing whether the aforesaid indication exists, the entity must consider the presence of any "impairment indicators", as required by Paragraph 12 of IAS 36.

To this end, the definitions by IAS 36 of internal and external information sources were taken into consideration, including:

- External sources
  - Significant reductions in the asset values
  - Technological, market-related, economic or legislative penalisations
  - Actualisation rate increase
  - Book value exceeding market capitalisation

- Internal sources
  - Physical obsolescence
  - Negative internal changes
  - Forecast below the budget

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

With regard to the Group assets, no impairment indicators emerged that would require the performance of an impairment test at 30 June 2018 on the carrying value of goodwill and intangible assets and property, plant and equipment allocated to the aforesaid Cash Generating Units and therefore the carrying values already verified for the Financial Statements at 31 December 2017 are confirmed.

BASIS OF CONSOLIDATION

Consolidation scope

The condensed interim consolidated financial statements include the figures pertaining to ERG S.p.A., the parent, 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 operating policies of a company for the purpose of obtaining benefits from its activities. Subsidiaries are consolidated commencing on the date when the Group effectively obtains control and cease to be consolidated from the date when control is transferred outside the Group.

The investment in the associate Priolo Servizi S.C.p.A, in which ERG S.p.A. exercises significant influence, is measured at equity. The Group's share of profits or losses is recognised in the condensed interim consolidated financial statements starting on the date when the significant influence commences and up to the date when it ceases.

No companies were consolidated using the proportional method.

LIST OF GROUP COMPANIES

The following tables show the consolidated companies, those measured using the equity method, and those measured at cost.

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

	Registered office	Direct investment	Group's investment	Share/quota capital (1) (2)	Equity (1) (2)
ERG S.p.A.					
ERG Power Generation S.p.A.	Genoa	100%	100%	100,000	1,843,656
ERG Power Generation S.p.A.					
ERG Hydro S.r.l.	Genoa	100%	100%	50,000	737,640
ERG Power S.r.l.	Genoa	100%	100%	5,000	170,798
Corni Eolian S.A.	Constanta (Romania)	100%	100%	152,000	47,212
ERG Eolica Adriatica S.r.l.	Genoa	100%	100%	10	28,464
ERG Eolica Amaroni S.r.l.	Catanzaro	100%	100%	10	3,203
ERG Eolica Basilicata S.r.l.	Genoa	100%	100%	38	3,689
ERG Eolica Calabria S.r.l.	Catanzaro	100%	100%	10	132
ERG Eolica Campania S.p.A.	Genoa	100%	100%	120	51,326
ERG Eolica Faeto S.r.l.	Genoa	100%	100%	10	6,622
ERG Eolica Fossa del Lupo S.r.l.	Catanzaro	100%	100%	50	23,161
ERG Eolica Ginestra S.r.l.	Genoa	100%	100%	10	(963)
ERG Eolica San Cireo S.r.l.	Genoa	100%	100%	3,500	22,522
ERG Eolica San Vincenzo S.r.l.	Genoa	100%	100%	3,500	20,524
ERG France S.a.r.l. (3)	Paris (France)	100%	100%	1,415	1,749
ERG Germany GmbH (4)	Leisnig (Germany)	100%	100%	210	597
ERG Solar Holding 1 S.r.l.	Genoa	100%	100%	20	24,677
ERG Eolica Tirreno S.r.l.	Camporeale	100%	100%	10	22
ERG Eolienne France S.a.s.	Paris (France)	100%	100%	21,625	25,998
ERG Wind 105 GmbH	Leisnig (Germany)	100%	100%	1	(527)
ERG Wind Bulgaria S.p.A.	Genoa	100%	100%	50	30,105
ERG Wind France 1 S.a.s.	Paris (France)	100%	100%	1,097	1,698
ERG Wind French Holdings S.a.s.	Paris (France)	100%	100%	1,410	(504)
ERG Wind Investments Ltd.	Gibraltar	100%	100%	112,993	114,155
ERG Wind Neunte GmbH	Leisnig (Germany)	100%	100%	25	84
ERG Wind Park Beteiligungs GmbH	Leisnig (Germany)	100%	100%	25	570
ERG Wind RE Beteiligungs GmbH	Leisnig (Germany)	100%	100%	25	18
EW Orneta 2 SP. Z.O.O.	Warsaw (Poland)	100%	100%	174,376	136,150
Green Vicari S.r.l.	Camporeale	100%	100%	119	18,153
ISAB Energy Solare S.r.l.	Genoa	100%	100%	100	(122)
WP France 6 S.a.s.	Puteaux (France)	100%	100%	6	(42)

(1) data referring to the latest approved financial statements
(2) data expressed in thousands of euros with the exception of the companies Corni Eolian S.A. (expressed in thousands of RON) and EW Orneta 2 SP. Z.O.O. (expressed in thousands of Zloty)
(3) CSO Energy S.a.r.l. changed its name to ERG France S.a.r.l.
(4) CSO Energy GmbH changed its name to ERG Germany GmbH

	Registered office	Direct investment	Group's investment	Share/quota capital (1) (2)	Equity (1) (2)
ERG Solar Holding S.r.l. 1					
ERG Solar Holding S.r.l.	Genoa	100%	100%	20	35,982
ERG Solar Piemonte 1 S.r.l.	Genoa	100%	100%	10	1,888
ERG Solar Piemonte 2 S.r.l.	Genoa	100%	100%	10	754
ERG Solar Piemonte 3 S.r.l.	Genoa	100%	100%	10	2,170
ERG Solar Piemonte 4 S.r.l.	Genoa	100%	100%	10	443
ERG Solar Piemonte 5 S.r.l.	Genoa	100%	100%	10	2,297
ERG Solar Holding S.r.l.					
Calabria Solar S.r.l.	Milan	100%	100%	10	196
ERG Solar Campania S.r.l.	Genoa	100%	100%	100	1,853
ERG Solar Marche 1 S.r.l.	Genoa	100%	100%	10	444
ERG Solar Marche 2 S.r.l.	Genoa	100%	100%	10	223
ERG Solar Puglia 1 S.r.l.	Genoa	100%	100%	50	1,937
ERG Solar Puglia 2 S.r.l.	Genoa	100%	100%	100	259
ERG Solar Puglia 3 S.r.l.	Genoa	100%	100%	110	691
ERG Solar Sicilia S.r.l.	Genoa	100%	100%	1,000	1,531
Heliospower S.r.l.	Palermo	100%	100%	59	3,643
Longiano Solar S.r.l.	Milan	100%	100%	708	1,302
SR05 S.r.l.	Milan	100%	100%	25	436
ERG Eolienne France S.a.s.					
Eoliennes du Vent Solaire S.a.s.	Paris (France)	100%	100%	37	(4,498)
Parc Eolien de Lihus S.a.s.	Paris (France)	100%	100%	1,114	(96)
Parc Eolien de Hetomesnil S.a.s.	Paris (France)	100%	100%	1,114	397
Parc Eolien de la Bruyère S.a.s.	Paris (France)	100%	100%	1,060	838
Parc Eolien du Carreau S.a.s.	Paris (France)	100%	100%	861	2,970
Parc Eolien les Mardeaux S.a.s.	Paris (France)	100%	100%	1,097	(716)
EPURON Energies Renouvelables S.a.s.	Vincennes (France)	100%	100%	500	(89)
Parc Eolien de la valleè de Torfou S.a.r.l.	Vincennes (France)	100%	100%	8	(94)
Parc Eolien du Melier S.a.r.l	Vincennes (France)	100%	100%	8	(883)
Parc Eolienne de la Voie Sacree S.a.s.	Epinal (France)	75%	75%	74	3,320
Parc Eolienne d'Epense S.a.s.	Epinal (France)	75%	75%	802	224
WP France 10 S.a.s.	Paris (France)	100%	100%	6	(42)
EPURON Energies Renouvelables S.a.S.					
EPURON S.a.s.	Vincennes (France)	100%	100%	100	(280)
Caen Renewables Eenergy S.a.s.	Vincennes (France)	100%	100%	37	(634)
Parc Eolien de la Charente Limousine S.a.r.l.	Vincennes (France)	100%	100%	8	(7)
Parc Eolien de la Boeme S.a.r.l.	Vincennes (France)	100%	100%	8	(3)
Parc Eolien du Moulin du Bois S.a.r.l.	Vincennes (France)	100%	100%	8	(4)
Parc Eolien des Bouchats S.a.r.l.	Vincennes (France)	100%	100%	8	4
Parc Eolien de Saint Maurice la Clouere S.a.r.l.	Vincennes (France)	100%	100%	8	3
Parc Eolien du Pays a Part S.a.r.l.	Vincennes (France)	100%	100%	8	3
Parc Eolien de Saint Sulpice S.a.r.l.	Vincennes (France)	100%	100%	8	6
Parc Eolien du Plateaux de l'Ajoux S.a.r.l.	Vincennes (France)	100%	100%	8	6
Parc Eolien des Terres et Vents de Ravieres S.a.r.l.	Vincennes (France)	100%	100%	8	6
Parc Eolien de Porspoder S.a.r.l.	Vincennes (France)	100%	100%	8	6
ERG Wind 105 GmbH					
Parc Eolien de St Riquier 3 S.a.s.	Paris (France)	100%	100%	37	(798)
Parc Eolien de St Riquier 4 S.a.s.	Paris (France)	100%	100%	37	(882)

(1) data referring to the latest approved financial statements
(2) data expressed in thousands of euros

	Registered office	Direct investment	Group's investment	Share/quota capital (1) (2)	Equity (1) (2)
ERG Wind Bulgaria S.p.A.					
Globo Energy EOOD	Sofia (Bulgaria)	100%	100%	4,379	5,965
K&S Energy EOOD	Sofia (Bulgaria)	100%	100%	3,179	3,465
K&S Energy 1 EOOD	Sofia (Bulgaria)	100%	100%	3,023	4,437
K&S Energy 2 EOOD	Sofia (Bulgaria)	100%	100%	3,051	4,410
Mark 1 EOOD	Sofia (Bulgaria)	100%	100%	4,113	5,883
Mark 2 EOOD	Sofia (Bulgaria)	100%	100%	4,113	5,478
VG-1 EOOD	Sofia (Bulgaria)	100%	100%	1,520	2,237
VG-2 EOOD	Sofia (Bulgaria)	100%	100%	3,034	4,286
VG-3 EOOD	Sofia (Bulgaria)	100%	100%	3,057	4,224
VG-4 EOOD	Sofia (Bulgaria)	100%	100%	2,955	5,220
VG-5 EOOD	Sofia (Bulgaria)	100%	100%	3,059	4,013
VG-6 EOOD	Sofia (Bulgaria)	100%	100%	3,023	3,964
Wind Park Kavana East EOOD	Sofia (Bulgaria)	100%	100%	505	3,578
Wind Park Kavana West EOOD	Sofia (Bulgaria)	100%	100%	175	3,719
WP Bulgaria 4 EOOD	Sofia (Bulgaria)	100%	100%	2,157	3,029
ERG Wind France 1 S.a.s.					
ERG Wind France 2 S.a.r.l.	Paris (France)	100%	100%	1	(41)
Cepe Pays De Montbeliard S.n.c.	Paris (France)	100%	100%	365	(3,024)
Cepe de Murat S.n.c.	Paris (France)	100%	100%	444	5,110
Cepe de Saint Florentin S.n.c.	Paris (France)	100%	100%	251	(4,172)
Ferme Eolienne de Teterchen S.a.s.	Paris (France)	100%	100%	100	2,739
Parc Eolien du Bois de l'Arche S.a.s.	Paris (France)	100%	100%	100	4,357
Parc Eolien du Bois de Bigot S.a.s.	Paris (France)	100%	100%	80	2,351
ERG Wind French Holdings S.a.s.					
Parc Eolien de la Chaude Vallee S.a.r.l.	Paris (France)	100%	100%	8	(790)
Parc Eolien de Morvilers S.a.r.l.	Paris (France)	100%	100%	8	(639)
Parc Eolien de Garcelles-Sacqueville S.a.s.	Paris (France)	100%	100%	37	(925)
Parc Eolien du Patis S.a.s.	Paris (France)	100%	100%	1,164	1,283
Parc Eolien Hauts Moulins S.a.s.	Paris (France)	100%	100%	15	(2,266)
Parc Eolien Moulins des Camps S.a.s.	Paris (France)	100%	100%	15	(2,013)
Parc Eolien de St Riquier 1 S.a.s.	Paris (France)	100%	100%	37	(1,724)
S.a.s. Société d'Exploitation du Parc Eolien de la Souterraine	Paris (France)	100%	100%	505	(13)
Parc Eolien de Oyre Saint Sauveur	Paris (France)	100%	100%	37	(1,153)
Société d'Exploitation du Parc Eolien Le Nouvion S.a.s.	Paris (France)	100%	100%	37	(1,218)
ERG Wind Investments Ltd.					
ERG Wind Holdings (Italy) S.r.l.	Genoa	100%	100%	212	485,408
ERG Wind MEI 2-14-1 Ltd.	London (UK)	100%	100%	–	(4,042)
ERG Wind MEI 2-14-2 Ltd.	London (UK)	100%	100%	–	(531)
ERG Wind Holdings (Italy) S.r.l.					
ERG Wind 4 S.r.l.	Genoa	100%	100%	6,633	50,111
ERG Wind Energy S.r.l.	Genoa	100%	100%	1,000	61,311
ERG Wind Leasing 4 S.r.l.	Genoa	100%	100%	10	293
ERG Wind Sardegna S.r.l.	Genoa	100%	100%	77	44,267
ERG Wind Sicilia 6 S.r.l.	Genoa	100%	100%	77	32,397

(1) data referring to the latest approved financial statements
(2) data expressed in thousands of euros

	Registered office	Direct investment	Group's investment	Share/ quota capital (1) (2)	Equity (1) (2)
ERG Wind Sardegna S.r.l.					
ERG Wind Sicilia 2 S.r.l.	Genoa	100%	100%	77	39.387
ERG Wind Sicilia 4 S.r.l.	Genoa	100%	100%	77	12.335
ERG Wind Sicilia 5 S.r.l.	Genoa	100%	100%	77	18.082
ERG Wind 2000 S.r.l.	Genoa	100%	100%	77	25.262
ERG Wind Sicilia 6 S.r.l.					
ERG Wind 6 S.r.l.	Genoa	100%	100%	77	48.260
ERG Wind Sicilia 3 S.r.l.	Genoa	100%	100%	77	30.038
ERG Wind MEI 2-14-1 LTD					
ERG Wind MEG 1 LLP (3)	London (UK)	80%	100%	33.168	42.769
ERG Wind MEG 2 LLP (3)	London (UK)	80%	100%	28.010	33.260
ERG Wind MEG 3 LLP (3)	London (UK)	80%	100%	33.585	39.068
ERG Wind MEG 4 LLP (3)	London (UK)	80%	100%	29.721	35.648
ERG Wind Park Beteiligungs Gmbh					
ERG Wind 117 GmbH & Co. KG	Leisnig (Germany)	100%	100%	1	(585)
Voltwerk Energy Park 8 Gmbh & Co. KG	Leisnig (Germany)	100%	100%	1	(1.966)
Voltwerk Windpark Worbzig Gmbh & Co. KG	Leisnig (Germany)	100%	100%	–	889
Voltwerk Windpark Beesenstedt Gmbh & Co. KG	Leisnig (Germany)	100%	100%	–	1.873
Windpark Cottbuser Halde Gmbh & Co. KG	Leisnig (Germany)	100%	100%	5	(6.034)
Windpark Achmer Vinte GmbH & Co. KG	Leisnig (Germany)	100%	100%	7.500	(2.247)
ERG Wind Dobberkau GmbH & Co. KG	Leisnig (Germany)	100%	100%	5	(1.870)
ERG Wind Hermersberg GmbH & Co. KG	Leisnig (Germany)	100%	100%	1	(663)
ERG Wind Ober Kostenz GmbH & Co. KG	Leisnig (Germany)	100%	100%	1	(1.573)
ERG Wind WB GmbH & Co. KG	Leisnig (Germany)	100%	100%	–	(1.209)
ERG Wind Welchweiler GmbH & Co. KG	Leisnig (Germany)	100%	100%	5	(1.479)
ERG Wind Weselberg GmbH & Co. KG	Leisnig (Germany)	100%	100%	–	1.077
Windpark Linda GmbH & Co. KG	Kassel (Germany)	100%	100%	–	(8)
EW Orneta 2 Z.O.O.					
Blachy Pruszynsky-Energy SP. Z.O.O. (4)	Warsaw (Poland)	100%	100%	53.001	40.400
Hydro Inwestycje SP. Z.O.O. (4)	Warsaw (Poland)	100%	100%	40.004	32.412

(1) data referring to the latest approved financial statements
(2) data expressed in thousands of euros
(3) the remaining 20% is held by ERG Wind MEI 2-14-2
(4) data expressed in thousands of euros with the exception of the companies Blachy Pruszynsky-Energy SP. Z.O.O. and Hydro Inwestycje SP. Z.O.O., whose data is expressed in thousands of Zloty

List of equity investments **measured using the equity method**:

	Registered office	Direct investment	Group's investment	Share/quota capital (1) (2)	Equity (1) (2)	Carrying amount 30.06.2018
ERG Power S.r.l.						
Priolo Servizi S.c.p.A. (3)	Melilli	23.7%	23.7%	28,100	54,064	12,847
Associates						**12,847**

(1) data referring to the latest approved financial statements
(2) data expressed in thousands of euros
(3) the consortium company is subject to joint control with ISAB S.r.l., Versalis S.p.A. and Syndial

List of companies **recognised at cost**:

	Registered office	Direct investment	Group's investment	Share/quota capital (1) (2)	Equity (1) (2)	Carrying amount 30.06.2018
ERG S.p.A.						
ERG Petroleos S.A. (3)	Madrid (Spain)	100%	100%	3,050	(6,060)	–
Subsidiaries						**–**
ERG Power Generation S.p.A.						
Creggan Wind Farm Limited	Seebeck House (UK)	100%	100%	–	–	–
Eolico Troina S.r.l. in liquid.	Palermo	99%	99%	20	250	25
ERG Development France S.a.s. (4)	Paris	100%	100%	n.d.	n.d.	10
ERG UK Holding Ltd.	Belfast (UK)	100%	100%	0	–	3,802
Longburn Wind Farm Ltd.	Seebeck House (UK)	100%	100%	0	–	313
Sandy Knowe Wind Farm Ltd.	Seebeck House (UK)	100%	100%	0	–	398
Subsidiaries						**4,548**
ERG Power Generation S.p.A.						
Rigghill Wind Farm Limited	Seebeck House (UK)	50%	50%	–	–	236
Joint ventures						**236**
ERG S.p.A.						
CAF Interreg. Dipendenti S.r.l.	Vicenza	0.04%	0.06%	276	1.052	–
Meroil S.A.	Barcelona (Spain)	0.87%	0.87%	19.077	68.723	310
R.U.P.E. S.p.A.	Genoa	4.86%	4.86%	3.058	3.053	155
Other companies						**465**
TOTAL						**5,250**

(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 the UK whose data are given in thousands of GBP
(3) company in liquidation. In view of the deficit of ERG Petroleos, a provision for risks on equity investments of approximately EUR 6.1 million has been set up
(4) companies measured at cost as they are not yet operational

The main transactions carried out involving the Group's equity investments are summarised below.

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

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

The consideration for the sale of the assets is EUR 194 million, EUR 14 million of which was already collected in advance in 2017, EUR 144 million was collected in 2018 at the time of closing and EUR 36 million is to be collected as a deferred component regulated by a vendor loan agreement with a term of 5 and a half years, signed with api S.p.A. The equity value of the transaction was EUR 273 million which includes, in addition to the consideration indicated above, the non-recurring dividends distributed in 2017 by TotalErg S.p.A. to ERG S.p.A. totalling EUR 71 million (of which EUR 20 million paid on 11 May 2017 and the remaining EUR 51 million on 26 October 2017), the interest that will accrue on the vendor loan and the related tax effects.

For a better understanding of the data commented herein, the following impacts are pointed out in particular:

- the reduction of net financial indebtedness by EUR 144 million following the consideration collected in 2018;
- the recognition of the above-mentioned loan to api S.p.A. for EUR 36 million. This loan is included in net financial indebtedness as a deferred component of the sale price.

There were no significant impacts on profit or loss in the reporting period since the equity investment was measured in the 2017 consolidated financial statements in accordance with the requirements of IFRS 5, with recognition of the effect of the transaction in 2017.

On **12 January 2018**, ERG, through its subsidiary ERG Power Generation S.p.A., completed the acquisition of **30 photovoltaic plants**, entered into operation between 2010 and 2011 and located in 8 regions between the North and the South of Italy, with an installed capacity of 89 MW and an annual output of approximately 136 GWh.

100% of the total installed capacity benefits from incentives with an average expiry date of 2030.

The assets are currently financed through non-recourse project financing of approximately EUR 180 million, and lease contracts of approximately EUR 60 million. This Report reflects the impacts of the consolidation of the companies acquired since 1 January 2018: for more information on the Purchase Price Allocation for solar, reference is made to the section "Change in the consolidation scope".

In view of the aforementioned entry into the solar business, the investment in ISAB Energy Solare S.r.l. (1 MW) has been consolidated from 1 January 2018 while it was previously measured using the cost method due to it not being of a significant size.

On **12 January 2018**, ERG, through its subsidiary ERG Windpark Beteiligungs GmbH, signed an agreement with the Vortex Energy group for the acquisition of 100% of **Windpark Linda GmbH & Co. KG**, a company that holds the permits for the construction of a wind farm in Germany with 21.6 MW of power and an estimated production speed of approximately 50 GWh per annum, equal to approximately 39 kt of avoided CO_2 emissions. The project has already received construction authorisation. The estimated investment required to build the wind farm is approximately EUR 30 million, including the amount paid to purchase the shares of the company. The company secured a 21.6 MW project in an on-shore wind power auction on 1 May 2018, corresponding to 10% of the capacity currently managed in the area. The wind farm, which is currently under construction is scheduled to come on stream during the second half of 2019. This Report reflects the impacts of the consolidation of the companies acquired since 1 January 2018: for more information on the Purchase Price Allocation for solar, reference is made to the section "Change in the consolidation scope".

On **7 March 2018**, following the sale process started at the end of 2017, ERG, through its subsidiary ERG Power Generation S.p.A., sold to the Greencoat UK Wind PLC fund, quoted on the London Stock Exchange and specialised in investment in renewables, 100% of its subsidiary **Brockaghboy Windfarm Ltd.** ("BWF"), a UK company which owns the 47.5 MW wind farm built in County Londonderry, Northern Ireland, by ERG and TCI Renewables Ltd.,. The wind farm, for which construction work began during the second quarter of 2016, became fully operational at the end of 2017. The enterprise value of the transaction amounts to approximately GBP 163 million. The proceeds were split between ERG and TCI, as stipulated in the Development Service Agreement signed at the time of acquisition of the ready-to-build project: the total cash-in for ERG was approximately GBP 95 million (EUR 106 million), of which approximately GBP 70 million (EUR 76 million) fully covered the investments made by ERG to acquire the project and build the wind farm.

The sale of the assets on 7 March 2018 resulted in:

- the reduction of net financial indebtedness by EUR 106 million in relation to the net sale price;
- recognition of the realised capital gain of EUR 26 million, net of the related tax effects and of other ancillary components.

In view of the sale process under way, it is noted that the results relating to the assets being sold were presented separately in the Notes to the 2017 consolidated financial statements in accordance with the requirements of IFRS 5. In this Report, the results achieved in the period 1 January 2018 to 7 March 2018 by the assets sold are shown in profit from discontinued operation, in accordance with IFRS 5.

On **21 March 2018**, following the non-controlling investor's waiving of the right of first option , ERG, via its subsidiary ERG Eolienne France S.a.s., completed the acquisition from **Vent d'Est S.a.s.** of 75% of the share capital of two companies owning two wind farms with a total capacity of 16.25 MW (Parc Eolienne de la Voie Sacrée S.a.s. with 12.0 MW, which came into operation in 2007, and Parc Eolienne d'Epense S.a.s. with 4.25 MW, which came into operation in 2005). Renvico France S.a.s. therefore continues to hold a 25% investment in two companies.

On **27 April 2018**, ERG, through its subsidiary ERG Power Generation S.p.A., finalised an agreement with Global Wind Power France, a company jointly owned by Global Wind Power Europe and Fred Olsen Renewables, to acquire from Wind 1019 GmbH 100% of **WP France 10 S.a.s.**, the holder of rights, permits and authorisations for a 6.9-MW wind farm project. The project has already obtained all the necessary building authorisations; connection to the network is scheduled during Q4 2021 and the coming on stream by December 2021.

The wind farm will be located in Northern France, in the vicinity of ERG's other wind farms, and will benefit from the incentive tariff (2016 FIP) for a period of 15 years. Output is forecast at approximately 15 GWh/y.

The estimated investment required to build the wind farm is approximately EUR 10 million, including the amount paid to purchase the project.

On **15 May 2018**, ERG, through its subsidiary ERG Power Generation S.p.A., finalised an agreement with Impax New Energy Holding Cooperatief W.A., a Dutch company owned by Impax New Energy Investors II, to acquire:

- **Parc Eolien du Melier S.a.s.**, owner of an 8-MW wind farm with expected output of approximately 23 GWh. The wind farm is entitled to benefit from the 2014 feed-in-tariff (FIT) for a period of 15 years following its coming on stream, which took place in November 2016;

- **Parc Eolien de la Vallée de Torfou S.a.s.**, owner of an 18-MW wind farm currently under construction with estimated average output of 48 GWh, scheduled to come on stream by the end of 2018. The wind farm will benefit from the 2014 FIT for a period of 15 years;
- **EPURON Energies Renouvelables S.a.s.**, which owns a pipeline of approximately 750 MW, comprising the following:
  - Wave I, which includes five projects that are at an advanced stage of development, with a combined capacity of 101 MW. These projects are expected to come on stream in the second half of 2021, and the authorisation procedure presently underway envisages access to the 2016 FIP tariff;
  - Wave II, which includes five projects that are at an intermediate stage of development, with a combined capacity of 143 MW. These projects are expected to come on stream in the second half of 2022, and the authorisation procedure is currently under appraisal;
  - Wave III, which includes “early stage” projects with a total capacity of over 500 MW, expected to come on stream after 2022.

Also included within the scope of the transaction is a team of 12 people, located in the Paris and Nantes offices, with sound and long-standing experience in the development of greenfield projects, which will supplement ERG’s existing presence in France, taking it to a total headcount of 45 comprising technicians assigned to management of the assets and professionals engaged to maximise the installed capacity.

In terms of Enterprise Value, the total consideration amounts to EUR 57 million, of which around EUR 17 million pertaining to the Project Financing outstanding at 31 December 2017. The agreement, insofar as concerns the pipeline, also provides for an “earn-out” mechanism in favour of the Seller for a total of approximately EUR 5 million.

This Reportreflects the impacts of the consolidation of the companies acquired as from 30 June 2018: for more information on the Purchase Price Allocation, reference is made to the section “Change in the consolidation scope”.

The following transactions under common control also took place:

With effect from 1 January 2018:

- the assets belonging to the French branch of ERG Power Generation S.p.A. were transferred to CSO Energy S.a.r.l., which, on the same date, consequently increased its share capital to EUR 2,000,000.00 and changed its name to ERG France S.a.r.l.;
- the assets belonging to the German branch of ERG Power Generation S.p.A. were transferred to CSO Energy GmbH, which, on the same date, changed its name to ERG Germany GmbH.

As a result of the above transactions, with effect from 2 January 2018, these branches of ERG Power Generation S.p.A. were closed.

With regard to the existence of restrictions and guarantees on the equity investments held by the Group, please refer to Note 25 - Covenants and negative pledges of this document and to Note 25 of the 2017 consolidated financial statements.

FULL CONSOLIDATION SCOPE AT 30 JUNE 2018


100
ERG WIND INVESTMENTS Ltd.
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
ERG FRANCE S.a.r.l.
100
ERG WIND 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 PARK BETEILIGUNGS GmbH
100
VOLTWERK ENERGY PARK 8 GmbH & CO. KG
100
VOLTWERK WINDPARK WÖRBZIG GmbH & CO. KG
100
VOLTWERK WINDPARK BEESENSTEDT GmbH & CO. KG
100
WINDPARK COTTBUSER HALDE GmbH & CO. KG
100
WINDPARK ACHMER VINTE GmbH & CO. KG
100
ERG WIND 117 GmbH & CO. KG
100
ERG WIND HOLDINGS (ITALY) S.r.l.
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 LEASING 4 S.r.l.
100
ERG WIND DOBBERKAU GmbH & CO. KG
100
ERG WIND HERMERSBERG GmbH & CO. KG
100
ERG WIND OBER KOSTENZ GmbH & CO. KG
100
ERG WIND WB GmbH & CO. KG
100
ERG WIND WELCHWEILER GmbH & CO. KG
100
ERG WIND WESELBERG GmbH & CO. KG
100
WINDPARCK LINDA GmbH & CO. KG
100
CORNI EOLIAN S.A.
100
ERG WIND BULGARIA S.p.A.
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
100
ISAB ENERGY SOLARE S.r.l.
100
ERG SOLAR HOLDING 1 S.r.l.
100
ERG SOLAR PIEMONTE 1 S.r.l.
100
ERG SOLAR PIEMONTE 2 S.r.l.
100
ERG SOLAR PIEMONTE 3 S.r.l.
100
ERG SOLAR PIEMONTE 4 S.r.l.
100
ERG SOLAR PIEMONTE 5 S.r.l.
100
ERG SOLAR HOLDING S.r.l.
100
CALABRIA SOLAR S.r.l.
100
ERG SOLAR CAMPANIA S.r.l.
100
ERG SOLAR MARCHE 1 S.r.l.
100
ERG SOLAR MARCHE 2 S.r.l.
100
ERG SOLAR PUGLIA 1 S.r.l.
100
ERG SOLAR PUGLIA 2 S.r.l.
100
ERG SOLAR PUGLIA 3 S.r.l.
100
ERG SOLAR SICILIA S.r.l.
100
HELIOSPOWER 1 S.r.l.
100
LONGIANO SOLAR S.r.l.
100
SR05 S.r.l.

CHANGE IN THE CONSOLIDATION SCOPE

(EUR Thousand)	ForVei [1]	EPURON [2]	Vent d'Est [3]	WP France 6 S.a.s. [4]	WP France 10 S.a.s.	Linda	ISAB Energy Solare [4]	TOTAL
Intangible assets	122,165	30,664	3,945	3,915	1,776	13	22	162,501
Goodwill	–	22,336	–	–	–	–	–	22,336
Property, plant and equipment	235,080	24,726	9,132	2,075	119	182	2,570	273,883
Equity investments	–	–	–	–	–	–	(394)	(394)
Other financial assets	4,947	131	699	[5](6,466)	–	–	–	(689)
Deferred tax assets	4,309	–	116	–	–	–	138	4,563
Other non-current assets	–	–	–	–	–	–	–	–
Non-current assets	**366,501**	**77,857**	**13,892**	**(476)**	**1,895**	**195**	**2,336**	**462,200**
Inventories	–	–	–	–	–	–	41	41
Trade receivables	16,595	340	742	–	–	–	93	17,770
Other current assets	12,293	2,964	47	419	387	7	237	16,354
Current financial assets*	–	–	–	–	–	–	–	–
Cash and cash equivalents*	(54,586)	4,719	(4,245)	101	13	1	180	(53,818)
Current assets	**(25,698)**	**8,024**	**(3,456)**	**520**	**400**	**7**	**551**	**(19,652)**
Assets held for sale	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL ASSETS	**340,803**	**85,881**	**10,436**	**44**	**2,295**	**202**	**2,887**	**442,548**
Equity	**–**	**–**	**1,052**	**0**	**0**	**–**	**(122)**	**931**
Post-employment benefits	–	–	–	–	–	–	–	–
Deferred tax liabilities	34,416	7,029	690	–	–	–	–	42,135
Provisions for risks and charges – non-current portion	8,056	200	661	–	–	–	–	8,917
Non-current financial liabilities*	240,571	29,549	5,653	24	219	–	2,590	278,606
Other non-current liabilities	2,509	–	–	–	–	–	–	2,509
Non-current liabilities	**285,552**	**36,778**	**7,004**	**24**	**219**	**–**	**2,590**	**332,167**
Provisions for risks and charges – current portion	–	229	–	–	–	–	–	229
Trade payables	3,638	6,108	353	20	1,409	148	58	11,734
Current financial liabilities*	47,608	42,481	2,026	–	667	54	–	92,837
Other current liabilities	4,005	284	–	–	–	–	361	4,650
Current liabilities	**55,251**	**49,102**	**2,379**	**20**	**2,076**	**202**	**419**	**109,450**
Liabilities associated with assets held for sale					**–**			**–**
TOTAL LIABILITIES AND EQUITY	**340,803**	**85,881**	**10,436**	**44**	**2,295**	**202**	**2,887**	**442,548**
***Impact on Net Financial Position**	***(342,765)***	***(67,312)***	***(11,925)***	***78***	***(873)***	***(54)***	***(2,410)***	***(425,261)***
Sale of Brockaghboy Windfarm Ltd.								***105,740***
Impact on Net Financial Position Directors' report								***(319,521)***

(1) 18 Italian companies from VEI Green S.r.l. - "ForVei" business combination
(2) 15 French companies from Impax New Energy Holding Cooperatief W.A. - "EPURON" business combination
(3) 2 French companies from Vent d'Est - "Vent d'Est" business combination
(4) effects of the line-by-line consolidation of equity investments previously measured using the cost method since they were not of a significant size (ISAB Energy Solare) or not yet operational (WP France 6 S.a.s.)
(5) impact of intragroup entries following the line-by-line consolidation of the Companies as from 1 January 2018. It is noted that the Company was acquired on 22 December 2016.

The effects of the main transactions carried out involving the Group's equity investments shown in the previous table are detailed below.

"ForVei" business combination

On **12 January 2018**, ERG, through its subsidiary ERG Power Generation S.p.A., completed the acquisition of 30 photovoltaic plants, entered into operation between 2010 and 2011 and located in 8 regions between the North and the South of Italy, with an installed capacity of 89 MW and an annual output of approximately 136 GWh.

100% of the total installed capacity benefits from incentives with an average expiry date of 2030.

The enterprise value of the transaction amounted to approximately EUR 345 million. The assets are currently financed through non-recourse project financing for an amount of approximately EUR 180 million, and lease contracts for an amount of approximately EUR 60 million.

This document reflects the impacts of the consolidation of the companies acquired as from 1 January 2018.

The acquisition-related costs incurred to finalise the transaction of EUR 1.8 million were excluded from the consideration transferred and recognised in the 2017 income statement million under services and other costs (EUR 1.7 million) and, for the remainder, in the income statement of these interim condensed interim consolidated financial statements.

Determination of the total acquisition price

The acquisition price was EUR 108.2 million of which EUR 69.5 million for acquisition of 100% of the acquirees and EUR 38 million for the repayment of outstanding loans at the date of the acquisition of control of the acquirees.

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

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

(EUR Thousand)	Acquisition figures	Provisional adjustment to the acquisition figures	Consolidation impact
Intangible assets	1,716	120,449	122,165
Goodwill	–	–	–
Property, plant and equipment	235,080	–	235,080
Equity investments	–	–	–
Other financial assets	7	4,940	4,947
Deferred tax assets	4,309	–	4,309
Other non-current assets	–	–	–
Non-current assets	**241,112**	**125,389**	**366,501**
Inventories	–		–
Trade receivables	16,595	–	16,595
Other current assets	12,293	–	12,293
Current financial assets*	–	–	–
Cash and cash equivalents*	14,943	(69,529)	(54,586)
Current assets	**43,831**	**(69,529)**	**(25,698)**
TOTAL ASSETS	**284,943**	**55,860**	**340,803**
Equity	**(17,314)**	**17,314**	**–**
Post-employment benefits	–	–	–
Deferred tax liabilities	811	33,605	34,416
Provisions for risks and charges – non-current portion	3,116	4,940	8,056
Non-current financial liabilities*	240,571	–	240,571
Other non-current liabilities	2,509	–	2,509
Non-current liabilities	**247,007**	**38,545**	**285,552**
Provisions for risks and charges – current portion	–	–	–
Trade payables	3,638	–	3,638
Current financial liabilities*	47,608	–	47,608
Other current liabilities	4,005	–	4,005
Current liabilities	**55,251**	**–**	**55,251**
TOTAL LIABILITIES AND EQUITY	**284,943**	**55,860**	**340,803**
***Impact on Net Financial Indebtedness**	**(273,236)**	**(69,529)**	**(342,765)**

The Acquisition figures column shows the opening balances determined on the basis of the accounting records at the date of first consolidation (1 January 2017) of the acquirees:

- property, plant and equipment: photovoltaic plants recognised at the cost of acquisition including ancillary costs and costs directly attributable to the asset and adjusted by the related accumulated depreciation;
- deferred tax assets: relating to non-deductible interest expense;
- trade receivables: relative to the sale of electricity and the feed-in premium;
- other current assets: mainly VAT assets;
- cash and cash equivalents: cash on hand held in current accounts;
- deferred tax liabilities related to dismantling expenses;

- other non-current provisions related to dismantling expenses
- non-current financial liabilities: medium-long term portion of bank borrowings for project financing;
- other non-current liabilities: mainly in relation to landowners for surface rights;
- trade payables; mainly relative to payables to third-party suppliers for O&M;
- current financial liabilities: mainly the short-term portion of bank borrowings for project financing and dividends to the previous parent VEI Green S.p.A.

in the provisional adjustments to the acquisition figures column:

- intangible assets: capital gain allocated upon recognition of the acquisition; this capital gain was allocated to the concessions and is determined using valuation methodologies that are based on discounting the operating cash flows that are expected over the term of the concessions;
- other financial assets: assets arising during the drafting of the acquisition situation in view of which a liability of equal amount has been allocated to provisions for non-current risks and charges;
- cash and cash equivalents: amount paid for acquisition;
- deferred tax liabilities related to the allocations referred to above;
- other provisions – non-current portion related to the liabilities referred to above in the comment on other financial assets.

ForVei contribution in the first half of 2018

In the period between the date of first consolidation (1 January 2018) and the reporting date of this Interim Financial Report, the acquirees contributed to the Group's income statement with revenue of EUR 18.6 million and a positive operating loss of EUR 3.5 million to the Group's income statement.

"EPURON" business combination

On **15 May 2018**, ERG, through its subsidiary ERG Power Generation S.p.A., closed the acquisition from Impax New Energy Holding Cooperatief W.A. of:

- **Parc Eolien du Melier S.a.s.**, owner of an 8-MW wind farm with expected output of approximately 23 GWh;
- **Parc Eolien de la Vallée de Torfou S.a.s.**, owner of an 18-MW wind farm currently under construction with estimated average output of 48 GWh, scheduled to come on stream by the end of 2018;
- **EPURON Energies Renouvelables S.a.s.**, which owns a pipeline of approximately 750 MW.

In terms of Enterprise Value, the total consideration amounts to EUR 57 million, of which around EUR 17 million pertaining to the Project Financing outstanding at 31 December 2017. The agreement, insofar as concerns the pipeline, also provides for an "earn-out" mechanism in favour of the Seller for a total of approximately EUR 5 million. This Report reflects the impacts of the consolidation of the companies acquired as from 30 June 2018.

Determination of the total acquisition price

The acquisition price was EUR 41.9 million of which EUR 36.8 million for the acquisition of 100% of the acquirees and EUR 5.1 million for the takeover of the shareholders' loan.

Furthermore, a liability was also recorded in relation to potential price adjustments.

The acquisition-related costs incurred to finalise the transaction of EUR 0.4 million were excluded from the consideration transferred and recognised both in the 2017 and in the 2018 income statements under services and other costs for the amount of EUR 0.2 million, each.

The acquisition was recognised on a provisional basis; the fair values of the acquired assets were determined on the basis of the best estimates available at the preparation date of the interim condensed interim consolidated financial statements and are shown in the table below:

(EUR Thousand)	Acquisition figures	Provisional adjustment to the acquisition figures	Consolidation impact
Intangible assets	5,772	24,892	30,664
Goodwill	–	–	–
Property, plant and equipment	24,726	–	24,726
Equity investments	–	–	–
Other financial assets	131	–	131
Deferred tax assets	–	–	–
Other non-current assets	–	–	–
Non-current assets	**30,629**	**24,892**	**55,521**
Inventories			–
Trade receivables	340	–	340
Other current assets	2,964	–	2,964
Current financial assets*	–	–	–
Cash and cash equivalents*	4,719	–	4,719
Current assets	**8,024**	**–**	**8,024**
TOTAL ASSETS	**38,653**	**24,892**	**63,545**
Equity	**1,661**	**12,822**	**14,483**
Post-employment benefits	–	–	–
Deferred tax liabilities	59	6,970	7,029
Provisions for risks and charges – non-current portion	200	–	200
Non-current financial liabilities*	24,599	4,950	29,549
Other non-current liabilities	–	–	–
Non-current liabilities	**24,859**	**11,920**	**36,778**
Provisions for risks and charges – current portion	79	150	229
Trade payables	6,108	–	6,108
Current financial liabilities*	5,662	–	5,662
Other current liabilities	284	–	284
Current liabilities	**12,133**	**150**	**12,283**
TOTAL LIABILITIES AND EQUITY	**38,653**	**24,892**	**63,545**
***Impact on Net Financial Indebtedness**	**(25,543)**	**(4,950)**	**(30,493)**

The Acquisition figures column shows the opening balances determined on the basis of the accounting records at the date of first consolidation (30 June 2018) of the acquirees, adjusted as necessary in order to determine the fair value of the assets and liabilities subject to consolidation:

- intangible assets: the item comprises the value of the concessions recorded in the statutory financial statements and the costs for the development of new wind power projects:
- property, plant and equipment: wind farms recognised at the cost of acquisition including ancillary costs and costs directly attributable to the asset and adjusted by the related accumulated depreciation;
- other financial assets: relative to third party instruments
- trade receivables: relative to the sale of electricity;

- other current assets: mainly VAT assets;
- cash and cash equivalents: cash on hand held in current accounts;
- provisions for non-current risks and charges related to dismantling expenses;
- non-current financial liabilities: medium-long term portion of bank borrowings for project financing and the contractually agreed Earn Out resulting from the acquisition of the companies within the scope;
- provisions for current risks and charges relating to employees;
- trade payables: mainly related to the investments made for the construction of plants in progress at the date of this document;
- current financial liabilities: mainly the short-term portion of bank borrowings for project financing and financial payables to the previous parent;
- other current liabilities: related to payables due to employees.

in the provisional adjustments to the acquisition figures column:

- intangible assets: capital gain allocated upon recognition of the acquisition; this capital gain was allocated to the concessions;
- current financial liabilities: amount paid for the acquisition;
- deferred tax liabilities related to the allocations referred to above.

Temporary determination of residual goodwill

The difference between the total acquisition price and the net value of the acquired assets and liabilities was recognised residually as goodwill.

Total acquisition price	36,819
Adjusted Epuron equity	14,483
Goodwill	**22,336**

With regard to the definition of the total price of the acquisition, please refer to the previous paragraphs.

EPURON contribution in the first half of 2018

Since the date of first consolidation is 30 June 2018, at the reporting date of this Interim Financial Report the acquirees had not contributed to the Group's income statement.

“Vent d’Est” business combination

On **21 March 2018**, following the non-controlling investor’swaiving of the right of first option, ERG, via its subsidiary ERG Eolienne France S.a.s., completed the acquisition from Vent d’Est S.a.s. of 75% of the share capital of two companies owning two wind farms with a total capacity of 16.25 MW (Parc Eolienne de la Voie Sacrée S.a.s. with 12.0 MW, which came into operation in 2007, and Parc Eolienne d’Epense S.a.s. with 4.25 MW, which came into operation in 2005). Renvico France S.a.s. therefore continues to hold a 25% investment in the capital of the two companies.

Determination of the total acquisition price

The acquisition price was EUR 6 million of which EUR 4.8 million for acquisition of 100% of the acquirees and EUR 1.2 million for the repayment of outstanding loans at the date of the acquisition of control of the acquirees.
The transaction costs of EUR 0.4 million were excluded from the consideration transferred and recognised in the 2017 income statement in the amount of EUR 0.2 million under services and other costs.

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

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

(EUR Thousand)	Acquisition figures	Provisional adjustment to the acquisition figures	Consolidation impact
Intangible assets	1,618	2,328	3,945
Goodwill	–	–	–
Property, plant and equipment	9,132	–	9,132
Equity investments	–	–	–
Other financial assets	699	–	699
Deferred tax assets	116	–	116
Other non-current assets	–	–	–
Non-current assets	**11,564**	**2,328**	**13,892**
Inventories			–
Trade receivables	742	–	742
Other current assets	47	–	47
Current financial assets*	–	–	–
Cash and cash equivalents*	587	(4,833)	(4,245)
Current assets	**1,377**	**(4,833)**	**(3,456)**
TOTAL ASSETS	**12,941**	**(2,505)**	**10,436**
Equity	**4,209**	**(3,157)**	**1,052**
Post-employment benefits	–	–	–
Deferred tax liabilities	38	652	690
Provisions for risks and charges – non-current portion	661	–	661
Non-current financial liabilities*	5,653	–	5,653
Other non-current liabilities	–	–	–
Non-current liabilities	**6,352**	**652**	**7,004**
Provisions for risks and charges – current portion	–	–	–
Trade payables	353	–	353
Current financial liabilities*	2,026	–	2,026
Other current liabilities	–	–	–
Current liabilities	**2,379**	**–**	**2,379**
TOTAL LIABILITIES AND EQUITY	**12,941**	**(2,505)**	**10,436**
***Impact on Net Financial Indebtedness**	**(7,092)**	**(4,833)**	**(11,925)**

the Acquisition figures column shows the opening balances determined on the basis of the accounting records at the date of first consolidation (1 January 2017) of the acquirees:

- intangible assets: related to wind farm development costs;
- property, plant and equipment: wind farms recognised at the cost of acquisition including ancillary costs and costs directly attributable to the asset and adjusted by the related accumulated depreciation;
- other financial assets: these refer to deposit accounts;
- trade receivables: relative to the sale of electricity;
- provisions for risks and charges – non-current portion: these refer mainly to plant dismantling costs;
- non-current financial liabilities: these refer mainly to bank borrowings for project financing;

- trade payables: to third-party suppliers;
- current financial liabilities: these refer to the shareholders' loan.

in the provisional adjustments to the acquisition figures column:

- intangible assets: capital gain allocated upon recognition of the acquisition; this capital gain was allocated 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: amount paid for acquisition;
- deferred tax liabilities related to the allocations referred to above.

Vent d'Est contribution in the first half of 2018

In the period between the date of first consolidation (1 January 2018) and the reporting date of this Interim Financial Report, the acquirees contributed to revenue of EUR 1.5 million and an operating profit of EUR 0.5 million to the Group's income statement.

Sale of Brockaghboy

On **7 March 2018**, following the sale process started at the end of 2017, ERG, through its subsidiary ERG Power Generation S.p.A., sold to the Greencoat UK Wind PLC fund, quoted on the London Stock Exchange and specialised in investments in renewables, 100% of its subsidiary Brockaghboy Windfarm Ltd. ("BWF"), a UK company which owns the 47.5 MW wind farm built in County Londonderry, Northern Ireland, by ERG and TCI Renewables Ltd.,. The wind farm, for which construction work began during the second quarter of 2016, became fully operational at the end of 2017.

The enterprise value of the transaction amounts to approximately GBP 163 million. The proceeds were split between ERG and TCI, as stipulated in the Development Service Agreement signed at the time of acquisition of the ready-to-build project: the total cash-in for ERG was approximately GBP 95 million (EUR 106 million), of which approximately GBP 70 million (EUR 76 million) fully covered the investments made by ERG to acquire the project and build the wind farm.

The sale of the assets on 7 March 2018 resulted in:

- the reduction of net financial indebtedness by EUR 106 million in relation to the net sale price;
- recognition of the realised capital gain of EUR 26 million, net of the related tax effects and of other ancillary components.

In view of the sale process under way, it is noted that the results relating to the assets being sold were presented separately in the Notes to the 2017 Consolidated Financial Statements in accordance with the requirements of IFRS 5. In this Report, the results achieved in the period 1 January 2018 to 7 March 2018 by the assets sold are shown in ordinary operations, in line with the approach already adopted in the Directors' report in the 2017 annual report.

The impact of the deconsolidation of the company is summarised below:

(EUR Thousand)	Derecognition Assets	Sale price	Deconsolidation impact
Intangible assets	(7,000)		(7,000)
Goodwill	–	–	–
Property, plant and equipment	(70,027)	–	(70,027)
Equity investments	–	–	–
Other financial assets	–	–	–
Deferred tax assets	–	–	–
Other non-current assets	–	–	–
Non-current assets	**(77,027)**	**–**	**(77,027)**
Inventories	–		–
Trade receivables	(4,336)	–	(4,336)
Other current assets	(228)	–	(228)
Current financial assets*	–	–	–
Cash and cash equivalents*	–	53,788	53,788
Current assets	**(4,564)**	**53,788**	**49,224**
TOTAL ASSETS	**(81,591)**	**53,788**	**(27,803)**
Equity	**(26,898)**	**53,788**	**26,890**
Post-employment benefits	–	–	–
Deferred tax liabilities	–	–	–
Provisions for risks and charges – non-current portion	(1,370)	–	(1,370)
Non-current financial liabilities*	–	–	–
Other non-current liabilities	–	–	–
Non-current liabilities	**(1,370)**	**–**	**(1,370)**
Provisions for risks and charges – current portion	–	–	–
Trade payables	0	–	0
Current financial liabilities*	(51,952)	–	(51,952)
Other current liabilities	(1,372)	–	(1,372)
Current liabilities	**(53,324)**	**–**	**(53,324)**
TOTAL LIABILITIES AND EQUITY	**(81,591)**	**53,788**	**(27,803)**
***Impact on Net Financial Indebtedness**	**51,952**	**53,788**	**105,740**

Brockaghboy Windfarm Ltd. contribution in the first half of 2018

The sale of Brockaghboy Windfarm Ltd. contributed positively to Group EBIT of EUR 28 million, including the capital gain of EUR 26 million.

JOINT VENTURES

Priolo Servizi S.C.p.A.

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

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

NOTE 1 - INTANGIBLE ASSETS

	Concessions	Other intangible assets	Assets under development	Total
Historical cost	821,984	**54,941**	**1,402**	**878,327**
Amortisation and impairment	(194,275)	(49,483)	–	(243,758)
BALANCE AT 31.12.2017	**627,709**	**5,458**	**1,402**	**634,569**
Assets held for sale	–	–	–	–
Changes for the period:				
Change in the consolidation scope	155,915	1,070	5,516	**162,501**
Investments	3,600	62	2,073	**5,735**
Capitalisations and reclassifications	–	655	(655)	**–**
Disposals and divestments	–	–	–	**–**
Amortisation	(25,810)	(1,674)	–	**(27,483)**
Impairment	–	–	–	**–**
Other changes	(412)	51	(778)	**(1,139)**
Historical cost	**982,369**	**57,258**	**7,558**	**1,047,186**
Amortisation and impairment	(221,368)	(51,636)	–	(273,004)
BALANCE AT 30.06.2018	**761,001**	**5,622**	**7,558**	**774,182**

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

Other intangible assets are mainly comprised of software licences.

The change in the consolidation scope relates to that commented on in the Consolidation scope section.

Investments refer mainly to the acquisitions of WindPark Linda and WP France 10 during the period.

For a more detailed analysis of acquisitions, please refer to the Investments section in the Directors' report.

NOTE 2 - GOODWILL

"Goodwill", equal to EUR 148,271 thousand (EUR 125,932 thousand at 31 December 2017), represents the excess acquisition cost of acquired companies over the carrying amount of their equity, measured at fair value at the acquisition date in accordance with the acquisition-price allocation method prescribed by IFRS 3.

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

The increase with respect to 31 December 2017 relates to the acquisition of the EPURON business combination with regard to which reference is made to the Consolidation scope section.

The item, which is not amortised, is subject to an impairment test every year, and more frequently if there are indications during the year that the asset may be impaired.

For the purposes of these condensed interim consolidated financial statements, the test required by Paragraph 12 of IAS 36 was performed and no elements emerged that required an adjustment to the carrying amount of goodwill. For additional details, reference is made to the **Impairment test** section.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Other assets	Assets under construction	Total
Historical cost	**238,210**	**4,041,428**	**25,320**	**28,879**	**4,333,837**
Depreciation and impairment	(117,181)	(2,017,243)	(17,553)	–	**(2,151,977)**
BALANCE AT 31.12.2017	**121,029**	**2,024,185**	**7,767**	**28,879**	**2,181,860**
Assets held for sale	–	–	–	–	**–**
Changes for the period:					
Change in the consolidation scope	4,810	254,167	117	14,790	**273,883**
Capital expenditure	39	651	738	14,230	**15,657**
Capitalisation and reclassification	6,844	2,881	299	(10,025)	**–**
Disposals and divestments	–	–	–	–	**–**
Depreciation	(4,013)	(102,931)	(740)	–	**(107,683)**
Impairments	–	(321)	(0)	(18)	**(339)**
Other changes	(547)	(6,145)	–	720	**(5,972)**
Historical cost	**258,466**	**4,346,456**	**26,536**	**48,575**	**4,680,033**
Depreciation and impairment	(130,303)	(2,173,968)	(18,355)	–	**(2,322,627)**
BALANCE AT 30.06.2018	**128,162**	**2,172,488**	**8,181**	**48,575**	**2,357,406**

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

The change in the consolidation scope relates to that commented on in the Consolidation scope section.

Investments relate mainly to works to develop the wind farms under construction. For a more detailed analysis of acquisitions, please refer to the Investments section in the Directors' report.

Other changes relate mainly to the exchange rate effect resulting from the translation into euros of the financial statements of the companies based in Poland and Romania.

EUR 41 thousand of interest in relation to the ongoing construction of the Windpark Linda GmbH & Co KG in Germany was capitalised during the period.

With regard to the existence of restrictions on the assets held by the Group, please refer to Note 25 Covenants and negative pledges.

NOTE 4 - EQUITY INVESTMENTS

	Equity investments				
	Subsidiaries not consolidated on a line-by-line basis	Subsidiaries and joint ventures	Associates	Other companies	Total
BALANCE AT 31.12.2017	**7,658**	**236**	**12,787**	**491**	**21,173**
Assets held for sale	**–**	**–**	**–**	**–**	**–**
Changes for the period:					
Acquisitions/ capital increases/ increases	–	–	–	–	**–**
Change in consolidation method	(3,109)	–	–	–	**(3,109)**
Reclassifications	–	–	–	–	**–**
Impairment/use of provision to cover losses	–	–	–	–	**–**
Disposals and divestments	–	–	–	(26)	**(26)**
Measurement of investments using the equity method	–	–	60	–	**60**
BALANCE AT 30.06.2018	**4,549**	**236**	**12,847**	**465**	**18,097**

The item Change in consolidation method relates to the line-by-line consolidation of WP France 6 S.a.s. and ISAB Energy Solare S.r.l., measured using the cost method at 31 December 2017.

The positive change arising from the measurement of investments using the equity method is due to the performance during the period of the investee Priolo Servizi S.c.p.A.

The investments held at 30 June 2018 are summarised as follows:

	Measured at Equity	Measured at cost	Total
Equity investments:			
- in subsidiaries not consolidated on a line-by-line basis	–	4,549	**4,549**
- in joint ventures	–	236	**236**
- in associates	12,847	–	**12,847**
- in other companies	–	465	**465**
Total	**12,847**	**5,250**	**18,097**

NOTE 5 - OTHER NON-CURRENT FINANCIAL ASSETS

“Other non-current financial assets” amounting to EUR 82,656 thousand (EUR 40,369 thousand at 31 December 2017) are mainly comprised of grants due pursuant to Law 488/92 pertaining to wind farms acquired as part of the ERG Wind transaction, which are tied-up in the dedicated Escrow Account established by Article 61, paragraph 23, of Italian Law

Decree no. 112/2008 (converted by Law no. 133/2008) and awaiting the decision of the Court of Avellino, amounting to EUR 32 million. Pending the ruling, the Ministry of Economic Development revoked the contributions pursuant to Law no. 488/92 which had been assigned to the beneficiary companies, with decrees notified respectively on 29 October and 3 November 2014. An extraordinary appeal was promptly filed against the cancellation decrees, with an application for prudential suspension of the effectiveness of the challenged measures; currently, a decision is pending on both the suspension application and on the merits of the appeal. Pending this appeal, on 27 July 2015, the payment orders were served to the companies which the ERG Wind companies have appealed before the Court of Genoa, submitting a further application for precautionary suspension. The appeal was accepted, therefore suspending the effectiveness of the payment orders, subject to submission of appropriate bank sureties by the appellants.

With respect to the aforesaid receivables, a liability of an equal amount has been allocated and it was recognised in the 2013 consolidated financial statements as part of the definition of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (Note 19 - Other non-current liabilities).

The increase in the item during the period relates to the recognition of the receivable (EUR 36 million) due from api corresponding to the deferred portion of the sale amount of the assets regulated by a vendor loan agreement as part of the TotalErg transaction.

The item also includes financial assets with group companies not consolidated line-by-line (EUR 1.9 million), receivables for financial derivatives on interest rates (EUR 0.5 million) and guarantee deposits.

NOTE 6 - DEFERRED TAX ASSETS

Deferred tax assets are recognised, provided their future recovery is probable, on the taxable temporary differences between the carrying amount of recognised assets and liabilities and their tax base and on the tax losses that can be carried forward.

The rate used to calculate deferred taxes is the same as the nominal IRES (corporate income tax) rate (24%), increased, where so prescribed, by the IRAP (regional income tax) rate (3.90% - 4.82% - 5.57%).

"Deferred tax assets" amounting to EUR 131,779 thousand (EUR 132,861 thousand at 31 December 2017) were mainly recognised on financial derivatives, provisions 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 ACE [Aiuto Crescita Economica - Economic Growth Assistance] benefit which has accrued but has not yet been used.

In addition, deferred tax assets relating to excess interest expense that can be carried forward, amounting to approximately EUR 39 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", equal to EUR 44,880 thousand (EUR 47,308 thousand at 31 December 2017) relate mainly to:

- the portion still to be collected (EUR 22 million) of the receivables for grants per Italian Law 488/92 relating to wind farms acquired with the ERG Wind transaction. With respect to the aforesaid receivables, a liability of an equal amount has been allocated and it was recognised in the 2013 consolidated financial ftatements as part of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (Note 18 - Other non-current liabilities);

- receivables of EUR 10 million as compensation for the liability tied to interest and revaluations on the contributions under Italian Law 488/1992 relating to wind farms acquired with the ERG Wind transaction and revoked by the Ministry of Economic Development as discussed more thoroughly in Note 20 - Provisions for current risks and charges;
- VAT assets (EUR 3.8 million);
- portions of deferred charges (EUR 2.4 million).

NOTE 8 - INVENTORIES

Materials, equal to EUR 20,978 thousand (EUR 20,597 thousand at 31 December 2017) relating to spare parts which are used mainly in the ordinary maintenance of wind farm installations and the CCGT plant.

NOTE 9 - TRADE RECEIVABLES

	30.06.2018	31.12.2017
Receivables due from customers	126,822	144,350
Receivables for incentives	159,175	115,646
Receivables due from Group companies not consolidated line-by-line	1,831	2,631
Bad debt provision	(7,931)	(7,093)
Total	**279,897**	**255,534**

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

The increase compared to 31 December 2017 is mainly due to the change in the consolidation scope and seasonal factors affecting the hydroelectric business.

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

The loss allowance changed as follows:

	30.06.2018	Increases	Decreases	Application of IFRS 9	31.12.2017
Loss allowance	(7,931)	–	46	(885)	(7,093)
Total	**(7,931)**	**–**	**46**	**(885)**	**(7,093)**

The Group assesses the existence of objective evidence of impairment on individual basis. The impairment tests are checked at individual company level by the Credit Committee which meets periodically to analyse the situation of past due trade receivables and any critical issues related to their collection. The loss allowance is deemed to be sufficient to address the risk of potential non-collectability of past due tradereceivables.

For a detailed analysis of the effect of the application of IFRS 9 on trade receivables, reference is made to the section Accounting standards, amendments and interpretations applied starting on 1 January 2018.

NOTE 10 - OTHER CURRENT ASSETS

	30.06.2018	31.12.2017
Tax assets	81,613	38,661
Group VAT assets with TotalErg	–	1,279
IRES tax consolidation assets with TotalErg	20,023	21,671
Sundry assets	43,938	35,962
Total	**145,574**	**97,573**

Tax assets mainly comprise VAT and withholding taxes receivables and other income tax assets.

The increase compared to December 31, 2017 relates to the VAT assets of the solar business segment companies following the Forvei business combination.

"Sundry assets" comprise, inter alia, amounts due from Group companies not consolidated line by line and the portions of costs deferred to subsequent periods. The item also includes amounts due as compensation for the liability tied to interest and revaluations on the contributions under Italian Law 488/1992 relating to wind farms acquired with the ERG Wind transaction and revoked by the Ministry of Economic Development as discussed more thoroughly in Note 20 - Other current provisions.

NOTE 11 - CURRENT FINANCIAL ASSETS

	30.06.2018	31.12.2017
Financial receivables due from investee companies	8,508	8,613
Securities	76,623	137
Other current financial assets	38,874	20,656
Total	**124,006**	**29,407**

The increase during the period relates mainly to the subscription of investment fund units.

"Other current financial assets" mainly include amounts due from ECC – European Commodity Clearing, relating to the margin of futures contracts stipulated (EUR 29 million) and the fair value of swap agreements and hedging CFDs (EUR 6 million).

NOTE 12 - CASH AND CASH EQUIVALENTS

	30.06.2018	31.12.2017
Bank and postal deposits	585,987	812,989
Cash-in-hand and cash equivalents	7	4
Total	**585,994**	**812,992**

The item "Bank and postal deposits" consists of cash 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 balance in the accounts of ERG Power S.r.l. and the wind companies investeesof ERG Power Generation S.p.A. according to the restrictions on use set forth in the relative project financing agreements.

With regard to restricted liquidity, please refer to Note 25 Covenants and negative pledges.

At 30 June 2018, the liquidity subject to the different restrictions prescribed by project financing agreements amounted to approximately EUR 153 million (EUR 138 million at 31 December 2017).

NOTE 13 - EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT

Share capital

Fully paid-in share capital at 30 June 2018 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 2017).

At 30 June 2018, the Company's shareholders register, relative to holders of significant investments, showed the following:

- San Quirico S.p.A. holds 83,619,940 shares, i.e. 55.628%;
- Polcevera S.r.l. holds 10,380,060 shares, i.e. 6.905%.

At 30 June 2018, San Quirico S.p.A. and Polcevera S.r.l. were controlled by the Garrone and Mondini families, heirs of the founder of the ERG Group, Edoardo Garrone.

Treasury shares

The Treasury shares at the date of preparation of this document amounted to n. 1,503,200 at the average purchase price of Euro 6.88 (1,503,200 at the average purchase price of Euro 6.88 as at 31 December 2017).

On 23 April 2018, pursuant to Article 2357 of the Italian Civil Code, the Shareholders of ERG S.p.A. authorised the Board of Directors to purchase treasury shares for a period of 12 months from 23 April 2018, up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 30,064,000 (thirty million, sixtyfour 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 also authorised the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, for 12 months as from 23 April 2018, to sell, all at once or in several steps, and with any procedures deemed appropriate, in relation to the purposes which the disposal is attempting to achieve, treasury shares at a unit price no lower than 10% below the closing price of the stock on the day immediately preceding each individual sale.

In accordance with IAS 32, treasury shares are presented as a reduction in equity, through the use of the share premium.

The original cost of treasury shares, impairment losses, and gains and losses deriving from any subsequent sales are presented as changes in equity.

Other Reserves

Other reserves mainly comprise retained earnings, share premium and the hedging.

For more details on changes in Other Reserves, refer to the Statement of Changes in Equity.

The composition of shareholders' equity is shown in the following table:

	30.06.2018	31.12.2017
Share capital	15,032	15,032
Paid-in capital in excess of par	64,207	64,207
Revaluation reserves	66,946	66,946
Legal reserve	3,236	3,236
Merger reserve	251,120	251,120
Retained earnings	767,265	914,869
Other Reserves	534,907	355,242
Profit for the period	105,102	206,814
Equity attributable to shareholders of the parent company	**1,807,815**	**1,877,466**
Equity investments of non-controlling interests	1,153	–
Equity	**1,808,967**	**1,877,466**

NOTE 14 - NON-CONTROLLING INTERESTS

Non-controlling interests arise from the consolidation of the following companies that have other shareholders:

Company	% of non-controlling interests	Non-controlling interests
Parc Eolienne de la Voie Sacree S.a.s.	25%	884
Parc Eolienne d'Epense S.a.s.	25%	269
		1,153

NOTE 15 - POST-EMPLOYMENT BENEFITS

"Post-employment benefits" totalling EUR 5,838 thousand (EUR 6,403 thousand at 31 December 2017), includes the estimated liability relating to the benefits payable to employees when they terminate their employment.

No adjustments were made in terms of discounting during the first half of 2018, due to the absence of any significant changes in the parameters used for the actuarial calculation.

NOTE 16 - DEFERRED TAX LIABILITIES

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

The rate used to calculate deferred taxes is the same as the nominal IRES (corporate income tax) rate (24%), increased, where so prescribed, by the IRAP (regional income tax) rate (3.9% - 5.57%).

Deferred tax liabilities at 30 June 2018 of EUR 298,128 thousand (EUR 265,257 at 31 December 2017), were allocated mainly on the capital gains from the business combinations and fiscally-driven depreciation and amortisation.

NOTE 17 - PROVISIONS FOR RISKS AND CHARGES – NON-CURRENT PORTION

	30.06.2018	Increases	Decreases	Reclassi-fications	Change in the consolidation scope	31.12.2017
Provision for decommissioning costs	40,604	387	–	–	3,763	36,454
Priolo site provision	79,822	–	(1,061)	–	–	80,883
Provision for non-current tax risks	15,126	–	(71)	–	5,155	10,042
Other provisions for non-current charges	9,930	9,930	–	–	–	–
Provision for non-current institutional risks	263	–	–	–	–	263
Other provisions for non-current risks and charges	142	–	(17)	–	–	159
Total	**145,887**	**10,317**	**(1,149)**	**–**	**8,918**	**127,801**

Others Provisions– non-current portion - mainly include liabilities related to:

- costs for the restoration of the site on which the wind farms operate for the larger number of assest recognised as property, plant and equipment;
- the Priolo site as discussed in further detail in Note 26 - Contingent liabilities and disputes, resulting mainly from the exit from the Oil sector.

The increases in the period relate to contingent liabilities related to risks acquired through M&A transactions and covered by specific indemnities based on which receivables from the seller were recognised and also to the revaluation of the wind farm and solar installation restoration expenses.

The decreases during the period mainly refer to use for costs incurred in the period.

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

NOTE 18 - NON-CURRENT FINANCIAL LIABILITIES

	30.06.2018	31.12.2017
Non-current loans and borrowings	744,607	670,555
- current portion of non-current borrowings	(129,990)	(58,625)
	614,616	**611,930**
Non-current Project Financing	1,222,515	1,114,706
- current portion of Project Financing	(153,569)	(143,815)
	1,068,946	**970,891**
Bond Issue(1)	**99,519**	**99,465**
Fair value of interest rate hedging derivatives	**96,832**	**106,428**
Other medium/long term financial payables	**5,158**	**–**
Total	**1,885,072**	**1,788,714**

(1) The value of the non-convertible bond issue for EUR 100 million, for which the issue and placement through institutional investors was completed on 19 July 2017, is recognised net of the residual value of the upfront fee in accordance with the amortised cost method

Non-current loans and borrowings

Loans and borrowings at 30 June 2018 total EUR 744.6 million (EUR 670.6 million at 31 December 2017) and refer to:

- a corporate acquisition loan of EUR 350 million, agreed with a syndicate of seven mandated Italian and foreign lead arrangers and bookrunners for 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) entered into in the first half of 2016 to refinance the current portion of the corporate acquisition loan entered into for the acquisition of ERG Hydro S.r.l., and with UniCredit S.p.A. (EUR 75 million) for the project financing for the wind farm in Corni (Romania);
- a corporate loan with Mediocredito (EUR 70 million) for the early termination of leasing contracts of 5 solar companies acquired at the beginning of the year.

The loans are presented net of commissions and other borrowings costs totalling EUR 10.6 million. These costs were recognised in financial expense for the first half of 2018 using the amortised cost method as required by IAS 39 for EUR 1.0 million.

Non-current Project Financing

The following table summarises the main characteristics of the project financing existing at 30 June 2018:

			ASSOCIATED FINANCIAL DEBT				
Company	**Wind Farm / Thermoelectric Plant**	**Net carrying amount of the asset**	**Carrying amount of the financial liability**	**Technical form**	**Issue / Maturity**		**Hedge**
ERG Wind Investments	ERG Wind Group wind farms	354,195	433,428	Project financing	2008	2022	IRS: average fixed rate 4.46%
ERG Eolica Adriatica	Rotello - Ascoli Satriano (CB/FG)	114,883	93,090	Project financing	2009	2025	IRS: fixed rate 4.85%
ERG Eolica Fossa del Lupo	Fossa del Lupo (CZ)	99,543	70,686	Project financing	2017	2027	IRS: fixed rate 2.26%
ERG Eolica Campania	Bisaccia 2 - Foiano - Molinara - Baselice - Lacedonia 2 (AV/BN)	76,024	28,689	Project financing	2009	2020	IRS: fixed rate 4.37%
ERG Eolica Ginestra	Ginestra (BN)	55,229	26,624	Project financing	2010	2025	IRS: fixed rate 3.27%
ERG Eolica Amaroni	Amaroni (CZ)	28,821	19,745	Project financing	2017	2027	IRS: fixed rate 1.68%
Green Vicari	Vicari (PA)	15,135	4,524	Project financing	2008	2019	Partly fixed variable-rate loan
ERG Eolica Faeto	Faeto (FG)	10,605	12,550	Project financing	2007	2021	IRS: fixed rate 2.13%
Eoliennes du Vent Solaire	Plogastel Saint Germane (France)	3,240	3,239	Project financing	2011	2025	Fixed rate loan
Parc Eolien les Mardeaux	Les Mardeaux (France)	1,911	1,772	Project financing	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de Hetomesnil	Hetomesnil (France)	1,927	1,204	Project financing	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de Lihus	Lihus (France)	2,029	995	Project financing	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de la Bruyere	La Bruyere (France)	1,842	660	Project financing	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien du Carreau	Carreau (France)	1,539	1,096	Project financing	2005	2019	Variable-rate loan
ERG Eolica Basilicata	Palazzo San Gervasio (PZ)	35,242	29,799	Project financing	2017	2027	IRS: fixed rate 1.46%
EW Orneta 2 SP. Z.O.O.	Radziejów (Poland)	91,944	35,429	Project financing	2015	2029	IRS: fixed rate 2.47% (wibor)
K & S ENERGY EOOD	Kavarna/Hrabovo	44,527	16,711	Project financing	2012/13	2018	IRS: fixed rate 1.16% IRS: fixed rate 1.56%
ERG Wind France 1	Various French	42,516	25,089	Project financing	2016	2025	IRS: fixed rate -0.065%
ERG Power	CCGT plant	238,176	53,376	Project financing	2010	2021	IRS: fixed rate 2.77%
Parc Eolien Du Patis S.a.s.	Jallais (France)	6,560	6,548	Project financing	2013	2027	IRS: fixed rate 2.025%
Parc Eolien de Garcelles Sacqueville S.a.s.	Caen Garcelles (France)	5,699	5,558	Project financing	2007	2023	IRS: fixed rate 3.75%
S.a.s. Societè de exploitation du P.E. de la Souterraine	La Souterraine (France)	6,003	6,442	Project financing	2013	2028	IRS: fixed rate 2.01%
Parc Eolien de Oyre Saint Sauveur S.a.s.	Oyré (France)	10,573	9,467	Project financing	2014	2029	Fixed rate loan for 40%
Parc Eolien St Riquier 1 S.a.s.	St Riquier 1 (France)	7,746	9,655	Project financing	2009	2027	Fixed rate loan
ERG Wind 117 GmbH & Co. KG	Frehne I & II (Germany)	14,929	11,880	Project financing	2013	2030	Fixed rate loan
Windpark Achmer Vinte GmbH & Co. KG	Achmer Vinte (Germany)	2,311	4,801	Project financing	2006	2021	Fixed rate loan
Windpark Cottbuser Halde GmbH & Co. KG	Cottbus (Germany)	20,328	18,585	Project financing	2007	2025	Fixed rate loan
Parc Eolien Chaude Vallée S.a.r.l.	Chaude Vallée (France)	10,437	11,536	Project financing	2011	2027	Fixed rate loan for 85%
Parc Eolien Hauts Moulins S.a.r.l.	Hauts Moulins (France)	11,257	11,184	Project financing	2012	2028	Fixed rate loan for 86%
Parc Eolien de Morvillers S.a.r.l.	Morvillers (France)	11,289	11,735	Project financing	2012	2027	Fixed rate loan
Parc Eolien Moulins des Champs S.a.r.l.	Moulins des Champs (France)	11,176	11,054	Project financing	2012	2028	Fixed rate loan for 85%
Parc Eolien de St Riquier 3 S.a.s.	St Riquier 3 (France)	12,043	13,011	Project financing	2014	2028	Fixed rate loan
Parc Eolien de St Riquier 4 S.a.s.	St Riquier 4 (France)	10,350	11,075	Project financing	2014	2028	Fixed rate loan
ERG Wind Dobberkau GmbH & Co. KG	Dobberkau (Germany)	18,735	13,020	Project financing	2014	2025	IRS: fixed rate 0.949%
ERG Wind Hermersberg GmbH & Co. KG	Hermersberg (Germany)	845	642	Project financing	2016	2024	Fixed rate loan
ERG Wind Ober Kostenz GmbH & Co. KG	Ober Kostenz (Germany)	3,349	2,389	Project financing	2016	2024	Fixed rate loan
ERG Wind WB GmbH & Co. KG	Waldfischbach Burgalben (Germany)	4,292	2,897	Project financing	2016	2024	Fixed rate loan
ERG Wind Welchweiler GmbH & Co. KG	Welchweiler (Germany)	1,480	1,032	Project financing	2016	2024	Fixed rate loan
ERG Wind Weselberg GmbH & Co. KG	Weselberg (Germany)	3,776	2,275	Project financing	2016	2024	Fixed rate loan
ERG Solar Holding S.r.l.	Photovoltaic plants Italy	152,802	166,571	Project financing	2016	2030	IRS: fixed rate 1.48%
ISAB Energy Solare (S.r.l.)	Priolo Gargallo Italy	2,474	2,500	Project financing	2011	2029	IRS: fixed rate 2.10%
Parc Eolien de la valleè de Torfou S.a.r.l.	Torfou (France)	14,344	14,172	Project financing	2017	2034	Fixed rate loan
Parc Eolien du Melier S.a.r.l	Melier (France)	10,096	11,154	Project financing	2015	2031	Fixed rate loan
Parc Eolien de Voie Sacrèe S.a.s.	Voie Sacrèe (France)	6,858	4,626	Project financing	2016	2021	Partly fixed variable-rate loan
Total			**1,222,515**				

For further details on the new project financing compared to that described in the 2017 consolidated financial statements, please see Note 25 - Covenants and negative pledges.

Other non-current loans and borrowings

Other medium/long-term loans include payables for the purchase of investments of companies operating in the wind business segment.

At 30 June 2018, the weighted average interest rate on loans, borrowigns and project financing was 1.39% (1.48% at 31 December 2017). The rate indicated does not take into account interest rate hedges.

The breakdown by year for repayments of existing non-current bank loans and borrowings is as follows:

	Loans and borrowings	Project Financing
Due by 30.06.2019	129,990	153,569
Due by 30.06.2020	251,000	172,246
Due by 30.06.2021	324,250	166,442
Due by 30.06.2022	8,750	136,970
Due by 30.06.2023	8,750	328,630
Due after 30.06.2023	121,386	264,658
Total	**844,126**	**1,222,515**

	30.06.2018	31.12.2017
Secured by group property, plant and equipment		
with maturities up to December 2030	1,222,515	1,114,706
Not secured		
with maturities up to 30 June 2030	844,126	770,020
Total	**2,066,641**	**1,884,726**

Please also refer to Note 25 - Covenants and negative pledges herein and Note 26 of the 2017 consolidated financial statements.

Other non-current loans and borrowings

Other non-current loans and borrowings include liabilities deriving from the fair value measurement of the derivatives hedging interest rates of EUR 97 million (EUR 106 million at 31 December 2017), the details of which are provided below:

	Issuing Bank	Contract	Maturity	Fair Value	
(EUR Thousand)				**30.06.2018**	**31.12.2017**
ERG Wind Investments Ltd.	IntesaSanpaolo	IRS	31/12/22	(33,491)	(37,618)
ERG Wind Investments Ltd.	IntesaSanpaolo	IRS	31/12/22	(25,074)	(28,163)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	15/06/22	(5,205)	(5,870)
ERG Eolica Adriatica S.r.l.	ING	IRS	15/06/22	(5,259)	(5,870)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	15/06/22	(5,205)	(5,870)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	30/06/25	(18)	–
ERG Eolica Adriatica S.r.l.	UBI Banca	IRS	30/06/25	(7)	–
ERG Eolica Adriatica S.r.l.	UniCredit	IRS	30/06/25	(18)	–
ERG Eolica Fossa del Lupo S.r.l.	ING	IRS	31/12/25	(1,818)	(1,968)
ERG Eolica Fossa del Lupo S.r.l.	Crédit Agricole	IRS	31/12/25	(1,573)	(1,692)
ERG Eolica Fossa del Lupo S.r.l.	Centrobanca	IRS	31/12/25	(1,200)	(1,299)
ERG Eolica Fossa del Lupo S.r.l.	Credit Agricole	IRS	31/12/27	(70)	(51)
ERG Eolica Campania S.p.A.	UniCredit	IRS	31/05/20	(515)	(684)
ERG Eolica Ginestra S.r.l.	UniCredit	IRS	30/06/25	(869)	(977)
ERG Eolica Ginestra S.r.l.	Centrobanca	IRS	30/06/25	(869)	(977)
ERG Eolica Ginestra S.r.l.	UniCredit	IRS	30/06/25	(869)	(977)
ERG Eolica Amaroni S.r.l.	ING	IRS	31/12/26	(494)	(518)
ERG Eolica Amaroni S.r.l.	Credit Agricole	IRS	31/12/26	(494)	(518)
ERG Eolica Amaroni S.r.l.	Credit Agricole	IRS	31/12/27	(6)	(5)
ERG Eolica Faeto S.r.l.	Banco popolare	IRS	31/12/21	(234)	(289)
ERG Eolica Faeto S.r.l.	UniCredit	IRS	31/12/21	(234)	(289)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30/12/19	(32)	(53)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30/12/19	(33)	(55)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30/12/19	(30)	(50)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30/12/19	(32)	(52)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30/12/19	(31)	(51)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30/12/19	(32)	(53)
Parc Eolien de la Bruyere S.a.s.	HSH	IRS	30/12/19	(32)	(54)
Parc Eolien de la Bruyere S.a.s.	HSH	IRS	30/12/19	(34)	(56)
ERG Eolica Basilicata S.r.l.	BNP Paribas BNL	IRS	30/06/31	(702)	(713)
ERG Eolica Basilicata S.r.l.	Credit Agricole	IRS	30/06/31	(702)	(713)
K & S Energy Eood	Raiffeisen Bank	IRS	31/12/18	(82)	(169)
K & S Energy Eood	Raiffeisen Bank	IRS	31/12/18	(21)	(43)
ERG Power S.r.L.	BNP Paribas BNL	IRS	31/12/21	(883)	(1,125)
ERG Power S.r.L.	IntesaSanpaolo	IRS	31/12/21	(883)	(1,125)
ERG Power S.r.L.	Credit Agricole	IRS	31/12/21	(708)	(902)
ERG Power S.r.L.	Santander	IRS	31/12/21	(140)	(179)
ERG Power S.r.L.	Centrobanca	IRS	31/12/21	(140)	(179)
ERG Power S.r.L.	ING	IRS	31/12/21	(140)	(179)
ERG S.p.A.	ING	IRS	06/08/20	(343)	(395)
ERG S.p.A.	BNP Paribas BNL	IRS	06/08/20	(333)	(381)
ERG S.p.A.	UniCredit	IRS	06/08/20	(345)	(398)
ERG S.p.A.	Barclays	IRS	06/08/20	(328)	(376)
ERG S.p.A.	IntesaSanpaolo	IRS	06/08/20	(344)	(396)
ERG S.p.A.	Credit Agricole	IRS	06/08/20	(349)	(403)
ERG S.p.A.	Natixis	IRS	06/08/20	(345)	(398)
ERG S.p.A.	UBI Banca	IRS	26/02/21	(284)	(101)
ERG S.p.A.	Mediobanca	IRS	15/03/21	(1,316)	(1,218)
ERG S.p.A.	Mediobanca	IRS	30/06/23	(354)	–
ERG S.p.A. (1)	UniCredit	IRS	21/04/21	(120)	–
Parc Eolien du Patis S.a.s.	Credit Cooperatif	IRS	02/08/27	(217)	(231)
Parc Eolien du Patis S.a.s.	Credit Cooperatif	IRS	30/07/27	(221)	(236)
Parc Eolien de Garcelles Secqueville S.a.s.	Nord LB	IRS	30/06/23	(473)	(555)

(1) at 31 December 2017, the fair value of this derivative was positive and recognised under non-current financial assets

(follow)

	Issuing Bank	Contract	Maturity	Fair Value	
(EUR Thousand)				30.06.2018	31.12.2017
S.a.s. Societè de exploitation du P.E. de la Souterraine	Credit Cooperatif	IRS	29/12/28	(549)	(580)
Parc Eolien de Oyre Saint Sauveur S.a.s.	Natixis	IRS	01/07/29	(358)	(375)
Parc Eolien St Riquier 1 S.a.s.	Saar	IRS	31/12/24	(184)	(165)
ERG Wind 117 GmbH & Co. KG	Commerzbank	IRS	31/12/29	(309)	(301)
ERG Wind 117 GmbH & Co. KG	Commerzbank	IRS	31/12/30	(100)	(98)
ERG Wind Dobberkau GmbH & Co. KG	Nord LB	IRS	31/12/25	(416)	(429)
ERG Solar Holding S.r.l.	IntesaSanpaolo	IRS	30/06/30	(108)	–
ERG Solar Holding S.r.l.	UBI Banca	IRS	30/06/30	(108)	–
ERG Solar Holding S.r.l.	UniCredit	IRS	30/06/30	(128)	–
ERG Solar Holding S.r.l.	IntesaSanpaolo	IRS	30/06/30	(111)	–
ERG Solar Holding S.r.l.	UBI Banca	IRS	30/06/30	(112)	–
ERG Solar Holding S.r.l.	UniCredit	IRS	30/06/30	(132)	–
ISAB Energy Solare S.r.l.	IntesaSanpaolo	IRS	30/06/29	(331)	–
Voie Sacree	Banco de Sabadell	IRS	01/08/21	(279)	–
Voie Sacree	Banco de Sabadell	IRS	01/08/22	(57)	–
Total				**(96,832)**	**(106,428)**

NOTE 19 - OTHER NON-CURRENT LIABILITIES

	30.06.2018	31.12.2017
Wind Group acquisition price	9,821	9,821
Liability for prior year taxes from foreign company mergers	18,594	18,594
Portions of gains deferred to in subsequent periods	2,057	2,141
Amounts due to employees	353	2,134
Other minor entries	4,856	8,260
Total	**35,681**	**40,950**

NOTE 20 - OTHER CURRENT PROVISIONS

	30.06.2018	Increases	Decreases	Reclassi-fications	Change in the consolidation scope	31.12.2017
Provision for charges for coverage of investees' losses	6,402	514	(123)	–	–	6,011
Provision for current environmental risks	78	–	–	–	–	78
Provision for current tax risks	6,104	949	(1,237)	–	–	6,392
Provision for current institutional risks	24,272	56	–	–	–	24,216
Provision for current legal risks	6,022	1,555	(6,789)	–	–	11,256
Other provisions for current risks and charges	4,935	261	(845)	–	229	5,290
Total	**47,812**	**3,335**	**(8,994)**	**–**	**229**	**53,242**

Provisions for current risks and charges amounted, at 30 June 2018, to EUR 47,812 thousand (EUR 53,242 thousand at 31 December 2017) and are composed as follows:

The "Provision for charges for coverage of investees' losses" relates to the subsidiary ERG Petroleos, not fully consolidated, longer operational, which is being wound up.

The provision for current institutional risks includes:

- the provision for charges tied to interest and revaluations on the contributions under Italian Law no. 488/1992 (EUR 15.2 million), relating to wind farms acquired with the ERG Wind transaction and revoked by the Ministry of

Economic Development as discussed more thoroughly in Note 5. To 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 the relative amount receivable has been recognised in "Other current assets";
- the provision for contingent risks of foreign companies (EUR 9 million) refers to contingent risk concerning Romania.

The increases relate mainly to:
- charges to cover losses of investee companies (EUR 0.5 million);
- tax litigations (EUR 0.9 million);
- charges related to the outcome of projects connected with the wind business (EUR 1.1 million);
- items relating to investees in the wind business (EUR 0.3 million).

The decreases relate mainly to:
- utilisation under the settlement agreement following the end of a contractual dispute with a wholesale customer ongoing since 2010 (EUR 2.7 million);
- releases following favourable outcomes and elimination of the risks relating to disputes regarding the wind business (EUR 3.3 million);
- utilisation relating to tax disputes arising during the period (EUR 1.2 million).

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

NOTE 21 - TRADE PAYABLES

	30.06.2018	31.12.2017
Payables to suppliers	75,973	126,716
Payables to group companies not consolidated line by line	5	80
Total	**75,978**	**126,796**

These are payables deriving from commercial transactions and are payable within the next year. They refer mainly to payables for the purchase of utilities (gas and electricity) and for investments.

It should be noted that during the period a liability of approximately € 42 million was settled, relating to purchases of the former Oil business, previously not settled due to limitations deriving from international regulations.

NOTE 22 - CURRENT FINANCIAL LIABILITIES

	30.06.2018	31.12.2017
Current bank borrowings	**40,028**	**82,958**
Other current financial liabilities:		
Current portion of non-current bank borrowings	129,990	58,625
Current portion of non-current bank for project financing	153,569	143,815
Other financial payables	4,632	2,253
	288,191	**204,693**
Total	**328,219**	**287,651**

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

- at 30 June 2018, short-term borrowings amounted to 13% of total credit lines granted (16% at 31 December 2017);
- the average drawn on the short-term credit lines during the year was 14% of the total amounts granted (12% at 31 December 2017).

  These lines are revocable and unsecured.

NOTE 23 - NET FINANCIAL INDEBTEDNESS (1)

(EUR Thousand)	Notes	30.06.2018	31.12.2017
Non-current loans and borrowings	17	744,607	670,555
Current portion of mortgages and loans	17, 21	(129,990)	(58,625)
- current portion of loans and borrowings	17	99,519	99,465
Fair value of derivatives hedging interest rates	17	96,832	106,428
Other non-current loans and borrowings		5,158	–
Total		**816,126**	**817,823**
Non-current Project Financing	17	1,222,515	1,114,706
- current portion of Project Financing	17, 21	(153,569)	(143,815)
Total		**1,068,946**	**970,891**
Non-current financial indebtedness/ (Non-current financial assets		**1,885,072**	**1,788,714**
Current bank loans and borrowings	21	170,018	141,583
Other current loans and borrowings	21	4,632	2,253
Total		**174,650**	**143,836**
Cash and cash equivalents	12	(585,994)	(675,203)
Securities and other current financial assets	11	(124,006)	(29,407)
Total		**(710,000)**	**(704,610)**
Current Project Financing	17, 21	153,569	143,815
Cash and cash equivalents	12	–	(137,789)
Total		**153,569**	**6,026**
Net current financial indebtedness/ (Current financial assets)		**(381,781)**	**(554,748)**
NET FINANCIAL INDEBTEDNESS		**1,503,291**	**1,233,966**

(1) for the definition of Net Financial Indebtedness, please see the chapter on **Alternative Performance Indicators** section of the **Interim Director's Report**

Net financial indebtedness totalled EUR 1,503 million, up by EUR 269 million compared to 31 December 2017 mainly due to the following impacts and the cash flow during the period net of the investments and changes in operating capital:

- EUR +318 million overall impact of the transactions described in the section Change in the consolidation scope;
- EUR +171 million distribution of dividends to Shareholders;
- EUR -98 million collections of incentives (Italy feed-in premium).

Net financial indebtedness includes financial liabilities related to the fair value of interest rate hedging derivatives, amounting to approximately EUR 97 million (EUR 106 million at 31 December 2017).

The table below shows the reconciliation with the net financial indebtedness reported in the interim financial Directors' report:

	30.06.2018	31.12.2017
Net financial indebtedness	**1,503,291**	**1,233,966**
Cash and cash equivalents Brockaghboy Windfarm	–	(1,293)
Receivables from api	(36,369)	–
Positive fair value – IRS	(482)	–
Net financial indebtedness Interim Directors' report	**1,466,440**	**1,232,673**

NOTE 24 - OTHER CURRENT LIABILITIES

	30.06.2018	31.12.2017
Tax liabilities	57,506	32,201
Amounts due to employees	4,200	11,193
Amounts due to social security institutions	4,119	6,028
Amounts due to TotalErg S.p.A. for tax consolidation	–	5,951
Portions of income deferred to subsequent periods	853	50
Other current liabilities	15,461	29,385
Total	**82,139**	**84,808**

Tax liabilities relate to the liability for the 2017 tax balance, paid in July 2018, to the estimate of income taxes owed for the period and the VAT liability.

In July 2018, taxes of approximately EUR 8 million were paid, net of offsetting, setting 2017 and as an advance for 2018.

NOTE 25 - COVENANTS AND NEGATIVE PLEDGES

Regarding covenants and negative pledges, at 30 June 2018 we note the following new items with respect to the information provided in Note 25 of the 2017 consolidated financial statements.

Loans acquired through the ForVei business combination

Loan granted in August 2016 to **ERG Solar Holding S.r.l.** (formerly FVH1 S.r.l.) totalling EUR 177 million at 30 June 2018

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 6.1 million at 30 June 2018). 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.
- The Loan Life Cover Ratio (LLCR) is calculated as the ratio between the net present value – discounted at the weighted average cost of capital – of operating cash flows expected by the company between the date of calculation and the liability's maturity year and the amount of the liability existing as of the calculation date.
- The Debt to Equity ratio (equity + shareholder loan), which may not exceed 80/20

  If the Historical and Prospective DSCR are less than 1.15, ERG Solar Holding S.r.l. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical or Prospective DSCR is less than 1.05 and/or the Loan Life Cover Ratio is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing 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 Solar Holding S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

  The DSCR is calculated twice a year on the calculation dates of 31 December and 30 June, based on the previous 12 months. The latest DSCR at 31 December 2017 was submitted to the banks on 16 July 2018.

Finance lease agreements of the companies ERG Solar Piemonte 1 S.r.l, ERG Solar Piemonte 2 S.r.l., ERG Solar Piemonte 3 S.r.l., ERG Solar Piemonte 4 S.r.l. and ERG Solar Piemonte 5 S.r.l.

Finance lease agreements of the photovoltaic plants with Mediocredito Italiano at a rate of 6.5%.

On 22 June 2018, the early repayment of all leases was renegotiated with said bank and, at the same time, a corporate loan agreement for EUR 70 million at the 6-month Euribor rate + a spread of 1.30% was stipulated. The agreement does not impose any specific covenants. The only provision is the commitment, as from 2020, to maintain the financial covenants (Net Debt / Ebitda or similar) that the Group will agree when renegotiating the outstanding corporate loans. The positive impact from early settlement of the loans and the negative impact of early settlement of the lease contracts were recognised in the income statement for the first half of the year.

Loans acquired through the Vent d'Est business combination

Loan taken out by Parc Eolien de Voie Sacrèe S.a.s. with Banco de Sabadell S.A., Banco Santander Central Hispano, Caixa d'Estalvis de Catalunya on 31 December 2016 and expiring on 2 August 2021 of EUR 4.6 million at the reporting date

- 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 or equal to 1.10; Debt/Equity ratio less than or equal to 85/15; subordinated loan/senior loan ratio less than or equal to 12%

  The DSCR is calculated once a year on the calculation date of 31 December. The latest DSCR at 31 December 2017 was submitted to the banks on 1 March 2018.

Loans acquired through the EPURON business combination

Loan taken out by Parc Eolien de La Vallee De Torfou with Auxifip on 5 October 2017 and expiring on 28 February 2034 of EUR 15 million at 30 June 2018

- 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 1.15; fully constituted DSRA account - Debt Service Reserve Account; Financial Leverage ratio less than or equal to 90/10 in event of repayment of the shareholder loan.

Loan taken out by Parc Eolien du Melier with Auxifip on 17 December 2015 and expiring on 30 November 2031 of EUR 11 million at 30 June 2018

- 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 1.15; fully constituted DSRA account - Debt Service Reserve Account; Financial Leverage ratio less than or equal to 85/15 in event that the shareholder loan is repaid within 4 years of the Consolidation Date, otherwise less than or equal to 90/10.
  The DSCR is calculated once a year on the calculation date of 31 December. The latest DSCR at 31 December 2017 was submitted to the banks in March 2018.

At the reporting date, all the covenants on the Group's loans had been satisfied.

NOTE 26 - CONTINGENT LIABILITIES AND DISPUTES

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

Priolo site

On 30 December 2013, ERG S.p.A. sold he remainder of its investment 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 consolidated financial statements, in view of the uncertainty inherent in disputes, including tax disputes, of the complexity of site transactions and in general of the conclusion of the activities connected with the coastal refining business, the Group carried out a comprehensive assessment of the risk connected with the issues commented above and set up a "Priolo Site Provision" estimating the allocation of a "Priolo Site Provision" of EUR 91 million (EUR 81 million at 30 June 2018). 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 Syracuse Provincial Tax Commission partially allowed the Company's appeal and ruled that harbour duties through 2006 are not due, finding them to be due from 2007 onwards. The first instance ruling was challenged within the deadline by the Italian Revenue Agency and by ERG with appeal relative to the period subsequent to 2006. During the hearing of 11 February 2013, the Attorney General's Office and the Company's legal counsel presented to the Court their respective arguments to the Court. The appeal decision, issued by the Regional Tax Commission and filed on 27 May 2013, amended the first decree decision unfavourably for ERG. Following a thorough evaluation of the reasons for the appeal decision, the Company decided to appeal before the Court of Cassation, deeming its own arguments to be well grounded (in particular with regard to the notion of "harbour" in accordance with Italian Law no. 84/94 and to the alleged novating or retroactive validity of Article 1, Paragraph 986 of the 2007 Italian Budget Law). On 4 November 2013, the Syracuse Regional Tax Commission 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, as 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). The costs shall be divided between ERG and LUKOIL (51% and 49%) up to the ceiling of EUR 33.4 million.

  On 9 September 2017, the Ministry for the Environment warned some of the companies of the Priolo site, including ERG Power S.r.l., and ERG Power Generation S.p.A., to clean up the Augusta Roadstead. The request is unlawful and has therefore been contested before the administrative courts. ERG S.p.A. is not party to the proceedings, but the environmental issues relating to the Augusta Roadstead arise in the context of the environmental guarantees present in the various contracts with ENI and LUKOIL.
- with reference to the **site commercial transactions**, there are both receivables and payables, mainly related to supplies of petroleum products and utilities pertaining to previous years.

At the time of preparation of these condensed interim consolidated financial statements, group management, assisted by the competent corporate departments and with the advice of its legal and tax counsels, carried out a comprehensive review of the issues described above, noting the substantial absence of new elements and confirming, therefore, the appropriateness of the measurements made previously.
At 30 June 2018, therefore, the provision for risks was deemed appropriate and there have been no significant changes in the period as compared to 31 December 2017.

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 – Rome Unit 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**, as a result of the same investigation, ERG S.p.A. received, in its role as tax consolidator, a preliminary assessment report 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 preliminary assessment report for alleged tax irregularities pertaining to Total Italia for the years 2007, 2008, 2009, of a substantially similar nature and amount, for each year, to those referenced above, hence referred to periods prior to the establishment of the TotalErg joint venture.

In view of the aforementioned preliminary assessment report, 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 tax authorities.

On **26 June 2015**, ERG S.p.A., in its role as the tax consolidator, and TotalErg S.p.A., in its role 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 additional IRES, IRAP and VAT for the same year.

Compared to the specific findings regarding the alleged non-deductibility of the acquisition and service costs for 2007 set forth in the aforementioned assessment notice 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 merging entity of Total Italia S.p.A.

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

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

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

On 25 June 2018, the Milan Regional Tax Commission submitted its ruling, confirming the first instance ruling, in favour of TotalErg S.p.A.

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

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

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

TotalErg S.p.A. appealed to the competent Regional Tax Commission on 27 December 2017 and the merit hearing is set to take place on 20 September 2018.

On 17 May 2018, the merit hearing was held before the Rome Tax Commission for IRES, Robin Tax, IRAP and VAT for the tax year 2010 (dispute relating to TotalErg S.p.A.) and we are awaiting the decision.

In relation to the issues described above, the joint venture agreement with Total provide for adequate mutual system of guarantees that have remained valid even after the sale to api - anonima petroli italiana S.p.A. of the equity investment in TotalErg (the disputes in question have remained the responsibility of the sellers ERG and Total Marketing Services S.A., as the so-called Retained Matters).

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

With regard to the sale of the business unit consisting mainly of the "IGCC" thermoelectric power plant which took place pursuant to the deed dated 30 June 2014 by ISAB Energy S.r.l. to ISAB S.r.l., on 6 July 2016, the provincial division of the Italian Revenue Agency at Siracusa – Noto office (hereinafter the "Agency") served to ERG S.p.A. as the merging entity on December 2015 of the seller ISAB Energy S.r.l., a notice amending the amounts declared for settlement of the registration tax.

This same notice was served on 28 June 2016 to ISAB S.r.l. in its capacity as the jointly and severally liable seller company.

Essentially, the Agency demanded the rectification of the amount declared by the parties in terms of the registration tax in relation to each of the components of the business unit that was sold and proceeded to redetermine the value of (just) 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 amount thereof at 30 June 2014 at approximately EUR 432 million, without considering that the future results of the business unit that was sold could justify the aforementioned value.

The Agency therefore assessed the overall market value 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 market value 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 assessed a higher registration tax of approximately EUR 37 million, imposing a fine 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 different estimate of “only” the property, plant and equipment 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) as part of the business unit in which the plant is expected to be used.

Therefore, the Agency disregarded the assumption and appraisal criteria that led the appraiser to determine the purchase price at approximately 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 Mr. 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 assistance 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 before the Syracuse Provincial Tax Commission.

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

The legal firm following the litigation confirmed the invalidity of the alleged tax as reformulated by the Siracusa Provincial Tax Commission and the subsequent existence of reasonable expectations of its complete rebuttal at the higher court levels.

On 17 July 2017, ERG S.p.A. appealed to the competent Regional Tax Commission, requesting the suspension of the effects of the first instance ruling.

On 9 September 2017, the Regional Tax Commission rejected the application for suspension referred to above.

On 13 October 2017, the Provincial Division of the Revenue Agency at Syracuse issued a specific payment order for higher registration tax of EUR 5.1 million, sanctions of EUR 5.1 million and interest at 10 October 2017 of EUR 0.6 million.

This same order was served on 11 November 2017 to ISAB S.r.l. in its capacity as the jointly and severally liable seller company.

On 27 October 2017, an appeal was filed against the aforementioned payment order and, at the same time, an application was made for judicial suspension of the tax collection.

On 23 November 2017, the Syracuse Provincial Tax Commission ordered the judicial suspension of the tax collection and fixed the relevant hearing for 17 January 2018.

The merit hearing was held on 15 January 2018, and on 24 January 2018 the Syracuse Regional Tax Commission (sub-office) ordered the appointment of Sebastiano Truglio from Catania as the court-appointed expert.

On 7 March 2018, with decision 1168/04/2018, the Syracuse Provincial Tax Commission repaid approximately EUR 2 million in tax due with sanctions and interest totalling approximately EUR 4.5 million.

Following the decision, a new order was issued by the Italian Revenue Agency.

On 11 May 2018, the Company appealed against this decision and applied for judicial suspension of the tax collection.

The President of the Syracuse Regional Tax Commission set the date for the hearing for the judicial suspension of the tax collection for 9 October 2018; given that the deadline for the payment of the requested amounts with the aforementioned payment order was 15 June 2018 (therefore prior to the hearing for the judicial suspension of the tax collection), ERG S.p.A. was forced to pay approximately EUR 4.5 million (provisional tax demanded in the course of the proceedings).

This amount must be repaid by the Italian Revenue Agency in the event that it loses the dispute in question.

At the approval date of this report, the Directors confirm the risk assessment adopted in previous reports, considering the risk unlikely and therefore have not recognised a related liability.

ERG Eolica Ginestra

In 2014 ERG Eolica Ginestra S.r.l. was subjected to a tax audit for fiscal year 2010 for IRES, IRAP and VAT purposes by the Genoa Provincial Division of the Italian Revenue Agency, which ended with the issuing of a preliminary assessment report served to the Company on 13 November 2014. The Agency has assessed 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.

On 30 March 2015, ERG Renew S.p.A. (now ERG Power Generation S.p.A.) in its role 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 findings 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 filed on 14 January 2016, the Provincial Tax Commission of Genoa accepted the appeal submitted by ERG Eolica Ginestra S.r.l.

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

The hearing was held on 19 June 2018 at the Liguria Regional Tax Commission and we are awaiting the decision.

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

Law no. 488/92 contributions by ERG Wind

In the period from 2001-2005, prior therefore to the acquisition by ERG Renew S.p.A. (now ERG Power Generation S.p.A.) of the companies belonging to the International Power Group, funds were assigned to these companies pursuant to Law no. 488/1992 totalling EUR 53.6 million.

In relation to the allocation of these grants in the first half of 2007, an 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 attachment of the Law no. 488/1992 incentives still to be provided was ordered (EUR 21.9 million) and on 30 September 2008 the Public Prosecutor ordered the precautionary attachment of seven wind farms. Following the deposit of an amount equal to EUR 31.6 million by the involved companies, in January 2010, the wind farms which had 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 30 November 2018.

Despite the pending proceedings, in March and April 2014 the companies that were the recipients of the incentives pursuant to Law no. 488/1992 received from the Ministry of Economic Development the orders communicating the initiation of the procedures to revoke the aforementioned incentives.

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

On 27 July 2015, the beneficiary companies were issued with payment orders relating to the return of the incentives. Said orders were challenged with the submission of opposition proceedings before the Court of Genoa. As part of said proceedings, the Civil Judge ruled the tax assessments be suspended against the submission of bank guarantees for the entire value of the latter (EUR 49 million). The tax assessment appeal proceedings are pending and the next hearing, for the examination of the results of the investigations, was set for 10 April 2018 and then postponed to 23 October 2018.

The proceedings subsequent to the filing of the extraordinary appeals to the Head of State are also still pending and, despite the reminders filed by the applicants, the decision on the appeal and on the merits was not delivered during 2017. Ideally the appeals will be decided upon in 2018.

In view of: (i) the guarantees issued by the seller of the companies of the International Power Group to ERG in the contract of transfer of the investments in these companies, (ii) the settlement agreement concluded between said seller and ERG dated 19 December 2016, in which these guarantees were confirmed and further detailed, and (iii) taking into account that in the 2013 consolidated financial statements a liability for an amount corresponding to the nominal value of the incentives for which the Ministry of Economic Development is requesting the return (see definition of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (Note 19 - Other non-current liabilities) had already been allocated, further provisions are not required in the consolidated financial statements.

ERG Wind Investments Tax Audit

On 21 October 2015, the Tax Police - Special Income Unit - Investigation Group of Rome served to ERG Wind Investments Limited the final assessment 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 findings 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 paid to foreign counterparts, as they were qualified as interest, amounting to EUR 8.7 million, (ii) inappropriate deduction during the 2010-2013 tax period of interest expense on an upstream loan from foreign subsidiaries to ERG Wind Investments Limited as it was not supported by valid economic reasons (abuse of the right provided under article 10-bis of Law no. 212/2000) with consequent higher taxes of EUR 8.8 million (iii) failure to apply, in the 2010-2013 tax period, withholding taxes on interest paid to non-resident individuals as part of the existing project financing of EUR 14 million.

Regarding the aforementioned PVC of 28 December 2015, the Company has received (i) an assessment notice only for the 2010 tax period for alleged failure to apply withholding on IRS differentials paid to foreign counterparties of EUR 2.5 million, plus a penalty of EUR 3 million and interest at 22 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 no. 212/2000) for the 2010-2013 tax period.

Following the proceedings initiated against Provincial Division I of Rome and the documentation produced, the finding made within the PVC regarding failure to apply, during the 2010-2013 tax period, withholding tax 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 smutually-agreed assessment settlement procedure, and a defence brief against the tax assessment.

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

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

On 5 April 2017, the Rome Provincial Tax Commission accepted the appeal brought by the company.

On 27 October 2017, the Italian Revenue Agency appealed to the competent Regional Tax Commission.

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

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

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

The relevant hearing was held on 27 September 2017 at the competent Provincial Tax Commission and we are awaiting the decision.

On 31 October 2017, ERG Wind Investments Limited received an assessment notice for the 2012 tax period for alleged failure to apply withholding on IRS differentials paid to foreign counterparties for EUR 1.9 million, plus a penalty of EUR 2.1 million and interest at 20 October 2017 of EUR 0.3 million.

An appeal and an application for judicial suspension of the tax collection within the terms prescribed by law have been filed.

The relevant hearing was held on 7 May 2018 at the competent Provincial Tax Commission and we are awaiting the decision.

The Group does not consider that it will lose the disputes in question and therefore no liabilities have been recognised to this end.

In addition, ERG Renew S.p.A. (now ERG Power Generation S.p.A.) has activated the guarantees under the Share and Purchase Agreement stipulated with Engie (formerly Gaz de France Suez) concurrently with the acquisition of the ERG Wind Group against the tax assessment in question. Engie declared that the assessment can be considered as a "Seller Driven Matter"[14] only for the 2010 and 2011 tax periods.

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

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

As a result of the assessment notice dated 31 October 2017 for the 2012 tax period, ERG Power Generation took action against Engie and obtained the qualification of "Seller Driven Matter" for said dispute (limited to this case and for the 2012 tax period).

ERG Wind Holdings (Italy) S.r.l. tax audit

On 3 December 2015, the Tax Police - Rome Unit served to ERG Wind Holdings (Italy) S.r.l. the final assessment 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 findings of an insignificant amount, only one finding

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

emerged regarding registration tax referring to a non-recurring 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 finding, based on the qualification of the company sale, would result in a higher registration tax of approximately EUR 9.5 million plus fines.

ERG Wind Holdings (Italy) S.r.l. would be jointly and severally liable to pay the aforementioned registration tax as an merging 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 order for the registration tax and fines.

The higher taxes requested total EUR 9.5 million plus interest (EUR 0.9 million) and fines (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 orders, in its belief that the company is able to put forth valid arguments in its defence.

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

On 31 January 2018, the Rome Provincial Tax Commission rejected the appeal presented by the company.

On 21 March 2018, ERG Wind Holdings (Italy) S.r.l. filed an appeal and an application for judicial suspension of the tax collection to the Rome Regional Tax Commission within the terms prescribed by law and we are awaiting the date of the hearing.

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

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

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

On 3 July 2017, ERG Power Generation S.p.A. and E.On Italy received a notice from the Genoa Provincial Division of the Italian Revenue Agency informing them of its intention to requalify the transaction to sell all the quotas of interests in Hydro Terni S.r.l. (now ERG Hydro S.r.l.) that took place in place on 30 November 2015 from 'disposal of equity investment' (post-partial demerger of the hydro business by E.On Produzione S.p.A.) to 'sale of company' and, consequently, highlighting the non-payment on the declared price (approximately EUR 950 million) of the relative proportional registration tax.

On 21 July 2017, the companies met inspectors with officials from the Genoa Revenue Agency in order to provide their first observations. As agreed with the Office, on 21 September 2017 the companies submitted to the Italian Revenue Agency a note providing further information in order to illustrate the intentions of the parties, the particular technical and legal issued underlying the civil lawsuit of the disposal of the equity investment with respect to the "impracticable" sale of the business, as well as the main regulatory issues at the base of the groundlessness of the behaviour of the Agency.

In this respect, as a result of detailed technical and legal studies that ERG carried out, the acquisition of the equity investment in ERG Hydro S.r.l. (post-partial demerger of the hydro business by E.On Produzione S.p.A.) was the only transaction that was actually possible within the terms and in the manner required to keep that investment economically sustainable. Specifically, the issues that prevented a different transaction from being possible (i.e. transfer of a company) were: (i) the complexity and uncertain timing of obtaining authorisation from the authorities in regard to the transfer of concessions, (ii) planning/land discrepancies for some hydroelectric assets, and (iii) the incompatibility of an acquisition of a business unit of the company with the structure of the ERG Group, within which each individual business is managed by a specific company appointed for said purpose.

Despite ERG Power Generation and E.On Italia presenting a note providing further information (supplemented with further information on 26 October 2017) and the meeting with inspectors of the Genoa Revenue Agency held on 17 October 2017, on 27 October 2017 the Genoa Provincial Division of the Italian Revenue Agency issued a payment order for higher registration tax equal to approximately EUR 28.8 million plus interest for EUR 1.9 million (no fines were imposed).

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

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

The merit hearing was held on 14 March 2018.

We are awaiting the decision.

At the approval date of this report, the Directors confirm the risk assessment adopted in previous reports, considering the risk unlikely and therefore have not recognised a related liability.

NOTE 27 - DISCONTINUED OPERATIONS

With regard to the values at 31 December 2017, reference is made to Note 27 - Assets held for sale and associated liabilities in the 2017 consolidated financial statements.

INCOME STATEMENT ANALYSIS

Note that the Group has applied IFRS 15 retrospectively, with accumulative effect at the date of first time adoption (i.e. 1 January 2018). Consequently, the 2017 figures were not restated.

For the representation of comparison data for the first half of 2017, restated in according with IFRS 15, please see the description in the Interim Directors' report.

NOTE 28 - REVENUES

	1st Half 2018	1st Half 2017
Revenue from sales	508,629	533,174
Revenue from services	4,138	5,099
Total	**512,767**	**538,273**

The breakdown of revenues from sales and services by business segment is as follows:

	1st Half 2018	1st Half 2017
Wind	206,799	231,703
Thermoelectric	187,030	230,480
Hydroelectric	100,303	75,527
Solar	18,632	–
Corporate	4	561
Total	**512,767**	**538,273**

Revenue from sales consists mainly of:

- sales of electricity produced by wind farms, thermoelectric installations and hydroelectric plants, and, from January 2018, by solar installations, as well as by sales on organised markets and through physical bilateral agreements. The electricity is sold on wholesale channels to industrial operators of the Priolo Site and to customers via bilateral agreements.

  Specifically, electricity sold wholesale includes 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), in addition to sales to the main operators of the sector on the "over the counter" (OTC) platform.

  The Group also sells water and steam supplied to industrial operators at the Priolo site;
- incentives related to the output in the period of the wind farms and photovoltaic plants in operation, and the hydroelectric plants of ERG Hydro. In Italy, the valuation of the incentives was calculated at the price of 98.95 EUR/MWh determined on the basis of the expected realisable value. With reference to the regulations pertaining to incentives, please refer to the section Criteria for the preparation of the 2017 consolidated financial statements.

  For further details regarding the prices and quantities sold please see the comment in the Directors' report.

The following table shows the breakdown of revenue from sales:

	1st Half 2018	1st Half 2017
Sales to third parties	502,849	527,721
Sales to Group companies not consolidated line by line	5,780	5,453
Total	**508,629**	**533,174**

NOTE 29 - OTHER INCOME

	1st Half 2018	1st Half 2017
Indemnifications	308	239
Expense recoveries	173	166
Capital gains on disposals	2	–
Non-recurring income	9,232	27
Other revenue	3,457	4,306
Total	**13,171**	**4,738**

The item mainly includes smaller chargebacks to third parties and grants related to income.

The increase is due to the recognition of prior year income deriving from the closure of prior year items.

NOTE 30 - PURCHASES

The amount relative to the first half of 2018 is equal to EUR 140 million (EUR 172 million in the first half of 2017) and refers mainly to the purchase of electricity from GME and gas from Edison and Gazprom S.p.A. The decrease relates mainly to lower electricity costs.

NOTE 31 - SERVICES AND OTHER COSTS

	1st Half 2018	1st Half 2017
Services	56,649	57,131
Rents and leases	15,488	14,751
Impairment of receivables	23	384
Provisions for risks and charges	2,382	1,429
Duties and taxes	5,376	5,636
Other operating costs	2,333	1,711
Total	**82,251**	**81,043**

Costs for services are broken down as follows:

	1st Half 2018	1st Half 2017
Commercial, distribution and transportation costs	5,068	7,199
Repairs and maintenance	14,782	12,386
Utilities and supplies	2,020	2,464
Insurance	4,515	4,489
Consulting services	5,824	6,248
Advertising and promotions	659	749
Other services	23,781	23,597
Total	**56,649**	**57,131**

- **Commercial, distribution and transportation costs** refer to ancillary costs relative to the distribution of electricity;
- **Repairs and maintenance** mainly consist of the costs for routine maintenance of electricity generation plants;
- **Other services** refer to the fees 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.

In accordance with IFRS 2 - Share-based payment, following the implementation of the 2018-2020 long-term incentive Plan, with reference to the Directors, the portion of the cost accrued in the first half of 2018 was recognised under costs for services.

On 23 April 2018, the Shareholders' Meeting of ERG S.p.A. approved the 2018-2020 long-term incentive plan, according to the conditions provided for in the relevant Information Document.

The Plan calls for the assignment of a predefined number of ERG S.p.A. Shares, free of charge (hereafter, "Performance shares"), at the end of a three-year vesting period, subject to the attainment of a minimum predetermined economic performance (non-market condition). The performance parameter approved by the Board of Directors refers to the cumulative 2018-2020 Group EBITDA of the Business Plan.

According to the Regulation, this operating condition may be changed in light of changes in the scope of consolidation or other significant events.

The shares allocated represent the conditional rights that are the subject of the Plan, free of charge and non-transferable inter vivos, each of which gives the Beneficiaries the right to be assigned free of charge 1 (one) Share according to the terms and conditions contained in the Regulations.

The Plan further provides that if, in addition to the achievement of the economic performance objective, the ERG Stock attains a predetermined market performance (market condition) on the MTA (i.e. the outstanding Price), the number of Shares to be assigned increases up to a predetermined maximum: the shares assigned shall be equal to the allocated shares (385,000, as resolved by the Board of Directors of ERG S.p.A.) if the price of the ERG shares is equal to or less than EUR 16 ("Target Price"); equal to 200% of the shares allocated if the price is higher than EUR 21 ("Cap"). If the price is between the Target Price and the Cap, shares will be allocated proportionally.

The estimate of the Fair Value, which is independent of the non-market activation condition (achievement of the Target EBITDA) as defined by IFRS 2, was carried out by applying the binomial model and the Montecarlo method, thus identifying a range of values and taking their average value in consideration.

The assessment exercise was carried out formulating the following assumptions:

- Volatility (22%): average of the 90 days preceding the valuation date of the180-day historical volatility of the ERG title;
- Dividend Yield: estimated on the basis of the dividends forecast in the plan for the 2018-2022 three-year time interval, i.e. EUR 0.75 per share, as a percentage of share price;
- Time to maturity: in accordance with the provisions of the regulation of the financial instrument, the derivative was assumed to have a duration of three years.

Applying the above procedure, a range of value of the fair value of the incentive plan was identified between EUR 6.5 million and EUR 8.4 million with the average value of EUR 7.5 million recognised on an accrual basis in the years of the vesting period. Of this amount, 65% refers to the Directors and the remainder to the employees of the Group.

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

NOTE 32 - PERSONNEL EXPENSE

	1st Half 2018	1st Half 2017
Salaries and wages	21,494	21,798
Social security contributions	6,058	6,601
Post-employment benefits	1,352	1,401
Other personnel expense	1,707	2,018
Total	**30,611**	**31,817**

Note that, in accordance with IFRS 2 - Share-based payment, following implementation of the 2018-2020 long-term incentive plan, with reference to employees the portion of the cost accrued in the first half of 2018 and representing the fair value of the instruments was recognised under “Personnel expense”.
The other costs include additional post-employment benefits.
The item is in line with the corresponding period of the previous year.

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

	1st Half 2018	1st Half 2017
Executives	35	39
Managers	176	162
Staff	334	342
Workmen	177	173
Total	**722**	**716**

At 30 June 2018, the total number of employees was 737.

NOTE 33 - AMORTISATION, DEPRECIATION AND IMPAIRMENT OF NON-CURRENT ASSETS

	1st Half 2018	1st Half 2017
Amortisation of intangible assets	27,483	24,466
Depreciation of property, plant and equipment	107,683	101,142
Impairment of non-current assets	339	–
Total	**135,507**	**125,608**

The increase in the value of the depreciation/amortisation is mainly due to the increase relating to the change in the consolidation scope, partially offset by the decrease due to the end of the useful life of some plant components relating to the French wind farms.

NOTE 34 - NET FINANCIAL INCOME (EXPENSE)

	1st Half 2018	1st Half 2017
Income		
Foreign currency exchange gains	1,515	32
Effect of the renegotiation of loans	4,428	–
Interest income on bank accounts	1,662	1,985
Other financial income	9,524	9,422
	17,130	**11,438**
Expense		
Foreign currency exchange losses	(1,350)	(123)
Interest on short-term bank borrowings	(6)	(5)
Interest on medium/long-term bank borrowings	(16,808)	(14,663)
Other financial expense	(31,952)	(30,588)
	(50,116)	**(45,378)**
Total	**(32,987)**	**(33,941)**

The increase in the interest on bank borrowings compared to the first half of 2017 is mainly due to the increase in non-current residual liability.

The effect of the renegotiation of loans, equal to EUR 4.4 million, relates to the positive net income component generated as a result of the application of IFRS 9 during non-substantial modifications of financial liabilities.

Other financial income and expense refers mainly to the results of the derivatives.

Other financial expenses also includes 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 35 - NET GAINS (LOSSES) ON EQUITY INVESTMENTS

Net gain on equity investments of EUR 30 thousand (net losses of EUR -43 thousand in the first half of 2017) refers mainly to the Group's portion of the result of Priolo Servizi S.C.p.A.

NOTE 36 - INCOME TAXES

	1st Half 2018	1st Half 2017
Current income taxes	31,073	28,449
Taxes from previous years	303	846
Deferred tax assets and liabilities	(3,206)	(3,057)
Total	**28,170**	**26,238**

Income taxes for the period were calculated taking into account the expected tax rate to be applied to the taxable profit of companies in the energy industry.

"Deferred tax assets and liabilities" originate from the temporary differences deriving from adjustments made to the consolidated companies' separate financial statements to comply with the Group's uniform accounting policies, from the temporary differences between the carrying amount of recognised assets and liabilities and their tax base and from tax losses that can be carried forward.

Additionally, deferred tax liabilities amounting to EUR 15 million (EUR 12.9 million in the first half of 2017), calculated on the fair value of the derivatives that qualified for hedge accounting, were recognised directly in equity.

The rate used for the calculation of the deferred tax assets is the same as the nominal IRES rate of 24%, increased, where applicable, by the IRAP rate.

Reconciliation between effective and theoretical tax expense

IRES (CORPORATE TAX)		
Profit (loss) before taxes pre IFRS 5	**133,638**	
Theoretical IRES taxation at 24%	**32,073**	
Impact of consolidation adjustments not relevant to the calculation of taxes		(6,355)
Impact of ACE (economic growth assistance)		(4,063)
Impact of permanent tax changes		(865)
Current and deferred IRES		**20,790**

IRAP (REGIONAL TAX)		
EBIT	140,487	
Impairment of receivables	23	
Total	**140,510**	
Theoretical IRAP at 5%	**7,025**	
Effect stemming from IRAP rate increase for some companies		(1,471)
Impact of permanent tax changes and consolidation adjustments not relevant to the calculation of taxes		1,774
Current and deferred IRAP		**7,325**
Total theoretical taxes	**39,009**	
Total IRES and IRAP in the financial statements		**28,115**
Taxes from previous years		**303**
Impact of discontinued operations		**(248)**
TOTAL INCOME TAXES REPORTED IN THE FINANCIAL STATEMENTS		**28,170**

The impact of consolidation adjustments mainly refers to the impact of the sale of Brockaghboy. The aforesaid reconciliation is calculated on a “Profit (loss) before taxes” that does not already take into account reclassifications for IFRS 5 purposes.

NOTE 37 - PROFIT FROM DISCONTINUED OPERATIONS

The income statements for the six months ended 30 June 2018 and 2017 are presented in accordance with IFRS 5, which prescribes how to report the profit or loss from discontinued operations, with the exception therefore of the result of Brockaghboy Windfarm Ltd., which is consolidated on a line-by-line basis until 7 March 2018.

The impacts of the aforementioned exceptions are indicated separately under the item “Profit from discontinued operations”.

More information is available in the section Brockaghboy Windfarm Ltd. section.

(EUR Thousand)	1st half 2018	
	Brockaghboy Windfarm Ltd.	Profit from discontinued operations
Revenue	2,937	2,937
Other revenue and income	889	889
Purchases	(0)	(0)
Services and other costs	(551)	(551)
Personnel expense	–	–
Gross operating income (EBITDA)	**3,275**	**3,275**
Amortisation, depreciation and impairment of non-current assets	(704)	(704)
Net financial income (expense)	(605)	(605)
Net gains (losses) on equity investments	26,714	26,714
PROFIT (LOSS) BEFORE TAXES	**28,680**	**28,680**
Income taxes	(248)	(248)
Profit from discontinued operations	**28,432**	**28,432**

(EUR Thousand)	1st half 2017		
	Brockaghboy Windfarm Ltd.	TotalErg	Profit from discontinued operations
Revenue	–	–	–
Other revenue and income	–	–	–
Purchases	–	–	–
Services and other costs	(71)	–	(71)
Personnel expense	–	–	–
Gross operating income (EBITDA)	**(71)**	**–**	**(71)**
Amortisation, depreciation and impairment of non-current assets	–	–	–
Net financial income (expense)	(84)	–	(84)
Net gains (losses) on equity investments	–	11,953	11,953
PROFIT (LOSS) BEFORE TAXES	**(156)**	**11,953**	**11,797**
Income taxes	180	–	180
Profit from discontinued operations	**24**	**11,953**	**11,977**

1st half 2018

Below is a brief description of the content of individual financial statements items related to the period 1 January 2018 - 7 March 2018, the date on which the sale of Brockaghboy was closed:

Revenues refers to the incentivised sale of electricity.

Other income relates to insurance compensation.

Services and other costs relate mainly to operation and maintenance services and legal and administrative consultancy.

Net financial income (expense) relates to exchange differences.

Other net gains (losses) on equity investments relate to the capital gain for ERG Power Generation S.p.A. on the sale of Brockaghboy Windfarm Ltd.

1st half 2017

At 30 June 2017, the Brockaghboy Windfarm Ltd. wind farm was still under construction.

NOTE 38 - RELATED PARTIES

For complete disclosures, the amounts reported below do not take into account the reclassifications required by IFRS 5 and hence they also include the amounts indicated in the line "Profit (loss) from discontinued operations".

Statement of financial position

	Other non-current financial assets	Trade receivables	Other current assets	Trade payables	Other current liabilities	Current financial assets	Current financial liabilities
Priolo Servizi S.C.p.A.	–	1,760	–	–	–	–	–
San Quirico S.p.A.	–	–	1,409	–	–	–	–
ERG Petroleos S.A.	–	–	–	–	–	8,508	–
Sandy Knove Wind Farm Ltd.	896	–	–	–	–	–	–
ERG UK Holding Ltd.	1,002	–	–	–	–	–	–
Other	10	71	–	–	–	–	5
Total	**1,908**	**1,831**	**1,409**	**–**	**–**	**8,508**	**5**
% of the total item	*2%*	*1%*	*1%*	*0%*	*0%*	*7%*	*0%*

Income Statement

	Revenue from sales and services	Other revenue and income	Purchases	Services and other costs	Financial income	Financial expense
Priolo Servizi S.C.p.A.	5,967	–	–	(4,898)	–	–
San Quirico S.p.A.	–	–	–	–	–	–
Fundation Edoardo Garrone	–	–	–	(108)	–	–
Other	–	–	–	(215)	–	–
Total	**5,967**	**–**	**–**	**(5,221)**	**–**	**–**
% of the total item	*1%*	*0%*	*0%*	*6%*	*0%*	*0%*

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

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

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

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

Additionally, in June 2018, EUR 108 thousand was paid to the Edoardo Garrone Foundation as a contribution for 2018.

NOTE 39 - EARNINGS PER SHARE

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

	1st Half 2018	1st Half 2017
Profit attributable to the owners of the parent (1)	105,102	84,417
Average number of shares outstanding (2)	148,816,800	148,816,800
Basic earnings per share from continuing operations (2) (3)	0.516	0.487
Diluted earnings per share from continuing operations (2) (3)	0.516	0.487

(1) EUR thousand
(2) Units
(3) Units of EUR

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

NOTE 40 - SEGMENT REPORTING

Reporting by business and geographical segment is presented in accordance with IFRS 8 - Operating segments.

The results at market value are indicators that are not defined in the IFRS. Management considers that these indicators are significant parameters for the presentation of the performance of the ERG Group.

To enhance understandability of the individual business segments' performance, the operating results are shown at market value of non-recurring items.

Reporting by business segment

(EUR million)	Wind	Thermoe-lectric	Hydroe-lectric	Solar	Corporate	TOTAL adjusted	TOTAL reported	Profit from discontinued operations	TOTAL continuing operations
1ST HALF 2018									
Total revenue	209.7	187.0	100.3	18.6	17.0	**532.7**			
Intra-segment revenue	–	–	–	–	(17.0)	**(17.0)**			
Net revenue from sales and services	**209.7**	**187.0**	**100.3**	**18.6**	**0.0**	**515.7**	**515.7**	**(2.9)**	**512.8**
Gross operating income (EBITDA)	**159.0**	**29.5**	**80.2**	**16.0**	**(7.9)**	**276.7**	**276.7**	**(3.3)**	**273.4**
Amortisation, depreciation and impairment	(80.7)	(15.3)	(29.0)	(9.8)	(1.3)	**(136.2)**	**(136.2)**	0.7	(135.5)
EBIT	**78.2**	**14.2**	**51.1**	**6.1**	**(9.2)**	**140.5**	**140.5**	**(2.6)**	**137.9**
Capital expenditure in non-current assets	**97.2**	**2.2**	**1.2**	**345.1**	**1.0**	**446.6**	**446.6**		**446.6**

(EUR million)	Wind	Thermoe-lectric	Hydroe-lectric	Solar	Corporate	TOTAL adjusted	TOTAL reported	Profit from discontinued operations	TOTAL continuing operations
1ST HALF 2017									
Total revenue	231.7	230.5	75.5	–	20.1	**557.8**		–	
Intra-segment revenue	–	–	–	–	(19.5)	**(19.5)**		–	
Net revenue from sales and services	**231.7**	**230.5**	**75.5**	**–**	**0.6**	**538.3**	**538.3**	**–**	**538.3**
Gross operating income (EBITDA)	**169.9**	**39.8**	**54.3**	**–**	**(5.8)**	**258.2**	**258.2**	**–**	**258.2**
Amortisation, depreciation and impairment	(79.1)	(16.0)	(29.3)	–	(1.3)	**(125.6)**	**(125.6)**	–	(125.6)
EBIT	**90.9**	**23.8**	**25.1**	**–**	**(7.1)**	**132.6**	**132.6**	**–**	**132.6**
Capital expenditure in non-current assets	**59.5**	**3.8**	**1.3**	**–**	**1.1**	**65.8**	**65.8**	**–**	**65.8**

Reporting by geographical segment

(EUR million)	Italy	France	Germany	Poland	Bulgaria	Romania	UK	TOTAL adjusted	TOTAL reported	Profit from discontinued operations	TOTAL continuing operations
1ST HALF 2018											
Total revenue	452,2	26,0	17,1	5,9	6,5	5,0	2,9	**515,7**	**515,7**	(2,9)	512,8
Gross operating income (EBITDA)	**233,4**	**17,8**	**11,6**	**3,8**	**4,2**	**2,6**	**3,3**	**276,7**	**276,7**	**(3,3)**	**273,4**
Amortisation, depreciation and impairment	(107,3)	(11,2)	(9,6)	(3,0)	(2,1)	(2,6)	(0,4)	**(136,2)**	**(136,2)**	0,7	(135,5)
EBIT at replacement cost	**126,1**	**6,6**	**2,0**	**0,8**	**2,1**	**(0,0)**	**2,9**	**140,5**	**140,5**	**(2,6)**	**137,9**
Capital expenditure in non-current assets	**352,8**	**83,3**	**10,3**	**0,0**	**–**	**0,3**	**–**	**446,6**	**446,6**	**–**	**446,6**

(EUR million)	Italy	France	Germany	Poland	Bulgaria	Romania	UK	TOTAL adjusted	TOTAL reported	Profit from discontinued operations	TOTAL continuing operations
1ST HALF 2017											
Total revenue	474,4	23,1	17,5	5,4	7,1	10,8	–	**538,3**	**538,3**	–	538,3
Gross operating income (EBITDA)	**220,2**	**15,3**	**11,6**	**1,5**	**4,1**	**5,5**	**(0,1)**	**258,2**	**258,2**	**–**	**258,2**
Amortisation, depreciation and impairment	(97,7)	(10,7)	(9,5)	(2,9)	(2,1)	(2,7)	–	**(125,6)**	**(125,6)**	–	(125,6)
EBIT at replacement cost	**122,5**	**4,7**	**2,1**	**(1,4)**	**1,9**	**2,8**	**(0,1)**	**132,6**	**132,6**	**–**	**132,6**
Capital expenditure in non-current assets	**7,6**	**0,1**	**39,7**	**1,0**	**0,0**	**–**	**17,4**	**65,8**	**65,8**	**–**	**65,8**

For details and the reconciliation entries, please refer to the "Alternative performance indicators" section in the "Interim Directors' report".

NOTE 41 - DIVIDENDS

The dividends paid by ERG S.p.A. in the first half of 2018 (EUR 171.1 million) and in the first half of 2017 (EUR 74.4 million), as resolved upon approval of the financial statements for the previous year, amounted respectively to EUR 1.15 (of which EUR 0.40 is the non-recurring component) and EUR 0.50 for each of the shares with dividend rights as of the coupon date.

NOTE 42 - FINANCIAL INSTRUMENTS

30.06.2018	Fair value - Hedging instruments	FVTPL instruments	FVOCI instruments	Financial assets measured at amortised cost	Other financial liabilities	Total carrying amount	*of which non-recurring*	Fair Value
Equity investments	–	–	–	465	–	465	–	465
Loan assets[(1)]	–	–	–	111,146	–	111,146	*111,146*	111,146
Derivatives	6,246	405	–	–	–	6,651	–	6,651
Trade receivables	–	–	–	279,897	–	279,897	–	279,897
Financial securities classified as current assets	–	76,623	–	–	–	76,623	–	76,623
Other current assets	–	–	–	12,784	–	12,784	–	12,784
Cash and cash equivalents	–	–	–	585,994	–	585,994	–	585,994
Total assets	**6,246**	**77,028**	**–**	**990,286**	**–**	**1,073,079**	***111,146***	**1,073,079**
Mortgages and loans	–	–	–	–	744,607	744,607	*614,616*	744,607
Bond issue	–	–	–	–	99,519	99,519	*99,519*	99,519
Non-recourse Project Financing	–	–	–	–	1,222,515	1,222,515	*1,068,946*	1,222,515
Other financial payables	–	–	–	–	4,632	4,632	–	4,632
Derivatives	96,832	–	–	–	–	96,832	*96,832*	96,832
Trade payables	–	–	–	–	75,978	75,978	–	75,978
Total liabilities	**96,832**	**–**	**–**	**–**	**2,147,251**	**2,244,083**	**1,879,914**	**2,244,083**

(1) the column "Financial assets measured at amortised cost" includes EUR 28,490 of the guarantee margins related to the futures derivatives hedging the electricity price risk. This amount is reported net of the fair values of these contracts at 30 June 2018, negative by a total amount of EUR 17,947 thousand. The Fair Value of the instruments is shown in the table of Note 44 letter c) and e)

It is also noted that the Group adopted IFRS 9 as from 1 January 2018. Based on the first application methods chosen, the comparative information was not restated.

The following table provides an analysis of the 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			
- Fair value - Hedging instruments	–	6,246	–
- FVTPL instruments [(1)]	78,894	405	–
- FVOCI instruments	–	–	–
- Hedging derivatives	–	988,015	–
Total	**78,894**	**996,666**	**–**
Financial liabilities			
- Fair value - Hedging instruments [(2)]	20,218	96,832	–
- Other financial liabilities	–	2,147,251	–
Total	**20,218**	**2,244,083**	**–**

(1) "FVTPL instruments" includes the positive fair values of the futures hedging the commodity price risk, amounting to EUR 2,271 thousand. Said amount is reported in the present Report to increase the guarantee margin classified under Financial assets measured at amortised cost
(2) "Fair value - Hedging instruments" includes the positive fair values of the futures contracts hedging the commodity price risk, amounting to EUR 20,218 thousand. Said amount is reported in the present Report as a direct deduction of the value of Financial assets measured at amortised cost

The Group has no financial instruments classifiable under level 3.

Financial instruments classified in level 1 relate to securities (mutual funds and Sicav) for an amount of EUR 76,623 thousand, to the positive fair value of futures contracts on commodities for an amount of EUR 2,271 thousand and to the negative fair value of futures contracts on commodities for an amount of EUR 20,218 thousand.

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

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

NOTE 43 - DISCLOSURE ON RISKS

With regards to the types of risks connected with the Group's business, the related hedging policies, the derivatives and the levels of observability of fair value, there were no significant changes from the 2017 consolidated financial statements.

Summary of derivatives used

The derivatives entered into by ERG, designed to hedge its exposure to commodities price and interest rate risks were as follows at 30 June 2018:

	Type	Hedged risk	Underlying financial instruments		Fair Value al 30.06.2018
	Cash Flow Hedging Instruments				**(EUR Thousand)**
A	Interest rate swaps and interest rate caps	Economic risk interest rate	1,664	EUR million	(96,350)
B	Gas price risk swaps	Commodity transaction risk	1,538	thousands of MWh	5,764
C	Electricity price risk hedging futures	Commodity transaction risk	3,171	thousands of MWh	(20,218)
D	Electricity price risk hedging CFD	Commodity transaction risk	–	thousands of MWh	–
E	CO_2 price risk hedging futures	Commodity transaction risk	79	thousands of tons	74
	Total Cash Flow Hedging Instruments				**(110,804)**
	Non Hedge Accounting Instruments				
B	Gas price risk swaps	Commodity transaction risk	8	thousands of MWh	1
C	Electricity price risk hedging futures	Commodity transaction risk	1,487	thousands of MWh	2,197
D	Electricity price risk hedging CFD	Commodity transaction risk	94	thousands of MWh	405
	Total Non Hedge Accounting Instruments				**2,603**

A Interest rate swaps and interest rate caps and floors.

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

The underlying financial instruments refer to lie in the following companies:

- ERG S.p.A.;
- ERG Power;
- wind and solar power business companies.

At 30 June 2018, these instruments had a total negative fair value in the amount of EUR 96 million. The change is recognised in the hedging 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 by the quantities indicated in the contract.

At 30 June 2018, these swaps had a total positive fair value of EUR 5.8 million.

C Electricity price risk hedging futures

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

At 30 June 2018, these instruments had a total positive fair value of EUR 18 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 by the quantities indicated in the contract.

At 30 June 2018, these instruments had a total positive fair value of EUR 0.4 million.

E CO_2 price risk hedging futures

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

At 30 June 2018, these instruments had a total positive fair value of EUR 0.1 million.

NOTE 44 – SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On **12 July 2018**, ERG announced the finalisation during the first half of the year of Liability Management transactions for a total of EUR 500 million.

Through its subsidiary ERG Power Generation S.p.A., on **1 August 2018** ERG finalised the acquisition of 100% of Creag Riabhach Wind Farm Ltd., a Scottish company holding authorisation for the construction of a wind farm in Scotland, north of Inverness in the county of Sutherland. The wind farm will consist of 22 turbines for an approved capacity of 79.2 MW and estimated energy production - once fully operational - of around 250 GWh per year.

Through its subsidiary ERG Eolienne France S.a.s., on **2 August 2018** ERG purchased 25% of the share capital of Parc Eolienne de la Voie Sacrée S.a.s. and Parc Eolienne d'Epense S.a.s. from Renvico France S.a.s. The investees own two wind farms with a total capacity of 16.25 MW and which became operational in 2007 and 2005, respectively. 75% of the share capital of the companies had already been acquired from Vent d'Est S.a.s. last March.

On **3 August 2018**, ERG and Quercus Assets Selection Sarl, a European fund focusing on renewable source investments with over EUR 350 million in assets under management, signed an agreement for the setup of a public limited company ERG Q Solar1, with registered office in Genoa, in which ERG has a 60% interest and the Quercus Italian Solar Fund segment 40%, with the aim of consolidating the Italian photovoltaic market.

NOTE 45 - PUBLICATION DATE OF THE INTERIM FINANCIAL REPORT

On 3 August 2018, the Board of Directors of ERG S.p.A. authorised the publication of the Interim Financial Report together with the reports by the supervisory bodies in compliance with the deadlines prescribed by current laws and regulations.

Genoa, 3 August 2018

On behalf of the Board of Directors
The Chairman
Edoardo Garrone

REPRESENTATIONS ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. The undersigned Luca Bettonte, Chief Executive Officer of ERG S.p.A, and Paolo Luigi Merli, Manager responsible for preparing the financial reports of ERG S.p.A, taking into account the provisions set out in Article 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998, represent as to:
   - the suitability in relation to the characteristics of the business and
   - the actual application of the administrative and accounting procedures for the preparation of the Interim Condensed Consolidated Financial Statements as of and for the first half of 2018.
2. In this regard, the following is pointed out:
   - the suitability of the administrative and accounting procedures for the preparation of the interim condensed consolidated financial report of ERG S.p.A. at 30 June 2018 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 Interim Condensed Consolidated Financial Report of the ERG Group at 30 June 2018:
     - was 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;
     - matches the underlying accounting books and records;
     - is 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 Interim Financial Report includes a reliable analysis of the references to the significant events occurred in the first six months of the year and to their impact on the Interim Condensed Consolidated Financial Report, as well as a description of the main risks and uncertainties for the six remaining months of the year. The Interim Financial Report also includes a reliable analysis of the information on significant transactions with related parties.

Genoa, 3 August 2018

The Chief Executive Officer

Luca Bettonte

The Manager responsible
for preparing the financial reports

Paolo Luigi Merli

AUDITORS' REPORT ON THE LIMITED AUDIT

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(Translation from the Italian original which remains the definitive version)

Report on review of condensed interim consolidated financial statements

To the shareholders of
ERG S.p.A.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of the ERG Group, comprising the statement of financial position as at 30 June 2018, the income statement and the statements of comprehensive income, cash flows and changes in equity for the six months then ended and notes thereto. The directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with Consob (the Italian Commission for Listed Companies and the Stock Exchange) guidelines set out in Consob resolution no. 10867 dated 31 July 1997. A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed interim consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the ERG Group as at and for the six months ended 30 June 2018 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Other matters

The 2017 annual and interim consolidated financial statements were respectively audited and reviewed by other auditors, who expressed an unmodified opinion and an unmodified conclusion thereon on 27 March 2018 and 9 August 2017, respectively.

Genoa, 3 August 2018

KPMG S.p.A.

(signed on the original)

Luisa Polignano
Director of Audit

ERG S.P.A.

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ERG S.p.A. - August 2018
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