

Sandy Krawe Wind  
Farm Ltd  
6850950

Power Ltd  
2018

THURSDAY

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# *ERG Power Generation*

## ANNUAL REPORT AS AT 31 DECEMBER 2018



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## INTRODUCTION

### ALTERNATIVE PERFORMANCE INDICATORS (APIS) AND ADJUSTED RESULTS

Some of the APIs used in this document are different from the financial indicators expressly provided for by the IAS/IFRS accounting standards 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 net financial indebtedness.

Finally, in order to enhance understanding 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 reconciliation of the amounts involved are provided in the "Alternative Performance Indicators" section.

### RESTATEd COMPARATIVE DATA

**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	2017	Reclassifications IFRS 15	Special Items	2017 restated
Revenue from sales and services	1,055	(9)	0	1,046
<b>Adjusted EBITDA</b>	<b>488</b>	<b>0</b>	<b>0</b>	<b>488</b>
<b>Adjusted EBIT</b>	<b>241</b>	<b>0</b>	<b>0</b>	<b>241</b>
Profit	137	0	0	137
of which Profit attributable to the owners of the parent	137	0	0	137
<b>Adjusted Profit attributable to the owners of the parent</b>	<b>137</b>	<b>0</b>	<b>0</b>	<b>137</b>

## OPERATING SEGMENTS

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 the Energy Management department to hedge the price risk. In order to give a clearer representation of the businesses in terms of technology, therefore, the wind and hydroelectric power results include the hedges entered into in relation to renewable sources ("RES") and the thermoelectric results include the hedges on the "spark spread".

## 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.

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

## CORPORATE BODIES

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### BOARD OF DIRECTORS

Chairman

**VITTORIO GARRONE**

Chief Executive Officer

**PIETRO TITTONI**

Directors

**ITALO GIORGIO ALFIERI**

**ALBERTO FUSI**

**PAOLO LUIGI MERLI**

**ANDREA NAVARRA**

### BOARD OF STATUTORY AUDITORS <sup>(1)</sup>

Chairman

**LELIO FORNABAIO**

Standing Auditors

**LUISELLA BERGERO**

**VINCENZO CAMPO ANTICO**

### INDEPENDENT AUDITORS <sup>(2)</sup>

**KPMG S.p.A.**

1 Appointed by the Shareholders' Meeting of ERG S.p.A. on 19 April 2018 for the 2018-2020 period

2 Appointed by the Shareholders' Meeting of ERG S.p.A. on 19 April 2018 for the 2018-2020 period

[illegible]

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

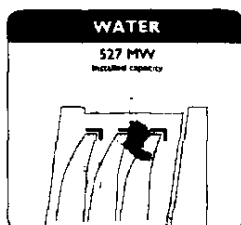
- ERG Power Generation S.p.A. also operates, directly or through its subsidiaries, in the following Electric Power generation sectors:

**WIND**  
1.5 GW  
installed capacity

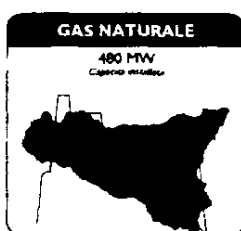
The wind farms are mainly concentrated in Italy (1,093 MW), but with a significant and growing presence abroad (729 MW operational), in particular in France (307 MW), Germany (216 MW), Poland (82 MW), Romania (70 MW) and Bulgaria (54 MW)

**SUN**  
90 MW  
Installed capacity

In January 2019, ERG further increased its presence in the sector following the acquisition of two photovoltaic plants, located in the Lazio region, with an installed capacity of 51.4 MW.

**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.

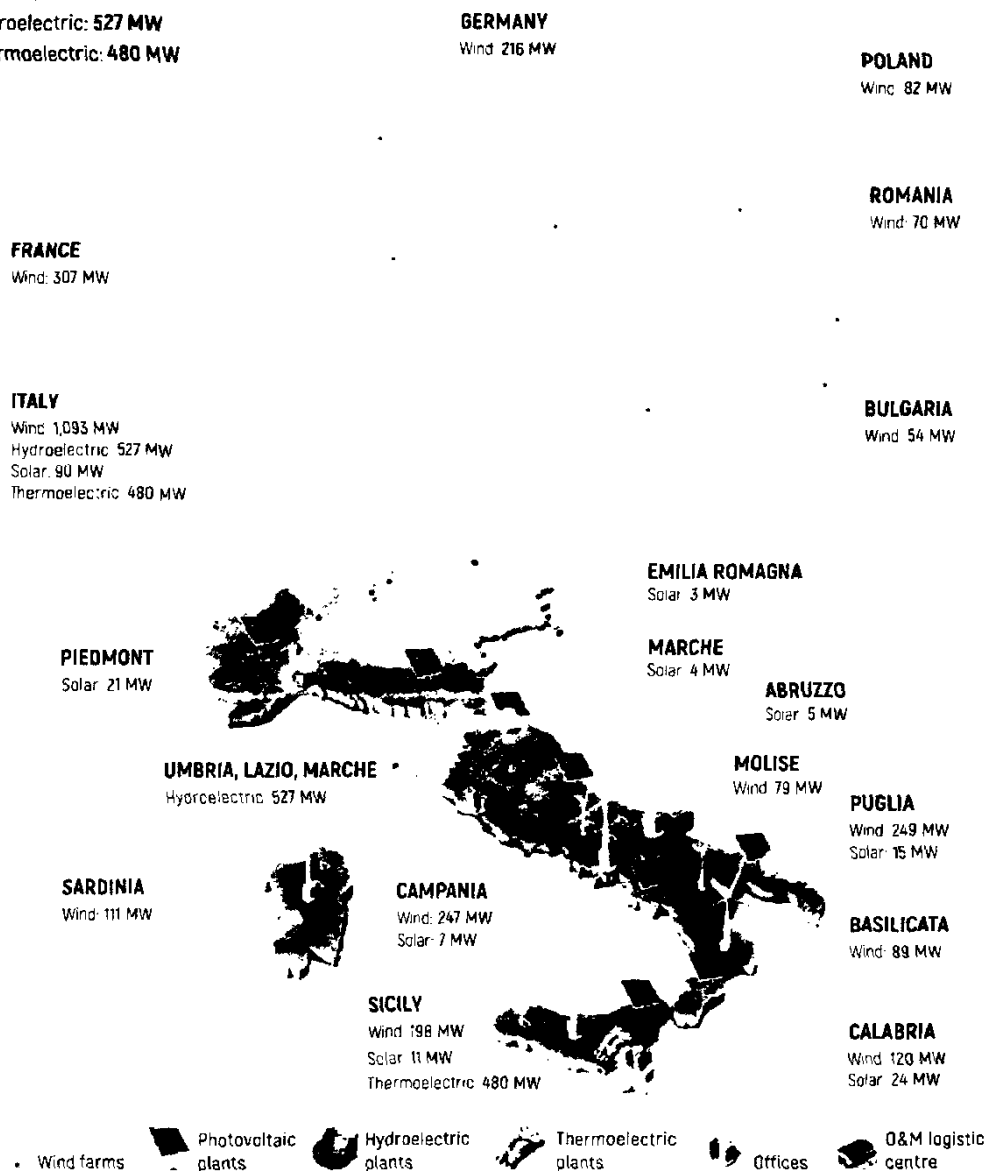
## GEOGRAPHICAL SEGMENTS AT 31 DECEMBER 2018

Wind: **1,822 MW** (1,093 MW Italy and 729 MW Abroad)

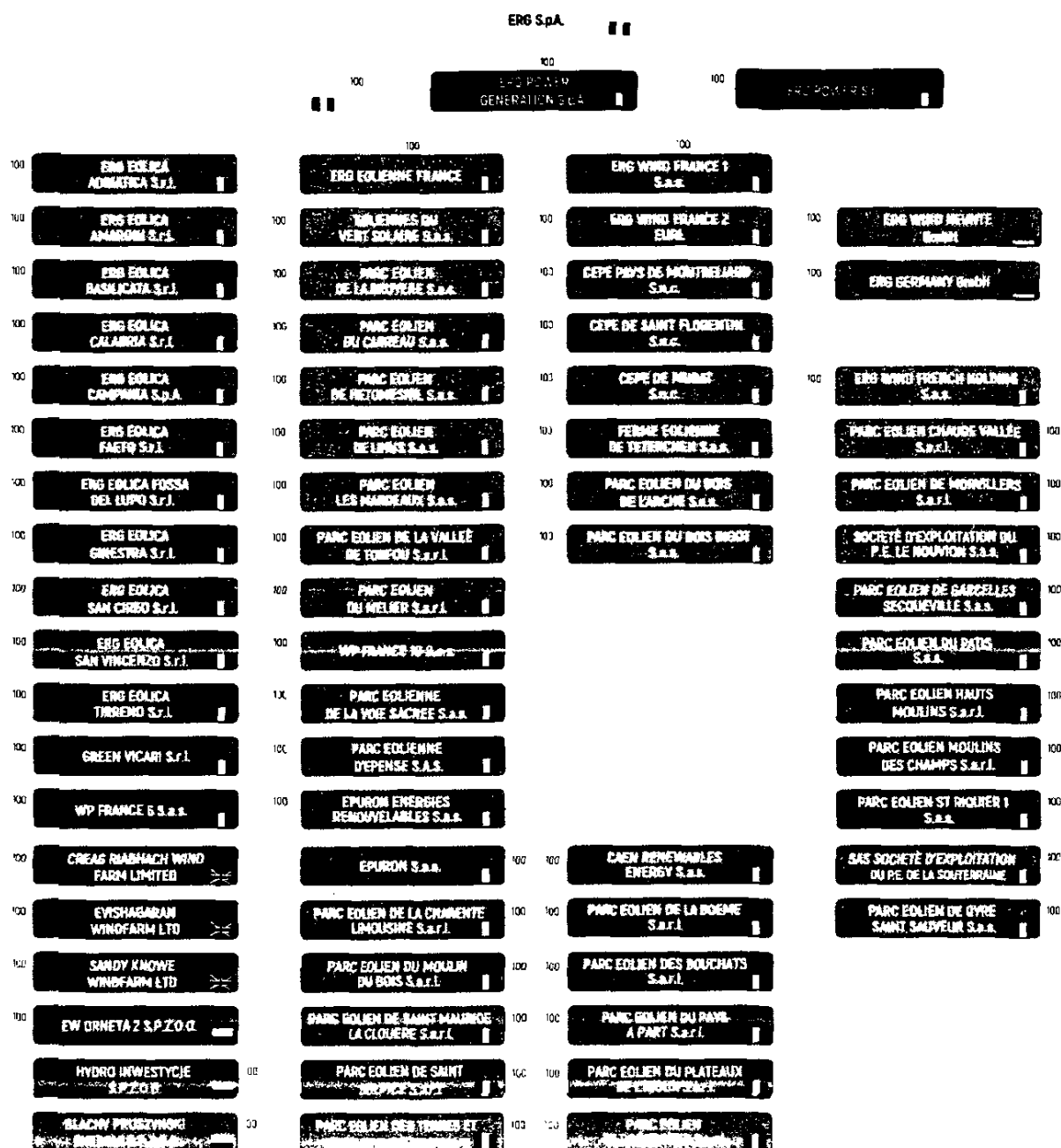
Solar: **90 MW**

Hydroelectric: **527 MW**

Thermoelectric: **480 MW**







ERG WIND INVESTMENTS Ltd.	ERG WIND HOLDINGS (ITALY) S.r.l.	CORNEGIAN S.A.	ERG WIND ENERGY S.r.l.
ERG WIND MEI 2-M-1 (UK) Ltd.	ERG WIND ENERGY S.r.l.	ERG WIND BULGARIA S.p.A.	ERG WIND SARDEGNA S.r.l.
ERG WIND MEI 2-M-2 (UK) Ltd.	ERG WIND SARDEGNA S.r.l.	VG-1 EOOD	ERG WIND SICILIA 2 S.r.l.
ERG WIND MEG 1 LLP	ERG WIND SICILIA 2 S.r.l.	VG-2 EOOD	ERG WIND SICILIA 4 S.r.l.
ERG WIND MEG 2 LLP	ERG WIND SICILIA 4 S.r.l.	VG-3 EOOD	ERG WIND SICILIA 5 S.r.l.
ERG WIND MEG 3 LLP	ERG WIND SICILIA 5 S.r.l.	VG-4 EOOD	ERG WIND 2000 S.r.l.
ERG WIND MEG 4 LLP	ERG WIND 2000 S.r.l.	VG-5 EOOD	ERG WIND SICILIA 8 S.r.l.
ERG FRANCE S.r.l.	ERG WIND SICILIA 8 S.r.l.	VG-6 EOOD	ERG WIND SICILIA 3 S.r.l.
ERG WIND RE BETEILIGUNGS GmbH & Co. KG	ERG WIND SICILIA 3 S.r.l.	MARK 1 EOOD	ERG WIND 6 S.r.l.
ERG WIND IUS GmbH	ERG WIND 6 S.r.l.	MARK 2 EOOD	ERG WIND 4 S.r.l.
PARC EOLIEN DE ST RIQUIER 3 S.a.s.	ERG WIND 4 S.r.l.	K&S ENERGY EOOD	ERG WIND LEASING 4 S.r.l.
PARC EOLIEN DE ST RIQUIER 4 S.a.s.	ERG WIND LEASING 4 S.r.l.	K&S ENERGY 1 EOOD	ERG WIND DOBBBERKAU GmbH & Co. KG
ERG WIND PARK BETEILIGUNGS GmbH	ERG WIND DOBBBERKAU GmbH & Co. KG	K&S ENERGY 2 EOOD	ERG WIND HERMERSBERG GmbH & Co. KG
VOLTWERK ENERGY PARK 8 GmbH & Co. KG	ERG WIND HERMERSBERG GmbH & Co. KG	WIND PARK KAVARNA EAST EOOD	ERG WIND OBER KOSTENZ GmbH & Co. KG
VOLTWERK WINDPARK WÖRZIG GmbH & Co. KG	ERG WIND OBER KOSTENZ GmbH & Co. KG	WIND PARK KAVARNA WEST EOOD	ERG WIND WB GmbH & Co. KG
VOLTWERK WINDPARK RESENSTEDT GmbH & Co. KG	ERG WIND WB GmbH & Co. KG	WP BULGARIA 4 EOOD	ERG WIND WELCHWEILER GmbH & Co. KG
WINDPARK COTTBUSER HALDE GmbH & Co. KG	ERG WIND WELCHWEILER GmbH & Co. KG	GLOBE ENERGY EOOD	ERG WIND WESELBERG GmbH & Co. KG
WINDPARK ACHMER VINTE GmbH & Co. KG	ERG WIND WESELBERG GmbH & Co. KG		WINDPARK K LINDA
ERG WIND 117 GmbH & Co. KG	WINDPARK K LINDA		

## ORGANISATIONAL MODEL

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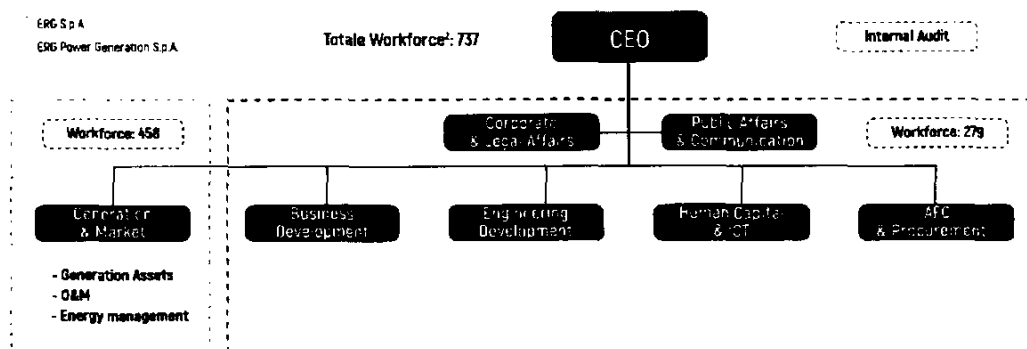
On 1 January 2017, the new organisational structure came fully into force, it is characterised by the definition of two macro-roles:

- 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 engineering of process engineering relative to the various generation technologies;
  - 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.



### ORGANIZATION: 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  
(2) At 2018 year-end

## CHANGE IN BUSINESS SCOPE IN 2018

### Wind

- In the first quarter of 2018, ERG Power Generation, 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. Subsequently, 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 investment in renewables, 100% of its subsidiary **Brockaghboy Windfarm Ltd.** ("BWF"), a UK company which owns the 47.5 MW wind farm built in Londonderry County, 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, as well as in the Notes to the 2018 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.

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

- On 6 April 2018, 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, which came on stream at 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 5 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 5 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 supplemented 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 amounted to EUR 57 million at 31 December 2017, 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, the acquisition from Impax New Energy Holding Cooperatief W.A. was completed.

The companies were 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 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 the fourth quarter of 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<sub>2</sub> 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.

- 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, equal to over 3,000 equivalent hours and approximately 147 Kt of avoided CO<sub>2</sub> emissions

Works for the construction of the wind farm are expected to start in 2020, and the entry into operation, following the finalisation of the connection to the national grid, is expected by March 2022. The wind farm will participate in the energy and capacity availability markets in the United Kingdom. The total estimated investment required to build the wind farm is approximately GBP 89 million (around EUR 98 million), already including the amount paid to purchase the equity investment.

With this project, ERG strengthens its process of organic growth abroad and in the UK in particular, where the secured construction capacity goes from 84 MW to 163 MW and, following the recent acquisitions in France, raises the secured capacity with regard to the total objectives of the Plan, increasing from 40% to approximately 70%.

The project, in line with ERG's industrial strategy, is characterised by a high level of quality, and allows the company to capitalise on the skills developed in-house in the fields of Engineering, Construction, Procurement and Asset Management, maximising their value.

In consideration of the new acquisition of assets in the UK market, as from the Interim Directors' Report at 30 September 2018, Evishagaran Wind Farm LTD and Sandy Knowe Wind Farm LTD are also consolidated line by line. These companies own two already authorised development projects of 35 MW and 49 MW, respectively, in the United Kingdom and were previously measured using the cost method since their size is not significant dimensions and they are not yet operational.

## 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 since 1 January 2018: for more information on the Purchase Price Allocation for solar, reference is made to the section "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.



## SIGNIFICANT EVENTS DURING THE YEAR

### WIND SECTOR

Date	Country	Significant events	Press release
12 January 2018	Germany	<b>Acquisition</b> of 100% of Windpark Linda GmbH & Co. KG, a company that holds the <b>permits for the construction of a wind farm in Germany</b> with 21.6 MW of power and an estimated production speed of approximately 50 GWh per annum.	Press release 15.01.2018
7 March 2018	UK	<b>Sale</b> of 100% of Brockaghboy Windfarm Ltd to the Greencoat UK Wind PLC fund	Press release 08.03.2018
21 March 2018	France	<b>Acquisition</b> by <b>Vent d'Est S.a.s.</b> of 75% of the two companies that own two wind farms in France with an overall capacity of 16.25 MW	Press release 22.03.2018
6 April 2018	France	<b>Signing of agreement</b> 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
27 April 2018	France	<b>Signing of agreement</b> 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	Germany	<b>Windpark Linda GmbH &amp; Co. KG</b> , 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 18.05.2018
1 August 2018	UK	<b>Acquisition</b> of 100% of the equity interest in <b>Creag Riabhach Wind Farm Ltd.</b> , a company incorporated under Scottish law, holder of authorisations for the construction of a wind farm in Scotland.	Press release 03.08.2018
3 August 2018	France	<b>Acquisition</b> of the remaining 25% of two companies that own two wind farms in France with an overall capacity of 16.25 MW, 75% of which had already been acquired from Vent d'Est S.a.s. in March 2018	Press release 20.08.2018

## SOLAR SECTOR

Date	Significant events	Press release
12 January 2018	<b>Acquisition</b> 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 <b>ForVeI</b> S.r.l., the ninth largest photovoltaic operator in Italy with total installed capacity of 89 MW.	<a href="#">Press release</a> 12/1/2018
3 August 2018	<b>Agreement</b> between ERG and Quercus for the setup of a public limited company <b>ERG Q Solar1</b> , 60% owned by ERG and 40% by the Quercus Italian Solar Fund, with the aim of consolidating the Italian photovoltaic market.	<a href="#">Press release</a> 3/8/2018

## THERMOELECTRIC SECTOR

Date	Significant events	Press release
25 October 2018	ERG S.p.A., through its subsidiary ERG Power Generation S.p.A., and E.ON Energia S.p.A., signed a <b>framework agreement for the three-yearly supply of electricity</b> intended for the Italian market, which can be renewed for an additional year. The agreement makes provision for ERG's supply to E.ON of a total electricity volume of up to around 3 TWh in the 2019-2021 three-year period, which will meet the needs of customers who are increasingly more sensitive to environmental sustainability. Under the agreement, ERG will be able to supply the volumes of electricity required by E.ON to cover the hourly requirements of its customers.	<a href="#">Press release</a> 25/10/2018

## PERFORMANCE HIGHLIGHTS

(EUR million)		YEAR	
		2018	2017
<b>MAIN INCOME STATEMENT DATA</b>			
Adjusted revenue		1,027	1,046
<b>Adjusted EBITDA</b>		<b>504</b>	<b>488</b>
<b>Adjusted EBIT</b>		<b>234</b>	<b>241</b>
Profit		151	137
of which Profit attributable to the owners of the parent		151	137
<b>Adjusted profit attributable to the owners of the parent <sup>(1)</sup></b>		<b>124</b>	<b>137</b>
<b>MAIN INCOME STATEMENT DATA</b>			
<b>Net invested capital</b>		<b>3,216</b>	<b>3,049</b>
Equity		2,070	1,951
Total net financial indebtedness		1,146	1,098
of which non-recourse Project Financing <sup>(2)</sup>		1,178	1,115
Financial leverage		36%	36%
<b>EBITDA Margin %</b>		<b>49%</b>	<b>47%</b>
<b>OPERATING DATA</b>			
<b>Installed capacity at year end - wind farms</b>	MW	<b>1,822</b>	<b>1,814</b>
Electricity production from wind farms	millions of kWh	3,464	3,613
<b>Installed capacity - thermoelectric plants</b>	MW	<b>480</b>	<b>480</b>
Electricity production from thermoelectric plants	millions of kWh	2,151	2,453
<b>Installed capacity at year end - hydroelectric plants</b>	MW	<b>527</b>	<b>527</b>
Electricity production from hydroelectric plants	millions of kWh	1,740	1,144
<b>Installed capacity at year end - solar plants</b>	MW	<b>90</b>	<b>n.a.</b>
Electricity production from solar plants	millions of kWh	130	n.a.
<b>Total sales of electric power</b>	millions of kWh	<b>13,627</b>	<b>11,747</b>
Capital expenditure <sup>(3)</sup>	EUR million	506	91
<b>Employees at year end</b>	Units	<b>512</b>	<b>490</b>
<b>NET UNIT REVENUE</b>			
Wind Italy	EUR/MWh	124.9	144.5
Wind Germany	EUR/MWh	94.5	96.4
Wind France	EUR/MWh	87.4	88.4
Wind Poland	EUR/MWh	63.5	45.1
Wind Bulgaria	EUR/MWh	74.8	64.0
Wind Romania	EUR/MWh	58.2	58.1
Wind UK	EUR/MWh	100.4	n.a.
Solar	EUR/MWh	293.5	n.a.
Hydroelectric	EUR/MWh	106.6	110.3
Thermoelectric	EUR/MWh	41.4	45.5

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.

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

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

(3) in property, plant and equipment and intangible assets. They include investments through Mergers & Acquisitions equal to EUR 449 million in 2018 for the acquisition of the companies of the ForVe Group (solar) and for the acquisitions of companies owning wind farms in France, Germany and the UK. In 2017, investments through Mergers & Acquisitions amounted to EUR 39.5 million for the acquisition of the DiF Group (wind) companies in Germany.

(4) the net unit revenue indicated is expressed in EUR/MWh and is calculated by comparing technology production to revenue captured in the energy markets, including the impacts of hedges, of any incentives payable and variable costs associated with production/sale, including by way of example the costs of fuels and the imbalance charges.

## PERFORMANCE BY SECTOR

(EUR million)	YEAR	
	2018	2017
<b>REVENUE FROM SALES AND SERVICES</b>		
Wind		
Wind Italy	266	317
Wind France	49	44
Wind Germany	33	37
Wind Bulgaria	13	13
Wind Romania	12	19
Wind Poland	14	12
Wind UK	3	3
<b>Total Wind</b>	<b>389</b>	<b>445</b>
Solar	38	n.a.
<b>Thermoelectric<sup>(1)</sup></b>	<b>194</b>	<b>137</b>
<b>Total revenue adjusted</b>	<b>405</b>	<b>464</b>
<b>EBITDA</b>		
Wind		
Wind Italy	195	241
Wind France	30	30
Wind Germany	22	25
Wind Bulgaria	8	6
Wind Romania	7	8
Wind Poland	10	5
Wind UK	3	2
<b>Total Wind</b>	<b>274</b>	<b>316</b>
Solar	32	-
<b>Thermoelectric<sup>(2)</sup></b>	<b>146</b>	<b>94</b>
<b>Adjusted EBITDA</b>	<b>51</b>	<b>78</b>
	<b>504</b>	<b>488</b>

(1) includes the residual contribution of the minor portfolios managed by Energy Management and not attributable to the individual businesses

(2) includes investments in property, plant and equipment and intangible assets and investments via Mergers & Acquisitions

(EUR million)	YEAR	
	2018	2017
<b>AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES</b>		
Wind		
Wind Italy	(99)	(101)
Wind France	(23)	(21)
Wind Germany	(19)	(19)
Wind Bulgaria	(4)	(4)
Wind Romania	(5)	(5)
Wind Poland	(6)	(6)
Wind UK	(1)	(1)
<b>Total Wind</b>	<b>(157)</b>	<b>(158)</b>
Solar	(24)	-
	<b>(58)</b>	<b>(58)</b>
<b>Thermoelectric <sup>(1)</sup></b>	<b>(31)</b>	<b>(31)</b>
<b>Adjusted depreciation, amortisation and impairment losses</b>	<b>(270)</b>	<b>(247)</b>
<b>EBIT</b>		
Wind		
Wind Italy		
Wind France	96	140
Wind Germany	7	8
Wind Bulgaria	3	6
Wind Romania	4	2
Wind Poland	1	3
Wind UK	4	(1)
<b>Total Wind</b>	<b>116</b>	<b>158</b>
Solar	8	0
	<b>88</b>	<b>35</b>
<b>Thermoelectric <sup>(1)</sup></b>	<b>21</b>	<b>48</b>
<b>Adjusted EBIT</b>	<b>234</b>	<b>241</b>
<b>INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS</b>		
Wind		
Wind Italy	8	3
Wind France	99	2
Wind Germany	17	40
Wind Bulgaria	0	0
Wind Romania	0	0
Wind Poland	0	1
Wind UK	23	29
<b>Total Wind</b>	<b>146</b>	<b>75</b>
Solar	<b>345</b>	<b>-</b>
	<b>7</b>	<b>6</b>
<b>Thermoelectric <sup>(1)</sup></b>	<b>8</b>	<b>10</b>
<b>Total capital expenditure <sup>(2)</sup></b>	<b>506</b>	<b>91</b>

(1) includes the residual contribution of the minor portfolios managed by Energy Management and not attributable to the individual businesses

(2) includes investments in property, plant and equipment and intangible assets and investments via Mergers & Acquisitions

## COMMENTS ON THE YEAR'S PERFORMANCE

In 2018, **revenue from sales and services** amounted to EUR 1,027 million, down slightly compared to 2017 (EUR 1,046 million) mainly due to the loss of an important bilateral contract at the end of 2017 and to the loss of incentives on a part of wind power production in Italy, partly offset by greater volumes in hydroelectric power in a context of increasing sale prices, and an increase in production for the expansion of the portfolio of managed assets, in particular with the entry into solar.

**Adjusted EBITDA** amounted to EUR 504 million, up on the EUR 488 million recorded in the corresponding period of 2017. The increase of EUR 15 million is a result of the following factors:

- **Wind (-42 million):** EBITDA equal to EUR 274 million, down compared to the same period of the previous year (EUR 316 million), due to a less favourable wind context both in Italy and abroad. In particular, the poorer results of wind farms in Italy (EUR -46 million) were also affected by lower incentivised production (72% of the total compared to 83% in 2017), the lower unit value (99 EUR/MWh compared to 107 EUR/MWh), and the higher imbalance charges, which were only partly offset by the positive price scenario in the energy markets. The results abroad were up (EUR +3 million) due to higher installed capacity in France and a favourable scenario in Romania and Poland, despite less favourable wind conditions.
- **Solar (+32 million):** EBITDA equal to EUR 32 million, in line with forecasts, relating to plants acquired at the beginning of 2018 from Forvei, of which EUR 30 million for revenue from the feed-in premium and EUR 8 million from market revenue, net of approximately EUR 6 million in fixed costs related mainly to operation & maintenance costs.
- **Hydroelectric (+53 million):** EBITDA of EUR 146 million (EUR 94 million in 2017), up sharply compared with the previous year, which however benefited in the amount of EUR 8 million from the recovery of previous incentives as a result of repeal of the revocation of the IAFR qualification of some plants. The performance benefited from the high level of water availability recorded during the year, and in particular starting from March, in addition to the use of the reservoirs during the year.
- **Thermoelectric (-27 million):** the results of thermoelectric generation, amounting to EUR 51 million, down by EUR 27 million compared to EUR 78 million in 2017 due mainly to the decreased contribution of Energy Efficiency Certificates which in the first half of 2017 also benefited for approximately EUR 11 million from the revaluation of securities matured in 2016 and sold in 2017. The results were also affected by the significantly less profitable performance of the clean spark spread, due to the equally significant increase in the price of CO<sub>2</sub> and Gas, that was not fully reflected in the price of energy over the year.

**Adjusted EBIT** was EUR 234 million (EUR 241 million in 2017) after amortisation and depreciation of EUR 270 million, up by EUR 23 million compared to 2017 (EUR 247 million) mainly due to new Solar investments and to acquisitions of wind farms in France during 2018

**Adjusted profit attributable to the owners of the parent** was EUR 124 million, down compared to the restated result of EUR 137 million in 2017, due to the aforementioned operating results, higher amortisation and depreciation and higher financial charges relating to a lower remuneration of liquidity and increased debt relating to investments, despite a lower average cost of debt compared to 2017, thanks to liability management transactions concluded during the first half of 2018

The **profit for the year attributable to the owners of the parent** was EUR 151 million (EUR 137 million in 2017 restated) and reflects, in addition to the above-mentioned net operating results, the capital gain generated by the sale of Brockaghboy (EUR 27 million)

In 2018, **investments** totalled **EUR 506 million** (EUR 91 million in 2017) and relate mainly to the acquisition of solar installations in Italy (EUR 345 million), acquisition of the French wind companies by Impax New Energy consolidated from 30 June 2018 (EUR 67 million), the acquisition of two wind farms in France (EUR 14 million) and acquisition of the company Creag Riabhach Wind Farm Ltd (EUR 23 million), holder of authorisations for the construction of a wind farm in Scotland. Investments for **EUR 57 million in property, plant and equipment and intangible assets** were also made in 2018, of which 74% in the Wind sector (69% in 2017), mainly related to the development of the new wind farms in France (Vallée de l'AA and Torfou) and in Germany (Windpark Linda), 14% in the Thermoelectric sector (19% in 2017), and 12% in the Hydroelectric sector (12% in 2017)

**Net financial indebtedness** amounted to **EUR 1,146 million**, up (EUR 48 million) compared to 31 December 2017 (EUR 1,098 million). The change reflects investments for the year (EUR 506 million) and the distribution of dividends to parent company ERG S.p.A. (EUR 20 million), mainly offset by the positive cash flow in the year from proceeds of the sale of Brockaghboy (EUR 106 million)

## PROFIT FOR THE YEAR - BUSINESS

### REFERENCE MARKET

#### Price scenario

	Year	
	2018	2017
<b>Price scenario (EUR/MWh)</b>		
<b>Italy</b>		
PUN - Reference price of electricity Italy (baseload) <sup>(1)</sup>	61.3	54.0
Electricity price - North zone	60.7	54.4
Electricity price - Central-North zone	61.1	54.1
Electricity price - Central-South zone	60.9	51.6
Electricity price - South zone	59.4	49.8
Electricity price - Sardinia	60.7	51.5
Electricity price - Sicily	69.5	60.8
Centre North zone price (peak)	68.8	63.5
Feed-In Premium (former Green Certificates) - Italy	99.0	107.3
<b>Abroad</b>		
France (baseload electricity)	50.0	45.0
Germany (baseload electricity)	44.5	34.2
Poland	76.2	45.7
<i>of which baseload electricity</i>	52.8	37.2
<i>of which Certificates of Origin</i>	23.4	8.6
Bulgaria (baseload electricity)	39.9	39.3
Romania (baseload electricity + 1 Green Certificate in 2018 and 2 Green Certificates in 2017)	75.8	106.2
<i>of which baseload electricity</i>	46.4	48.2
<i>of which Green Certificates</i>	29.4	29.0
Northern Ireland (baseload electricity + 90% ROC)	113.4	93.6
<i>of which baseload electricity</i>	61.0	44.7
<i>of which ROC</i>	58.1	54.4

(1) Single National Price



## Italian Market - Demand and output

	Year		
	2018	2017	Change %
Italian market (GWh)			
Demand	321,910	320,548	0%
Pumping consumption	2,233	2,478	-10%
Import/Export	43,909	37,761	16%
Internal generation <sup>(2)</sup>	280,234	285,265	2%
of which			
Thermoelectric	185,046	200,305	-8%
Hydroelectric	49,275	37,557	31%
Geothermal	5,708	5,821	-2%
Wind	17,318	17,565	-1%
Photovoltaic	22,887	24,017	-5%

(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.

In 2018, demand for electricity from the Italian electricity system amounted to 321.9 TWh, in line with the values recorded in 2017. With regard to Sicily, region in which ERG has its own CCGT plant, demand of approximately 19.4 TWh was recorded during the period, down (-1.0%) compared to 2017, while in the group of regions including Abruzzo-Lazio-Marche-Molise-Umbria, where ERG was active at the end of 2015 with its hydroelectric plants, the demand for electricity came to 44.7 TWh (+0.9%).

In the same period, net internal electricity generation was 280.2 TWh, down by 2% compared to 2017, whilst the net balance of trades with other countries recorded net imports of 43.9 TWh (+16% compared to 2017).

Some 66% of (net) domestic output was covered by thermoelectric power plants and the remaining 34% by renewable sources; specifically, 17% of output was from hydroelectric power, 8% from photovoltaic plants, 6% from wind farms and 2% from geothermal sources. Compared to 2017, hydroelectric power generation grew (+31%), while thermoelectric, photovoltaic, geothermal power and wind power generation declined (-8%, -5%, -2% 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 2018, total sales of electricity amounted to 13.6 TWh (11.7 TWh in 2017), in the presence of an overall output for the Group plants of approximately 7.5 TWh (7.2 TWh in 2017), of which roughly 1.5 TWh abroad and 6.0 TWh in Italy. The latter figure corresponds to around 1.9% of electricity demand in Italy (1.8% in 2017)

The breakdown of sale volumes and electricity output, by type of source, is shown in the following table<sup>3</sup>:

SOURCES OF ELECTRIC POWER (GWh)	Year	
	2018	2017
Wind - wind power generation Italy	2,012	2,117
Wind - wind power generation Abroad	1,452	1,496
Solar - photovoltaic power generation	130	n.a.
CCGT - thermoelectric power generation	2,151	2,453
Hydro - hydroelectric power generation	1,740	1,144
ERG Power Generation - purchases	6,143	4,536
<b>Total</b>	<b>13,627</b>	<b>11,747</b>

SALES OF ELECTRICITY (GWh)	Year	
	2018	2017
Electric power sold to captive customers	550	539
Electric power sold to REN	0	2,015
Electric power sold wholesale (Italy)	11,625	7,697
Electric power sold abroad	1,452	1,496
<b>Total</b>	<b>13,627</b>	<b>11,747</b>

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<sup>4</sup> amounted to 737 thousand tonnes, in line with the prior year.

<sup>3</sup> Electric power sources refer to the output of the Group's plants and to the purchases made on wholesale markets, sales include sales made through physical bilateral agreements and on the spot and forward markets

<sup>4</sup> 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)

	Year		Δ	Δ%
	2018	2017		
<b>Italy</b>	<b>1,093</b>	<b>1,093</b>	<b>0</b>	<b>0%</b>
of which				
Campania	247	247	0	0%
Calabria	120	120	0	0%
Puglia	249	249	0	0%
Molise	79	79	0	0%
Basilicata	89	89	0	0%
Sicily	198	198	0	0%
Sardinia	111	111	0	0%
<b>Abroad</b>	<b>729</b>	<b>722</b>	<b>8</b>	<b>1%</b>
of which				
Germany	216	216	0	0%
France	307	252	55	22%
Poland	82	82	0	0%
Bulgaria	54	54	0	0%
Romania	70	70	0	0%
UK	0	48	(48)	n.a
<b>Total installed power at period end <sup>(1)</sup></b>	<b>1,822</b>	<b>1,814</b>	<b>8</b>	<b>0%</b>

(1) power of plants in operation at period end

installed power at 31 December 2018, equal to 1,822 MW, was up 8 MW with respect to 31 December 2017 as a result of the commercial start-up of 2 wind farms in France from December (for a total of 30.8 MW), the acquisition in 2018 of 3 wind farms in France for 24.3 MW, 16.3 MW of which operational since the start of the year and 8 MW of which as from the second half of the year, net of the decrease of 48 MW in the UK following the sale of the Brockaghboy wind farm in Northern Ireland (47.5 MW), which entered into operation in December 2017.

## Highlights of adjusted performance items

## OPERATING RESULTS

(EUR million)	Year	
	2018	2017 restated
Adjusted revenue from sales and services	389	445
Adjusted EBITDA <sup>(1)</sup>	274	316
Amortisation, depreciation and impairment losses <sup>(1)</sup>	(157)	(158)
Adjusted EBIT <sup>(1)</sup>	116	158
Investments in property, plant and equipment and intangible assets	146	75
EBITDA MARGIN <sup>(2)</sup>	70%	71%

(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

The reduction in consolidated **revenue in 2018**, for approximately EUR 56 million, is mainly due to the decreased output as a result of less favourable wind conditions, both in Italy and abroad, and to lower incentivised output compared to the same period in 2017, as well as to the lower incentive unit value (from 107.3 to 99.0 EUR/MWh).

It is noted in particular that, compared to 2017, an additional 204 GWh of output is no longer incentivised, for an equivalent value of EUR 20.2 million.

These negative effects were only partly offset by a higher sales price of electricity in Italy.

Net unit revenue in Italy in 2018, taking into consideration the sale price of electricity, incentives (former green certificates) and other minor components, was equal to 124.9 EUR/MWh for FRG in Italy, down compared to 141.5 EUR/MWh in 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.

The following table shows revenue by country.

## ADJUSTED REVENUE

	Year		Δ	Δ%
	2018	2017		
Italy	266	317	(52)	-16%
Abroad	124	128	(4)	-3%
of which				
Germany	33	37	(4)	-11%
France	49	44	5	11%
Poland	14	12	2	19%
Bulgaria	13	13	(0)	-2%
Romania	12	19	(7)	-36%
UK	3	3	0	1%
Total	389	445	(56)	-13%

## NET UNIT REVENUE

	Year		Δ	Δ%
	2018	2017		
Wind Italy	124.9	144.5	(20)	-14%
Wind Germany	94.5	96.4	(2)	-2%
Wind France	87.4	88.4	(1)	-1%
Wind Poland	63.5	45.1	18	+41%
Wind Bulgaria	74.8	64.0	11	+17%
Wind Romania	58.2	58.1	0	0%
Wind UK	100.4	n.a.	n.a.	n.a.

In **2018**, net unit revenue in France and Germany was respectively 87.4 EUR/MWh and 94.5 EUR/MWh (including refunds for limitations in Germany). The main changes in net unit revenue abroad were seen in Poland (+41%, thanks to the significant increase in the sale price of certificates of origin) and in Bulgaria (+17%), while in Romania it was generally stable, due to the increase in prices which compensated for the reduction of the incentivised component which from 2018 is recognised for half of the green certificates pertaining to 2017. For completeness, the unit revenue relating to wind farms in Northern Ireland belonging to the group until the beginning of March was also reported.

## OUTPUT (GWh)

	Year		Δ	Δ%
	2018	2017		
<b>Italy</b>	<b>2,012</b>	<b>2,117</b>	<b>-105</b>	<b>-5%</b>
of which				
Campania	439	489	-50	-10%
Calabria	219	238	-18	-8%
Puglia	471	531	-60	-11%
Molise	156	167	-11	-7%
Basilicata	178	183	-5	-3%
Sicily	341	299	42	+14%
Sardinia	207	209	-2	-1%
<b>Abroad</b>	<b>1,452</b>	<b>1,496</b>	<b>-45</b>	<b>-3%</b>
of which				
Germany	337	369	-31	-8%
France	552	491	60	+12%
Poland	219	248	-29	-12%
Bulgaria	138	157	-19	-12%
Romania	176	201	-25	-13%
UK	29	29	-1	-3%
<b>Total wind farm output</b>	<b>3,464</b>	<b>3,613</b>	<b>-150</b>	<b>-4%</b>

In 2018, the **electricity output** from wind power amounted to 3,464 GWh, down slightly compared to the same period in 2017 (3,613 GWh), as a result of a decrease in output of approximately 5% in Italy (from 2,117 GWh to 2,012 GWh) and 3% abroad (from 1,496 GWh to 1,452 GWh).

The decreased output in Italy (-105 GWh) is linked to poorer wind conditions than those recorded in 2017 across most regions, with the exception of Sicily.

As regards abroad, the decrease of 45 GWh is attributable to the lower output in Eastern Europe (-73 GWh) compared to the particularly high output seen in 2017 and in Germany (-31 GWh), partly mitigated by increased output in France

(+60 GWh) which also benefited in the amount of approximately 44 GWh from the output of the recently acquired French plants (Vent d'est and former Epuron) or those that started commercial operations in the last quarter of the year.

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 %	Year		Δ
	2018	2017	
<b>Italy</b>	<b>21%</b>	<b>22%</b>	<b>-1%</b>
of which			
Campania	20%	23%	-2%
Calabria	21%	23%	-2%
Puglia	22%	24%	-3%
Molise	22%	24%	-2%
Basilicata	23%	24%	-1%
Sicily	20%	17%	2%
Sardinia	21%	21%	0%
<b>Abroad</b>	<b>23%</b>	<b>25%</b>	<b>-1%</b>
of which			
Germany	18%	19%	-2%
France	23%	22%	1%
Poland	31%	35%	-4%
Bulgaria	29%	33%	-4%
Romania	29%	33%	-4%
<b>Load Factor<sup>(*)</sup></b>	<b>22%</b>	<b>23%</b>	<b>-1%</b>

(\*) 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 22%, was down slightly with respect to that recorded in 2017 (23%), decreasing from 25% to 23% abroad and from 22% to 21% in Italy.

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 decrease in the load factor is due to the reduced wind strength recorded during the year, in particular in the third and fourth quarters, despite the high levels of availability of the plants.

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

ADJUSTED EBITDA	Year		Δ	Δ%
	2018	2017		
Italy	195	241	(46)	-19%
Abroad	79	76	3	4%
of which				
Germany	22	25	(3)	-13%
France	30	30	0	2%
Poland	10	5	5	109%
Bulgaria	8	6	2	32%
Romania	7	8	(2)	-20%
UK	3	2	1	n.a
Total	274	316	(42)	-13%

**Adjusted EBITDA** for 2018 totalled EUR 274 million, down compared to the values recorded in the same period of the previous year (EUR 316 million), in a general context of less favourable wind conditions both in Italy and abroad. The lower contribution in Italy (EUR -46 million) reflects the lower absolute and incentivised production, the lower unit value, and the higher imbalance charges, which were only partly offset by the positive price scenario in the energy markets. The improved results abroad (EUR +3 million) reflect the greater installed capacities in France, as well as the contribution of the Brockaghboy wind farm in the UK in the first quarter.

The **EBITDA margin** was 70% in 2018, which was very positive 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 2018 (**EUR 146 million**) refer mainly to the acquisition of two wind farms in France (EUR 14 million), acquisition of the French wind companies by Impax New Energy (EUR 67 million) and acquisition of the company Creag Riabhach Wind Farm Ltd, holder of authorisations for the construction of a wind farm in Scotland (EUR 23 million). Total investments also include investments **in property, plant and equipment and intangible assets for EUR 42 million**, mainly related to the development of new wind farms in France (Vallée de l'AA and Torfou) and Germany (Windpark Linda).

## Relevant legislative and regulatory updates during the year

### ITALY

#### • **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 32/2018/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.

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

For the purposes of determining the 2019 feed-in premium (2019 FIP), the Authority disclosed, by means of resolution 16/2019 of 22 January 2019, the average annual value recorded in 2018 for electricity sale prices, equal to 61.91 EUR/MWh. The 2019 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 92.11 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, 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 subsequent resolutions approved in January and February 2018, the Authority closed the procedures regarding the prescriptive measures for ERG Hydro S.r.l. and ERG Power Generation S.p.A. 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, which was contested by the Italian Council of Ministers, was subsequently repealed by Regional Law No. 16 of 9 August 2018, published in Sicilian Official Gazette No. 36 of 17 August 2018.

## GERMANY

- **Expansion acceleration transmission network**

In mid-December, German Chancellor Angela Merkel's cabinet approved a draft law to make it possible to speed up the procedures to authorise, and therefore expedite, the expansion of the German electricity transmission network. This will be made possible by better coordination between the various planning phases, tighter deadlines and the elimination of unnecessary procedures. There will also be new, more powerful transmission lines which will replace existing lines and will no longer be subject to a federal planning process.

- **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, Germany's second auction for onshore wind power in 2018 was closed.

The results of the auction, published on 17 May, showed an average award price of 5.73 EURcent/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.

- **Changes to the German Renewable Energy Act 2017 (EEG 2017), increase in the annual auction quotas for onshore wind and photovoltaic**

In December 2018, a new package of energy laws was adopted which provides for new auctions between 2019 and

2021, for a total of 4 GW of onshore wind and 4 GW of photovoltaic. Additional auctions to those already planned were added for wind and photovoltaic: for 2019 1 GW for each new auction, for 2020 1.4 GW for each new auction, and for 2021 1.6 GW for each new auction

#### FRANCE

- **FIP 2017+ (Arrêté tarifaire du 6 mai 2017)**

The Feed In Premium envisaged for renewable projects subsequent to 2017 obtained approval by the European Commission for a period covering the three years from 2018 to 2020. The French Government intends to keep the "FIP 2017+" unchanged until the natural end of the three-year period.

#### BULGARIA

- **Change to the incentive system**

In May 2018, an amendment to Bulgaria's Energy Act was approved which provided that, among other measures, from 1 January 2019, for existing plants with a capacity of more than 4 MW, the incentive system switch from a FIT system to a FIP system. The incentive is calculated as the difference between the value of the FIT, as previously recognised, and a reference price calculated on the basis of an estimate of the future price of electricity corrected for wind profile

#### POLAND

- **Auction mechanism for onshore wind**

Following the approval of an amendment to the RES Act of 29 June 2018, an auction was announced for the year for the granting of incentives to new wind power and photovoltaic plants. The multi-technological wind power-photovoltaic auction provided for a quota of power of approximately 1 GW. The 2018 auction was duly held in November. 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 more favourable 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.

- **The Regulatory Authority approved an increase in the annual contribution due by operators in the electricity and gas sector**

At the end of December, the Government approved an order containing fiscal and budgetary measures affecting the electricity, gas and telecommunications sectors. More specifically, for electricity producers, it provides for an increase in the contribution paid annually to the Romanian authority for the regulation of the energy sector (ANRE), set for 2019 as 2% of revenue achieved in the previous year, compared with 0.1% for 2018.

- **Change to tax rules for wind power plants**

On 3 December, an amendment to tax legislation was published in the Official Journal which provides for the inclusion of the value of the pillars of wind turbines in the tax base for the Local Building Tax; previously only their foundations were taken into consideration for the purposes of calculating tax.

#### UK

- **Great Britain electricity market: Capacity Market**

On 15 November 2018, the European Court of Justice annulled the measure with which in 2014 the European Commission declared the compatibility of the British Capacity Market with European rules on State aid. The immediate consequence of the ruling was the indefinite postponement of upcoming auctions and the suspension of all payments provided for by previous auctions.

#### REPUBLIC OF IRELAND AND NORTHERN IRELAND

- **Launch of the Integrated Single Electricity Market (I-SEM)**

As of 1 October 2018, the island of Ireland has had a new wholesale electricity market (I-SEM. Integrated Single Energy Market) integrated with the electricity markets of other European countries. In particular, the I-SEM introduces a new structure for the MGP (day-ahead) and MI (intraday) markets, and a revision of the settlement and balancing processes of the network in real time.

- **Capacity Market**

On 29 June 2018, Network Managers for the Republic of Ireland and Northern Ireland published the notice for participation in the T-4 auction for supply of existing and new capacity for the years 2022/2023. For new construction capacity, contracts can be obtained for a maximum duration of 10 years. The auction, for which registration closed on 25 October, is scheduled for 28 March 2019.

## 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 operational 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 also 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 ISAB IGCC plant in Priolo, Sicily).

### Highlights of adjusted performance items

OPERATING RESULTS (EUR million)	Year	
	2018	2017
Adjusted revenue from sales and services	38	n.a
Adjusted EBITDA <sup>(1)</sup>	32	n.a
Amortisation, depreciation and impairment losses <sup>(1)</sup>	(24)	n.a
Adjusted EBIT <sup>(1)</sup>	8	n.a
Investments in property, plant and equipment and intangible assets	345	n.a
EBITDA MARGIN % <sup>(2)</sup>	84%	n.a
Total output by solar plants (GWh)	130	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 2018 amounted to approximately 130 GWh and the relative load factor was 16%.

Revenue for 2018 amounted to EUR 38 million, of which EUR 30 million relating to revenue from the feed-in premium and EUR 8 million to revenue from the sale of energy.

In 2018, the relative **net unit revenue** amounted to 294 EUR/MWh, of which 234 EUR/MWh relating to feed-in premiums and approximately 59 EUR/MWh to revenue from the sale of energy.

**Adjusted EBITDA** in 2018 amounted to EUR 32 million, of which EUR 38 million relating to the above-mentioned revenue and EUR 6 million in fixed costs related mainly to maintenance costs, in line with forecasts.

The **EBITDA margin** amounted was 84% in 2018.

### Capital expenditure

Investments in 2018 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 year

With regard to the temporary suspension of authorisations for the installation of solar plants in Sicily, reference is made to 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 at the Terni complex came to 526.9 MW, of which 512.4 MW relating to large offtakes and 14.5 MW related to small offtakes and minimum vital outflows, which increased by 0.4 MW as a result of the completion of the construction of three new mini hydro plants that can use the FER tariff as per the Italian Ministerial Decree of 23 June 2016.

### Highlights of adjusted performance metrics

The contribution of the hydroelectric assets to the Group's results is shown below:

OPERATING RESULTS (EUR million)	Year	
	2018	2017
<b>Adjusted revenue from sales and services</b>	<b>194</b>	<b>137</b>
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>146</b>	<b>94</b>
Amortisation, depreciation and impairment losses <sup>(2)</sup>	(58)	(58)
<b>Adjusted EBIT <sup>(1)</sup></b>	<b>88</b>	<b>35</b>
Investments in property plant and equipment and intangible assets	7	6
<b>EBITDA MARGIN %</b>	<b>75%</b>	<b>69%</b>
<b>Total output by hydroelectric plants (GWh)</b>	<b>1,740</b>	<b>1,144</b>

(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 2018, revenue, amounting to EUR 194 million, related mainly to electricity sales (mostly on the spot market) for EUR 102 million, revenue from the feed-in premium (former Green Certificates) for EUR 78 million, and revenue from MSD for EUR 6 million.

The costs are essentially attributable to the concession fees, personnel expenses, operation & maintenance costs, insurance payments and costs for services.

EBITDA for 2018 amounted to EUR 146 million (EUR 94 million in 2017), up by EUR 53 million, mainly as a result of the increase in water availability and despite 2017 having benefited from EUR 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 (equal to 1,740 GWh in 2018) 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 107 EUR/MWh (110 EUR/MWh in 2017, excluding the recoveries of prior incentives, mentioned above).

The EBITDA margin in 2018 was 75%, up significantly compared to 69% in 2017.

The load factor recorded in the year, amounting to 38% (25% in the previous year), benefited from the high level of water availability recorded and the consequent management of the level of the reservoirs, with output of 1,740 GWh in 2018, up compared to the corresponding period of 2017 and to the ten-year historical average.

The level of the reservoirs of the Turano, Salto and Corbara lakes at the end of the year were respectively approximately 522, 518 and 124 metres above sea level, down compared to 31 December 2017 (respectively 526, 524 and 131 metres above sea level), due to management of the level of the reservoirs in the third and fourth quarters, in anticipation of the contributions expected in the autumn season and the price scenario.

#### Capital expenditure

Hydroelectric investments, totalling EUR 7 million, relate mainly to maintenance orders and planned projects in the field of seismic improvement of infrastructures, health, safety and the environment.

#### Relevant legislative and regulatory updates during the year

In addition to what is described in the general updates section, the following measures should be noted:

- **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 Journal, adjusting the surcharge for mountain watershed (Bacini Imbriferi Montani, 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**

At the level of regional regulations, in October 2015 the Umbria Region published Resolution no. 1067/2015, which determined the increase in the value of state property rentals from 15.6 to approximately 31 EUR/kW, starting on 1 January 2016. ERG Hydro S.r.l. presented an appeal to the Higher Court of the Public 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 relative 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 scheduling of a 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 (EUR million)	Year	
	2018	2017
Adjusted revenue from sales and services	405	464
Adjusted EBITDA <sup>(1)</sup>	51	78
Amortisation, depreciation and impairment losses <sup>(1)</sup>	(31)	(31)
Adjusted EBIT <sup>(1)</sup>	21	48
Investments in property, plant and equipment and intangible assets	8	10

(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

Following the entry into force from 1 January 2018 of the legislation on internal user networks, 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 2017, ahead of the legislation on internal user networks, about a quarter of output was destined directly to site customers, including the net supply of steam in this energy

In 2018, ERG Power's net electricity generation was 2,151 GWh, down compared to the same period of 2017 (2,453 GWh), in relation to the less favourable market context, with decreased net generation margins due to the gradual increase in the prices of CO<sub>2</sub> and natural gas in the period still not fully 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 737 thousand tonnes, in line with the 2017 figure.

Adjusted EBITDA in 2018 amounted to EUR 51 million (EUR 78 million in 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 clean spark spread insofar as energy prices have not yet fully incorporated the significant increase in cost of gas and CO<sub>2</sub>.



## Capital expenditure

Investments in 2018 (EUR 8 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 year

### • 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.

In order to boost market liquidity, on 12 September the GME published an urgent modification to the Regulation for the operation of the Energy Efficiency Certificate market, reintroducing the weekly expiry of sessions. ARERA, by means of resolution 501/2018/R/efr, approved the regulatory changes introduced by the GME.

On 10 October 2018, ARERA published Resolution 501/2018/R/efr approving the Rules of operation of the Energy Efficiency Certificate market (M-TEE) and the Regulation for bilateral transactions prepared by the GME within the meaning of resolution 487/2018/R/efr, providing for its official entry into force from 28 September. In particular the Authority:

- confirmed that it no longer provides for the prior definition of the reference contribution, as a result of the introduction of the cap and the possibility of having recourse to "virtual" energy efficiency certificates issued by the GSE;
- introduced the "monthly relevant price", expressed in EUR/TEE, in the case of exchanges of energy efficiency certificates through bilateral transactions;
- confirmed the structure of the formula for defining the tariff contribution proposed to operators;
- partially redefined the maximum quantity of energy efficiency certificates that can be delivered by DSOs;
- amended the amount of the tariff contribution recognised in advance, fixing it at EUR 175, and updating the relative timelines for provision by the Energy and Environmental Services Fund (CSEA)

**• RIU Internal user networks (IUN)**

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.

Article 16 of Resolution 539/2015 determines that the Operator of an SDC (closed distribution system) is responsible for levying the general system charges due from users of the SDC and for their payment to the CSEA. The CSEA published various circulars on the matter in 2018. Specifically, circular No. 4/2018 of 01/03/2018 established the arrangements for declaring and paying general system costs and circular No. 40/2018 of 06/11/2018 established the registration of SDC Operators in the CSEA operators database and the start of the mapping out of the points of at which the public network and the RIUs interconnect.

**• Essential Units pursuant to Law Decree 91/2014**

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

ARERA then confirmed said situation by way of Resolution 274/2016/R/eel.

The ERG Power Generation CCGT plant was subject to the essential facilities discipline provided by Law Decree 91/2014 until 27 May 2016.

With reference to the request for compensation of the costs relating to the period 1 January 2016 - 27 May 2016, with its resolution 841 of 5 December 2017 ARERA provided for the recognition of an extraordinary advance. Subsequently, with resolution No. 48 of 12 February 2019, ARERA quantified the adjustment amount relative to the compensation of costs for 2016; the value determined is in line with business estimates. The adjustment amount was paid to ERG Power Generation S.p.A. on 28 February 2019.

## INCENTIVE FRAMEWORK

### WIND SECTOR INCENTIVES

Italy	<ul style="list-style-type: none"> <li>• <b>Plants that entered into operation before 2013:</b> feed-in premium (FIP) equal to <math>(180 \text{ EUR/MWh} - P^1) \times 0.78</math> where <math>P^1</math> is the average annual value of the sale price of the electricity of the previous year. Duration of the incentive: 15 years</li> <li>• <b>Plants that entered into operation from 2013:</b> allocation of incentives through participation in Dutch auctions. Duration of the incentive: 20 years</li> </ul>
Germany	<ul style="list-style-type: none"> <li>• <b>Plants that entered into operation by July 2014:</b> feed-in tariff (FIT) and, on an optional basis, FIP plus a management premium (EEG 2012)</li> <li>• <b>Plants that entered into operation from August 2014 to December 2016:</b> FIP (EEG 2014)</li> <li>• <b>Plants authorised by the end of 2016 and in operation by the end of 2018:</b> 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.</li> <li>• <b>Plants that entered into operation from 2017 onwards:</b> FIP incentives allocated through Dutch auctions (EEG 2017).</li> <li>• From 2018, <b>cooperatives</b> can participate in auctions only if in possession of an authorising licence as for other wind energy producers</li> </ul>
France	<ul style="list-style-type: none"> <li>• <b>Plants that stipulated the application to purchase electricity generation by December 2015:</b> 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.</li> <li>• <b>Plants that stipulated the application to purchase electricity generation in 2016:</b> 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</li> <li>• <b>New plants that do not fall into the above categories:</b> 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.</li> </ul>
Bulgaria	<ul style="list-style-type: none"> <li>• 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. From 2019, for existing plants with a capacity of more than 4 MW, the incentive system has switched from a FIT system to a FIP system. The incentive is calculated as the difference between the value of the FIT, as previously recognised, and a reference price calculated on the basis of an estimate of the future price of electricity corrected for wind profile</li> </ul>

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| Poland  | <ul style="list-style-type: none"> <li>• <b>Plants in operation by July 2016:</b> 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</li> <li>• <b>From 2018,</b> a multi-technological wind power-photovoltaic auction system was re-introduced. The auction quotas are defined annually by the Government.</li> </ul>   |
| Romania | <ul style="list-style-type: none"> <li>• Green certificates with a duration of 15 years with delayed assignment with respect to the underlying electricity output. Specifically               <ul style="list-style-type: none"> <li>a) the recovery period of the Green Certificates (GCs) held from 1 July 2013 to 31 March 2017 (which takes place at constant instalments through the years 2018-2025);</li> <li>b) the period of validity of the GCs is until 31 March 2032 (only the GCs issued before 31 March 2017 maintain the validity of 12 months)</li> </ul> </li> <li>• 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);</li> <li>• The mandatory quota for the consumers of electricity, which from 2018 onwards is determined according to a pre-set fixed volume of GCs on the market and a maximum average expense for the end consumer</li> </ul> |

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## SOLAR SECTOR INCENTIVES

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| Italy | <ul style="list-style-type: none"> <li>• Incentives for photovoltaic plants are paid through a FIP tariff on energy entered into the network for the duration of 20 years.</li> <li>• The Conto Energia feed-in tariff scheme was introduced in Italy with the Inter-Ministerial Decrees of 28/07/2005 and 06/02/2006 (Conto Energia I) which provide for an incentive payment system for electricity generation</li> <li>• Ministerial Decree of 19/02/2007 (Conto Energia II) introduced several changes, such as the application of the feed-in tariff to all the energy produced by the plant and the differentiation of tariffs depending on the type of architectural integration and the size of the plant.</li> <li>• Conto Energia III came into force in 2010, with Ministerial Decree of 06/08/2010, applicable to plants that entered into operation from 1 January 2011 until 31 May 2011, and introduced specific tariffs for photovoltaic systems integrated with innovative features. Law No. 129/2010 (the "Salva Alcoa Law") then confirmed the Conto Energia II tariffs for 2010 for all plants able to certify the conclusion of works by 31 December 2010 and entry into operation by 30 June 2011.</li> <li>• Ministerial Decree of 05/05/2011 (Conto Energia IV) defined the incentive mechanism for plants that entered into operation after 31 May 2011 and introduced an annual cumulative cost limit for incentives, set at EUR 6 billion.</li> <li>• Ministerial Decree of 05/07/2012 (Conto Energia V) partly confirmed the provisions envisaged by Ministerial Decree of 05/05/2011 and set the cumulative cost of incentives at EUR 6.7 billion. Conto Energia incentives have ceased to be applied since 6 July 2013 after the ceiling of EUR 6.7 billion was reached.</li> <li>• The provisions contained in Ministerial Decree of 17/10/2014 (the "spalma incentivi" or incentive spread regulation) provided for, by November 2014, the obligation for producers to choose between various methods for remodulation of the incentives:               <ul style="list-style-type: none"> <li>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;</li> <li>b) an initial period of incentive reduction followed by a period of subsequent increase thereof for an equivalent amount;</li> <li>c) flat reduction applied for the remaining incentive period, variable between 6% and 8% depending on the size of the plant.</li> </ul> </li> </ul> |
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## HYDROELECTRIC

## Italy

- **Plants that entered into operation before 2013:** feed-in premium (FIP) equal to  $(180 \text{ EUR/MWh} - P^1) \times 0.78$  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 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 YEAR

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### General

#### 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.

##### • **New measures of the Clean Energy for all Europeans package**

On 21 December 2018, three measures envisaged by the European Commission's "Clean Energy Package", issued at the end of 2016, were published in the EU Official Journal. These are the new directives on renewables and energy efficiency, and the regulation on Governance.

The measures were approved by the European Parliament on 13 November and by the EU Council on 4 December 2018.

##### **New Renewable Energy Directive (RED II)**

RED II, covering the period 2021-2030, envisages the following key elements:

- a target at 2030, binding at the EU level, for the percentage of energy from renewable sources in final energy consumption of 32%;
- the possibility for Member States to provide support instruments for the further development of electricity generation from renewable sources.

These instruments, to be delivered only through competitive mechanisms, may include specific competitive auctions for technology, and must be stable and prevent retroactive interventions, to safeguard the profitability of investments,

- measures to facilitate and simplify the permit-granting process with specific focus on the repowering of existing installations;
- a new regulatory framework for the issuance and management of Renewable Energy Guarantees of Origin, to maintain the availability of electricity producers

#### **New Energy Efficiency Directive (EED II)**

EED II, covering the period 2021-2030, provides for a target, binding at EU level, for the improvement of energy efficiency by at least 32.5% by 2030.

The Directive obliges Member States to achieve annual savings of 0.8% (0.24% for Cyprus and Malta) of final energy consumption between 2021 and 2030, while granting certain flexibility on how this obligation is achieved.

For the first time, Member States will be obliged to adopt appropriate measures for the benefit of social groups facing energy insecurity

#### **Governance Regulation**

This Regulation introduces the obligation for each Member State to draw up their own National Energy and Climate Plan, containing the definition of national energy/environmental targets for 2030, as well as details on the timing and the implementation arrangements in order for these to be achieved.

In this regard, a unified methodology is provided for the calculation of national contributions, by which all Member States must abide when calculating their contribution.

Member States shall have the option of determining how to divide the Union-wide 2030 target between the various energy components (heating and cooling, transport, electricity)

For the purpose of generating renewable electricity, Member States should indicate volumes and implementation times, following an almost linear trajectory

The draft National Plan should be sent to the EU by 31/12/2018 (Italy sent it on 8 January 2019). It will then be analysed by the Commission and possibly returned to the sending Member State for any improvements. The final version of the Plan should be sent to Brussels by 31/12/2019

### **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 32.22% for the Senate, while the Centre-Right Coalition (CDX) holds the majority of seats in both houses

The Centre-Right Coalition party that obtained the most votes was Lega (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.

#### • **Renewal of ARERA Board**

On 29 September 2018, the appointment, by means of the Italian Presidential Decree of 9 August 2018, of the new Board of the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) was formalised in Official Journal no. 227.

The members of the Board, which will remain in office for 7 years, are Stefano Besseghini (Chairman), Gianni Castelli, Andrea Guerrini, Clara Poletti and Stefano Saglia.

#### • **Draft Energy and Climate Plan 2021-2030**

In early 2019, the Ministry of Economic Development, the Ministry for the Environment and the Protection of Land and Sea, and the Ministry of Infrastructure and Transport submitted Italy's draft integrated National Energy and Climate Plan (NECP), as provided for by the above-mentioned Governance Regulation, to the European Commission. It will be submitted for public consultation, as provided by the regulations, as well as for thematic discussions between the Ministries and interested parties in order to arrive at the final version by the end of 2019, in good time for submission to the European Commission.

Among the main objectives specified in the draft NECP, based on the five dimensions of de-carbonisation, energy efficiency, energy security, energy market, and research, innovation and competitiveness already identified by the Clean Energy for all Europeans Package, the following should be highlighted:

- renewable energy sources to contribute 30% to gross energy consumption by 2030;
- a 43% reduction in the consumption of primary energy compared to standard scenarios by 2030.

The main instruments identified relate to accelerating the development of renewable energy plants, in particular photovoltaic and wind, and phasing out the use of coal in electricity generation by 2025, through the strengthening



*of infrastructure for the transmission and distribution of energy, assisted by a widespread use of accumulated energy and digital technologies*

In terms of increasing the generation of electricity through renewable sources, priority will be given to own-consumption solutions through photovoltaic distributed generation and interventions that do not involve further consumption of land, such as the repowering of existing wind farms.

In order to facilitate and speed up the de-carbonisation process, steps will be taken to begin electrifying energy demand, particularly in the transport and civil sectors

- **Law for State budget for financial year 2019 and multi-annual budget for the three-year period 2019-2021 (Budget Law 2019)**

On 31 December, Italian Law No. 145 of 30 December 2018, otherwise known as the "Budget Law 2019" was published.

Among the key points on energy contained in the law, of note is the provision whereby economic proceeds - already granted and to be granted - paid by operators to Municipalities accommodating RES plants on the basis of agreements signed before 3 October 2010 shall remain in local government budgets and shall contribute towards forming the business income of the owner of the plant. However, it will be necessary to adapt these agreements to the Guidelines contained in the Italian Ministerial Decree of 10 September 2010.

The provision also includes some interpretative clarifications on the subject of registration tax, the freezing of safeguard clauses for VAT and excise duties for 2019 and the increasing of those for the following two-year period, and the web tax of 3% for subjects with total revenue equal to or greater than EUR 750 million, of which at least EUR 5.5 million achieved in Italy for the provision of digital services.

On the matter of decarbonisation of transport, a bonus/malus system for vehicles has been introduced, rewarding for low or zero emissions of CO<sub>2</sub> with increases in the incentive in the event of destruction of more polluting cars, also provided are tax deductions on infrastructures for the electrical charging of vehicles.

On the matter of the environment and energy efficiency, a tax credit of 65% has been introduced on donations for the reclamation of buildings and public land, as has a programme for the energy requalification of central public authority buildings. A tax credit of 36% has been introduced for companies that purchase products made with materials deriving from the separate collection of plastic packaging, as well as for the purchase of biodegradable and compostable packaging or packaging derived from the separate collection of paper and aluminium.

A facilitated rate is then applied for amortisation, which varies according to the size of the investment for the benefit of buying software within the scope of the Impresa 4.0 plan.

- **Conversion into law of Tax Decree attached to Budget Law**

On 18 December 2018, Italian Law No. 136/2018 converting Decree Law No. 119/2018 (Tax Decree) was published in the Official Journal. The most significant provisions included the facilitated settlement of various cases of disputes between taxpayers and the tax authorities, the revision of the rates of excise duty on fuels used in cogeneration,

simplification measures for the start of electronic invoicing, with the postponement of sanctions for anyone who does not fulfil the obligation, and simplifications for the issue and annotation of invoices.

During conversion, measures were also introduced for incentives to create a single data transmission network in order to facilitate the development of new technologies and infrastructures in ultra-wide band.

- **Conversion to Law of "Milleproroghe" Decree**

On 21 September 2018, Italian Law 108/2018, which converted into Law Decree No. 91 of 25 July 2018, and concerned an extension of terms envisaged by legislative decrees (so-called "Milleproroghe" law decree), was published in Official Journal no. 220.

This introduces a one-year postponement, from July 2019 to July 2020, on the completion of the liberalisation of the electricity and gas retail markets, which envisages the abolition of the market of "greater protection" for sale to end customers.

- **"Simplification" Decree**

On 14 December, Decree No. 135 of 14 December 2018, laying down urgent provisions on support and simplification for businesses and public administration, was published in the Official Journal.

The law converting the Simplification Decree was published on 12 February and introduced significant changes to the original text, in particular rules on concessions for large-scale diversion of water for hydroelectric use and on the determination of the relevant annual concession fees.

Very briefly, the new legislation provides that:

- upon the expiry of concessions or in the event of withdrawal or surrender, ownership of "wet" assets - such as dams and penstocks - is transferred, without remuneration, to the region, without prejudice to any payout to the outgoing concession holder equal to the non-depreciated amount of any investments, insofar as this is provided for by the concession contract or otherwise authorised by the grantor during the period of validity of the concession itself;
- for so-called "dry" assets - turbines, alternators, buildings - if deemed reusable, a price is paid to the outgoing concession holder on the basis of the estimated value of the material installed, calculated at the time of entry into possession, net of depreciated assets. Specifically:
  - in the case of moveable assets planned for use in the concession project, a price is paid, in terms of residual value, determined on the basis of the data available from accounting documents or a professional appraisal;
  - moveable assets not used in the concession project should be removed and disposed of by, and at the expense of, the incoming concession holder;
  - for immovable assets planned for use in the project, a price is paid, the value of which is determined on the basis of the data available from accounting documents or a professional appraisal;
  - immovable assets not planned for use in the project remain the property of the entitled party.

- concessions may be reallocated by the Regions to economic operators identified through public tenders, or to companies with mixed public and private capital, or by forms of public-private partnership.
- within one year but not later than 31 March 2020, the Regions shall govern by law the arrangements and procedures for tendering for the reallocation of concessions; such procedures should be initiated within two years from the entry into force of the regional law, under penalty of the application of rules defined by a specific bill by the Ministry of Economic Development and the Ministry for the Environment and the Protection of Land and Sea in the event of non-compliance with the terms;
- new concessions have a duration of between 20 years and 40 years, and can be increased up to 10 years for particularly complex/expensive projects,
- the concession fee, to be determined by regional law, will be composed of two parts:
  - a fixed portion, linked to the average nominal power granted,
  - a variable portion, linked to "normalised revenue" determined on the basis of the energy sold and the zonal price
- the regions may require from concession holders a free annual supply of electricity equal to 220 kWh for each kW of average nominal power granted;
- for concessions expiring by 2023 or already expired, the regions allow plants to continue operations for such time as is necessary to carry out the reallocation procedures - in any case not later than 31 December 2023 - against the payment, in addition to ordinary fees, of an additional fee and the free annual supply of electricity referred to in the previous point. The Ministry of Economic Development shall issue a decree to determine the minimum value of the fixed component of the fee and the additional fee. In the event of failure to adopt the decree within 180 days, the Regions may set the minimum annual value at no less than EUR 30 for the fixed component and EUR 20 for the additional fee for each kW granted.

## United Kingdom

### **Brexit**

On 13 November 2018, the UK and the EU reached a provisional agreement on the text of the UK's EU Withdrawal Agreement. The text of the agreement, which was approved by the UK Council of Ministers and by the European Council in November, was rejected by the UK parliament on 15 January 2019 with 432 votes against and 202 votes in favour.

On 29 January, the UK parliament approved an amendment authorising the Government to seek alternative arrangements on the agreement. The EU declared its unwillingness to reopen negotiations. If the deadlock is not resolved before 29 March, the United Kingdom will leave the European Union without an agreement (so-called Hard Brexit).

### **Carbon tax to replace ETS in the event of a Hard Brexit**

The UK Budget, presented on 29 October 2018, announced that installations currently participating in the EU ETS

will pay a CO<sub>2</sub> tax of GBP 16 (EUR 18.11) per tonne in the event of a Hard Brexit. The tax will apply from 1 April 2019, which means that the Carbon Price Support will be the only charge on CO<sub>2</sub> emissions in the UK between January and March of 2019. The tax does not apply to generation plants located in Northern Ireland

## France

### **Multianual Energy Programme (Programmation Pluriannuelle de l'Énergie - PPE)**

The new version of the PPE was issued in draft in January 2019 and should be finalised, following a consultation procedure, during the first half of 2019. The document presented provides that by 2030 the installed capacity of power generation from onshore wind sources will triple and PV capacity will increase fivefold, while for offshore it envisages the construction of the Saint-Nazaire Wind Farm and 4 auctions for new projects. The specific objectives for onshore wind are:

- for 2023, 24.6 GW;
- for 2028, from 34.1 to 35.6 GW;
- measures to promote the reuse of wind farms at the end of their life, installing latest-generation, and hence more efficient, machinery.

It also provides for the implementation, by 2023, of a provision that makes the recycling of the materials used in dismantled wind turbines obligatory.

With regard to nuclear energy, the PPE provides for the closure of nuclear reactors providing power equal to 14.9 GW by 2035, including two reactors by summer 2020, the closure of 4-6 reactors from 2025 to 2030 and 6-8 reactors between 2030 and 2035

## Romania

### **Publication of long-term energy strategy**

On 19 September 2018, the Romanian Ministry of Energy published the national long-term energy strategy.

The proposals focus on upgrading of the country's now obsolete electricity generation plant, with a large role for gas and nuclear power, but do not provide new support schemes for renewable energies.

The government plans to achieve its RES goals for 2030 of 37.6% on final gross consumption with the addition of two large hydroelectric projects with total power of 1,810 MW (Tarnita-Lapustesti 1,000 MW and Turnu Magurele-Nicopole 810 MW).

## RISKS AND UNCERTAINTIES

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Due to the nature of its business, the ERG Power Generation Group is exposed to various types of risks, including regulatory and legislative risks, operational risks, health and safety risks, environmental risks, market risk, liquidity risk, credit risk and risks relating to access to the capital markets.

In order to ensure that these risks are properly managed, the Group has implemented an integrated process of Enterprise Risk Management aimed at making a proactive contribution to safeguarding the assets of the ERG Power Generation Group and efficiently and effectively managing the Group in line with the business strategies defined by the Board of Directors. In this regard, the Enterprise Risk Management process, adopted according to the reference international ERM standard, is implemented through:

- the identification and assessment of the major risks linked to the Business Plan, as well as the definition of the respective Risk Policy, including through market benchmarks to incorporate best practices in this field;
- continuous verification of the operation and effectiveness of the risk management process

The Enterprise Risk Management system is based on the creation, at all levels of the organisation, of a culture of attention to risk, through a clear identification of responsibilities and the conscious assumption of risks, and the development of an effective risk management process, through a clear definition of objectives and management strategies, and clear rules stated in the relevant risk policies, which ensure both the management of the Company's operations and the consistency and accountability of the activities carried out.

It should be noted that, at the date of preparation of this Report, no specific risks and uncertainties, beyond those mentioned in the document and which could have significant consequences on the economic and financial situation of the ERG Power Generation Group, have been envisaged.

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

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

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

- technological diversification of the renewable plants (Wind, Hydro and Solar) and geographic diversification of the generating plants, which reduce both the impact and the likelihood of occurrence;
- planning of renewable plant shutdowns based on periods with low use of renewable sources, thereby reducing their impact,

- use of more accurate meteorological forecasting tools (wind, water and sun) to define generation plans and further improve the Volume Risk management strategies in the short term.

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

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

Risk mitigation strategies are implemented in accordance with company policies

## 2. Price Risk

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

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

- fluctuation in electricity prices for all generation plants which sell electricity on the market;
- fluctuation in the prices of gas, CO<sub>2</sub> and Energy Efficiency Certificates (TEE) attributable to the generation of the natural gas-fired electricity co-generation plant (CCGT) of ERG Power;

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

- an aggregate view by portfolio, which permits the allocation of risks where they can be more effectively managed, benefiting from the offsetting of positions with opposite signs;
- definition of risk exposure limits and of an associated escalation process in the event that limits are exceeded, with the identification of the persons responsible for defining/authorising the actions for returning within the limits;
- definition of processes and responsibilities to monitor the exposure level using the appropriate indicators (e.g., P@R, V@R, Stop Loss, Take Profit, Open positions);
- definition of minimum and maximum hedging amounts (Hedging Ratios) on sales of EE over the life of the plan;
- use of derivative instruments to stabilise cash flows generated, contributing to guaranteeing the Group's economic and financial equilibrium. The use of hedging derivative instruments is authorised exclusively if there is an underlying asset to pursue the reduction in the economic impacts tied to the volatility of prices on the financial market and it is constantly monitored;
- where possible, the balancing of purchasing formulas (e.g. for natural gas) with the charge-backs to end customers and/or inclusion in the sales contracts of the transfer of the higher costs deriving from the fluctuations in prices, including specific clauses to reduce emerging costs (e.g. linked to the profile).

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

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

### 3. Regulatory and legislative risks

This is the risk tied to developments in the local regulatory and legislative framework in the countries where the ERG Power Generation Group conducts its business. The change in the operating rules as well as the requirements and obligations that govern the markets and the countries in which the Group operates, could have a significant effect on the results and on business performance, or have significant economic impacts on the value of the assets.

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

To this end, the ERG Power Generation Group has established specific Organisational Units dedicated to continuous monitoring of developments in key national and international regulations, that monitor the evolution of the regulatory framework in the countries in which the Group operates and prepare.

The main matters subject to regulatory developments include, in particular:

- the broad reform of the electricity market both at European level and in the various countries in which the Group operates (ranging from capacity mechanisms to measures to deal with the effects of cyber attacks or natural disasters in the energy sector with the introduction of Long Term Power Purchase Agreements);
- the reform of systems of incentives for Renewable Energy Sources in the various countries in which the Group operates (e.g. switch from FIT to FIP; introduction of Auctions);
- the rules governing the duration and conditions of concessions for large-scale diversions of water for hydroelectric power plants;
- energy savings certification in the framework of the White Certificates mechanism by the Energy Services Operator (GSE);
- the rules for obtaining and maintaining the authorisations and permissions for the construction and operation of Renewable plants, as well as the incentives associated with them.

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

### 4. New Capital Expenditure Risk

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

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

To minimise risk, the ERG Power Generation Group has defined specific structured processes for selecting capital

expenditure that involve a set of successive levels of examination and approval carried out based on, inter alia, internal and external support studies, benchmark analyses, legal-regulatory analyses and financial assessment/planning models. The Group minimises possible risks linked to new capital expenditure by assessing potential associated risks for all relevant projects.

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

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

The risk management strategies are implemented in accordance with company policies.

## 5. Information & Communication Technology Risks

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

- risk of uncontrolled access to networks, systems and data processing centres: this refers to the possibility of unauthorised personnel accessing systems, information or premises containing the processors and compromising their use, jeopardising the integrity and security of the systems and of the information contained within them;
- risk of vulnerability of the IT systems: this risk is related to the possibility that the architecture/framework of the ICT systems will be vulnerable to internal/external attacks or exposed to associated events due to defects in the design, implementation, configuration and/or the management of the systems or due to a lack of awareness of ICT risks on the part of company personnel;
- risk of technological disaster: this risk identifies the possibility that the technological infrastructures serving corporate operations may be dramatically compromised by accidental events.

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

- constant protection of the confidentiality, integrity and availability of the information managed on the ICT systems;
- adoption of specific behavioural models to be adopted when using the work stations and ICT tools, aimed at ensuring adequate security levels for the information;
- outsourcing of management of the main systems to a provider equipped with data centres having high physical security levels and standards, formally certified;
- adoption of tools to manage logical and physical accesses, as well as verify and record them, based on the relevant best practices;
- use of automatic tools to identify and manage accidents and anomalies;



- implementation of processes for the design, development, operation, maintenance, assistance and disposal of ICT infrastructures, network services and applications to mitigate the vulnerability of the ICT systems, in line with reference best practices.

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

To mitigate the potential risks of interruption of business activities on ICT processes regarded as strategic, the Group has set up a Disaster Recovery system in place which ensures continuity of services and data at an alternative Data Centre whose efficiency is subject to periodic audits.

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

Risk mitigation strategies are implemented in accordance with company policies.

## 6. Image and Reputation Risk

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

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

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

Risk mitigation strategies are implemented in accordance with company policies.

## 7 Anti-Corruption Compliance Risk

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

This risk relates to the possibility that an employee and/or Company of the Group could be involved in proceedings for

offences committed in breach of anti-corruption laws in force in the specific country.

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

- a system of behavioural rules adopted by Group Companies (Code of Ethics, Model 231 and Anti-Corruption Policy) is in place, based on the respective characteristics, which all employees are required to respect in carrying out their activities and which prohibit any form of corruption, active or passive, involving not only public officials but private parties as well;
- responsibilities and specific spending powers (authorisation and signature) are defined and assigned based on the principle of Segregation of Duty, in order to limit the possibility that a single person may complete an entire process in full autonomy;
- specific employee training programmes have been defined and implemented, aimed at describing the regulatory framework on anti-corruption (and the relative sanctions system), along with the behavioural rules adopted by the Group (e.g. Code of Ethics, Models 231 and Anti-corruption Policy);
- a process is in place, under the surveillance of the Supervisory Bodies pursuant to Legislative Decree 231/01, for the management of reporting of behaviour contrary to the principles established by the Code of Ethics and Models 231; this process, with reference to possible violations of the Anti-Corruption Policy, is governed by "231 Compliance";
- a "Significant Third Party" verification process is defined, through which the corruption risk related to the establishment of a contractual relationship is assessed in concrete terms, identifying, where necessary, the appropriate risk mitigation and management measures;
- specific third-level controls are carried out by Internal Audit with regard to compliance with the principles set out in the Code of Ethics, Model 231 and the Anti-corruption Policy

The risk management strategies are implemented in accordance with company policies

## 8. Business Interruption Risk

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

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

- plant management policies aimed at pursuing high levels of safety and operating excellence, in line with industrial best practices;
- the adoption and continual updating of programmed maintenance procedures, both of ordinary and preventive nature, and in accordance with the best practices of the sector, these procedures aim to identify and prevent

- potentially critical factors, even on the basis of specific engineering analyses conducted by specialised personnel,
- periodic audits of the plants and use of control and remote control instruments in order to monitor technical parameters and promptly detect any potential anomalies; moreover, where possible, the use of redundancies in components in order to guarantee the continuity of production processes,
- ongoing specialised training courses for technical personnel working on the plants

In addition, the gradual adoption of ICT solutions to detect technical problems and calculate effective yield is envisaged, aimed at allowing a predictive approach for the planning and execution of maintenance in order to limit downtime due to accidental failures.

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

Specific infrastructural activities aimed at improving the response of dams to seismic events continue at the Terzi Hydroelectric Complex. These activities are being carried out under the supervision of the Ministry of Infrastructure and Transport - Dam Directorate-General and coordinated with Civil Defence. Monitoring and controls have confirmed the seismic safety of all dams, infrastructures and production plants. To cover natural or catastrophic risks, the ERG Power Generation Group uses the insurance market to transfer its own industrial risk and risk in relation to third parties, and to cover residual risk, thereby providing a high level of protection for its facilities, even in the event of an interruption of activity. The contractual conditions which characterise these insurance policies are revised periodically. Risk mitigation strategies are implemented in accordance with company policies.

## 9. Health, Safety and Environment (HSE) Risk

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

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

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

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

The ERG Power Generation Group, strongly committed to reducing these risks, has adopted specific guidelines on matters of health, safety and the environment that, in accordance with the relevant best practices, envisage that all Companies of the Group: (i) comply with all laws and regulations in effect; (ii) pursue specific performance targets; (iii)

continuously train staff; and (iv) certify specific integrated HSE management systems.

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

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

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

The adoption of the best available technology, the application of increasingly rigorous and exacting work practices in terms of prevention and reduction of pollution, and the correct management of the waste produced allow the industrial activity and related Health, Safety and Environment issues to be managed efficiently.

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

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

## 10. Country Risk

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

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

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

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

The mitigation of risk in these countries also involves the creation, development and maintenance of relations with selected institutions and stakeholders, in order to understand the political, institutional and regulatory scenario of the

country of interest for the Group and its possible impacts on the business. These indicators are periodically updated to take into consideration any changes which could impact the correct representation of country risk.

The risk management strategies are implemented in accordance with company policies.

## 11. Risk of Disputes

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

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

The ERG Power Generation Group mitigates the risk tied to possible impacts on the result for the year due to exposure to higher costs and penalties through:

- the oversight, carried out by specific corporate Organisational Units, responsible for assuring compliance with the reference regulations in the different fields of competence (e.g. legal, tax, administrative, etc.);
- effective management of the pre-litigation phase by the competent Organisational Units with the support of the specialists of the legal and tax areas;
- management of disputes with the support of external law firms of high standing, with expertise in the subject matters of the litigation;
- constant monitoring of the evolution of pending litigation and assessment of the likelihood of losing, if the risk of losing in a specific proceeding is assessed as likely, an estimate of the economic impact is produced that takes into consideration all possible consequences and a specific provision is allocated in the financial statements;
- preparation and transmission of periodic internal updates with regard to the litigation, including through the 231 flows to the Supervisory Bodies.

In cases of extraordinary transactions (i.e. acquisition of Companies, establishment of JVs), to mitigate the risk of disputes and the consequent negative economic impacts, specific Due Diligence work is carried out (e.g. legal, tax) and, if it is deemed appropriate, the counterparty is required to provide specific guarantees set out in the agreements governing the transaction.

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

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

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

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

## 12. Default Risk in Loan Agreements

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

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

The ERG Power Generation Group implements a risk mitigation strategy which involves:

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

The risk management strategies are implemented in accordance with company policies.

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

## 13. Liquidity Risk

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

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

- enabling the Group to be solvent both under normal conditions of conducting business and under crisis conditions, optimising the relative opportunity cost;
- assuring the availability of an adequate level of operating flexibility, optimising the cost of funding in relation to current and future market conditions; the Group uses a prudential approach in estimating incoming and outcoming

flow projections, which also takes into account assessments of the impact of different scenarios, including stress scenarios, that make it possible to identify the risk factors that could alter the cash flows forecast in the Financial Plan (e.g. scenario changes, postponements in the execution of disposals) and to define and implement the related mitigating actions;

- maintaining a balance in terms of duration and composition of debt, also through an operating structure that operates within assigned limits that are periodically revised and approved, and a second level control structure, autonomous from the first one that verifies its activities;
- guaranteeing adequate distribution of credit lines, deposits of cash and cash equivalents and related financial assets among the main Italian and international banks.

In order to ensure the efficient management of liquidity, treasury activities are centralised within the Parent, which meets the liquidity requirements of the Group primarily with cash flows generated by ordinary operations and with recourse to debt, where necessary, and ensures an appropriate management of liquidity.

To pursue its risk mitigation objectives, the ERG Power Generation Group's stock of financial assets is invested in short-term financial instruments that are highly liquid, preferring a very limited risk profile. Short selling is not permitted under any circumstances.

The risk management strategies are implemented in accordance with company policies.

#### 14. Commercial Credit Risk

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

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

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

Moreover, the Group has defined the types of guarantees that may be accepted in the case of a facility granted to

counterparties with an unsatisfactory economic/financial rating and the financial institutes (banks and insurance companies) qualified to issue such guarantees.

The risk management strategies are implemented in accordance with company policies.

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

### 15. Credit Risk with Financial Counterparties

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

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

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

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

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

The risk management strategies are implemented in accordance with company policies.

### 16. Risk of losing key professionals

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

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

In particular, the Group uses instruments that are differentiated based on the level of strategic relevance and seniority



of its personnel. In this respect, the fixed remuneration component ensures retention through constant market benchmarks, while the variable component ensures alignment of the company's objectives with those of individuals, through the payment of performance-based bonuses based on long-term (LTI) and short-term (MBO) objectives. Risk mitigation strategies are implemented in accordance with company policies.

### 17. Interest rate risk

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

Specifically, the ERG Power Generation Group implements an interest-rate risk mitigation strategy which involves:

- the search for, and raising of, financial resources in the best possible conditions offered by the market, while complying with the constraints posed by the Risk Committee;
- regular monitoring of the level of exposure to risk and of compliance with the constraints imposed by the Risk Committee;
- the use of derivative instruments (e.g. IRS, Interest Rate Swaps), authorised exclusively if there is an underlying asset;

pursuing the following objectives:

- to identify the optimum combination between fixed rate and variable rate;
- to optimise the Group's cost of debt within the risk limits assigned by the Chief Executive Officer, whose decision is supported by the advisory opinion of the Risk Committee, and in line with the particular nature of the business;
- to reduce the possible economic impacts related to the volatility of rates on the financial market.

Risk mitigation strategies are implemented in accordance with company policies.

### 18. Exchange rate risk

Exchange rate risk is the risk that changes in the exchange rates of the currencies in which the Group operates have an impact on:

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

The ERG Power Generation Group uses a strategy to mitigate exposure to exchange risk, reducing the possible economic impacts related to the volatility of exchange rates on the financial market through:

- definition of risk exposure limits and of an associated escalation process in the event that limits are exceeded, with

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

The use of hedging derivative instruments is authorised exclusively if there is an underlying asset, and is subject to the approval of the Risk Committee as well as periodic monitoring.

Risk mitigation strategies are implemented in accordance with company policies.

## 19. Risks related to the loss of key suppliers

This risk refers to the possibility that the Group may incur losses or increased costs, damage to image or interruption to business continuity, at least in the short term, as a result of the loss of a particular supplier (e.g. termination of activities, bankruptcy, natural events with repercussions on its productive capacity) considered to be strategic, or the over-concentration of orders with a single specific supplier

The ERG Power Generation Group's policy is to aim to minimise risks related to relationships with suppliers by identifying a set of behaviours/actions and adopting a specific policy for the management of purchases based on the following principles:

- the development of a rigorous internal process for the qualification (financial, technical and HSE) and selection of suppliers according to formally defined parameters and criteria, through recourse to tenders with identification of a minimum number of suppliers for the supply of goods and/or services, ensuring wherever possible a structured rotation of suppliers;
- the identification of specific Organisational Units responsible, in particular, for selecting and monitoring the performance of suppliers;
- the development of specific internal contracts with safeguard clauses both in the general conditions and in the specific agreements;
- specific activities for the structured monitoring of the pool of suppliers and the control of the purchasing processes, aimed at ensuring compliance with the quality parameters and concentration of orders as defined in Group procedures

## 20 Industrial Relations Risk

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

attainment of business objectives.

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

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

Risk mitigation strategies are implemented in accordance with company policies.

## 21. Risk associated to the consequences of Great Britain's exit from Europe (Brexit)

The international treaties between Europe and Great Britain are currently under negotiation following the referendum in June 2016, which sanctioned Great Britain's exit from the Eurozone.

The results of these Brexit negotiations, and their consequences on EU economies and UK and EU relations, are still uncertain.

There are therefore still significant elements of uncertainty and potential repercussions on the financial markets, such as a progressive devaluation of the exchange rate of the pound sterling against the euro and greater volatility on the financial markets in general due to the increase in uncertainty, which may have an impact on the results of the Group, albeit a limited impact given (i) the limited presence of the Group in Great Britain with respect to its international production portfolio, and (ii) a development plan that foresees most of its investments toward the end of the five year plan when the political scenario should be defined.

The ERG Power Generation Group specifically manages this risk through a multi-level strategy that involves the initiation, development and maintenance of relations with local and EU institutions aimed at understanding developments in the renegotiation of international treaties between Europe and Great Britain and its possible impacts on business for both current and future investments. Furthermore, for new investments, risk mitigation involves valuing the investments, requiring an adequate return on the expected risk profile, taking account of the main indicators of the country (e.g. macroeconomic and financial indicators), which are periodically updated to take into consideration any changes that may have an impact on the correct representation of country risk.

The risk management strategies are implemented in accordance with company policies.

## HEALTH, SAFETY AND THE ENVIRONMENT

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### Introduction

Protection of the health and safety of persons and protection of the environment have always characterised the way in which the ERG Group does business: the prevention and management of the connected risks are therefore central to the implementation of the Group's strategic guidelines

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

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

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

### Health and Safety

During 2018, business activities continued consistently with the provisions of the health, safety and environment Policy and in accordance with the principles provided by the Guidelines and by the Code of Ethics adopted by the Group.

The ERG Group continued to pursue the objective of "zero accidents", achieved for its own personnel and for third party companies in 2018, as in the previous year.

In terms of measures implemented, an intensive training activity was completed, both on managerial themes and with regard to workplace health and safety, at all organisational levels, involving the various relevant parties, in line with the contents of the applicable regulations and the obligations of the responsible parties, first and foremost Employers.

In addition, in 2018, as in previous years, the ERG Group, which has always been keen on promoting its employees' health and safety, also offered its personnel the opportunity to undergo a series of medical tests aimed at preventing the most common neoplasms for the subjects most exposed to risk according to international protocols, and provided the flu vaccine to all its employees

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

As mentioned previously, the safety culture based on prevention is of fundamental importance for the ERG Group, because it helps to protect people and the environment from harm. For this reason, once again in 2018 every accident was carefully assessed, in accordance with Group procedure, in order to identify the necessary corrective actions, the long-term goal being to avoid a repetition of such events.

However, in 2018, despite all the efforts made, four accidents involving ERG Power Generation employees were recorded, during wind power plant maintenance activities, one was recorded during ERG Hydro investment activities, involving a third-party operator, and another during wind power plant maintenance activities involving a third-party company operator.

The Group HSE departments assessed the events that occurred, and the actions identified following the assessment of the individual events were undertaken. The analyses concerned not only the area and the specific context of the incidents, but all the areas of the plants concerned in order to extend the effects of the prevention activities as far as possible.

## Environment

Environmental protection is a cultural value in the Group's approach to doing business. For this reason, ERG has developed a business model that enables it to generate energy with a very low environmental impact. In compliance with this principle, the Group undertakes:

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

## Management Systems and Certifications

As has become established practice, the ERG Group has adopted environment and safety management systems as instruments of continuous improvement, in line with international standards. Specifically:

- ERG S.p.A. has renewed the certification for the safety management system, based on the BS-OHS a.s. 18001 standard, for a further three years;
- ERG Power Generation S.p.A. has defined its Integrated Management System (IMS) as the aggregate of "organisational structure, procedures, processes and resources necessary to implement Environment and Safety Management", applicable to all Group technologies (Wind & Solar, Hydro and Thermo)

The Integrated Management System has the following objectives:

- to identify and describe, in detail, the productive processes that were managed while highlighting the various

- processes, interfaces, relative inputs/outputs and control elements;
- to measure and monitor the processes in order to attain the planned results, in accordance with the principles of efficacy, efficiency and constant improvement;
- to manage processes in agreement with the requirements of regulations;
- to adopt reference procedures and guidelines applicable to all units

Over the course of 2018, the ERG Power Generation Integrated Management Systems adopted by the Thermo, Hydro and Wind & Solar units, appropriate to the consolidated organisational structure, were verified and unified under a single reference accreditation body (RINA), confirming all existing certifications for Integrated Management Systems. In addition, migration of the ISO 14001 (Environment) systems to the new 2015 revision of the standard was completed, while preparations are being made to migrate the OHS a.s. 18001 Health and Safety systems to the new ISO 45001 standard. The main drivers of change are the modern philosophy of "risk based thinking" and extending the scope of application from the heart of the organisation to the surrounding social, economic and territorial context. In accordance with the provisions of the systems themselves, internal audits were planned and carried out in order to verify compliance with the rules, using mixed audit teams and resources from organisational units outside of the audited unit. This made it possible to consolidate internal comparison and the exchange of skills gained, a process begun in the previous year.

Another important objective, achieved by ERG Power S.r.l. and ERG Hydro S.r.l. in the course of 2018, is the annual verification of compliance with EMAS, within the meaning of Regulation EC 1221/2009 and 2017/1505/EU.

The EMAS (Eco-Management and Audit Scheme), together with the adoption of an Environmental Management System consistent with the ISO 14001 international standard, makes it possible to pursue an effective, efficient management of environmental aspects, based on a trustful, transparent relation with institutions and with the public and on the active participation of the employees and Third Parties that operate at the operating sites.

The main tool is the "Environmental Statement", a document that allows for transparent communication with stakeholders, and more generally with the public, as regards the environmental performance of the reference Unit. The 2018 audits were published on the corporate website, along with updates to the results and objectives achieved in 2017.

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

## FINANCIAL STATEMENTS

### ADJUSTED INCOME STATEMENT

To enhance understandability of the ERG Power Generation 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 Brockaghboy 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.

(EUR million)	FY 2018	FY 2017
Revenue	1,026.7	1,046.4
Other income	19.2	8.9
<b>Total revenue</b>	<b>1,046.0</b>	<b>1,055.3</b>
Purchases	(327.7)	(355.0)
Change in inventories	0.7	(0.6)
Services and other operating costs	(176.1)	(174.8)
Personnel expense	(39.3)	(36.6)
<b>EBITDA</b>	<b>503.6</b>	<b>488.3</b>
Amortisation, depreciation and impairment of non-current assets	(269.9)	(247.3)
<b>EBIT</b>	<b>233.6</b>	<b>240.9</b>
Net financial income	(63.8)	(61.1)
Net gains (losses) on equity investments	(0.4)	(1.0)
<b>Profit before taxes</b>	<b>169.4</b>	<b>178.9</b>
Income taxes	(45.0)	(41.9)
<b>Profit (loss) before non-controlling interests</b>	<b>124.4</b>	<b>137.0</b>
Non-controlling interests	(0.1)	–
<b>Profit attributable to the owners of the parent</b>	<b>124.3</b>	<b>137.0</b>

#### 1 - Revenue

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. Lastly, mention goes to 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.

Revenue in **2018** was EUR 1,027 million, down slightly compared with EUR 1,046 million in 2017. The change is a result of the following factors:

- the decrease (EUR -56 million) of the Wind sector linked mainly to lower incentives in Italy and Romania, lower output in Italy partially offset by increased output in France following the change in consolidation scope, and a higher sale price of electricity in Italy, France, Germany and Poland (overall equal to EUR 389 million compared with EUR 445 million);
- the new contribution of the Solar sector, consolidated from January 2018 (EUR 38 million);
- the increase of the Hydropower sector, up substantially on the corresponding period of the previous year (EUR +58 million) due to the increased water availability in the period (EUR 194 million versus EUR 137 million);
- the decrease (EUR -60 million) in the **Thermoelectric sector** linked to the loss of a major bilateral agreement and to the lower contribution of the Energy Efficiency Certificates (EUR 405 million, compared to EUR 464 million).

## 2 - Other income

This mainly includes insurance reimbursements, compensation and expense repayments, smaller chargebacks to third parties and grants related to income. The increase in other income compared to 2017 is mainly due to the release of excess allocations as a result of closure of previous items no longer due

## 3 - Purchases and change in inventories

Costs for purchases include costs for the purchase of gas and CO<sub>2</sub>, 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 **2018**, these amounted to EUR 327 million, down by roughly EUR 29 million compared to the same period of 2017 mainly as a result of the lower costs for electricity purchases, corresponding to lower sales to customers, partly offset by higher costs for gas and CO<sub>2</sub> purchases.

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.

This item is essentially in line with the prior year.



## 5 - Amortisation, depreciation and impairment losses

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

The significant increase is mainly linked to higher amortisation and depreciation due to the acquisition of solar installations (24 million) and to the change in scope of the wind plants acquired in France in 2018 (2 million)

## 6 - Net financial expense

Net financial expense in **2018** totalled EUR 64 million, up slightly compared to EUR 61 million in 2017, mainly due to the increase in medium/long-term debt as a result of the change in the consolidation scope.

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

Lastly, it should be noted that the adjusted net financial expense commented on here does not include positive special items of EUR 4 million in 2018 relating to the net financial income recognised, on the basis of IFRS 9, in reference to refinancing operations completed during the period (6 million), net of the reversal effect related to refinancing operations performed in previous years and in the current year (-2 million).

## 7 - Net gains (losses) on equity investments

In 2018, 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

Lastly, note that in 2017 the item included impairment (approx. EUR 1 million) of minor equity investments measured at cost.

## 8 - Income taxes

Income taxes in **2018** were EUR 45 million (EUR 42 million in 2017). The adjusted tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 27% (23% in 2017)

Recall that the 2017 tax rate had benefited from the positive impact of deferred tax (approx. 4 million) due to the reduction of Corporate Income Tax in France (28% in 2017 compared to the 33% rate applied in 2016)

## STATEMENT OF FINANCIAL POSITION

The reclassified statement of financial position contains the assets and liabilities of the Financial Statements used in drawing up the annual financial report, highlighting the **uses** of resources in non-current assets and in working capital and the related funding **sources**.

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

(EUR million)	31/12/2018	31/12/2017
Intangible assets	896.5	730.7
Property, plant and equipment	2,277.0	2,241.6
Equity investments and other financial assets	53.7	59.9
<b>Non-current assets</b>	<b>3,227.1</b>	<b>3,032.3</b>
Inventories	21.6	20.6
Trade receivables	251.2	258.0
Trade payables	(83.9)	(71.7)
Excise duties payable to tax authorities	(1.1)	(0.6)
<b>Net working capital</b>	<b>187.8</b>	<b>206.4</b>
Post-employment benefits	(4.7)	(5.2)
Other assets	274.5	237.3
Other liabilities	(468.4)	(421.5)
<b>Net invested capital</b>	<b>3,216.3</b>	<b>3,049.4</b>
Equity attributable to the owners of the parent	2,069.8	1,951.1
Non controlling interests	0.0	0.0
Medium/long-term net financial indebtedness	1,202.3	1,171.9
Short-term net financial indebtedness	(55.9)	(73.7)
<b>Equity and financial debt</b>	<b>3,216.3</b>	<b>3,049.4</b>

Net invested capital amounted to EUR 3,216 million at 31 December 2018, up compared to 31 December 2017 (EUR 3,049 million). Financial leverage, expressed as the ratio of total net liabilities (including Project Financing) to equity, is equal to 36% (in line with 2017).

### 1 - Non-current assets

(Million di Euro)	Intangible assets	Property, plant and equipment	Financial assets	Total
<b>Non-current assets at 31/12/2017</b>	<b>730.7</b>	<b>2,241.6</b>	<b>59.9</b>	<b>3,032.3</b>
Capital expenditure	6.2	50.9	0.0	57.1
Change in the consolidation scope	205.7	204.3	(5.2)	404.8
Divestments and other changes	5.7	(1.8)	(1.0)	2.9
Depreciation and amortisation	(51.9)	(218.0)	0.0	(269.9)
<b>Non-current assets at 31/12/2018</b>	<b>896.5</b>	<b>2,277.0</b>	<b>53.7</b>	<b>3,227.1</b>

Non-current assets at 31 December amounted to EUR 3,227 million, up compared to 31 December 2017 (EUR 3,032 million), following acquisition of the solar plants, of the wind farms in France and of capital expenditure for the year, partly offset by the disposal of the wind park of Brockaghboy and by depreciation for the year.

## 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 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.

## 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.

## 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.

## 5 - Net financial indebtedness

### DEBT SUMMARY - ERG POWER GENERATION GROUP

(EUR million)	31/12/2018	31/12/2017
Medium/long-term financial indebtedness	1,202.3	1,171.9
Short-term cash and cash equivalents	(55.9)	(73.7)
<b>Total</b>	<b>1,146.5</b>	<b>1,098.3</b>

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

### MEDIUM/LONG TERM INDEBTEDNESS

(EUR million)	31/12/2018	31/12/2017
Medium/long-term bank borrowings	-	-
Current portion of loans and borrowings	-	-
Non-current loans and borrowings	171.0	201.1
<b>Total</b>	<b>171.0</b>	<b>201.1</b>
 Total Project Financing	 1,177.6	 1,114.7
Current portion of Project Financing	(146)	(144)
<b>Non-current Project Financing</b>	<b>1,031</b>	<b>971</b>
 <b>Medium/long-term indebtedness</b>	 <b>1,202.3</b>	 <b>1,172</b>

"Non-current loans and borrowings", amounting to EUR 171 million, refer mainly to:

- net liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 82 million (EUR 102 million at 31 December 2017),
- liabilities regarding a loan from parent company ERG S.p.A. (EUR 72 million);
- liabilities relative to a deferred component (EUR 12 million) of the purchase price of Creag Riabhach Wind Farm Ltd., holder of authorisations for the construction of a wind farm in Scotland, and of the purchase price of EPURON Group (EUR 5 million).

The payables for "Total Project Financing" (EUR 1,178 million at 31 December 2018) are for:

- EUR 48 million in loans issued to ERG Power S.r.l. for the construction of the CCGT plant;
- EUR 165 million in loans related to the newly acquired ForVei Group companies (solar) and to the subsidiary ISAB Energy Solare;
- EUR 965 million in loans issued for the construction of wind farms, of which EUR 460 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 48 million. With regard to the ERG Wind acquisition, in accordance with IFRS 3 the financial liability relating to Project Financing was measured at fair value upon purchase price allocation. 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.

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 at 31 December 2018 came to EUR 10 million.

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

SHORT-TERM INDEBTEDNESS (AND CASH AND CASH EQUIVALENTS)		
(EUR million)	31/12/2018	31/12/2017
Current bank borrowings	0.1	0.1
Current portion of loans and borrowings	-	-
Other current loans and borrowings	11.2	1.7
<b>Current financial liabilities</b>	<b>11.3</b>	<b>1.8</b>
Cash and cash equivalents	(47.9)	(16.6)
Securities and other current loan assets	(37.7)	(66.9)
<b>Current financial assets</b>	<b>(85.6)</b>	<b>(83.5)</b>
Current Project Financing	146.2	143.8
Cash and cash equivalents	(127.7)	(135.7)
<b>Project Financing</b>	<b>18.4</b>	<b>8.1</b>
<b>Short-term indebtedness (and cash and cash equivalents)</b>	<b>(55.9)</b>	<b>(73.7)</b>

Current financial assets also include guarantee deposits on futures derivatives transactions.

### Liability Management

A number of Liability Management transactions were completed in 2018, which help to improve the financial terms and duration of the Group's debt structure.

Specifically, in June, 5 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, and in July, ERG S.p.A. refinanced a corporate loan achieving, in both cases, 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 year, 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 have been recorded as from the second quarter of 2018, and an extension of the current term of the Group's financing by around 1 year.

## ALTERNATIVE PERFORMANCE INDICATORS

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### Definitions

Some of the APIs used in this document are different from the financial indicators expressly provided for by the IAS/IFRS accounting standards 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 net financial indebtedness.

Finally, in order to enhance 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:

- **Adjusted revenue** is revenue, as indicated in the Financial Statements, with the exclusion of significant special income components (special items);
- **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);
- **Adjusted EBIT** is the net operating profit, explicitly indicated as a subtotal in the Financial Statements, 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 interim Report at 31 March 2018, they also include the carrying 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 financial structure and includes 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 not 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	Notes	12 months	
		2018	2017
<b>EBITDA from continuing operations</b>		<b>496.8</b>	<b>485.5</b>
<i>Contribution from discontinued operations (Brockaghboy)</i>	1	3.3	2.3
<b>EBITDA</b>		<b>500.1</b>	<b>487.9</b>
<b>Exclusion of Special items</b>			
Thermoelectric - Hydroelectric			
- Reversal of ancillary charges on extraordinary operations (Special Projects)	2	0.8	0.3
- Reversal of ERG 80 charges	3	1.4	0.0
Wind			
- Reversal of ancillary charges on extraordinary operations (Special Projects)		0.9	0.1
- Reversal of ERG 80 charges		0.3	0.0
<b>Adjusted EBITDA</b>		<b>503.6</b>	<b>488.3</b>
<b>AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES</b>		<b>12 months</b>	
		<b>2018</b>	<b>2017</b>
<b>Depreciation of continuing operations</b>		<b>(269.2)</b>	<b>(246.1)</b>
<i>Contribution from discontinued operations (Brockaghboy)</i>		(0.7)	(1.3)
<b>Amortisation, depreciation and impairment losses</b>		<b>(269.9)</b>	<b>(247.3)</b>
<b>Exclusion of Special Items:</b>			
- Special Items		0.0	0.0
<b>Adjusted depreciation and amortisation</b>		<b>(269.9)</b>	<b>(247.3)</b>
<b>PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT</b>		<b>12 months</b>	
		<b>2018</b>	<b>2017</b>
<b>Profit attributable to the owners of the parent</b>		<b>150.8</b>	<b>136.6</b>
<b>Exclusion of Special items</b>			
<i>Exclusion of gain on disposal of the UK equity investment</i>	4	(26.2)	0.0
<i>Exclusion of ERG 80 Charges</i>		1.2	0.0
<i>Exclusion of ancillary charges on extraordinary operations</i>		1.5	0.4
<i>Exclusion of impact of gain on refinancing IFRS 9</i>	5	(3.1)	0.0
<b>Adjusted Profit attributable to the owners of the parent</b>		<b>124.3</b>	<b>137.0</b>



- 1 The results of Brockaghboy, the subsidiary sold on 7 March 2018, are subject to the requirements of IFRS 5. In this 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 Directors' Report in the 2017 Annual Report and with the Interim Financial Report at 30 June 2018.
- 2 Ancillary charges relating to other operations of a non-recurrent nature and capitalised charges on holdings managed as ancillary charges on Group consolidated.
- 3 Charges related to the ERG Group's 80th anniversary celebrations.
- 4 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.
- 5 The Group renegotiated a number of loans during the year. 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 net gain of approximately EUR 3 million being accounted for in 2018. 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, deferring the recognition of benefits of the renegotiation over the remaining term of the liability and not recognising them all in one immediate entry at the time of the amendment. The adjustment commented herein 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.

## ERG POWER GENERATION S.P.A. FINANCIAL STATEMENTS

The separate financial statements of ERG Power Generation S.p.A. for the year ended on 31 December 2018 were drafted in accordance with the National Accounting Standards and with prevailing law governing the drafting of financial statements, interpreted and added to the accounting standards issued by the National Board of Chartered Accountants and the Italian Accounting Body, and take account of the revisions and updates of prevailing Italian accounting standards.

### INCOME STATEMENT

(EUR thousand)	2018	2017
Revenue	675,757	721,932
Change in inventories	2,526	–
Other income	8,580	8,207
<b>TOTAL REVENUE</b>	<b>686,863</b>	<b>730,139</b>
Purchases	(518,064)	(507,735)
Change in inventories	923	2,529
Services and other operating costs	(183,600)	(206,219)
Personnel expense	(29,547)	(27,930)
<b>EBITDA</b>	<b>(43,424)</b>	<b>(9,216)</b>
Amortisation, depreciation and impairment of non-current assets	(1,763)	(1,769)
<b>EBIT</b>	<b>(45,187)</b>	<b>(10,985)</b>
Net financial income	93,821	82,715
Net gains (losses) on equity investments	(1,574)	(200)
<b>OPERATING RESULTS</b>	<b>47,059</b>	<b>71,530</b>
Income taxes	13,628	6,954
<b>PROFIT FOR THE YEAR</b>	<b>60,687</b>	<b>78,484</b>

#### Revenue from sales and services

Revenue from sales and services, amounting to EUR 675.8 million, mainly comprises revenue of EUR 605,856 thousand from the sale of electricity, steam, gas and other utilities, essentially to GME, IREN Mercato, ISAB S.r.l. and other customers in the Priolo industrial district. Revenue from sales includes, in addition to the sale of electricity generated by the CCGT plant owned by ERG Power S.r.l., that of the Italian wind farms and of ERG Hydro S.r.l.

Revenue from sales is stated net of the negative adjustments of hedging transactions carried out during the year.

Revenue from services, equal to EUR 69.9 million, also includes services rendered to subsidiaries for Operation & Maintenance and BoP, i.e., management and maintenance of the wind aerogenerators and substations, for approximately EUR 33.7 million.

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

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

#### Change in inventories of contract work in progress

This item reflects the works on the "Repowering & Reblading" project and reflects the costs of engineering, purchase of the blades and ancillary costs, including internal personnel costs sustained in 2018 by ERG Power Generation S.p.A. for the Repowering & Reblading projects on the plants of a number of wind subsidiaries.

#### Other revenue and income

This item mainly includes the positive effect of the partial release of the risk provision relating to the Power CGU - combined cycle plant that emerged in the 2011 impairment test on the financial statements of ERG S.p.A., and transferred on 1 July 2014 to ERG Power Generation S.p.A., amounting to EUR 1,163 thousand.

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

Moreover, it includes the positive impact of the collection relating to the Tursi transaction arising from the merger with former ERG Renew S.p.A., and comprises other minor items, including the effect of closure of the accounting items relating to prior years.

#### Purchases

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

Purchases are stated net of the positive adjustments of hedging transactions carried out during the year.

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

#### Services and other operating costs

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

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

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

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

### Personnel costs

This item amounts to EUR 29.5 million and reflects the cost of company personnel

### Amortisation, depreciation and impairment losses

Economic-technical amortisation/depreciation of EUR 1.3 million was allocated during the year for intangible assets and EUR 0.5 million for property, plant and equipment.

### Net financial income

The item mainly includes income from equity investments for dividends and for distribution of reserves collected during the year from its subsidiaries for approximately EUR 56.4 million, from the gain on the sale of Brockaghboy completed on 7 March 2018 and from interest from subsidiaries (EUR 11.7 million)

This item also includes financial charges that accrued on the loan taken out with the parent company ERG S.p.A. for approximately EUR 0.7 million and other minor charges.

### Value adjustments to financial assets

This item mainly includes the fair value of the derivative instruments open at 31 December 2018, as well as the changes in fair value achieved during 2018 with regard to the non-hedging financial derivatives.

The item also includes the write-down generated by potential charges arising from the settlement of a dispute with a developer of the subsidiary company Troina in liquidation.

### Income taxes

Taxes on the net profit for the year amounted to EUR 13.6 million.

## STATEMENT OF FINANCIAL POSITION

(EUR thousand)	2018	2017
Non-current assets	2,106,109	1,860,905
Net working capital	27,800	43,899
Post-employment benefits	(3,003)	(3,199)
Other assets	71,718	58,215
Other liabilities	(11,002)	(14,844)
<b>Net invested capital</b>	<b>2,191,622</b>	<b>1,944,976</b>
Equity	1,867,026	1,843,675
Medium/long-term net financial indebtedness	-	-
Short-term net financial indebtedness	324,596	101,302
<b>Equity and financial debt</b>	<b>2,191,622</b>	<b>1,944,976</b>

The net invested capital amounted to EUR 2,192 million at 31 December 2018.

## Non-current assets

Non-current assets primarily comprise financial assets, mainly consisting of the stakes in the fully-owned subsidiaries ERG Power S.r.l. and ERG Hydro S.r.l. and the equity investments in the renewables companies. The item also includes non-current financial receivables from subsidiaries. Note that the 2017 comparative data on non-current financial receivables includes the reclassification of EUR 97,554 thousand recorded in the prior 2017 financial statements under financial receivables from subsidiaries.

## Net working capital

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

## Other assets

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

## Other liabilities

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

## FINANCIAL INDEBTEDNESS

(EUR thousand)	31/12/2018	31/12/2017
Financial payables to Group companies	352,210	252,850
Financial payables to third parties within 12 months	15,517	2,071
<b>Current financial liabilities</b>	<b>367,727</b>	<b>254,921</b>
Cash and cash equivalents	(1,015)	(3,210)
Financial receivables from Group companies	(3,919)	(132,371)
Other current loan assets	(38,197)	(18,038)
<b>Current financial assets</b>	<b>(43,131)</b>	<b>(153,619)</b>
<b>Total</b>	<b>324,596</b>	<b>101,302</b>

Net financial indebtedness mainly comprises:

- other financial payables to Group companies, which mainly include the balance of zero balance cash pooling from subsidiary ERG Hydro S.r.l., including the interest accrued, for a total of EUR 254 million, and the residual amount mainly reflects the balance of zero balance cash pooling from other subsidiaries;
- financial payables to third parties, which mainly refer to the payable for acquisition of the investment in Creag Riabhach Wind Farm Ltd. and other minor items;
- financial receivables from Group companies, which include receivables for treasury, cash pooling zero balance and cash advances in favour of subsidiaries;
- other short-term financial receivables, which mainly comprise receivables from the ECC - European Commodity Clearing, regarding the margin deposit and fair value of contracts stipulated (futures) for approximately EUR 34.7 million

## NOTES ON THE OPERATIONS OF THE MAIN UNCONSOLIDATED SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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In view of the aforementioned entry into the solar business, starting from the first quarter of 2018 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.

Moreover, following the new acquisition of assets in the UK market, as from the third quarter of 2018, Evishagaran Wind Farm Ltd and Sandy Knowe Wind Farm Ltd are also fully consolidated. These companies own two already authorised development projects of 35 MW and 49 MW, respectively, in the United Kingdom and were previously measured using the cost method in view of the insignificant dimensions and given that they are not operational.

It should also be noted that the Group holds equity investments in the following non-operational subsidiaries:

- Longburn WindFarm Ltd ;
- ERG Development France S.a.s.;
- ERG UK Holding Ltd.
- Parc Eolien de Saint-Loup sur Cher S.ar.l.;
- Parc Eolien du Puits Gergil S.ar.l.;
- Parc Eolien du Plateau de la Perche S.ar.l.,
- Parc Eolien des Boules S.ar.l.;
- Rigghill Wind Farm Limited (joint venture);
- Creggan Wind Farm Limited as dormant company

Also excluded from the scope of consolidation are the following subsidiaries in liquidation:

- Eolico Trana S.r.l. in liquidation.

## MANAGEMENT AND COORDINATION BY ERG S.P.A.

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

- definition of the business strategies and the corporate governance systems and corporate structure;
- the determination of general common policies in the field of human resources, information & communication technology, accounting, budget, taxation, procurement, finance, investment, risk management, legal and corporate affairs, communication, institutional relations, corporate social responsibility and business development.

In particular, the following decisions were made within the scope of management and coordination activities on the part of ERG S.p.A.:

- Board of Directors meeting of 11 January 2018:
  - point 1: New transaction in the renewable energy sector in Germany; inherent and consequent resolutions.
- Board of Directors meeting of 6 March 2018:
  - point 8: Brockaghboy project; inherent and consequent resolutions.
- Board of Directors meeting of 6 April 2018:
  - point 1: New transaction in the renewable energy sector in France; inherent and consequent resolutions.
- Board of Directors meeting of 19 April 2018:
  - point 1: New transaction in the renewable energy sector in France; inherent and consequent resolutions.
- Board of Directors meeting of 11 May 2018:
  - point 3: Quarterly forecast for the annual investments budget;
  - point 4: Signing of the closing agreements for the transaction with Impax New Energy Holding Cooperatief W.A.; inherent and consequent resolutions;
  - point 5: Remuneration of the Chairman and Chief Executive Officer.
- Board of Directors meeting of 13 June 2018:
  - point 1: Refinancing transaction for subsidiary ERG Eolica Adriatica S.r.l.; inherent and consequent resolutions,
  - point 2: New transaction in the renewable energy sector in the UK; inherent and consequent resolutions.



- Board of Directors meeting of 2 August 2018:
  - point 3: Quarterly forecast for the annual investments budget;
  - point 5: Transaction in the renewable energy sector in France; inherent and consequent resolutions.
  
- Board of Directors meeting of 30 October 2018:
  - point 1: Transaction in a new renewable energy sector in Poland; inherent and consequent resolutions;
  - point 2: Establishment of new companies in France and the UK; inherent and consequent resolutions.
  
- Board of Directors meeting of 12 November 2018:
  - point 3: Quarterly forecast for the annual investments budget;
  - point 4: Capital increase in ERG Eolienne France S.a.s ;
  - point 5: Adoption of the new Code of Ethics.
  
- Board of Directors meeting of 12 December 2018:
  - point 1: New transaction in the renewable energy sector in Italy; inherent and consequent resolutions,
  - point 2: Investments budget for 2019;
  - point 3: Calendar of meetings of corporate bodies for 2019.

## PRIVACY

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The year 2018 saw radical changes to the regulatory structure of Privacy in Europe. With the entry into force of Regulation (EU) 2016/679 - GDPR, all Member States had to adapt by the implementation date of 25 May 2018.

The ERG Group has taken all the necessary measures to ensure compliance with the new Regulation, which has just entered into force, building first and foremost on internal resources and skills, investing in specialised training and certifying one of its members of staff as Privacy Manager at the DNV-GL training agency (the content and final examination of which are recognised for the AICQ SICEV certification process), which, to date, follows all of the Group's Privacy matters.

The Group's approach was to focus primarily on the more substantial aspects of the new regulation, better defined as Privacy by design (internal Risk Assessment, internal policies, etc.) and Privacy by default (default data protection to meet the requirements of the Regulation and to protect the rights of the persons concerned), not neglecting, obviously, also the formal aspects such as updating documentation (both internal and external to the Group) within the meaning of the Regulation.

Based on the characteristics of the personal data processed and the risks connected to the handling thereof that emerged during the aforesaid phases (Privacy by Design, Privacy by Default), the entire ERG Group needs to initiate a process that will guarantee compliance with the obligation of training (the so-called Principle of Accountability) of the Staff involved in the processing of personal data (taking into account specific processing) and demonstrate the will of the Data Controller to create an appropriate corporate culture as regards the protection of personal data.

Training is carried out over 2 modules:

- Basic Training Module, prepared for the entire ERG Group and mainly concerned with general data protection aspects (applicable principles, changes with respect to the Privacy Code pursuant to Italian Legislative Decree 196/2003, roles and responsibilities, the sanctioning regime, codes of conduct, violations, data subjects and their rights, consent and consent management, processing register, etc.);
- Customised classroom Training Module, aimed at certain people within the Group who handle personal data in a more specific and in-depth manner with respect to the recipients of the previous module, and which mainly deals with aspects relating to Definitions, Figures (Roles and Responsibilities), the main actions to be carried out and the operational implications (Information, Collection and management of consent, management violations, Processing record, management of video surveillance, the processing of the personal data of Employees, Relations with Third Party Suppliers, training, management of evidence, interactions with the DPD and/or with the control bodies, etc.).

Both courses conclude with a test, to demonstrate what has been learnt during training.

In 2019, a "Quality Assurance" check will be performed by an external company to verify that the Group has adjusted to the standards defined by Regulation (EU) 2016/679 - GDPR.

## SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Date	Sector	Significant events	Press release
11 January 2019	Solar	<p><b>Acquisition</b> by Soles Montalto GmbH of 78.5% of <b>Perseo S.r.l.</b>, owner of 100% of <b>Andromeda PV S.r.l.</b>, which in turn manages two photovoltaic plants with a total installed capacity of 51.4 MW</p> <p>It was also agreed that Soles Montalto GmbH will remain minority shareholder, on the basis of shareholders' agreements that will guarantee ERG full industrial control of the asset and its line-by-line consolidation</p> <p>The transaction's closing date was 12 February 2019</p>	<p>Press release 11/01/2019</p>
15 January 2019	Wind France	<p><b>Completion of the commissioning phase</b> for Parc Eolien de la Vallée de Torfou (17.6 MW with an estimated average annual output of 47 GWh), a wind farm forming part of the 768 MW of assets under construction and being developed by EPURON, acquired last year (see press release of 6/4/2018), and Parc Eolien Vallée de l'Aa (13.2 MW with an estimated average annual output of 29 GWh), corresponding to an overall total of around 45,000 tonnes of avoided CO<sub>2</sub> emissions per annum</p>	<p>Press release 15/01/2019</p>

## BUSINESS OUTLOOK

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The expected outlook for the main operating and performance indicators in 2019 is as follows:

### Wind

ERG continues its strategy of international development in Wind. As regards abroad, in particular, results are expected to increase thanks to the full contribution of the Melier (8 MW), Torfou (17.6 MW) and Vallée de l'Aa (13.2 MW) wind farms in France, which entered into operation during 2018, and the planned entry into operation of the Linda wind farm (21.6 MW) in Germany. As regards Italy, EBITDA is expected to decrease slightly, in line with the expectations of the 2018-2022 Business Plan, as a result of the lower incentive price, the value of which is determined on the basis of the average price of electricity recorded in 2018, as well as the gradual exit from the incentive system of approximately 32 MW in the course of the year and of the loss in 2019 of the 72 MW that exited in 2018.

In general, the total EBITDA of the Wind sector is thus expected to increase slightly compared to the previous year.

### Solar

In 2019, ERG increased its presence in the Solar sector with the acquisition of ANDROMEDA (51 MW), further strengthening its strategy of technological diversification. In addition, the considerable size reached (approximately 140 MW), also taking into consideration the acquisition in 2018 of FORVEL (89 MW), will make it possible to extend and optimise the Energy Management portfolio and capitalise on industrial expertise in the operational consolidation of assets.

EBITDA for the full year 2019 is expected to approximately double compared to 2018 (EUR 32 million).

### Hydroelectric

For this asset, results are expected to be lower than those of 2018, which benefited from significantly higher volumes compared to historical averages as well as the lower incentive price benefiting approximately 40% of output; the expected lower volume will be accompanied by steps to optimise Energy Management production on the spot and dispatching services markets.

EBITDA for hydroelectric power is therefore expected to decrease compared to the historic high values recorded in 2018.

**Thermoelectric**

In 2019, ERG will continue to improve the operational efficiency of the CCGT plant, also following the planned shut-down in November/December 2018. Despite a less favourable price scenario, as a result of improvements in operational efficiency and the Energy Management activities in the spot and dispatching services markets, EBITDA is expected to be in line with 2018.

EBITDA in 2019 is therefore expected to be within a range of between EUR 495 and 515 million, up compared to 2018 (EUR 491 million) despite a forecast of lower volumes in Hydro, a decreasing incentivised perimeter in the Italian Wind Power sector and the lower incentive price on incentivised volumes as regards both Wind and Hydro. These effects are more than offset by the contribution of the new Solar Power assets as well as, to a lesser extent, the new overseas wind farms and operating efficiency and energy management.

Capital expenditure in 2019 investments is expected to be in a range of between EUR 340 and 370 million, down compared to 2018, during which a number of investments previously expected in 2019 were brought forward.

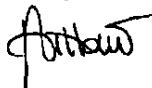
ERG's cash generation will keep borrowing largely stable in a range of between EUR 1.36 and 1.44 billion (EUR 1.34 billion in 2018), partially offsetting the investments in the period as well as the ordinary distribution of dividends at EUR 0.75 per share and the payment of financial expenses.

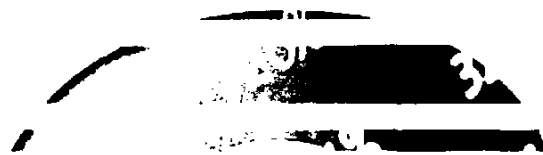
Genoa, 5 March 2019

on behalf of the Board of Directors

The Chief Executive Officer

Pietro Tittoni





## Consolidated Financial Statements

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## STATEMENT OF FINANCIAL POSITION <sup>(1)</sup>(2)(3)

(EUR thousand)	Notes	31/12/2018	31/12/2017
Intangible assets	1	748,231	597,822
Goodwill	2	148,266	125,932
Property, plant and equipment	3	2,276,953	2,171,306
Equity investments	4	13,535	20,683
- <i>earned at equity</i>		12,918	12,787
- <i>other equity investments</i>		617	7,896
Other non-current financial assets	5	40,152	39,233
Deferred tax assets	6	115,521	116,625
Other non-current assets	7	40,989	45,402
<b>Non-current assets</b>		<b>3,383,647</b>	<b>3,117,003</b>
Inventories	8	21,622	20,596
Trade receivables	9	251,192	256,090
Other current assets	10	117,957	74,357
Current financial assets	16	37,663	67,484
Cash and cash equivalents	16	175,654	151,022
<b>Current assets</b>		<b>604,087</b>	<b>569,549</b>
<b>Asset held for sale</b>	21	<b>-</b>	<b>81,526</b>
<b>TOTAL ASSETS</b>		<b>3,987,734</b>	<b>3,768,077</b>
Share capital	11	100,000	100,000
Other reserves		1,675,633	1,628,758
Retained earnings		143,351	85,752
Profit for the year		150,847	136,592
<b>Equity attributable to the owners of the parent</b>		<b>2,069,831</b>	<b>1,951,102</b>
Non controlling interests		-	-
<b>Equity</b>		<b>2,069,831</b>	<b>1,951,102</b>
Employee benefits	12	4,748	5,157
Deferred tax liabilities	6	276,318	250,622
Provisions for risks and charges - non current portion	13	54,521	46,704
Non-current financial liabilities	16	1,202,343	1,171,942
Other non-current liabilities	14	32,117	30,706
<b>Non-current liabilities</b>		<b>1,570,046</b>	<b>1,505,131</b>
Provisions for risk and charges - current portion	13	38,304	44,809
Trade payables	15	83,926	71,002
Current financial liabilities	16	157,444	146,135
Other current liabilities	17	68,182	47,743
<b>Current liabilities</b>		<b>347,856</b>	<b>309,689</b>
<b>Liabilities associated with assets held for sale</b>	21	<b>-</b>	<b>2,156</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,987,734</b>	<b>3,768,077</b>

(1) in the Statement of Financial Position at 31 December 2017, in accordance with IFRS 5, the assets and liabilities pertaining to the subsidiary Brockaghboy Windfarm Ltd are posted under item "Asset held for sale and liabilities" of assets and liabilities as better described under Note 21 - Discontinued operations

(2) the notes commenting individual items are an integral part of the present financial statements

(3) the Group adopted IFRS 15 and IFRS 9 for the first time on 1 January 2018. Based on the first application methods chosen, the comparative information was not restated

## INCOME STATEMENT <sup>(1)(2)(3)</sup>

(EUR thousand)	Notes	2018	2017
Revenue	22	1,023,792	1,052,437
Other income	23	18,349	8,863
Purchases	24	(326,985)	(355,590)
Services and other operating costs <sup>(4)</sup>	25	(177,353)	(183,533)
Personnel expense	26	(41,009)	(36,639)
<b>Gross Operating Income (EBITDA)</b>		<b>496,794</b>	<b>485,538</b>
Amortisation, depreciation and impairment of non current assets	27	(269,232)	(246,065)
<b>Net Operating Income (EBIT)</b>		<b>227,562</b>	<b>239,473</b>
Financial expense	28	(85,418)	(79,597)
Financial income	28	26,024	18,849
<b>Net financial Income (expense)</b>	28	<b>(59,394)</b>	<b>(60,748)</b>
Net gains on equity-accounted investments	29	143	119
Other net gains (losses) on equity investments	29	(551)	(1,124)
<b>Gains (losses) on equity Investments</b>	29	<b>(408)</b>	<b>(1,005)</b>
<b>PROFIT BEFORE TAXES</b>		<b>167,759</b>	<b>177,720</b>
Income taxes	30	(45,212)	(41,752)
<b>PROFIT FROM CONTINUING OPERATIONS</b>		<b>122,548</b>	<b>135,967</b>
Profit from discontinued operations	31	28,432	625
<b>PROFIT FOR THE YEAR</b>		<b>150,980</b>	<b>136,592</b>
Non-controlling interests		(133)	
<b>PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT</b>		<b>150,847</b>	<b>136,592</b>

(1) in the 2018 income statement, in accordance with IFRS 5, the results of the company Brockaghboy Windfarm Ltd were posted in profit from discontinued operations, for additional details, please refer to the section Brockaghboy Sale. The 2017 income statement is represented in accordance with IFRS 5, posting the results of the Brockaghboy Windfarm Ltd subsidiary in profit from discontinued operations. Please refer to Note 31 - Profit from discontinued operations.

(2) the notes commenting individual items are an integral part of the present financial statements.

(3) the Group adopted IFRS 15 and IFRS 9 for the first time on 1 January 2018. Based on the first application methods chosen, the comparative information was not restated.

(4) the value for 2018 includes a positive impact of approximately EUR 300 thousand relating to the partial reversal of the impact of IFRS 9 on the trade receivables at 1 January 2018. The Group opted for a retrospective application of the Standard without changes to the comparative data.



## STATEMENT OF COMPREHENSIVE INCOME <sup>(1)(2)</sup>

(EUR thousand)	2018	2017
<b>Profit for the year</b>	<b>150,847</b>	<b>136,592</b>
<b>Changes that will not be reclassified to profit or loss</b>		
Remeasurements of defined benefit liability	(54)	(205)
Income taxes referred to the actuarial change in Employee benefits	13	49
	<b>(41)</b>	<b>(156)</b>
<b>Changes that will be reclassified to profit or loss</b>		
Cash flow Hedge - effective portion of the fair value change	(16,758)	20,968
Tax effect of - cash flow hedging - effective portion of the fair value change	4,022	(5,032)
	<b>(12,736)</b>	<b>15,935</b>
Foreign operations - Exchange differences from translation	(2,788)	(1,597)
Income taxes - Foreign operations - Exchange differences from translation	530	564
	<b>(2,258)</b>	<b>(1,033)</b>
<b>Other comprehensive income (expense) net of the tax effect</b>	<b>(15,035)</b>	<b>14,747</b>
<b>Comprehensive income for the year</b>	<b>135,812</b>	<b>151,340</b>
Non-controlling interests	-	-
<b>Comprehensive income attributable to the owners of the parent</b>	<b>135,812</b>	<b>151,340</b>

(1) the notes commenting individual items are an integral part of the present financial statements

(2) the Group adopted IFRS 15 and IFRS 9 for the first time on 1 January 2018. Based on the first application methods chosen, the comparative information was not restated

## STATEMENT OF CASH FLOWS <sup>(1)(2)(3)</sup>

(EUR thousand)		2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES (A)</b>			
Profit for the year		150,847	136,592
- Amortisation, depreciation and impairment of non-current assets	27	269,232	247,326
- Increase in other provisions for risks and charges	13	6,192	10,723
- Decrease in other for risks and charges	13	(14,024)	(1,504)
- Net change in deferred tax assets and liabilities	6	(11,031)	19,512
- Impairment of current assets	9	(276)	1,481
- Net capital gain/loss on sale of non-current assets		-	-
- Net losses on equity investments measured using the equity method	4	(131)	363
- Losses on equity investments		-	-
- Changes to post-employment benefits	12	(410)	(415)
		<b>400,399</b>	<b>414,077</b>
<b>- Change in other current assets and liabilities:</b>			
Change in inventories	8	(985)	(233)
Change in trade receivables	9	22,669	48,646
Change in trade payables	15	1,138	(51,427)
- Net change in other assets/liabilities	9,17	(3,718)	(2,107)
		<b>19,104</b>	<b>(5,121)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES (A)</b>		<b>419,503</b>	<b>408,956</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES (B)</b>			
Acquisition of intangible assets and goodwill	1,2	(6,193)	(1,230)
Acquisition of property, plant and equipment	3	(50,852)	(50,294)
Acquisition of equity investments and other non-current financial assets	4	(30)	(4,763)
Net change in other increases/decreases in non-current assets	1,3	(5,065)	(1,410)
Brockaghboy Windfarm Ltd Sale		105,740	-
Disposals of intangible assets and goodwill		-	-
Disposals of property, plant and equipment and related capital gains/losses		-	1,221
Disposals of equity investments and other non-current financial assets	4,5	110	86
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES (B)</b>		<b>43,710</b>	<b>(56,390)</b>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)</b>			
Increase in non-current loans	16	127,933	176,685
Decrease in non-current loans	16	(366,984)	(376,788)
Net change in loans to Group companies not consolidated line by line		-	(150,213)
Net change in other non-current financial liabilities	16	(47,311)	(2,573)
Net change in current bank loans and borrowings		-	-
Net change in other current financial assets/liabilities	16	26,523	(31,794)
Share capital increases/repayments		-	-
Dividends paid to third parties	11	(20,000)	-
Change in the hedging reserve		(12,736)	15,935
Other changes in equity	1	619	(414)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)</b>		<b>(291,957)</b>	<b>(369,161)</b>
<b>TRANSFER/MERGERS (D)</b>		<b>-</b>	<b>164,034</b>
<b>CHANGE IN THE CONSOLIDATION SCOPE (E) <sup>4</sup></b>		<b>(146,623)</b>	<b>(11,930)</b>
<b>NET CASH FLOWS OF THE YEAR (A+B+C+D+E)</b>		<b>24,632</b>	<b>135,509</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<b>151,022</b>	<b>15,513</b>
<b>NET CASH FLOW OF THE YEAR</b>		<b>24,632</b>	<b>135,509</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>175,654</b>	<b>151,022</b>

1) the notes commenting individual items are an integral part of the present financial statements

2) the statement of cash flows also includes the overall flows of assets held for sale and associated liabilities, details of which are provided in Note 21 - Discontinued operations

3) the Group adopted IFRS 15 and IFRS 9 for the first time on 1 January 2018. Based on the first application methods chosen, the comparative information was not restated

4) More information is available in the section Change in the consolidation scope

## STATEMENT OF CHANGES IN EQUITY <sup>(1)</sup>

	Share capital	Reserves	Profit (loss) for the year	Equity attributable to the owners of the parent	Non-controlling interests	Equity
(EUR thousand)						
BALANCE AT 31/12/2016	6,000	1,027,909	41,139	1,075,048	-	1,075,048
Allocation of 2016 profit	-	41,139	(41,139)	-	-	-
Distribution of dividends	-	-	-	-	-	-
Change due to merger, Consolidated ERG Renew	94,000	629,941	-	723,941	-	723,941
Other changes	-	773	-	773	-	773
Profit for 2017	-	-	136,592	136,592	-	136,592
Remeasurements of defined benefit liability	-	(160)	-	(160)	-	(160)
Changes in the cash flow hedge reserve	-	15,935	-	15,935	-	15,935
Changes in the translation reserve	-	(1,028)	-	(1,028)	-	(1,028)
<b>Comprehensive income</b>	-	<b>14,747</b>	<b>136,592</b>	<b>151,340</b>	-	<b>151,340</b>
BALANCE AT 31/12/2017	100,000	1,714,510	136,592	1,951,102	-	1,951,102
IFRS 9 Adjustment <sup>(1)</sup>	0	3,136	0	3,136	-	3,136
Allocation of 2017 profit	-	136,592	(136,592)	-	-	-
<b>Transactions with Shareholders:</b>						
Distribution of dividends	-	(20,000)	-	(20,000)	-	(20,000)
Other changes	-	(218)	-	(218)	-	(218)
Profit for 2018	-	-	150,980	150,980	(133)	150,847
Non controlling interests 2018 profit	-	-	(133)	(133)	133	-
Remeasurements of defined benefit liability	-	(41)	-	(41)	-	(41)
Changes in the cash flow hedge reserve	-	(12,736)	-	(12,736)	-	(12,736)
Changes in the translation reserve	-	(2,258)	-	(2,258)	-	(2,258)
<b>Comprehensive income</b>	-	<b>(15,035)</b>	<b>150,847</b>	<b>135,812</b>	-	<b>135,812</b>
BALANCE AT 31/12/2018	100,000	1,818,985	150,847	2,069,831	-	2,069,831

(1) please refer to the section Standards, amendments and interpretations applied starting on 1 January 2018

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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ERG Power Generation S.p.A. is the entity that prepares the financial statements

ERG Power Generation S.p.A. has its registered office in via De Marini 1, Genoa (WTC Tower)

The consolidated financial statements comprise the financial statements of ERG Power Generation S.p.A. and of its subsidiaries (together, "ERG Power Generation" or "the Group").

### THE GROUP

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

### PUBLICATION DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS

Publication of these consolidated financial statements was authorised by the Board of Directors on 5 March 2019.

### BASIS OF PREPARATION

The present consolidated financial statements, expressed in thousands of Euro (functional currency of the parent company ERG Power Generation S.p.A. and presentation currency), were prepared:

- without any departures, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Financial Reporting Standards - IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC). The set of all reference standards and interpretations indicated above shall hereafter be defined as "IFRS - EU"
- on a going concern basis and therefore assuming that the Group will be able to meet the mandatory repayment conditions of the credit facilities granted by the banks as indicated in Note 36 - Financial instruments

The present financial statements were prepared in accordance with Article 9, paragraph 3 of Legislative Decree no. 38 of 28 February 2005.

The present financial statements were audited by the independent auditors KPMG S.p.A. in accordance with current Italian regulations.

These are the first consolidated financial statements in which the Group has adopted IFRS 15 - Revenue from Contracts with Customers and IFRS 9 - Financial Instruments. The significant changes in the accounting standards are described in the section Standards, amendments and interpretations applied starting on 1 January 2018.

## BASIS OF PRESENTATION

The consolidated financial statements consist of the Statement of financial position, the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and the Notes. ERG Power Generation presents its income statement captions by nature, which is deemed more representative than presenting them by function, with separate presentation of the profit or loss from discontinued operations. The form chosen is in fact consistent with internal and management reporting procedures.

With reference to the Statement of Financial Position, the adopted classification makes a distinction between current and non-current assets and liabilities, as allowed by IAS 1, with separate indication of assets classified as held for sale and of liabilities included in a group disposal, classified as held for sale. Current assets, which include cash and cash equivalents, are those held to be realised, sold or consumed in the normal operating cycle of the Group or in the 12 months after year end; current liabilities are those expected to be settled within the normal operating cycle of the Group or in the 12 months after year end.

The structure of the statement of cash flows is based on the indirect method, with the indication of the cash flow from operating activities, investing activities and financing activities associated with discontinued operations.

## MAIN ACCOUNTING POLICIES

Unless otherwise specified, the accounting policies described below were applied consistently all periods included in the present consolidated financial statements (with the exception of the first-time adoption of IFRS 15 and IFRS 9, as better explained in the section Standards, amendments and interpretations applied starting on 1 January 2018).

Some amounts of the income statement and the Statement of comprehensive income presented for comparison purposes were reclassified or restated as a result of one or more operations classified as discontinued in the current year (please refer to the section Standards, amendments and interpretations applied starting on 1 January 2018).

The present financial statements were prepared using the criterion of measurement at historical cost, with the exception of the following significant items that are measured as indicated below at each reporting date.

Item	Measurement criterion
Derivative financial instruments	Fair value
Non-derivative financial instruments at FVTPL	Fair value
Measurement of assets and liabilities of business combinations at the acquisition date	Fair value
Contingent consideration deriving from a business combination	Fair value
Discontinued operations	Lower value between carrying amount and fair value less costs to sell
Equity instruments at FVOCI (2017: available-for-sale financial assets)	Fair value
Liabilities with cash-settled share-based agreements	Fair value

The main accounting standards adopted for the preparation of the Consolidated Financial Statements as at and for the year ended 31 December 2018, which are unchanged from the previous year, with the exceptions set forth in the section "Standards, amendments and interpretations applied starting on 1 January 2018" are set out below.

### Intangible assets

Intangible assets are recorded as assets, pursuant to IAS 38 - Intangible Assets, wherever they are identifiable, it is probable that their use will generate future economic benefits, and their cost can be measured reliably.

These assets are measured at their purchase or production cost, including all ancillary charges attributable to them, and are amortised on a straight-line basis over their useful life and decreased for any impairment. Useful lives are reviewed annually and any changes, where necessary, are applied prospectively.

In general, intangible assets are amortised over a maximum period of 5 years, with the exception of surface rights and authorisations and concessions for the wind farms, which are amortised over the concession term

Considerations on the amortisable value of concessions for large-scale diversion of water for hydroelectric use

The current regulations on the transfer of the ownership of assets subject to hydroelectric concessions has recently been thoroughly amended.

On 12 February, Law no. 12 of 11 February 2019, converting, with amendments, the "Simplifications Law Decree" was published in the Official Gazette of Italy-General series no. 36. Article 11-quater of this law repeals the previous regulations and introduces new provisions for the renewal of concessions for large-scale diversion of water for hydroelectric use.

In particular, the new regulations provide that:

- upon the expiry of concessions for large-scale diversion of water for hydroelectric use or in the event of withdrawal or surrender, ownership of "wet" works is transferred, without remuneration, to the region, without prejudice to any payout to the outgoing concession holder equal to the non-depreciated amount of any investments, insofar as this is provided for by the concession contract or otherwise authorised by the grantor;

- for "dry" works, if deemed reusable by the assignee of the new concession, compensation is paid according to the rules set by Article 25, paragraph 2 et seq., of Italian Royal Decree 1775 of 1933, net of the depreciated assets. Specifically:
  - in the case of moveable assets planned for use in the concession project, a price is paid, in terms of residual value, determined on the basis of the data available from "accounting documents or a professional appraisal",
  - movable assets not used in the concession project should be removed and disposed of by, and at the expense of, the incoming concession holder;
  - in the case of immovable assets reused in the concession project, a price is paid, determined on the basis of the data available from "accounting documents or a professional appraisal",
  - immovable assets not planned for use in the project remain the property of the entitled party.

The depreciation period of hydroelectric plants is currently commensurate to the economic-technical life of the individual asset. Management will monitor the regulatory evolution and the related clarifications in order to assess possible future impacts on the depreciation process.

### Business combinations

Business combinations are accounted for using the acquisition method at the date on which control over the acquired entity is actually obtained. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair value of the assets transferred to the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. The costs related to the acquisition are recognised as an expense in the periods in which they are incurred.

Goodwill is recognised at the date of acquisition of control of an acquiree and is estimated as the excess between:

- the consideration transferred, the amount of any non-controlling interest in the acquiree measured in accordance with IFRS 3 (fair value of the pro-rata share of net assets related to minority interests), in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree;
- the net value of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, measured at fair value.

If the fair value of the net identifiable assets acquired is higher than the consideration transferred, the resulting gain or loss that emerges, after having checked that the fair value of the identifiable assets acquired and liabilities assumed is correct, is recognised in profit or loss on the acquisition date. The gain is attributed to the acquirer.

In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. If in prior reporting periods, the acquirer had recognised changes in the value of its equity interest in the acquiree in profit and loss, the amount shall be recognised in profit or loss on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the

business combination occurs, provisional amounts are recognised. Adjustments to the provisional amounts recognised at the acquisition date are accounted for retrospectively so as to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period may not exceed one year from the acquisition date. The contingent consideration is recognised at fair value at the acquisition date. If the contingent consideration that meets the definition of financial instrument is classified as equity, is not subjected to subsequent assessment and its subsequent settlement is accounted for in equity. The other potential consideration is measured at fair value at each reporting closing date and changes in fair value are recognised in the profit or loss for the year.

#### Goodwill

Goodwill acquired in a business combination is not amortised, but is tested for impairment pursuant to the procedures provided for in IAS 36 - Impairment of Assets annually, or more frequently if specific events or changes in circumstances indicate the possibility that there may have been any impairment ("triggering events").

For the purposes of impairment testing, goodwill is, from the acquisition date, allocated to groups of cash-generating units.

If the recoverable amount of the groups of units to which the goodwill is allocated is less than its carrying amount, an impairment loss is allocated in the following order: first, to reduce the carrying amount of the goodwill, and then to the other assets of the group of units pro rata on the basis of the carrying amount of each asset in the group of units. If the goodwill has been allocated to a group of cash generating units and the unit is disposed of or transferred, goodwill is included in the carrying amount of the asset when determining the profit or loss on disposal.

#### Property, plant and equipment

An item of property, plant and equipment is measured at cost, inclusive of capitalised financial expenses, net of cumulated depreciation and impairments.

If an item of property, plant and equipment comprises various parts with different useful lives, these parts are recognised separately (significant components).

The profit or loss generated by the sale of an item of property, plant and equipment is recognised in the profit or loss for the year.

Expansion, modernisation and transformation costs and maintenance costs are capitalised only if they increase the future economic benefits of the asset to which they refer.

Cyclical maintenance costs are recognised as assets in the statement of financial position as a separate part of the main asset during the year in which they are incurred and are included in the depreciation process on the basis of their estimated useful life.

The cost of the item of property, plant and equipment, where the group has a present obligation to do so, includes the costs of its dismantling and removal and site restoration to be incurred when the facilities are abandoned, which are provided for in a specific provision. These costs are recognised starting on the date when they can be reliably



estimated for those assets whose future disposal, and the time when this will happen, is foreseeable

Capitalised costs are allocated to the income statement via depreciation.

Depreciation is calculated on a straight-line basis over the asset's estimated useful life. When the asset consists of several significant parts having different useful lives, each part is depreciated separately. The depreciable amount is the asset's historical cost less the expected residual value, if material and reliably measurable

Land is not depreciated, even if acquired together with a building. Freely transferable assets are depreciated over the estimated life of the asset or the concession term, whichever is shorter.

The capital gains allocated to property, plant and equipment as a result of IFRS 3 business combinations are depreciated over the concession term

The depreciation rates applied are as follows:

	%
Wind power generators	5
Industrial and commercial buildings	2.5 - 7.34
Fixed hydraulic works	1
Pressurised pipelines	2.5
Hydraulic and electrical machinery	3.3
Automation and control systems	10
Equipment and machinery	5
Digital control-remote transmission facilities	10
Transport lines	5
Lightweight constructions	10
General plants	8.45 - 10.0
CCGT plant *	6.1
Digital control and remote transmission facilities	10
Motor vehicles, furniture and furnishings	8.38 - 25.0
Surface rights and other civil works	3.5
Photovoltaic modules	5
Other assets / miscellaneous equipment	from 10 to 20

\* average rates

### Impairment of non-financial assets (impairment test)

At least once a year, the Group measures the recoverable amount of intangible assets other than goodwill and property, plant and equipment, to determine whether there are indications that they may be impaired (examination of triggering events). If such an indication exists, the group estimates the recoverable amount of the asset to determine the amount of the impairment loss.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable value of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the higher of its fair value less costs to sell, and its value in use, determined as the present value of expected future cash flows.

An asset is impaired when its carrying amount exceeds its recoverable amount. When an impairment loss is recognised

in prior periods for an asset other than goodwill no longer exists or may have decreased, its carrying amount is increased to its recoverable amount which does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset.

## Equity investments carried at equity

### Joint venture

Joint ventures are joint arrangements whereby the Group has rights to the net assets but not rights to the assets and obligations for the liabilities (entities over whose assets the Group has joint control as defined by IFRS 11 - Joint Arrangements). The consolidated financial statements include the Group's share of the profit or loss of the joint venture, measured using the equity method, starting from the date when joint control starts until the time when it ceases to exist.

If the Group's share of the losses of the joint ventures exceeds the carrying amount of the investment in the consolidated financial statements, the carrying amount of the investment is fully impaired and the share of additional losses is not recognised, except and to the extent to which the Group has an obligation to fund losses.

### Associates

These are companies over which the Group exercises significant influence, but not control or joint control, i.e., the power to participate in the financial and operating policies of the associate, as defined by IAS 28 - Investments in Associates and Joint Ventures. The consolidated financial statements include the Group's share of the profit or loss of the associates, measured using the equity method, starting from the date when significant influence starts until the time when it ceases to exist. If the Group's share of the associate's losses exceeds the carrying amount of the investment in the consolidated financial statements, the carrying amount of the investment is fully impaired and the share of additional losses is not recognised, except and to the extent to which the Group has an obligation to fund losses.

## Financial Instruments

### 1. Recognition and measurement

Trade receivables and debt instruments issued are recognised at the time they are originated. All other financial assets and liabilities are initially recognised on the trading date, i.e. when the Group becomes a contractual party to the financial instrument.

Except for trade receivables that do not contain a significant financing component, financial assets are initially measured at fair value plus or minus, in the case of financial assets or liabilities not at FVTPL, transaction costs directly attributable to the acquisition or to the issue of the financial asset. At initial recognition, the trade receivables that do not have a significant financing component are measured at their transaction price.

Standards are adopted from 1 January 2019, as follows: IFRS 16 - Leases, IFRS 9 - Financial Instruments, IFRS 15 - Revenue from Contracts with Customers, IFRS 1 - First-time Adoption of International Financial Reporting Standards, and IFRS 8 - Operating Segments, and amendments to IFRS 1, IFRS 9, IFRS 15 and IFRS 16, effective from 1 January 2019.

## II. Subsequent classification and measurement

At initial recognition, a financial asset is classified according to its measurement: amortised cost; fair value through other comprehensive income (FVOCI) - debt security; FVOCI - equity instrument; or at fair value through profit or loss (FVTPL).

The financial assets are not reclassified after their initial recognition, unless the Group changes its business model for the management of financial assets. In this case, all involved financial assets are reclassified the first day of the first year following the change to the business model.

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

Financial assets - assessment of the business model

The Group assesses the objective of the business model within which the financial asset is held at portfolio level because it best reflects the way in which the asset is managed and the information communicated to corporate management. This information includes:

- the specified criteria and the objectives of the portfolio and the practical application of said criteria, including, inter alia, whether the strategy of corporate management is based on obtaining interest income from the agreement, on maintaining a determined interest rate profile, on aligning the duration of the financial assets to that of the related liabilities or the expected cash flows or on the collection of cash flows through the sale of the assets;
- the procedures for measuring portfolio performance and the procedures for communicating performance to the key management personnel.

- the risks that impact on the performance of the business model (and of the financial assets held within the business model) and the way in which these risks are managed;
- the procedures for remunerating the executives of the company (for example, if remuneration is based on the fair value of the assets managed or on collected contractual cash flows);
- the frequency, the value and the time frame of the sale of financial assets in previous years, the reasons for the sales and the expectations for future sales

Transfers of financial assets to third parties within transactions that do not entail derecognition are not considered sales for the purposes of the assessment of the business model, in line with the Group's maintaining these assets in its financial statements.

Financial assets that meet the definition of financial assets held for trading or whose performance is based on fair value are measured at FVTPL.

*Financial assets: test to establish whether the cash flows are solely payments of principal and interest*  
For the purposes of the test, the 'principal' is the fair value of the financial asset at initial recognition, while the 'interest' is the consideration for the time value of money, for the credit risk associated with principal amount outstanding during a particular period of time and for the other basic tending risks and costs (for example, liquidity risk and administrative costs), as well as for the profit margin.

In assessing whether contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. Therefore, it assesses, inter alia, if the financial asset contains a contractual clause that modifies the time frame or the amount of the contractual cash flows so as not to meet the following condition. For the purposes of the test, the Group considers:

- contingent events that would modify the timing or the amount of the cash flows;
- clauses that could adjust the contractual rate of the coupon, including variable rate elements;
- prepayment and extension elements;
- clauses that limit the requests for cash flows by the Group from specific assets (for example, elements without recourse).

The prepayment element is in line with the criterion of the "cash flows that are solely payments of principal and interest" when the prepayment amount substantially represents the unpaid amounts of the principal and the interest on the principal amount outstanding, which can include reasonable additional compensation for the early termination of the contract. Moreover, in the case of a financial asset acquired with a premium or a significant discount to the contractual pay amount, an element that allows or requires a prepayment equal to an amount that substantially represents the contractual pay amount plus contractual interest accrued (but not paid) (which may include reasonable additional compensation for the early termination of the contract) is recognised in accordance with said criterion if the fair value of the prepayment element is insignificant at initial recognition

## Financial assets: subsequent measurement and gains and losses

<b>Financial assets measured at amortised cost</b>	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 or loss for the year as well as any gains or losses on derecognition.
<b>Debt instruments measured at FVOCI</b>	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 or loss for the year. Other net gains and losses are recognised in the Statement of comprehensive income. At the time of derecognition, gains or losses accumulated in the Statement of comprehensive income are reclassified to profit or loss for the year.
<b>Equity instruments measured at FVOCI</b>	These assets are subsequently measured at fair value. Dividends are recognised in profit or loss for the year unless they clearly represent a recovery of part of the cost of the investment. Other net gains and losses are recognised in the Statement of comprehensive income and are never reclassified to profit or loss for the year.
<b>Financial assets measured at FVTPL</b>	These assets are subsequently measured at fair value. Net gains or losses, including dividends or interest received, are recognised in profit or loss for the year.

Standards applicable prior to 1 January 2018 (first-time adoption of IFRS 9 - additional details on first-time adoption criteria are provided in the section Standards, amendments and interpretations applied starting on 1 January 2018)

**Subsequent classification and measurement**

The Group classified its own financial assets in one of the following categories:

- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets, and
- financial assets at FVTPL and, within said category:
  - held for trading;
  - hedging instruments; or
  - designated at FVTPL.

### Subsequent measurement and gains and losses

<b>Financial assets measured at FVTPL</b>	Measured at fair value and any changes thereof, which also include the dividends or interest, were recognised in the profit or loss for the year. For information about the derivative financial instruments designated as hedges, please refer to note 45(O)(v).
<b>Held-to-maturity investments</b>	Measured at amortised cost using the effective interest method.
<b>Loans and receivables</b>	Measured at amortised cost using the effective interest method.
<b>Available-for-sale financial assets</b>	Measured at fair value and any changes thereof, other than impairment losses, interest income and exchange differences on debt instruments, were recognised in the Statement of comprehensive income and presented in the fair-value measurement reserve. When a financial asset was derecognised, the amount of the cumulative loss or gain was reclassified from equity to profit or loss for the year.

### Impairment of financial assets

Standards applicable from 1 January 2018 (first-time adoption of IFRS 9 - additional detail on first-time adoption criteria are provided in the section Standards, amendments and interpretations applied starting on 1 January 2018)

The Group recognises loss allowance for the losses expected on the receivables relating to:

- financial assets measured at amortised cost;
- debt instruments measured at FVOCI;
- contract assets

The Group measures the loss allowance at an amount equal to the financial asset's lifetime expected credit, with the exceptions indicated below, for the twelve following months:

- debt instruments with a low credit risk at the reporting date; and
- other debt instruments and bank current accounts whose credit risk (i.e. the risk of default that manifests throughout the expected life of the financial instrument) did not increase significantly after initial recognition.

The loss allowance of the trade receivables and of the contract assets are also measured at an amount equal to the financial assets' lifetime expected credit losses.

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 financial assets and on forward-looking information.

For the Group, a breach referring to a financial asset occurs when:

- it is unlikely that the debtor will fully meet its obligations to the Group, without any action on the Group's part, such as the realisation of a guarantee (if present);
- the financial asset has been due for more than 90 days

The maximum period to take into consideration when measuring expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

#### Measurement of the expected credit losses

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

ECLs are discounted at the financial asset's effective interest rate

#### Impaired financial assets

At each reporting date, the Group assesses whether financial assets measured at amortised cost and debt securities at FVOCI are impaired. A financial asset is 'impaired' when one or more events that have a negative impact on the estimated future cash flows of the financial asset have occurred

Evidence that the financial asset is impaired includes the observable data relative to the following events:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or a past due event;
- the restructuring of a debt or an advance by the Group at conditions that the Group would not otherwise have taken into consideration;
- there is a probability that the debtor will declare bankruptcy or will call for other financial restructuring procedures;
- the disappearance of an active market for that financial asset due to financial hardships

#### Presentation of the loss allowance in the statement of financial position

The loss allowance for the financial assets measured at amortised cost is deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is allocated to the profit and loss for the year and recognised in other comprehensive income.

#### Write-off

The gross carrying amount of a financial asset is reduced (or written off) to the extent to which there are no real expectations of recovery. For customers, the Group individually assesses the time frame and the amount of the write-off on the basis of the actual expectation of recovery. The Group does not expect any significant recovery of the amount written off. However, the financial assets written down could still be subject to enforcement in order to comply with the debt collection procedures prescribed by the Group.

Standards applicable prior to 1 January 2018 (first-time adoption of IFRS 9 - additional details on first-time adoption criteria are provided in the section Standards, amendments and interpretations applied starting on 1 January 2018)

#### Non-derivative financial instruments

Financial assets not recognised at FVTPL were assessed at every reporting date to determine whether there was any objective evidence that they had been impaired.

The objective evidence that a financial asset was impaired included:

- insolvency or failure to pay on the debtor's part;
- restructuring of the debt owed to the Group at conditions that the Group would not otherwise have considered;
- indications of the bankruptcy of the debtor or of the issuer;
- unfavourable changes in the status of the debtors' or of the issuers' payments;
- the disappearance of an active market for the security due to financial difficulties;
- the presence of observable data indicating a quantifiable reduction of the cash flows expected from a group of financial assets

In the case of equity instruments, a significant and prolonged reduction of fair value below cost was considered objective evidence of impairment.

With regard to Financial assets measured at amortised cost, the Group considered any evidence of impairment of the financial assets at the individual asset level. All individually significant assets were tested individually, to identify any impairments.

The impairment corresponded to the difference between the carrying amount and the present value of the estimated expected cash flows discounted by the original effective interest rate of the asset. The impairment loss was recognised in profit and loss for the year and reflected in a loss allowance. When it was certain that it was not possible to recover the asset, the amount considered unrecoverable was deducted from the related financial asset. If an event subsequent to the impairment loss entailed the reduction of the loss, the loss was reversed and the effects were reflected in the profit or loss for the year.

The impairment losses of available for sale financial assets were recognised by reclassifying to profit or loss for the year the amount of the total cumulated loss in the fair reserve value equity. This total loss was equal to the difference between the acquisition cost (net of any repayments of principal and amortisation) and the fair value, minus any impairment loss previously recognised in profit or loss for the year. If, in a subsequent year, the fair value of an available for sale debt instrument that had undergone impairment increased and the increase could objectively be attributed to an event that occurred after recognition of the impairment loss, then the loss was reversed, recognising the effect in the profit or loss for the year. Impairment losses recognised in the profit or loss for the year relating to equity instruments classified as available for sale were instead not reversed through profit or loss for the year.

For additional details on Impairment losses of financial assets, please refer to the more thorough description in the section IFRS accounting standards, amendments and interpretations applied starting on 1 January 2018 concerning the effects of the application of IFRS 9.



## Cash and cash equivalents

Cash and cash equivalents are presented, according to their nature, at their nominal amount

In accordance with IAS 7, the definition of cash equivalents comprises cash on hand and bank/postal deposits repayable on demand, together with short-term, highly liquid investments that are readily convertible to a known amount of cash. It also includes short-term investments whose reimbursement value is predetermined at the date of initial purchase/recognition

## Financial liabilities

Financial liabilities are classified as measured at amortised cost or at FVTPL. A financial liability is classified at FVTPL when it is held for trading, it represents a derivative or is designated as such at the time of the initial recognition. Financial liabilities at FVTPL are measured at fair value and any changes, including interest expense, are recognised in profit or loss for the year. The other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and exchange gains/(losses) are recognised in profit or loss for the year, as well as any gains or losses deriving from derecognition.

For additional details on impairment losses of financial liabilities, please refer to the more thorough description in the section IFRS accounting standards, amendments and interpretations applied starting on 1 January 2018 concerning the effects of the application of the new IFRS 9 accounting standard.

## Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from them expire, when the contractual rights to receive the cash flows within a transaction in which substantially all the risks and benefits deriving from ownership of the financial asset are transferred or when the Group does not transfer or retain substantially all risks and benefits deriving from ownership of the financial assets and does not maintain control of the financial assets

The Group is involved in transactions that entail the transfer of assets recognised in its own statement of financial position, but retains all or substantially all risks and benefits deriving from the transferred assets. In these cases, the transferred assets are not derecognised.

The Group derecognises a financial liability when the obligation specified in the contract is fulfilled or cancelled or it expires. The Group derecognises a financial liability even in the case of a change of the related contractual terms and the cash flows of the modified liability are substantially different. In this case, a new financial liability is recognised at fair value on the basis of the amended contractual terms.

The difference between the carrying amount of the extinguished financial liability and the price paid (including the assets not represented by cash transferred or the assumed liabilities) is recognised in profit or loss for the year

## Derivative financial instruments and hedging transactions

Standards applicable from 1 January 2018 (first-time adoption of IFRS 9 - additional details on first-time adoption criteria are provided in the note Standards, amendments and interpretations applied starting on 1 January 2018)

The Group uses derivative financial instruments to hedge its own exposure to interest rate risk and price risk. Embedded derivatives are separated from the host contract and recognised separately when the host contract does not constitute a financial asset and when determined criteria are met.

Derivative financial instruments are initially recognised at their fair value. After initial recognition, derivatives are measured at fair value and the related changes are usually reported in the profit or loss for the year.

The Group designates some derivative financial instruments as hedging instruments to hedge the variability of the cash flows relating to highly probable expected transactions deriving from the fluctuation of interest rates and of the price risk.

At the start of the designated hedging relationship, the Group documents the risk management objectives and the strategy in implementing the hedge, as well as the economic relationship between the hedged item and the hedging instrument and it is expected that changes in cash on hand of the hedged element and in the hedging instrument will mutually offset

When a derivative financial instrument is designated as an instrument to hedge the exposure to the variability of cash flows, the effective portion of the fair value gain or loss on the derivative financial instrument is recognised in the Statement of comprehensive income and presented in the cash flow hedge reserve. The effective part of the fair value gain or loss on the derivative financial instrument that is recognised in the Statement of comprehensive income is limited to the cumulative change in the fair value of the hedged instrument (at the present value) from the start of the hedge. The ineffective portion of the fair value gain or loss on the derivative financial instrument is recognised immediately in profit or loss for the year

In a hedging relationship, the Group designates as hedging instrument only the fair value change of the spot element of the forward contract as a hedging instrument in a cash flow hedg relationship.

If the hedge ceases to meet the criteria or the hedging instrument is sold, terminated or is exercised, accounting for the hedge ceases prospectively. When the cash flow hedge ceases to be reported, the cumulative gain or loss in the hedging reserve remains in equity until, in the case of hedge of a transaction that entails the recognition of a non-financial asset or liability, it is included in the cost of the non-financial asset or liability at initial recognition or, in the case of the other cash flow hedges, it is reclassified in the profit or loss for the year in the same year or in the same years in which the expected hedged future cash flows have an effect on the profit or loss for the year

If future cash flow hedges are no longer expected, the amount must be reclassified immediately from the hedging reserve and from the reserve for hedging costs to profit or loss for the year

When a derivative instrument or a non-derivative financial liability is designated as a hedging instrument within a hedge of a net investment in a foreign operation, the effective portion, in the case of derivatives, of the fair value gain or loss on a derivative instrument or, in the case of a non-derivative item, foreign exchange gains or losses, are

recognised in the Statement of comprehensive income and presented in equity within the translation reserve. The ineffective portion is recognised immediately in profit or loss of the year. The amount recognised in the Statement of comprehensive income is reclassified in profit or loss for the year as a reclassification adjustment on the disposal of the foreign operation.

With reference to hedge accounting, the Group adopted a new model compliant with the new IFRS 9, applied prospectively. Based on the new approach, a hedging relationship is effective if and only if it meets the following requirements:

- existence of an economic relationship between the hedging instrument and the hedged item;
- the credit risk is not dominant with respect to the changes in value;
- the hedge ratio is the same one used for risk management purposes, i.e. the hedged quantity of the hedged element and the quantity of the hedging instrument used to cover the hedged item.

At 1 January 2018, the new effectiveness requirements of all existing hedges were verified with no need for interruptions.

Lastly, in accordance with IFRS 9, the Group carries out the basis adjustment, reclassifying the effective result of the hedge to adjust the value at initial recognition of the hedged item, in case of cash flow hedges of non-financial elements

The criterion applied to the comparative information relating to 2017 is similar to that adopted for 2018. However, for all cash flow hedges, including those of transactions entailing the recognition of a non-financial asset or liability, the amounts accumulated in the hedging reserve were reclassified to profit or loss of the year in the same year or in the same years in which the hedged expected future cash flows have an effect on profit or loss

#### Contracts to buy or sell a non-financial item

In general, Contracts to buy or sell a non-financial item, which were entered into and continue to be held for collection or delivery, according to the normal expected purchase, sale or usage requirement, are outside the scope of IAS 39 (until 31 December 2017) and of IFRS 9 (from 1 January 2018) ("own use exemption") and hence they are recognised according to the reference accounting rules

These agreements are recognised as derivatives and, consequently, at fair value through profit or loss only if:

- they can be settled net;
- they were not entered into Group's for normal purchase, sale or usage requirements

A contract to buy or sell a non-financial item non-financial item is classified as a "normal purchase or sale agreement" if it was entered into:

- for the purposes of physical delivery,
- for the normal purchase, sale or usage requirements of the Group.

The Group analyses all contracts to buy or sell non-financial assets, with particular attention to forward purchases or sales of electricity and energy commodities, in order to determine whether they should be classified and treated in accordance with IAS 39 (until 31 December 2017) and with IFRS 9 (from 1 January 2018 onwards) or they were entered into for "own use exemption".

Standards applicable before 1 January 2018 (first-time adoption of IFRS 9 - additional detail on first-time adoption criteria are provided in the note Standards, amendments and interpretations applied starting on 1 January 2018)

### Ordinary shares

The incremental costs that can be directly attributed to the issue of ordinary shares are recognised as equity decreases. Income taxes related to the costs of a transaction on capital are recognised in accordance with IAS 12.

### Treasury shares

Treasury shares are presented as a reduction in equity.

In case of buy-back of shares recognised in equity, the consideration paid, including the costs that can be directly attributed to the transaction are recognised as reductions in equity. The shares thus bought back are classified as treasury shares and recognised in the reserve for treasury shares. The consideration received from the subsequent sale or re-issue of treasury shares is recognised as an increase in equity. Any positive or negative difference deriving from the transaction is recognised in the share premium reserve.

### Share-based payments transactions

The fair value, at the date of assignment of the incentives recognised in the share-based equity-settled payments, 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 assumptions set forth at the assignment date and the actual ones will not impact the financial statements.

### Inventories

Inventories, relating to spare parts, are measured at cost, determined using the weighted average cost method, or market value (replacement cost), whichever is lower.

### Foreign currency transactions

Foreign currency transactions are converted to the functional currency of each Group entity at the exchange rate ruling on the date of the transaction.

Foreign currency monetary assets and liabilities are translated using the closing rate into the functional currency of each Group entity. Non-monetary items that are measured at historical cost are maintained at the exchange rate at the transaction date except in the case of a persistently unfavourable trend in the exchange rate. Exchange differences arising on the settlement of items at rates different from those at which they were translated at initial recognition and those relating to monetary items at year-end are recognised in profit or loss under financial income and expense.

However, the exchange differences deriving from the translation of the following items are recognised in the Statement of comprehensive income:

- equity instruments designated at FVOCI (2017: available for sale equity instruments - not including impairment losses, in which case the exchange differences recognised in the Statement of comprehensive income were reclassified to profit or loss);
- cash flow hedges to the extent to which the hedge is effective.

Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognised in profit or loss of the separate financial statements of the reporting entity or the individual financial statements of the foreign operation as appropriate. In the financial statements that include foreign operations, such exchange differences are recognised initially in the Statement of comprehensive income and reclassified from equity to profit or loss on the disposal of the net investment.

### Other Provisions

ERG Power Generation recognises Other provisions when:

- there is a present legal or constructive obligation to third parties;
- it is probable that the use of Group resources will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation

Changes in accounting estimates are recognised in profit or loss in the period of the change.

When the effect of the time value of money is material and the dates of settlement of the obligations can be estimated, the provision is discounted, using a discount rate that reflects the current market assessments of the time value of money. The increase in the provision due to the passage of time is recognised in profit or loss under "Financial income (expense)".

When the obligation relates to property, plant and equipment (for example, dismantling and restoration of sites), the provision is recognised as a balancing entry to the asset to which it refers, and recognition in the income statement takes place through the depreciation process.

Significant contingent liabilities, represented by the following, are disclosed in the notes to the financial statements:

- possible (but not probable) obligations arising from past events, the existence of which will be confirmed only upon occurrence of one or more uncertain future events not wholly within the group's control;

- present obligations arising from past events the amount of which cannot be reliably estimated, or for which it is probable that settlement will not be onerous.

## Employee benefits

### Short-term benefits for employees

Short-term benefits for employees are recognised as a cost at the time the service that gives rise to such benefits is performed. The Group recognises a liability for the amount expected to be paid when there is a present, legal or constructive obligation to make these payments as a consequence of past events and it is possible to make a reliable estimate of the obligation

### Defined contribution plans

Contributions to be paid to defined contribution plans are recognised as a cost in profit or loss along the period in which the employees provide their services; contributions paid in advance are recognised as assets to the extent to which the advances will lead to a reduction in future payments or a reimbursement thereof.

### Defined benefit plans

The net obligation of the Group deriving from defined benefit plans is calculated separately for each plan by estimating the amount of the future benefit which the employees have accrued in exchange for the service provided in the current year and in the previous years; this benefit is discounted and the fair value of any plan assets are subtracted from the liabilities

The calculation is carried out by an independent actuary using the projected unit credit method. If the calculation generates a benefit for the Group, the amount of the recognised asset is limited to the present value of the economic benefits available in the form of reimbursements from the plan or of reductions of the future contributions of the plan. To establish the present value of the economic benefits, the minimum funding requirements applicable to any plan of the Group are considered

Actuarial gains and losses, the returns on plan assets (excluding interest) and the effect of the maximum amount of the asset (excluding any interest) that emerge as a result of the revaluation of the net liability for defined benefit plans are recognised immediately in the Statement of comprehensive income. The net interest of the year on the net liability/(asset) for defined benefits is calculated by applying to the net liability/(asset) the discount rate used to discount the defined benefit obligation, determined at the start of the year, considering any changes in the net liability/(asset) for defined benefits that occurred during the year as a result of the contributions collected and of the benefits paid. Net interest and the other costs relating to defined benefit plans are instead recognised in the profit or loss for the year.

When changes are made to the benefits of a plan or when a plan is curtailed, the portion of the economic benefit relating to past service or the gain or loss deriving from the reduction of the plan are recognised in profit or loss for the year when the adjustment or the curtailment occurs.

Until 31 December 2006, post-employment benefits ("TFR") of Italian companies were considered as a defined benefit plan. The rules for the liability were amended by Italian Law no. 296 dated 27 December 2006 (the "2007 Budget Law") and subsequent decrees and regulations promulgated in the early months of 2007. In light of these amendments, and in particular with reference to companies with at least 50 employees, the TFR is currently considered a defined benefit plan solely for the portions vested prior to 1 January 2007 and not yet paid as of the reporting date, whereas after said date they are deemed akin to a defined contribution plan. The following is a schematic representation of the cases pertaining to the classification of the post-employment benefits for IAS 19 purposes on the basis of the main types of post-employment benefits in the light of the different regulations in this regard.

Types of Post-employment benefits	Personnel employed in 2006*	IAS 19 classification
Post-employment benefits accrued until 31 December 2006**	>50 employees	Defined benefit plan
	<50 employees	Defined benefit plan
Post-employment benefits accrued since 1 January 2007**	>50 employees	Defined contribution plan
	<50 employees	Defined benefit plan

\* for newly established companies, the number taken as a reference relates to the first year of activity  
 \*\* without prejudice to options to allocate the post-employment benefits to supplemental pension plans

#### Termination benefits

The benefits due to the employees for the termination of employment are recognised as a cost when the Group has committed without possibility of withdrawal to offer said benefits or, if prior, when the Group recognises the restructuring costs. Benefits entirely due over twelve months from the reporting dates are discounted.

#### Public funding

Grants related to assets are initially recognised at fair value as deferred income if there is a reasonable certainty that they will be received and that the Group will comply with the conditions attaching to them and they are then recognised in profit or loss for the year as other income on a systematic basis throughout the useful life of the asset to which they refer.

Funding that offsets costs incurred by the Group are recognised in profit or loss for the year, on a systematic basis, over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

#### Obligations pertaining to Law no. 124/2017 of 4 August 2017

Article 1, paragraph 125 of Law no. 124 of 4 August 2017 introduced the obligation for companies that receive financial contributions from public administrations to publish the amounts received in their Explanatory Notes and in the Consolidated financial statements, if these are drawn up. This provision raised a number of interpretation doubts with regard, among other things, to the type of disbursement that must be disclosed. In this regard, the company noted the position adopted by Assonime in Circular No. 5 of 22 February 2019, according to which, by adopting a systematic

interpretation of aforementioned Article 1, paragraph 125, the obligation to publish relates only to disbursements of an "individual" nature. Although Assonime's position is widely acceptable, pending a more general interpretation of the law in question and given the importance of the possible consequences of non-compliance with the aforementioned disclosure obligation, the Group has decided to indicate in these financial statements the economic contributions received from public administrations that can be used by all companies and that fall within the general structure of the reference system defined by the State (such as energy account, energy efficiency certificates, etc.), except for those belonging to the following categories:

- tax incentives;
- training grants received from inter-professional funds (such as Fondimpresa), as funds having the associative form and legal nature of private entities, which are financed by contributions paid by the entities themselves

In accordance with the provisions of Article 3-quater of Italian Law Decree no. 135/2018, for any funds received, please refer to the indications contained in the National Register of State Aid under Article 52 of Law no. 234 of 24 December 2012.

(EUR million)	Revenue for 2018	of which Feed-in Premium <sup>(1)</sup>	of which White Certificates <sup>(1),(2)</sup>	of which Guarantees of Origin <sup>(1),(2)</sup>	of which RID <sup>(2)</sup>	of which RES <sup>(2)</sup>
Wind Italy	159	158	-	1	-	-
Hydroelectric Italy	86	78	-	2	5	1
Thermoelectric Italy	25	-	25	-	-	-
Solar Italy	30	30	-	-	-	-
<b>Total</b>	<b>301</b>	<b>267</b>	<b>25</b>	<b>2</b>	<b>5</b>	<b>1</b>

1: provider of Energy Services Management (GSE)

2: sold to third parties

(EUR million)	Collections 2018	of which Feed-in Premium <sup>(1)</sup>	of which White Certificates <sup>(1),(2)</sup>	of which Guarantees of Origin <sup>(1),(2)</sup>	of which RID <sup>(2)</sup>	of which RES <sup>(2)</sup>
Wind Italy	176	176	-	1	-	-
Hydroelectric Italy	65	58	-	1	5	0
Thermoelectric Italy	27	-	27	-	-	-
Solar Italy	34	34	-	-	-	-
<b>Total</b>	<b>303</b>	<b>268</b>	<b>27</b>	<b>2</b>	<b>5</b>	<b>0</b>

1: provider of Energy Services Management (GSE)

2: sold to third parties

The amounts indicated in the above tables are also included in the Financial statements of the Group companies in question



## Leases

### Determining whether an agreement contains a lease

At the start of an agreement, the Group verifies whether the agreement is or contains a lease.

At inception of a contract or upon revision thereof, the Group separates the lease payments and the other consideration provided by the contract, classifying them as payments for the lease and payment for other elements on the basis of the related fair value. If, in the case of a financial lease, the Group concludes that it is not feasible to divide the lease payments reliably, an asset or a liability whose amount is equal to the fair value of the underlying asset is recognised. Subsequently, the liability is reduced as the payments are made and a financial expense is recognised on the liability using Group's incremental borrowing rate.

### Leased assets

Leased property, plant and equipment that transfer to the Group substantially all risks and benefits deriving from ownership of the asset are classified as financial leases. The assets acquired through leases are initially recognised at the fair value of the leased asset or, if lower, at the present value of the minimum payments due for the lease. After initial recognition, the asset is measured in accordance with the standard applicable to said asset.

The other leased assets are included among operating leases and they are not recognised in the statement of financial position.

### Lease payments

Payments relating to operating leases are recognised as a cost on a straight-line basis over the lease term. The incentives granted to the lessee are recognised as an integral part of the total cost of the lease over the lease term.

The minimum payments due for financial leases are divided between interest expense and reduction of the residual debt. The interest expense is allocated over the lease in order to obtain a constant interest rate on the residual liability.

## Gross operating profit (loss) EBITDA and operating profit (loss) EBIT

Gross operating profit (loss) EBITDA and operating profit (loss) EBIT are determined by the operating activities of the Group that generate continuing revenues and by the other income and costs related to the operating activities. Gross operating profit (loss) EBITDA does not include net financial expense, the Group's share of the profit, income taxes and depreciation, amortisation and impairment losses on non-current assets (intangible assets and property, plant and equipment).

The operating profit (loss) EBIT is equal to the value of the Gross operating profit (loss) EBITDA less amortisation, depreciation and impairment losses on non-current assets (intangible assets and property, plant and equipment).

## Revenue recognition

The Group adopted IFRS 15 as from 1 January 2018. The section Standards, amendments and interpretations applied starting on 1 January 2018 describes the effect deriving from the first-time adoption of IFRS 15.

The new Standard applies to all contracts with customers and it is applicable to all industrial and commercial sectors. The customer is defined as "a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration".

The most innovative aspect of IFRS 15 pertains to the fact that an entity shall recognise the sale of a good or the performance of a service based on a value that exactly reflects the part of a price attributable to each revenue component, with reference to the price paid by the customer who expects to receive that good produced or that service rendered.

The methodological approach that should entail this type of recognition comprises five fundamental steps:

- 1) Identifying the contract with a customer: in general, a contract exists when the agreement reached with a customer is such as to generate obligations;
- 2) Identifying the performance obligations in the contract: an entity shall recognise revenue individually for each good or service as a separate obligation if these assets or services are distinct from each other. The criteria to define whether a good or service can be considered distinct are i) the customer can benefit from the good or service both individually and in combination with other resources and the goods are available and ii) the good or service can be separated from other obligations or promises that are not dependent or connected to other contractual elements;
- 3) Estimating the transaction price, understood as the amount which the entity expects to receive as a result of the sale of the goods or of the services rendered to customers;
- 4) Allocating the transaction price to the contractual obligation(s): the entity allocates the price to each distinct good or service. This allocation is based on the stand-alone selling price the entity would apply to each individual good or service if it were sold separately;
- 5) Recognising the revenue only when the contractual obligation is fulfilled

As allowed by IFRS 15, no information is provided on the remaining performance obligations at 31 December 2018 having an original expected duration equal to or shorter than one year.

The main types of revenue of the Group that generate separate performance obligations are:

- 1 Revenue from sale of commodities
  - Sale of electricity on the electricity exchange
  - Sale of electricity to end customers
  - Sale of electricity, steam and other utilities to the operators of the Priolo site

The agreements stipulated with customers are generally short-term (up to one year) and their price profiles can be according to the market (spot), fixed or with price formulas only partially correlated with spot or forward prices
- 2 Revenue for incentivising tariffs (feed-in tariff, auctions, feed-in premiums, etc.) on electricity.
- 3 Revenue for energy efficiency certificates, for green certificates (foreign companies) and origin guarantees

## Dividends

Dividends are recognised when, following a shareholders' resolution, the Group's right to receive the payment is established.

## Financial income and expense

The financial income and expenses of the Group comprise:

- interest income;
- interest expense;
- dividend income;
- net gains or losses deriving from the sale of debt instruments measured at FVOCI;
- net gains or losses from financial assets at FVTPL;
- exchange gains or losses on financial assets and liabilities;
- impairment losses on debt securities recognised at the amortised cost or FVOCI;
- income deriving from a business combination transaction for the revaluation at fair value of any equity investment already held in the acquired company;
- fair value losses on the contingent consideration classified as financial liability;
- ineffectiveness of the hedge recognised in profit or loss for the year

Interest income and expenses are recognised in profit or loss for the year on an accrual basis, using the effective interest method. Dividends are recognised when, following a shareholders' resolution, the Group's right to receive the payment is established.

The 'effective interest rate' is the rate that exactly discounts estimated future payments or collections along the expected life of the financial asset.

- to the gross carrying amount of the financial asset;
- to the amortised cost of the financial liability.

When calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not impaired) or at the amortised cost of the liability. However, in the case of the financial assets that became impaired after the initial recognition, the interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, interest income is again calculated on a gross basis.

## Income taxes

The tax expense for the year comprises the current deferred tax assets and liabilities recognised in profit or loss for the year, with the exception of those relating to business combinations or items recognised directly in equity or in the Statement of comprehensive income.

The Group determined that the interest and the penalties relating to income taxes, including the accounting treatments

to be applied to income taxes of an uncertain nature, are recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets because they do not match the definition of income taxes.

#### Current taxes

Current taxes are accrued based on the estimated tax expense for the year, also taking into account the effects relating to participation of most group companies in the tax consolidation scheme.

The amount of the taxes due or to be received, determined on the basis of tax rate in force or substantially in force at the reporting date, also includes the best estimate of any portion to be paid or to be received that is subject to uncertainty factors.

Current tax assets and liabilities are offset only when determined criteria are met.

#### Deferred taxes

Furthermore, pursuant to the accrual basis of accounting, the consolidated financial statements include deferred tax assets and liabilities arising from temporary differences deriving from adjustments made to consolidated companies' financial statements to comply with the Group's accounting policies, as well as from temporary differences between the carrying amounts and related tax bases, and on unused tax losses.

Provisions for taxes that may arise from the transfer of undistributed profits of subsidiaries are made only when there is a real intention to transfer such profits.

Deferred tax assets are recognised for tax losses and unused tax credits, as well as for deductible temporary differences, to the extent to which it is probable that a future taxable profit will be available, with respect to which these assets can be utilised. Future taxable profits are defined on the basis of the reversal of the related deductible temporary differences. If the amount of the taxable temporary differences is not sufficient to fully recognise a deferred tax asset, consideration is given to the future taxable income, adjusted for the reversal of existing temporary differences, provided by the business plans of the individual subsidiaries of the Group. The carrying amount of deferred tax assets is revised on every reporting date and is reduced to the extent to which it is no longer probable that the related tax benefit will be realised. These reductions will have to be restored when the probability of achieving future taxable profits increases.

Since different tax consolidation schemes are currently in existence, the recoverability of the temporary differences and of the tax losses is contextualised within the various expiry dates of the tax consolidation agreements. Lastly, with reference to deferred tax assets related to Italian investees' tax losses, regulations provide for a quantitative limit to the utilisation of prior years' tax losses, i.e. 80% of the profit produced in the following years. The aforesaid quantitative limit of 80% does not apply for tax losses generated in the first three years from the incorporation of the company, provided that they refer to a new productive activity.

Deferred taxes are calculated on the basis of the tax rates that are expected to apply to the periods in which the taxable temporary differences will reverse.

Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities.

### Discontinued operations

A discontinued operation is a component of the Group whose operations and cash flows are clearly distinguishable from the rest of Group that:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations;
- is a subsidiary acquired solely with the intention of reselling it.

An operation is classified as discontinued at the time of sale or when it meets the conditions for classification in the "held for sale" category, whichever comes first.

When an operation is classified as discontinued, the comparative income statement is redetermined as if the operation had been discontinued from the beginning of the comparative period.

### Available-for-sale assets

Non-current assets or disposal groups comprising assets and liabilities are classified as held for sale when it is highly probable that their carrying amount will be recovered principally through a sale transaction rather than through their continuing use.

The assets or the disposal group are usually measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liability proportionally, with the exception of inventories, financial assets, deferred tax assets, employees benefits, investment property and biological assets, which continue to be measured in accordance with other standards. Impairment losses deriving from the initial classification of an asset as held for sale or for distribution and subsequent measurement differences are recognised in profit or loss for the year.

Once they are classified as available for sale, intangible assets and property, plant and equipment cease to be amortised and equity investments recognised at equity are no longer recognised with that method.

### "Emissions rights"

In relation to the regulatory obligations deriving from CO<sub>2</sub> emissions, the Group procures mainly emissions rights to address its own requirements during the year ("own-use"). For the purposes of the recognition of the expense deriving from these regulatory obligations, the Group applies the "net liability approach". According to this accounting treatment, certificates received free of charge are recognised at cost (zero if they are free of charge) and a liability is recorded only if the actual emissions exceed the freely assigned certificates. Purchased certificates are recognised at the specific cost according to the accruals basis. If the purchased certificates, net of those assigned free of charge, exceed those necessary to address regulatory obligations, this excess is recognised among current assets.

## RELATED PARTIES

Related parties are mainly those that share the same parent with ERG Power Generation S.p.A., the companies that directly or indirectly, through one or more intermediaries, control, are controlled by, or are subjected to joint control by ERG Power Generation S.p.A. and those in which ERG Power Generation S.p.A. has an investment.

## OPERATING SEGMENTS

### Criteria for determining the segments

The Group has the following four operating segments subject to disclosure in the directors' report and in Note 34 - Disclosure by operating segment and geographic area, as described in detail below, which correspond to the strategic business segments. These segments provide different products and services and they are managed separately because they need different technologies and strategies.

The activities of each segment of the Group disclosed herein are summarised below:

#### Wind

ERG is active in the generation of electricity from wind sources, with 1,822 MW of installed power at 31 December 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 (729 MW operational), in particular in France (307 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.

In January 2019, ERG further increased its presence in the sector following the acquisition of two photovoltaic plants, located in the Lazio region, with an installed capacity of 51.4 MW.

#### 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.

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 the Energy Management department to hedge the price risk. In order to give a clearer representation of the businesses in terms of technology, therefore, the wind and hydroelectric power results include the hedges entered into in relation to renewable sources ("RES") and the thermoelectric results include the hedges on the "spark spread".

## USE OF ESTIMATES - RISKS AND UNCERTAINTIES

Preparation of financial statements and notes pursuant to IFRS requires ERG Power Generation to make estimates and assumptions that affect the carrying amounts of the assets and liabilities, of the costs and revenue 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, in addition to those relating to fair value measurements, described in the specific section, were formulated, inter alia, for:

- the goodwill impairment test, intangible assets and property, plant and equipment: main assumptions for the determination of recoverable amounts (Impairment test section) with particular reference to the expected prices of energy and gas, to the available of renewable resources, to the evolution of the regulatory framework, to the estimate of the recoverable value of "dry" and "wet" works at the end of the concessions for large-scale diversion of water for hydroelectric use and to macroeconomic variables such as inflation and discount rates;
- the determination of the amortisable value of concessions for large-scale diversion of water for hydroelectric use,
- the definition of the useful life of non-current assets and the related amortisation and depreciation (in the section Property, Plant and Equipment and at the section Intangible assets);

- 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 (Note 6 - Taxes);
- the estimates for provisions for environmental risks and for liabilities related to legal and fiscal disputes, in particular, the valuation processes are based on complex elements that by their nature imply reliance on the Directors' judgement, also taking into account the elements acquired by external consultants, and involve both determining the degree of likelihood of the occurrence of conditions that may entail a financial outlay and hence classification among liabilities or among contingent liabilities, and quantifying the related amount (Note 13 - Other provisions). In particular, with reference to the Provision for disposed Businesses, the most complex elements are connected with the measurement process and with the measurement procedures related to the risks tied mainly to events dating back in time and pertaining to environmental, legal and tax matters tied to the divested "Oil" Coastal Refining and of integrated Downstream businesses,
- the estimate of the revenue which refers to the thermoelectric business in relation to determination of the fair value of energy efficiency certificates (Revenue section)
- loss allowances, allowances for inventory write-down and impairment of assets (Note 8 - Inventories, Note 9 Trade receivables, Note 13 - Other provisions).

#### Fair value measurements

Different accounting standards and some disclosure obligations require the Group to measure the fair value of financial and non-financial assets and liabilities.

In relation to the fair value measurement, the Group has its own structure of appraisers, responsible in general for all significant fair value measurements, including Level 3 measurements (if present).

Non-observable input data and valuation adjustments are regularly subjected to reappraisal. When information provided by third parties, such as broker quotes or pricing services, is used to determine fair value, the team of appraisers assesses and documents the evidence obtained from third parties to support the fact that such measurements comply with the provisions of the IFRS, including the level of fair value hierarchy in which the related measurement has to be classified.

The significant aspects relating to the measurement are communicated to the Control and Risk Committee of the Group.

In measuring the fair value of an asset or a liability, the Group uses, insofar as it is possible, observable market data. Fair values are distinguished in various hierarchical levels according to the input data used in the measurement techniques, as illustrated below.

- Level 1: quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2: inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (prices) and indirectly (derived from prices);
- Level 3: input data relating to the asset or liability that are not based on observable market data.



If the input data used to measure the fair value of an asset or of a liability belong to the different levels of the fair value hierarchy, the entire measurement is inserted in the same hierarchy level as the lowest level input that is significant for the entire measurement.

The Group recognises the transfers between the various levels of the given fair value hierarchy of the event or of the change in the circumstances that determined the transfer in which the transfer took place.

Additional information on the assumptions to determine fair value is provided in the following notes:

- **Note 25 - Services and other operating costs** and **Note 26 - Personnel expense**,
- **Note 31 - Profit from discontinued operations**;
- **Note 36 - Financial Instruments**;
- **Business combinations** section

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

## STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED STARTING ON 1 JANUARY 2018

### IFRS 15 - Revenue from Contracts with Customers

IFRS 15 - Revenue from Contracts with Customers has been applied from 1 January 2018, with limited impacts on the Group's consolidated financial statements. In particular, for some contracts ERG Power Generation 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 of the Group for the consolidated financial statements at 31 December 2018.

(EUR thousand)	2018	Reclassifications	in 2018 without considering the effect of the adoption of IFRS 15
Revenue	1,023,792	15,090	1,038,882
Other income	18,349	-	18,349
<b>Total revenue</b>	<b>1,042,141</b>	<b>15,090</b>	<b>1,057,231</b>
Purchases	(326,985)	-	(326,985)
Services and other operating costs	(177,353)	(15,090)	(192,443)
Personnel expense	(41,009)	-	(41,009)
<b>Gross Operating Income (EBITDA)</b>	<b>496,794</b>	<b>-</b>	<b>496,794</b>
Amortisation, depreciation and impairment of non-current assets	(269,232)	-	(269,232)
<b>Operating profit</b>	<b>227,562</b>	<b>-</b>	<b>227,562</b>
<b>Net financial income (expense)</b>	<b>(59,394)</b>	<b>-</b>	<b>(59,394)</b>
<b>Gains (losses) on equity investments</b>	<b>(408)</b>	<b>-</b>	<b>(408)</b>
<b>Profit before taxes</b>	<b>167,759</b>	<b>-</b>	<b>167,759</b>
Income taxes	(45,212)	-	(45,212)
<b>Profit from continuing operations</b>	<b>122,548</b>	<b>-</b>	<b>122,548</b>
Profit from discontinued operations	28,432	-	28,432
<b>Profit for the year</b>	<b>150,980</b>	<b>-</b>	<b>150,980</b>
Non-controlling interests	(133)	-	(133)
<b>Profit attributable to the owners of the parent</b>	<b>150,847</b>	<b>-</b>	<b>150,847</b>
<b>Total comprehensive income for the year</b>	<b>135,812</b>	<b>-</b>	<b>135,812</b>

Application of the standard has had no significant effects on the statement of financial position at 31 December 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" of EUR 15 million in 2018 and a decrease in the related expenditure classified under services (EUR 15 million). Application of the standard has no effect on the Group operating profit (EBITDA).

## IFRS 9 - Financial Instruments

IFRS 9 - Financial Instruments has 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.

IFRS 9 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. it has been presented according to IAS 39.

With the adoption of IFRS 9, the Group has also adopted the changes consequent to IAS 1 Presentation of Financial Statements according to which the impairment losses of financial assets have to be presented in a distinct item of the income statement and of the Statement of comprehensive income.

Moreover, the Group adopted the changes consequent to IFRS 7 Financial Instruments' disclosures that will be applied only to the disclosures for 2018, without affecting the comparative information.

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
<b>Retained earnings</b>	
Recognition of the effect of non-substantial modifications to financial liabilities	7,435
Recognition of expected credit losses in accordance with IFRS 9	(885)
Income taxes	(1,572)
<b>Effects at 1 January 2018</b>	<b>4,978</b>

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 have already been described in the section on the Main accounting policies.

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 compliant with IAS 39	New classification compliant with IFRS 9	Original carrying amount compliant with IAS 39	New carrying amount compliant with IFRS 9
<b>Financial Assets</b>				
Derivative instruments	Fair value - Hedging instruments	Fair value - Hedging instruments	17.210	17.210
Other receivables	Loans and receivables	Amortised cost	241.340	241.340
Cash and cash equivalents	Loans and receivables	Amortised cost	151.022	151.022
Trade receivables	Loans and receivables	Amortised cost	256.090	256.090
Financial receivables	Loans and receivables	Amortised cost	39.233	39.233
Equity investments	Fair value	FVTPL	10	10
<b>Total financial assets</b>			<b>704.905</b>	<b>704.905</b>

#### IFRS 9 - Impairment losses on financial assets

IFRS 9 also replaces the 'incurred loss' model under IAS 39 with an 'expected credit loss' model ('ECL'). The new impairment 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. For additional details, please refer to the section "Main accounting policies".

#### 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, instead, does not allow redetermination of the effective interest rate in relation to renegotiation modifications that do not determine the derecognition (and the consequent recognition of a new liability at fair value) of the financial liability: the entity has to recalculate the gross carrying amount of the financial asset/liability and recognise a modification gain or a loss in the profit or loss. The gross carrying amount of the financial asset/liability must be recalculated as the present value of the renegotiated or changed cash flows that are discounted at the original effective interest rate of the financial assets (or at the effective interest rate corrected for credit and for the acquired or originated impaired financial assets).

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.

There have been no other changes due to the first-time adoption of IFRS 9 in relation to the classification and measurement of financial liabilities.

#### IFRS 9 - Recognition of hedging transactions (hedge accounting)

The Group decided to adopt the new general provisions for hedge accounting prescribed by IFRS 9, on the basis of which the Group must ensure that the hedge accounting relationships are in line with the objectives and its own risk management strategy and that it applies a more qualitative and forward-looking method to the measurement.

The Group uses forward agreements to hedge the variability of the cash flows deriving from the fluctuation of commodity prices (mainly electricity and natural gas). The effective part of the fair value measurement of hedging instruments is accumulated in the hedging reserve as a separate component of equity.

In accordance with IAS 39, for all cash flow hedges, the amounts accumulated in the hedging reserve were reclassified in profit or loss for the year as reclassification adjustments in the same period in which the hedged expected cash flows were recognised in the profit or loss. Conversely, according to IFRS 9, for the currency hedges associated with the programmed acquisitions of inventories, the amounts accumulated in the hedging reserve are instead included directly in the initial cost of the inventories at the time of its recognition. IFRS 9 applies the same methods to the accumulated amounts in the reserve for the costs of the hedge.

For an explanation of the hedge accounting procedures applied by the Group in accordance with IFRS 9, please refer to **Note 36 - Financial instruments**.

The application of IFRS 9 for the accounting of hedging transactions did not entail any effects on the opening equity.

#### IFRS 9 - Summary of transitional provisions

The changes to the accounting policies deriving from the adoption of IFRS 9 were applied retroactively with the exceptions set out below.

- the Group opted for the exemption that allows it not to redetermine the comparative information of the previous years pertaining to the provisions on classification and measurement (including impairment losses). The differences between the carrying amounts of financial assets and liabilities deriving from adoption of IFRS 9 are recognised among the retained earnings and reserves at 1 January 2018. Thus, in general, the information presented for 2017 does not reflect the provisions of IFRS 9, but rather those of IAS 39;

- the following measurements were made on the basis of the facts and the circumstances in place at the date of first-time adoption.
  - definition of the business model in which a financial asset is included,
  - designation of some equity instruments not held for trading in the FVOCI category.
- when a debt security has low credit risk at the date of initial application of IFRS 9, the Group considered that the credit risk of the asset has not increased significantly after the initial recognition.
- changes to hedge accounting provisions were applied prospectively, because the Group has no existing instruments for which the hedge cost method in relation to the forward points that should have been applied retroactively to the hedges existing on or after 1 January 2017 is applicable.
- all hedges designated in accordance with IAS 39 at 31 December 2017 met the hedge accounting provisions of IFRS 9 at 1 January 2018 and, therefore, they represent continuous hedges.

In addition to IFRS 9 and IFRS 15, listed below are the new amendments and interpretations 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";
- Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts";
- Amendments 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 and interpretations do not have significant effects for the Group.

## STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, NOT YET MANDATORILY APPLICABLE AND NOT ADOPTED EARLY BY THE GROUP AT 31 DECEMBER 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.

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

The Group, which will have to adopt IFRS 16 Leases starting from 1 January 2019, estimated the effects, set forth below, deriving from the transition to this standard on the consolidated financial statements. It is pointed out that the actual effects of the adoption of the aforesaid standard at 1 January 2019 could be different because:

- the Group has not yet completed the checks and the assessment of the controls on its new information systems;
- the new measurement criteria could undergo changes until the presentation of the first consolidated financial statements of the Group of the year that includes the date of first time adoption

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. 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 7 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

As lessee, the Group will recognise new liabilities for operating leases of land, warehouses, property, equipment, substations and vehicle fleet. The nature of the costs relating to the above-mentioned leases will change because the Group will depreciate right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised costs for operating leases on a straight-line basis over the lease term.

No significant impacts are expected for the financial leases of the Group.

On the basis of currently available information, the Group expects to recognise a new liability for leases and higher Right of use assets amounting to approximately EUR 60 million at 1 January 2019 related mainly to the Wind business. The Group does not expect that the adoption of IFRS 16 will influence its ability to comply with the debt covenants provided in the loan agreements described in Note 19. In addition, no significant impacts are expected in relation to the impairment losses of non-financial assets as a result of the application of the new standard.

The Group intends to apply IFRS 16 from the date of first adoption (i.e. 1 January 2019) using the modified retrospective

approach. Therefore, the cumulative effect of the adoption of IFRS 16 will be recognised to adjust the opening balance at 1 January 2019, without stating the comparative information.

In addition to the aforementioned IFRS 16, the following amendments to the standards or to the interpretations are not expected to have significant effects on the consolidated financial statements of the Group.

- IFRS 9: Prepayment Features with Negative Compensation, endorsed in March 2018 and applicable to annual reporting periods beginning on or after 1 January 2019;
- IFRIC 23 "Uncertainty over Income Tax Treatments" (applicable since 1 January 2019);
- Amendment to IAS 28 Long-term interests in Associates and Joint Ventures (applicable since 1 January 2019).

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

- Amendment to IAS 19 Plan Amendment, Curtailment or Settlement (applicable since 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 (applicable from 1 January 2021);
- Amendment to References to the Conceptual Framework in IFRS Standards;
- Definition of business (amendments to IFRS 3 - applicable since 1 January 2020);
- Definition of material (amendments to IAS 1 and IAS 8 - applicable since 1 January 2020);

Any impacts of the aforesaid amendments are currently being assessed.

## BASIS OF CONSOLIDATION

### Consolidation scope

#### Subsidiaries

The Consolidated Financial Statements include the data pertaining to ERG Power Generation S.p.A., the Parent, and the subsidiaries either directly or indirectly controlled by it. Such control exists when the Group is exposed to the variable returns deriving from its relationship with the entity, or claims rights on such returns, while having the ability to influence them by exercising its own power on the entity itself. The financial statements of subsidiaries are included in the consolidated financial statements from the time the parent company starts exercising control until the date on which control ceases. Subsidiaries are consolidated commencing on the date when the Group actually obtains control. In case of loss of control, the Group eliminates the assets and liabilities of the subsidiary, any third-party equity investments and the other equity components relating to the subsidiaries. Any gain or loss deriving from loss of control is recognised in the profit or loss for the year. Any equity investment held in the former subsidiary is measured at fair value on the date of loss of control.



#### Non-controlling interests

Non-controlling interests, if there are any, are measured in proportion to the related share of identifiable net assets of the acquired company at the acquisition date. Changes to the equity investment of the Group in an investee that do not entail loss of control are recognised as owner transactions.

#### Equity investments carried at equity - Associates and joint ventures

Associates are entities over whose financial and management policies the Group exercises significant influence, while joint ventures are a joint arrangement whereby the Group has rights to the net assets but not rights to the assets and assuming obligations for the liabilities.

Associates and joint ventures are measured at equity and initially recognised at cost. The cost of the investment includes transaction costs. The consolidated financial statements comprise the Group's share of the profits or losses of the investees recognised at equity until the date on which said significant influence or joint control cease.

Should the Group's share of the losses incurred by an associated company/joint venture exceed the carrying amount of the investment recognised in the statement of financial position, after fully impairing the carrying amount, a provision is recognised for the Group's share of the losses to the extent that the Group has legal or constructive obligations to cover the losses of the associate or, in any event, to make payments on its behalf or in relation to its scope of activity.

#### Investments in consolidated companies

The financial statements of subsidiaries used for consolidation purposes were drawn up at 31 December 2018 based on the same accounting policies adopted by the Group and expressed in Euro.

When preparing the consolidated financial statements, the financial statements of the parent and its subsidiaries are combined line by line by adding together like items of assets, liabilities, income and expenses, attributing to non-controlling interests, under separate items of the statement of financial position and income statement, their portion of equity and profit or loss for the year. The portion of equity attributable to non-controlling interests is calculated on the basis of the fair values attributed to assets and liabilities at the date control was acquired, excluding any goodwill allocable to them.

The carrying amount of investments is eliminated against the corresponding portion of equity of the investees, attributing to individual assets and liabilities their fair values at the date control was acquired. Any residual difference, if positive, is recognised as "Goodwill", if negative, it is recognised in profit or loss as prescribed by IFRS 3 (Business Combinations).

#### Intragroup transactions

Application of the "line-by-line" method, aimed at eliminating the effects of all intragroup transactions on the statement of financial position and income statement, results in elimination of receivables and payables among the companies included in the consolidation scope, as well as revenue and costs and profits, if significant, originating from sales of products and assets.

### Translation of financial statements drawn up in currencies other than the Euro (i.e. Foreign operations) and functional currency

ERG Power Generation's consolidated financial statements have been drawn up in Euros, which is the functional currency of the Group. The Euro is also the functional currency of the Parent ERG Power Generation S.p.A. and of all major companies included in the consolidation scope, with the exception of:

- Polish companies;
- Romanian companies;
- Bulgarian companies;
- British companies.

The assets and liabilities of foreign operations, including goodwill and adjustments to fair value deriving from the acquisition, are translated into Euro using the closing rates. The revenue and cost of foreign operations are converted into Euro using the exchange rate ruling on the transactions date.

Exchange rate differences are recognised in the Statement of comprehensive income and included in the translation reserve, with the exception of the exchange rate differences that are attributed to non-controlling interests.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially in the Statement of comprehensive income and reclassified from equity to profit or loss in the year of the disposal of the net investment.

A monetary item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the net investment in the foreign operation.

The exchange rates used for the translation and the consolidation of financial statements in currencies other than the Euro

		Exchange rate: foreign currency / EUR	
Currency		Statement of Financial Position <sup>(1)</sup>	Income Statement <sup>(2)</sup>
Poland	PLN - Zloty	4.301	4.262
Romania	RON - Romanian Leu	4.664	4.654
UK	GBP - British Pound	0.895	0.885
Bulgaria	BGN - Bulgarian LEV	1.960	1.960

<sup>(1)</sup> exchange rate at 31 December 2018

<sup>(2)</sup> average exchange rate in 2018

## List of group companies

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

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

	Registered office	Direct investment	Group's investment	Share Capital (1)(2)	Equity (1)(2)
ERG Power Generation S.p.A.					
ERG Hydro S.r.l.	Genoa	100%	100%	50,000	778,750
ERG Power S.r.l.	Genoa	100%	100%	5,000	186,503
Corné Eolian S.A.	Constanta (Romania)	100%	100%	152,000	47,212
Creag Riabhach Wind Farm Ltd. (3)	Edinburgh (UK)	100%	100%	4	4
ERG Eolica Acnatica S.r.l.	Genoa	100%	100%	10	29,895
ERG Eolica Amaroni S.r.l.	Catanzaro	100%	100%	10	4,770
ERG Eolica Basilicata S.r.l.	Genoa	100%	100%	38	6,198
ERG Eolica Calabria S.r.l.	Catanzaro	100%	100%	10	117
ERG Eolica Campania S.p.A.	Genoa	100%	100%	120	66,989
ERG Eolica Faeto S.r.l.	Genoa	100%	100%	10	7,460
ERG Eolica Fossa del Lupo S.r.l.	Catanzaro	100%	100%	50	31,386
ERG Eolica Ginestra S.r.l.	Genoa	100%	100%	10	(522)
ERG Eolica San Ciro S.r.l.	Genoa	100%	100%	3,500	20,918
ERG Eolica San Vincenzo S.r.l.	Genoa	100%	100%	3,500	16,429
ERG France S.ar.l. (4)	Paris (France)	100%	100%	1,415	1,749
ERG Germany GmbH (5)	Hamburg (Germany)	100%	100%	210	598
ERG Solar Holding 1 S.r.l.	Genoa	100%	100%	20	20,707
ERG Eolica Tirreno S.r.l.	Camporeale	100%	100%	10	30
ERG Eolienne France S.a.s. (7)	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	26,441
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 (8)	Hamburg (Germany)	100%	100%	25	94
ERG Wind Park Beteiligungs GmbH (6)	Hamburg (Germany)	100%	100%	25	545
ERG Wind RE Beteiligungs GmbH (6)	Hamburg (Germany)	100%	100%	25	18
Evishagaran Windfarm Ltd. (1)(8)	Belfast (UK)	100%	100%	-	24
EW Ormeta 2 Z.O.O.	Warsaw (Poland)	100%	100%	164,698	136,150
Green Vicari S.r.l.	Camporeale	100%	100%	119	21,734
ISAB Energy Solare S.r.l.	Genoa	100%	100%	100	(118)
Sandy Knowe Wind Farm Ltd. (1)(4)	Seebeck House (UK)	100%	100%	-	(64)
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 Corné Eolian S.A., expressed in thousands of RON, and EW Ormeta 2 SP Z.O.O. in thousands of Zloty and Creag Riabhach Wind Farm Ltd. in thousands of pounds

(3) ERG Power Generation S.p.A., holding 100% of the shares of Creag Riabhach Wind Farm Ltd., Evishagaran Wind Farm Ltd. and Sandy Knowe Wind Farm Ltd. opted not to audit the financial statements at 31 December 2018 of the aforesaid company in accordance with Section 479A of the UK Companies Act 2006

(4) CSO Energy S.ar.l. changed its name to ERG France S.ar.l.

(5) CSO Energy GmbH changed its name to ERG Germany GmbH

(6) in December 2018, the company transferred its registered office from Leisnig to Hamburg

(7) starting from 30 November 2018, the share capital of ERG Eolienne France S.a.s. was increased from EUR 21,625 thousand to EUR 61,143 thousand

(8) on 25 October 2018, ERG UK Holding Ltd. changed its name to Evishagaran Wind Farm Ltd.

	Registered office	Direct investment	Group's investment	Share Capital (1)(2)	Equity (1)(2)
ERG Solar Holding S.r.l.					
<b>ERG Solar Holding S.r.l.</b>	Genoa	100%	100%	20	29,157
ERG Solar Piemonte 1 S.r.l.	Genoa	100%	100%	10	2,029
ERG Solar Piemonte 2 S.r.l.	Genoa	100%	100%	10	811
ERG Solar Piemonte 3 S.r.l.	Genoa	100%	100%	10	2,486
ERG Solar Piemonte 4 S.r.l.	Genoa	100%	100%	10	412
ERG Solar Piemonte 5 S.r.l.	Genoa	100%	100%	10	2,161
ERG Solar Holding S.r.l.					
Calabria Solar S.r.l.	Milan	100%	100%	10	9
ERG Solar Campania S.r.l.	Genoa	100%	100%	100	2,322
ERG Solar Marche 1 S.r.l.	Genoa	100%	100%	10	532
ERG Solar Marche 2 S.r.l.	Genoa	100%	100%	10	301
ERG Solar Puglia 1 S.r.l.	Genoa	100%	100%	50	1,788
ERG Solar Puglia 2 S.r.l.	Genoa	100%	100%	100	0
ERG Solar Puglia 3 S.r.l.	Genoa	100%	100%	110	784
ERG Solar Sicilia S.r.l.	Genoa	100%	100%	1,000	1,737
Heliospower S.r.l.	Palermo	100%	100%	59	3,529
Longiano Solar S.r.l.	Milan	100%	100%	708	1,351
SR05 S.r.l.	Milan	100%	100%	25	628
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 Corbeau S.a.s.	Paris (France)	100%	100%	861	2,970
Parc Eolien des Mardeaux S.a.s.	Paris (France)	100%	100%	1,097	(716)
<b>Euron Energies Renouvelables S.a.s.</b>	Vincennes (France)	100%	100%	500	3,262
Parc Eolien de la vallée de Torfou S.a.s.	Vincennes (France)	100%	100%	8	(94)
Parc Eolien du Melier S.a.s.	Vincennes (France)	100%	100%	8	(883)
Parc Eolien de la Voie Sacrée S.a.s.	Epinal (France)	100%	100%	74	3,320
Parc Eolien d'Ebense S.a.s.	Epinal (France)	100%	100%	802	1,090
WP France 10 S.a.s.	Paris (France)	100%	100%	6	(10)
Euron Energies Renouvelables S.a.s.					
Euron S.a.s.	Vincennes (France)	100%	100%	100	(280)
Caen Renewables Energy S.a.s.	Vincennes (France)	100%	100%	37	(634)
Parc Eolien de la Charente Limousine S.a.s.	Vincennes (France)	100%	100%	8	(7)
Parc Eolien de la Boème S.a.s.	Vincennes (France)	100%	100%	8	(3)
Parc Eolien du Moulin du Bois S.a.s.	Vincennes (France)	100%	100%	8	(4)
Parc Eolien des Bouchats S.a.s.	Vincennes (France)	100%	100%	8	4
Parc Eolien de Saint Maurice la Clouère S.a.s.	Vincennes (France)	100%	100%	8	3
Parc Eolien du Pays à Part S.a.s.	Vincennes (France)	100%	100%	8	3
Parc Eolien de Saint Sulpice S.a.s.	Vincennes (France)	100%	100%	8	6
Parc Eolien du Plateau de l'Ajoux S.a.s.	Vincennes (France)	100%	100%	8	6
Parc Eolien des Terres et Vents de Raviers S.a.s.	Vincennes (France)	100%	100%	8	6
Parc Eolien de Porspoder S.a.s.	Vincennes (France)	100%	100%	8	6

(1) data referring to the latest approved financial statements

(2) data expressed in thousands of euros

	Registered office	Direct investment	Group's investment	Share Capital (1) (2)	Equity (1) (2)
<b>ERG Wind 105 GmbH</b>					
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)
<b>ERG Wind Bulgaria S.p.A</b>					
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
<b>ERG Wind France 1 S.a.s</b>					
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
<b>ERG Wind French Holdings S.a.s</b>					
Parc Eolien de la Chaude Vallee S.a.r.l.	Paris (France)	100%	100%	8	(790)
Parc Eolien de Morvillers 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	Paris (France)	100%	100%	15	(2,266)
Parc Eolien Moulins des Camps	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)
<b>ERG Wind Investments Ltd</b>					
<b>ERG Wind Holdings (Italy) S.r.l.</b>	Genoa	100%	100%	212	487,341
<b>ERG Wind MEI 2-14-1 Ltd.</b>	London (UK)	100%	100%	-	(4,042)
<b>ERG Wind MEI 2-14-2 Ltd.</b>	London (UK)	100%	100%	-	(531)

(1) data referring to the latest approved financial statements

(2) data expressed in thousands of euros

	Registered office	Direct investment	Group's investment	Share Capital (1) (2)	Equity (1) (2)
ERG Wind Holdings (Italy) S.r.l.					
ERG Wind 4 S.r.l.	Genoa	100%	100%	6,633	52,744
ERG Wind Energy S.r.l.	Genoa	100%	100%	1,000	44,084
ERG Wind Leasing 4 S.r.l.	Genoa	100%	100%	10	295
ERG Wind Sardegna S.r.l.	Genoa	100%	100%	77	45,076
ERG Wind Sicilia 6 S.r.l.	Genoa	100%	100%	77	40,793
ERG Wind Sardegna S.r.l.					
ERG Wind Sicilia 2 S.r.l.	Genoa	100%	100%	77	36,403
ERG Wind Sicilia 4 S.r.l.	Genoa	100%	100%	77	11,023
ERG Wind Sicilia 5 S.r.l.	Genoa	100%	100%	77	16,543
ERG Wind 2000 S.r.l.	Genoa	100%	100%	77	22,515
ERG Wind Sicilia 6 S.r.l.					
ERG Wind 6 S.r.l.	Genoa	100%	100%	77	40,815
ERG Wind Sicilia 3 S.r.l.	Genoa	100%	100%	77	29,299
ERG Wind MEI 2-14-1 Ltd					
ERG Wind MEG 1 LLP <sup>(3)</sup>	London (UK)	80%	100%	33,168	42,769
ERG Wind MEG 2 LLP <sup>(3)</sup>	London (UK)	80%	100%	28,010	33,260
ERG Wind MEG 3 LLP <sup>(3)</sup>	London (UK)	80%	100%	33,585	39,068
ERG Wind MEG 4 LLP <sup>(3)</sup>	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 Worzbig 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 Vintz GmbH & Co. KG	Leisnig (Germany)	100%	100%	7,500	(2,247)
ERG Wind Dobberkau GmbH & Co. KG	Leisnig (Germany)	100%	100%	5	(2,111)
ERG Wind Hermersberg GmbH & Co. KG	Leisnig (Germany)	100%	100%	1	(664)
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 Weseberg GmbH & Co. KG	Leisnig (Germany)	100%	100%	-	1,076
Windpark Linda GmbH & Co. KG	Kassel (Germany)	100%	100%	0	(8)
EW Orneta 2 Z.O.O					
Blachy Pruszyński-Energy SP. Z.O.O	Warsaw (Poland)	100%	100%	53,001	40,400
Hydro Inwestycje SP. Z.O.O	Warsaw (Poland)	100%	100%	40,004	32,412

(\*) data referring to the latest approved financial statements

(2) data expressed in thousands of euros with the exception of the companies Blachy Pruszyński-Energy SP. Z.O.O. and Hydro Inwestycje SP. Z.O.O., whose data is expressed in thousands of Zloty

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

List of equity investments measured using the equity method:

Company	Registered office	Direct investment	Group's investment	Share Capital (1) (2)	Equity (1) (2)	Carrying amount 31.12.2018
<b>ERG Power S.r.l.</b>						
Prilo Servizi S.C.p.A. (3)	Mellini	23.7%	23.7%	28,100	54,064	12,918
<b>Associates</b>						<b>12,918</b>

(1) data referred to the accounting records at 31 December 2018 prepared for the purposes of measurement at equity

(2) data expressed in thousands of euros

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

List of companies recognised at cost:

Company	Registered office	Direct investment	Group's investment	Share Capital (1) (2)	Equity (1) (2)	Carrying amount 31.12.2018
<b>ERG Power Generation S.p.A.</b>						
Creggan Wind Farm Limited (3)	Seebeck House (UK)	100%	100%	–	–	–
Eolico Troina S.r.l. in liquidation	Palermo	99%	99%	20	232	25
ERG UK Holding Ltd (4) (5)	Edinburgh (UK)	100%	100%	n.d.	n.d.	–
Longburn Wind Farm Ltd	Seebeck House (UK)	100%	100%	0	–	313
<b>Subsidiaries</b>						<b>338</b>
<b>ERG Eolienne France S.a.s.</b>						
Parc Eolien de Saint-Loup sur Cher S.ar.l	Vincennes (Francia)	100%	100%	n.d.	n.d.	8
Parc Eolien du Puits Gergil S.ar.l	Vincennes (Francia)	100%	100%	n.d.	n.d.	8
Parc Eolien du Plateau de la Perche S.ar.l	Vincennes (Francia)	100%	100%	n.d.	n.d.	8
Parc Eolien des Boules S.ar.l	Vincennes (Francia)	100%	100%	n.d.	n.d.	8
ERG Development France S.a.s	Parigi	100%	100%	n.d.	n.d.	10
<b>Subsidiaries</b>						<b>40</b>
<b>ERG Power Generation S.p.A.</b>						
Rigghill Wind Farm Limited	Seebeck House (UK)	50%	50%	–	–	236
<b>Joint ventures</b>						<b>236</b>
<b>TOTAL</b>						<b>614</b>

(1) data referring to the latest approved financial statements

(2) data expressed in thousands of euros

(3) in view of the deficit of ERG Petroleos, a provision for risks on equity investments of approximately EUR 6 million has been set up

(4) British company established on 10 December 2018

(5) ERG Power Generation S.p.A., holding 100% of the shares of ERG UK Holding Ltd, opted not to audit the financial statements at 31 December 2018 of the aforesaid company in accordance with Section 479A of the UK Companies Act 2006

The subsidiaries recognised at cost are not consolidated line-by-line because their size is not significant or they are not yet operational.

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

On 12 January 2018, 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.

For more details, please refer to the comments provided in the *Change to the consolidation scope*.

On 12 January 2018, ERG Power Generation, 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<sub>2</sub> emissions. For more details, please refer to the comments provided in the *Change to the consolidation scope*.

On 7 March 2018, following the sale process started at the end of 2017, 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. For more details, please refer to the comments provided in the *Change to the consolidation scope*.

On 21 March 2018, following the non-controlling investor's waiving of the right of first option, ERG Power Generation, 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).

Through its subsidiary ERG Eolienne France S.a.s., on 3 August 2018 ERG Power Generation purchased the residual 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.

For more details, please refer to the comments provided in the *Change to the consolidation scope*.

On 27 April 2018 ERG Power Generation S.p.A. finalised an agreement with Global Wind Power France, a company 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 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, which came on stream at 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

For more details, please refer to the comments provided in the **Change to the consolidation scope**.

ERG Power Generation S.p.A., on **1 August 2018** 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, equal to over 3,000 equivalent hours and approximately 147 Kt of avoided CO<sub>2</sub> emissions

For more details, please refer to the comments provided in the **Change to the consolidation scope**.

Through its subsidiary ERG Eolienne France S.a.s., on **3 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, while 75% of the share capital of the companies had already been acquired from Vent d'Est in the first quarter of 2018.

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 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

On **10 December 2018** the British company ERG UK Holding Ltd. was established

On **31 December 2018**, the following French companies were established: Parc Eolien de Saint-Loup sur Cher S.ar.l.l., Parc Eolien du Puits Gergil S.ar.l., Parc Eolien du Plateau de la Perche SARL, Parc Eolien des Boules S.ar.l.

In consideration of the new acquisition of assets in the UK market, as from the Interim Directors' Report at

30 September 2018, ERG UK Holding Ltd (renamed Evishagaran Wind Farm Ltd. in October 2018) and Sandy Knowe Wind Farm Ltd. are also consolidated line by line. These companies own two already authorised development projects of 35 MW and 49 MW, respectively, in the United Kingdom and were previously measured using the cost method since their size is not significant dimensions and they are not yet operational.

The following transactions under common control also took place

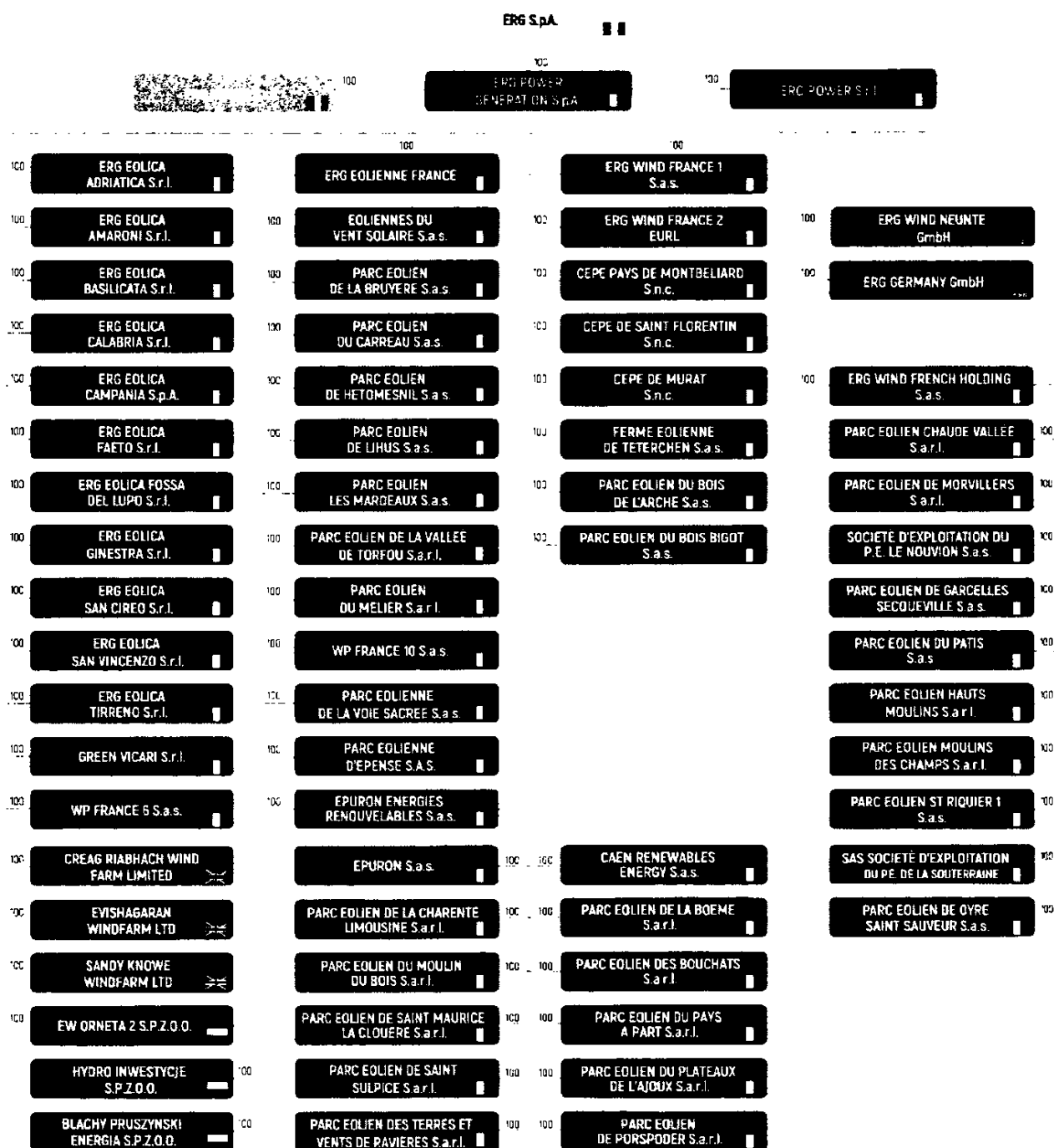
With effect from 1 January 2018:

- the assets belonging to the French branch of ERG Power Generation S.p.A. were transferred to CSO Energy S.ar.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.ar.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 19 - Covenants and negative pledges.*

## CONSOLIDATION SCOPE AT 31 DECEMBER 2018



100	ERG WIND INVESTMENTS Ltd.	100	ERG WIND HOLDINGS (ITALY) S.r.l.	100	CORNI EOLIAN S.A.	100	
100	ERG WIND MEI 2-14-1 (UK) Ltd.	100	ERG WIND ENERGY S.r.l.	100	ERG WIND BULGARIA SpA	100	
100	ERG WIND MEI 2-14-2 (UK) Ltd.	100	ERG WIND SARDEGNA S.r.l.	100	VG-1 EOOD	100	
80	ERG WIND MEG 1 LLP	100	ERG WIND SICILIA 2 S.r.l.	100	VG-2 EOOD	100	
80	ERG WIND MEG 2 LLP	100	ERG WIND SICILIA 4 S.r.l.	100	VG-3 EOOD	100	
80	ERG WIND MEG 3 LLP	100	ERG WIND SICILIA 5 S.r.l.	100	VG-4 EOOD	100	
80	ERG WIND MEG 4 LLP	100	ERG WIND 2000 S.r.l.	100	VG-5 EOOD	100	
100	ERG FRANCE S.a.r.l.	100	ERG WIND SICILIA 6 S.r.l.	100	VG-6 EOOD	100	
100	ERG WIND RE BETEILIGUNGS GmbH & Co. KG	100	ERG WIND SICILIA 3 S.r.l.	100	MARK 1 EOOD	100	
100	ERG WIND 105 GmbH	100	ERG WIND 6 S.r.l.	100	MARK 2 EOOD	100	
100	PARC EOLIEN DE ST RIQUIER 3 S.a.s.	100	ERG WIND 4 S.r.l.	100	K&S ENERGY EOOD	100	
100	PARC EOLIEN DE ST RIQUIER 4 S.a.s.	100	ERG WIND LEASING 4 S.r.l.	100	K&S ENERGY 1 EOOD	100	
100	ERG WIND PARK BETEILIGUNGS GmbH	100	ERG WIND DOBERKAU GmbH & Co. KG	100	K&S ENERGY 2 EOOD	100	
100	VOLTWERK ENERGY PARK 8 GmbH & Co. KG	100	ERG WIND HERMERSBERG GmbH & Co. KG	100	WIND PARK KAVARNA EAST EOOD	100	
100	VOLTWERK WINDPARK WORZIG GmbH & Co. KG	100	ERG WIND OBER KOSTENZ GmbH & Co. KG	100	WIND PARK KAVARNA WEST EOOD	100	
100	VOLTWERK WINDPARK BESENSTEDT GmbH & Co. KG	100	ERG WIND WB GmbH & Co. KG	100	WP BULGARIA 4 EOOD	100	
100	WINDPARK COTTBUSER HALDE GmbH & Co. KG	100	ERG WIND WELCHWEILER GmbH & Co. KG	100	GLOBE ENERGY EOOD	100	
100	WINDPARK ACHMER VINTE GmbH & Co. KG	100	ERG WIND WESELBERG GmbH & Co. KG	100		100	
100	ERG WIND 117 GmbH & Co. KG	100	WINDPARK LINDA GmbH & Co. KG	100		100	

## CHANGE IN THE CONSOLIDATION SCOPE

(Migliaia di Euro)	ForVer <sup>(1)</sup>	EPURON <sup>(2)</sup>	Vent d'Est <sup>(3)</sup>	Creag Riabhach Wind Farm Ltd. <sup>(4)</sup>	WP France 6 S.a.s. <sup>(5)</sup>
Intangible assets	122,599	30,664	3,945	22,468	3,915
Goodwill	-	22,336	-	-	-
Property, plant and equipment	235,156	24,726	9,132	-	2,075
Equity investments	-	-	-	-	-
Other financial assets	4,948	131	699	-	6,466
Deferred tax assets	4,214	-	116	-	-
Other non-current assets	-	-	-	-	-
<b>Non-current assets</b>	<b>366,917</b>	<b>77,857</b>	<b>13,892</b>	<b>22,468</b>	<b>(476)</b>
Inventories	-	-	-	-	-
Trade receivables	16,595	340	742	-	-
Other current assets	12,346	2,964	47	63	419
Current financial assets*	-	-	-	-	-
Cash and cash equivalents*	(92,556)	(37,161)	(7,066)	(9,910)	101
<b>Current assets</b>	<b>(63,616)</b>	<b>(33,856)</b>	<b>(6,277)</b>	<b>(9,847)</b>	<b>520</b>
<b>Asset held for sale</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>303,301</b>	<b>44,000</b>	<b>7,615</b>	<b>12,621</b>	<b>44</b>
<b>Equity</b>	<b>-</b>	<b>-</b>	<b>(549)</b>	<b>(0)</b>	<b>0</b>
Employee benefits	-	-	-	-	-
Deferred tax liabilities	34,442	7,029	690	-	-
Provision for risk and charges - non-current portion	8,132	200	661	-	-
Non-current financial liabilities*	240,571	29,549	5,653	11,934	24
Other non-current liabilities	5,356	-	-	-	-
<b>Non-current liabilities</b>	<b>288,501</b>	<b>36,778</b>	<b>7,004</b>	<b>11,934</b>	<b>24</b>
Provision for risk and charges - current portion	-	150	-	-	-
Trade payables	3,638	6,108	353	-	20
Current financial liabilities*	9,576	601	806	684	-
Other current liabilities	1,586	363	-	3	-
<b>Current liabilities</b>	<b>14,800</b>	<b>7,222</b>	<b>1,159</b>	<b>687</b>	<b>20</b>
<b>Liabilities associated with asset held for sale</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>303,301</b>	<b>44,000</b>	<b>7,615</b>	<b>12,621</b>	<b>44</b>
<b>*Impact on Net Financial Position</b>	<b>(342,703)</b>	<b>(67,312)</b>	<b>(13,526)</b>	<b>(22,528)</b>	<b>78</b>

Brockaghboy Windfarm Ltd. Sale

Impact on Net Financial Position

Directors' Report

1) 18 Italian companies from VEI Green S.r.l. - "ForVer" 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) 1 Scottish company - business combination "Creag Riabhach"

5) the 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, Evishagaran Windfarm Ltd., Sandy Knowe Wind Farm Ltd., WP France 10 S.a.s.)

6) 1 German company from Vortex Energy, not significant

7) Impact of intercompany 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

ISAB Energy Solare <sup>(4)</sup>	Erishageran Windfarm Ltd. <sup>(5)</sup>	Sandy Knowe Wind Farm Ltd. <sup>(5)</sup>	WP France 10 S.a.s. <sup>(9)</sup>	Linda <sup>(4)</sup>	TOTAL
22	4,169	796	1,786	13	190,378
	-	-	-	-	22,336
2,570	194	94	119	182	274,247
(394)	-	-	-	-	(394)
-	(4,332)	(865)	-	-	(5,886)
-	-	-	-	-	4,330
-	-	-	-	-	-
<b>2,198</b>	<b>30</b>	<b>24</b>	<b>1,905</b>	<b>195</b>	<b>485,017</b>
41	-	-	-	-	41
93	-	-	-	-	17,770
375	77	-	387	7	16,685
-	-	-	-	-	-
180	58	189	(456)	(1)	(146,623)
<b>649</b>	<b>135</b>	<b>189</b>	<b>(49)</b>	<b>6</b>	<b>(112,126)</b>
-	-	-	-	-	-
<b>2,887</b>	<b>165</b>	<b>213</b>	<b>1,837</b>	<b>200</b>	<b>372,885</b>
(122)	-	-	0	-	(670)
-	-	-	-	-	-
-	-	-	-	-	42,161
-	-	-	-	-	8,993
2,590	-	-	219	-	290,541
-	-	-	-	-	5,356
<b>2,590</b>	<b>-</b>	<b>-</b>	<b>219</b>	<b>-</b>	<b>347,051</b>
-	-	-	-	-	150
58	31	22	1,409	148	11,787
361	135	(23)	208	52	12,401
-	-	215	-	-	2,167
<b>419</b>	<b>165</b>	<b>213</b>	<b>1,617</b>	<b>200</b>	<b>26,504</b>
-	-	-	-	-	-
<b>2,887</b>	<b>165</b>	<b>213</b>	<b>1,837</b>	<b>200</b>	<b>372,885</b>
(2,771)	(77)	212	(883)	(54)	(449,565)
					105,740
					(343,825)

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 financed through non-recourse project financing for an amount of approximately EUR 180 million and lease contracts repaid in advance in 2018 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 consolidated financial statements

### Determination of the total acquisition price

The acquisition price was EUR 107.5 million of which EUR 69.5 million for acquisition of 100% of the share capital of the target companies and EUR 38 million for the repayment of outstanding loans at the date of the acquisition of control of the target company

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

The accounting treatment for the acquisition represented below has been confirmed:

(EUR thousand)	Acquisition situation	Adjustment to the acquisition situation	Impact of consolidation
Intangible assets	1,716	120,883	122,599
Goodwill	-	-	-
Property, plant and equipment	235,156	-	235,156
Equity investments	-	-	-
Other financial assets	4,948	-	4,948
Deferred tax assets	4,214	-	4,214
Other non-current assets	-	-	-
<b>Non-current assets</b>	<b>246,034</b>	<b>120,883</b>	<b>366,917</b>
Inventories	-	-	-
Trade receivables	16,595	-	16,595
Other current assets	12,346	-	12,346
Current financial assets*	-	-	-
Cash and cash equivalents*	14,943	(107,499)	(92,556)
<b>Current assets</b>	<b>43,883</b>	<b>(107,499)</b>	<b>(63,616)</b>
<b>TOTAL ASSETS</b>	<b>289,917</b>	<b>13,384</b>	<b>303,301</b>
<b>Equity attributable to the owners of the parent</b>	<b>(17,689)</b>	<b>17,689</b>	<b>-</b>
Employee benefits	-	-	-
Deferred tax liabilities	716	33,726	34,442
Provision for risk and charges - non-current portion	8,132	-	8,132
Non-current financial liabilities*	240,571	-	240,571
Other non-current liabilities	5,356	-	5,356
<b>Non-current liabilities</b>	<b>254,775</b>	<b>33,726</b>	<b>288,501</b>
Provision for risk and charges - current portion	-	-	-
Trade payables	3,638	-	3,638
Current financial liabilities*	47,608	(38,032)	9,576
Other current liabilities	1,586	-	1,586
<b>Current liabilities</b>	<b>52,832</b>	<b>(38,032)</b>	<b>14,800</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>289,917</b>	<b>13,384</b>	<b>303,301</b>
<b>*Impact on Net Financial Position</b>	<b>(273,236)</b>	<b>(69,467)</b>	<b>(342,703)</b>
Cash and cash equivalents used			107,499
Deferred payments			-
Loans of the acquired entity paid back			(38,032)
Acquisition price			69,467
Fair value of net assets acquired			(69,467)
<b>Goodwill</b>			<b>-</b>



The Acquisition figures column shows the opening balances determined on the basis of the accounting records at the date of first consolidation (1 January 2018) 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;
- **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;
- **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;**
- **provisions for non-current risks and charges related to dismantling expenses and to special indemnities arisen upon preparing the acquisition report;**
- **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 **Adjustments to the acquisition situation** 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 to intangible assets described above;**
- **current financial liabilities:** referred to the repayment of outstanding loans at the date of the acquisition of control of the target company.

### ForVei contribution in 2018

In the period between the date of first consolidation (1 January 2018) and the reporting date of this Annual Financial Report, the acquirees contributed to the Group's income statement with revenue of EUR 38.4 million and an operating profit of EUR 8.5 million.

## "EPURON" BUSINESS COMBINATION

On 15 May 2018, 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.

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.

The acquisition-related costs incurred to finalise the transaction of EUR 0.5 million were excluded from the consideration transferred and recognised both in the 2017 income statement for the amount of EUR 0.2 million and in the 2018 income statement under services and other costs for the amount of EUR 0.3 million.

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 current values<sup>1</sup> of the acquired assets were determined on the basis of the best estimate available at the preparation date of this Annual Financial Report and are shown in the table below:

(EUR thousand)	Acquisition situation	Provisional adjustments to the acquisition figures column	Impact of consolidation
Intangible assets	5,772	24,892	30,664
Goodwill	-	22,336	22,336
Property, plant and equipment	24,726	-	24,726
Equity investments	-	-	-
Other financial assets	131	-	131
Deferred tax assets	-	-	-
Other non-current assets	-	-	-
<b>Non-current assets</b>	<b>30,629</b>	<b>47,228</b>	<b>77,857</b>
Inventories	-	-	-
Trade receivables	340	-	340
Other current assets	2,964	-	2,964
Current financial assets*	-	-	-
Cash and cash equivalents*	4,719	(41,880)	(37,161)
<b>Current assets</b>	<b>8,024</b>	<b>(41,880)</b>	<b>(33,856)</b>
<b>TOTAL ASSETS</b>	<b>38,653</b>	<b>5,348</b>	<b>44,001</b>
<b>Equity attributable to the owners of the parent</b>	<b>(3,439)</b>	<b>3,439</b>	<b>-</b>
Employee benefits	-	-	-
Deferred tax liabilities	59	6,970	7,029
Provision for risk and charges - non current portion	200	-	200
Non-current financial liabilities*	29,549	-	29,549
Other non-current liabilities	-	-	-
<b>Non-current liabilities</b>	<b>29,809</b>	<b>6,970</b>	<b>36,778</b>
Provision for risk and charges - current portion	150	-	150
Trade payables	6,108	-	6,108
Current financial liabilities*	5,662	(5,061)	601
Other current liabilities	363	-	363
<b>Current liabilities</b>	<b>12,283</b>	<b>(5,061)</b>	<b>7,222</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>38,653</b>	<b>5,348</b>	<b>44,000</b>
<b>*Impact on Net Financial Position</b>	<b>(30,493)</b>	<b>(36,819)</b>	<b>(67,312)</b>
Cash and cash equivalents used			41,880
Deferred payments			-
Loans of the acquired entity paid back			(5,061)
<b>Acquisition price</b>			<b>36,819</b>
Fair value of net assets acquired			(14,483)
<b>Goodwill</b>			<b>22,336</b>

<sup>1</sup> Current values were identified as the value in use calculated with the discounted cash flow method

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;
- cash and cash equivalents: amount paid for acquisition;
- deferred tax liabilities related to the allocations referred to above;
- current financial liabilities: amount related to the "earn-out" mechanism in the Seller's favour for a maximum amount of approximately EUR 5 million.

#### 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.

<b>Total acquisition price</b>	<b>36,819</b>
Adjusted EPURON equity	14,483
<b>Goodwill</b>	<b>22,336</b>

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

#### EURONEXT acquisition in 2018

In the period between the date of first consolidation (30 June 2018) and the reporting date of this Annual Financial Report, the acquirees contributed to the Group's income statement with revenue of EUR 1 million and an operating loss of EUR 0.9 million

### "VENT D'EST" BUSINESS COMBINATION

On 21 March 2018, following the non-controlling investor's waiving of the right of first option, ERG Power Generation S.p.A., 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)

Through its subsidiary ERG Eolienne France S.a.s., on 3 August 2018 ERG purchased the residual 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..

#### Determination of the total acquisition price

The acquisition price was EUR 7.7 million of which EUR 6.4 million for acquisition of 100% of the share capital of the target companies and EUR 1.2 million for the repayment of outstanding loans at the date of the acquisition of control of the target companies

The transaction costs of EUR 0.2 million were excluded from the consideration transferred and recognised in the 2018 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 definitive basis; the current values<sup>2</sup> of the acquired assets were determined on the basis of the best estimate available at the preparation date of this Annual Financial Report and are shown in the table below:

(EUR thousand)	Acquisition situation	Adjustment to the acquisition situation	Impact of consolidation
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	-	-	-
<b>Non-current assets</b>	<b>11,564</b>	<b>2,328</b>	<b>13,892</b>
Inventories	-	-	-
Trade receivables	742	-	742
Other current assets	47	-	47
Current financial assets*	-	-	-
Cash and cash equivalents*	587	(7,654)	(7,066)
<b>Current assets</b>	<b>1,377</b>	<b>(7,654)</b>	<b>(6,277)</b>
<b>TOTAL ASSETS</b>	<b>12,941</b>	<b>(5,326)</b>	<b>7,615</b>
<b>Equity attributable to the owners of the parent</b>	<b>4,209</b>	<b>(4,758)</b>	<b>(549)</b>
Employee benefits	-	-	-
Deferred tax liabilities	38	652	690
Provision for risk and charges - non current portion	661	-	661
Non-current financial liabilities*	5,653	-	5,653
Other non-current liabilities	-	-	-
<b>Non-current liabilities</b>	<b>6,352</b>	<b>652</b>	<b>7,004</b>
Provision for risk and charges - current portion	-	-	-
Trade payables	353	-	353
Current financial liabilities*	2,026	(1,220)	806
Other current liabilities	-	-	-
<b>Current liabilities</b>	<b>2,379</b>	<b>(1,220)</b>	<b>1,159</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>12,941</b>	<b>(5,326)</b>	<b>7,615</b>
<b>*Impact on Net Financial Position</b>	<b>(7,092)</b>	<b>(6,434)</b>	<b>(13,526)</b>
Cash and cash equivalents used	-	-	7,654
Deferred payments	-	-	-
Loans of the acquired entity paid back	-	-	(1,220)
Acquisition price	-	-	6,434
Fair value of net assets acquired	-	-	(6,434)
<b>Goodwill</b>	-	-	-

2. Current values were identified as the value in use calculated with the discounted cash flow method

The Acquisition figures column shows the opening balances determined on the basis of the accounting records at the date of first consolidation (1 January 2018) 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 Adjustments to the acquisition situation 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;
- current financial liabilities: referred to the repayment of outstanding loans at the date of the acquisition of control of the target company.

#### Vent d'Est contribution in 2018

In the period between the date of first consolidation (1 January 2018) and the reporting date of this Annual Financial Report, the acquirees contributed to the Group's income statement with revenue of EUR 2.9 million and an operating profit of EUR 0.8 million.

## BUSINESS COMBINATION “CREAG RIABHACH”

ERG Power Generation S.p.A., on 1 August 2018, 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, equal to over 3,000 equivalent hours and approximately 147 Kt of avoided CO<sub>2</sub> emissions.

Works for the construction of the wind farm are expected to start in 2020, and the entry into operation, following the finalisation of the connection to the national grid, is expected by March 2022. The wind farm will participate in the energy and capacity availability markets in the United Kingdom. The total estimated investment required to build the wind farm is approximately GBP 89 million (around EUR 98 million at the current exchange rate), already including the amount paid to purchase the equity investment.

With this project, ERG strengthens its process of organic growth abroad and in the UK in particular, where the secured construction capacity goes from 84 MW to 163 MW and, following the recent acquisitions in France, raises the secured capacity with regard to the total objectives of the Plan, increasing from 40% to approximately 70%.

The project, in line with ERG's industrial strategy, is characterised by a high level of quality, and allows the company to capitalise on the skills developed in-house in the fields of Engineering, Construction, Procurement and Asset Management, maximising their value.

### Determination of the total acquisition price

The acquisition price was EUR 21.9 million of which EUR 20.9 million for acquisition of 100% of the share capital of the target companies and EUR 0.9 million for the repayment of outstanding loans at the date of the acquisition of control of the target company.

The price already paid at the date of the present consolidated financial statements amounts to EUR 9.9 million and the deferred component of EUR 11.9 million is recorded among non-current financial liabilities.

The transaction costs of EUR 0.5 million were excluded from the consideration transferred and recognised in the 2018 income statement in the amount of EUR 0.5 million under services and other costs.



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

The acquisition was recognised on a provisional basis; the current values<sup>3</sup> of the acquired assets were determined on the basis of the best estimate available at the preparation date of this Annual Financial Report and are shown in the table below:

(EUR thousand)	Acquisition situation	Provisional adjustments to the acquisition figures column	Impact of consolidation
Intangible assets	1,490	20,978	22,468
Goodwill	-	-	-
Property, plant and equipment	-	-	-
Equity investments	-	-	-
Other financial assets	-	-	-
Deferred tax assets	-	-	-
Other non-current assets	-	-	-
<b>Non-current assets</b>	<b>1,490</b>	<b>20,978</b>	<b>22,468</b>
Inventories	-	-	-
Trade receivables	-	-	-
Other current assets	63	-	63
Current financial assets*	-	-	-
Cash and cash equivalents*	12	(9,922)	(9,910)
<b>Current assets</b>	<b>75</b>	<b>(9,922)</b>	<b>(9,847)</b>
<b>TOTAL ASSETS</b>	<b>1,565</b>	<b>11,056</b>	<b>12,621</b>
<b>Equity attributable to the owners of the parent</b>	<b>(39)</b>	<b>39</b>	<b>(0)</b>
Employee benefits	-	-	-
Deferred tax liabilities	-	-	-
Provision for risk and charges - non current portion	-	-	-
Non-current financial liabilities*	-	11,934	11,934
Other non-current liabilities	-	-	-
<b>Non-current liabilities</b>	<b>-</b>	<b>11,934</b>	<b>11,934</b>
Provision for risk and charges - current portion	-	-	-
Trade payables	-	-	-
Current financial liabilities*	1,601	(917)	684
Other current liabilities	3	-	3
<b>Current liabilities</b>	<b>1,604</b>	<b>(917)</b>	<b>687</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,565</b>	<b>11,056</b>	<b>12,621</b>
<b>*Impact on Net Financial Position</b>	<b>(1,589)</b>	<b>(20,939)</b>	<b>(22,528)</b>
Cash and cash equivalents used			9,922
Deferred payments			11,934
Loans of the acquired entity paid back			(917)
Acquisition price			20,939
Fair value of net assets acquired			(20,939)
<b>Goodwill</b>			<b>-</b>

3 Current values were identified as the value in use calculated with the discounted cash flow method

The Acquisition figures column shows the opening balances determined on the basis of the accounting records at the date of first consolidation (30 September 2018) of the acquirees.

- intangible assets: development costs of the farm;
- current financial liabilities: these refer to payables to the previous shareholder;

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
- non-current financial liabilities include the deferred component for the acquisition, amounting to EUR 11.9 million.
- deferred tax liabilities related to the allocations referred to above,
- current financial liabilities: referred to the repayment of outstanding loans at the date of the acquisition of control of the target company.

#### Creag Riabhach Contribution in 2018

In the period between the date of first consolidation (30 September 2018) and the reporting date of this Annual Financial Report, the acquiree did not provide a significant contribution to the Group's income statement, as the wind farm was under construction.

## SALE OF BROCKAGHBOY

On 7 March 2018, following the sale process started at the end of 2017, 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 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	Impact of deconsolidation
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	-	-	-
<b>Non-current assets</b>	<b>(77,027)</b>	<b>-</b>	<b>(77,027)</b>
Inventories	-	-	-
Trade receivables	(4,336)	-	(4,336)
Other current assets	(228)	-	(228)
Current financial assets*	-	-	-
Cash and cash equivalents*	-	53,788	53,788
<b>Current assets</b>	<b>(4,564)</b>	<b>53,788</b>	<b>49,224</b>
<b>TOTAL ASSETS</b>	<b>(81,591)</b>	<b>53,788</b>	<b>(27,803)</b>
<b>Equity attributable to the owners of the parent</b>	<b>(26,898)</b>	<b>53,788</b>	<b>26,890</b>
Employee benefits	-	-	-
Deferred tax liabilities	-	-	-
Provision for risk and charges - non current portion	(1,370)	-	(1,370)
Non-current financial liabilities*	-	-	-
Other non-current liabilities	-	-	-
<b>Non-current liabilities</b>	<b>(1,370)</b>	<b>-</b>	<b>(1,370)</b>
Provision for risk and charges - current portion	-	-	-
Trade payables	-	-	-
Current financial liabilities*	(51,952)	-	(51,952)
Other current liabilities	(1,372)	-	(1,372)
<b>Current liabilities</b>	<b>(53,324)</b>	<b>-</b>	<b>(53,324)</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>(81,591)</b>	<b>53,788</b>	<b>(27,803)</b>
<b>*Impact on Net Financial Position</b>	<b>51,952</b>	<b>53,788</b>	<b>105,740</b>

#### Brockaghboy Windfarm Ltd. contribution in 2018

The sale of Brockaghboy Windfarm Ltd contributed positively to Group EBIT of EUR 28 million, including the capital gain of EUR 25 million.

## IFRS 12

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

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

### Measurements and significant assumptions

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

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

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

#### Investments in subsidiaries

For information about the Group's composition, please refer to the Consolidation scope.

With regard to the nature and extent of restrictions to the Group's capability to access or use assets and to settle liabilities, please refer to Note 19 - Covenants and negative pledges.

The consequences of the changes in the investments in subsidiaries that took place in 2018 are described in the section Changes in the consolidation scope.

With regard to provisions that can limit the distribution of dividends or other distributions of capital, the project financing agreements provide that the distribution of the available portions of equity to the shareholders is subject to compliance with the conditions prescribed by such agreements, which impose the attainment of determined financial coverage ratios and the absence of default situations. Details of the constraints and of the carrying amounts of the assets and liabilities to which such restrictions apply by individual company are given in Note 19 - Covenants and negative pledges.

#### Investments in associates

For the purposes of the disclosure of the nature, extent and financial effects of the Group's interests in associates, please refer to the List of Group companies section.

## Summary of main income statement data

(EUR thousand)	Priolo Servizi	
	31/12/2018	31/12/2017
Property, plant and equipment	70,897	74,291
Intangible assets and Goodwill	-	5
Equity investments and Other non-current financial assets	37	38
<b>NON-CURRENT ASSETS</b>	<b>70,934</b>	<b>74,335</b>
Inventories	1,539	1,350
Trade receivables	9,164	5,182
Trade payables	13,811	10,196
Excise duties payable to tax authorities	-	-
<b>NET WORKING CAPITAL</b>	<b>3,109</b>	<b>3,664</b>
Post-employment benefits	366	457
Other assets	2,207	1,859
Other liabilities	2,646	2,284
<b>NET INVESTED CAPITAL</b>	<b>67,020</b>	<b>69,789</b>
Equity	54,621	54,069
Financial indebtedness	12,399	15,720
<b>EQUITY AND FINANCIAL DEBT</b>	<b>67,020</b>	<b>69,789</b>
	<b>2018</b>	<b>2017</b>
Revenue from sales and services	51,842	23,864
Other revenue and income	3,810	1,442
Purchases	(1,582)	(552)
Change in inventories	188	-
Services and other operating costs	(35,544)	(15,348)
Personnel expense	(8,845)	(4,435)
<b>Gross Operating Income (EBITDA)</b>	<b>9,869</b>	<b>4,972</b>
Amortisation, depreciation and impairment of non-current assets	(8,116)	(3,908)
<b>Net Operating Income (EBIT)</b>	<b>1,754</b>	<b>1,064</b>
Net financial income (expense)	(406)	(304)
Gains (losses) on equity investments	-	-
<b>PROFIT BEFORE TAXES</b>	<b>1,348</b>	<b>760</b>
Income taxes	(743)	(467)
<b>PROFIT</b>	<b>605</b>	<b>293</b>

## Reconciliation with the carrying amount of the equity investment

(EUR thousand)	Priolo Servizi	
	31/12/2018	31/12/2017
ERG Group investment	24%	24%
Equity attributable to the owners of the parent	12,918	12,787
Other adjustments	-	-
<b>Carrying amount of the equity investment</b>	<b>12,918</b>	<b>12,787</b>

## IMPAIRMENT TEST

This section provides a description of the impairment tests on the Group's main assets, as required by IAS 36.

In particular, it is specified that for the test:

- of Goodwill, a test was conducted on the recoverable amount determined at the Groups of CGU level, as commented on in more detail in the previous pages, and identified as the value in use calculated on the estimated cash flows over the useful life of the assets allocated to the aforesaid Groups,
- of property, plant and equipment and intangible assets, with finite useful lives allocated to individual CGU, in accordance with IAS 36, indicators were identified that can provide evidence that an asset may have undergone an impairment. If the comprehensive analysis of the indicators shows that there was a potential impairment loss for a CGU, then the related recoverable amount is determined.

With regard to equity investments, which by their nature have indefinite useful lives, their specific features were taken into account; please therefore refer to the respective paragraphs for an explanation of the approach used.

The above tests were carried out in accordance with the Impairment Test Procedure approved by the Board of Directors of ERG S.p.A. on 20 February 2019

### Test of Goodwill

In consideration of the goodwill values recognised in the consolidated financial statements, for the present Financial Statements its recoverable value was tested at the Groups of CGU level.

According to IAS 36, the recoverable amount of an asset or of a cash-generating unit is the higher of its fair value less costs to sell and its value in use

Goodwill values were allocated to the Wind Italy and Wind France CGU Groups, as better commented in the following section.

### Identification of groups of cash flow generating units (CGU)

Following the thorough process of transformation of the organisational structure of the Group completed in 2017 (One Company) and the acquisitions completed in 2018 in the solar power field in Italy and in wind power in France, the operating segments currently identified by the Group, which coincide with the four different technologies used for energy generation, are listed below

- Wind;
- Solar;
- Hydroelectric;
- Thermoelectric.

The analysis of the operating performance of the Wind sector is further monitored, for some indicators, with reference to the country in which the Group operates.

Starting from the 2018 Financial Statements, in light of the previously commented changes to the organisation and

scope of consolidation, management decided to reassess the allocation of the Goodwill in particular with reference to the provisions of point a) of paragraph 80 of IAS 36.

More specifically, in the aforementioned paragraph, the IAS specifies that goodwill must be allocated at the lowest level at which goodwill is monitored for internal management purposes and, in the case of ERG, the lowest level at which goodwill is monitored coincides with the group of CGUs whose profitability is measured

In particular, also taking into account the indications of paragraph 87 of IAS 36, management reconsidered the allocation of Goodwill to Groups of CGU consistent with the purposes of integrated reporting by the Group, i.e. according to the technology/Country matrix, for a total number of 10 groups of CGUs, as illustrated below.

	Wind	Solar	Hydro	Thermo
Italy	✓	✓	✓	✓
France	✓			
Germany	✓			
Poland	✓			
Romania	✓			
Bulgaria	✓			
UK	✓			

The Groups of CGU were then identified, consistently with the Group's organisational and business structure, as assets that generate independent cash inflows deriving from their continuous use and they follow a dual dimension pertaining, on one hand, to generating technology and, on the other hand, to the current reference market, identified in the country where the facilities are located.

In previous years, Goodwill was allocated to the individual CGUs represented by the legal entities or by the business combinations that generated it.

The following table shows the details of the goodwill generated in previous years and in 2018 and the comparison between the previous allocation and the one applied starting from the present consolidated financial statements.

Business combination	Year	Sector / technology	Country	Goodwill (EUR million)	CGU Allocation in the previous financial statements	Groups of CGU Allocation from the 2018 Financial Statements
ERG Eolica Adriatica	2010	Wind	Italy	8	Legal entity ERG Eolica Adriatica	Wind Italy (EUR 126 million)
ERG Eolica Campania	2011	Wind	Italy	11	Legal entity ERG Eolica Campania	
ERG Wind	2013	Wind	Italy	96	Business Combination "ERG Wind"	
ERG Renew Operations & Maintenance	2013	Wind	Italy	10	Wind farms in Italy	
Epuron	2018	Wind	France	22	Not applicable	Wind France (EUR 22 million)

The recoverable value of the CGU Groups is tested by determining the value in use by discounting operating cash flows on the basis of the following assumptions:

- the Groups of CGU coincide with the set of wind farms respectively situated in Italy and in France;
- to determine the value in use, the present value of cash flows from operating activities associated with the Groups of CGU for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated;
- a terminal value was considered, estimated as an extension of the explicit period of ten years;
- expected changes in sale prices and trends in direct costs during the period used for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- a discount rate equal to the industry WACC was used to compute the present value of expected cash flows (5.0% in Italy and 3.5% in France).

The Group adopted a post-tax discount rate that reflects current market measurements of the time value of money and of the risks specific to the CGUs. In determining the discount rate, the financial parameters considered were the Beta and Debt/Equity ratios derived from panels of comparable companies, in order to consider both the market risk of companies operating in the same industry and a market-based financial structure. Instead, the cost of equity ( $k_e$ ) includes the rate of return of risk-free assets and it is identified as the average return of ten-year German government bonds.

The main assumptions used to calculate value in use pertain to the growth rate and the expected changes in the sale prices of energy and of direct costs during the period selected for the calculation.

The growth rates used are based on growth forecasts for the Group's industry, taking into account the Group's market share. Changes in sale prices and in direct costs are determined on the basis of past experience and on future market expectations.

In particular, the following were taken into account for the determination of the cash flows:

- for the explicit period, the data contained in the Revision of the financial plan entitled "2018-2022 Plan", reviewed by the Board of Directors of ERG S.p.A. on 6 March 2019, excluding the Repowering, Business Development and Merger & Acquisition initiatives as impact scenarios, however favourable;
- for the years subsequent to the explicit period, the data processed on the basis of models simulating the macroeconomic and energy scenario and assuming a steady production trend.

Group Management deems the assumptions used to identify the recoverable amount of the goodwill connected with the Groups of CGU (Wind Italy and Wind France) to be reasonable and, on the basis of the aforementioned assumptions, no impairment has emerged.

In particular, the difference between the recoverable value and the carrying amount of the Group of CGUs amounts to approximately EUR 505 million for Wind Italy and approximately EUR 38 million for Wind France.

The Group also calculated the impairment of goodwill on the basis of the allocation adopted in the previous Financial Statements, i.e. with reference to the individual CGU, and no impairment emerged.



The result of the impairment test is based on information available to date and reasonable estimates about future changes in the following variables: wind strength, energy price and interest rates.

The Group took into account the aforesaid variables in processing and defining the basic assumptions used to determine the recoverable amount of the carrying amounts allocated to the Wind segment, and it also carried out a sensitivity analysis on the recoverable amount of the Groups of CGU. This analysis assumed that total revenue from energy sales (i.e., energy remuneration and generation) could undergo upward or downward fluctuations of an estimated 5% compared to the values estimated for the Plan.

A 5% reduction in revenue, continuing throughout the plan period, would entail a decrease in the recoverable amount by approximately EUR 96 million for Wind Italy and EUR 29 million for Wind France, which would not require any impairment of the carrying amounts.

Lastly, an increase of 1% in the discount rate would result in a decrease in the recoverable amount of around EUR 88 million for Wind Italy and EUR 32 million for Wind France, without requiring any impairment of the carrying amounts. The recoverable amount would be equal to the reference carrying amount in the case of a 26% reduction in revenue for Wind Italy and 6% for Wind France.

Equally, the same effect would occur in the case of a WACC increase of 8% for Wind Italy and of 1.2% for Wind France. The above analyses confirm the sensitivity of the assessments of the recoverability of non-current assets to changes in the aforesaid variables; in this context, the Directors will systematically monitor changes in the aforesaid external, uncontrollable variables in order to make any necessary adjustments to the estimates of the recoverability of the carrying amounts of goodwill in the consolidated financial statements.

#### Test of (property, plant and equipment and intangible) assets with finite useful lives

For the purposes of the 2018 consolidated Financial Statements, the Group verified whether there are any indications that both Property, plant and equipment and intangible assets with finite useful lives may have become impaired.

For this purpose, it is specified that for the ERG Power Generation Group:

- property, plant and equipment assets are represented by the electricity generation plants of different technologies (wind farms in Italy and abroad, solar plants in Italy, hydroelectric plants in Italy and the CCGT thermoelectric plant located in Sicily);
- intangible assets are mainly represented by the residual value of the higher values<sup>4</sup> allocated in the purchase price allocation and recorded as increases to the value of the authorisations and the concessions for operating plants.

In line with the previous years, these values are allocated to the individual reference CGU represented by the individual legal entities and/or business combinations that generated them.

<sup>4</sup> Values relating to business combinations from previous years

In accordance with IAS 36, a list of indicators that can signal that an asset may have become impaired ("triggering events") has been identified:

*For this purpose, both internal and external sources of information have been considered*

- concerning the internal sources, the following were examined: (i) the obsolescence or the physical deterioration of the asset, (ii) any significant changes in the use of the assets and (iii) the financial performance of the asset with respect to the forecast,
- conversely, concerning the external sources, the following are considered: the performance of the market prices of the assets, any technological, market or regulatory discontinuities and trends in market interest rates. To verify this information, a synthetic indicator was also identified ("profitability indicator") calculated by discounting the sum of the operating cash flows for the residual observation period, determined on the basis of the same procedures and assumptions already commented in the previous paragraph for Goodwill testing. To include the related tax effects, the indicator is net of notional taxes on EBITDA.

The indicator thus calculated is compared with that of the previous year in order to verify the potential impairment loss, in accordance with Paragraph 15 of IAS 36.

Lastly, the Group verifies that the carrying amount of the net assets of the Group is not higher than stock market capitalisation.

If the comprehensive analysis of the indicators shows that both property, plant and equipment and intangible assets with finite useful lives may have become impaired, the recoverable amount will be determined and compared with the carrying amount

*The recoverable value for the individual CGUs is calculated as the value in use with the same procedures and assumptions already commented on in the previous section for Goodwill testing*

If this value is lower, the carrying amount of the assets is reduced to the related recoverable value with the exception of the cases in which fair value net of cost to sell was higher.

Group management deems the assumptions used to identify and verify the indicators to be reasonable and, on the basis of the aforementioned assumptions, no need to determine the recoverable value has emerged.

#### Recoverable amount of Groups of CGU

Lastly, although it is not expressly required by IAS 36, Group Management determined the recoverable value, i.e. the value in use, of the Groups of CGU to which no goodwill is allocated, comparing it with the related carrying amount. No impairment emerged as a result of this test.

## ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

### NOTE 1 - INTANGIBLE ASSETS

	<b>Concessions and licences</b>	<b>Other intangible assets</b>	<b>Assets in progress</b>	<b>Total</b>
Historical cost	763,267	22,408	377	786,052
Amortisation	(169,831)	(18,400)	-	(188,231)
<b>BALANCE AT 31/12/2017</b>	<b>593,436</b>	<b>4,008</b>	<b>377</b>	<b>597,822</b>
<b>Assets held for sale</b>	-	-	-	-
<b>Changes for the year:</b>				
Change in the consolidation scope	181,592	1,089	7,697	<b>190,378</b>
Capital expenditure	3,982	613	1,598	<b>6,193</b>
Capitalisations	3,500	964	(4,409)	<b>55</b>
Other reclassifications	116	767	587	<b>1,469</b>
Disposals and divestments	-	-	-	-
Amortisation	(50,034)	(1,862)	-	<b>(51,896)</b>
Impairment	(30)	30	-	-
Other changes	1,719	5	4,252	<b>5,977</b>
Historical cost	953,455	25,312	10,101	<b>988,868</b>
Amortisation	(221,063)	(19,575)	-	<b>(240,639)</b>
<b>BALANCE AT 31/12/2018</b>	<b>732,391</b>	<b>5,737</b>	<b>10,101</b>	<b>748,230</b>

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

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

Other intangible assets are comprised of software licences

Assets in progress relate mainly to development costs capitalised on projects under construction.

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

The capital expenditure refers mainly to capitalised costs relating to the construction of the German wind farm Windpark Linda and to licences and software

For a more detailed analysis, please refer to the Capital expenditure section in the Directors' report.

## NOTE 2 - GOODWILL

"Goodwill", equal to EUR 148,266 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.

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

The goodwill acquired through business combinations was allocated to the following two CGU Groups, as is better described in the measurement Criteria:

- Wind Italy: EUR 126 million;
- Wind France: EUR 22 million.

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

For the purposes of these 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	221,627	4,043,991	14,529	28,820	4,308,967
Amortisation, depreciation and impairment losses	(108,106)	(2,020,034)	(9,521)	–	(2,137,661)
<b>BALANCE AT 31/12/2017</b>	<b>113,520</b>	<b>2,023,957</b>	<b>5,008</b>	<b>28,820</b>	<b>2,171,306</b>
<b>IFRS 5 Reclassification</b>				–	–
<b>Changes for the year:</b>					
Change in the consolidation scope	4,904	252,920	117	16,307	<b>274,247</b>
Capital expenditure	426	17,067	748	32,611	<b>50,852</b>
Capitalisations and reclassifications	9,567	21,180	331	(32,725)	<b>(1,647)</b>
Amortisation	(7,364)	(208,922)	(1,043)	–	<b>(217,330)</b>
Other changes	(753)	27	(0)	250	<b>(476)</b>
Historical cost	236,724	4,394,974	15,070	45,263	4,692,031
Amortisation, depreciation and impairment losses	(116,425)	(2,288,745)	(9,909)	–	(2,415,079)
<b>BALANCE AT 31/12/2018</b>	<b>120,300</b>	<b>2,106,229</b>	<b>5,161</b>	<b>45,263</b>	<b>2,276,952</b>

To enhance understandability, changes for the year relating to reclassifications, disposals and divestments are shown net of the related accumulated amortisation

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,

please refer to the Capital expenditure section in the Directors' report.

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

The capitalisation of EUR 243 thousand of interest during the year in relation to ongoing construction of the wind farms in Germany (Windpark Linda GmbH & Co KG), the United Kingdom (Creag Riabhach Wind Farm Ltd.) and Evishagaran Windfarm Ltd. is noted.

With regard to the existence of restrictions on the assets held by the Group, please refer to Note 19 - Covenants and negative pledges.

## NOTE 4 - EQUITY INVESTMENTS

	Equity investments				
	Subsidiaries not consolidated line by line	Joint ventures	Associates	Other companies	Total
BALANCE AT 31/12/2017	7,658	237	12,788	-	20,683
<b>Changes for the year:</b>					
Acquisitions/capital increases/increases	30	-	-	-	30
Consolidation method change	(7,310)	-	-	-	(7,310)
Reclassifications	-	-	-	-	-
Impairment losses/utilisation of loss provisions	-	-	-	-	-
Disposals and divestments	-	-	-	-	-
Measurement of company with equity method	-	-	131	-	131
Other changes	-	-	-	-	-
BALANCE AT 31/12/2018	378	237	12,919	-	13,535

Acquisitions refer to the French companies Parc Eolien de Saint-Loup sur Cher S.ar.l., Parc Eolien du Puits Gergil S.ar.l., Parc Eolien du Plateau de la Perche S.ar.l., and Parc Eolien des Boules S.ar.l., established on 31 December 2018.

The Change in consolidation method relates to the line-by-line consolidation of Evishagaran Windfarm Ltd., WP France 6 S.a.s., ISAB Energy Solare S.r.l. and Sandy Knowe Windfarm Ltd., 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 31 December 2018 are summarised as follows:

	Measured at Equity	Measured at cost	Total
<b>Equity investments:</b>			
- in subsidiaries not consolidated line by line	12,919	379	13,298
- in joint ventures	-	236	236
- in associates	-	-	-
- in other companies	-	-	-
<b>Total</b>	<b>12,919</b>	<b>615</b>	<b>13,534</b>

## NOTE 5 - OTHER NON-CURRENT FINANCIAL ASSETS

"Other non-current financial assets" amounting to EUR 40,152 thousand (EUR 39,233 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 purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (Note 14 - Other non-current liabilities).

## NOTE 6 - TAXATION

### Deferred tax assets

(EUR thousand)	31/12/2018		31/12/2017	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Provisions for risks and charges	77,308	18,781	78,490	19,381
Tax losses	72,254	16,557	74,656	18,614
Derivative Instruments	107,375	27,830	105,146	25,956
Amortisation, Depreciation and Impairment of non-current assets	106,515	24,513	140,948	27,003
Other Write-downs	13,114	3,306	12,799	3,084
Other	144,513	24,533	121,605	22,587
<b>Total</b>	<b>521,078</b>	<b>115,521</b>	<b>533,643</b>	<b>116,625</b>

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 for the Italian companies 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%).

The rates for foreign companies consolidated line by line are as follows

- France 25% - 28%;
- Germany 29%;
- UK 17% - 19%;
- Romania 16%;
- Poland 19%;
- Bulgaria 10%.

Deferred tax assets amounting to EUR 115,521 thousand (EUR 116,625 thousand at 31 December 2017), are mainly recognised in view of derivative instruments and allocations to provisions for risks and charges.

In addition, it is pointed out that:

- deferred tax assets amounting to EUR 3.4 million relating to non-deductible interest expense pertaining to the solar business were recorded in the financial statements;
- deferred tax assets relating to excess interest expense that can be carried forward, amounting to approximately EUR 37.8 million, referred to the ERG Wind Group, acquired in 2013, were not recognised in the financial statements. In 2018 the amount of the tax benefit not recognised previously and used to reduce the tax charge for the period amounts to EUR 3 million.

The reasons for not recognising these deferred tax assets are connected to (i) the expiries of the tax consolidation options of the ERG Wind Group (31.12.2019, with the exception of the option with ERG Wind Energy, expired on 31.12.2018 and under renewal) and (ii) the liability management expectations that could determine a change to the financial structure of the ERG Wind sub-Group as early as in 2019. These circumstances, together with the lack of a specific tax plan relative to tax consolidation of the ERG Wind sub-Group, resulted in the decision not to recognise these deferred tax assets in the financial statements.

The Group deems it likely that the deferred tax assets recognised at 31 December 2018 will be recovered.

#### Deferred tax liabilities

(EUR thousand)	31/12/2018		31/12/2017	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Price Purchase Allocation	790,500	241,009	681,485	213,624
Amortisation and Depreciation of Non-Current Assets	121,619	26,380	112,316	27,632
IFRS 9 tax effects	6,021	884	-	-
Other	52,300	8,045	48,921	9,367
<b>Total</b>	<b>970,439</b>	<b>276,318</b>	<b>842,723</b>	<b>250,622</b>

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 31 December 2018 of EUR 276,318 thousand (EUR 250,622 thousand at 31 December 2017), were allocated mainly on the capital gains from the business combinations and fiscally-driven depreciation and amortisation.

## NOTE 7 - OTHER NON-CURRENT ASSETS

Other non-current assets, equal to EUR 40,989 thousand (EUR 45,402 thousand at 31 December 2017) relate mainly to:

- the portion still to be collected, i.e. 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 statements as part of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (Note 14 - Other non-current liabilities);
- amounts of EUR 10 million 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 13 - Other Provisions.

## NOTE 8 - INVENTORIES

Material inventories, equal to EUR 21,622 thousand (EUR 20,590 thousand at 31 December 2017) relating mainly to spare parts which are used mainly in the ordinary maintenance of wind farm installations and the CCGT plant, are recognised net of the related accumulated depreciation of EUR 3,173 thousand and they are recognised at the lower amount between the cost determined with the weighted average cost method and the market value (replacement cost and/or estimated realisable value)

## NOTE 9 - TRADE RECEIVABLES

Receivables can be summarised as follows:

	31/12/2018	31/12/2017
Receivables from customers	121,577	141,045
Receivables for incentives	131,560	115,646
Receivables from Group associates	4,167	4,903
Loss allowance	(6,112)	(5,503)
<b>Total</b>	<b>251,192</b>	<b>256,090</b>

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 value of trade receivables is substantially in line with the previous year.



For information concerning trade receivables to Group companies not consolidated line-by-line, reference is made to Note 33 - Related parties.

The loss allowance changed as follows:

	31/12/2018	Increases	Decreases	IFRS 9 Adoption	31/12/2017
Loss allowance	(6,112)	(24)	300	(885)	(5,503)
<b>Total</b>	<b>(6,112)</b>	<b>(24)</b>	<b>300</b>	<b>(885)</b>	<b>(5,503)</b>

The Group assesses the existence of objective evidence of impairment on an 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 increases refer in particular to allocations on doubtful trade receivables relating to the wind business.

The decreases relate mainly to utilisations pertaining to the thermoelectric business.

The loss allowance is deemed to be sufficient to address the risk of potential non-collectability of past due trade receivables.

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.

The analysis of the trade receivables existing at year end follows.

The accounts receivable aging is presented net of the related loss allowance.

	31/12/2018	31/12/2017
<b>Receivables not past due</b>	<b>239,865</b>	<b>241,170</b>
<b>Receivables past due:</b>		
within 30 days	3,030	9,242
within 60 days	3,234	1,560
within 90 days	249	475
after 90 days	4,813	3,643
<b>Total</b>	<b>251,191</b>	<b>256,090</b>

## NOTE 10 - OTHER CURRENT ASSETS

	31/12/2018	31/12/2017
Tax receivables	19,292	13,840
VAT receivables	37,585	4,713
Receivables for IRES tax consolidation and Group VAT from ERG S.p.A.	27,673	28,853
Other receivables	4,802	3,615
Advances to suppliers and deferred costs	28,605	23,335
<b>Total</b>	<b>117,957</b>	<b>74,357</b>

Tax receivables relate to VAT and withholding tax receivables and other income tax receivables.

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

following the Forver business combination. The portions of deferred liabilities relate to costs that will manifest themselves in following years pertaining mainly to insurance premiums, state concession fees, purchase of CO<sub>2</sub> and utilities.

Other receivables include 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 13 - Other provisions.

## NOTE 11 - GROUP EQUITY

### Share capital

Share capital at 31 December 2018 amounts to EUR 100,000 thousand.

At 31 December 2018, the Company's Shareholders Register, relative to holders of significant investments, showed the following:

- ERG S.p.A. holds 10,000,000 shares, i.e. 100%

### Treasury shares

As at the date of this document, Erg Power Generation does not hold any treasury shares.

### Other Reserves

The composition of equity is shown in the following table:

	31/12/2018	31/12/2017
Share Capital	100.000	100.000
Legal Reserve	8.963	5.038
Share premium reserve	7.000	7.000
Extraordinary Reserve	5.830	5.830
Operating grants	961.733	961.733
Other reserves	692.107	649.157
Retained earnings	143.351	85.752
Profit (loss) for the year	150.847	136.592
<b>Equity attributable to the owners of the parent</b>	<b>2.069.831</b>	<b>1.951.102</b>
Non-controlling interests	-	-
<b>Equity</b>	<b>2.069.831</b>	<b>1.951.102</b>

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

### Dividends

Dividends paid by ERG Power Generation S.p.A. to parent company ERG S.p.A. in 2018 amounted to EUR 20 million.

### Supplementary information on capital

The objectives identified by the Group for capital management are to safeguard corporate viability, create stakeholder value and support Group development. In particular, the Company pursues the maintenance of an adequate level of capitalisation that allows a satisfactory economic return for shareholders and assures access to external financing sources, also through the achievement of an adequate rating. In this context, the Group manages its own capital structure and makes adjustments to it, if changes in the economic conditions require it. There were no substantial changes to the objectives, policies or processes in 2018. For this purpose, the Group constantly monitors the evolution of the debt to equity ratio, whose data are indicated in Note 35 - Alternative performance indicators.

## NOTE 12 - EMPLOYEE BENEFITS

The item, amounting to EUR 4,748 thousand (EUR 5,157 thousand at 31 December 2017), includes the estimated liability relating to the benefits payable to employees when they terminate their employment.

The main assumptions used in determining the actuarial value of the liability relating to post-employment benefits and their changes during the year are shown below. The discounting rate was determined on the basis of a panel of corporate securities with maturity of 10 years or more with AA rating.

	2018	
Discount rate	1.3%	
Inflation rate	1.0%	
Average turnover rate	3.0%	
Average rate of increase of remuneration	1.5%	
Average age	45	

	31/12/2018	31/12/2017
<b>OPENING BALANCE</b>	<b>5.157</b>	<b>5.573</b>
Change in the consolidation scope	-	-
Revaluation	112	121
Decreases in the year	(522)	(536)
<b>CLOSING BALANCE</b>	<b>4.748</b>	<b>5.157</b>

The decreases are due to departures of employees and advances to personnel.

The following table shows the impact on the liability as a result of a +/-0.5% change in the discounting rate:

	2018
+0.5% change in discounting rate: lower liability	(209)
-0.5% change in discounting rate: higher liability	229

There are no particular risks (either unforeseen or specific) to which the plan exposes the entity, or any other significant risk concentration.

There are no significant contributions to the Plan because they relate almost exclusively to the revaluation of the residual value of the post-employment benefits allocated until 31 December 2006 (the defined benefit plans relate almost exclusively to the post-employment benefits provided by Article 2120 of the Italian Civil Code)

## NOTE 13 - OTHER PROVISIONS

### Provision for risk and charges - non current portion

	31/12/2018	Increases	Decreases	Reclassifications	Change in the consolidation scope	31/12/2017
Provisions for dismantlement costs	42,245	1,947	-	-	3,843	36,455
Provisions for non-current tax risks	11,953	-	(3,166)	-	5,150	9,969
Provisions for non-current institutional risks	325	52	-	-	-	253
Other provisions for non-current risks and charges	-	-	(17)	-	-	17
<b>Total</b>	<b>54,522</b>	<b>2,009</b>	<b>(3,183)</b>	<b>-</b>	<b>8,993</b>	<b>46,704</b>

Provision for risk and charges - non current portion, amounting to EUR 54,522 thousand (EUR 46,703 thousand at 31 December 2017) comprise mainly liabilities tied to:

- costs for the restoration of the site on which the wind farms operate for the larger number of assets recognised as property, plant and equipment;
- the provision for disposed businesses as better commented in the following section.

The increases of the year refer mainly to contingent liabilities tied to risks connected with guarantees provided within sales of equity investments and, residually, to the financial revaluation of the costs for the restoration of wind farms and solar plants

With reference to the provisions for dismantlement costs, the increase refers mainly to the reversal of the discounting effect. The discounting rates used, according to the reference Countries, are within the range 1%-3.5%.

For the other provisions, no discounting was applied because of the uncertainty on utilisation times

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

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

## Provision for risk and charges - current portion

	31/12/2018	Increases	Decreases	Reclassifications	Change in the consolidation scope	31/12/2017
Provision to cover losses of investee companies	527	550	(124)	–	–	101
Provisions for current environmental risks	60	–	(18)	–	–	78
Provisions for current tax risks	5,812	1,664	(2,245)	–	–	6,393
Provisions for current institutional risks	24,329	113	–	–	–	24,216
Provision for current legal risks	4,646	1,731	(7,009)	–	–	9,924
Other provisions for current risks and charges	2,929	124	(1,444)	–	150	4,099
<b>Total</b>	<b>38,304</b>	<b>4,182</b>	<b>(10,841)</b>	<b>–</b>	<b>150</b>	<b>44,809</b>

Provision for risk and charges - current portion amounted to EUR 38,304 thousand at 31 December 2018 (EUR 44,809 thousand at 31 December 2017) and are composed as follows:

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. 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 0.6 million);
- tax litigation (EUR 1.7 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 0.5 million).

The decreases relate mainly to:

- utilisation deriving from 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)

For the Provision for risk and charges - current portion, discounting was not applied by virtue of their classification as current liabilities.

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

## NOTE 14 - OTHER NON-CURRENT LIABILITIES

	31/12/2018	31/12/2017
Price of Wind Group acquisition	9,821	9,821
Payables for prior year taxes from merger of foreign companies	18,594	18,594
Portions of income deferred in subsequent years	1,971	2,141
Other non-current liabilities	1,730	150
<b>Total</b>	<b>32,117</b>	<b>30,706</b>

## NOTE 15 - TRADE PAYABLES

	31/12/2018	31/12/2017
Payables to suppliers	82,465	70,970
Payables to Group companies not consolidated line by line	1,461	31
<b>Total</b>	<b>83,926</b>	<b>71,002</b>

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.

## NOTE 16 - NET FINANCIAL POSITION

	Notes	31/12/2018	31/12/2017
Non-current loans / borrowings		-	-
- current portion of loans and borrowings		-	-
Financial payables to ERG S.p.A.		72.467	98.689
Other non-current loans and borrowings	17	98.489	102.393
<b>Total</b>		<b>170.955</b>	<b>201.082</b>
Non-current Project Financing	17	1.177.551	1.114.706
- Current portion of Project Financing	17, 21	(146.164)	(143.846)
<b>Total</b>		<b>1.031.388</b>	<b>970.860</b>
<b>Medium-/long-term financial indebtedness</b>		<b>1.202.343</b>	<b>1.171.942</b>
Current bank borrowings	21	73	39
Current loans and borrowings	21	11.207	2.249
<b>Total</b>		<b>11.280</b>	<b>2.288</b>
Cash and cash equivalents	12	(47.925)	(15.285)
Financial receivables from ERG S.p.A.		(3)	(49.304)
Securities and other current loan assets	11	(37.660)	(18.179)
<b>Total</b>		<b>(85.587)</b>	<b>(82.768)</b>
Current Project Financing	17, 21	146.164	143.846
Cash and cash equivalents	12	(127.729)	(135.737)
<b>Total</b>		<b>18.435</b>	<b>8.110</b>
<b>Short-term net financial indebtedness</b>		<b>(55.872)</b>	<b>(72.370)</b>
<b>Net Financial Position</b>		<b>1.146.471</b>	<b>1.099.571</b>

The net financial position totalled EUR 1,146 million, up by EUR 47 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 +450 million overall impact of the transactions described in the section **Change in the consolidation scope**;
- EUR -106 million overall impact of the sale of Brockaghboy Windfarm Ltd. mentioned in the section **Change in the consolidation scope**;
- EUR +20 million distribution of dividends to ERG S.p.A.;
- EUR -269 million collections of incentives (Italy feed-in premium);
- EUR -20 million change in fair value of derivatives on interest rates

Please refer to Note 19 for a comment on Covenants and negative pledges pertaining to bank payables

### Non-current Project Financing

The following table summarises the main characteristics of the project financing existing at 31 December 2018:

(EUR thousand)			ASSOCIATED FINANCIAL DEBT					
Company	Type	Net carrying amount of asset	Carrying amount of financial liability	Nominal amount of financial liability	Currency of the loan	Disbursement	Maturity	Hedge
ERG Wind Investments	Secured project financing	327,125	406,138	460,007	EUR	2008	2022	IRS average fixed rate 4.46%
ERG Eolica Adriatica	Secured project financing	110,141	89,555	93,470	EUR	2009	2025	IRS fixed rate 4.176%
ERG Eolica Fossa del Lupo	Secured project financing	95,761	69,368	71,152	EUR	2017	2027	IRS fixed rate 2.26%
ERG Eolica Campania	Secured project financing	72,123	22,980	23,152	EUR	2009	2020	IRS fixed rate 4.37%
ERG Eolica Ginestra	Secured project financing	53,257	25,008	25,807	EUR	2010	2025	IRS fixed rate 3.27%
ERG Eolica Amaroni	Secured project financing	27,907	19,386	20,101	EUR	2017	2027	IRS fixed rate 1.68%
Green Vicau	Secured project financing	15,080	3,122	3,390	EUR	2008	2019	Loan with floating rate and in part fixed rate
ERG Eolica Faeto	Secured project financing	9,109	10,636	10,733	EUR	2007	2021	IRS fixed rate 2.13%
Folien des Vent Solaire	Secured project financing	2,825	2,885	2,886	EUR	2011	2025	fixed rate loan
Parc Eolien les Mardesaux	Secured project financing	1,842	1,296	1,306	EUR	2005	2019	IRS average fixed rate 5.77%
Parc Eolien de Hietomeshi	Secured project financing	1,811	771	777	EUR	2005	2019	IRS average fixed rate 5.77%
Parc Eolien de Linus	Secured project financing	1,939	536	549	EUR	2005	2019	IRS average fixed rate 5.77%
Parc Eolien de la Bruyere	Secured project financing	1,939	180	187	EUR	2005	2019	IRS average fixed rate 5.77%
Parc Eolien du Carneau	Secured project financing	1,442	711	717	EUR	2005	2019	Floating rate loan
ERG Eolica Basilicata	Secured project financing	34,139	30,337	31,469	EUR	2017	2027	IRS fixed rate 1.456%
EW Omnia 2 SP 2.0.0	Secured project financing	45,225	35,601	36,361	Zloty	2015	2029	IRS fixed rate 2.47% (wpoor)
K & S Energy Food	Secured project financing	42,722	14,914	15,221	EUR	2012/13	2022	IRS fixed rate 1.16%
ERG Wind France 1	Secured project financing	42,722	21,723	22,407	EUR	2016	2025	IRS fixed rate 2.77%
ERG Power	Secured project financing	281,131	48,780	49,292	EUR	2010	2021	IRS fixed rate 0.065%
Parc Eolien du Patis S a s	Secured project financing	6,230	6,231	6,231	EUR	2013	2027	IRS fixed rate 3.75%
Parc Eolien de Garcelles Sacqueville S a s	Secured project financing	5,191	5,050	5,050	EUR	2007	2023	IRS fixed rate 2.01%
S a s Société d'exploitation du PE de la Souleraine	Secured project financing	5,713	6,181	6,181	EUR	2013	2028	Loan for 40% at fixed rate
Parc Eolien de Oyre Saint Sauveur S a s	Secured project financing	10,093	9,135	9,135	EUR	2014	2029	Fixed rate loan
Parc Eolien St Riquier 1 S a s	Secured project financing	7,242	9,267	9,267	EUR	2009	2027	Fixed rate loan
ERG Wind 11 / GmbH & Co. KG	Secured project financing	14,340	11,392	11,604	EUR	2013	2030	Fixed rate loan
Windpark Achmer Vint GmbH & Co. KG	Secured project financing	1,988	4,103	4,103	EUR	2006	2021	Fixed rate loan
Windpark Cottbusser Hald GmbH & Co. KG	Secured project financing	18,927	17,567	18,577	EUR	2007	2025	Fixed rate loan
Parc Eolien Chaudé Vallée S a r l	Secured project financing	9,894	10,685	10,685	EUR	2011	2027	Loan for 85% at fixed rate
Parc Eolien Hauts Moulins S a r l	Secured project financing	10,665	10,710	10,710	EUR	2012	2028	Loan for 86% at fixed rate
Parc Eolien de Montiers S a r l	Secured project financing	10,716	11,240	11,240	EUR	2012	2027	Fixed rate loan
Parc Eolien Moulins des Champs S a r l	Secured project financing	10,716	10,576	10,576	EUR	2012	2028	Loan for 85% at fixed rate
Parc Eolien de St Riquier 3 S a s	Secured project financing	11,470	12,000	12,000	EUR	2014	2028	Fixed rate loan
Parc Eolien de St Riquier 4 S a s	Secured project financing	9,858	10,214	10,214	EUR	2014	2028	Fixed rate loan
ERG Wind Dobbenau GmbH & Co. KG	Secured project financing	8,436	12,285	13,102	EUR	2014	2025	IRS fixed rate 0.949%
ERG Wind Hemmersberg GmbH & Co. KG	Secured project financing	208	593	593	EUR	2016	2024	Fixed rate loan
ERG Wind Ober Kostenz GmbH & Co. KG	Secured project financing	680	2,205	2,205	EUR	2016	2024	Fixed rate loan
ERG Wind WSB GmbH & Co. KG	Secured project financing	4,292	2,674	2,674	EUR	2016	2024	Fixed rate loan
ERG Wind Welchweiler GmbH & Co. KG	Secured project financing	343	953	953	EUR	2016	2024	Fixed rate loan
ERG Wind Wieselberg GmbH & Co. KG	Secured project financing	2,612	2,100	2,100	EUR	2016	2024	Fixed rate loan
ERG Solar Holding S r l	Secured project financing	-	162,598	172,130	EUR	2016	2030	IRS fixed rate 1.48%
ISAB Energy Solare (S r l)	Secured project financing	2,379	2,332	2,332	EUR	2011	2029	IRS fixed rate 2.81%
Parc Eolien de la vallée de Torfou S a r l	Secured project financing	19,476	18,980	19,981	EUR	2017	2034	Fixed rate loan
Parc Eolien du Meier S a r l	Secured project financing	9,728	10,805	10,805	EUR	2015	2031	Fixed rate loan
Windpark Linda GmbH & Co. KG	Secured project financing	12,131	23,808	24,000	EUR	2018	2038	Fixed rate loan
TOTALE PROJECT FINANCING			1,177,550	1,255,432				



For further details on new project financing, please see Note 19 - Covenants and negative pledges.

At 31 December 2018, the weighted average interest rate on loans, borrowings and project financing was 1.34% (1.48% at 31 December 2017). The rate indicated does not take into account interest rate hedges.

Please refer to Note 19 for a comment on Covenants and negative pledges pertaining to bank payables.

#### Fair value of hedging derivatives on interest rates

Other non-current loans and borrowings include liabilities deriving from the fair value measurement of the derivatives hedging interest rates of EUR 82 million (EUR 102 million at 31 December 2017), the details of which are provided below

	Issuing Bank	Agreement	Maturity	Payable for fair value	
(EUR thousand)				31/12/2018	31/12/2017
ERG Wind Investments Ltd	InteS a.s. anpaolo	IRS	31/12/22	(29,310)	(37,618)
ERG Wind Investments Ltd	InteS a.s. anpaolo	IRS	31/12/22	(21,945)	(28,163)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	15/06/22	(4,438)	(5,870)
ERG Eolica Adriatica S.r.l.	ING	IRS	15/06/22	(4,483)	(5,870)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	15/06/22	(4,438)	(5,870)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	30/06/25	(82)	-
ERG Eolica Adriatica S.r.l.	UBI Banca	IRS	30/06/25	(32)	-
ERG Eolica Adriatica S.r.l.	UniCredit	IRS	30/06/25	(82)	-
ERG Eolica Fossa del Lupo S.r.l.	ING	IRS	31/12/25	(1,678)	(1,968)
ERG Eolica Fossa del Lupo S.r.l.	Crédit Agricole	IRS	31/12/25	(1,443)	(1,692)
ERG Eolica Fossa del Lupo S.r.l.	Centrobanca	IRS	31/12/25	(1,107)	(1,299)
ERG Eolica Fossa del Lupo S.r.l.	Crédit Agricole	IRS	31/12/27	(120)	(51)
ERG Eolica Campania S.p.A.	UniCredit	IRS	31/05/20	(350)	(684)
ERG Eolica Ginestra S.r.l.	UniCredit	IRS	30/06/25	(769)	(977)
ERG Eolica Ginestra S.r.l.	Centrobanca	IRS	30/06/25	(769)	(977)
ERG Eolica Ginestra S.r.l.	UniCredit	IRS	30/06/25	(769)	(977)
ERG Eolica Amaroni S.r.l.	ING	IRS	31/12/26	(479)	(518)
ERG Eolica Amaroni S.r.l.	Crédit Agricole	IRS	31/12/26	(479)	(518)
ERG Eolica Amaroni S.r.l.	Crédit Agricole	IRS	31/12/27	(9)	(5)
ERG Eolica Faeto S.r.l.	Banco popolare	IRS	31/12/21	(180)	(289)
ERG Eolica Faeto S.r.l.	Unicredit	IRS	31/12/21	(180)	(289)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30/12/19	(16)	(53)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30/12/19	(17)	(55)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30/12/19	(15)	(50)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30/12/19	(16)	(52)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30/12/19	(15)	(51)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30/12/19	(16)	(53)
Parc Eolien de la Bruyère S.a.s.	HSH	IRS	30/12/19	(16)	(54)
Parc Eolien de la Bruyère S.a.s.	HSH	IRS	30/12/19	(17)	(56)
ERG Eolica Basilicata S.r.l.	BNP Paribas BNL	IRS	30/06/31	(710)	(713)
ERG Eolica Basilicata S.r.l.	Crédit Agricole	IRS	30/06/31	(710)	(713)
EW Omerta 2 SPZ O.O.	ING	IRS	31/12/29	(120)	-
EW Omerta 2 SPZ O.O.	Pekao Bank	IRS	31/12/29	(120)	-
K & S Energy Food	Raiffeisen Bank	IRS	31/12/18	-	(169)
K & S Energy Food	Raiffeisen Bank	IRS	31/12/18	-	(43)
ERG Power S.r.l.	BNP Paribas BNL	IRS	31/12/21	(646)	(1,125)
ERG Power S.r.l.	InteS a.s. anpaolo	IRS	31/12/21	(646)	(1,125)
ERG Power S.r.l.	Crédit Agricole	IRS	31/12/21	(518)	(902)
ERG Power S.r.l.	Santander	IRS	31/12/21	(103)	(179)
ERG Power S.r.l.	Centrobanca	IRS	31/12/21	(103)	(179)
ERG Power S.r.l.	ING	IRS	31/12/21	(103)	(179)

(EUR thousand)	Issuing Bank	Agreement	Maturity	Payable for fair value	
				31/12/2018	31/12/2017
Parc Eolien Du Patis S.a.s	Credit Cooperatif	IRS	02/08/27	(206)	(231)
Parc Eolien Du Patis S.a.s	Credit Cooperatif	IRS	30/07/27	(209)	(236)
Parc Eolien de Garcelles Secqueville S.a.s	Nord LB	IRS	30/06/23	(394)	(555)
S.a.s. Société de exploitation du P.E. de la Souterraine	Credit Cooperatif	IRS	29/12/28	(530)	(580)
Parc Eolien de Oyre Saint Sauveur S.a.s	Natixis	IRS	01/07/29	(350)	(375)
Parc Eolien St Riquier 1 S.a.s	Saar	IRS	31/12/24	(205)	(165)
ERG Wind 117 GmbH & Co. KG	Commerzbank	IRS	31/12/29	(328)	(301)
ERG Wind 117 GmbH & Co. KG	Commerzbank	IRS	31/12/30	(111)	(98)
ERG Wind Dabberkau GmbH & Co. KG	Nord LB	IRS	31/12/25	(407)	(429)
ERG Solar Holding S.r.l.	Intesa Sanpaolo	IRS	30/06/30	(319)	-
ERG Solar Holding S.r.l.	UBI Banca	IRS	30/06/30	(320)	-
ERG Solar Holding S.r.l.	UniCredit	IRS	30/06/30	(378)	-
ERG Solar Holding S.r.l.	Intesa Sanpaolo	IRS	30/06/30	(148)	-
ERG Solar Holding S.r.l.	UBI Banca	IRS	30/06/30	(148)	-
ERG Solar Holding S.r.l.	UniCredit	IRS	30/06/30	(175)	-
ISAB Energy Soiare S.r.l.	Intesa Sanpaolo	IRS	30/06/29	(319)	-
<b>TOTAL</b>				<b>(81,597)</b>	<b>(102,361)</b>

(1) the balance of the subject derivative at 31 December 2017 is positive and classified under financial assets

#### Non-current financial liabilities for the purchase of equity investments

The item includes non-current financial liabilities for foreign acquisitions of companies operating in the wind business

#### Other current financial receivables

These mainly include amounts due from EUC - European Commodity Clearing, relating to the margin of futures contracts stipulated (EUR 37 million)

#### Cash and cash equivalents

The item 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 and solar investees of 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 19 - Covenants and negative pledges.

It is not necessary to provide a reconciliation with the cash and cash equivalents presented in the statement of cash flows, because the value is the same

## NOTE 17 - OTHER CURRENT LIABILITIES

	31/12/2018	31/12/2017
Tax payables	10,969	5,862
Tax payables to parent company ERG S.p.A. for Tax consolidation and Group VAT	40,653	27,724
Payables to employees	2,971	2,293
Payables to pension and social security institutions	2,777	2,587
Other current liabilities	10,811	9,277
<b>Total</b>	<b>68,182</b>	<b>47,743</b>

## NOTE 18 - GUARANTEES, COMMITMENTS AND RISKS AND FUTURE MINIMUM PAYMENTS OF THE OPERATING LEASES

## Sureties given (EUR 62,684 thousand)

These are mainly guarantees provided in favour of third parties, guarantees by the direct parent company ERG S.p.A.

These are mainly counterparties with which commercial dealings were carried out, as well as a guarantee in favour of the Italian electricity market operator (GME) directed at allowing operations on said market.

## Other Guarantees and commitments made (EUR 7,018 thousand)

The other guarantees and commitments made refer mainly to commitments related to the Group's information systems.

## Future minimum payments - leases as lessee

The Group employs properties, warehouses, land, substations and vehicle pool held through operating leases. The average term of the operating leases depends on the type of agreement (approximately 5 years for properties and warehouses, 3 years for the vehicle pool, 20 years for the substations and an average of 15 years for the land) with the possibility of renewing the lease after these dates. Some leases provide for additional payments that depend on the changes of the local price index

At the reporting date, the future minimum payments<sup>5</sup> for irrevocable operating leases were the following:

(EUR thousand)	2018
<b>Future minimum payments</b>	
Within the year	6,254
Between one and five years	21,841
Beyond five years	51,207
<b>Total Future Minimum Payments</b>	<b>79,302</b>

The amounts recognised in the profit for the year 2018 in relation to the above agreements are in line with the future minimum payments that will be incurred within the next year (EUR 6 million).

<sup>5</sup> Agreements with less than 12 months duration and of non-significant amount were excluded from the computation of future minimum payments, along with any renewals of the agreements existing at the date of the present document

## NOTE 19 - COVENANTS AND NEGATIVE PLEDGES

The characteristics of existing loans / project financing and of the related covenants.

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

### ERG Power S.r.l. Project Financing

In December 2009, the Company stipulated with a Group of international banks (Banca IMI, BNP Paribas, Banco Santander, Crédit Agricole Corporate and Investment Bank, Centrobanca, ING Bank, MPS Capital Services, UniCredit Mediocredito Centrale, WestLB) a limited recourse Project Financing agreement for an amount of EUR 330 million. The Agent of the project is UniCredit Mediocredito Centrale.

The loan was issued in April 2010 following fulfilment of all the conditions precedent prescribed by the agreement itself.

*The agreement, directed at issuing a loan for the repowering of a CCGT plant, required the following guarantees for payment of amounts and fulfilment of all obligations deriving from the loan agreement:*

- the establishment of a first mortgage in favour of the credit institutions disbursing, on the property owned by the Company and on the real estate on which a surface right thereof stands;
- the establishment of a special lien on the plant, machinery, capital equipment, raw materials, work in progress, finished goods, inventories and receivables deriving from sales of such assets above certain value thresholds;
- the establishment of a pledge on receivables deriving from the main project contracts and on the project current accounts of ERG Power;
- the monitoring of the incoming and outgoing flows from financial management by the lending banks

*The guarantees issued also include, inter alia, the pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 10.6 million at 31 December 2018)*

Lastly, the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Therefore, in principle, ERG Power may not provide additional guarantees, with the standard exceptions for this type of operations. The duration of the guarantees is tied to the repayment of the loan agreement. The loan is also subject to the following covenants:

- Historical and Prospective Annual Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Power S.r.l. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.05 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees

- The Loan Life Cover Ratio (LLCR) is calculated as the ratio between the net present value – discounted at the weighted average cost of capital – of operating cash flows expected by the company between the date of calculation and the liability's maturity year and the amount of the liability existing as of the calculation date. If it is less than 1.20, ERG Power 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 value 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.

In relation to the Project Financing of ERG Power S.r.l., starting from 30 June 2011, compliance with the following covenants is required, to be calculated every six months on the consolidated data of the ERG Group:

- Ratio between Consolidated Adjusted Net Financial Position and Consolidated Adjusted EBITDA (Adjusted NFP/ Adjusted EBITDA): if it is higher than 4.0, the company may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions.
- Ratio between Consolidated Adjusted EBITDA and Consolidated Adjusted Financial Income: if it is lower than 3.0, the company may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions.

Failure to comply with the aforesaid covenants for three consecutive times entails the partial early repayment of the loan for an amount equal to the excess cash flow defined contractually and kept in restricted bank accounts in the three previous periods.

Loan entered into in June 2007 by the company ERG Eolica Faeto S.r.l. (formerly Eos 4 Faeto S.r.l.)

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 6.4 million at 31 December 2018) of the company in addition to a letter of comfort of ERG Renew S.p.A. The loan is also subject to the following covenants and negative pledges:

- Historical Debt Service Coverage Ratio (DSCR): calculated as the ratio between the project's cash flow after the VAT flows for repayment of the principal amount of the VAT line, for the current half-year and the preceding one and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If it is less than 1.10, ERG Eolica Faeto 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 value is less than 1.05 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 Eolica Faeto S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan entered into by Green Vicari S.r.l. in August 2017

The guarantees issued entail the mortgage on surface rights, a special lien on properties, a pledge on 100% of share capital, on the receivables and on the company's restricted bank accounts (EUR 6.8 million at 31 December 2018)

The loan is also subject to the following covenants and negative pledges

- Average Debt Service Coverage Ratio (ADSCR): it is determined on 30 June and 31 December of each year and it is calculated as the ratio between the project's cash flow after the VAT flows for the two previous half years and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the preferential loan, the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts.

If it is less than 1.10, Green Vicari 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 value is less than 1.05 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, Green Vicari S.r.l. may not issue further guarantees on its assets

Financing pertaining to the construction of the five wind farms situated in France: Parc Eolien de Lihus, Hetomesnil, Bruyère, Carreau, Mardeaux

The guarantees issued entail the mortgage of real estate and a pledge on 100% of the company's share capital and restricted bank accounts (EUR 1.4 million at 31 December 2018). The loan is subject to the following financial covenant with regard to dividend distribution:

- Historical Debt Service Coverage Ratio (DSCR): calculated as the ratio between the project's cash flow after the VAT flows for repayment of the principal amount of the VAT line, for the current half-year and the preceding one and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If it is less than 1.10, the French companies may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions.
- The Contract also provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, the French companies may not issue further guarantees on the assets

Loan entered into by the company Eoliennes du Vent Solaire S.a.s. for the construction of a wind farm situated in France

The guarantees issued entail the mortgage of real estate and a pledge on 100% of the company's share capital and

restricted bank accounts (EUR 0.9 million at 31 December 2018). The loan is also subject to the following covenants and negative pledges:

- Debt Service Coverage Ratio (DSCR): calculated as the ratio between the project's cash flow after the VAT flows for repayment of the principal amount of the VAT line, for the current half-year and the preceding one and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines. If it is less than 1.15, Eoliennes du Vent Solaire S.a.s. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the 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. Therefore, Eoliennes du Vent Solaire S.a.s. may not issue further guarantees on its assets.

Loan entered into in January 2010 by the company ERG Eolica Ginestra S.r.l.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 5.0 million at 31 December 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. If the Historical and/or Prospective DSCR are less than 1.15, ERG Eolica Ginestra 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 DSCR is less than 1.05 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 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. If it is less than 1.20, ERG Eolica Ginestra 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 value 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 Eolica Ginestra S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law

*Loan entered into in October 2009 by ERG Eolica Adriatica S.r.l. (formerly IVPC POWER 5 S.p.A.)*

The loan was restructured on 29 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 9.0 million at 31 December 2018).

The baseline of the loan is subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Eolica Adriatica 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 and/or Prospective DSCR are less than 1.05 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the 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 Eolica Adriatica S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law

*Loan entered into in October 2007 by the company ERG Eolica Campania (formerly IVPC POWER 3 S.p.A.)*

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 10.8 million at 31 December 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. If the Historical and/or Prospective DSCR are less than 1.15, ERG Eolica Campania S.p.A. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical and/or Prospective DSCR are less than 1.05 and the company does not



take any contractually agreed remedy, the financial institutions may request termination of the 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 Eolica Campania S.p.A. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan issued in March 2012 to the company ERG Eolica Fossa del Lupo S.r.l., in April 2013 to the company ERG Eolica Amaroni S.r.l. and in 2014 to the company ERG Eolica Basilicata S.r.l.

(hereafter, the "Companies") were jointly renegotiated as from 30 June 2017.

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 restricted bank accounts (EUR 10.7 million at 31 December 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 projects' cash flow after the VAT flows and the total amount of debt repayment (base line) prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the Companies to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, the Companies may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.05 and the Companies do not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- The Loan Life Cover Ratio (LLCR) is calculated as the ratio between the net present value – discounted at the weighted average cost of capital – of operating cash flows expected by the Company between the date of calculation and the liability's maturity year and the amount of the liability existing as of the calculation date. If the value is less than 1.05 and the Companies 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, the Companies may not issue further guarantees on their assets except in the event of guarantees required by law.

Loan granted in 2008 to ERG Wind Investments Ltd.

The loan is subject to the following covenants and negative pledges:

- Covenants  
The main financial covenant is the HDSCR (Historical Debt Service Cover Ratio), which is calculated with half-yearly

periodicity, with reference to the cash flows generated in the last 12 preceding months, with respect to the payment of the financial debt (principal, interest, fees and swaps) of that period.

A DSCR lower than 1.05 would constitute an event of default of the Project Finance. For dividend distribution, a DSCR above 1.15 is required.

- *Security Package*

To guarantee the commitments made in accordance with the loan agreement, the execution of guarantee agreements governed by regulations pertaining to different jurisdictions is required.

The guarantee documents indicated in the loan agreement include, inter alia, pledges on shares, pledges on stock, assignment of credits (also relating to insurance credits), pledges on current accounts (EUR 30 million at 31 December 2018).

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

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the share capital of EW Orneta 2 SP. Z.O.O. and on 100% of the share capital of Blachy Pruszyński - Energia SP. Z.O.O. and Hydro Inwestycje SP. Z.O.O. acquired by EW Orneta 2 SP. Z.O.O. on 24 May 2017 and on the restricted current accounts of EW Orneta 2 SP. Z.O.O. (EUR 6.4 million at 31 December 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.

If the Historical and/or Prospective Debt Service Coverage Ratio (DSCR) are less than 1.20, EW Orneta 2 SP. Z.O.O. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions.

If the Historical DSCR 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 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. If less than 1.15, EW Orneta 2 SP. Z.O.O. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.

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

The guarantees issued entail the mortgage of real estate, a special lien on assets and a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 2.2 million at 31 December 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. If the Historical and/or Prospective DSCR are less than 1.20, ERG Wind Bulgaria may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR 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 Wind Bulgaria may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan granted in August 2016 to ERG Wind France 1

The guarantees issued entail the mortgage of real estate, a special lien on assets and a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 8.4 million at 31 December 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. If the Historical and Prospective DSCR are less than 1.20, ERG Wind France 1 may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR 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 Wind France 1 may not issue further guarantees on its assets except in the event of guarantees required by law.

### Loans acquired through the Impax Asset Management Group business combination

*Loan taken out by Parc Eolien de Garcelles-Secqueville S.a.s. with Norddeutsche Landesbank on 19 March 2007 and expiring on 30 June 2023*

- No specific financial covenant has been provided
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, the sole condition to proceed with distribution is that the DSRA - Debt Service Reserve Account - must be fully funded

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.1 million at 31 December 2018).

*Loan taken out by Parc Eolien de la Chaude Vallée S.ar.l. with Natixis and Bpfrance on 7 October 2011 and expiring on 30 September 2027*

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05. Failure to comply with the minimum value of DSCR is an event of default of the loan.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- The main condition for distribution is that the DSCR must be higher than 1.15

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.3 million at 31 December 2018)

*Loan taken out by Parc Eolien Hauts Moulins S.ar.l. with Landesbank Baden-Württemberg on 13 June 2012 and expiring on 30 November 2028*

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must be 1.05  
Failure to comply with the minimum value of DSCR is an event of default of the loan • The negative pledges are those which are typical of 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 funded DSRA - Debt Service Reserve Account.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.2 million at 31 December 2018).

Loan taken out by Parc Eolien de La Souterraine with La Caisse d'Allocations Familiales on 14 June 2013 and expiring on 31 July 2027

- The main financial covenants are:
  - the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05;
  - the Outstanding debt/Equity ratio (with the denominator being equal to equity + shareholder loans) higher than or equal to 4

Failure to comply with one of the two covenants is an event of default of the loan.

- The negative pledges are those which are typical of 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 funded DSRA - Debt Service Reserve Account

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.6 million at 31 December 2018).

Loan taken out by S.a.s. Societe d'Exploitation du Parc Eolien de La Souterraine with BP France on 11 October 2013 and expiring on 31 December 2028

- The main financial covenants are:
  - the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05;
  - the Outstanding debt/Equity ratio (with the denominator being equal to equity + shareholder loans) higher than or equal to 82.35/17.65

Failure to comply with one of the two covenants is an event of default of the loan.

- The negative pledges are those which are typical of 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 funded DSRA - Debt Service Reserve Account.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.3 million at 31 December 2018).

Loan taken out by Parc Eolien de Morvillers S.ar.l with Natixis and Bpfrance on 23 August 2012 and expiring on 30 November 2027

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05. Failure to comply with the minimum value of DSCR is an event of default of the loan
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts
- The main condition for distribution is that the DSCR must be higher than 1.15.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.2 million at 31 December 2018).

Loan taken out by Parc Eolien de Moulin des Champs S.A. with Landesbank Baden Württemberg on 13 June 2012 and expiring on 30 November 2028

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05. Failure to comply with the minimum value of DSCR is an event of default of the loan.
  - The negative pledges are those which are typical of 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 funded DSRA - Debt Service Reserve Account
- The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.2 million at 31 December 2018).

Loan taken out by Parc Eolien de Oyré Saint Sauveur S.A. with Natixis on 24 April 2014 and expiring on 30 June 2029

- The main financial covenants are:
    - the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05;
    - the Outstanding debt/Equity ratio (where the denominator is equal to equity + shareholder loan) which may not exceed 85/15 until 1 June 2019, 90/10 between 1 June 2019 and 1 June 2024; 95/5 between 1 June 2024 and 1 June 2029.
- Failure to comply with one of the covenants is an event of default of the loan.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts
  - The main condition for distribution is that the DSCR must be higher than 1.15.
- The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.9 million at 31 December 2018).

Loan taken out by Parc Eolien de Saint Riquier 1 with Landesbank Saar on 31 March 2009 and expiring on 30 December 2027

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.40 for distribution to take place. Distributions are in no case allowed in the years from 2014 to 2018 and from 2024 to 2026.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.7 million at 31 December 2018)

Loan taken out by Parc Eolien de Saint Riquier 3 S.a.s. with HSH Nordbank AG on 31 March 2014 and expiring on 30 December 2028

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05
  - The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts
  - The main conditions for distribution are: DSCR higher than 1.10; fully funded DSRA - Debt Service Reserve Account
- The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.1 million at 31 December 2018).

Loan taken out by Parc Eolien de Saint Riquier 4 S.a.s. with HSH Nordbank AG on 31 March 2014 and expiring on 30 December 2028

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05.
  - The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts
  - The main conditions for distribution are: DSCR higher than 1.10; fully funded DSRA - Debt Service Reserve Account
- The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.1 million at 31 December 2018).

Loans taken out by Windpark Achmer Vinte GmbH & Co. KG with DKB Deutsche Kreditbank on 14 February 2006 and 23 February 2006, expiring on 31 December 2021

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, the sole condition to proceed with distribution is that the DSRA - Debt Service Reserve Account - must be fully funded. In addition, the lending bank has to expressly approved the distribution request.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 2.3 million at 31 December 2018).

Loans taken out by Windpark Cottbuser Halde GmbH & Co. KG with DKB Deutsche Kreditbank on 27 October 2007 and 9 November 2006, expiring on 31 December 2025

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts

- Since no calculation of a specific financial covenant is provided, the sole condition to proceed with distribution is that the DSRA - Debt Service Reserve Account - must be fully funded.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 3.8 million at 31 December 2018).

Loan taken out by ERG Wind 117 GmbH & Co. KG with Commerzbank on 6 August 2013 and expiring on 30 December 2030

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which must exceed 1.05 historically and 1.10 prospectively. Failure to comply with the minimum values of DSCR is an event of default of the loan.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- The main conditions for distribution are: Historical DSCR higher than 1.05, prospective DSCR higher than 1.10; fully funded DSRA - Debt Service Reserve Account.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.3 million at 31 December 2018).

#### Loans acquired through the ForVei business combination

Loan granted in August 2016 to ERG Solar Holding S.r.l. (formerly FVH1 S.r.l.)

The guarantees issued entail the mortgage of real estate, a special lien on assets and a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 11.2 million at 31 December 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.

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 2018.

#### Loans acquired through the Vend'Est business combination

Loan taken out by Parc Eolien de Voie Sacrée S.a.s. with Banco de Sabadell SA, 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 30 June 2018.

The subject loan was repaid early in 2018.

#### Loans acquired through the EPURON business combination

Loan taken out by Parc Eolien de La Vallée 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 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.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.4 million at 31 December 2018).

Loan taken out by Parifolien du Meier with Aareal 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 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.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.3 million at 31 December 2018)

#### Loans acquired through the Linda business combination

Loan taken out by Windpark Linda GmbH con HSH Nordbank AG on 18 December 2018 and expiring on 30 December 2038 of EUR 24 million at 31 December 2018

- The main financial covenant is the USCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- The main conditions for distribution are: DSCR and FDSCR higher than 1.10, fully funded DSRA - Debt Service Reserve Account - equal to the required Debt Service Reserve Amount; fully constituted Compensation Obligation Savings Account in accordance with contractual clauses no. 7 and 13

The DSCR is calculated twice a year on the calculation date of 30 June and 30 December

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 18.9 million at 31 December 2018).

#### Loans acquired through the DIF business combination

Loan taken out by ERG Wind Dobberkau GmbH with Norddeutsche Landesbank on 12 July 2006 and expiring on 31 December 2025

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts

- Since no calculation of a specific financial covenant is provided, the conditions to proceed with distribution are that the operating/insurance/tax expenses be paid; payment of the Debt Service; DSRA funded

Loan taken out by ERG Wind Ober Kostenz GmbH with Sparkasse Bremen on 10 November 2016 and expiring on 31 December 2024

- No specific financial covenant has been provided
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, distribution can be carried out after the payment of all operating costs and the debt.

Loan taken out by ERG Wind Welchweiler GmbH with Sparkasse Bremen on 10 November 2016 and expiring on 31 December 2024

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, distribution can be carried out after the payment of all operating costs and the debt.

Loan taken out by ERG Wind Hermersberg GmbH with Sparkasse Bremen on 10 November 2016 and expiring on 31 December 2024

- No specific financial covenant has been provided
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, distribution can be carried out after the payment of all operating costs and the debt.

Loan taken out by ERG Wind Waldfischbach-Burgalben GmbH with Sparkasse Bremen on 10 November 2016 and expiring on 31 December 2024

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, distribution can be carried out after the payment of all operating costs and the debt.

Loan taken out by ERG Wind Gesellschaft GmbH with Sparkasse Bremen on 12 November 2015 and expiring on 31 December 2024

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts
- Since no calculation of a specific financial covenant is provided, distribution can be carried out after the payment of all operating costs and the debt

#### Loans acquired through the ISAB Energy Solare business combination

Loan taken out by Isab Energy Solare with Mediocredito Italiano on 5 August 2011 and expiring on 30 June 2029

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, distribution can be carried out after the payment of all operating costs and the debt

## NOTE 20 - CONTINGENT LIABILITIES AND DISPUTES

ERG Power Generation 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.

### 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 Article 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.

With its decision filed on 26 October 2018, the Liguria Regional Tax Commission rejected the appeal filed by the Genoa Provincial Office of the Italian Revenue Agency and confirmed the decision of the Genoa Provincial Tax Commission, favourable to ERG Eolica Ginestra S.r.l.

The Genoa Provincial Office of the Italian Revenue Agency may file appeal with the Court of Cassation.

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 2001-2005 time interval, thus before 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 and, at the hearing of 30 November 2018, the Court informed the parties that the expert witness will start work on his report on 1 February 2019.

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). At the hearing of 23 October 2018, the Civil Judge, noting the prejudicial nature of the proceeding initiated with the extraordinary appeal before the President of the Republic of Italy, ordered the suspension of the civil proceedings while the administrative case is pending.

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 2018. Ideally, the appeals will be decided upon in 2019.

In consideration of: (i) the guarantees issued by the seller of the companies of the International Power Group to ERG in the contract of transfer of the 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 14 - 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 periods, 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 mutually-agreed assessment settlement procedure, and defence briefs 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 merit hearing was held on 19 December 2018 at the Lazio Regional Tax Commission and we are awaiting the decision.

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

An appeal and an application for judicial suspension of the tax collection within the terms prescribed by law have been filed. Following the 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 merit hearing was held on 27 September 2017 at the competent Provincial Tax Commission and we are awaiting the decision.

On 11 September 2018, the Rome Provincial Tax Commission accepted the appeal brought by the company

On 18 September 2018, the company filed a petition for disenrollment from the register and repayment of the amounts paid while the decision was pending (14 monthly installments were paid, amounting to EUR 0.2 million)

On 11 November 2018, the company was informed of the allowance issued by the Revenue Agency for the amounts due

On 7 January 2019, the Italian tax collection agency reimbursed the amounts paid while the decision was pending

On 29 October 2018, the Italian Revenue Agency appealed to the competent Regional Tax Commission and we are waiting for the hearing to be set.

*Withholdings taxes on the IRS differentials, tax period 2012* 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 of EUR 0.3 million at 20 October 2017. An appeal and an application for judicial suspension of the tax collection within the terms prescribed by law have been filed.

On 7 May 2018, the merit hearing was held before the competent Tax Commission and on 21 August 2018 the Rome Provincial Tax Commission accepted the appeal filed by the company

On 29 October 2018, the Italian Revenue Agency appealed to the competent Regional Tax Commission and we are waiting for the hearing to be set.

*Withholdings taxes on the IRS differentials, tax period 2013* on 1 October 2018, ERG Wind Investments Limited received an assessment notice for the 2013 tax period for alleged failure to apply withholding on IRS differentials paid to foreign counterparties for EUR 2.4 million, plus a penalty of EUR 2.7 million and interest of EUR 0.4 million at 1 October 2018.

On 15 November 2018, an appeal and an application were filed for judicial suspension of the tax collection; the merit hearing is set for 21 March 2019

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

*In addition, in view of the charge in question, ERG Renew S.p.A. (now ERG Power Generation S.p.A.) has activated the guarantees under the Share and Purchase Agreement stipulated with Engie (formerly Gaz de France Suez) concurrently with the acquisition of the ERG Wind Group against the tax assessment in question. Engie declared that the assessment can be considered as a "Seller Driven Matter"<sup>6</sup> only for the 2010 and 2011 tax periods.*

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

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

<sup>6</sup> Engie formally recognises its liability based on the aforementioned Share and Purchase Agreement.



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 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.

The merit hearing was held on 18 October 2018 at the Rome Regional Tax Commission.

On 6 December 2018, the Rome Regional Tax Commission (CTR) rejected the appeal filed by the company.

On 4 September 2018, the Revenue Agency-Collection served the company with the Payment Notice bearing the enrollment in the register of 2/3 of the registration fee, penalties and interest - totalling EUR 14.6 million - as a result of the unfavourable first degree decision.

The company, deeming the document to be formally defective, filed appeal and petition for judicial suspension of the tax collection.

On 12 October 2018, the Genoa Provincial Tax Commission ordered the judicial suspension of the collection, subject to the issuance of a bank guarantee. At the hearing of 4 December 2018, the judicial suspension of the collection was

confirmed until the date of publication of the first degree decision. The merit hearing was held on 5 February 2019 and we are awaiting the decision.

In this regard, it is pointed out that the 2019 Budget Law (Italian Law no. 145 of 30 December 2018) clarified that Article 1, paragraph 87, letter a) of Law no. 205 of 27 December 2017 (2018 Budget Law), is the authentic interpretation (hence with retroactive effect) of Article 20, paragraph 1 of the consolidated law per Presidential Decree no. 131 of 26 April 1986. Therefore, the requalification of the extraordinary company sale for the purposes of the registration fee, confirmed in the first and in the second degree of the proceedings - albeit not applicable, in the opinion of the company, to the case at hand - will have to be disallowed by the appeal court.

The Group does not deem it likely that it will lose and therefore no liabilities have been recognised to this end. In addition, in view of the charge in question, ERG Renew S.p.A. (now ERG Power Generation S.p.A.) has activated the guarantees under the Share and Purchase Agreement stipulated with Engie (formerly Gaz de France Suez) concurrently with the acquisition of the ERG Wind Group. Engie 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 Italia were notified by the Genoa Provincial Office of the Italian Revenue Agency of the intention to reclassify the sale of all the shares in Hydro Terni S.r.l. (now ERG Hydro S.r.l.), carried out on 30 November 2015, from sale of an equity investment (following the partial demerger of the hydro business by E.On Produzione S.p.A.) to sale of a company and, consequently, highlighting non payment of the related proportional registration tax on the declared price (approximately EUR 950 million).

On 21 July 2017, the companies met 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 detailed note describing the intentions of the parties, the technical and legal peculiarities underlying the statutory lawsuit for the sale of the equity investment with respect to the "impractical" sale of the company, as well as the main regulatory aspects at the basis of the Company's unfounded conduct.

In this regard, recall that on the ERG side, following the technical-legal analyses conducted at the time, acquisition of the investment in ERG Hydro S.r.l. (following the partial demerger of the hydro business by E.On Produzione S.p.A.) was the only concretely possible transaction within the terms and methods aimed at keeping the investment economically sustainable. 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 presentation of the detailed note by ERG Power Generation and E On Italia (supplemented by further production on 26 October 2017) and the meeting with officials of the Genoa Revenue Agency on 17 October 2017, on 27 October 2017,

the Genoa Provincial Office of the Italian Revenue Agency served notice of payment of an additional registration tax of approximately EUR 28.8 million plus interest of EUR 1.9 million (no penalties were applied)

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

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

The merit hearing was held on 14 March 2018.

On 7 November 2018, the decision no. 1256/6/18 of 14 March 2018 was filed; with it, the Genoa Provincial Tax Commission rejected the appeal filed by ERG Power Generation S.p.A.

On 15 January 2019, the company appealed and applied for judicial suspension of the tax collection

On 26 February 2019, ERG Power Generation S.p.A. received - following the first degree decision - a payment notice bearing the enrollment in the register of approximately EUR 41.8 million (amount including tax, penalties, interest and collection premiums). The Company filed a petition to obtain the previously requested judicial suspension of the collection.

In this regard, it is pointed out that the 2019 Budget Law (Italian Law no. 145 of 30 December 2018) clarified that Article 1, paragraph 87, letter a)) of Law no. 205 of 27 December 2017 (2018 Budget Law), is the authentic interpretation (hence with retroactive effect) of Article 20, paragraph 1 of the consolidated law per Presidential Decree no. 131 of 26 April 1986.

Therefore, requalification of the extraordinary company sale for the purposes of the registration fee, confirmed in the first degree of the proceedings - albeit not applicable, in the opinion of the company, to the case at hand - will have to be disallowed by the second degree court.

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 21 - DISCONTINUED OPERATIONS

The comparative Statement of Financial Position at 31 December 2017 is presented in accordance with IFRS 5, with regard to the assets and liabilities of subsidiary Brockaghboy Windfarm Ltd. The impacts of the aforementioned exception are indicated separately under the item "Assets held for sale" and "Liabilities held for sale".

(EUR thousand)	31/12/2017		
	Brockaghboy Windfarm Ltd.	Intragroup transactions	Total
Intangible assets	6,998	-	6,998
Goodwill	-	-	-
Property, plant and equipment	70,329	-	70,329
Equity investments	-	-	-
Other non-current financial assets	-	-	-
Deferred tax assets	67	-	67
Other non-current assets	-	-	-
<b>Non-current assets</b>	<b>77,394</b>	<b>-</b>	<b>77,394</b>
Inventories	-	-	-
Trade receivables	1,940	-	1,940
Other current assets	899	-	899
Current financial assets	-	-	-
Cash and cash equivalents	1,293	-	1,293
<b>Current assets</b>	<b>4,132</b>	<b>-</b>	<b>4,132</b>
<b>TOTAL ASSETS HELD FOR SALE</b>	<b>81,526</b>	<b>-</b>	<b>81,526</b>
Equity	-	-	-
Non-controlling interests	-	-	-
<b>Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>
Post-employment benefits	-	-	-
Deferred tax liabilities	(67)	-	(67)
Provisions for non-current risks and charges	1,381	-	1,381
Non-current financial liabilities	-	-	-
Other non-current liabilities	-	-	-
<b>Non-current liabilities</b>	<b>1,314</b>	<b>-</b>	<b>1,314</b>
Provisions for current risks and charges	-	-	-
Trade payables	703	-	703
Current financial liabilities	56,088	(56,088)	(0)
Other current liabilities	139	-	139
<b>Current liabilities</b>	<b>56,930</b>	<b>(56,088)</b>	<b>842</b>
<b>TOTAL LIABILITIES HELD FOR SALE</b>	<b>58,244</b>	<b>(56,088)</b>	<b>2,156</b>

## INCOME STATEMENT ANALYSIS

Note that the Group has applied IFRS 15 retrospectively, with cumulative 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 2017, restated in accordance with IFRS 15, please see the description in the Directors' Report.

### NOTE 22 - REVENUE

	2018	2017
Revenue from sales	736,770	762,269
Revenues for incentives	278,929	278,365
Revenue from services	8,093	11,803
<b>Total</b>	<b>1,023,792</b>	<b>1,052,437</b>

The breakdown of revenue by operating segment and geographic area in accordance with IFRS 8 is provided under **Note 34 - Disclosure by operating segment and geographic area**.

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 year of the wind farms and photovoltaic plants in operation, and the hydroelectric plants of ERG Hydro. In particular, the valuation of the incentives in Italy 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 **Basis of preparation**.

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

The breakdown of revenue from sales to third parties and to Group companies not consolidated line by line is as follows:

	2018	2017
Sales to third parties	1,011,784	1,040,575
Sales to Group companies not consolidated line by line	12,008	11,862
<b>Total</b>	<b>1,023,792</b>	<b>1,052,437</b>

Sales to third parties includes EUR 188 million (EUR 170 million in 2017) of prices by way of feed-in tariff collected by the companies operating in Italy in the wind, solar and hydroelectric segments.

A single customer has revenues exceeding 10% of the total revenue of the Group

The breakdown of revenue by type and operating segment is presented below:

(EUR million)	Wind	Thermoelectric	Hydroelectric	Solar	Corporate	Total
<b>Revenue from sales</b>						
Electricity to the market	122	213	114	8	-	458
Electricity to end customers	-	85	-	-	-	85
Transport and third-party	-	6	-	-	-	6
Steam - Gas and other utilities	-	67	-	-	-	67
Feed-In Premium	254	-	80	30	-	364
White Certificates	-	25	-	-	-	25
Green certificates abroad	10	-	-	-	-	10
<b>Total Revenue from sales</b>	<b>386</b>	<b>398</b>	<b>194</b>	<b>38</b>	<b>-</b>	<b>1,016</b>
<b>Revenue from services</b>						
Other - Services	-	8	-	-	-	8
<b>Total Revenue from services</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8</b>
<b>TOTAL REVENUE</b>	<b>386</b>	<b>405</b>	<b>194</b>	<b>38</b>	<b>-</b>	<b>1,024</b>

The details of revenue by operating segment and by geographic area are presented below:

REVENUE (EUR million)	2018	2017
Wind	386	442
Thermoelectric	405	473
Hydroelectric	194	137
Solar	38	-
<b>Total</b>	<b>1,024</b>	<b>1,052</b>

	2018	2017
Italy	903	927
France	49	44
Germany	33	37
Poland	14	12
Bulgaria	13	13
Romania	12	19
<b>Total</b>	<b>1,024</b>	<b>1,052</b>

The timeframe for the collection of receivables related to revenue depends on the type of revenue. Receivables for energy sold to the market have average realisation times of less than three months, for contracts with end customers and for transport revenues the timeframe varies according to the counterparty.

Collection of the receivables correlated to feed-in tariff revenue takes place on average no later than six months from the accrual date of the price, while white certificates are generally collected within the following year.

## NOTE 23 - OTHER INCOME

	2018	2017
Indemnities	2,038	1,590
Reimbursement of expenses	515	126
Capital gains on disposals	33	1
Non-recurring income	8,297	241
Other revenue and income	7,466	6,904
<b>Total</b>	<b>18,349</b>	<b>8,863</b>

The item mainly includes smaller chargebacks to third parties and grants related to income and the chargebacks to Group companies not consolidated line by line.

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

## NOTE 24 - PURCHASES

The 2018 amount is equal to EUR 327 million (EUR 356 million in 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.

Purchase costs include the net negative impact of EUR 7.3 million (EUR 7.7 million in 2017) of commodity hedging derivatives, described in detail below.

	2018	2017
Purchases of electricity from third parties	135,835	190,955
Purchases of gas from third parties	149,365	132,666
Purchases of raw materials and utilities	35,732	23,721
Purchases from Group companies not consolidated line by line	(0)	172
Increases in non-current assets for internal work	(484)	(277)
Differential of derivatives on EBITDA	7,266	7,729
Change in inventories	(728)	624
<b>Total</b>	<b>326,985</b>	<b>355,590</b>

(EUR thousand)	2018
Income from derivatives realised at Fair Value to Profit or Loss	8,326
Income from derivatives unrealised at Fair Value to Profit or Loss	-
Income of cash flow hedge derivatives	17,475
Income deriving from ineffectiveness of cash flow hedge derivatives	-
<b>Total income from commodity derivatives</b>	<b>25,801</b>
Expense from derivatives realised at Fair Value to Profit or Loss	(8,337)
Expense from derivatives unrealised at Fair Value to Profit or Loss	-
Expense on cash flow hedge derivatives	(24,730)
Expense deriving from ineffectiveness of cash flow hedge derivatives	-
<b>Total costs from commodity derivative contracts</b>	<b>(33,067)</b>
<b>Total</b>	<b>(7,266)</b>
of which cash flow hedge derivatives	(7,255)
<b>Cash flow hedge derivatives - objective of the hedge</b>	
Income of cash flow hedge derivatives with Power sales hedge objectives	1,896
Expense of cash flow hedge derivatives with Power sales hedge objectives	(24,300)
Income of cash flow hedge derivatives with Power purchases hedge objectives	3,443
Expense of cash flow hedge derivatives with Power purchases hedge objectives	(258)
Income of cash flow hedge derivatives with Gas sales hedge objectives	23
Expense of cash flow hedge derivatives with Gas sales hedge objectives	(112)
Income of cash flow hedge derivatives with Gas purchases hedge objectives	12,114
Expense of cash flow hedge derivatives with Gas purchases hedge objectives	(60)
<b>Total</b>	<b>(7,255)</b>
<b>Cash flow hedge derivatives - objective of the hedge</b>	
Total of cash flow hedge derivatives with sales hedge objectives	(22,494)
Total of cash flow hedge derivatives with purchases hedge objectives	15,238
<b>TOTAL</b>	<b>(7,255)</b>

## NOTE 25 - SERVICES AND OTHER OPERATING COSTS

	2018	2017
Service costs	145,561	143,576
Rental, lease and hire expenses	16,211	17,014
Impairment of receivables	(276)	1,481
Allocations for risks and charges	3,670	9,047
Taxes and duties	9,707	9,926
Other operating expenses	2,481	2,489
<b>Total</b>	<b>177,353</b>	<b>183,533</b>



	2018	2017
Costs for electricity transport:	9,095	13,435
Commercial, distribution and transport costs	854	762
Royalties and land rights	11,440	9,759
Maintenance and repairs	31,933	25,826
Utilities and supplies	3,584	3,597
Insurance	8,056	8,019
Consultancy services	13,652	11,508
Advertising and promotions	98	70
Costs for services from Group companies not consolidated line by line	43,917	46,987
Other services	22,931	23,614
<b>Total</b>	<b>145,561</b>	<b>143,576</b>

Costs for services are broken down as follows:

- **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** comprise banking charges, overhead costs and personnel transaction costs

Duties and taxes refer mainly to the municipal taxes for the ERG Power CCGT plant and the wind farms, and other taxes and duties.

## NOTE 26 - PERSONNEL EXPENSE

	2018	2017
Wages and salaries	27,811	25,424
Social security expenses	8,282	7,766
Post-employment benefits	1,604	1,505
Other personnel costs	3,311	1,945
<b>Total</b>	<b>41,009</b>	<b>36,639</b>

The increase is mainly due to the increase in personnel of the foreign companies, following acquisitions during the year

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

	2018	2017
Executives	15	12
Managers	90	66
White-collar staff	228	235
Blue collar staff - intermediate	179	175
<b>Total</b>	<b>512</b>	<b>489</b>

At 31 December 2018, the total number of employees was 512.

## NOTE 27 - AMORTISATION, DEPRECIATION AND IMPAIRMENT OF NON-CURRENT ASSETS

	2018	2017
Amortisation of intangible non-current assets	51,902	45,482
Depreciation of property, plant and equipment	216,721	200,613
Impairment of non-current assets	609	(30)
<b>Total</b>	<b>269,232</b>	<b>246,065</b>

The increase in the value of the depreciation/amortisation is mainly due to the change in the consolidation scope commented above, following acquisition of the solar plants and of the new French wind farms.

## NOTE 28 - NET FINANCIAL INCOME (EXPENSE)

	2018	2017
<b>Income</b>		
Positive foreign exchange differences	1,502	587
Effect of loan renegotiations (IFRS 9 gain)	5,527	—
Bank interest receivable	67	53
Derivative financial instruments on rates	18,795	17,902
Other financial income	134	307
	<b>26,024</b>	<b>18,849</b>
<b>Expense</b>		
Negative foreign exchange differences	(1,355)	(949)
Effect of loan renegotiations (IFRS 9 loss)	(2,470)	—
Bank interest payable	(21,979)	(20,897)
Derivative financial instruments on rates	(35,728)	(34,446)
Amortised cost on mortgages, loans and project financing	(19,753)	(19,889)
Other financial expense	(4,134)	(3,416)
	<b>(85,418)</b>	<b>(79,597)</b>
<b>Total</b>	<b>(59,394)</b>	<b>(60,748)</b>

The total effect of the renegotiation of loans, equal to EUR 5.5 million, relates to the positive net income component generated as a result of the application of IFRS 9 curing non-substantial modifications of financial liabilities, partially offset by the portion of cost of the year (EUR 2.5 million).

## NOTE 29 - NET GAINS (LOSSES) ON EQUITY INVESTMENTS

Net loss on equity investments of EUR -408 thousand (net losses of EUR -1,105 thousand in 2017) refers.

- to the Group's portion of the result of Priolo Servizi S.C.p.A. (EUR 143 thousand);
- to allocations to provisions for risks on equity investments (EUR -550 thousand) pertaining to companies not consolidated line by line.

## NOTE 30 - INCOME TAXES

## Income taxes

	2018	2017
Current income taxes	(51,851)	(46,824)
Previous years taxes	(282)	(671)
Deferred tax assets and liabilities	6,922	5,743
<b>Total</b>	<b>(45,212)</b>	<b>(41,752)</b>

Income taxes for the year 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 18 million (EUR 11.8 million in 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

<b>IRES</b>		
Profit before taxes	167,759	
Theoretical IRES 24%	40,262	
Impact of consolidation adjustments that are not relevant for tax calculation purposes		44
Impact of ACE (Aid to Economic Growth)		(8,027)
Impact of permanent tax changes		(814)
Current, deferred and advance IRES (Corporate Income Tax)		31,465
<b>IRAP</b>		
Net Operating Income (EBIT)	227,562	
Impairment of receivables	(275)	
Total	227,837	
Theoretical IRAP 5%	11,392	
Effect of higher IRAP rate for some companies		(1,910)
Impact of permanent tax changes and consolidation adjustments that are not relevant for tax calculation purposes		3,915
Current, deferred and advance IRAP		13,391
Total theoretical taxes	51,654	
Total IRES and IRAP in the financial statements		44,856
Previous year taxes		282
Substitute taxes		73
Total taxes in financial statements		45,212
Brockaghboy Windfarm Ltd taxes		248
TOTAL TAXES (INCLUDING IFRS 5 EFFECT)		45,459

## NOTE 31 - PROFIT FROM DISCONTINUED OPERATIONS

The income statement for 2018 is represented in accordance with IFRS 5, with the exclusion of the results of the company Brockaghboy Windfarm Ltd : for additional details, please refer to the section **Sale of Brockaghboy**

The income statement for 2017 is presented in accordance with IFRS 5, with the exclusion of the results of subsidiary Brockaghboy Windfarm Ltd., which is consolidated on a line-by-line basis

	2018
(EUR thousand)	Brockaghboy Windfarm Ltd.
Revenue	2,937
Other income	889
Purchases	(0)
Services and other costs	(551)
Personnel expense	-
<b>Gross Operating Income (EBITDA)</b>	<b>3,275</b>
Depreciation, amortisation and impairment losses	(704)
Net financial income (expense)	(605)
Net income (loss) on equity investments	26,714
<b>PROFIT BEFORE TAXES</b>	<b>28,680</b>
Income taxes	(248)
<b>Profit from discontinued operations</b>	<b>28,432</b>

	2017
(EUR thousand)	Brockaghboy Windfarm Ltd.
Revenue	2,910
Other income	-
Purchases	-
Services and other costs	(579)
Personnel expense	-
<b>Gross Operating Income (EBITDA)</b>	<b>2,331</b>
Depreciation, amortisation and impairment losses	(1,261)
Net financial income (expense)	(317)
Net income (loss) on equity investments	-
<b>PROFIT BEFORE TAXES</b>	<b>753</b>
Income taxes	(129)
<b>Profit from discontinued operations</b>	<b>625</b>

## NOTE 32 - NON-RECURRING ITEMS

The table below shows the significant income and expenses arising from non-recurring transactions or events that do not occur frequently in the ordinary course of business are presented below

		2018	2017
Revenue from sales and services		-	-
Other revenue		-	-
Purchases		-	-
Change in inventories		-	-
Services and other costs	1	(1,775)	(398)
Personnel expense	2	(1,732)	-
Amortisation, depreciation and impairment of non-current assets		-	-
Net financial income (expense)	3	4,012	-
Net income (loss) on equity investments		-	-
Income taxes	4	(97)	5
<b>Profit from non-recurring items continuing operations</b>		<b>408</b>	<b>(393)</b>
<b>Profit from non-recurring items discontinued operations</b>	5	<b>26,170</b>	<b>-</b>
<b>Profit from non-recurring items</b>		<b>26,578</b>	<b>(393)</b>
Non-controlling interests		-	0
<b>Group Profit from non-recurring items</b>		<b>26,578</b>	<b>(393)</b>

### In 2018

- 1 services and other costs refer to ancillary costs relating to non-recurring transactions and to ancillary costs related to the ERG Group's 80th anniversary celebrations;
- 2 personnel expenses relate to bonuses to employees related to the ERG Group's 80th anniversary celebrations;
- 3 net financial income (expense) recognised, on the basis of IFRS 9, in reference to refinancing operations completed during the period (EUR 6 million), net of the reversal effect related to refinancing operations performed in previous years and in the current period (EUR -2 million);
- 4 income taxes refer to the tax effect of the items commented above;
- 5 the net profit or loss of discontinued operations refers to the sale of Brockaghboy Windfarm Ltd.

### In 2017

- 1 services and other costs refer to other ancillary costs for extraordinary transactions.

## NOTE 33 - RELATED PARTIES

The transactions carried out by ERG Power Generation with related parties pertain mainly to:

- the exchange of goods, the performance of services, the provision and use of financing;
- the provision and use of financing with respect to parent company ERG S.p.A.

The impact of related party cash flows is indicated in the following summary table.

### Income Statement

	Revenue	Other income	Purchases	Services and other costs	Financial income	Financial expense
ERG S.p.A.	76	1	-	(35,818)	9	(2,244)
Prato Servizi S.p.A.	11,932	-	-	(8,099)	-	-
<b>Total</b>	<b>12,008</b>	<b>1</b>	<b>-</b>	<b>(43,917)</b>	<b>9</b>	<b>(2,244)</b>

### Statement of Financial Position

	Other non-current financial assets	Other non-current assets	Trade receivables	Other current assets	Current financial assets	Non-current financial liabilities	Other non-current liabilities	Trade payables	Current financial liabilities	Other current liabilities
ERG S.p.A.	-	-	1,156	27,673	3	72,467	-	-	-	40,654
Prato Servizi S.p.A.	-	-	2,978	-	-	-	-	30	-	-
Other minor items	-	-	32	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>4,167</b>	<b>27,673</b>	<b>3</b>	<b>72,467</b>	<b>-</b>	<b>30</b>	<b>-</b>	<b>40,654</b>

## NOTE 34 - DISCLOSURE BY OPERATING SEGMENT AND GEOGRAPHIC AREA

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 Power Generation Group.

To enhance understandability of the individual business segments' performance, the operating results are shown adjusted, net of non-recurring items.

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 the 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".

## Reporting by business segment

(EUR million)	Wind	Thermo- electric	Hydroelectric	Solar	Corporate	Total Adjusted	Non-recurring items	Total Reported	Discontinued operations	Total continuing operations
2018										
Total revenue	389.4	404.8	194.1	38.4	—	1,026.6	—	1,026.6	—	1,026.6
Intra-segment revenue	—	—	—	—	—	—	—	—	—	—
<b>Revenue</b>	<b>389.4</b>	<b>404.8</b>	<b>194.1</b>	<b>38.4</b>	<b>—</b>	<b>1,026.6</b>	<b>—</b>	<b>1,026.6</b>	<b>(2.9)</b>	<b>1,023.7</b>
Gross Operating Income (EBITDA)	273.9	51.2	146.2	32.3	—	503.6	(3.5)	500.1	(3.3)	496.8
Amortisation, depreciation and impairment losses	(157.4)	(30.7)	(58.1)	(23.8)	—	(269.9)	—	(269.9)	0.7	(269.2)
<b>Net Operating Income (EBIT)</b>	<b>116.4</b>	<b>20.5</b>	<b>88.2</b>	<b>8.5</b>	<b>—</b>	<b>233.6</b>	<b>(3.5)</b>	<b>230.1</b>	<b>(2.6)</b>	<b>227.6</b>
Gains (losses) on equity investments to equity	(0.6)	0.1	—	—	—	(0.4)	26.7	26.3	(26.7)	(0.4)
Investments in associates and joint ventures	—	—	—	—	—	—	—	—	—	—
<b>Capital expenditure in non-current assets</b>	<b>146.4</b>	<b>8.1</b>	<b>6.7</b>	<b>345.2</b>	<b>—</b>	<b>506.5</b>	<b>—</b>	<b>506.5</b>	<b>—</b>	<b>506.5</b>
2017										
Total revenue	445.4	473.3	136.6	—	—	1,055.2	—	1,055.2	—	1,055.2
Intra-segment revenue	—	—	—	—	—	—	—	—	—	—
<b>Revenue</b>	<b>445.4</b>	<b>473.3</b>	<b>136.6</b>	<b>—</b>	<b>—</b>	<b>1,055.2</b>	<b>—</b>	<b>1,055.2</b>	<b>(2.9)</b>	<b>1,052.3</b>
Gross Operating Income (EBITDA)	316.2	78.4	93.6	—	—	488.3	(0.4)	487.9	(7.3)	485.5
Amortisation, depreciation and impairment losses	(158.1)	(30.8)	(58.4)	—	—	(247.3)	—	(247.3)	1.3	(246.1)
<b>Net Operating Income (EBIT)</b>	<b>158.2</b>	<b>47.6</b>	<b>35.1</b>	<b>—</b>	<b>—</b>	<b>240.9</b>	<b>(0.4)</b>	<b>240.5</b>	<b>(1.1)</b>	<b>239.5</b>
Gains (losses) on equity invest- ments to equity	(1.1)	0.1	—	—	—	(1.0)	—	(1.0)	—	(1.0)
Investments in associates and joint ventures	—	—	—	—	—	—	—	—	—	—
<b>Capital expenditure in non- current assets</b>	<b>74.8</b>	<b>9.9</b>	<b>6.3</b>	<b>—</b>	<b>—</b>	<b>90.9</b>	<b>—</b>	<b>90.9</b>	<b>—</b>	<b>90.9</b>



### Reporting by geographical segment

Revenue from foreign countries relate to the revenue of the individual foreign Group companies present in the specific countries

A single customer has revenues exceeding 10% of the total revenue of the Group

For the details on non-recurring items, please refer to Note 31 - Non-recurring items.

(EUR million)	Italy	France	Germany	Poland	Bulgaria	Romania	UK	Total recurring
2018								
Revenue from sales and services	903.1	48.9	32.7	13.9	12.6	12.5	2.9	1,026.6
<b>Gross Operating Income (EBITDA)</b>	<b>424.7</b>	<b>30.1</b>	<b>21.6</b>	<b>9.8</b>	<b>7.9</b>	<b>6.6</b>	<b>2.9</b>	<b>503.6</b>
Amortisation, depreciation and impairment losses	(211.6)	(23.3)	(19.0)	(6.0)	(4.1)	(5.2)	(0.7)	(269.9)
<b>Net Operating Income (EBIT) at fair value</b>	<b>213.1</b>	<b>6.8</b>	<b>2.7</b>	<b>3.8</b>	<b>3.8</b>	<b>1.3</b>	<b>2.2</b>	<b>233.6</b>
<b>Capital expenditure in non-current assets</b>	<b>367.7</b>	<b>98.7</b>	<b>17.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.3</b>	<b>22.6</b>	<b>506.5</b>
2017								
Revenue from sales and services	927.3	44.2	36.8	11.8	12.9	19.4	2.9	1,055.2
<b>Gross Operating Income (EBITDA)</b>	<b>412.6</b>	<b>29.6</b>	<b>24.8</b>	<b>4.7</b>	<b>6.0</b>	<b>8.3</b>	<b>2.3</b>	<b>488.3</b>
Amortisation, depreciation and impairment losses	(190.2)	(21.3)	(18.9)	(6.1)	(4.2)	(5.3)	(1.3)	(247.3)
<b>Net Operating Income (EBIT) at fair value</b>	<b>222.3</b>	<b>8.3</b>	<b>5.9</b>	<b>(1.4)</b>	<b>1.7</b>	<b>2.9</b>	<b>1.1</b>	<b>240.9</b>
<b>Capital expenditure in non-current assets</b>	<b>19.1</b>	<b>2.4</b>	<b>39.5</b>	<b>1.1</b>	<b>0.0</b>	<b>0.2</b>	<b>28.7</b>	<b>90.9</b>

## NOTE 35 - ALTERNATIVE PERFORMANCE INDICATORS

Some of the APIs used in the Directors' Report 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 net financial indebtedness.

Finally, in order to enhance 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:

- **Adjusted revenue** is revenue, as indicated in the Financial Statements, with the exclusion of significant special income components (special items);
- **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);
- **Adjusted EBIT** is the net operating profit, explicitly indicated as a subtotal in the Financial Statements, 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 interim Report at 31 March 2018, they also include the carrying 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 financial structure and includes 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 not 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

FY 2018

Economic indicators

	Income Statement	Contribution from Discontinued operations (Brockaghboy)	Exclusion of ancillary charges on extraordinary operations	Exclusion of ERG 80 Charges	Exclusion of gain on disposal of the UK equity investment	Exclusion of impact of gain on refinancing IFRS 9	Adjusted income statement
(EUR thousand)		1	2	3	4	5	
Revenue	1,023,792	2,937	-	-	-	-	1,026,729
Other income	18,349	889	-	-	-	-	19,238
Purchases	(326,985)	(0)	-	-	-	-	(326,985)
Services and other operating costs	(177,353)	(551)	1,775	-	-	-	(176,129)
Personnel expense	(41,009)	-	-	1,732	-	-	(39,277)
<b>Gross Operating Income (EBITDA)</b>	<b>496,794</b>	<b>3,275</b>	<b>1,775</b>	<b>1,732</b>	-	-	<b>503,575</b>
Amortisation, depreciation and impairment of non-current assets	(269,232)	(704)	-	-	-	-	(269,936)
<b>Net Operating Income (EBIT)</b>	<b>227,562</b>	<b>2,571</b>	<b>1,775</b>	<b>1,732</b>	-	-	<b>233,640</b>
Financial expense	(85,418)	(1,802)	-	-	226	2,469	(84,526)
Financial income	26,024	1,198	-	-	-	(6,481)	20,740
<b>Net financial income (expense)</b>	<b>(59,394)</b>	<b>(605)</b>	-	-	<b>226</b>	<b>(4,012)</b>	<b>(63,785)</b>
Net gains on equity-accounted investments	143	-	-	-	-	-	143
Other net gains (losses) on equity investments	(551)	26,714	-	-	(26,714)	-	(551)
<b>Gains (losses) on equity investments</b>	<b>(408)</b>	<b>26,714</b>	-	-	<b>(26,714)</b>	-	<b>(408)</b>
<b>PROFIT BEFORE TAXES</b>	<b>167,759</b>	<b>28,680</b>	<b>1,775</b>	<b>1,732</b>	<b>(26,488)</b>	<b>(4,012)</b>	<b>169,446</b>
Income taxes	(45,212)	(248)	(320)	(502)	317	920	(45,045)
<b>PROFIT FROM CONTINUING OPERATIONS</b>	<b>122,548</b>	<b>28,432</b>	<b>1,455</b>	<b>1,230</b>	<b>(26,170)</b>	<b>(3,092)</b>	<b>124,401</b>
Profit from discontinued operations	28,432	(28,432)	-	-	-	-	-
<b>PROFIT FOR THE YEAR</b>	<b>150,980</b>	-	<b>1,455</b>	<b>1,230</b>	<b>(26,170)</b>	<b>(3,092)</b>	<b>124,401</b>
Non-controlling interests	(133)	-	-	-	-	-	(133)
<b>PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT</b>	<b>150,847</b>	-	<b>1,455</b>	<b>1,230</b>	<b>(26,170)</b>	<b>(3,092)</b>	<b>124,268</b>

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

In the Directors' 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 Directors' Report on the 2017 Financial Statements.

2 Ancillary charges relating to other operations of a non-recurrent nature and capitalised charges on holdings managed as ancillary charges on Group consolidated.

3 Charges related to the ERG Group's 80th anniversary celebrations.

4 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.

5 The Group renegotiated a number of loans during the year. 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 net gain of approximately EUR 4 million being accounted for in 2018. 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, deferring the recognition of benefits of the renegotiation over the remaining term of the liability and not recognising them all in one immediate entry at the time of the amendment. The adjustment commented herein 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.

## FY 2017

### Economic indicators

(EUR thousand)	Income Statement	Contribution from Discontinued operations (Brookaghboy) <sup>1</sup>	Exclusion of ancillary charges on extraordinary operations <sup>2</sup>	IFRS 15 Reclassifications	Adjusted income statement
Revenue	1,052,437	2,910	–	(8,907)	1,046,440
Other income	8,863	–	–	–	8,863
Purchases	(355,590)	–	–	–	(355,590)
Services and other operating costs	(183,533)	(579)	398	8,907	(174,807)
Personnel expense	(36,639)	–	–	–	(36,639)
<b>Gross Operating Income (EBITDA)</b>	<b>485,538</b>	<b>2,331</b>	<b>398</b>	<b>–</b>	<b>488,267</b>
Amortisation, depreciation and impairment of non-current assets	(246,065)	(1,261)	–	–	(247,326)
<b>Net Operating Income (EBIT)</b>	<b>239,473</b>	<b>1,070</b>	<b>398</b>	<b>–</b>	<b>240,941</b>
Financial expense	(79,597)	(546)	–	–	(80,144)
Financial income	18,849	229	–	–	19,079
<b>Net financial income (expense)</b>	<b>(60,748)</b>	<b>(317)</b>	<b>–</b>	<b>–</b>	<b>(61,065)</b>
Net gains on equity accounted investments	119	–	–	–	119
Other net gains (losses) on equity investments	(1,124)	–	–	–	(1,124)
<b>Gains (losses) on equity investments</b>	<b>(1,005)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(1,005)</b>
<b>PROFIT BEFORE TAXES</b>	<b>177,720</b>	<b>753</b>	<b>398</b>	<b>–</b>	<b>178,871</b>
Income taxes	(41,752)	(129)	(5)	–	(41,886)
<b>PROFIT FROM CONTINUING OPERATIONS</b>	<b>135,967</b>	<b>625</b>	<b>393</b>	<b>–</b>	<b>136,985</b>
Profit from discontinued operations	625	(525)	–	–	–
<b>PROFIT FOR THE YEAR</b>	<b>136,592</b>	<b>(0)</b>	<b>393</b>	<b>–</b>	<b>136,985</b>
Non-controlling interests	–	–	–	–	–
<b>PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT</b>	<b>136,592</b>	<b>(0)</b>	<b>393</b>	<b>–</b>	<b>136,985</b>

<sup>1</sup> The results of Brookaghboy, the subsidiary sold on 7 March 2018, are subject to the requirements of IFRS 5

In the Directors' 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 Directors' Report on the 2017 Financial Statements

<sup>2</sup> Ancillary charges relating to other operations of a non-recurrent nature and capitalised charges on holdings managed as ancillary charges on Group consolidated

## NOTE 36 - FINANCIAL INSTRUMENTS

For information on the effects deriving from the first application of IFRS 9 to financial instruments, please refer to the section Accounting standards, amendments and IFRS interpretations applied starting on 1 January 2018. In accordance with the selected method of first application of IFRS 9, the comparative information was not restated to reflect the new provisions.

### 31/12/2018

The following table shows, for each financial asset and liability, the carrying amount and the fair value. Information on the fair value of financial assets and liabilities not measured at fair value are excluded, when the carrying amount represents a reasonable approximation of fair value.

31/12/2018

	Fair value - Hedging instruments	FVTPL instruments	FVOCI instruments	Financial assets measured at amortised cost	Other financial liabilities	Total Carrying Amount	Fair value
Equity investments	-	617	-	-	-	617	617
Other non-current financial receivables	-	-	-	40.152	-	40.152	n.a.
Derivative instruments	-	-	-	-	-	-	n.a.
Other current financial receivables <sup>(1)</sup>	-	-	-	37.216	-	37.216	n.a.
Trade receivables	-	-	-	251.192	-	251.192	n.a.
Financial instruments in working capital	-	-	446	-	-	446	446
Other receivables	-	-	-	158.946	-	158.946	n.a.
Cash and cash equivalents	-	-	-	175.654	-	175.654	n.a.
<b>Total assets</b>	-	<b>617</b>	<b>446</b>	<b>663.159</b>	-	<b>664.222</b>	
Loans and borrowings	-	-	-	-	-	-	-
No recourse project financing	-	-	-	-	1.177.552	1.177.552	1.367.848
Other financial expense	-	-	-	-	98.985	98.985	96.612
Derivative instruments	83.250	-	-	-	-	83.250	83.250
Trade payables	-	-	-	-	83.926	83.926	n.a.
Other payables	-	-	-	-	100.298	100.298	n.a.
<b>Total liabilities</b>	<b>83.250</b>	-	-	-	<b>1.460.761</b>	<b>1.544.011</b>	

(1) the column "Financial assets measured at amortised cost" includes EUR 34,670 thousand 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 31 December 2018, negative by a total amount of EUR 24,014 thousand.

Instruments measured at Fair value to profit or loss (FVTPL) relate exclusively to instruments which must be measured at FVTPL in accordance with IFRS 9.

With the exception of derivative instruments, the other financial liabilities are measured at amortised cost.

The most important items to be considered parts of the net financial position relate to:

- Derivative instruments
- Financial receivables
- Cash and cash equivalents
- Loans and borrowings
- No recourse project financing
- Current bank borrowings
- Financial payables

With regard to the most important items for the purposes of the income statement, the following are pointed out:

- Derivative instruments
- Loans and borrowings
- No recourse project financing

The following table provides an analysis of the fair value measurement of financial instruments, 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
<b>Financial assets</b>			
- Fair value - Hedging instruments	-	-	-
- FVTPL instruments	-	617	-
- FVOCI instruments	446	-	-
- Financial assets measured at amortised cost	-	-	-
<b>Total</b>	<b>446</b>	<b>617</b>	<b>-</b>
<b>Financial liabilities</b>			
- Fair value - hedging instruments <sup>(1)</sup>	24,014	83,250	-
- Other financial liabilities	-	1,464,460	-
<b>Total</b>	<b>24,014</b>	<b>2,442,671</b>	<b>-</b>

1) "Fair value - Hedging instruments" includes the positive fair values of the futures contracts hedging the commodity price risk, amounting to EUR 24,014 thousand. Said amount is reported in the present Report as a direct deduction of the value of Financial assets measured at amortised cost.

The financial instruments classified in level 1 relate to the fair value of future derivative contracts on commodities for an amount equal to EUR 24,014 thousand and bonds for an amount equal to EUR 446 thousand.

Project financing and financial instruments on interest rates and commodities are mainly classified in level 2.

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.

Classification of the financial instruments at 31 December 2017 is provided below.

31/12/2017	FVTPL <sup>(1)</sup>	L&R <sup>(2)</sup>	AFS <sup>(3)</sup>	Hedging hedging	Other liabilities	Total	of which non-current	Fair value
Equity investments	-	-	10	-	-	10	-	-
Financial receivables	-	39,233	-	-	-	39,233	39,233	-
Derivative instruments	-	-	-	17,210	-	17,210	-	17,210
Trade receivables	-	256,090	-	-	-	256,090	-	-
Financial instruments in working capital	-	-	0	-	-	0	-	-
Other receivables	-	241,340	-	-	-	241,340	162,026	-
Cash and cash equivalents	-	151,022	-	-	-	151,022	-	151,022
<b>Total assets</b>	-	<b>687,685</b>	<b>10</b>	<b>17,210</b>	-	<b>704,905</b>	<b>201,259</b>	<b>168,232</b>
Loans and borrowings	-	-	-	-	-	-	-	-
No recourse project financing	-	-	-	-	1,114,706	1,114,706	970,891	-
Current bank borrowings	-	-	-	-	71	71	-	-
Financial payables	-	-	-	-	2,107	2,107	-	-
Derivative instruments	-	-	-	102,503	-	102,503	102,361	102,503
Trade payables	-	-	-	-	71,002	71,002	-	-
Other payables	-	-	-	-	81,606	81,606	30,652	81,606
<b>Total liabilities</b>	-	-	-	<b>102,503</b>	<b>1,269,492</b>	<b>1,371,995</b>	<b>1,103,914</b>	<b>184,109</b>

(1) FVTPL: fair value through profit or loss

(2) L&R: Loans and receivables

(3) AFS: Available for sale financial investments

The following table provides an analysis of the 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
<b>Financial assets</b>			
- FVTPL	-	-	-
- AFS	-	-	-
- Hedging derivatives	16,647	564	-
<b>Total</b>	<b>16,647</b>	<b>564</b>	-
<b>Financial liabilities</b>			
- FVTPL	-	-	-
- Hedging derivatives	-	102,503	-
<b>Total</b>	-	<b>102,503</b>	-

At 31 December 2017, the Group had no financial instruments classifiable under level 3.

Financial instruments classified in level 1 relate to commodities (electricity and gas), whose value is quoted daily.

Project financing and financial instruments on interest rates and commodities are mainly classified in level 2.

To determine the market value of the financial instruments, ERG Power Generation uses various models for measuring and valuation, as summarised below:

Type	Instrument	Pricing model	Market data used	Data provider	IFRS 7 Hierarchy
<b>Interest rate derivatives</b>	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 of rates	- Reuters - Reuters	Level 2
<b>Foreign exchange derivatives</b>	FX Forward	Discounted Cash Flow	- Zero coupon curves of the reference currencies - ECB spot exchange rates	- Reuters	Level 2
	FX Option	Black & Scholes Edgeworth Expansion Monte Carlo Simulation	- Zero coupon curves of the reference currencies - ECB spot exchange rates - Implicit exchange rate volatility	- Reuters	Level 2
<b>Derivatives on commodities</b>	Commodity Swap	Discounted Cash Flow	- Official spot prices of reference commodities	- Platt's	Level 2
	Gas formulas		- ECB spot exchange rates	- Reuters	
	Commodity Future	Listed instrument	- Official settlement prices - Source: EEX	- EEX via Reuters	Level 1
	Contract for Difference (CfD)	Discounted Cash Flow	Forward PUN quoted on the OTC market - Zero coupon curve on the Euro	EEX via Reuters - Reuters	Level 2

## NOTE 37 - DISCLOSURE ON RISKS

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

- credit risk, which highlights the possibility of default of a counterparty or any impairment of the assigned credit rating;
- market risk, deriving from exposure to exchange rate fluctuations, mainly between Euro and US Dollar, to interest rate fluctuations, and to the change in the prices of the products sold and of the purchases of raw materials (commodity price volatility risk);
- liquidity risk, which expresses the risk that available financial resources are insufficient to maintain payment commitments.

The ERG Group attributes a great deal of importance to the identification and measurement of the risks and to the connected control systems, in order to assure an efficient management of the assumed risks. Consistently with this objective, an advanced Risk Management system was adopted that assures, in compliance with the existing policies on the matter, the identification, measurement and central level control for the entire Group of the degree of exposure to individual risks.



The Group Risk Management & Corporate Finance function ensures consistency with the assigned risk limits and provides adequate support with its own analyses, both to individual subsidiaries and to the Risk Committee and Top Management of the Parent Company, for strategic decisions.

#### Credit risk

Exposure to credit risk, inherent in the probability that a determined counterparty will not be able to meet its contractual obligations, is managed through appropriate analyses and assessments also supported by primary providers on the analysis of the credit risk, attributing to each counterparty an internal rating (Internal Rating Based, summary indicator of creditworthiness assessment). The rating class provides an estimate of the probability of default of a determined counterparty from which the assigned degree of credit facility, which is monitored punctually and which must never be exceeded. The choice of the counterparties in relation both to the industrial business and to financial trades depends on the decisions of the Credit Committee whose choices are supported by the credit rating analyses. Concentration risk, both by customer and by sector, is also monitored continuously but without ever presenting alert situations.

At 31 December 2018, maximum exposure to credit risk on trade receivables, broken down by geographic region, is as follows:

	31/12/2018	31/12/2017
Italy	208,473	208,897
France	7,352	9,793
Germany	4,235	8,422
Bulgaria	5,574	3,891
Poland	3,484	2,084
Romania	22,073	21,062
UK	–	1,940
<b>Total</b>	<b>251,192</b>	<b>256,090</b>

The carrying amount of the receivables includes an amount of EUR 156 million relating to the two main customers of the Group, operators of the market and of electrical services in Italy.

The underlying table provides information about the exposure of the ERG Power Generation Group to credit risk at year end, by classification in receivables not past due (see Note 9 - Trade Receivables) according to the credit rating corresponding to the ratings assigned by the information provider and assigned internally.

	2018	2017
AAA Rating	-	0
AA+/AA- Rating	20,201	5,402
A+/A- Rating	19,469	-
BBB+/BBB- Rating	188,013	151,590
BB+/BB- Rating	2,511	21,840
B+/B- Rating	2,374	-
CCC Rating	448	-
Receivables from Group companies that are not consolidated line by line	4,167	4,903
Unassigned	2,684	57,435
<b>Total</b>	<b>239,864</b>	<b>241,170</b>

In relation to the receivables that were not impaired, the Group assigns to each exposure a credit rating that provides a forecast of the risk of loss and considers proven experience in rating credit quality. Credit ratings are defined using qualitative and quantitative factors indicating the risk of breach.

The following table shows credit risk exposure and expected losses on trade receivables not past due at 31 December 2018 (with respect to the above table, the carrying amount is recorded net of items included under liabilities to adjust receivables and of receivables already collected on the date of the present document).

	Carrying amount	Weighted average loss percentage	Loss allowance
AAA Rating	4,482	0.01%	0
AA+/AA- Rating	14,157	0.04%	6
A+/A- Rating	18,156	0.02%	4
BBB+/BBB- Rating	181,431	0.28%	514
BB+/BB- Rating	1,824	0.60%	11
B+/B- Rating	1,436	2.79%	40
CCC Rating	235	5.03%	12
<b>Total</b>	<b>221,721</b>	<b>0.26%</b>	<b>587</b>

#### Liquidity Risk

Liquidity risk is the risk that financial resources may not be sufficient to cover all obligations falling due. To date, the ERG Group guarantees with the generation of cash flows and with the availability of credit facilities, made available by different counterparties, the adequate coverage of its financial requirements.

The following tables summarise the time profile of the financial liabilities of the Group at 31 December 2018 and at 31 December 2017 on the basis of non-discounted contractual payments

31/12/2018

(EUR thousand)	Maturity of payables				
	On request	less than 3 months	from 3 to 12 months	from 1 to 5 years	over 5 years
Loans and borrowings	-	-	-	-	-
No recourse project financing	-	7,425	172,598	827,741	360,084
Current bank borrowings	-	-	-	-	-
Derivative instruments	-	414	45,738	60,496	724
Trade payables	20,940	62,986	-	-	-
<b>Total liabilities</b>	<b>20,940</b>	<b>70,825</b>	<b>219,336</b>	<b>888,237</b>	<b>359,360</b>

31/12/2017

(EUR thousand)	Maturity of payables				
	On request	less than 3 months	from 3 to 12 months	from 1 to 5 years	over 5 years
Loans and borrowings	-	-	-	-	-
No recourse project financing	-	5,651	159,318	910,388	222,629
Current bank borrowings	39	-	-	-	-
Derivative instruments	-	142	30,151	70,769	840
Trade payables	34,761	36,241	-	-	-
<b>Total liabilities</b>	<b>34,800</b>	<b>42,033</b>	<b>189,469</b>	<b>981,157</b>	<b>223,469</b>

### Market risk

It comprises exchange rate risk, interest rate risk and commodity price risk. The management of these risks is regulated by the guidelines provided in the Group Policy and by internal procedures in the Finance area.

Moreover, specific risk management policies and procedures have been developed, based on the best practices of the industry, for the continuous measurement of exposure levels with respect to a Risk Capital value allocated by the parent company.

### Interest Rate Risk

It identifies the change the future trends of interest rates that could determine higher costs for the Group. Containment of the interest rate risk is pursued by using derivative contracts such as Interest Rate Swaps and Interest Rate Options (plain vanilla).

The following table represents the impact on profit before taxes (because of changes to the fair value of financial assets and liabilities) and on the equity of the Group (due to changes to the fair value of the derivative instruments in cash flow hedges) of the +/-1% change of the interest rate, maintaining all other variables fixed.

#### Impact on Income Statement

(EUR million)	2018	2017
Shock-up (+1% change in interest rate)	8.0	2.9
Shock-down (-1% change in interest rate)	(2.0)	(0.3)

**Impact on Equity**

(EUR million)	2018	2017
Shock-up (+1% change in interest rate)	15.8	25.9
Shock-down (-1% change in interest rate)	(22.2)	(28.8)

**Commodity risk**

Commodity price risk consists of the unexpected change in commodity prices, in the procurement of services, finished goods and services marketed for sale.

The Group implements all risk management strategies necessary to avoid the economic damages deriving from the volatility of the price for the sale and purchase of Electricity and from fluctuations in the Clean Spark Spread.

The following table considers the derivative financial instruments tied to different types of commodities and represents a source of reasonable price changes, maintaining all other variables fixed, the impact on the changes of profit before tax (because of changes in the fair value of the financial assets and liabilities) and of Group equity (due to changes of the fair value of cash flow hedge derivative instruments) of a +/-25% change in the price of the commodities.

**Impact on Income Statement**

(EUR million)	2018	2017
Shock-up (change in price of commodities +25%)	-	2.0
Shock-down (change in price of commodities -25%)	-	(2.0)

**Impact on Equity**

(EUR million)	2018	2017
Shock-up (change in price of commodities +25%)	(19.8)	(8.0)
Shock-down (change in price of commodities -25%)	19.8	8.1

**Derivative instruments used**

The main types of derivative instruments adopted in the management of financial risks, with the sole purpose of hedging, are the following:

**Options:** contract whereby one of the parties, paying a price (premium) to the other, acquires the right to purchase (call option) or sell (put option), at a future date, a certain quantity of financial instruments (underlying assets) at a set price (exercise price);

**Forward contracts:** they provide for the purchase or sale between two parties of a given asset (underlying asset) at a future date and at a price pre-set at the time of execution of the contract; this category also includes future contracts, which unlike forward contracts, are standardised, traded in lots and for predetermined maturity dates within regulated markets

**Swap:** contract that determines between two parties the exchange of payment flows on certain dates. Payments can be expressed in the same currency or in different currencies and their amount is determined in relation to an underlying asset.

The derivatives entered into by ERG Power Generation and designed to hedge the exposure to financial risks existing at 31 December 2018 are:

#### Interest rate derivatives

- Interest Rate Option instruments that allow to set upper limits (cap) and lower limits (floor) to interest rate fluctuations relating to indexed loans at a variable rate;
- Interest Rate Swap instruments to bring bank loans with fixed and variable rate to the risk profile deemed most appropriate. IRS contracts provide that the counterparties, with reference to a defined notional value and to pre-set maturities, mutually exchange interest flows calculated in relation to fixed rates or to variable rate parameters agreed previously.

#### Derivatives on commodities

- CfD (Contract for Difference) instruments, used to manage the risk of volatility of the price of electricity; this instrument allows to purchase or to sell quantities of electricity synthetically, liquidating upon expiration the differential between the agreed price and the market price recorded in the reference period.

#### Summary of derivatives used

The derivatives entered into by ERG Power Generation, designed to hedge its exposure to commodities price, exchange rate and interest rate risks, were as follows at 31 December 2018:

31/12/2018

Type	Hedged risk	Reference notional	Fair Value
			(EUR thousand)
<b>Cash Flow Hedge instruments</b>			
<b>A</b> Interest Rate Swap and Interest Rate Cap	Economic interest rate risk	902 EUR million	(81,597)
<b>B</b> Gas price risk hedging swaps	Transaction commodity risk	2,014 thousands of MWh	(1,654)
<b>C</b> Electricity price risk hedging futures	Transaction commodity risk	5,597 thousands of MWh	(23,808)
Electricity price risk hedging CFD	Transaction commodity risk	— thousands of MWh	—
<b>Total Cash Flow Hedge Instruments</b>			<b>(107,059)</b>
<b>Non Hedge Accounting Instruments</b>			
Gas price risk hedging swaps	Transaction commodity risk	— thousands of MWh	—
Electricity price risk hedging CFD	Transaction commodity risk	— thousands of MWh	—
<b>C</b> Electricity price risk hedging futures	Transaction commodity risk	687 thousands of MWh	(206)
<b>Total non Hedge Accounting instruments</b>			<b>(206)</b>
<b>TOTAL DERIVATIVE INSTRUMENTS</b>			<b>(107,265)</b>

31.12.2017

Type	Hedged risk	Reference notional	Fair Value
			(EUR thousand)
<b>Cash Flow Hedge instruments</b>			
<b>A</b> Interest Rate Swap and Interest Rate Cap	Economic interest rate risk	1,521 EUR million	(102,361)
<b>B</b> Gas price risk hedging swaps	Transaction commodity risk	1,065 thousands of MWh	509
<b>C</b> Electricity price risk hedging futures	Transaction commodity risk	809 thousands of MWh	(1,474)
Electricity price risk hedging CFD	Transaction commodity risk	119 thousands of MWh	(142)
<b>Total Cash Flow Hedge instruments</b>			<b>(103,468)</b>
<b>Non Hedge Accounting Instruments</b>			
Gas price risk hedging swaps	Transaction commodity risk	53 thousands of MWh	17
Electricity price risk hedging CFD	Transaction commodity risk	164 thousands of MWh	38
<b>C</b> Electricity price risk hedging futures	Transaction commodity risk	852 thousands of MWh	753
<b>Total non Hedge Accounting instruments</b>			<b>808</b>
<b>TOTAL DERIVATIVE INSTRUMENTS</b>			<b>(102,660)</b>

**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 reference notional values of the hedges refer to the following companies:

- ERG Power S.r.l.,
- wind and solar power business companies

At 31 December 2018, there was a negative total fair value of EUR 82 million. The change is recognised in the Cash Flow Hedge reserve.

**B** Gas price risk swaps

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

At 31 December 2018, there was a negative total fair value of EUR 1.7 million.

**C** Electricity price risk hedging futures

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

At 31 December 2018, there was a negative total fair value of EUR 24 million.

With reference to the impact of hedging derivatives on the statement of comprehensive income, please refer to Other comprehensive income.

## NOTE 38 - SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Date	Sector	Significant events	Press release
11 January 2019	Solar	<b>Acquisition</b> by Soles Montalto GmbH of 78.5% of <b>Perseo S.r.l.</b> , owner of 100% of <b>Andromeda PV S.r.l.</b> which in turn manages two photovoltaic plants with a total installed capacity of 51.4 MW. It was also agreed that Soles Montalto GmbH will remain minority shareholder, on the basis of shareholders' agreements that will guarantee ERG full industrial control of the asset and its line-by-line consolidation. The transaction's closing date was 12 February 2019.	<a href="#">Press release 11/01/2019</a>
15 January 2019	Wind France	<b>Completion of the commissioning phase</b> for Parc Eolien de la Vallée de Torfou (176 MW with an estimated average annual output of 47 GWh), a wind farm forming part of the 768 MW of assets under construction and being developed by Epuron, acquired last year (see press release of 6/4/2018), and Parc Eolien Vallée de l'Aa 2 (13.2 MW with an estimated average annual output of 29 GWh), corresponding to an overall total of around 45,000 tonnes of avoided CO <sub>2</sub> emissions per annum.	<a href="#">Press release 15/01/2019</a>

## NOTE 39 - AUDIT COMPENSATION

The preparation of the prospectus is in line with the "Procedure for audit engagements in the companies of the ERG Power Generation Group and monitoring on additional services".

Audit services comprise the complete audit of the separate and Consolidated financial statements and the audit of the reporting package of the company for the purposes of the preparation of the consolidated financial statements of the parent company.

Type of service	Party that performed the service	Recipient	2018 compensation (EUR thousand)
<b>External auditing</b>	Auditor of the parent company	Parent company	790
	Auditor of the parent company	Subsidiaries	-
	Network of the parent company auditor	Subsidiaries	96
<b>Total Audit Services</b>			<b>886</b>
<b>Services other than auditing</b>	Tax advisory services	Subsidiaries	-
	Auditor of the parent company	Parent company	-
	Network of the parent company auditor	Parent company	-
	Network of the parent company auditor	Subsidiaries	-
	Auditor of the parent company	Subsidiaries	-
<b>Total Services Other than Auditing</b>			<b>-</b>
<b>Total</b>			<b>886</b>

## NOTE 40 - OTHER INFORMATION

During the year, no atypical and/or unusual transactions took place. Atypical and/or unusual transactions are those transactions that by significance/relevance, nature of the counterparties, subject of the transaction, procedures for determining the transfer price and timeframe of the event (proximity to the end of the year) can give rise to doubts with regard to: the correctness/completeness of the information in the financial statements, conflict of interest, wealth preservation, the protection of minority shareholders

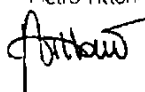
No advances were provided and there are no receivables from directors and statutory auditors of the parent company for the performance of these functions also in other companies included in the consolidation scope.

Genoa, 5 March 2019

on behalf of the Board of Directors

The Chief Executive Officer

Pietro Tittori





## AUDITORS' REPORT



KPMG S.p.A.  
Revisione e organizzazione contabile  
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PEC [kpmgspa@pec.kpmg.it](mailto:kpmgspa@pec.kpmg.it)

(Translation from the Italian original which remains the definitive version)

### Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

To the sole shareholder of  
ERG Power Generation S.p.A.

#### Report on the audit of the consolidated financial statements

##### Opinion

We have audited the consolidated financial statements of the ERG Power Generation Group (the "Group"), which comprise the statement of financial position as at 31 December 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the ERG Power Generation Group as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of ERG Power Generation S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Other matters

The Group's 2017 consolidated financial statements were audited by other auditors, who expressed their unqualified opinion thereon on 26 March 2018.

KPMG S.p.A. è una società per azioni, di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

Ancona Aosta Bari Bergamo  
Bologna Bolzano Brescia  
Cagliari Como Firenze Genova  
Lecce Milano Napoli Novara  
Padova Palermo Parma Perugia  
Pesaro Roma Torino Treviso  
Vercelli Verona Venezia

Società per azioni  
Capitale sociale  
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20124 Milano MI ITALIA



ERG Power Generation Group  
Independent auditors' report  
31 December 2018

**Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements**

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The Collegio Sindacale is responsible for overseeing, within the terms established by the Italian law, the Group's financial reporting process.

**Auditors' responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;



ERG Power Generation Group  
Independent auditors' report  
31 December 2018

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### Report on other legal and regulatory requirements

##### *Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10*

The directors of ERG Power Generation S.p.A. are responsible for the preparation of the directors' report at 31 December 2018 and for the consistency of such report with the related consolidated financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the Group's consolidated financial statements at 31 December 2018 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the Group's consolidated financial statements at 31 December 2018 and has been prepared in compliance with the applicable law.



ERG Power Generation Group  
Independent auditors' report  
31 December 2018

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Genoa, 22 March 2019

KPMG S.p.A.

(signed on the original)

Luisa Polignano  
Director of Audit



## Financial Statements and Explanatory Notes

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## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### ASSETS

(EUR)	31/12/2018	31/12/2017
<b>A) SUBSCRIBED CAPITAL, UNPAID</b>	-	-
<b>B) NON-CURRENT ASSETS</b>		
<b>I. Intangible assets</b>		
1) Start-up and expansion costs	-	482
2) Development costs	-	-
3) Industrial patents and intellectual property rights	1,369,764	1,258,784
4) Concessions, licences, trademarks and similar	8,666	9,167
5) Goodwill	3,002,895	3,378,257
6) Assets under development and advances	1,007,133	625,588
7) Other	4,225	208,167
<b>Total</b>	<b>5,392,683</b>	<b>5,480,445</b>
<b>II. Property, plant and equipment</b>		
1) Land and buildings	495,178	465,293
2) Plant and machinery	237,071	247,466
3) Industrial and commercial equipment	1,314,141	1,168,862
4) Other assets	525,021	510,626
5) Assets under construction and advances	287,373	355,085
<b>Total</b>	<b>2,858,784</b>	<b>2,747,332</b>
<b>III. Financial assets</b>		
1) Equity investments in:		
a) subsidiaries	1,659,503,362	1,524,295,903
b) associates	-	-
c) parent companies	-	-
d) companies subject to control by parent companies	235,893	235,893
d-bis) other companies	-	-
	<b>1,659,739,255</b>	<b>1,524,531,796</b>
2) Receivables		
a) from subsidiaries	435,459,456	326,349,406
b) from associates	-	-
c) from parent companies	-	-
d) from companies subject to control by the parent companies	-	-
d-bis) from others	2,659,224	1,964,215
	<b>438,118,680</b>	<b>328,313,621</b>
3) Other securities	-	-
4) Derivative financial instruments	-	-
<b>Total</b>	<b>2,097,857,935</b>	<b>1,852,845,417</b>
<b>TOTAL NON-CURRENT ASSETS (B)</b>	<b>2,106,109,403</b>	<b>1,861,073,194</b>

(EUR)		31/12/2018	31/12/2017
<b>C) CURRENT ASSETS</b>		-	-
<b>I. Inventories</b>			
1)	Raw, ancillary and consumable materials	9,269,802	9,917,276
2)	Work in progress and semi-finished products	-	-
3)	Contract work in progress	2,525,517	-
4)	Finished products and goods	-	-
5)	Advances	-	-
<b>Total</b>		<b>11,795,420</b>	<b>9,917,276</b>
<b>II. Receivables</b>			
		of which beyond 12 months:	of which beyond 12 months:
1)	From customers	- 93,451,658	- 103,965,868
2)	From subsidiaries	- 21,968,746	57,454 81,995,468
3)	From associates	- 1,324,630	- 1,534,832
4)	From parent companies	- 16,881,788	- 26,918,388
5)	From companies subject to control by parent companies	- -	- -
5 <sup>(bis)</sup>	Tax receivables	1,735,237 22,073,447	1,256,394 3,645,749
5 <sup>(ter)</sup>	Deferred tax assets	6,028,740 11,421,324	5,102,244 5,423,928
5 <sup>(quater)</sup>	From others	10,559,369 48,323,846	12,429,144 31,695,105
<b>Total</b>		<b>215,445,440</b>	<b>255,179,338</b>
<b>III. Short-term financial assets</b>			
1)	Equity investments in subsidiaries	-	26,328,506
2)	Equity investments in associates	-	-
3)	Equity investments in parent companies	-	-
3 <sup>(bis)</sup>	Equity investments in companies subject to control by parent companies	-	-
4)	Other investments	-	-
5)	Derivative financial instruments	-	563,677
6)	Other securities	-	-
7)	Financial assets for centralised treasury management in respect of parent company	-	49,180,761
<b>Total</b>		<b>-</b>	<b>76,072,944</b>
<b>IV. Cash and cash equivalents</b>			
1)	Bank and postal deposits	1,014,799	3,210,093
2)	Cheques	-	-
3)	Cash and notes on hand	69	69
<b>Total</b>		<b>1,014,868</b>	<b>3,210,162</b>
<b>TOTAL CURRENT ASSETS C)</b>		<b>228,255,728</b>	<b>344,379,720</b>
<b>D) ACCRUALS AND DEFERRALS</b>		<b>10,886,518</b>	<b>9,533,178</b>
<b>TOTAL ASSETS</b>		<b>2,345,251,649</b>	<b>2,214,986,091</b>

## LIABILITIES

(EUR)	31/12/2018	31/12/2017
<b>A) SHAREHOLDERS' EQUITY</b>		
I) Capital	100,000,000	100,000,000
II) Share premium reserve	7,000,000	7,000,000
III) Revaluation reserves	36,839	36,839
IV) Legal reserve	8,962,581	5,038,323
V) Statutory reserves	-	-
VI) Other reserves, indicated separately	-	-
Reserves for contributions by shareholders	961,732,646	961,732,646
Reserve for operating grants	-	-
Extraordinary reserve	5,829,878	5,829,878
Legal reserve, additional VAT deduction	642	642
Reserve pursuant to Law no. 308/82	363	363
Operating grants	861	861
Merger surplus	5,855,286	5,855,286
Merger surplus 2017	606,980,447	607,050,294
VII) Reserve for transactions to hedge expected cash flows	(18,124,883)	(788,834)
VIII) Retained profits (losses)	128,064,491	73,433,745
X) Profit for the year	60,686,815	78,485,157
X) Negative reserve for treasury shares in portfolio	-	-
<b>TOTAL</b>	<b>1,867,025,966</b>	<b>1,843,675,200</b>
<b>B) PROVISIONS FOR RISKS AND CHARGES</b>		
1) Provision for pensions and similar obligations	-	-
2) Provision for taxes, including deferred	-	-
3) Derivative financial instruments payable	1,653,879	141,969
4) Other	4,727,883	9,110,738
<b>TOTAL</b>	<b>6,381,762</b>	<b>9,252,707</b>
<b>C) EMPLOYEES' SEVERANCE INDEMNITIES</b>	<b>3,003,249</b>	<b>3,199,048</b>
<b>D) PAYABLES</b>		
	of which beyond 12 months.	of which beyond 12 months.
1) Bonds	-	-
2) Convertible bonds	-	-
3) Shareholder loan payables	-	-
4) Bank payables	28	6
5) Payables to other lenders	-	-
6) Advances	-	-
7) Payables to suppliers	36,319,738	40,263,821
8) Payables represented by securities	-	-
9) Payables to subsidiaries	403,402,185	310,362,820
10) Payables to associates	-	-
11) Payables to parent companies	8,168,388	50,865
11. (a) Payables to companies subject to control by parent companies	-	49,075
12) Tax payables	2,165,872	1,554,266
13) Payables to social security and pension institutions	2,035,271	1,929,455
14) Other payables	16,550,346	4,421,479
<b>TOTAL</b>	<b>468,641,828</b>	<b>358,631,786</b>
<b>E) ACCRUALS AND DEFERRALS</b>	<b>198,844</b>	<b>227,350</b>
<b>TOTAL LIABILITIES</b>	<b>2,345,251,649</b>	<b>2,214,986,091</b>



# INCOME STATEMENT

(EUR)	2018	2017
<b>A) VALUE OF PRODUCTION</b>		
1) Revenue from sales and services	675,756,524	727,932,451
2) Changes in inventories of work in progress, semi-finished products and finished products	-	-
3) Changes in contract work in progress	2,525,617	-
4) Increases in non-current assets for internal work	-	-
5) Other revenues and income		
- other	8,580,166	8,206,763
- operating subsidies	-	-
<b>TOTAL</b>	<b>686,862,307</b>	<b>730,139,214</b>
<b>B) COSTS OF PRODUCTION</b>		
6) For raw, ancillary and consumable materials and goods	(518,063,194)	(507,735,086)
7) For services	(179,616,644)	(197,064,872)
8) For leased goods	(1,898,706)	(2,057,269)
9) For employees		
a) salaries and wages	(20,185,138)	(19,364,112)
b) social security contributions	(6,180,561)	(6,037,535)
c) employees' severance indemnities	(1,275,084)	(1,247,573)
d) provision for pensions and similar obligations	-	-
e) other costs	(1,906,200)	(1,280,417)
	(29,546,983)	(27,929,638)
10) Amortisation, depreciation and write-downs:		
a) amortisation of intangible assets	(1,272,045)	(1,318,713)
b) depreciation of property, plant and equipment	(491,215)	(449,994)
c) other write-downs of non-current assets	-	-
d) write-downs of receivables included in the current assets and cash and cash equivalents	-	-
	(1,763,260)	(1,768,707)
11) Costs for raw, ancillary and consumable materials and goods	923,274	2,529,030
12) Provisions for risks	-	(5,591,336)
13) Other provisions	-	-
14) Management expenses	(2,084,362)	(1,505,719)
<b>TOTAL</b>	<b>(732,049,875)</b>	<b>(741,123,597)</b>
<b>DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS (A-B)</b>	<b>(45,187,568)</b>	<b>(10,984,383)</b>

(EUR)	2018	2017
<b>C) FINANCIAL INCOME AND EXPENSES</b>		
15) Income from equity investments:		
- from subsidiaries	56,396,829	68,204,063
- from associates	-	-
- from parent companies	-	-
- from companies subject to control by the parent companies	-	-
- from others	26,867,453	-
	<b>83,264,282</b>	<b>68,204,063</b>
16) Other financial income:		
a) from receivables recorded under non-current assets		
- from subsidiaries	11,297,551	9,318,945
- from associates	-	-
- from parent companies	-	-
- from companies subject to control by the parent companies	-	-
- from others	-	-
	<b>11,297,551</b>	<b>9,318,945</b>
b) from securities recorded under non-current assets that are not equity investments	-	-
c) from securities recorded under current assets that are not equity investments	-	-
d) other types of income		
- from subsidiaries	336,337	6,955,805
- from associates	-	-
- from parent companies	8,543	19,772
- from companies subject to control by the parent companies	-	-
- from others	88,737	176,308
	<b>433,617</b>	<b>7,151,885</b>
	<b>11,731,168</b>	<b>16,470,830</b>
17) Interest and other financial expenses		
- to subsidiaries	(602,614)	(884,388)
- to associates	-	-
- to parent companies	(649,582)	(964,877)
- to companies subject to control by parent companies	-	-
- to others	(68,116)	(102,777)
	<b>(1,320,312)</b>	<b>(1,952,037)</b>
17 bis) Gains and losses on foreign exchange	145,840	(7,445)
<b>TOTAL</b>	<b>93,820,978</b>	<b>82,715,411</b>

(EUR)	2018	2017
<b>(D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES</b>		
18) Adjustments:		
a) of equity investments	-	-
b) of financial assets that are not equity investments	-	-
c) of securities recorded under current assets that are not equity investments	-	-
d) of derivative financial instruments	9,963,272	1,284,442
	<b>9,963,272</b>	<b>1,284,442</b>
19) Write-downs		
a) of equity investments	(550,000)	(996,237)
b) of financial assets that are not equity investments	-	-
c) of securities recorded under current assets that are not equity investments	-	-
d) of derivative financial instruments	(10,987,711)	(488,146)
	<b>(11,537,711)</b>	<b>(1,484,383)</b>
<b>TOTAL ADJUSTMENTS (18-19) (D)</b>	<b>(1,574,439)</b>	<b>(199,941)</b>
<b>PROFIT (LOSS) BEFORE TAXES (A - B +/- C +/- D)</b>	<b>47,058,971</b>	<b>71,531,087</b>
20) Income taxes for the year: current, deferred and prepaid	13,627,844	6,954,070
<b>21) PROFIT (LOSS) FOR THE YEAR</b>	<b>60,686,815</b>	<b>78,485,157</b>

# STATEMENT OF CASH FLOWS

(EUR)	2018	2017
<b>A. CASH FLOW FROM OPERATING ACTIVITIES (INDIRECT METHOD)</b>		
Profit for the year	60,686,815	78,485,157
Income taxes	13,627,844	(6,954,070)
Interest expense/(interest income)	(10,410,856)	(9,551,113)
(Dividends)	(56,396,829)	(68,204,063)
(Capital gains)/capital losses from transfer of assets	(26,867,453)	(4,960,235)
<b>1. Profit (loss) for the year before income tax, interest, dividends and capital gains/losses from transfers</b>	<b>(19,360,479)</b>	<b>(11,184,324)</b>
Provisions	1,926,00	8,168,910
Amortisation/depreciation of non-current assets	1,763,261	1,768,707
Write-downs for impairment	550,000	996,237
Other adjustments for non-monetary elements		
Value adjustments to financial assets and liabilities of financial derivatives that do not involve financial movements	1,024,600	(796,297)
<b>2. Cash flow before changes in net working capital</b>	<b>5,263,861</b>	<b>10,137,557</b>
Decreases/(increases) in inventories	(1,878,143)	(3,859,000)
Decreases/(increases) in trade receivables	19,660,482	46,638,000
Increases/(decreases) in trade payables	(2,198,686)	(24,725,000)
Decreases/(increases) in accrued income and prepaid expenses	(1,353,340)	(2,049,000)
Increases/(decreases) in accrued expenses and deferred income	(28,506)	(28,000)
Other changes in net working capital	(25,411,423)	18,818,143
<b>3. Cash flow after changes in net working capital</b>	<b>(11,209,616)</b>	<b>34,795,143</b>
Interest received/(paid)	10,410,856	7,168,918
(Income taxes paid)	-	(55,366)
Dividends received	54,396,829	68,204,063
(Use of employees' severance indemnities provision)	(1,571,838)	(1,422,573)
(Use of the provisions)	(4,932,856)	(4,883,336)
Other collections and payments		
<b>4. Cash flow after other adjustments</b>	<b>58,302,991</b>	<b>69,011,706</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES (A)</b>	<b>32,996,757</b>	<b>102,760,082</b>

(EUR)	2018	2017
<b>B CASH FLOW FROM INVESTING ACTIVITIES</b>		
<b>Property, plant and equipment</b>		
(Capital expenditure)	(736,959)	(673,994)
Divestments	-	-
<b>Intangible assets</b>		
(Capital expenditure)	(1,218,234)	(484,714)
Divestments		
<b>Financial assets</b>		
(Capital expenditure)	(133,156,246)	(42,365,766)
Divestments		60,759,639
<b>Short-term financial assets</b>		
(Capital expenditure)	49,180,761	(51,051,000)
Divestments		
<b>CASH FLOW FROM INVESTING ACTIVITIES (B)</b>	<b>(85,930,678)</b>	<b>(33,815,835)</b>
<b>C CASH FLOW FROM LOAN ACTIVITIES</b>		
<b>Borrowings</b>		
Increase (decrease) of short-term borrowings from banks	(6,712,417)	(17,694)
Increase (decrease) of short-term payables/receivables to/from group companies	94,787,071	(69,268,306)
Loans taken out		
Loans paid back	22	-
<b>Shareholders' equity</b>		
Paid share capital increases		
(Repayment of capital)		
Sale (purchase) of treasury shares		
Other changes in Shareholders' Equity	(17,336,049)	2,314,000
Dividends (and advances on dividends) paid	(20,000,000)	-
<b>CASH FLOW FROM LOAN ACTIVITIES (C)</b>	<b>50,738,627</b>	<b>(66,972,000)</b>
<b>Increase (decrease) of cash and cash equivalents (A ± B ± C)</b>	<b>(2,195,294)</b>	<b>1,972,247</b>
Cash and cash equivalents of merged companies	-	1,237,846
Opening cash and cash equivalents	3,210,162	69
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<b>1,014,868</b>	<b>3,210,162</b>

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2018

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The financial statements of ERG Power Generation S.p.A. (hereinafter also 'Company'), drawn up in accordance with the regulations contained in Articles 2423 et seq. of the Italian Civil Code, interpreted and added to the accounting standards issued by the Italian Accounting Body (the 'OIC accounting standards'), comprise the following documents: Statement of Financial Position, Income Statement, Statement of Cash Flows and Explanatory Notes.

For each item of the Statement of Financial Position, Income Statement and Statement of Cash Flows, the corresponding values at 31 December 2017 are also provided. If the items are not comparable, those of the prior year were adapted, providing the relative comments on the circumstances in question in the Explanatory Notes.

The Statement of Cash Flows shows the positive or negative variations in cash and cash equivalents during the year and was drawn up using the indirect method, based on the format provided by accounting standard OIC 10.

The Statement of Financial Position, Income Statement and Statement of Cash Flows were drawn up in Euro, without decimals, while the values in the Explanatory Notes are expressed in thousands of Euro, unless otherwise specified.

In application of the principle of materiality, as set out in Art. 2423, paragraph 4, of the Italian Civil Code, the Explanatory Notes omit the comments on the items in the financial statements, even if specifically envisaged by Art. 2427 of the Italian Civil Code or by other provisions, in cases where the amount of said items and the relative information are irrelevant in providing a true and accurate representation of the Company's economic and financial position and operating results.

If the information required by specific legal provisions is not sufficient in providing a true and accurate representation, the supplementary information deemed necessary for this purpose is provided.

With regard to the Company's activities and transactions with subsidiaries, associates, parent companies and companies subject to joint control, please refer to the Directors' Report, drawn up by the Directors and included with these financial statements.

The significant events after year-end, the proposal for allocation of the profit for the year and the total amount of commitments, guarantees and contingent liabilities not indicated in the Statement of Financial Position are stated in the relative paragraphs of these Notes.

Note that, pursuant to Art. 2497 et seq. of the Italian Civil Code, the Company is subject to management and coordination by ERG S.p.A.; therefore, the Explanatory Notes include a summary statement of the key data from the latest financial statements of said company.

ERG Power Generation S.p.A. is controlled directly by ERG S.p.A., with registered office at Via De Marini 1, in Genoa, and indirectly by San Quirico S.p.A., with registered office in Via Ciovasso 4, in Milan, which respectively draw up the consolidated financial statements of the smallest group of companies and the largest group of companies to which the Company belongs as subsidiary. The consolidated financial statements of ERG S.p.A. are available on the internet

site of ERG S.p.A., at [www.erg.eu](http://www.erg.eu), while the consolidated financial statements of San Quirico S.p.A. are available at the company's registered office.

## THE COMPANY

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

Management of the industrial and commercial processes of the ERG Group is entrusted to the subsidiary ERG Power Generation S.p.A. which 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 plants at the Terni Hydroelectric Complex and the CCGT plant. It provides technical and administrative services in France and Germany for group companies and third parties through its foreign subsidiaries.

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

- Wind, Thermo, Hydro and, since 2018, Solar generation technologies, which in turn are organised into production units on a geographical basis;
- Energy Management, as a single entry point to the organised markets;
- a commercial structure dedicated to Key Accounts;
- a centre of technological excellence, responsible for the Engineering & Construction processes;
- a specialised centre of excellence in regulatory, planning and performance control matters, transversal across all industrial processes,
- a structure dedicated to management of health and safety issues and to protection of the environment for the entire Group.

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

- in the generation of electricity from wind sources, with 1,822 MW of installed power at 31 December 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 rising presence also abroad (729 MW operational), in particular in France (307 MW), Germany (216 MW), Poland (82 MW), Romania (70 MW) and Bulgaria (54 MW);
- as from January 2018, 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; in January 2019, ERG further increased its presence in the sector following the acquisition of two photovoltaic plants in the Lazio region with an installed capacity of 51.4 MW;

- in the sector of electricity generation from hydroelectric sources through an integrated portfolio of assets consisting of 19 plants, 7 dams, 3 reservoirs and one pumping station, geographically located throughout Umbria, Marche and Lazio, with a capacity of 527 MW;
- in the generation of electricity from thermoelectric sources through the CCGT "Centrale Nord" plant (480 MW) at the industrial site in Priolo Gargallo (SR), Sicily. This is a high-efficiency co-generation plant (C.A.R.), based on combined cycle technology fuelled with natural gas, which came into stream commercially in April 2010 along with other ancillary plants for the production of steam and, to a lesser extent, of other utilities.

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

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

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

## GENERAL PRINCIPLES IN THE PREPARATION OF THE FINANCIAL STATEMENTS

Items in the financial statements were valued based on the general criteria of prudence and accrual, on a going concern basis; the items were recognised and stated by taking into account the substance of the transaction or contract, where compatible with the provisions of the Italian Civil Code and of the OIC accounting standards.

Application of the principle of prudence resulted in individual valuation of the items making up the individual assets or liabilities, in order to avoid offsetting between losses that should have been recognised and income that should not be recognised since it has not been realised. In particular, profits were included only if they were realised by the end of the financial year, while the risks and losses pertaining to the financial year were taken into account even if they were recorded after the end of the financial year.



In accordance with the accrual principle, transactions were recorded in and assigned to the year to which such transactions refer, and not to the year in which the relative collections and payments were made

The measurement criteria did not change with respect to the prior year, in order to enable comparability of the Company's financial statements over time.

No exceptional cases occurred during the year which required recourse to derogation from the valuation criteria, pursuant to Art. 2423, paragraph 5, of the Italian Civil Code, as a result of being incompatible with a true and fair view of the Company's economic and financial position and operating results. No revaluations of assets were carried out during the year pursuant to special laws on the subject.

Preparation of the financial statements requires estimates that affect the values of assets and liabilities and the relative financial statements. The final results may differ from these estimates. Estimates are reviewed periodically, and the effects of changes in estimates, where not arising from errors in the estimates, are stated in the income statement in the year in which the changes occur, if they only affect that year, and even in subsequent years if the changes impact both the current year as well as later years.

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

- determination of the useful life of the assets, the relative depreciation/amortisation rates and any write-downs for impairment;
- provisions for risks for liabilities related to legal and tax disputes for which a financial outlay is deemed likely and the amount of the resulting charges can be reasonably estimated;
- deferred tax assets, recognised on the basis of the future taxability of expected profits generated in accordance with business plans as well as of the expected renewal of tax consolidation regimes;
- the estimate of revenues from ordinary operations pertaining to the energy business, in relation to determination of the fair value of the energy efficiency certificates;
- the impairment test for intangible and tangible assets and for other equity investments, described in detail in the Impairment test paragraph, which implies – in estimating the value in use – the utilisation of the investee companies' Business Plans, based on a set of assumptions and hypotheses relating to future events and actions by the investee companies' governing bodies, which may not necessarily occur. Similar estimation procedures are necessary when reference is made to the estimated fair value (net of disposal costs) component due to the uncertainty inherent in any negotiation.

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

## ACCOUNTING POLICIES

### Intangible assets

Intangible assets are recognised, upon approval by the Board of Statutory Auditors where envisaged, at their historic acquisition cost, net of amortisation applied over the years and of any write-downs attributed directly to the individual items. The cost includes ancillary charges and direct and indirect costs for the portion reasonably attributable to the asset, with respect to the period of construction and up until the moment in which the asset may be used, and the financial charges incurred to finance construction (internal or through third parties) until use of the asset is possible. *These amounts are reduced on an annual basis and recognised in the income statement using an amortisation process, on a straight-line basis in accordance with their useful lives and also considering any residual possibility of use.*

The start-up and expansion costs are amortised on a straight-line basis over five years.

Leasehold improvements are capitalised and recognised under "other intangible assets" if they cannot be separated from the assets themselves (otherwise they are recognised under the specific item of "property, plant and equipment"), and amortised on a straight-line basis at the lower of the period of expected future utility and the residual lease, taking into account any renewal period, if dependent on the Company.

*If, regardless of any amortisation already recognised, there proves to be impairment, the asset is written down accordingly. If in later years the reason for the write-down no longer applies, the original value is restored to the extent of the value the asset would have had if the write-down had never been made, with the exception of "Deferred charges" pursuant to number 5 under Article 2426 of the Italian Civil Code*

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

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

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

Intangible assets are revalued, up to their recoverable value, only in cases envisaged or permitted by law.

### Property, plant and equipment

These are recognised at purchase cost, including directly attributable ancillary charges and costs incurred to use the asset, net of any commercial discounts and cash discounts of a significant amount

*The values recorded are adjusted annually based on the corresponding accumulated depreciation. The depreciation amounts recognised in the income statement are calculated on a straight-line basis, using rates considered to be representative of the estimated economic-technical useful life of the assets to which they refer.*

Depreciation begins at the moment in which the asset is available and ready for use. In application of the principle of materiality, pursuant to Art. 2423, paragraph 4, of the Italian Civil Code and the provisions of the relative accounting

standard, the depreciation rates were reduced by half during the first year of depreciation.

Property, plant and equipment recorded in the financial statements were revalued exclusively in accordance with the legal provisions and within the limits of the higher of current value and value in use.

Rates of depreciation are determined in accordance with prudential criteria and the estimated residual possibility of use of each asset in accordance with rates of use in previous years.

If, at year-end, regardless of the depreciation already recognised, impairment occurs, the fixed asset is written down accordingly. If the reasons for impairment cease to exist in subsequent years, the original value is restored, adjusted solely based on the depreciation.

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

#### Write-downs for impairment of property, plant and equipment and intangible assets ("Impairment")

On the basis of OIC 9, the Company subjects its tangible and intangible fixed assets to impairment testing to determine whether there are indications that they may have suffered impairment at the dates of the financial statements. If such an indication exists, it is necessary to estimate the recoverable value of the asset to determine the amount of any write-downs.

When it is not possible to estimate the recoverable value of an individual asset, the Company estimates the recoverable value of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the higher between its fair value, less the costs of the sale, and its value in use determined as the present value of expected future cash flows.

Future cash flows are estimated with reference to the current conditions of non-current assets and therefore do not include cash inflows or outflows that are expected to arise from future restructuring to which the Company has not yet committed, or from improvement or optimisation of return on the asset.

Impairment is recognised if the recoverable value is less than the carrying value. Should the impairment of a fixed asset, other than goodwill and deferred charges, subsequently no longer apply or be reduced, the carrying value of the asset or cash-generating unit is increased up to the new estimate of the recoverable value, without exceeding the value that would have been determined if no impairment had been recognised.

At each reporting date, the Company assesses the existence of any indication that an asset may have undergone impairment. If such an indication exists, the Company estimates the recoverable value of the asset and writes it down only if the latter is lower than the corresponding carrying amount.

### Equity investments, financial receivables and securities

Financial assets include equity investments, financial receivables and securities.

*Equity investments and debt securities recognised as non-current assets are due to be held permanently among the Company's assets. Equity investments are measured using the cost method, adjusted for impairment losses. The cost method assumes that the recognition value is calculated on the basis of the purchase or subscription price, including ancillary costs. When impairment is detected, the carrying value of the investment is written down to its lowest recoverable value, calculated on the basis of future benefits expected as inflows by the investor. The original value of the equity investment is written back in later years if the reasons for the write-down should no longer apply. For the 2018 financial statements, as in previous years, the recoverability of the carrying values of the equity investments in subsidiaries and in joint ventures was tested.*

With regard to the above investments, no impairment was recorded during preparation of the 2018 financial statements.

### Inventories

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

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

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

Work in progress reflects the actual progress of the works and services performed by the Company in favour of its *Subsidiaries in projects regarding Repowering and Reblading, in accordance with the provisions of DIC 23*

### Receivables

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

Moreover, pursuant to Art.12, paragraph 2 of Italian Legislative Decree no. 139/2015, the Company exercised the option not to apply the amortised cost criterion and discount all receivables that arose prior to 1 January 2016.

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

The trade receivables in the financial statements all have expiries of less than 12 months and are therefore recognised at nominal value. Moreover, the receivables are recognised at estimated realisable value. The value of receivables is adjusted to the estimated realisable value through the allocation of an appropriate loss allowance, established by taking into account the country risk and the economic conditions in general and within the specific sector. The loss allowance is estimated through an analysis of the significant receivables individually and at the portfolio level for the remaining ones, calculating the presumed losses on receivables as at the reporting date.

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

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

### Financial assets

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

### Cash and cash equivalents

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

### Accruals and Deferrals

The item accruals and deferrals includes the portions of costs and revenues accrued during the year but collectible in subsequent years, and the portions of costs and revenues incurred within the end of the year but relating to subsequent years, based on the accrual principle.

At the end of each year, the conditions that determined initial recognition are verified and, if necessary, the required value adjustments are made. In particular, in addition to the passage of time, accrued income is considered to be the estimated realisable value, while prepaid expenses are considered to be the existence of a future economic benefit related to deferred costs.

### Shareholders' equity

Transactions between the Company and shareholders (acting as shareholders) may give rise to receivables from or payables to shareholders. The Company recognises a receivable from shareholders when the shareholders take on a commitment with respect to the Company, and it recognises a payable when it takes on a commitment with respect to shareholders.

Payments made by shareholders that do not envisage a repayment obligation are recorded under the relevant item of shareholders' equity, while loans received from shareholders that envisage a repayment obligation are recorded under payables.

*Treasury shares are recorded at a value corresponding to their purchase cost in a negative shareholders' reserve, upon purchase of the shares themselves.*

The negative reserve is reversed, following a shareholders' resolution to cancel treasury shares, and the share capital is simultaneously reduced by the nominal value of the shares cancelled. Any difference between the carrying value of the reserve and the nominal value of the cancelled shares is recognised as an increase or decrease to shareholders' equity.

In the event of disposal of treasury shares, any difference between the carrying value of the negative reserve and the realisable value of the disposed shares is recognised as an increase or decrease to another item of shareholders' equity.

*Should the company purchase shares from the parent company, within the limits set out by Art. 2359-bis, paragraph 3 of the Italian Civil Code, a specific unavailable reserve is created under shareholders' equity for an equal amount.*

The effects on shareholders' equity of application of the other accounting standards are commented on in the respective sections.

### Provisions for risks and charges

Provisions for risks and charges are allocated against liabilities of a calculable nature, certain or probable, for which nevertheless at year end the total or contingency date is not yet known.

*Potential liabilities are recognised in the financial statements and registered under the provisions when their realisation has become probable and when the amount of the relative charge can be reasonably estimated.*

The general principles of prudence and economic accrual are employed when measuring the charge; on the other hand, these principles do not permit the establishment of generic risk provisions or provisions that cannot be financially justified.

If the occurrence of a liability is only possible for certain risks or if an objective forecast cannot be made of the originating charge, they will be indicated in the Explanatory Notes without allocation to provisions for risks and charges.

If the possibility of realisation of a risk is considered to be remote, it will not be taken into account.

Following the changes introduced by Legislative Decree 139/2015, a specific item was added under the item "provisions for risks and charges" for the fair value of derivatives.

Provisions for risks and charges are recognised as a priority in the income statement items of the relevant classes, with the criteria of classification of costs by nature prevailing. The amount of allocation to the provisions is determined based on the best estimate of costs, including legal fees, at each reporting date. Moreover, if there is a provision for expenses, the estimate may also take into consideration the time horizon in question, if it is possible to make a reasonably reliable estimate of the outlay connected to the obligation and the date of occurrence, and if the latter is

so far ahead in time as to make the present value of the obligation and the estimated liability at the moment of outlay significantly different.

### Employee benefits

Based on contracts stipulated with a number of employees, the Company has certain obligations with regard to additional monthly pay and electricity discounts.

The amount of the benefit provided to the employee is quantifiable only after termination of the employment relationship and is linked to one or more factors, such as age, years of service, and remuneration. Therefore, the relative cost is recognised in the income statement on an actuarial basis. The liability is recognised in the financial statements at the present value of the obligation at the reporting date.

### Derivative instruments

Derivative financial instruments are financial assets and liabilities recognised at fair value at each reporting date.

Fair value is the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction between market operators at the valuation date and, in the case of unlisted derivatives, is determined by the Company using the appropriate valuation techniques, through assumptions, parameters and fair value hierarchy levels envisaged by the reference accounting standard.

Derivatives are classified as hedging instruments only when, at the beginning of the hedge, there is a close and documented correlation between the characteristics of the hedged asset and those of the derivative, and the hedge itself is formally documented and its effectiveness, verified periodically, is high.

Derivative financial instruments may be designated as hedging transactions when:

- a) the hedging relationship solely consists of allowable hedging instruments and allowable hedged items;
- b) at the beginning of the hedging relationship, there is a designation and formal documentation on the hedging relationship, of the objectives of the Company with regard to risk management and of the hedging strategy;
- c) the hedging relationship satisfies the qualitative and quantitative requirements of effectiveness of the hedge.

When derivatives hedge against the risk of changes in future cash flows of the hedged asset, the effective portion of profits or losses on the derivative instrument is suspended in shareholders' equity. The profits and losses associated with a hedge are recognised in the income statement as regards the ineffective portion. Cumulative profits and losses recognised in shareholders' equity up to that moment are recognised in the income statement when the relative transaction occurs (adjusting or integrating the income statement items impacted by the hedged cash flows).

Therefore, the changes in relative fair value of hedging derivatives are recognised:

- in the income statement under items D18 or D19 in the event of fair value hedging of an asset or liability recognised in the financial statements, as well as changes in the fair value of hedged items (if the change in fair value of the hedged asset is higher in absolute terms than the change in fair value of the hedging instrument, the difference is recognised under the relative income statement item of the hedged item);
- in a specific shareholders' equity reserve (under the item AVII "Reserve for transactions to hedge expected cash

flows\*) in the event of hedging of cash flows using methods to offset the effects of the hedged flows (the ineffective component, as well as the change in time value of the options and forwards, is classified under items D18 and D19). For derivative financial instruments classified as trading, which do not satisfy the requirements to be handled in hedge accounting, the changes in fair value are recognised in the statement of financial position and posted to the income statement under items D18 and D19 upon subsequent measurement and when the derivative is eliminated from the accounts

### Employees' severance indemnities

Recorded within the item employees' severance indemnities are the amounts that employees would be entitled to receive in the event of termination of the employment relationship as at the reporting date. The seniority indemnities comprising this item, namely the provisions allocated for the year and the annual revaluation of the pre-existing fund, are calculated in accordance with the regulations in effect. The employees' severance indemnities are recognised under item C of liabilities and the relative provision under item B9 of the income statement.

Following the introduction of the provisions of the 2007 Financial Act and relative implementation decrees, starting from 1 January 2007, the accrued Employees' severance indemnities have been designated to pension funds or to the treasury fund established with INPS (the Italian National Social Security Institute). The accounting treatment of amounts accrued from 1 January 2007 is therefore considered as equivalent to contributions of other nature, with regard to the supplementary pension option as well as in the case of designation to the Treasury Fund established with INPS. The item therefore includes contributions accrued by employees prior to the date indicated and not yet paid, net of any advances received in accordance with the regulations in effect.

### Payables

Payables are liabilities of a specified nature and certain existence that represent obligations to pay fixed or determinable amounts of cash to lenders, suppliers and other parties. The classification of payables among the various debt items is made on the basis of their nature (or origin) with respect to ordinary operations, regardless of the period of time within which the liabilities must be settled.

Payables arising from the purchase of assets are recognised when the production process for the assets has been completed and the ownership has been transferred, using the transfer of risks and benefits as the reference parameter. Payables for services are recognised when the services have been received.

Payables are recorded based on the amortised cost method, taking into account the time factor. The amortised cost method is not applicable to payables if its effects are irrelevant. The effects are considered irrelevant for short-term payables (namely those due in less than 12 months). For the amortised cost method, see the description for receivables. Payable transactions in foreign currency carried out during the year are converted into Euros at the exchange rate in effect on the date of the transaction, and the difference between this amount and the amount actually paid is recognised in the income statement under financial charges and income.



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

## Statement of Cash Flows

The statement of cash flows includes all cash inflows and outflows during the year.

The single cash flows are presented individually in the following categories of the statement of cash flows

- a. operating activities;
- b. investing activities,
- c. loan activities.

The categories of cash flows are presented in the order shown above.

The cash flow from operating activities is calculated using the indirect method, i.e. by adjusting the profit or loss for the year shown in the income statement.

The algebraic sum of the cash flows of each category mentioned above represents the net change (increase or decrease) of the cash and cash equivalents during the year.

The statement of cash flows is presented in scaled format

The OIC 10 accounting principle introduced the following amendments:

- interest paid and collected is presented separately among cash flows from operating activities, except for specific cases in which it refers directly to investments (investing activities) or financing (loan activities);
- dividends received and paid are presented separately under operating activities or loan activities, respectively;
- cash flows relating to income tax are presented separately and classified under operating activities.

## Revenues and costs for the year

Revenues and income from the sale of goods, costs and charges are recognised, net of returns, discounts and rebates, as well as the taxes directly connected to the sale of the products and to the provision of the services, when the actual and not merely formal transfer of the title of ownership, assumed as the reference parameter, for substantial transfer of risks and benefits has taken place, in accordance with the accrual principle and with the principle of prudence, regardless of the date of collection and payment.

Revenues from the sale of products, goods or services with respect to ordinary operations are recorded net of returns, discounts, rebates and premiums, and of the taxes directly connected to the sale of products and provision of services.

Revenues for the performance of services are recognised upon completion and/or accrual.

White certificates (Energy Efficiency Certificates) are recognised by the GSE upon achievement of energy savings achieved in end uses through the use of appropriate technologies and the implementation of efficient systems

White certificates are accounted for on an accrual basis among revenues for the year, based on one certificate for every TOE (Tonnes of Oil Equivalent) actually saved during the year.

Their value is measured on the basis of the price agreed in the bilateral agreement for the sale of the Energy Efficiency Certificates (TEE) or in the trading sessions of the GME (Electricity Market Manager) platform, taking into account that the certificates are made available in the operator's account during the year subsequent to the reference year. In the event of non-sale during the year, the measurement takes place based on the Final Tariff Contribution calculated, with reference to the period corresponding to the Mandatory Year (defined as the period between June of the reference year and May of the subsequent calendar year), according to the weighted mean of TEE prices recorded on the Electricity Market Manager's platform and the monthly averages of the TEE sale prices achieved through bilateral negotiations.

In relation to the regulatory obligations arising from the CO<sub>2</sub> emissions, the Company mainly uses emission quotas to meet its own requirements during the year (own use). Purchased certificates are recognised at the specific cost on an accrual basis. If the purchased certificates, net of those assigned without charge, exceed the amount necessary to meet the regulatory obligations, this excess is recognised under prepaid expenses.

Operations with the parent company and other ERG group companies are carried out on an arm's length basis.

Costs are accounted for based on the accrual principle, regardless of the date of collection and payment, net of returns, discounts, rebates and premiums.

## Dividends

Dividends are recorded in the year in which they are resolved by the Shareholders' Meeting. Dividends are recognised as financial income regardless of the nature of the reserves to be distributed.

## Financial income and expenses

Financial income and expenses are recognised on an accrual basis. Costs relating to receivables factoring transactions for any reason (with or without recourse) and of any nature (trade, financial or other) are recognised in the year in which they arose.

Financial expenses are recognised for an amount equal to the amount accrued during the year.

## Foreign currency items

Non-monetary assets and liabilities originally stated in foreign currency are recognised in the statement of financial position at the exchange rate in effect upon their purchase, or at the initial recognition cost.

Monetary assets and liabilities originally stated in foreign currency are converted in the financial statements at the spot exchange rate as at the end of the year; the relative exchange rate gains and losses are recognised in the income statement and any net profit is allocated to a specific non-distributable reserve until realisation.

## Current and deferred taxes

Current taxes are calculated on the basis of a realistic forecast of taxable income for the year, determined in accordance with tax legislation and by applying the tax rates in effect as at the reporting date. The relative tax payable is recorded

in the balance sheet net of advances paid, withholdings and tax credits that can be offset and not requested as reimbursement; if the advances paid, withholdings and credits exceed the taxes due, the related tax credit is recorded. Tax receivables and payables are measured using the amortised cost method, except for cases where they are collectible within 12 months.

The Company participates in the national tax consolidation scheme of parent company ERG S.p.A. for IRES purposes. The tax consolidation agreement requires each company adopting the tax consolidation to transfer its taxable income (or tax loss) to the consolidator. The consolidator then records a receivable equal to the IRES payable (the consolidated entity instead records a payable due to the consolidator). Conversely, for companies recording a tax loss, the consolidator recognises an IRES tax payable on the portion of the loss actually offset at Group level (the consolidated entity recording a tax receivable due from the consolidator).

The balance sheet therefore includes the receivables and payables due from and to the consolidator as a result of quantification of the tax advantages granted and received.

Tax payments are arranged by the Consolidator.

Deferred tax assets and liabilities are calculated and allocated on the basis of temporary differences between the value assigned to a given asset or liability in accordance with statutory provisions and the value assigned for tax purposes, in compliance with the principles of prudence and accrual accounting. They are measured by taking into account the presumed tax rate that the Company expects to apply in the year in which the differences will be considered in forming the tax result, considering the rates in force or already confirmed at the reporting date and allocated respectively to the "deferred tax provision" as part of the provisions for risks and charges under liabilities and item 5-ter), or to "deferred tax assets" under current assets.

Deferred tax assets are recognised for all deductible temporary differences in compliance with the principle of prudent accounting, if there is reasonable certainty of taxable income not less than the total differences to be offset in the year in which they will be reversed.

Vice versa, deferred tax liabilities are recognised on all taxable temporary differences.

In compliance with the provisions of Article 2424 of the Italian Civil Code, deferred tax assets are indicated in the Statement of Financial Position in the item "Deferred tax assets" under current assets, whilst deferred tax liabilities are indicated under "Provisions for risks and charges" in the item "Deferred tax provision".

Tax payments are arranged by the Consolidator.

The Explanatory Notes include a statement of the temporary differences that led to the recognition of deferred and prepaid taxes, specifying the rate applied and the changes compared to the previous year, the amounts debited or credited to the income statement or to shareholders' equity and the items excluded from the calculation, as well as the amount of prepaid taxes recorded in the financial statements relating to losses for the year or previous years and the amount of taxes not yet recorded.

The rate used to calculate deferred tax assets is the nominal IRES (corporate tax) rate of 24% and the IRAP (regional tax) rate of 4.82%, where envisaged.

#### *Intra group relations and relations with related parties*

Please refer to the relevant chapter at the end of these Explanatory Notes for the disclosure relating to intra-group relations and relations with related parties

Operations with the parent company and other ERG group companies are carried out on an arm's length basis.

#### **Company drawing up the consolidated financial statements**

Starting from the year 2017, Management has decided to draw up Consolidated IAS Financial Statements, representative of the new group, which includes companies that were under the scope of consolidation of ERG Power Generation S.p.A., as well as those that are part of the ERG Renew Group.

#### **Other information**

Effective **1 January 2018**, the assets that were part of the French branch of ERG Power Generation S.p.A. were transferred to CSO Energy S.a.r.l., which, on the same date, consequently increased its share capital to EUR 2,000,000.00 and changed its company name to ERG France S.a.r.l.;

Moreover, effective **1 January 2018**, the assets that were part of the German branch of ERG Power Generation S.p.A. were sold to CSO Energy GmbH, which, on the same date, changed its company name to ERG Germany GmbH

For complete disclosure, the following tables provide the balance sheet items of the two branches that were reflected in the financial statements of ERG Power Generation S.p.A. at 31 December 2017 and which were removed from the balances of the Company as from 1 January 2018

(EUR thousand)	French branch	German branch	Total 31 December 2017
<b>NON-CURRENT ASSETS</b>			
Goodwill	–	–	–
Intangible assets	34	–	34
Property, plant and equipment	74	61	134
Financial assets	4	10	13
<b>TOTAL NON-CURRENT ASSETS</b>	<b>111</b>	<b>70</b>	<b>182</b>
<b>CURRENT ASSETS</b>			
Inventories	813	757	1,571
Receivables	1,112	337	1,449
Financial assets	–	–	–
Cash and cash equivalents	624	114	737
<b>TOTAL CURRENT ASSETS</b>	<b>2,550</b>	<b>1,208</b>	<b>3,757</b>
<b>Accruals and deferrals</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>TOTAL ASSETS</b>	<b>2,661</b>	<b>1,278</b>	<b>3,939</b>
<b>LIABILITIES</b>			
<b>Shareholders' equity</b>			
Profits/losses from previous years	126	(196)	(70)
2017 Profit/Loss	(474)	230	(244)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>(348)</b>	<b>34</b>	<b>(314)</b>
Provisions for risks and charges	–	–	–
Employees' severance indemnities	–	–	–
Payables	2,969	1,244	4,212
Accruals and deferrals	41	–	41
<b>TOTAL LIABILITIES</b>	<b>3,009</b>	<b>1,244</b>	<b>4,253</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>2,661</b>	<b>1,278</b>	<b>3,939</b>

## STATEMENT OF FINANCIAL POSITION ANALYSIS

### ASSETS

#### NON-CURRENT ASSETS (EUR 2,106,109 THOUSAND)

##### Intangible assets (EUR 5,393 thousand)

	Start-up and expansion costs	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Goodwill	Assets under development and advances	Other	Total
Historical cost	1	4,035	616	3,754	626	6,001	15,031
Amortisation	(1)	(2,776)	(607)	(375)	-	(5,793)	(9,551)
<b>BALANCE AT 31/12/2017</b>	<b>-</b>	<b>1,259</b>	<b>9</b>	<b>3,378</b>	<b>626</b>	<b>208</b>	<b>5,480</b>
<b>Changes during the year:</b>							
Acquisitions	-	328	-	-	890	-	1,218
Capitalisations/reclassifications	-	509	-	-	(509)	-	-
Disposals and divestments	-	(34)	-	-	-	-	(34)
Amortisation	-	(692)	(1)	(375)	-	(204)	(1,272)
Write-downs	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
Historical cost	1	4,838	616	3,754	1,007	6,001	16,217
Amortisation	(1)	(3,468)	(607)	(751)	-	(5,997)	(10,824)
<b>BALANCE AT 31/12/2018</b>	<b>-</b>	<b>1,370</b>	<b>9</b>	<b>3,003</b>	<b>1,007</b>	<b>4</b>	<b>5,393</b>

At 31 December 2018, intangible assets amount to EUR 5,393 thousand and refer mainly to the software used for the sale of electricity, intended for long-term use, currently being used or which will be used when completed. During the course of the year, the sale of the German branch was completed, along with the transfer of the French branch to other companies of the group. The deal involved the disposal of assets for a net carrying amount of EUR 34 thousand. The item also includes EUR 3,003 thousand regarding the residual value at 31 December 2018 of the goodwill generated by the merger, completed with effective date 1 January 2017.

For greater comprehension, changes during the period relating to reclassifications, disposals and divestments are shown net of the related accumulated amortisation.

## Property, plant and equipment (EUR 2,859 thousand)

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total
Historical cost	970	321	3,467	2,278	355	7,391
Revaluations	-	-	-	-	-	-
	<b>970</b>	<b>321</b>	<b>3,467</b>	<b>2,278</b>	<b>355</b>	<b>7,391</b>
Depreciation	(29)	(74)	(2,298)	(1,767)	-	(4,168)
Write-downs	(476)	-	-	-	-	(476)
<b>BALANCE AT 31/12/2017</b>	<b>465</b>	<b>247</b>	<b>1,169</b>	<b>511</b>	<b>355</b>	<b>2,747</b>
<b>Changes during the year:</b>						
Acquisitions	31	-	336	215	155	737
Capitalisations/reclassifications	8	-	212	-	(220)	-
Disposals and divestments	-	-	(119)	(12)	(3)	(134)
Depreciation	(9)	(10)	(284)	(188)	-	(491)
Write-downs	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
Historical cost	1,008	322	3,897	2,480	287	7,994
Revaluations	-	-	-	-	-	-
	<b>1,008</b>	<b>322</b>	<b>3,897</b>	<b>2,480</b>	<b>287</b>	<b>7,994</b>
Depreciation	(37)	(85)	(2,582)	(1,955)	-	(4,659)
Write-downs	(476)	-	-	-	-	(476)
<b>BALANCE AT 31/12/2018</b>	<b>495</b>	<b>237</b>	<b>1,315</b>	<b>525</b>	<b>287</b>	<b>2,859</b>

As of 31 December 2018, property, plant and equipment amounted to EUR 2,859 thousand.

The item "Industrial and commercial equipment" includes the metallic structures used in the work warehouses. The item also includes various equipment for maintenance of the wind farms of subsidiaries.

The item "Other assets" mainly refers to furniture, fittings, electronic machinery and light vehicles, as well as hardware (videowall) installed in the Energy Management Control and Bidding Centre for the market supply of all assets of the ERG Group, integrated and dynamic management of the electricity portfolio and implementation of dispatching.

During the course of the year, the sale of the German branch was completed, along with the transfer of the French branch to other companies of the group. The deal involved the disposal of industrial and commercial equipment and other assets for a net carrying amount of EUR 134 thousand.

For greater comprehension, changes during the period relating to reclassifications, disposals and divestments are shown net of the related accumulated depreciation.

## Financial assets

## Equity investments (EUR 1,659,739 thousand)

	Registered office	Direct investment portion	Group investment portion	Share Capital (1) (2) (3)	Shareholders' Equity (1) (2) (3)	Balance sheet value
<b>Subsidiaries</b>						
Eolico Trina S.r.l. in liquidation	Palermo	99%	99%	20	250	25
ERG Eolica Adriatica S.r.l.	Genova	100%	100%	10	29.895	69.817
ERG Eolica S. Vincenzo S.r.l.	Genova	100%	100%	3.500	16.428	10.171
ERG Eolica S. Ciro S.r.l.	Genova	100%	100%	3.500	20.918	10.550
ERG Eolica Faeto S.r.l.	Genova	100%	100%	10	7.460	5.322
ERG Eolica Tirreno S.r.l.	Camporeale	100%	100%	10	30	106
ERG Eolica Ginestra S.r.l.	Genova	100%	100%	10	(522)	12.828
ERG Eolica Basilicata S.r.l.	Genova	100%	100%	38	6.198	210
ERG Eolica Calabria S.r.l.	Catanzaro	100%	100%	10	117	153
ERG Eolica Fossa del Lupo S.r.l.	Catanzaro	100%	100%	50	31.386	13.707
Green Vicari S.r.l.	Camporeale	100%	100%	119	21.734	18.570
ERG Eolica Campania S.p.A.	Genova	100%	100%	120	66.989	100.104
ERG Eolica Amaroni S.r.l.	Catanzaro	100%	100%	10	4.770	2.103
ERG Wind Bulgaria S.p.A.	Genova	100%	100%	50	26.441	32.178
ERG Wind Investments Ltd	Gibraltar	100%	100%	112.993	114.155	22.792
EW Ornela 2 Z.O.O.	Varsavia (Polonia)	100%	100%	164.698	136.150	35.720
Corn Eolian S.A.	Costanza (Romania)	100%	100%	152.000	47.212	27.202
Longburn Wind Farm Ltd	Seebeck House (UK)	100%	100%	0	-	313
Sandy Knave Wind Farm Ltd	Seebeck House (UK)	100%	100%	0	(64)	398
Evishagaran Wind Farm Ltd	Belfast (UK)	100%	100%	0	24	3.802
ERG France S.r.l. (4)	Parigi (Francia)	100%	100%	1.415	1.749	5.001
ERG Eolienne France S.a.s.	Parigi (Francia)	100%	100%	21.625	25.998	71.131
WP France 6 S.a.s.	Puteaux (Francia)	100%	100%	6	(42)	2.986
ERG Wind France 1 S.a.s.	Parigi (Francia)	100%	100%	1.097	1.698	9.879
ERG Wind French Holdings S.a.s.	Parigi (Francia)	100%	100%	1.410	(504)	36.834
ERG Germany GmbH (5)	Hamburg (Germania)	100%	100%	210	598	841
ERG Wind 105 GmbH	Leisnig (Germania)	100%	100%	1	(527)	5.618
ERG Wind Neunte GmbH	Hamburg (Germania)	100%	100%	25	94	88
ERG Wind RE Beteteiligungs GmbH	Hamburg (Germania)	100%	100%	25	18	23
ERG Wind Park Beteteiligungs GmbH	Hamburg (Germania)	100%	100%	25	545	11.328
ERG Power S.r.l.	Genova	100%	100%	5.000	186.503	30.105
ERG Hydro S.r.l.	Genova	100%	100%	50.000	778.751	1.026.916
ISAB Energy Solare S.r.l.	Genova	100%	100%	100	(118)	-
Creag Riabhach Wind Farm Ltd	Edinburgh (UK)	100%		4	4	21.402
ERG UK Holdings Ltd.	Edinburgh (UK)	100%		0	-	-
ERG Solar Holding 1 S.r.l.	Genova	100%		20	20.707	71.278
<b>Total equity investments in subsidiaries</b>						<b>1.659.503</b>
<b>Joint ventures</b>						
Rigg'hill Wind Farm Limited	Seebeck House (UK)	50%	50%	-	-	236
<b>TOTAL EQUITY INVESTMENTS</b>						<b>1.659.739</b>

(1) data referring to the last approved financial statements

(2) amounts are reported in EUR thousand

(3) the Share Capital and Shareholders' Equity of the companies EW Ornela 2 Z.O.O., Corni Eolian S.A. and Brockaghboy Windfarm Ltd are reported in GBP thousand

(4) the company CSO Energy S.r.l. changed its name to ERG France S.r.l.

(5) the company CSO Energy GmbH changed its name to ERG Germany GmbH. In December 2018, the company transferred its registered office from Leisnig to Hamburg



In 2018, the main transactions carried out on the equity investments held directly by Company were:

- Effective **1 January 2018**, the assets that were part of the French branch of ERG Power Generation S.p.A. were transferred to CSO Energy S.a.r.l., which, on the same date, consequently increased its share capital to EUR 2,000,000.00 and changed its company name to ERG France S.a.r.l.;
- Effective **1 January 2018**, the assets that were part of the German branch of ERG Power Generation S.p.A. were sold to CSO Energy GmbH, which, on the same date, changed its company name to ERG Germany, GmbH
- On **12 January 2018**, ERG Power Generation S.p.A. completed the acquisition from VEI Green S.r.l., investment holding controlled by PFH S.p.A. and comprising leading Italian institutional investors, of 100% of ForVei S.r.l., ninth largest photovoltaic operator in Italy, with an installed capacity of 89 MW. The deal marks ERG's introduction into the solar sector and represents a further important step in its strategy of technological diversification in production from renewable sources. The deal generated the recognition of an investment value for the project of EUR 71,278 thousand. On 12 January 2018, the change in company name to ERG Solar Holding 1 S.r.l. was resolved.
- On **6 April 2018**, 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 is entitled to benefit from the 2014 feed-in-tariff (FIT) for a period of 15 years,
  - Epuron Energies Renouvelables S.a.s., which owns a pipeline of approximately 750 MW
- On **27 April 2018** ERG Power Generation S.p.A. finalised an agreement with Global Wind Power France, a company 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 the fourth quarter of 2021 and the coming on stream by December 2021
- On **1 August 2018**, acquisition of the investment in Scottish project Creag for acquisition of 100% of the equity interest in Creag Riabhach Wind Farm Ltd, a company incorporated under Scottish law and holder of authorisations for the construction of a wind farm in Scotland, which generated the recognition of an investment value for the project of EUR 21,402 thousand
- On **30 November 2018** an increase in share capital for subsidiary ERG Eolienne France S.a.s. was resolved, for EUR 39,517 thousand.
- On **10 December 2018**, the English company ERG UK Holding Ltd was established, with share capital subscribed by ERG Power Generation S.p.A.
- On **19 December 2018**, the financial receivable from ERG Eolica Tirreno S.r.l. was waived, for a value of EUR 30 thousand, assigned entirely to an increase in the carrying amount of the same investment.

The separate financial statements of the Company reflect the effects brought about by these acquisitions on its financial and income situation, as well as the performance of all investees controlled by the Company.

*In particular, note that the difference between the value of the consideration paid for the acquisition of the equity investment in ERG Hydro S.r.l. and the value of the company's shareholders' equity upon acquisition had been allocated to the 2016 consolidated financial statements of the ERG Group primarily under "Intangible fixed assets" and "Property, plant and equipment" as required*

*by IFRS 3 Business Combinations.*

*Any higher carrying values according to the historical cost criterion with respect to the shareholders' equity belonging to the Company are justified by the future income expectations of the investees, which confirm their recoverability, even taking into account the uncertainties indicated in the section "Use of estimates".*

For the purposes of the 2018 Financial Statements, the Company verified the presence of any indicators of impairment.

To this end, the following were considered:

- both internal and external sources of information, including indicators of physical obsolescence and accident rates, changes in the estimated residual useful life, actual trends with respect to forecasts, technological, economic or market penalties, regulatory penalties, increase in rates,
- the distribution of dividends in 2018 by the subsidiaries to ERG Power Generation S.p.A. and, more generally, the change in respective net financial positions compared to the prior year.

This analysis revealed elements of attention only with regard to the equity investment in ERG Eolica Ginestra S.r.l.: the Company therefore proceeded to determine the recoverable value (equity value) of this investee company.

The recoverable value was determined as the value in use through discounting of the cash flows from operating activities (discounted cash flow method), based on the following assumptions:

- to determine the value in use, the present value of cash flows from operating activities for the residual years of operation of the farms with respect to the original useful life, assumed to be twenty years, was estimated;
- a terminal value was considered, estimated as an extension of the explicit period of ten years,
- expected changes in sale prices and trends in direct costs during the period used for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- a discount rate equal to the industry WACC (5.0%) was used to calculate the present value of expected cash flows.

The Group adopted an after-tax discount rate that reflects the market's current assessment of the cost of money and the specific risk associated with the OGUs. Instead, the cost of equity ( $k_e$ ) includes the rate of return of risk-free assets and it is identified as the average return of ten-year German government bonds.

*Group management deemed the assumptions used to identify the recoverable value to be reasonable and, on the basis of the aforementioned assumptions, no impairment has emerged.*

*Note that no impairment was identified with regard to the equity investments of ERG Power Generation S.p.A. at 31 December 2018, following the Group's impairment tests.*

## Receivables (EUR 438,119 thousand)

(EUR thousand)	31/12/2018	31/12/2017
Non-current financial receivables due from Group companies	435,459	326,349
Non-current receivables from others	2,659	1,964
<b>Total</b>	<b>438,119</b>	<b>328,313</b>

The item "Financial receivables due from Group companies" includes receivables for loans to Group companies, particularly subsidiaries in the renewables sector.

Note that the 2017 comparative data on Non-current financial receivables due from Group companies includes the reclassification of EUR 97,554 thousand recorded in the prior 2017 financial statements under Financial receivables due from Group companies under Current Assets

In detail, a summary of the financial receivables by Country of the subsidiaries is provided below.

(EUR thousand)	31/12/2018	31/12/2017
Bulgaria	-	83
Poland	51,143	53,549
France	88,538	59,252
Germany	70,726	63,075
Romania	64,936	68,309
Great Britain	3,689	974
Italy	156,428	81,106
<b>Total</b>	<b>435,459</b>	<b>326,349</b>

All loans are interest-bearing, and the following table summarises the rates applied for each company (in line with market rates):

Company	Country	Rate applied
EW Orneta 2	Poland	12-month Euribor plus 305 basis points
ERG Wind France 1	France	12-month Euribor plus 208 basis points
ERG Wind French Holdings S.a.s	France	12-month Euribor plus 214 basis points
ERG WP France 6 S.a.s	France	12-month Euribor plus 214 basis points
ERG Eolienne France S.a.s	France	6-month Euribor plus 305 basis points
Wind Park Linda GmbH & Co. KG	Germany	12-month Euribor plus 200 basis points
Windpark Coltbuser Halde GmbH & Co. KG	Germany	12-month Euribor plus 305 basis points
Voltwerk Energy Park 8 GmbH & Co. KG	Germany	12-month Euribor plus 305 basis points
ERG Wind 105 GmbH & Co.	Germany	12-month Euribor plus 305 basis points
ERG Windpark Beteiligungs GmbH	Germany	12-month Euribor plus 305 basis points
Corni Eolian S.A.	Romania	12-month Euribor plus 400 basis points
Evishagaran Wind Farm Ltd	Great Britain	12-month Euribor plus 250 basis points
Sandy Knowe Windfarm Ltd.	Great Britain	12-month Euribor plus 250 basis points
Creag Riabhach Wind Farm Ltd	Great Britain	12-month Euribor plus 200 basis points
Isab Energy Solare S.r.l.	Italy	6-month Euribor plus 400 basis points
ERG Eolica Fossa del Lupo S.r.l.	Italy	6-month Euribor plus 300 basis points
ERG Eolica Amaroni S.r.l.	Italy	6-month Euribor plus 205 basis points
ERG Eolica Ginestra S.r.l.	Italy	3-month Euribor plus 175 basis points
ERG Solar Holding 1 S.r.l.	Italy	6-month Euribor plus 305 basis points
ERG Solar Piemonte 1 S.r.l.	Italy	6-month Euribor plus 305 basis points
ERG Solar Piemonte 2 S.r.l.	Italy	6-month Euribor plus 305 basis points
ERG Solar Piemonte 3 S.r.l.	Italy	6-month Euribor plus 305 basis points
ERG Solar Piemonte 4 S.r.l.	Italy	6-month Euribor plus 305 basis points
ERG Solar Piemonte 5 S.r.l.	Italy	6-month Euribor plus 305 basis points

The key transactions that took place during the course of 2018 are summarised below

- following acquisition of the Forvei Group on 12 January 2018, ERG Power Generation S.p.A. granted loans to subsidiary ERG Solar Holding 1 S.r.l. and to the subsidiaries of the Piemonte Group for a total of EUR 101,278 thousand, including interest, at 31 December 2018;
- on 21 March 2018, ERG Power Generation S.p.A. granted a loan to subsidiary ERG Eolienne France S.a.s (approximately EUR 5 million) for acquisition of 75% of the companies Parc Eolienne de la Voie Sacrée S.a.s. and Parc Eolienne d'Épense S.a.s.;
- on 15 May 2018, ERG Power Generation S.p.A. granted a loan to subsidiary ERG Eolienne France S.a.s. (approximately EUR 41 million) for acquisition of 100% of the companies Parc Eolien de la Vallée de Torfou S.a.s., Parc Eolien du Melier S.a.r.l. and EPURON Energies Renouvelables S.a.s.;
- following acquisition of the company Creag Riabhach Wind Farm Ltd on 1 August 2018, ERG Power Generation S.p.A. granted a new loan to the aforementioned company for a total of EUR 1,629 thousand, including interest, at 31 December 2018;
- on 2 August 2018, ERG Power Generation S.p.A. granted a loan to subsidiary ERG Eolienne France S.a.s.

(approximately EUR 2.4 million) for acquisition of the remaining 25% of the companies Parc Eolienne de la Voie Sacrée S a s and Parc Eolienne d'Epense S a s ;

- on 30 November 2018, the decrease in the loan to subsidiary ERG Eolienne France S a s. for EUR 39,517 thousand was the result of a resolution for the share capital increase of the same amount.

The item "Non-current receivables from others", equal to EUR 2,659 thousand, increased over the prior year due to integration of the deposit with respect to Snam Rete Gas S.p.A.

## CURRENT ASSETS (EUR 228,256 THOUSAND)

### Inventories (EUR 11,795 thousand)

(EUR thousand)	31/12/2018	31/12/2017
Inventories of spare parts	11,053	11,247
Inventory write-down provision	(1,783)	(1,330)
<b>Total Inventories of spare parts</b>	<b>9,270</b>	<b>9,917</b>
Inventories of contract work in progress	2,526	-
<b>Total</b>	<b>11,795</b>	<b>9,917</b>

The item "Inventories of spare parts", net of the inventory write-down provision, is equal to EUR 9,270 thousand at 31 December 2018 and reflects the value of the spare parts necessary to conduct maintenance work on the aerogenerators and wind turbines. The write-down at 31 December 2018 is calculated based on an analysis of the turnover ratio of spare parts and is aimed at handling a possible decline in functionality of the spare parts.

The item at 31 December 2018 decreased compared to 31 December 2017 as a result of the combined effect of:

- the decrease generated by the above described elimination of branches for EUR 1,571 thousand;
- the increase generated by the ordinary change in inventories, which net of the write-down for the period amounts to EUR 924 thousand.

The item "Inventories of contract work in progress" in the 2018 financial statements includes works relating to the "Repowering & Reblading" project.

ERG launched the "Repowering & Reblading Project" process with the objective of conducting a technological analysis of the wind farms with incentives expiring within 2020, and the overall assessment of feasibility, profitability and relative implementation timing of an important plan to boost efficiency through two types of intervention:

- total renovation (Repowering);
- partial renovation (Reblading).

The current organisational structure of ONE Company places project management in the hands of parent company ERG Power Generation S.p.A., with regard to the necessary purchases, management of third-party services and, consequently, the employment of internal personnel to carry out the projects.

The item "Inventories of contract work in progress" for 2018 therefore reflects the costs of engineering, purchase of the blades and ancillary costs, including internal personnel costs sustained in 2018 for the Repowering & Reblading projects on the plants of a number of wind subsidiaries.

### Receivables (EUR 215,445 thousand)

Receivables can be summarised as follows.

(EUR thousand)	31/12/2018	31/12/2017
Receivables from customers	93,452	103,966
Receivables from subsidiaries	21,969	81,995
Receivables from associates	1,325	1,535
Receivables from parent companies	16,882	26,918
Tax receivables	22,073	3,646
Deferred tax assets	11,421	5,424
Receivables from others	48,324	31,695
<b>Total</b>	<b>215,445</b>	<b>255,179</b>

### Receivables from customers (EUR 93,452 thousand)

Receivables from customers mainly comprise:

- receivables relating to the sale of electricity generated under the tolling contract by the combined cycle plants of ERG Power S.r.l., the Italian wind farms of its renewables subsidiaries and the hydroelectric plants of ERG Hydro S.r.l. in relation to the Electricity Market Manager for EUR 22,127 thousand;
- receivables relative to the sale of electricity, steam and other utilities to customers of the Priolo Gargallo site, including in particular to ISAB S.r.l. for EUR 8,647 thousand, Versalis for EUR 7,615 thousand and Airliquide for EUR 8,613 thousand;
- a receivable due from Terna for the amount requested as reimbursement on the basis of the provisions pursuant to Attachment A of resolution no. 111 of 9 June 2006 of AEEGSI, for EUR 3,857 thousand relative to the residual amount accrued in financial year 2016, note that this receivable was collected on 28 February 2019;
- confirmation of the receivable relating to Energy Efficiency Certificates ("white certificates") for energy production in 2018, for EUR 25,784 thousand;

The receivables from customers at 31 December 2018 are mostly from Italian customers and are due for payment within the following year.

Note that receivables from customers are stated net of the loss allowance for EUR 2,824 thousand at 31 December 2018, allocated in order to cover any non-performing receivables.

Receivables from subsidiaries (EUR 21,969 thousand)

This item is broken down as follows:

- trade receivables for approximately EUR 17,470 thousand, mainly attributable to services rendered and not yet collected under the Operation & Maintenance contract on the CCGT plant owned by ERG Power, as well as services rendered and not yet collected under the Operation & Maintenance and B.o.P. contracts on wind farms of the subsidiaries. Moreover, the item includes services charged to all subsidiaries under the administrative and corporate service agreement;
- financial receivables regard receivables for treasury, cash pooling zero balance and cash advances in favour of subsidiaries for EUR 3,916 thousand. Lastly, the item includes the receivable from ERG Wind Bulgaria S.p.A. for distribution of reserves for EUR 2,000 thousand.

A final note goes to the elimination of the receivable from Brockaghboy Windfarm Limited of EUR 54,677 thousand, following disposal of the investment on 7 March 2018;

- other receivables for EUR 583 thousand.

Receivables from associates (EUR 1,325 thousand)

The trade receivables from Priolo Servizi S.C.p.A. include the provision of utility services (sea water, electricity and others) and services rendered within the scope of the Operation & Maintenance contract.

Receivables from parent companies (EUR 16,882 thousand)

This item mainly includes other receivables from ERG S.p.A. for EUR 15,660 thousand, which refer to receivables relative to participation in the tax consolidation and, to a residual extent, the transfer of VAT for December 2018.

The item also includes EUR 1,222 thousand in receivables to ERG S.p.A., which mainly comprise the year-end balance of the service agreement in place between the two companies.

Tax receivables (EUR 22,073 thousand)

This item mainly includes the VAT receivable for the month of December, equal to EUR 18,615 thousand, the receivable for IRAP (Regional tax) advances paid in excess with respect to the tax owing for 2018 for EUR 91 thousand, the advance on electricity and gas excise duty of EUR 1,434 thousand and the IRAP receivable for which an application for reimbursement was made regarding a 2004 tax assessment for EUR 55 thousand. The item includes a receivable from ACEA acquired from merged company ERG Renew S.p.A., equal to EUR 1,256 thousand.

The amount also includes taxes paid pending a ruling by the company itself (EUR 166 thousand) and by merged company ISAB Energy Services S.p.A. (EUR 171 thousand), in addition to EUR 142 thousand regarding the IRES receivable for deductibility of IRAP, with request made to financial administration via consolidating company ERG S.p.A. but not yet reimbursed.

**Deferred tax assets (EUR 11,421 thousand)**

The deferred tax assets relate to the tax effect of the deductible temporary differences that will be repaid in future years. The breakdown of the main temporary differences and relative tax effects are presented below.

	31/12/2018		31/12/2017	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Provision for clean-up charges	-	-	-	-
Write-down of inventory	1,783	514	1,330	383
Other provisions	6,768	1,765	16,046	4,308
Other changes in IRES (Corporate tax)	6,723	1,804	1,431	412
Derivative instruments	25,462	7,338	1,107	319
<b>Total</b>		<b>11,421</b>		<b>5,424</b>

Maintenance of the deferred tax assets in the financial statements for the year ended on 31 December 2018 is supported by reasonable elements of certainty regarding their recoverability in the years in which they are expected to be repaid. This assumption is mainly based on the fact that the company forms part of the consolidated tax regime with the parent company ERG S.p.A., in view of the expected Group taxable amounts.

As mentioned in the 2017 financial statements, recall that the ACE benefit arising from prior years and in part from the merger was essentially used up during 2017.

**Receivables from others (EUR 48,324 thousand)**

(EUR thousand)	31/12/2018	31/12/2017
Receivables from ECC - European Commodity Clearing	34,670	14,069
Receivable from Jao	2,559	2,438
Receivables from GME	550	550
Receivables under Law 488/1992	10,009	11,200
Other receivables	536	3,438
<b>Total</b>	<b>48,324</b>	<b>31,695</b>

This item predominantly comprises receivables from the ECC - European Commodity Clearing, regarding the margin deposit and fair value of contracts stipulated (futures) for EUR 34,670 thousand, the receivable from Jao S.A. for EUR 2,559 thousand and security deposits from GME for EUR 550 thousand. The item also includes receivables of EUR 10,009 thousand from Gaz de France, referring to recovery of the revaluation and interest on the disbursements of Italian Law no. 488/1992, arising from ERG Renew S.p.A. In 2017, it also included receivables of EUR 2,236 thousand from the company PLT Energia S.p.A. for the Tursi transaction. The subject receivable was collected in June 2018.

**Short-term financial assets (EUR 0 thousand)**

The subject item, brought down to zero in 2018, amounted to EUR 76,073 thousand in 2017 and included:

- the investment in Brockaghboy Windfarm Limited for EUR 26,329 thousand, the sale of which was finalised on 7 March 2018;



- the financial receivable from parent company ERG S.p.A. relating to the cash pooling zero balance in the amount of EUR 49,181 thousand;
- the fair value of derivatives existing at year-end for a total of EUR 564 thousand

#### Cash and cash equivalents (EUR 1,015 thousand)

(EUR thousand)	31/12/2018	31/12/2017
Bank and postal deposits	1,015	3,210
<b>Total</b>	<b>1,015</b>	<b>3,210</b>

The item principally relates to the credit balances on bank current accounts, the carrying value of which represents the nominal value.

#### Accruals and deferrals (EUR 10,887 thousand)

(EUR thousand)	31/12/2018	31/12/2017
Prepaid expenses - other and CO <sub>2</sub>	10,440	9,435
Prepaid expenses - insurance premiums	62	44
Prepaid expenses - other and sundry payments	385	54
<b>Total</b>	<b>10,887</b>	<b>9,533</b>

The most significant item is "Prepaid expenses - other and CO<sub>2</sub>", which mainly includes:

- prepaid expenses recognised for the quotas of CO<sub>2</sub> purchased in excess with respect to the requirements of the CCGT plant in 2018 for EUR 6,663 thousand;
- prepaid expenses regarding the costs for development of wind energy projects abroad, specifically for the UK companies, which are developing two wind power projects in the United Kingdom for EUR 2,811 thousand

The estimated classification by expiry of the items registered under assets is presented below:

	Within 12 months	Within 5 years	After 5 years	Total
<b>Receivables under financial assets</b>				
- from subsidiaries			435,459	435,459
- from others		2,659		2,659
<b>Receivables under current assets</b>				
- from customers	93,452			93,452
- from subsidiaries	21,969			21,969
- from associates	1,325			1,325
- from parent companies	16,882			16,882
- from companies subject to control by parent companies	-			-
- deferred tax assets	5,393	6,029		11,421
- from the tax authorities	20,339	1,734		22,073
- from others	37,764	10,559		48,324
<b>Total</b>	<b>197,123</b>	<b>20,981</b>	<b>435,459</b>	<b>653,564</b>

## LIABILITIES

### SHAREHOLDERS' EQUITY (EUR 1,867,026 THOUSAND)

#### Share Capital (EUR 100,000 thousand)

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

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

As a result of the above, the share capital at 31 December 2018 amounts to EUR 100,000 thousand.

#### Share premium reserve (EUR 7,000 thousand)

The Company's shareholders' meeting of 20 June 2014 had decided to increase the share capital from EUR 5,000 thousand to EUR 6,000 thousand, i.e. by EUR 1,000 thousand, by issuing 100,000 shares with a par value of EUR 10 each and a share premium of EUR 7,000 thousand as payment for the "Power Business Unit", which took place on 1 July 2014.

#### Revaluation reserve (EUR 37 thousand)

The revaluation reserves had been transferred following the merger of ISAB Energy Services S.r.l. on 1 January 2015, which in turn derived from the spin-off from ERG Nuove Centrali S.p.A. on 1 July 2007 in proportion with its shareholders' equity at 30 June 2007, transferred with the spin-off.

#### Legal reserve (EUR 8,963 thousand)

The legal reserve was established in 2012 following the decision by the ordinary shareholders' meeting of 16 April 2012, which approved the financial statements for 2011.

The shareholders' meeting held on 22 April 2015 had approved the financial statements for 2014 and voted to allocate 5% of the total profits for the period, amounting to EUR 632 thousand, to the reserve.

The shareholders' meeting held on 21 April 2016 had approved the financial statements for 2015 and voted to allocate EUR 507 thousand to the reserve.

The shareholders' meeting held on 19 April 2017 resolved to allocate EUR 3,838 thousand to the reserve.

The shareholders' meeting held on 19 April 2018 resolved to allocate EUR 3,924 thousand to the reserve.

#### Other reserves (EUR 1,580,400 thousand)

The item "Other reserves" comprises the capital account payment by parent company ERG S.p.A. for a total amount of EUR 961,733 thousand, of which EUR 261,733 thousand in 2015 and EUR 700,000 thousand in July 2016, following the decision by ERG S.p.A. to make a capital contribution in favour of ERG Power Generation S.p.A. and extinguish the existing loan between ERG S.p.A. and ERG Power Generation S.p.A. via offsetting.

This item also includes the extraordinary reserve to which EUR 5,830 was allocated, as a result of the share capital reduction in FY 2011, and the merger surplus amounting to EUR 5,855 thousand, relative to the merger by incorporation of ISAB Energy Services S.r.l. on 1 January 2015.

The subject item also includes an amount equal to EUR 606,980 thousand, of which EUR 607,050 thousand referring to the shareholders' equity of companies ERG Renew S.p.A. and ERG Renew Operation & Maintenance S.r.l., incorporated into ERG Power Generation S.p.A. at 1 January 2017, and EUR 70 thousand related to reclassification of the item Retained earnings of retained profits and losses of the branches eliminated from the Company at 1 January 2018.

The remaining portion consists of sundry reserves of insignificant amounts (EUR 2 thousand) transferred to the company following the merger through incorporation of ISAB Energy Services S.r.l. on 1 January 2015.

#### Reserve for transactions to hedge expected cash flows (EUR -18,125 thousand)

This item was introduced by Legislative Decree 139/15 and comprises the fair value changes of the effective component of hedging derivatives, net of deferred taxes.

#### Retained earnings (EUR 128,064 thousand)

This item includes the profits and losses carried forward from previous years.

Note that on 20 December 2018, the Shareholders' Meeting resolved the distribution, as a dividend, of EUR 20,000 thousand in retained earnings from the year 2017 in favour of the sole shareholder ERG S.p.A.

The table showing the changes in the shareholders' equity items of the Company over the past three years is shown below:

	Share capital	Share premium reserve	Revaluation reserves	Legal reserve	Other reserves	Cash flow hedge reserve	Retained profits (losses)	Profit (loss) for the period	Total Shareholders' Equity
<b>BALANCE AT 31/12/2015</b>	<b>6,000</b>	<b>7,000</b>	<b>37</b>	<b>693</b>	<b>273,420</b>	<b>(114)</b>	<b>506</b>	<b>21,895</b>	<b>309,235</b>
Distribution of dividends	-	-	-	-	-	-	(21,186)	-	(21,186)
Allocation of prior year profit (loss)	-	-	-	507	-	-	21,186	(21,694)	(9)
Other changes	-	-	-	-	700,000	-	-	-	700,000
Other changes - adoption of OIC 2015	-	-	-	-	-	(2,987)	-	-	(2,987)
Profit (loss) for the year	-	-	-	-	-	-	-	76,756	76,756
<b>BALANCE AT 31/12/2016</b>	<b>6,000</b>	<b>7,000</b>	<b>37</b>	<b>1,200</b>	<b>973,420</b>	<b>(3,101)</b>	<b>506</b>	<b>76,766</b>	<b>1,061,828</b>
Distribution of dividends	-	-	-	-	-	-	-	-	-
Allocation of prior year profit (loss)	-	-	-	3,838	-	-	72,978	(76,766)	-
Merger surplus 2017	-	-	-	-	507,050	-	-	-	507,050
Other changes	94,000	-	-	-	-	-	-	-	94,000
Other changes - adoption of OIC 2015	-	-	-	-	-	2,312	-	-	2,312
Profit (loss) for the year	-	-	-	-	-	-	-	78,485	78,485
<b>BALANCE AT 31/12/2017</b>	<b>100,000</b>	<b>7,000</b>	<b>37</b>	<b>5,038</b>	<b>1,580,470</b>	<b>(789)</b>	<b>73,434</b>	<b>78,485</b>	<b>1,843,675</b>
Distribution of dividends	-	-	-	-	-	-	(20,000)	-	(20,000)
Allocation of prior year profit (loss)	-	-	-	3,924	-	-	74,561	(78,485)	-
Merger surplus 2017	-	-	-	-	(70)	-	70	-	-
Other changes	-	-	-	-	-	-	-	-	-
Other changes - adoption of OIC 2015	-	-	-	-	-	(17,336)	-	-	(17,336)
Profit (loss) for the year	-	-	-	-	-	-	-	60,687	60,687
<b>BALANCE AT 31/12/2018</b>	<b>100,000</b>	<b>7,000</b>	<b>37</b>	<b>8,963</b>	<b>1,580,400</b>	<b>(18,125)</b>	<b>128,064</b>	<b>60,687</b>	<b>1,867,026</b>

The following table lists shareholders' equity items, indicating the possible utilisation for each of them, as well as any tax restrictions.

	Amount	Possibility of utilisation	Amount available	Amount subject to tax on distribution
Share capital	100,000	-		3,009
Revaluation reserves	37	A,B,C	37	37
Share premium reserve	7,000	A,B	7,000	
Legal reserve	8,963	B	0	
Other reserves/Capital account payment	961,733	A,B,C	961,733	
Other reserves	11,687	A,B,C	11,687	
Other reserves/Merger surplus 2017	606,980	A,B,C	606,980	
Reserve for transactions to hedge expected cash flows	-18,125	-	0	
Retained earnings	128,064	A,B,C	128,064	
Profit for the year	60,687	A,B,C	60,687	
<b>Total</b>	<b>1,867,026</b>		<b>1,776,189</b>	<b>3,046</b>

**Key**

A - for share capital increase  
B - for loss coverage  
C - for distribution to shareholders

The Company did not allocate deferred tax liabilities on the capital portion related to operations subject to tax on distribution (for EUR 3,009 thousand) or on the revaluation reserves (for EUR 37 thousand) since no utilisation that could generate taxation is expected.

### Provisions for risks and charges (EUR 6,382 thousand)

(EUR thousand)	31/12/2018	31/12/2017
Derivative financial instruments payable	1,654	142
Other provisions	4,728	9,111
<b>Total</b>	<b>6,382</b>	<b>9,253</b>

The item derivative financial instruments payable, equal to EUR 1,654 thousand, includes derivatives with negative fair value at the measurement date, particularly the net impact of "Electricity price risk hedging swap".

For more information, refer to the relative paragraph on derivatives.

A summary of the item "Other provisions" is provided below:

(EUR thousand)	31/12/2018	Increases	Decreases	31/12/2017
Provision for coverage of investees' losses	718	550	(1,163)	1,331
Other current provisions	3,885	-	(3,724)	7,610
Provisions for current environmental risks	59	-	-	59
Other non-current provisions	66	-	(45)	111
<b>Total</b>	<b>4,728</b>	<b>550</b>	<b>(4,932)</b>	<b>9,111</b>

The most significant item is "Other current provisions", broken down as follows:

- EUR 2,844 thousand from charges potentially resulting from the electricity business;
- EUR 1,041 thousand from potential expenses regarding uncertainty of the results of projects mainly linked to the business of renewables companies.

The key transactions in the provisions for liabilities in 2018 are outlined below:

- release of the residual amount of the provision allocated in the 2011 financial statements of ERG S.p.A. for the 2011 impairment test relating to the Power CGU combined cycle plant, transferred to ERG Power Generation S.p.A. on 1 July 2014, for an amount of EUR 1,163 thousand;
- utilisation of the provision recognised for a contractual dispute in 2010 in respect of a wholesale customer to finalise a settlement agreement with the counterparty during 1st quarter 2018 (for EUR 2,720 thousand);
- utilisation of the provision for risks recognised for charges potentially resulting from the electricity business for EUR 406 thousand;
- allocation to the provision for risks of EUR 550 thousand, relative to potential charges arising from the settlement of a dispute with a developer of the subsidiary company Troina S.r.l. in liquidation

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

On 21 July 2017, the companies met 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 detailed note describing the intentions of the parties, the technical and legal peculiarities underlying the statutory lawsuit for the sale of the equity investment with respect to the "impractical" sale of the company, as well as the main regulatory aspects at the basis of the Company's unfounded conduct.

In this regard, recall that on the ERG side, following the technical-legal analyses conducted at the time, acquisition of the investment in ERG Hydro S.r.l. (following the partial demerger of the hydro business by E.On Produzione S.p.A.) was the only concretely possible transaction within the terms and methods aimed at keeping the investment economically sustainable. In particular, the issues hindering a different transaction (i.e. sale of company) were: (i) complexity and uncertain timing in obtaining approval by the authorities with regard to transfer of the concessions, (ii) zoning/cadastral differences of some hydroelectric assets and (iii) incompatibility of an acquisition of business branch with the structure of the ERG Group, in which each individual business is managed by a specifically dedicated company.

Despite presentation of the detailed note by ERG Power Generation and E.On Italia (supplemented by further production on 26 October 2017) and the meeting with officials of the Genoa Revenue Agency on 17 October 2017, on 27 October

2017, the Genoa Provincial Office of the Italian Revenue Agency served notice of payment of an additional registration tax of approximately EUR 28.8 million plus interest of EUR 1.9 million (no penalties were applied).

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

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

The merit hearing was held on 14 March 2018.

On 7 November 2018, the decision no. 1256/6/18 of 14 March 2018 was filed; with it, the Genoa Provincial Tax Commission rejected the appeal filed by ERG Power Generation S.p.A.

On 15 January 2019, the company appealed and applied for judicial suspension of the tax collection.

On 26 February 2019, ERG Power Generation S.p.A. received - following the first degree decision - a payment notice bearing the enrollment in the register of approximately EUR 41.8 million (amount including tax, penalties, interest and collection premiums). The Company filed a petition to obtain the previously requested judicial suspension of the collection.

In this regard, it is pointed out that the 2019 Budget Law (Italian Law no. 145 of 30 December 2018) clarified that Article 1.87.a) of Law no. 205 of 27 December 2017 (2018 Budget Law), is the authentic interpretation (hence with retroactive effect) of Article 20.1 of the consolidated law per Presidential Decree no. 131 of 26 April 1986. Therefore, requalification of the extraordinary company sale for the purposes of the registration fee, confirmed in the first degree of the proceedings - albeit not applicable, in the opinion of the company, to the case at hand - will have to be disallowed by the second degree court.

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.

### Employees' severance indemnities (EUR 3,003 thousand)

(EUR thousand)	31/12/2018	31/12/2017
<b>Opening balance</b>	<b>3,199</b>	<b>1,090</b>
Merger 2017	-	2,285
Increases	1,376	1,248
Decreases	(1,572)	(1,424)
<b>Closing balance</b>	<b>3,003</b>	<b>3,199</b>

This item includes the liabilities related to the employees' severance indemnities due to employees.

The indemnities increased by the amounts allocated in favour of employees for severance indemnity as required by law and decreased due to payments to Supplementary Funds and to the INPS Treasury Fund.

The change compared to the prior year was impacted by the exit of personnel.

## Payables (EUR 468,642 thousand)

The payables can be summarised as follows:

(EUR thousand)	31/12/2018	31/12/2017
Payables to suppliers	36,320	40,264
Payables to subsidiaries	403,402	310,363
Payables to parent companies	8,168	51
Payables to companies subject to control by parent companies	–	49
Tax payables	2,166	1,554
Payables to social security and pension institutions	2,035	1,929
Other payables	16,550	4,421
<b>Total</b>	<b>468,642</b>	<b>358,632</b>

### Payables to suppliers (EUR 36,320 thousand)

Payables to suppliers stem from commercial transactions.

The payables to suppliers at 31 December 2018 were mostly to Italian counterparties.

Trade payables mainly regarded the payable to the Electricity Market Manager of EUR 3,530 thousand for the purchase of electricity, the payable to Edison of EUR 6,006 thousand, to ENI of EUR 5,955 thousand and to Gazprom Export LLC of EUR 2,456 thousand, for gas purchases.

The item also includes payables to other counterparties such as TERNA for EUR 4,834 thousand.

The subject item also includes trade payables for ancillary charges on the sale of electricity (such as, for example, to Enel Distribuzione S.p.A. for EUR 277 thousand) and other charges connected to the purchase of gas and production of the CCGT plant owned by ERG Power S.r.l., such as the payable to Snam Rete Gas for EUR 1,380 thousand.

The item also comprises trade payables to third parties for services connected to maintenance of the wind farms.

### Payables to subsidiaries (EUR 403,402 thousand)

The subject item mainly consists of the following

- financial payables to subsidiaries, for EUR 344,972 thousand, particularly in relation to the cash pooling zero balances, including accrued interest, to ERG Hydro S.r.l. (EUR 254,156 thousand), ERG Eolica San Ciro S.r.l. (EUR 10,004 thousand), ERG Eolica San Vincenzo S.r.l. (EUR 8,994 thousand). Lastly, the item includes the payable for the loan agreement to ERG Wind Investments Limited for EUR 71,149 thousand;
- trade payables to group companies, equal to EUR 58,161 thousand, which mainly regard payables to the wind subsidiaries for EUR 24,229 thousand for the purchase of electricity, payables to ERG Hydro S.r.l. for EUR 16,409 thousand for the purchase of electricity, and payables for services during the year, particularly from subsidiary ERG Power S.r.l., totalling EUR 17,523 thousand as part of the tolling contract;
- other payables for EUR 269 thousand



Payables to parent companies (EUR 8,159 thousand)

The item in 2018 includes payables for centralised treasury in respect of ERG S.p.A. for EUR 7,238 thousand and chargebacks of expenses by ERG S.p.A. for EUR 931 thousand

Payables to companies subject to control by parent companies (EUR 0 thousand)

This item, which at 31 December 2017 included amounts owing to TotalErg S.p.A., was eliminated during the year following transfer of the equity investment in TotalErg S.p.A.

Tax payables (EUR 2,166 thousand)

This item mainly refers to payables to the tax authorities for withholdings for EUR 1,070 thousand and payables for excise duty related to electricity and gas for EUR 1,082 thousand.

Payables to social security and pension institutions (EUR 2,035 thousand)

This mainly refers to what is due in salaries and wages for December for social security, pension and insurance obligations.

Other payables (EUR 16,550 thousand)

(EUR thousand)	31/12/2018	31/12/2017
Payables to employees	2,023	2,348
Payables to third parties for equity investments	13,863	1,929
Sundry payables	664	144
<b>Total</b>	<b>16,550</b>	<b>4,421</b>

The item includes payables to employees relating to wages for the period not yet settled and comprises holidays, unused time off "in lieu" and the estimated productivity bonus and variable remuneration linked to company objectives.

"Payables due to third parties for equity investments" mainly refer to the payable for acquisition of the investment in **Creag Riabhach Wind Farm Ltd.** (EUR 11,934 thousand). The item also includes a payable of EUR 1,844 thousand from the merger of ERG Renew S.p.A. The subject payable concerns the valuation of a put option on 0.69% of Ansaldo Fuel Cells S.p.A. granted by ERG Renew S.p.A. to Gepafin S.p.A. with expiry on 29 January 2009. Gepafin S.p.A. had notified exercising of its put option, ERG Renew S.p.A. did not consider the right on said shares of Ansaldo Fuel Cells S.p.A. to be valid and informed Gepafin S.p.A. that it would not purchase the shares that were the subject of the option. Consequently, Gepafin filed proceedings to obtain payment of the debt and, at present, the proceedings in question are pending before the Court of Cassation.

The classification by expiry of the main items registered under the liabilities is shown below:

	Within 12 months	Within 5 years	After 5 years	Total
<b>Payables</b>				
- to banks	-			-
- to suppliers	36,320			36,320
- to subsidiaries	403,402			403,402
- to parent companies	8,168			8,168
- to companies subject to control by parent companies	-			-
- tax payables	2,166			2,166
- to social security and pension institutions	2,035			2,035
- other payables	16,550			16,550
<b>Total</b>	<b>468,642</b>	<b>-</b>	<b>-</b>	<b>468,642</b>

## INCOME STATEMENT ANALYSIS

### VALUE OF PRODUCTION (EUR 686,862 THOUSAND)

#### Revenue from sales and services (EUR 675,757 thousand)

(EUR thousand)	2018	2017
Revenue from sales	628,361	645,365
Revenue from services	47,396	76,567
<b>Total</b>	<b>675,757</b>	<b>721,932</b>

Revenue from sales mainly comprise:

- the sale of electricity and gas to third parties and the sale of White Certificates on electricity generation of the CCGT plant;
- electricity and gas sales and the supply of steam and other utilities to the other companies operating in the industrial site of Priolo Gargallo.

Note that ERG Power Generation S.p.A. manages the ERG Group's electricity sales, performed in Italy through the Energy Management department, which 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.

Revenue from services mainly comprises remuneration established in the Operation & Maintenance service contract from the subsidiary ERG Power S.r.l., from the associated company Priolo Servizi S.C.p.A. and from ISAB S.r.l. The item also includes the provision of technical services and central staff services charged back to ERG Power S.r.l.

This item also includes revenues from Terna for the capacity payment.

Also note that from 1 January 2017, revenue from services includes services rendered to the wind subsidiaries for Operation & Maintenance and BoP, i.e., management and maintenance of the wind aerogenerators and substations

For complete disclosure, we provide below a breakdown of the revenue from sales and services:

(EUR thousand)	2018	2017
<b>Sales</b>		
Electricity	512,902	552,718
Steam	51,959	44,243
Gas	3,816	1,880
CO	35	0
White Certificates	25,478	38,322
Utilities	11,678	8,203
<b>Total sales</b>	<b>605,868</b>	<b>645,365</b>
<b>Services</b>		
Dispatching Services Market revenues from Terna	1,200	5,615
Service contracts in respect of ERG Power - ERG Hydro	12,392	12,392
Service contracts from wind subsidiaries	6,655	5,716
O&M for ERG Power and third parties site	12,519	12,541
O&M for wind subsidiaries	33,671	33,796
Other	3,451	6,506
<b>Total services</b>	<b>69,889</b>	<b>76,567</b>
<b>TOTAL REVENUE FROM SALES AND SERVICES</b>	<b>675,757</b>	<b>721,932</b>

Revenue for electricity is mainly from the Electricity Market Manager and IREN Mercato, Terna, Enel and ACEA.

Revenue from sales of electricity refers to the energy generated by the wind, thermoelectric and hydroelectric plants of the Italian subsidiaries.

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

Electricity revenue is stated net of the negative adjustment of hedging transactions completed during the period for EUR 22,494 thousand.

Note that the average PUN (Single National Price) in 2018 was 61.3 EUR/MWh, up compared to the value recognised in 2017 (54 EUR/MWh).

The sales of steam and utilities mainly relate to customers from the Priolo industrial area, more specifically Versalis S.p.A., ISAB S.r.l. and Priolo Servizi S.C.p.A.

Gas sales are residual and concern gas not used in the CCGT production cycle, and are associated primarily with Snam rete Gas S.p.A.

Revenue for White Certificates relates primarily to the benefit deriving from the generation of electricity from the combined cycle plant in 2018 (for EUR 25,783 thousand), allocated based on actual production of the plant during the year.

Revenue for services also includes services provided by O&M to the wind subsidiaries, from 1 January 2017

The subject item also includes revenue for technical services and central staff services provided to the subsidiaries. From 1 January 2017, the service contracts to wind companies are also included.

The item "other services" mainly comprises chargebacks to Terna in regard to fees for Lost Wind Power Output for EUR 3,365 thousand and other services to third parties, including site customers.

#### Changes in contract work in progress (EUR 2,526 thousand)

The subject item reflects the costs of engineering, purchase of the blades and ancillary costs, including internal personnel costs sustained in 2018 by ERG Power Generation S.p.A. for the Repowering & Reblading projects on the plants of a number of wind subsidiaries, as commented in the "Inventories" paragraph of these Notes.

#### Other revenue and income (EUR 8,580 thousand)

(EUR thousand)	2018	2017
Other revenue from Group companies	462	1 077
Incentive	15	-
Insurance indemnities	-	219
Expense recoveries	449	117
Other revenue for capacity resale	3 946	1 901
Revenue other than the above	3 708	4 893
<b>Total</b>	<b>8.580</b>	<b>8.207</b>

"Other revenue from Group companies" essentially regard charge-backs to parent companies and subsidiaries for costs incurred and sale of spare parts.

The item "Other revenue for capacity resale" also includes revenue from Jao S.A. for the sale of the unused energy transmission capacity for EUR 3,946 thousand.

The item "Revenue other than the above" mainly includes the positive effect of the partial release of the risk provision relating to the Power CGU - combined cycle plant that emerged in the 2011 impairment test on the financial statements of ERG S.p.A., and transferred on 1 July 2014 to the Company. Use of the provision is recognised upon the final closing of the cash flows of the CGU and amounted to EUR 1,163 thousand in 2018. The item includes the positive impact of the collection relating to the Tursi transaction previously commented on, for EUR 1,889 thousand, and comprises other minor items, including the effect of closure of the accounting items relating to prior years.

## COSTS OF PRODUCTION (EUR 732,050 THOUSAND)

Costs of production are broken down as per the table below

(EUR thousand)	2018	2017
Costs for raw, ancillary and consumable materials	518,063	507,735
Service costs	179,616	197,665
Leasing costs	1,899	2,057
Employee costs	29,547	27,930
Amortisation, depreciation and write-downs	1,763	1,769
Changes in inventories of raw materials, ancillary and consumable materials and goods	(923)	(2,529)
Provisions for risks	-	5,591
Management expenses	2,084	1,506
<b>Total</b>	<b>732,050</b>	<b>741,124</b>

### Costs for raw, ancillary and consumable materials and goods (EUR 518,063 thousand)

The purchase costs of electricity mainly regard purchases from the Electricity Market Manager, from the wind subsidiaries and from ERG Hydro S.r.l.

The gas purchase costs are essentially related to Edison, ENI and Gazprom.

The above costs are stated net of the adjustment generated by the hedging transactions completed during the period, amounting to lower costs for EUR 15,238 thousand

The purchases of utilities and steam mainly relate to the relations with the Companies at the industrial site of Priolo Gargallo

Costs include outlays to purchase spare parts, referring to the costs of raw materials acquired by third parties and subsidiaries to conduct maintenance on the wind aerogenerators on behalf of the subsidiaries, an activity acquired starting from January 2017.

### Service costs (EUR 179,617 thousand)

(EUR thousand)	2018	2017
Costs for services from third parties	45,982	43,657
Costs for services from subsidiaries	97,920	116,576
Costs for services from parent companies	35,715	36,832
<b>Total</b>	<b>179,616</b>	<b>197,065</b>

The "Costs for services from subsidiaries" relate to the Tolling fee paid to the subsidiary ERG Power S.r.l. as part of the Tolling contract.

"Costs for services from parent companies" essentially reflect the costs for staff services rendered by the company ERG S.p.A. and include chargebacks for administrators' fees

"Costs for services from third parties" mainly comprise the following:

(EUR thousand)	2018	2017
Maintenance costs	6,947	4,678
Technical, legal and other consulting services	4,045	2,800
Payments to statutory auditors	76	70
Utilities and supplies	356	264
Insurance costs	430	436
Other payables	34,128	35,408
<b>Total</b>	<b>45,982</b>	<b>43,657</b>

"Maintenance costs" refer to costs for assistance, management and maintenance services for the wind parks sustained in 2018.

The item "Technical, legal and other consulting services" mainly includes about EUR 928 thousand for legal costs, EUR 1,749 thousand for technical professional consultancy costs, EUR 745 thousand for assessments, inspections and testing, EUR 197 thousand in feasibility studies and other minor costs for services.

The item also includes payment to the independent auditors KPMG S.p.A., of which EUR 214 thousand related to the auditing services provided and EUR 26 thousand for services other than auditing.

"Insurance costs" includes the premiums paid in previous years.

Note that the items "Costs for services from parent companies" and "Other services" include directors' fees for a total of EUR 1,478 thousand.

The table below shows the main breakdown of the item "Other services", which includes:

(EUR thousand)	2018	2017
EE transport, gas and other capacity charges	14,246	13,619
Futures, swaps and CFD charges	-	11,532
Other personnel services	2,541	2,667
Italian and foreign bank fees	1,100	958
Other TERNA and IpeX fees	11,495	1,091
Other services	4,546	5,541
<b>Total</b>	<b>34,128</b>	<b>35,408</b>

- electricity transport costs, equal to EUR 14,246 thousand, are up slightly compared to 2017;
- other personnel services are in line with 2017;
- other Terna and IPEX fees amounted to EUR 11,495 thousand in 2018, up compared to 2017 mainly as a result of more specific classification with the subject item;
- in 2017, the item "Futures, swaps and CFD charges" reflected the effect of changes for hedging transactions completed, which in 2018 were more specifically classified as adjustments to the item "Purchase costs".

## Leasing costs (EUR 1 899 thousand)

(EUR thousand)	2018	2017
Rent expenses	365	486
Lease expenses	317	392
Royalties	5	5
Rents and leases	1,211	1,174
<b>Total</b>	<b>1,899</b>	<b>2,057</b>

Leasing costs mainly refer to rent expense on warehouses, fees and leasing costs for automobiles and trucks.

## Employee costs (EUR 29,547 thousand)

Employee costs relate to the total costs of 371 employees during the year (371 at the end of the year).

(EUR thousand)	2018	2017
Salaries and wages	20,185	19,364
Social security contributions	6,181	6,038
Employees' severance indemnities	1,275	1,248
Other costs	1,906	1,280
<b>Total</b>	<b>29,547</b>	<b>27,930</b>

The following shows the breakdown of the Company's personnel:

	2018	2017
Executives	14	12
Managers	57	53
Staff	157	159
Blue collar - Intermediate workers	143	147
<b>Total</b>	<b>371</b>	<b>371</b>

## Amortisation, depreciation and write-downs (EUR 1,763 thousand)

(EUR thousand)	2018	2017
Amortisation of intangible assets	1,272	1,319
Depreciation of property, plant and equipment	491	450
<b>Total</b>	<b>1,763</b>	<b>1,769</b>

Amortisation of the intangible assets refers to the other intangible fixed assets, especially the software used to carry out the activities and the goodwill generated by the merger.

In 2018, following verification of the collectability of receivables from third-party customers, it was not necessary to carry out any write-downs of receivables.



### Change in inventories of raw, ancillary and consumable materials and goods (EUR -923 thousand)

The item refers for EUR 1,376 thousand to the change in inventories of spare parts, acquired in order to conduct maintenance activities on the wind aerogenerators for the wind subsidiaries. The write-down at 31 December 2018, equal to EUR 453 thousand, is calculated based on an analysis of the turnover ratio of spare parts and is aimed at handling a possible decline in functionality of the spare parts.

### Other management expenses (EUR 2,084 thousand)

(EUR thousand)	2018	2017
Other charges from Group companies	812	384
Municipal property tax	6	6
Other duties and taxes	116	141
Other management expenses	1,150	975
<b>Total</b>	<b>2,084</b>	<b>1,506</b>

### FINANCIAL INCOME AND EXPENSES (EUR 93,821 THOUSAND)

(EUR thousand)	2018	2017
Income from equity investments	83,264	68,204
Other financial income	11,731	16,470
Interest and other financial expenses	(1,320)	(1,952)
Gains and losses on foreign exchange	146	(7)
<b>Total</b>	<b>93,821</b>	<b>82,715</b>

## Income from equity investments (EUR 83,264 thousand)

In 2018, the Company collected dividends and the distribution of reserves from subsidiaries as outlined in the following table:

(EUR thousand)	2018	2017
<b>Distribution of dividends</b>		
ERG Eolica San Vincenzo S.r.l.	4,842	4,487
ERG Eolica Basilicata S.r.l.	1,463	2,412
ERG Eolica San Ciro S.r.l.	5,443	3,521
ERG Eolica Campania S.p.A.	963	4,852
ERG Eolica Adriatica S.r.l.	9,713	5,176
ERG Eolica Fossa del Lupo S.r.l.	-	4,000
Green Vicari S.r.l.	1,000	483
ERG Eolica Faeto S.r.l.	500	1,453
ERG Hydro S.r.l.	30,297	37,640
ERG France Sarl	176	-
	<b>54,397</b>	<b>64,024</b>
<b>Distribution of reserves</b>		
ERG Eolica Adriatica S.r.l.	-	4,180
ERG Wind Bulgaria S.p.A.	2,000	-
	<b>2,000</b>	<b>4,180</b>
<b>Other income</b>		
Brockaghboy Wind Park Limited	26,867	-
	<b>26,867</b>	<b>-</b>
<b>TOTAL</b>	<b>83,264</b>	<b>68,204</b>

## Other income (EUR 11,731 thousand)

The item comprises the following:

- financial income of EUR 11,634 thousand from interest income on loans granted to subsidiaries,
- interest income from the parent company for EUR 9 thousand,
- interest income from third parties, mainly due to payment extensions, and from the tax authorities for EUR 88 thousand.

## Interest and other financial charges (EUR -1,320 thousand)

(EUR thousand)	2018	2017
Financial charges due to subsidiaries	603	884
Financial charges due to parent companies	650	965
<b>Expenses due to others:</b>		
Interest payable to banks	-	-
Other expenses	68	102
<b>Total</b>	<b>1,320</b>	<b>1,952</b>

\*Financial charges due to subsidiaries\* include interest payable to subsidiaries.

"Financial charges due to parent companies" refer to the interest accrued up to 31 December 2018 on the cash pooling zero balance current account with the parent company ERG S.p.A.

Gains and losses on foreign exchange (EUR 146 thousand)

This item mainly includes the impact of exchange rate differences during the period.

## VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES (EUR -1,574 THOUSAND)

(EUR thousand)	2018	2017
Revaluation of derivative financial instruments	9,963	1,284
Allocation to provision for losses on investments	(550)	(996)
Write-downs of derivative financial instruments	(10,988)	(488)
<b>Total</b>	<b>(1,574)</b>	<b>(200)</b>

The items "Revaluation of derivative financial instruments" and "Write-downs of derivative financial instruments" include the changes in fair value of the derivative instruments open at 31 December 2018, as well as the changes in fair value achieved during 2018 with regard to the non-hedging financial derivatives.

The item "Allocation to provision for losses on investments" reflects the write-down generated by potential charges arising from the settlement of a dispute with a developer of the subsidiary company Troina in liquidation.

## INCOME TAXES FOR THE YEAR (EUR 13,628 THOUSAND)

(EUR thousand)	2018	2017
Current income taxes - IRES	14,419	6,397
Deferred tax assets	(958)	307
Taxes from previous year	167	250
<b>Total</b>	<b>13,628</b>	<b>6,954</b>

The current IRES (Corporate tax) account from consolidation highlights a positive amount, as it includes the transfer to ERG's tax consolidation of the tax loss (EUR 8,100 thousand) and the ACE benefit accrued for 2018 (EUR 6,319 thousand).

Also note that no IRAP amount is due, as the taxable income for this tax is negative.

Use of the deferred tax assets was generated by use of the provisions to which they were allocated, for EUR 958 thousand.

The table below shows the reconciliation between the theoretical tax charges and the reported charges

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

<b>IRES</b>		
Profit (loss) before taxes	47,025	
Theoretical taxation (24%)		11,286
Impact of permanent tax changes	(78,033)	
Taxable IRES income	(31,008)	
IRES rate (24%)		(7,442)
<b>IRES reported</b>		<b>(7,442)</b>
<b>IRAP</b>		
Difference between production costs and revenues	(45,187)	
Costs and revenues not relevant for IRAP purposes	29,547	
<b>Theoretical taxable income for IRAP purposes</b>	<b>(15,640)</b>	
<b>Theoretical tax charge (tax rate 4.82%)</b>		<b>(754)</b>
Impact of permanent tax changes	(17,470)	
Taxable IRAP income	(33,110)	
<b>IRAP rate (4.82%)</b>		<b>(1,596)</b>
<b>IRAP reported</b>		<b>0</b>
Changes in deferred tax assets with current income taxes at zero		300
Adjustments of taxes from previous years		(168)
ACE benefit transfer, tax consolidation		(6,318)
<b>Total income taxes as reported in the financial statements</b>		<b>(13,628)</b>

## COMMITMENTS AND GUARANTEES AND CONTINGENT LIABILITIES NOT INDICATED IN THE STATEMENT OF FINANCIAL POSITION

### Guarantees in favour of group companies (EUR 9,966 thousand)

As a result of the merger of ERG Renew S.p.A. into ERG Power Generation S.p.A., the latter acquired ownership of the guarantees issued in favour of companies of the wind group, particularly Government Agencies, for restoration of the wind farm areas at the end of the electricity generation activity. Mention also goes to two contractual guarantees issued in favour of third parties for payment of the variable portion of the purchase price of the business unit.

### Sureties in favour of third parties issued on credit lines of the parent company (EUR 40,672 thousand)

These regard sureties issued by ERG Power Generation S.p.A. in favour of third parties, guaranteed by the direct parent company ERG S.p.A.

These are mainly counterparties with which commercial dealings were carried out, as well as a guarantee in favour of the Italian electricity market operator (GME) directed at allowing operations on said market.

### Collateral (EUR 114 thousand)

This item regards collateral dating back to the year 2012 for pledges on Power.

## DISCLOSURE ON THE FAIR VALUE OF THE FINANCIAL INSTRUMENTS IN ACCORDANCE WITH ARTICLE 2427-BIS OF THE CIVIL CODE

The Company uses certain derivative instruments as part of Group policy to minimise the risks relating mainly to credit, market, liquidity and operational risks.

The following table shows the derivative financial instruments used by the Company at 31 December 2018

(EUR thousand)		31/12/2018			31/12/2017	
Type of contract		Underlying financial risk	MWh/ thousands	FV	MWh/ thousands	FV
Contract for Difference	Thousands of MWh	Electricity purchase price risk	15	(0)	283	(103)
Impact on Income Statement				-		38
Impact on shareholders' equity				(0)		(142)
Commodities swap	Thousands of MWh	GAS purchase price risk	2,014	(1,654)	1,118	525
Impact on Income Statement				0		17
Impact on shareholders' equity				(1,654)		509
Commodities Futures	Thousands of MWh	Electricity sale price risk	6,284	(24,014)	1,661	(721)
Impact on Income Statement				(206)		753
Impact on shareholders' equity				(23,808)		(1,474)
Total				(25,668)		(299)

### Electricity price risk hedging swap

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

### Electricity price risk hedging CFD

CFD (Contract for Difference) transactions to hedge the risk of fluctuation in the price of electricity with respect to forward agreements for the purchase and sale of electricity. These are contracts whereby the parties undertake to liquidate, at a certain date, the difference between the price agreed and the market price of the reference period

### Futures

Futures transactions are fixed-term, standardised contracts. These are contracts whereby two parties agree to exchange, at a future date, a certain asset at a price determined upon stipulation of the contract

The fair value is calculated based on the estimate of future cash flows, discounted at the measurement date (Discounted Cash Flow Model). The estimate of variable future prices is carried out on the basis of forward prices of the commodities

The measurement techniques used are based exclusively on parameters such as spot and forward price, interest rates and commodity price directly observable on the market.

#### Other information required by Articles 2427 and 2427-bis of the Italian Civil Code

- No transactions subject to the obligation of retrocession upon completion were carried out (Article 2427, no. 6-ter),
- No financial expenses were posted to the asset values of the Statement of Financial Position during the year (Article 2427, no. 8),
- No bonus shares, bonds convertible into shares or securities or other similar instruments were issued (Article 2427, no. 18),
- No assets were allocated to a specific business (Article 2427, no. 20), and no loans were granted or stipulated with regard to a specific business (Article 2427, no. 21);
- No finance lease transactions involving the transfer to the lessee of the predominant portion of risks and benefits of the underlying asset were carried out (Article 2427, no. 22);
- Transactions with related parties (Article 2427, no. 22-bis) are illustrated in the next paragraph;
- There are no known agreements whose effects are not mentioned in the Statement of Financial Position (Article 2427, no. 22-ter).

### OTHER INFORMATION - DISCLOSURE OBLIGATIONS PERTAINING TO LAW NO. 124/2017 OF 4 AUGUST 2017

Art. 1, paragraph 125 of Law no. 124 of 4 August 2017 introduced the obligation for companies that receive financial contributions from public administrations to publish the amounts received in their Explanatory Notes and in the Consolidated financial statements, if these are drawn up. This provision raised a number of interpretation doubts with regard, among other things, to the type of disbursement that must be disclosed. In this regard, the company noted the position adopted by Assonime in Circular No. 5 of 22 February 2019, according to which, by adopting a systematic interpretation of aforementioned Art. 1, paragraph 125, the obligation to publish relates only to disbursements of an "individual" nature. Although Assonime's position is widely acceptable, pending a more general interpretation of the law in question and given the importance of the possible consequences of non-compliance with the aforementioned disclosure obligation, the company has decided to indicate in these financial statements the economic contributions received from public administrations that can be used by all companies and that fall within the general structure of the reference system defined by the State (such as energy account, energy efficiency certificates, etc.), except for those belonging to the following categories:

- tax incentives;
- training grants received from inter-professional funds (such as Fondimpresa), as funds having the associative form and legal nature of private entities, which are financed by contributions paid by the entities themselves.

In accordance with the provisions of Article 3-quater of Italian Law Decree no. 135/2018, for any funds received, please refer to the indications contained in the National Register of State Aid under Article 52 of Law no. 234 of 24 December 2012.

Type of contribution	Disbursing party	Revenue recorded in 2018 (EUR thousand)	Collection in 2018 (EUR thousand) (*)
White Certificates	GSE	25,478	27,245

(\*) note that the subject certificates in 2018 (relative to 2017) were sold and therefore collected by third parties

## RELATIONS WITH PARENT COMPANIES, SUBSIDIARIES, ASSOCIATES, COMPANIES CONTROLLED BY THE PARENT COMPANIES AND OTHER RELATED PARTIES

The main relations between the Company and the companies that form part of the ERG Group are set out below, with transactions settled on an arm's length basis.

*Intra-group relations in 2018 refer to Company operations*

In particular, the Company received from parent company ERG S.p.A. debits for compensation due to directors who are employees of the parent company, for services as well as for the cash pooling zero contract.

The payable due to subsidiary ERG Power S.r.l. refers to the tolling contract, while the receivable mainly refers to operation and maintenance services under the Operation & Maintenance contract, as well as the service agreement.

The trade payable due to ERG Hydro S.r.l. refers to the contract for the purchase of electricity produced, while the financial payable mainly regards financing for the centralised treasury agreement.

The trade receivables from wind companies mainly regard the O&M and BoP maintenance contracts.

The trade payables to wind companies mainly regard contracts for the purchase of electricity produced by the SPV.

Financial assets and liabilities refer to existing loan agreements between the Company and the wind companies.

Starting from 2016, the Company became the sole supplier for companies of the group with respect to electricity users.

The table below summarises the financial and equity items for the year 2018 with Group Companies.



	Revenue			Costs		
	Sales and services	Other revenue	Financial income	Purchases	Costs for services and other costs	Financial expenses
<b>Subsidiaries</b>						
ERG Eolica San Vincenzo S.r.l.	1,296	12	-	(3,593)	-	(56)
ERG Eolica San Ciro S.r.l.	1,214	-	-	(3,173)	(42)	(86)
ERG Eolica Faeto S.r.l.	1,072	-	-	(2,600)	-	-
ERG Eolica Ginestra S.r.l.	1,399	12	530	(3,780)	-	-
ERG Eolica Tirreno S.r.l.	16	-	-	-	-	-
Green Vicari S.r.l.	1,320	-	-	(4,242)	-	-
ERG Eolica Basilicata S.r.l.	1,088	-	-	(4,431)	-	-
ERG Eolica Fossa del Lupo S.r.l.	3,044	-	413	(10,089)	-	-
ERG Eolica Calabria S.r.l.	16	-	0	-	-	-
ERG Power S.r.l.	13,841	-	-	-	(97,791)	-
ERG Eolica Adriatica S.r.l.	3,986	-	-	(12,803)	-	-
ERG Eolica Campania S.p.A.	3,981	-	137	(13,489)	(790)	-
ERG Eolica Amaroni S.r.l.	1,063	-	142	(2,506)	-	-
ERG Wind Investments Limited	200	-	-	-	-	(140)
ERG Wind Holdings (Italy) S.r.l.	18,930	156	-	(99)	(109)	-
ERG Wind Sardegna S.r.l.	36	-	-	-	-	-
ERG Wind Sicilia 6 S.r.l.	25	-	-	(2,936)	-	-
ERG Wind 4 S.r.l.	1,013	-	-	(1,296)	-	-
ERG Wind Leasing 4 S.r.l.	1	-	-	-	-	-
ERG Wind 6 S.r.l.	56	-	-	(3,238)	-	-
ERG Wind Sicilia 2 S.r.l.	43	-	-	-	-	-
ERG Wind Sicilia 3 S.r.l.	18	-	-	(2,068)	-	-
ERG Wind Sicilia 4 S.r.l.	21	-	-	-	-	-
ERG Wind Sicilia 5 S.r.l.	53	-	-	-	-	-
ERG Wind 2000 S.r.l.	90	-	-	-	-	-
ERG Wind MEG 4 LLP	-	-	-	(69)	-	-
ERG Wind Energy S.r.l.	9	-	-	(45,920)	-	-
EW Orneta 2 Sp. z o.o.	10	-	1,527	-	-	-
Hydro Inv. (PL)	10	-	-	-	-	-
Slupia (PL)	10	-	-	-	-	-
ERG Wind France 1	-	-	482	-	-	-
Evishagaran WF Ltd.	-	38	21	-	-	-
Sandy Knove Wind	-	-	20	-	-	-
ERG Wind Park Beteiligungs GmbH	-	-	1,325	-	-	-
ERG wind 105 GmbH	-	-	322	-	-	-
ERG Wind French Holdings S.a.s.	-	-	528	-	-	-
ERG Germany GmbH	175	64	19	-	-	-
ERG France S.a.r.l.	340	79	-	(9)	(0)	-
Voltwerk Energy Park 8 GmbH	-	-	116	-	-	-
Voltwerk Windpark Worbzig GmbH	-	-	21	-	-	-
Voltwerk Windpark Beesenstedt GmbH	-	-	1	-	-	-
Windpark Cottbuser Halde GmbH	-	-	30	-	-	-
ERG Hydro S.r.l.	10,251	-	-	(105,145)	-	(321)
Brockaghboy (UK)	-	-	295	-	-	-
Corni Eolian	30	-	2,403	-	-	-
Globo Energy EOOD	3	-	-	-	-	-

	Revenue			Costs		
	Sales and services	Other revenue	Financial income	Purchases	Costs for services and other costs	Financial expenses
K&S Energy EOOD	3	-	-	-	-	-
K&S Energy 1 EOOD	6	-	-	-	-	-
K&S Energy 2 EOOD	6	-	-	-	-	-
Mark 1 EOOD	4	-	-	-	-	-
Mark 2 EOOD	4	-	-	-	-	-
VG 1 EOOD	3	-	-	-	-	-
VG 2 EOOD	6	-	-	-	-	-
VG 3 EOOD	6	-	-	-	-	-
VG 4 EOOD	6	-	-	-	-	-
VG 5 EOOD	6	-	-	-	-	-
VG 6 EOOD	6	-	-	-	-	-
Wind Park Kavarna Est	6	-	-	-	-	-
Wind Park Kavarna Ovest	6	-	-	-	-	-
WP Bulgaria 4 EOOD	4	-	2	-	-	-
ERG Wind Bulgaria S.p.A	16	-	1	-	-	-
ERG Eolienne France (NEW)	-	-	958	-	-	-
ERG Solar Holding S.r.l.	7	-	-	-	-	-
ERG Solar Holding 1 S.r.l.	8	-	1,031	-	-	-
Calabria Solar S.r.l.	80	-	-	-	-	-
ERG Solar Campania S.r.l.	23	-	-	-	-	-
ERG Solar Marche 1 S.r.l.	9	-	-	-	-	-
ERG Solar Marche 2 S.r.l.	6	-	-	-	-	-
ERG Solar Piemonte 1 S.r.l.	22	-	287	-	-	-
ERG Solar Piemonte 2 S.r.l.	7	-	84	-	-	-
ERG Solar Piemonte 3 S.r.l.	24	-	336	-	-	-
ERG Solar Piemonte 4 S.r.l.	5	-	57	-	-	-
ERG Solar Piemonte 5 S.r.l.	18	-	233	-	-	-
ERG Solar Puglia 1 S.r.l.	16	-	-	-	-	-
ERG Solar Puglia 2 S.r.l.	30	-	-	-	-	-
ERG Solar Puglia 3 S.r.l.	20	-	-	-	-	-
ERG Solar Sicilia S.r.l.	17	-	-	-	-	-
Heliospower 1 S.r.l.	17	-	-	-	-	-
Longiano Solar S.r.l.	11	-	-	-	-	-
SR05 S.r.l.	16	-	-	-	-	-
WP France 6	-	-	138	-	-	-
IE Solare (New)	12	-	14	-	-	-
ERG Wind Park Linda	-	-	149	-	-	-
Creagg Riabhach	-	-	12	-	-	-
<b>Associates</b>						
Prolo Servizi S.C.p.A	13,017	102	-	-	-	-
<b>Parent companies</b>						
ERG S.p.A	76	-	9	-	(35,715)	(650)

	Receivables			Payables		
	Trade	Other	Financial	Trade	Other	Financial
<b>Subsidiaries</b>						
ERG Eolica San Vincenzo S.r.l.	288	-	-	(652)	-	(8,994)
ERG Eolica San Ciro S.r.l.	263	-	-	(554)	-	(10,004)
ERG Eolica Faeto S.r.l.	370	-	-	(451)	-	-
ERG Eolica Ginestra S.r.l.	329	165	37,320	(644)	-	-
ERG Eolica Tirreno S.r.l.	431	-	-	-	-	(213)
Green Vican S.r.l.	248	-	-	(1,034)	-	-
ERG Eolica Basilicata S.r.l.	707	-	-	(849)	-	-
ERG Eolica Fossa del Lupo S.r.l.	444	-	10,794	(1,651)	-	-
ERG Eolica Calabria S.r.l.	6	-	15	-	-	-
ERG Power S.r.l.	2,288	-	-	(17,523)	-	-
ERG Eolica Adriatica S.r.l.	754	-	-	(2,343)	-	-
ERG Eolica Campania S.p.A.	624	-	-	(3,628)	-	-
ERG Eolica Amaroni S.r.l.	169	-	6,659	(381)	-	-
ERG Wind Investments Limited	61	-	-	-	-	(71,149)
ERG Wind Holdings (Italy) S.r.l.	793	-	-	(12)	(28)	-
ERG Wind Sardegna S.r.l.	(10)	-	-	-	-	-
ERG Wind Sicilia 6 S.r.l.	4	-	-	(641)	-	-
ERG Wind 4 S.r.l.	114	-	-	(241)	-	-
ERG Wind Leasing 4 S.r.l.	1	-	-	-	-	-
ERG Wind 6 S.r.l.	7	-	-	(682)	-	-
ERG Wind Sicilia 2 S.r.l.	1	-	-	-	-	-
ERG Wind Sicilia 3 S.r.l.	1	-	-	(495)	-	-
ERG Wind Sicilia 4 S.r.l.	2	-	-	-	-	-
ERG Wind Sicilia 5 S.r.l.	3	-	-	-	-	-
ERG Wind 2000 S.r.l.	40	-	-	-	-	-
ERG Wind MEG 4 LLP	-	-	-	(69)	-	-
ERG Wind Energy S.r.l.	1	-	-	(9,841)	(241)	-
EW Ormeta 2 Sp. z o o.	-	0	51,143	-	-	-
Hydro Inv. (PL)	1	2	-	-	-	-
ERG Wind France 1	0	-	24,604	-	-	-
Evishagaran WF Ltd	39	220	1,108	-	-	-
Sandy Knove Wind	5,770	-	919	-	-	-
ERG Wind Park Beteiligungs GmbH	-	-	46,545	-	-	-
ERG wind 105 GmbH	-	-	11,403	-	-	-
ERG Wind French Holdings S.a.s.	-	-	26,178	-	-	-
ERG Germany GmbH	70	164	1,247	(0)	-	-
ERG France S.ar.l.	217	8	400	(59)	-	-
Voltwerk Energy Park 8 GmbH	-	-	4,067	-	-	-
Voltwerk Windpark Worbzig GmbH	-	-	255	-	-	-
Voltwerk Windpark Beesenstedt GmbH	-	-	-	-	-	(457)
Windpark Cottbuser Halde GmbH	-	-	1,081	-	-	-
ERG Hydro S.r.l.	2,625	-	-	(16,409)	-	(254,156)
Corni Eolian	8	3	64,936	-	-	-
Globo Energy EOOD	5	-	(0)	-	-	-
K&S Energy EOOD	5	-	-	-	-	-
K&S Energy 1 EOOD	9	-	-	-	-	-
K&S Energy 2 EOOD	9	-	-	-	-	-

	Receivables			Payables		
	Trade	Other	Financial	Trade	Other	Financial
Mark 1 EOOD	6	-	(0)	-	-	-
Mark 2 EOOD	6	-	-	-	-	-
VG 1 EOOD	5	-	-	-	-	-
VG 2 EOOD	9	-	-	-	-	-
VG 3 EOOD	9	-	-	-	-	-
VG 4 EOOD	9	-	-	-	-	-
VG 5 EOOD	9	-	-	-	-	-
VG 6 EOOD	9	-	-	-	-	-
Wind Park Kavarna Est	9	-	-	-	-	-
Wind Park Kavarna Ovest	9	-	-	-	-	-
WP Bulgaria 4 EOOD	6	-	-	-	-	-
ERG Wind Bulgaria S.p.A	333	-	2,000	-	-	-
ERG Eolienne France (NEW)	4	-	21,094	-	-	-
ERG Solar Holding S.r.l	7	-	-	-	-	-
ERG Solar Holding 1 S.r.l	8	-	34,664	-	-	-
Catania Solar S.r.l.	80	-	-	-	-	-
ERG Solar Campania S.r.l	23	-	-	-	-	-
ERG Solar Marche 1 S.r.l	9	-	-	-	-	-
ERG Solar Marche 2 S.r.l	6	-	-	-	-	-
ERG Solar Piemonte 1 S.r.l.	22	-	18,957	-	-	-
ERG Solar Piemonte 2 S.r.l.	7	-	5,654	-	-	-
ERG Solar Piemonte 3 S.r.l.	24	-	22,545	-	-	-
ERG Solar Piemonte 4 S.r.l.	5	-	3,837	-	-	-
ERG Solar Piemonte 5 S.r.l	18	-	15,623	-	-	-
ERG Solar Puglia 1 S.r.l	16	21	-	-	-	-
ERG Solar Puglia 2 S.r.l	34	-	-	-	-	-
ERG Solar Puglia 3 S.r.l.	20	-	-	-	-	-
ERG Solar Sicilia S.r.l	17	-	-	-	-	-
Heliospower 1 S.r.l	17	-	-	-	-	-
Longiano Solar S.r.l	11	-	-	-	-	-
SR05 S.r.l	16	-	-	-	-	-
WP France 6	-	-	16,658	-	-	-
EPURON S.a.s	0	0	-	-	-	-
IE Solare (New)	11	-	375	-	-	-
ERG Wind Park Linda	-	-	7,630	-	-	-
Creagg Rablach	-	-	1,629	-	-	-
<b>Associates</b>						
Priolo Servizi S.C.a.r.l	1,325	-	-	-	-	-
<b>Parent companies</b>						
ERG S.p.A	1,222	15,660	3	(933)	-	(7,238)
<b>Companies subject to control by parent companies</b>						
Sandy Knove Wind	-	(114)	-	-	-	-
ERG Germany GmbH	-	-	0	-	-	-
ERG France S.r.l.	-	-	(0)	-	-	-

## OPERATING RESULTS

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The financial statements for the year ended 31 December 2018 close with a profit of EUR 60,687 thousand, after taxes of EUR 13,628 thousand.

ESSENTIAL FIGURES FROM THE MOST RECENT FINANCIAL STATEMENTS OF ERG S.P.A., WHICH CARRIES OUT THE MANAGEMENT AND COORDINATION OF ERG POWER GENERATION S.P.A.

## STATEMENT OF FINANCIAL POSITION

(EUR thousand)	31/12/2017
<i>Intangible fixed assets</i>	3,234
Property, plant and equipment	10,554
Equity investments	1,736,098
Other financial assets	98,760
Deferred tax assets	16,100
Other non-current assets	2,977
<b>Non-current assets</b>	<b>1,867,724</b>
Trade receivables	3,306
Other current receivables and assets	80,428
Current financial assets	11,104
Cash and cash equivalents	661,970
<b>Current assets</b>	<b>756,808</b>
<b>Assets held for sale</b>	<b>179,543</b>
<b>TOTAL ASSETS</b>	<b>2,804,075</b>
<b>Shareholders' Equity</b>	<b>1,642,817</b>
Employees' severance indemnities	1,628
Deferred tax liabilities	1,465
Provisions for risks and charges - non-current portion	81,493
Non-current financial liabilities	715,461
Other non-current liabilities	10,243
<b>Non-current liabilities</b>	<b>810,291</b>
Provisions for risks and charges - current portion	8,037
Trade payables	58,585
Current financial liabilities	190,698
Other current liabilities	93,647
<b>Current liabilities</b>	<b>350,967</b>
<b>TOTAL LIABILITIES</b>	<b>2,804,075</b>

## INCOME STATEMENT

(EUR thousand)	2017
Revenue from sales and services	37,939
Other revenue and income	2,043
Costs for purchases	(231)
Costs for services and other costs	(33,932)
Personnel expense	(32,058)
<b>GROSS OPERATING PROFIT (EBITDA)</b>	<b>(26,239)</b>
<b>Amortisation, depreciation and impairment of non-current assets</b>	<b>(2,980)</b>
Financial income	8,316
Financial expense	(12,865)
<b>Net financial income (expense)</b>	<b>(4,549)</b>
Net gains (losses) on equity investments	(167)
<b>Net gains (losses) on equity investments</b>	<b>(167)</b>
<b>PROFIT (LOSS) BEFORE TAXES</b>	<b>(33,935)</b>
Income taxes	8,236
<b>NET PROFIT (LOSS) FROM CONTINUING OPERATIONS</b>	<b>(25,700)</b>
Net income from assets held for sale	49,670
<b>PROFIT FOR THE YEAR</b>	<b>23,970</b>

## SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

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On 11 January 2019, the ERG Group, through the company ERG Power Generation S.p.A., acquired from Soles Montalto GmbH, 78.5% of Perseo S.r.l., owner of 100% of Andromeda PV S.r.l., which in turn manages two photovoltaic plants with a total installed capacity of 51.4 MW.

It was also agreed that Soles Montalto GmbH will remain minority shareholder, on the basis of shareholders' agreements that will guarantee ERG full industrial control of the asset and its line-by-line consolidation.

The transaction's closing date was 12 February 2019.





Proposal by the  
Board of Directors

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## PROPOSAL BY THE BOARD OF DIRECTORS

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*Dear Shareholders,*

We would like to conclude this report by calling upon you:

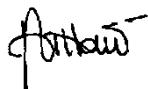
- to approve your company's annual financial statements for the period ended 31 December 2018, which closed with a net profit of EUR 60,686,815.16;
- to resolve in favour of the allocation of EUR 3,034,340.76 to the legal reserve;
- to carry forward the residual profit for the year, amounting to EUR 57,652,474.40

Genoa, 5 March 2019

on behalf of the Board of Directors

*The Chief Executive Officer*

Pietro Tittoni



## REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING FOR THE APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018, PURSUANT TO ARTICLE 2429.2 OF THE ITALIAN CIVIL CODE

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To the Shareholders' meeting of ERG Power Generation S.p.A.

During the year ended 31 December 2018 we carried out the supervisory activities assigned to the Board of Statutory Auditors, pursuant to Article 2403 of the Italian Civil Code and Italian Legislative Decree No. 58/98 insofar as applicable, according to the Standards of conduct for Boards of statutory auditors in companies controlled by companies with shares listed on organised markets, issued by the Italian Accounting Profession Boards, also taking into account the specific legislation applicable.

The Board formally acknowledges that it has been able to check the observance of the legal and regulatory provisions

With reference to the main activities carried out by the Company during 2018:

- on 12 January 2018, ERG Power Generation S.p.A. finalised the acquisition from VEI Green S.r.l. - the investment holding company controlled by PFH S.p.A. and invested in by leading Italian institutional investors - of 100% of ForVei S.r.l., the ninth leading photovoltaic operator in Italy with total installed capacity of 89 MW and annual production of around 136 GWh. The transaction marked the entry of ERG into the solar market and represents an additional and important chapter in the strategy for technological diversification in generation from renewable sources;
- on 21 March 2018, ERG Power Generation S.p.A., via its subsidiary ERG Eolienne France S.a.s., finalised the acquisition from Vent d'Est S.a.s. and Renvico France S.a.s. of 75% of the share capital of two companies which are owners of two wind farms for an overall capacity of 16.25 MW (on 3 August 2018 ERG Power Generation S.p.A., via its subsidiary ERG Eolienne France S.a.s., acquired the remaining 25% of the share capital);
- on 15 May 2018, the acquisition from Impax New Energy Holding Cooperatief W.A., a company incorporated under Dutch law owned by Impax New Energy Investors II, of the following was finalised:
  - Parc Eolien du Melier S.a.s., owner of an 8 MW wind farm, with estimated production of around 23 GWh;
  - Parc Eolien de la Vallée de Torfou S.a.s., owner of an 18 MW wind farm under construction, with average estimated production of 48 GWh, which was commissioned at the end of 2018;

- Euron Energies Renouvelables S.a.s., owner of a pipeline of around 750 MW
- On 27 April 2018, ERG Power Generation S.p.A. finalised an agreement with Global Wind Power France, a company of the Global Wind Power Europe and Fred Olsen Renewables group, for the acquisition from Wind 1019 GmbH of 100% of the capital of WP France 10 S.a.s., a company owning the rights, permits and authorisations for the project involving a 6.9 MW wind farm. The project has already obtained all the necessary authorisations for construction, the connection to the network is envisaged for the fourth quarter of 2021 and the commissioning by the end of December 2021;
- On 1 August 2018, ERG Power Generation S.p.A. finalised the acquisition of 100% of Creag Riabhach Wind Farm Ltd, a Scottish company, holder of the authorisations for the construction of a wind farm in Scotland, north of Inverness in the county of Sutherland. The farm will comprise 22 turbines for an authorised capacity of 79.2 MW and estimated power generation - when fully up and running - of around 250 GWh a year, equal to more than 3,000 equivalent hours and around 147 kt of CO<sub>2</sub> emissions avoided;
- ERG Power Generation S.p.A. and E.ON Energia S.p.A. signed an outline agreement for the three-year supply of electricity intended for the Italian market, renewable for an additional year. The agreement envisages the supply, by ERG to E.ON, of a total volume of electricity of up to about 3TWh in the three year period 2019-21, which will meet the needs of a clientele increasingly sensitive to environmental sustainability;
- we held 6 meetings of the Board of Statutory Auditors and we took part in the Shareholders' meeting and all the Board meetings, overseeing the observance of the statutory, legislative and regulatory provisions, which discipline the functioning of the Company's bodies;
- we obtained from the Directors, at least quarterly, information on the activities carried out by the Company overall and on the transactions of greatest economic, financial and equity importance, ascertained that the action resolved and implemented was compliant with the law and the Articles of Association and was not manifestly imprudent or hazardous, in potential conflict of interest or in contrast with the resolutions adopted by the Shareholders' meeting or such as to compromise the integrity of the company assets;
- we checked the legitimacy of the operational choices made by the Management Body and their economic suitability, with exclusion of the check with regard to merit on their appropriateness and expedience;
- we oversaw the suitability of the internal control system, structured at Group level and constantly up-dated both within the parent company and in the subsidiaries. The Board of Statutory Auditors has taken due note - on the basis of the matters reported - of the positive assessment of the ERG S.p.A. Control and Risks Committee with regard to the adequacy of the overall internal control system, expressed in its annual report on the activities carried out in 2018;
- we oversaw the suitability of the organisational set-up and we report that as at 31 December 2018 ERG Power Generation S.p.A.'s workforce numbered 371 in total;
- we have taken due note of the joint meetings and in conclusion the report received from the Supervisory Body,

established in accordance with Italian Legislative Decree No. 231/01, revealed that no significant criticality has been detected during the year for the purposes of the implementation and effectiveness of the Organisation and Management Model,

- the administrative-accounting system, insofar as we have ascertained and checked by means of obtaining information from the Head of the company unit, the examination of company documents and the analysis of the results of the work performed by the Independent Auditing Firm, is able to correctly present the operating events,
- we have checked the promptness in providing the parent company with both the information and data for drafting the financial statements and that required for fulfilling the communication obligations as per Article 114 and 115 of Italian Legislative Decree No. 58/98,
- we hereby reveal that, on a consistent basis with the Sustainability Policy adopted by the Group and in light of the "ONE Company" project, during 2018 ERG Power Generations S.p.A. took steps to acquit all the obligations and requirements for the purpose of pursuing the Sustainability Policy. ERG Power Generation S.p.A. has also defined its own Integrated Management System (IMS) being the series of "organisational structure, procedures, processes and resources necessary for implementing Management for the Environment and Safety", applicable to all the group technologies (Wind&Solar, Hydro and Thermo);
- during 2018, the ERG Power Generations S.p.A.'s Integrated Management Systems adopted by the Thermo, Hydro and Wind & Solar units, adjusted to the consolidated organisational set-up, were checked and unified under a single reference accreditation body (RINA), confirming all the current certifications of the Integrated Management Systems. The migration of the ISO 14001 (Environment) systems to the new 2015 review of the standard was also completed, while the changeover of the OGS.s 18001 Health and Safety systems to the new ISO 45001 standard was prepared

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During the supervisory activities, as described above:

- we did not come across any transaction which, due to its nature or size, is atypical or may be defined as unusual either with third parties or with group companies or related parties;
- we came across the existence of intercompany transactions and those with related parties of an ordinary nature, checking the existence and the observance of procedures suitable for ensuring that the transactions in question are duly documented, disciplined according to normal market conditions and meet the corporate interests, these transactions are suitably illustrated by the directors in the financial statements and the report on operations, to which reference is made; in particular, with regard to the intercompany service agreement, we have agreed on the approaches for the charge-back of costs;
- we have expressed our consent to the recognition of goodwill generated by the merger via incorporation of

ERG Renew Operations & Maintenance S.r.l. and ERG Renew S.p.A. in ERG Power Generation S.p.A., amounting to Euro 3,754 thousand, with an estimated useful life of ten years, whose residual value in the 2018 financial statements was Euro 3,003 thousand;

- no complaints were made by the shareholders pursuant to Article 2408 of the Italian Civil Code;
- we have not found any omissions or censurable facts or irregularities to be reported to the competent bodies or which would require mentioning in this Report.

Furthermore, we hereby reveal:

- the company is subject to the management and co-ordination of the parent company ERG S.p.A.; these activities involve both the definition of the business strategies, the indication of the strategic lines relating to the organisational aspects and the HR policies, as well as the management of the strategic finance and the group cash management, the tax-related problems especially with regard to planning, the communication policies, the policies concerning environment, health and safety and IT systems;
- the obligations regarding publication have been fulfilled as envisaged by Article 2497 bis of the Italian Civil Code; in particular, the decisions adopted within the sphere of the management and co-ordination of ERG S.p.A. have been indicated in the report on operations;
- the company participates in the national tax consolidation scheme, pursuant to Article 117 et seq. of the Income Tax Consolidation Act, together with ERG S.p.A., acting as consolidating body.

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The official audit of the accounts of the financial statements was carried out - as from the year in progress - by KPMG S.p.A., already appointed by the parent company ERG S.p.A. to audit its annual financial statements and consolidated financial statements.

During the year regular dealings took place with the Independent Auditing Firm, both by means of formal meetings in which the administration managers of the Company also took part, and by means of informal contact among the individual members of the Board of Statutory Auditors and representatives of the Independent Auditing Firm, for the purpose of a reciprocal exchange of significant data and information.

Maximum collaboration was always ascertained, also with regard to the preparatory activities for the annual financial statements, and no significant facts or aspects emerged worthy of mention.

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With regard in particular to the supervisory activities on the annual financial statements, the control of which was assigned to the independent auditing firm KPMG S.p.A., we hereby declare that:

- the legal provisions inherent to the formation, the layout of the financial statements and the report on operations have been observed. Furthermore, the adoption of the accounting standards based on the assumption of the company as a going-concern are deemed to be correct, by virtue of the matters illustrated in the report on operations with regard to the evolution of the company's activities, the financial statements schedule adopted and the accounting standards, described in the explanatory notes, are compliant with the provisions of the law and adequate in relation to the company's activities;
- as in the previous year, the company has drawn up the annual financial statements in accordance with the Italian accounting standards as most recently amended with the issuance of the new OICs at the end of 2015, for the purpose of filing care of the Companies' Register, what is more preparing the periodic reporting for the purpose of forwarding of the statement of financial position for the drafting of the interim statements and the consolidated financial statements of ERG S.p.A. in accordance with the IAS/IFRS international accounting standards;
- the financial statements are compliant with the facts and information which the Board of Statutory Auditors became aware of within the sphere of the exercise of its supervisory duties and its powers of control and inspection;
- the Report on operations complies with the requirements envisaged by Article 2428 of the Italian Civil Code and is consistent with the data and the results of the financial statements; in compliance with audit standard 720B, the Independent Auditing Firm certifies the compliance of the Report on operations with the provisions of the law and issues a declaration on any significant errors. Therefore, the Board of Statutory Auditors refers to the matters indicated by the Independent Auditing Firm in its report

The following are also illustrated in the Report on operations:

- the evolution of the pertinent legislative context during 2018, with reference to the aspects deemed to be of greatest interest or more directly relevant for the activities carried out, directly or indirectly, by the Company;
- the main risks and uncertainties to which the company is exposed, pursuant to Article 2428 of the Italian Civil Code

The explanatory notes adequately illustrate the change in the shareholders' equity items, with indication for each of the same of the possibility of use and distribution, as well as any restrictions of a tax-related nature.

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The Independent auditing firm, in its Report, issued in accordance with Articles 14 of Italian Legislative Decree No. 39 dated 27 January 2010 and 165 of Italian Legislative Decree No. 58 dated 24 February 1998, on 22 March 2019 expressed the opinion that *"the annual financial statements provide a true and fair view of the equity and financial situation of ERG Power Generation S.p.A. as at 31 December 2018, its economic result and the cash flows for the year ended as of that date in compliance with the Italian provisions which discipline the basis of presentation."*

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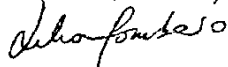
The Board of Directors, insofar as it is concerned, having duly noted the results of the annual financial statements for the year ended 31 December 2018 and the Report of the independent auditing firm on said financial statements, has no objection to make with regard to the approval of the financial statements and proposals formulated by the Directors in the Notes to the accounts.

Genoa, Italy, 22 March 2019

The Board of Statutory Auditors

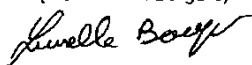
The Chairman of the Board

(Mr. Lelio Fornabaio)



Acting Auditor

(Ms. Luisella Bergero)



Acting Auditor

(Mr. Vincenzo Campo Antico)



## AUDITORS' REPORT



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(Translation from the Italian original which remains the definitive version)

### Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

To the sole shareholder of  
ERG Power Generation S.p.A.

#### Report on the audit of the financial statements

##### Opinion

We have audited the financial statements of ERG Power Generation S.p.A. (the "Company"), which comprise the balance sheet as at 31 December 2018, the profit and loss account and cash flow statement for the year then ended and notes thereto.

In our opinion, the financial statements give a true and fair view of the financial position of ERG Power Generation S.p.A. as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the Italian regulations governing their preparation.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report. We are independent of ERG Power Generation S.p.A. in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Other matters

As required by the law, the Company disclosed the key figures from the latest financial statements of the company that manages and coordinates it in the notes to its own financial statements. Our opinion on the financial statements of ERG Power Generation S.p.A. does not extend to such data.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di enti e società affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

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Pescucci Roma Torino Trieste  
Tommaso Varese Venezia



ERG Power Generation S.p.A.  
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The Company's 2017 financial statements were audited by other auditors, who expressed their unqualified opinion thereon on 26 March 2018

**Responsibilities of the Company's directors and board of statutory auditors ("Collegio Sindacale") for the financial statements**

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the Italian regulations governing their preparation and, in accordance with the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The Collegio Sindacale is responsible for overseeing, within the terms established by the Italian law, the Company's financial reporting process.

**Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;



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- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### Report on other legal and regulatory requirements

##### *Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10*

The directors of ERG Power Generation S.p.A. are responsible for the preparation of the directors' report at 31 December 2018 and for the consistency of such report with the related financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the Company's financial statements at 31 December 2018 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the Company's financial statements at 31 December 2018 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Genoa, 22 March 2019

KPMG S.p.A.

(signed on the original)

Luisa Polignano  
Director of Audit



**ERG POWER GENERATION S.P.A.**

**REGISTER OFFICE**

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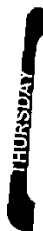
PEC [ergpowergeneration@legalmail.it](mailto:ergpowergeneration@legalmail.it)

Share Capital EUR 100.000.000,00 fully paid

R.E.A. Genoa n. 472583

Company Register Genoa,

Fiscal Code and VAT 01440590899



COMPANIES HOUSE

ERG S.p.A. - March 2019

This publication is available in pdf format at  
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