



ERG Hydro

Directors' Report and Financial Statements

as at 31 December 2020

We are #SDGsContributors

CONTENTS

1 DIRECTORS' REPORT

Corporate Bodies.....	4
Company description	5
Strategy.....	6
Key operating and financial data	7
Business segment.....	8
Operating data	9
Production plants	10
Concessions	12
Capital expenditure	14
Feed-in premium (formerly GC) for the "IAFR" plants	15
Significant events during the year	16
Regulatory framework: main changes	17
Management and coordination	24
Risks and uncertainties.....	25
Health, Safety and Environment	40
Privacy.....	43
Human Resources	44
Financial Statements.....	45
Relations with parent companies, subsidiaries, associates and companies subject to control by parent companies	50
Branch offices and offices	51
Research and development activities	52
Business outlook	52

2 FINANCIAL STATEMENTS

Statement of Financial Position.....	54
Income Statement	58
Statement of Cash Flows	61
Notes to the 2020 Financial Statements	63
Analysis of the Statement of Financial Position	76
Income Statement Analysis.....	91
Commitments and Guarantees	97
Disclosure obligations pertaining to Italian Law no. 124/2017 of 4 August 2017	98
Other information required by Articles 2427 and 2427-bis of the Italian Civil Code	99
Operating results	99
Essential figures from the most recent Financial Statements of ERG S.p.A., which carries out the management and coordination of ERG Hydro S.r.l.....	100
Significant events after the reporting period ...	102

PROPOSAL BY THE BOARD OF DIRECTORS	103
---	-----

BOARD OF STATUTORY AUDITORS' REPORT	104
--	-----

INDEPENDENT AUDITORS' REPORT	109
------------------------------------	-----



Directors' Report

CORPORATE BODIES

BOARD OF DIRECTORS

Chairman

RENATO ALESSANDRO STURANI

Directors

ANGELO LEONELLI

ANDREA NAVARRA

MICHELE PEDEMONTE

BOARD OF STATUTORY AUDITORS

Chairman

LELIO FORNABAIO

Standing Auditors

LUISELLA BERGERO

VINCENZO CAMPO ANTICO

INDEPENDENT AUDITORS⁽¹⁾

KPMG S.p.A.

¹ Appointed with deed of 19 April 2018 and in office until approval of the Financial Statements for the year ended 31 December 2020.

COMPANY DESCRIPTION

The company ERG Hydro S.r.l., formerly Hydro Terni S.r.l., was established on 22 July 2015, now with registered office at Via De Marini 1, in Genoa and with share capital of EUR 50 million.

Hydro Terni S.r.l. was founded with a share capital of EUR 10 thousand, fully subscribed and paid up by E.ON Italia S.p.A. Following the partial demerger of the company E.ON Produzione S.p.A., held entirely by E.ON Italia S.p.A., with notary deed of 5 November 2015 and effective from 30 November 2015, the company Hydro Terni S.r.l. acquired the aforementioned company division, consisting of the hydroelectric branch that was at the time owned by E.ON Produzione S.p.A. and the corresponding assets, which resulted in a share capital increase from EUR 10 thousand to EUR 50 million. At the same time, E.ON Italia S.p.A. sold its entire shareholding in this company to ERG Power Generation S.p.A., whose Shareholders' Meeting resolved to change the company name to ERG Hydro S.r.l.

The Company's purpose involves the development, construction and management of hydroelectric plants for the production of electricity, as well as the sale of any related products.

At 1 December 2015, the Company began activities for the production and sale of electricity.

The Company is subject to management and coordination by ERG S.p.A.

STRATEGY

At 1 December 2015, the Company began activities for the production and sale of electricity, through the hydroelectric plants acquired following the demerger of company E.ON Produzione S.p.A.

The hydroelectric complex is a highly flexible system, given that it is an integrated unit composed of 19 plants, 7 dams, 3 reservoirs and a pumping station.

The strategic plan envisages implementation of all necessary measures to promote better integration between personnel and assets and maximise the value of the Company.

During 2016, the project for the new organisational structure of the Group (the "Group") – of which ERG Hydro is a part – was launched, with a strong focus on process logic and a willingness to "reunite" the entire organisation towards a single common vision, thereby leading to the name "ONE Company", characterised by the definition of the two macro-roles. That of corporate ERG S.p.A., which ensures strategic direction, is directly responsible for business development processes and ensures management of all business support processes, and that of company ERG Power Generation S.p.A., which is assigned responsibility for the Group's industrial and commercial processes.

The Company's business model was modified within the scope of this project and, starting from 1 July 2016, the electricity generated by its hydroelectric plants, excluding that generated by plants for which dedicated withdrawal are agreements in place with the GSE (national grid operator), is sold to ERG Power Generation S.p.A., rather than to the electricity market.

Also in 2020, the Company's plants consolidated their significant role within the electricity generation portfolio, being flexible and efficient for the Energy Management activities, allocated to Parent Company ERG Power Generation S.p.A.

KEY OPERATING AND FINANCIAL DATA

The operating and financial data at 31 December 2020 reflect operations for the entire year and are expressed in thousands of Euro.

(EUR thousand)	2020	2019
Total revenue	106,612	122,246
Gross operating profit (EBITDA)	52,716	83,126
Operating profit (EBIT)	(3,330)	29,337
Profit for the year	(86)	21,335
Cash flows from operating activities	69,447	66,844
(Investments)/divestments	(6,311)	(5,613)
Changes in equity	(21,335)	(71,408)
Increase/(Decrease) in net financial indebtedness	41,801	(10,177)
Net invested capital	623,849	484,523
Equity	909,805	728,677
Net financial indebtedness	(285,956)	(244,154)
Financial leverage	-46%	-50%

The Financial Statements at 31 December 2020 posted a loss of EUR 0.1 million.

More specifically, an analysis of performance during the year shows a gross operating profit (EBITDA) of EUR 52.7 million.

Revenue, equal to EUR 106.6 million, regards sales of electricity for EUR 51.4 million, at the feed-in premium, and other energy items for EUR 50.1 million, in addition to other revenue for EUR 5.1 million.

Costs, equal to a total of EUR 53.9 million, are predominantly attributable to concession fees of EUR 12.7 million, personnel expense of EUR 5.2 million, and services, purchases and operating costs of approximately EUR 22.3 million and provisions for risks of EUR 13.7 million.

The gross operating profit (EBITDA) in 2020 amounted to 49% of revenue, down compared to 68% in 2019.

EBITDA in 2020 was down mainly due to the low water availability experienced in the period, the deterioration of the energy scenario, albeit partly mitigated by the higher value of the incentive, and the provisions for risks for the year.

It should be noted that the EBITDA is net of the portion of the impairment relating to financial income, which was classified under the item amortisation, depreciation and impairment losses for the purposes of this Directors' Report.

ERG Hydro's total output in 2020 amounted to 1,097 GWh.

BUSINESS SEGMENT

The scenario in the Italian electricity market is summarised in the following table.

ITALIAN ELECTRICITY MARKET ⁽¹⁾ (GWH)

	2020	2019
Demand	302,751	319,622
Pumping consumption	2,557	2,469
Import/Export	32,200	38,141
Net internal generation ⁽²⁾	273,108	283,950
of which:		
Thermoelectric	175,376	187,317
Hydroelectric	47,990	47,590
Geothermal	5,646	5,689
Wind	18,547	20,034
Photovoltaic	25,549	23,320
Centre North zone price	38.70	52.20

(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

Market scenario in Italy

In 2020, demand for electricity from the Italian electricity system amounted to 303 TWh, down by 5.3% compared to the values recorded in 2019. With regard to Sicily, a region in which ERG has its own CCGT plant, as well as wind farms and photovoltaic plants, a requirement of approximately 18.7 TWh was recorded during the period, down (-2.6%) compared to 2019; moreover, in the Abruzzo-Lazio-Marche-Molise-Umbria group of regions, where ERG is active with its hydroelectric plants, the request for electricity came to 42.5 TWh (-3.3%).

In the same period, (net) domestic electricity output was 273.1 TWh, down by 3.8% compared with 2019, whilst the net balance of trades with other countries recorded net imports of 32.2 TWh (-16% compared to 2019).

64% of (net) domestic output was covered by thermoelectric power plants and the remaining 36% by renewable sources; specifically, 18% of output was from hydroelectric power, 9% from photovoltaic plants, 7% from wind farms and 2% from geothermal sources. Compared with 2019, there was lower power generation from wind (-7%), thermoelectric (-6%) and geothermal (-1%), while increases were recorded in photovoltaic (+10%) and hydroelectric (+1%) outputs.

OPERATING DATA

The quantity of electricity introduced by the Company during the year amounted to 1,097 GWh (compared to 1,229 GWh in 2019), of which:

- 1,026 GWh by major Production Units (>10MW) (2019 – 1,145 GWh);
- 71 GWh by minor Production Units (2019 – 84 GWh).

ERG Hydro's overall output was lower due to the reduced water availability, lower than in the previous year.

Starting from 1 July 2016, the electricity generated, with the exception of plants for which there are agreements in place with the GSE for dedicated withdrawal, is sold to the company ERG Power Generation S.p.A. In fact, an agreement was signed with the latter, granting the parent company the mandate to manage the dispatching agreements of the hydroelectric plants as well.

		2020	2019
Capacity	MW	527	527
Gross electricity generation	GWh	1,105	1,238
Net sales of electricity	GWh	1,097	1,229
Feed-in premium (formerly Green Certificates)	(EUR thousand)	49,736	46,800
Capital expenditure	(EUR thousand)	6,311	5,607
Employees	number	65	66

The total load factor in the year, equal to 24% (compared to 27% in 2019) is characterised by the lower availability of water resources, at levels significantly lower than the historical average.

The level of the reservoirs of Turano, Salto and Corbara lakes were respectively approximately 533, 529 and 137 metres above sea level at the end of the year, compared with the 533, 526 and 134 metres above sea level at 31 December 2019. Overall, the energy stored was increased due to seasonal phenomena and net of the use for the year both with respect to 30 September 2020 and with respect to 31 December 2019.

It should be noted that the months of December 2020 and January / February 2021 were characterised by intense rainfall, which resulted in the production of electricity in the first 2 months of 2021 equal to 487 GWh (+52% compared to the budget and +134% compared to the same period of 2019), with a total energy stored equal to 175 GWh.

PRODUCTION PLANTS

The Company has a generation facility comprising 19 hydroelectric plants, 7 dams, 3 reservoirs and a pumping station, located geographically throughout Umbria, Marche and Lazio, with an installed operating capacity of 526.9 MW.

The hydroelectric plants are located along three rivers: Nera, Tiber and Velino.

The dams are those of Salto, Turano, Corbara, Alviano, Aia, La Morica and Marmore.

The reservoirs are those of Corbara along the Tiber, and Salto and Turano along the Velino river.

The majority of hydroelectric plants are situated in the Umbria region, with a capacity of 468.8 MW, followed by the Lazio region with 57.5 MW and the Marche region with 0.2 MW of capacity.

The total capacity of 526.9 MW regards 512.4 MW for large offtakes and 14.5 MW for small offtakes and residual flows, which are increased by 0.4 MW following completion of construction of the three new mini hydro plants, which are eligible for the RES (Renewable Energy Sources) tariff pursuant to Italian Ministerial Decree of 23/6/2016.

The plants of Galletto Monte S. Angelo, Preci, Triponzo, Ponte Sargano, Monte Argento, Narni, Nera Montoro-Stifone branch, Baschi, Alviano, Cotilia and Sigillo are qualified as "IAFR – Impianto Alimentato da Fonti Rinnovabili" (Plant Powered by Renewable Sources), which benefit, for the electricity generated, from the right, starting from 1 January 2016, to receive an incentive in the form of a feed-in premium for the remaining period of entitlement as a replacement of the green certificates.

The plants of Altolina, Cervino, Corbara, Cotilia (Canetra branch), Ponte Sargano, Sersimone, Sigillo and Triponzo benefit from dedicated withdrawal for the production of energy.

The plants of Cotilia (Peschiera branch) and Visso benefit from the feed-in premium for RES (Italian Ministerial Decree of 6/7/2012).

The list of individual plants and respective capacity is provided below:

Plant	Capacity (MW)
Velino River Course	
Sigillo	5.0
Cotilia	48.0
Cotilia Canetra	2.3
Cotilia Peschiera	2.2
Galletto/Monte S. Angelo	210.0
Galletto Pennarossa	2.1
Turano Dam	0.1
Total Velino River Course	269.7
Nera River Course	
Visso	0.2
Preci	10.0
Triponzo	6.4
Ponte Sargano	3.0
Cervino	0.6
Sersimone	0.6
Monte Argento	64.0
Narni	40.0
Nera Montoro	28.0
Nera Montoro Stifone	2.9
O.P. Visso per Preci	0.0
O.P. S. Maria Magale	0.3
Total Nera River Course	156.0
Tiber River Course	
Altolina	2.4
Baschi	86.0
Corbara	0.8
Alviano	12.0
Total Tiber River Course	101.2
TOTAL MW	526.9

CONCESSIONS

Concessions to utilise public water for hydroelectric use are under regional or provincial responsibility (depending on the type and location of the relative plant), following decentralisation of the administrative responsibilities in terms of management of the government-owned water resources.

The Company owns the concessions on a number of branches of public waters, located in the Lazio, Marche and Umbria regions, which are used as the source for production of electricity by hydroelectric plants.

The current concessions are valid until 2029 (Italian Legislative Decree no. 79 of 16 March 1999, Article 12, paragraph 6) for all branches used by the hydroelectric plants, except for the one relative to the Corbara plant, which expires on 31 December 2035.

Each concession is accompanied by a "concession regulation" that sets out the rules governing the concession and sets the maximum and average quantity of water than can be withdrawn. The average value is used, based on the usable head, to determine the nominal power.

Concessions for the use of public waters are subject to the payment of state rents, watershed rents and coastal rents.

The annual **State** rent is determined by each Region and calculated based on the nominal concession power as follows:

- Marche Region: annual rent of 15.50 EUR/kW from 2014, resolved with Regional Law no. 49 of 23 December 2013;
- Lazio Region: annual rent of 31.72 EUR/kW for the year 2020, pursuant to Decision no. G05377 of 6 May 2020;
- Umbria Region: annual rent of 32.47 EUR/kW for large-scale diversions and 16.49 EUR/kW for small diversions, pursuant to Regional Council Resolution no. 1212 of 4 December 2019.

On 11 December 2015, ERG Hydro S.r.l. presented an appeal to the Higher Court of Public Waterways (TSAP) in Rome to request the cancellation of Resolution no. 1067 of 22 September 2015 of the Regional Council, with which the Umbria Region almost doubled the amount of rent in effect. At the hearing held on 7 December 2016, the parties stated their opinions; the judge then referred the parties to the board, scheduling the discussion hearing on 1 March 2017. During this hearing, first the issue of jurisdiction was addressed, filed with the office by the Chairman of the Board, and then the substantive issues relevant to the illegality of the rental increase. With its ruling submitted on 19 April 2017, the TSAP declared its lack of jurisdiction in favour of the Regional Court of Public Waterways (TRAP) in Rome before which it arranged for the continuance of the appeal. With regard to the TSAP ruling, an appeal was filed with the Court of Cassation. The hearing in the chambers was held on 12 March 2019. The Public Prosecutor

submitted its conclusions for the upholding of the appeal. With Order no. 21687 of 26 August 2019, the Court upheld the appeal by ERG Hydro S.r.l., stating the case law of the Higher Court of Public Waterways (TSAP) to which the case was referred, with a different composition, including with regard to the Court of Cassation fees. On 29 November 2019, the reinstatement deed was filed with the TSAP and entered in the general register under number 205/2019. The first hearing, scheduled for 12 February 2020, was postponed to 23 September 2020. On that date, the Region appeared at the hearing, filing its briefs. Having acknowledged the opposing party's appearance, the defence of ERG Hydro S.r.l. requested a new deadline for examination and possible counter-arguments. The hearing was therefore postponed to 5 May 2021.

The results for the period fully reflect the aforementioned increase.

The **Mountain Watershed** rents are due to the Municipalities within the basin into which the waters of their areas flow to the subject river of the concession. The rent is due for concessions with average nominal power of over 220 kW.

The percentage of rent owing to each individual Municipality is defined by specific decrees issued by the Italian Ministry of Public Works.

The unit rent for Mountain Watersheds is set via decree by the Italian Ministry for the Environment and Territorial and Marine Protection and is valid for two years.

The rent in effect for the period 2020/2021 is equal to 31.13 EUR/kW for plants with average nominal power of over 220 kW.

The **Coastal** rents are due to the Municipalities and Provinces in which the branch works are situated and those in which a waterway flows in the section between the intake point and the water outlet point.

The percent rent owing to the individual beneficiaries are set by the Italian Ministry of Finance.

State Property Office Decree of 4 December 2019 determined that the rent in effect for the 2020/2021 period for concessions with average nominal power of over 220 kW and up to 3,000 kW is equal to 5.87 EUR/kW and for concessions with average nominal power of over 3,000 kW, 7.78 EUR/kW.

Considerations regarding the amortisable amount of concessions for large-scale diversion of water for hydroelectric use

Pursuant to the current national regulations on the transfer of ownership upon the expiry of concessions for large-scale diversions of water for hydroelectric use or in the event of withdrawal or surrender (Article 12 of Italian Legislative Decree 79/99), ownership of "wet" works is transferred, without remuneration, to the region, without prejudice to any pay-out 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, paragraphs 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.

During 2020, some Regions issued Regional Laws implementing the aforementioned provisions as required by national legislation. These Laws were largely appealed for constitutional legitimacy by the Italian Presidency of the Council of Ministers and were also challenged by various operators concerned for other aspects of illegality.

It should be noted, however, that the implementation laws relative to the Group’s concessions have not yet been issued by the reference Regions.

Management will monitor regulatory developments and the related clarifications in order to assess possible future impacts on the depreciation process.

CAPITAL EXPENDITURE

The Company’s capital expenditure, equal to approximately EUR 6.3 million, refers mainly to maintenance contracts and to projects envisaged in the area of improvement of the seismic resistance of infrastructures and Health, Safety and Environment.

FEED-IN PREMIUM (FORMERLY GC) FOR THE “IAFR” PLANTS

The hydroelectric plants qualified as “IAFR”, with a total incentivised capacity of 487.3 MW, are the plants of Alviano, Baschi, Cotilia (Salto branch), Galletto Monte S. Angelo, Monte Argento, Nera Montoro (Stifone branch), Narni, Preci, Ponte Sargano, Triponzo and Sigillo.

Until 2015, green certificates were recognised for these plants, replaced from January 2016 by the feed-in premium defined with the same formula used to measure the green certificates, with the only significant exception being that they refer to the price of electricity in the year prior to the year in question.

The production eligible for incentive is calculated based on the type of plant intervention and the net energy generated by the plant, possibly multiplied by a specific coefficient and rounded to the nearest MWh using the commercial criterion.

The value of the incentive is determined based on the effective energy introduced into the grid, up to the achievement of a threshold quantity comparable to the “fixed” amount recognised for works on renovation of the hydroelectric plant; further recognition arises from greater allowable production under the incentive scheme, solely with regard to the amount exceeding historic production.

The incentives are now determined on a monthly basis, and are disbursed by the GSE by the second month following the reference quarter.

The feed-in premium was defined by the Italian Regulatory Authority for Electricity, Gas and Water (AEEGSI) for 2020 as 99.05 EUR/MWh, with Resolution of 28 January 2020, provision 17/2020/R/efr.

Based on the eligible amount of energy generated during the course of the year and the tariff defined above, the Company's revenue for the current year amounts to EUR 49.7 million.

SIGNIFICANT EVENTS DURING THE YEAR

Italian Decree Law 104/2020 ("Decreto Agosto" - august decree) allowed parties that adopt national accounting standards for the preparation of financial statements the possibility of revaluing their property, plant and equipment with the option for tax recognition of the same against the payment of a substitute tax equal to 3% of the higher values recorded.

Following the preparation of a specific appraisal by a third party, the Company has chosen to revalue part of its property, plant and equipment, recording a specific equity reserve, and also intends to opt for recognition of the revaluation in question also for tax purposes, thus subjecting the revaluation to substitute tax.

At the end of January 2020, following the global spread of the health emergency, the World Health Organization declared the COVID-19 epidemic a Public Health Emergency of International Concern, going on to declare it a pandemic on 11 March 2020.

At the first signs of emergency ERG took action promptly, putting in place all the necessary measures to ensure both the health of its employees and the operational continuity of its assets in safe conditions.

The main measure used by the organisation, and indeed recommended by the Competent Authorities, was remote working, which it introduced ahead of legal provisions, and extended to all working days and all the Group's offices across Italy and abroad, involving over 70% of the corporate workforce, corresponding to all "white-collar" staff, and excluding only personnel dedicated to the operation and maintenance of plants in order to safeguard operational and management continuity and ensure the safety of company assets.

ERG has very carefully managed the staff employed across its production sites through the adoption of appropriate organisational safety measures (aimed at ensuring social distancing and the reconfiguration of operational and logistical activities) and prevention and protection measures (training and information, personal protective equipment, personal hygiene measures and cleaning/sanitisation of workplaces), in compliance with recommendations by the Competent Authorities, and in agreement with Trade Union Organisations.

REGULATORY FRAMEWORK: MAIN CHANGES

The most significant regulatory changes that characterised the energy industry in 2020 are described below.

GENERAL

EUROPEAN UNION

European Green Deal

The European Commission (EC) summits presented the European Green Deal (EGD) during COP 25 in Madrid.

The EGD is the European Union's legislative project for achieving climate neutrality by 2050.

Among the main "actions" that will comprise the EGD, some pertain directly to the energy sector, in particular the general plan for the reduction of greenhouse gas emissions by 2030 to reach "climate neutrality" by 2050.

In October 2020, the EC published the final assessment of the Integrated National Energy and Climate Plans (INECPs), which will need to be revised in 2023 to align them to the new targets established by the EGD.

The guidelines on State aid will be revised by 2021, and the revision of the Energy Taxation Directive in environmental terms will be proposed; it will be associated with a carbon border adjustment mechanism at European borders, duly coordinated with the revision of the ETS Directive.

In mid-January 2020, the European Parliament approved the Commission's EGD, suggesting raising the GHG reduction target to 55% by 2030 and carrying out the above-mentioned revision of the ETS Directive, as well as removing direct and indirect subsidies to fossil fuels from 2020.

In December 2020, the European Council also approved the Commission's proposal to raise the 2030 target to at least 55% compared to the current target (40%). With the three European institutions (Commission, Council and Parliament) in agreement, the following processes will begin: (i) updating the European Climate Law and (ii) revising the European legislation involved in adapting the aforementioned target, in particular the directives on renewable sources and energy efficiency. According to the Commission's schedule, these revisions are expected by the end of summer 2021.

Recovery Plan proposals: MES-Covid and Next Generation EU

The pandemic started in early 2020 by the worldwide spread of SARS-CoV-2 has impacted the economic and social fabric of the European Union and the Member States, forcing a review of policy action priorities and the related financial allocations.

On 23 April 2020, the European Council reached an agreement on a number of instruments to be adopted to deal with the initial effects of the pandemic and gave the European Commission a mandate to submit a proposal for the establishment of a Recovery Fund.

Instruments with a total value of approximately EUR 540 billion have been identified. On 27 May, the Commission presented the Union's Multi Year Financial Framework (Budget) for 2021-2027, together with the proposal for a special fund for post-COVID economic recovery.

The package includes the following main measures: an increase in the EU Budget for the period 2021-2027 to approximately EUR 1,100 billion (+10% vs. the period 2013-2020) and the creation of an extraordinary fund of EUR 750 billion - named Next Generation EU (NGEU) - consisting partly of grants and partly of loans with long return times (by 2058).

A large portion of the EUR 750 billion fund (EUR 380 billion of which is non-repayable) will be allocated to the Recovery and Resilience Fund, the use of which by the Member States is exclusively for investments aimed at the Green Deal (at least 37%) and digitisation.

In order to access the funds, the Member States will have to submit National Recovery and Resilience Plans (NRRPs) with evidence of projects in support of the Green Deal, in line with the Integrated National Energy and Climate Plans (INECPs) already submitted to the Commission, by April 2021.

Collaboration between the Commission, the Council and the European Parliament on the proposed package has been completed. The European Council reached a first agreement on 21 July 2020, confirming the Commission's proposal; in December 2020 the agreement was finalised and therefore the conditions were met to formalise the new EU budget and the Next Generation EU by the end of 2020. Italy will be the first beneficiary of the NGEU with approximately EUR 209 billion in loans and subsidies out of the aforementioned total of EUR 750 billion.

ITALY

Main measures related to the SARS-CoV-2 (COVID-19) emergency

On 11 March 2020, the World Health Organization declared COVID-19 a pandemic. At the same time, a Decree of the Presidency of the Council of Ministers (DPCM) was issued in Italy for the closure of non-essential commercial activities across the entire country. The energy sector (fuel distribution and electricity generation activities) was not affected by the lockdown.

A number of measures were subsequently issued concerning, among other things, the suspension of time limits in administrative proceedings and the effects of ongoing administrative actions, including authorisation proceedings.

On 30 April, Italian Law no. 27/2020 converting the "Cura Italia" Decree Law was published. This Law concerned measures to strengthen the National Health Service and economic support for families, workers and related enterprises.

The Law introduces a seven-month extension of the deadline for the publication by Regions of the laws on the regulation of large-scale hydroelectric diversions laid down by Italian Law no. 12/2019. The original deadline of 31 March 2020 was therefore postponed to 31 October 2020, and with it the effects of the laws passed.

Changes were also made regarding the suspension of time limits in administrative proceedings, the effects of expiring administrative actions and the temporary storage of waste.

On 19 May 2020, Italian Decree Law no. 34 of 19 May, also known as the Italian "Decreto Rilancio" Decree Law, was published; among the main provisions related to the energy sector are the reduction in electricity bills for the months of May, June and July 2020 and some measures in support of the White Certificates mechanism.

In view of the ongoing pandemic, which resulted in a second wave of infections in the last quarter of the 2020, at the end of October Italian Decree Law no. 137 of 28 October 2020 (the Italian "Ristori" Decree Law), containing further measures to support the most affected production sectors, was issued. The Decree introduces new support measures and renews some already adopted previously.

Draft National Recovery and Resilience Plan (NRRP)

In compliance with the process launched by the European Commission, first at the end of November 2020 and then in mid-January 2021, the Presidency of the Italian Council of Ministers presented to the Chambers a summary draft of its NRRP aimed at distributing the substantial resources allocated to Italy within Next Generation EU, equal to approximately EUR 209 billion out of a total of EUR 750 billion.

This draft, prepared for parliamentary discussion and subsequent negotiation with the European Commission, confirms the central role of ecological transition, sustainable mobility and digitalisation.

Conversion Law of the Italian "Semplificazioni 2018" Decree Law

Italian Law no. 12/2019 converting Italian Decree Law no. 135 of 14 December 2018 introduced changes to the rules for concessions for large-scale diversion of water for hydroelectric use and the determination of the related annual concession fees, the applicability of which to concessions that are not due to expire shortly is still being assessed. In particular, it called upon the Regions to legislate the tender processes and procedures for the reassignment of concessions, the determination of the concession fee in binomial form and the right to request from concessionaires a free annual supply of electricity equal to 220 kWh for each kW of average nominal power of concession.

Only some Italian Regions have complied with this national law, issuing specific legislative provisions, in some cases challenged by the Presidency of the Italian Council of Ministers; the Regions in which ERG's Terni Hydroelectric Complex is located have yet to proceed with the issue of these provisions.

Italian "Semplificazioni 2020" Decree Law and Conversion Law no. 120/2020

In July, Italian "Semplificazioni" Decree Law no. 76 of 16 July 2020 on "Urgent measures for simplification and digital innovation" was published.

The Decree, converted into Italian Law no. 120/2020 on 14 September 2020, provides for participation in the auctions organised by the GSE – under certain conditions – also for renewal works (complete reconstruction/repowering) on existing plants that have not adhered to the Italian Law of 21 February 2014 (regarding the so-called "Spalmaincentivi volontario" [voluntary incentive allocation]). Such works are also granted participation in any other support instrument for the implementation of the Integrated National Energy and Climate Plan.

In terms of authorisation, for complete reconstruction works it is now sufficient to limit the Environmental Impact Assessment (EIA) to the change between the pre- and post-works situation. In addition, for minor works, where modification involves changes to the size of wind turbines within the limits of 15%, a work commencement declaration is sufficient.

The provision defines also the authorisation procedures for energy storage plants and specific simplifications based on their capacity.

2021 Budget Law

On 30 December 2020, the 2021 Budget Law and the multi-year Budget for the three-year period 2021-2023 was published.

The most relevant provisions include the establishment of a "Fund for energy transition in the industrial sector" for the decarbonisation and energy efficiency of the industrial sector, together with measures for the sectors most exposed to the risk of carbon leakage.

The allocation of a multi-year funding for employment conversion in areas involved in the transformation or closure of coal plants has been confirmed, while an investment fund has been set up with the Italian Ministry of Economic Development to support the development and competitiveness of small and medium-sized enterprises in various sectors, including the production of energy from renewable sources.

For various economically disadvantaged areas, concessions relating to social security contributions are provided for employers; the tax credit for investments has been extended to 31 December 2022 for the purchase of new capital assets for production facilities located in the South, and the reduction in income tax on activities in Special Economic Zones (SEZs) has been confirmed, subject to compliance with certain conditions.

In terms of environmental protection, the "Sistema volontario di certificazione ambientale per la finanza sostenibile" (voluntary environmental certification system for sustainable finance) has been set up at the Italian Ministry of the Environment, in order to assess the eco-sustainable nature of public or private investment projects, in line with European regulations on the subject. The law provides that each subject, public or private, may join it on a voluntary basis.

A decision has also been made to define – on an experimental basis – the indicators for measuring the degree of environmental sustainability and the eco-sustainable nature of public and private investment projects as well as the

related calculation methods; the "Eco-sustainable Finance Committee" has been set up at the Italian Ministry of the Environment with the aim of examining the requests and issuing the environmental certification.

The Italian Ministry for Environment, Land and Sea Protection is assisted by the Italian National Institute for Environmental Protection and Research (ISPRA), in order to support and speed up the various environmental verification activities, including those related to the implementation of the INECP.

A special Revolving fund has been established with the Italian Ministry of Economy and Finance (MEF) for the implementation of the Next Generation EU programme and the establishment of the related Fund, providing EUR 32.8 billion for 2021, EUR 40 billion for 2022 and EUR 44.6 billion for 2023.

The "Transition 4.0" tax credits have been extended and enhanced to support companies in the process of technological and environmental transition, and relaunch investments affected by the COVID-19 emergency, extending to 2022 the tax credit for investments in new capital assets, enhancing and diversifying the subsidy rates, increasing eligible expenses and expanding their scope of application.

"Golden Power" Decrees

On 30 December 2020, two Decrees of the President of the Italian Council of Ministers relating to the exercise by the Government of special powers (Golden Powers) were published.

The first identifies the assets and relationships of strategic importance for the national interest and the types of acts and transactions within the same group. The scope of application includes, among other things, the technologies for managing the wholesale markets for natural gas and electricity; it includes also economic activities of strategic importance carried out by companies that achieve an annual net turnover of EUR 300 million or more and having an average annual number of employees of 250 or more.

The second provision includes the acts of strategic importance specific to the energy, transport and communications sectors, for the purpose of the exercising of special powers by the Government.

As regards energy, it includes, among other things, the infrastructures for the supply of electricity and gas from other countries – including natural gas regasification plants –, the national electricity transmission grid and the related control and dispatching facilities, and the management activities related to the use of these networks and infrastructures.

HYDROELECTRIC

Update of the Umbria Region State fee

At the end of 2019, the Umbria Region published the updated state fee due for large-scale public water diversion concessions with reference to the year 2020. The new amount was determined by increasing the 2019 amount to an extent equal to the planned inflation rate of 0.8%; the 2020 fee is therefore equal to 32.47 EUR/kW.

BIM surcharge update

After updating the surcharges for riparian entities at the end of 2019, on 26 February the Italian Ministry for the Environment published the Directorial Decree for the determination of the BIM surcharge – owed by hydroelectric derivation concessions with power exceeding 220 kW – for the period 1 January 2020 to 31 December 2021 within a mountain watershed (BIM).

This figure, which for the last two years was 30.67 EUR/kW, was increased for the years 2020-21 to 31.13 EUR/kW.

“Cura Italia” Decree Law – COVID-19 Emergency

On 30 April, Italian Law no. 27/2020 converting the “Cura Italia” Decree Law was published, introducing a 7-month extension of the deadline for the publication, by the Regions, of the regulations governing large-scale diversions for hydroelectric purposes laid down in Italian Law no. 12/2019. The original deadline of 31 March 2020 was therefore postponed to 31 October 2020, and with it the effects of the laws passed.

Update of the Lazio Region State fee

On 28 May, the Lazio Region published the state fees due for public water diversion concessions with reference to the year 2020. The new fees were determined by increasing those for 2019 to an extent equal to the planned inflation rate of 0.8%; the 2020 fee for water derivation for hydroelectric use is therefore equal to 31.72 EUR/kW.

Incentive system for the upgrading of production plants included in the restart plan (Regulation 2017/2196 on electricity emergency and restoration).

With resolution 324/2020 of 6 August 2020, ARERA established an incentive system for the upgrading of new restart units, identified by Terna, included in the electricity restoration plan (PdRR). The main requirements are the installation of the Local Frequency Integrator (hereinafter “LFI”) and the provision of black start capacity, where not already present, and the availability of backup power systems in order to ensure the operation of the plants and communications during the phases of the electricity restoration. In relation to these measures, the resolution:

- a) sets the end date for the upgrading of the plants included in the PdRR on 18 December 2022;
- b) provides for an incentive system for plant owners to upgrade the plants and a coefficient for modifying said incentive.

Provisional calculation of actual imbalances – COVID-19 emergency

With Resolution no. 121/2020 of 7 April 2020, ARERA – by virtue of the market dynamics triggered by the COVID-19 health emergency – resolved to adopt provisional regulations for calculating the actual imbalances for non-qualified units (including wind, solar, hydroelectric not qualified to operate in the dispatching services market [MSD], units consumed).

The mechanism – in force from 10 March to 30 June 2020 – provided that, only for the purposes of calculating the

imbalance prices for units not obligatorily qualified, the purchase or sale offer prices accepted on the MSD were modified in such a way as to fall within a range with a maximum value (cap) and minimum value (floor). The cap is determined as the maximum of:

- a) the variable cost of an open cycle turbogas plant powered by natural gas (technology with the highest variable cost of the generating facilities usable in real time);
- b) the product of 1.5 multiplied by the price of the sale offers accepted on the day before market (MGP) in the same period and in the area in which the dispatching point is located.

The floor is calculated as 50% of the price of the sale offers accepted on the MGP in the same period and in the area in which the dispatching point is located.

As established by Resolution no. 207/2020 of 9 June, the measure was in effect until 30 June 2020. This mechanism generated a benefit as a result of a general reduction in the imbalance costs. From 1 July 2020, the value of imbalances is once again calculated according to the regulation established by Resolution no. 111/06, as amended.

Extension of GSE obligation deadlines – COVID-19 emergency

In implementation of government provisions, as from March the GSE extended some of the procedures relating to incentivised energy sectors. In May it extended the timeframe within which the carrying out of maintenance and modernisation work on incentivised plants must be notified, originally set at 60 days from the end of the work. Where the end of the work falls between 23 February and 15 May, notification must be sent within 142 days; if the end of the work falls between 23 February and 15 May, the 60-day period starts on 16 May.

Following other actions taken during 2020, on 1 February 2021 the GSE took further action, publishing new extensions; in short, the deadline for entry into operation in order to be able to access the rates provided for by the Italian Ministerial Decree of 23 June 2016, reserved to plants eligible for ranking pursuant to the Italian Ministerial Decree of 4 July 2019 (DM FER1), was extended from 10 August 2021 to 7 November 2021.

New configuration of the electricity market areas in effect from 1 January 2021

From 1 January 2021, the changes to the structure of the market areas envisaged by Resolution 103/2019 came into force. The breakdown described in the new version of Annex 24 to the Network Code provides for moving the Umbria region from the Centre-North area to the Centre-South area, removing the limited production hub of Rossano and creating the geographical area of Calabria (corresponding to the same region).

MANAGEMENT AND COORDINATION

ERG S.p.A. carries out management and coordination activities with respect to directly and indirectly controlled Italian and foreign companies, without prejudice to their managerial and operational independence; such companies benefit from the advantages, synergies and economies of scale deriving from inclusion in the Group, represented by:

- the definition of the business strategies, the corporate governance system and the shareholding 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 and engineering development.

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

- Board of Directors' meeting of 13 May 2020:
 - agenda item 3: Quarterly forecast for the annual investments budget
- Board of Directors' meeting of 30 July 2020:
 - agenda item 4: Quarterly forecast for the annual investments budget
- Board of Directors' meeting of 10 November 2020:
 - agenda item 3: Quarterly forecast for the annual investments budget
- Board of Directors' meeting of 14 December 2020:
 - agenda item 1: Investments budget for 2021
 - agenda item 2: Calendar of meetings of corporate bodies for 2021

The key data from the most recent financial statements of ERG S.p.A. are provided at the end of the Notes.

RISKS AND UNCERTAINTIES

The main risks and uncertainties to which the ERG Group, of which ERG Hydro is an integral part, is exposed with reference to its business area are reported below.

The main Risk Assessment and Management activities carried out as part of Enterprise Risk Management include: (i) the identification and assessment of the main risks associated with the Business Plan, as well as the definition of the respective Risk Policies; (ii) continuous verification of the functioning and effectiveness of the risk management process; (iii) sharing of the results of the half-yearly Risk Assessments with all of Group management. The ERM model is subject to periodic updates in line with the evolution of the Group and the context in which it operates. Enterprise Risk Management is aimed at contributing in a proactive and integrated manner to safeguarding the share capital of the ERG Group and to managing the Business efficiently and effectively in line with the strategies defined by the Board of Directors, giving adequate consideration to current and perspective risks, including medium- and long-term risks, with an organic and comprehensive vision.

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 Group, and, therefore, of ERG Hydro, have been envisaged.

With reference to the current health emergency, the risks chapter indicates, for each of the risk categories described below, the possible repercussions and the specific mitigation measures in place; in addition, reference is made to the specific chapter on COVID-19 in the ERG Group Directors' Report and in the Notes to the Consolidated Financial Statements of the ERG Group for a description of all the main monitoring and mitigation measures, the organisational system implemented and the activities and procedures necessary to deal with the events that developed during the pandemic.

1. Risk of availability of Renewable sources (Wind, Water and Sun);
2. Price risk;
3. Risks related to developments in the regulatory framework;
4. New Investment risk;
5. Risks related to the Rating of the Parent Company ERG S.p.A.;
6. Information & Communication Technology risks;
7. Reputational risk;
8. Risk of violation of Anti-Corruption Laws;
9. Business interruption risk;
10. Health, Safety and Environment (HSE) risk;
11. Country risk;

- 12. Litigation risk;
- 13. Liquidity risk;
- 14. Commercial Credit risk;
- 15. Credit Risk towards Financial Counterparties;
- 16. Risk of losing key professionals;
- 17. Risks related to the loss of key suppliers;
- 18. Industrial Relations risk;
- 19. Climate Change risk.

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

This risk refers to the possibility that the Group may incur economic damage deriving from fluctuations in the volumes of electricity generation, specifically regarding generation from renewable sources and the availability of natural resources (Wind, Water and Sun).

The risk is mitigated through:

- technological diversification of the renewable energy plants (e.g. Wind, Hydro and Solar) and the geographic diversification of the production plants, which reduce both the impact and the likelihood of occurrence;
- scheduling the outages of renewable facilities in relation to the periods of low contribution 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, as they enable quantification of the economic impacts over the life of the plan.

2. Price risk

Price risk is identified as the possibility that fluctuations in the purchase and sale prices of commodities may cause such 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 Group is mainly exposed to the following price risks:

- fluctuation in electricity prices for all generation plants, which sell electricity on the market;
- fluctuation in the prices of gas, CO₂ and Energy Efficiency Certificates attributable to the generation of the natural gas-fired electricity co-generation plant (CCGT) of ERG Power.

The ERG Group minimises the impact deriving from 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 (for example, P@R, V@R, Stop Loss, Profit Taking, Open positions);
- definition of minimum and maximum hedging quantities (Hedging Ratios) on electricity sales 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 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 (for example 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).

The ongoing international crisis caused by COVID-19 has led to a significant overall downturn in electricity demand as regards all the reference markets, due to the lockdowns imposed on production activities, by way of procedures that differ from country to country.

In this context, electricity spot prices have posted significant decreases in all the Group's countries of operation. However, both thanks to the significant impact of regulated remuneration systems on the Group's revenues and because a predominant part of RES output and the Clean Spark Spreads associated with thermoelectric power generation for the current year were already covered by forward sales in previous years, in keeping with the Group's three-year hedging policies, for the reporting period the effects on the Group's results can be assessed as limited.

3. Risks related to developments in the regulatory framework

The change in the operating rules as well as the requirements and obligations that govern the markets and the countries in which ERG operates, could have a negative effect on the Group's results and/or on business performance, resulting in significant economic impacts on the value of the assets.

The Group monitors constantly 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. Monitoring is structured over several levels, local, national 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 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.

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

- the reform of the Electricity Market both at European level and in the various countries in which the Group operates;
- the reform of the incentive systems for Renewable Energy Sources in the countries where the Group operates (for example, transition from FIT to FIP and the 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 within the White Certificates mechanism by the Gestore dei Servizi Energetici (GSE);
- the rules for obtaining and maintaining the authorisations and permissions for the construction and operation of Renewable energy plants, as well as the incentives associated with them.

4. New Investment risk

This risk refers to 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 success of a New Investment Initiative.

To minimise this risk, in accordance with company policies, the ERG Group has defined specific structured processes for the selection of investments, providing a series of subsequent levels of review and approval carried out on the basis, inter alia, of internal and external support studies, benchmark analyses, legal-regulatory analysis, financial assessment and planning models. For all relevant projects, the main risks are associated with:

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

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

5. Risks related to the Rating of the Parent Company ERG S.p.A.

Any reduction in credit rating by Rating Agencies could limit the ability to access the capital market and increase the cost of funding with negative effects on the Group's operating results, financial position and cash flows.

ERG implements a risk mitigation strategy, which runs at different levels and involves the pursuit of: (i) a balanced financial structure in terms of duration and composition, (ii) continuous monitoring of actual and expected results and financial balances, (iii) the systematic generation of cash by its business activities and (iv) geographical and technological diversification of its plants.

In 2020, the assessment of ERG's risk profile by the Fitch rating agency continued to be Investment Grade "BBB-" with a stable outlook. In addition to strictly endogenous and market variables, ERG's rating is also linked to Italy's sovereign rating.

6. Information & Communication Technology risks

In the ICT field, the main risks concern attacks on systems with data theft (data breach), security breaches, or the interruption of IT services due to hacker attacks or system malfunctions. In other words, anything that compromises the availability, confidentiality or integrity of the data.

Through its ICT systems, ERG adopts a risk-based approach in order to define both preventive and reactive security measures, and specific continuous improvement programmes aimed at increasing corporate resilience with respect to cyber security risk, including:

- at systems and infrastructures level: (i) Security assessment for the identification of the main criticalities of the SCADA systems and/or infrastructures, with remediation plans (organisational/technological); (ii) Security programmes to adapt processes, systems and infrastructure to best practices; (iii) Security awareness and training plans for users; (iv) Automatic tools for the prevention, detection and management of incidents and anomalies (e.g., intrusion detection systems);
- at device level: (i) Formalisation of the procedural corpus to regulate ICT processes; (ii) User "Awareness" programmes; (iii) Technological solutions capable of detecting cyber attacks (e.g., advanced antivirus, double e-mail protection system, Intrusion Detection System probe) and Back Up policies for network folders and Top Management PCs; (iv) Contractual clauses and confidentiality agreements signed by suppliers.

To mitigate the potential risks of interruption of business activities on ICT processes regarded as strategic, the Group has a Disaster Recovery system in place, which ensures continuity of services and data through an alternate Data Centre, the efficiency of which is subject to regular checks.

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

There is also an agreement with the CERT (Computer Emergency Response Team), which supports ERG in preventing attacks, and there are insurance policies on Cyber risks.

With reference to the COVID-19 health emergency, the adoption of remote working has been supported by the investments made by the Group in recent years as part of the ONE ICT plan for the modernisation and digitisation of processes: innovative mobile solutions, hybrid cloud platforms, high-capacity remote collaboration and videoconferencing systems, modern and mobility-oriented personal technological equipment, with a focus on utmost attention to security. As regards this latter aspect, the Group has had in place for some years now specific solutions, processes and resources for the management of system security and company data, using a risk-based approach and with the aim of guaranteeing business continuity and maximum resilience in the face of both incidents and cyber attacks. Throughout 2020, and also with reference to the specific security issues related to the operational scenario that emerged with the COVID-19 emergency, no incidents were reported in this respect.

7. Reputational risk

This risk relates to the potential effects deriving from a negative perception of the ERG Group's reputation, understood as expectations, perceptions and opinions developed over time by all stakeholders (customers, suppliers, investors, media, etc.).

Among the different factors that negatively influence reputation, some examples are: inconsistency between what has been achieved and the communicated targets and/or a misalignment between the performance and stakeholders' expectations; the dissemination of negative news, factual or otherwise, which may compromise trust, reliability and/or credibility.

The Group mitigates the risk of deterioration of its own reputation among stakeholders, through:

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

8. Risk of violation of Anti-Corruption Regulations

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

ERG condemns all corrupt practices with the utmost rigour and 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. For all group companies:

- a system of behavioural rules adopted by group companies (Code of Ethics, 231 Model and Anti-Corruption Policy) has been defined, 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 in order to limit the possibility that a single person may complete an entire process in 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 (for example, Code of Ethics, 231 Models and Anti-corruption Policy); these activities also involve the Board Directors;
- there is an ongoing process, overseen by the Supervisory Bodies under Italian Legislative Decree no. 231/01, for the management of reporting of behaviour contrary to the principles established by the Code of Ethics and the 231 Models; this process, with reference to possible violations of the Anti-Corruption Policy, is manned 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, the 231 Models and the Anti-corruption Policy.

9. Business interruption risk

This risk is connected to the occurrence of phenomena of a natural, accidental or catastrophic nature (i.e. earthquakes, floods, fires, etc.), with negative consequences in economic terms or on the preservation of corporate assets, such as to undermine significantly the Group's operations and balance.

With regard to the risks of plant unavailability, the ERG 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 extraordinary nature, and in accordance with the best practices of the industry; these procedures aim to identify and prevent potentially critical factors, including on the basis of specific engineering analyses conducted by specialised personnel;
- periodic revision of the plants and the use of instruments for controlling and remotely controlling the technical parameters for monitoring and timely detecting any anomalies as well as, when possible, the redundancy of the components necessary to assure the continuity of productive processes;
- the continuous administering of specialist training for technical personnel working on the plants.

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

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. To cover natural or catastrophic risks and to transfer its own industrial risk, the ERG Group uses the insurance market, thereby guaranteeing a high level of protection, including with regard to the interruption of activities; the contractual conditions of these insurance policies are revised periodically.

With regard to the COVID-19 emergency, all measures have been implemented to ensure the operational continuity of production assets both in Italy and abroad, through a structured Business Continuity Management approach. As proof of the effectiveness of the measures adopted, since the start of the health emergency there have been no interruptions to business activities at any production site.

10. Health, Safety and Environment (HSE) risk

This risk is mainly linked to the management 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. They relate to the occurrence of accidents or injuries, or of physical harm or impairment (more or less serious) suffered by persons performing the various work activities;
- environmental risks are connected with the possible occurrence of events that cause an alteration of the physical-chemical parameters characterising the environmental matrices (such as: water, air and soil), with negative consequences on the natural habitat and/or on the persons' health.

The ERG Group, strongly committed to reducing these risks, has adopted specific policies on matters of Health, Safety and the Environment that, in accordance with the relevant international best practices, envisage that all group companies: (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 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, all the Companies that manage industrial assets have a OHSAS 18001 and ISO 14001 certified Management system, while the main plants also have EMAS certification. ERG S.p.A. has had an ISO 45001-certified management system since December 2019.

During 2020 the periodic audits were conducted by the certification bodies, which issued and/or confirmed the certifications held by the Group Companies.

Moreover, the Group carries out structured monitoring of health and safety issues through the development of numerous programmes for prevention and for spreading a "safety culture", targeted both to internal personnel and to suppliers that operate at the plants.

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 Environment issues to be managed efficiently. ERG publishes its "Consolidated Non-Financial Statement" annually, which provides salient information and data regarding HSE and social issues connected with the Group's business.

As regards the current health emergency, ERG reacted promptly, implementing all the measures necessary to guarantee the health of its employees.

The main organisational measure taken was remote working, which was extended to all Group offices in Italy and abroad, covering over 70% of the company's workforce (100% of "white-collar" staff) and excluding only personnel involved in plant operation and maintenance in order to safeguard the safe operational and management continuity of the company assets for which appropriate organisational safety measures (aimed at ensuring social distancing and the reconfiguration of operational and logistical activities) and prevention and protection measures (training and information, personal protective equipment, personal hygiene measures and cleaning/sanitising of

workplaces) have been defined and adopted, in compliance with recommendations by the Competent Authorities and in agreement with trade union organisations.

Across all operating sites, the organisational, logistical and facilities measures required to safeguard the health of workers and protect the core activities have been prepared and regularly updated in order to ensure the continuity of service and the safe running of plants.

The safety protocols issued by the competent authorities have been integrated into the Risk Assessment Documents (DVRs) of the various group companies.

ERG appointed also an independent third-party company, accredited to carry out field audits to verify the application of Anti-COVID-19 safety protocols, which confirmed that the measures put in place by the company are appropriate.

11. 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. Some examples are: (i) the lack of a stable legal framework and uncertainties about the protection of the rights of foreign operators in case of contractual breaches by state agencies or other private parties; (ii) the penalising enforcement of laws or unilateral contractual changes entailing the reduction of the assets' values; (iii) increases in taxes; (iv) complex authorisation processes that impact the time-to-market of development projects; (v) delays, revisions or non-compliance of/with targets for fighting climate change with the consequent reduction of investments in renewable energies, including in infrastructure supporting the development of the renewable generation (for example, transmission and distribution networks).

In particular, the ERG Group implements a mitigation strategy that provides for:

- not assuming risk, and thus not making investments, in countries where there is 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 (for example, macroeconomic and financial indicators).

Risk mitigation comprises also the activation, development and maintenance of relations with institutions and with reference stakeholders, aimed at understanding the political, institutional and regulatory scenario of the country of interest for the Group and its possible impacts on the business. The assessment of whether or not to invest in a country also takes into account that country's adherence to international treaties for combating climate change and/or the objectives that country has set for itself to combat Climate Change (for example, renewable energy penetration targets).

12. Litigation risk

This risk refers to the possibility that one of the companies of the ERG Group (or its employees) may be involved in civil and/or administrative and/or tax proceedings and/or in legal actions deriving from potential violations of laws

or regulations, from contractual or extra-contractual liability or from other controversies (e.g., labour disputes), which could result in damages or sanctions, or damage the Group's reputation. Litigation risk refers also to the possibility that a group company may impugn an act or a measure damaging its interests issued by Institutions or administrative Bodies or independent Authorities.

The ERG Group implements a risk mitigation strategy, which involves:

- the oversight, delegated to specific corporate departments, of the reference legislation (legal, tax, etc.);
- management of the pre-litigation phase with the support of specialists in the legal and tax areas;
- management of litigation by outside law firms of high standing, experienced in the specific matters;
- constantly monitoring the evolution of ongoing litigation and assessing the probability of loss; for risks for which loss is deemed likely, an estimate of the economic impact is made, which takes into consideration all possible consequences and a 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 non-recurring transactions (i.e. acquisition of Companies, establishment of JVs), to mitigate the risk of litigation 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 that regulate the transaction.

In relation to the issuance of acts or measures that are harmful to its interests, risk is mitigated through:

- a regular and correct management, coordinated at the Group level, either directly or through the business 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);
- possible impugning the acts or measures deemed harmful before the competent authorities.

The strategies for managing this risk are implemented in accordance with corporate policies.

For further details on the disputes and contingent liabilities of the company ERG Hydro, please refer to the "B) Provisions for risks and charges" section of these Notes to the 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. This risk considers the possibility that the company is not able to meet its commitments (funding liquidity risk) or that it is able to do so only at unfavourable economic conditions due to situations of tension or to the market's changed perception of the risk of the Group (or one of its companies).

ERG mitigates the risk through the pursuit of a balanced financial structure in terms of duration and composition, constant monitoring of the financial balance and systematic generation of cash by its business activities. The Group's objective is to maintain the subject risk profile at extremely low levels through implementation of a financial planning process having the following objectives:

- enabling the Group to be solvent under normal operating conditions as well as under crisis conditions, optimising on the relative cost-opportunity;

- assuring an adequate level of operational elasticity, optimising on the cost of funding in relation to the current and future market conditions; the Group uses a prudent approach in estimating the projected cash inflows and outflows, taking into account the impact assessments of various scenarios, including stress-based ones, which identify the risk factors that could alter the cash flows envisaged in the Financial Plan (for example changes in scenarios, postponements of disposals) and define and implement the relative mitigation measures;
- maintaining a balance in terms of duration and composition of debt, also through an operating structure based on assigned limits that undergo periodic revision and approval, and a second-level control structure, autonomous from the first, which verifies its functioning;
- guaranteeing an adequate distribution of credit lines, cash deposits and the relative financial assets among the major Italian and international banks.

In order to ensure the efficient management of liquidity, treasury activities are centralised within the Parent Company, which meets the liquidity requirements of the Group primarily with cash flows generated by ordinary operations and with credit lines, where necessary, ensuring an appropriate management of liquidity. To pursue its risk mitigation objectives, the stock of financial assets of the ERG Group is invested in short-term, high liquidity financial instruments, favouring a very low risk profile. Use of short selling is never allowed.

Even in the current reference context, with the ongoing COVID-19 emergency, liquidity risk remains limited.

14. Trade Credit risk

This is the risk of unexpected changes in credit rating of a counterparty with respect to which there is an exposure that could have negative consequences in terms of income and capital. 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 the risk profile, through:

- the definition of risk exposure limits at Group level and of any risk mitigation tools (e.g. Bank Guarantees/Sureties) to ensure that the risk profile is aligned with the requirements of the Group;
- a structured, active management process for credit, 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 to them specific levels of credit in terms of maximum exposure (so-called credit limit);
 - Analyse the risk profile of the portfolio and the levels of exposure to counterparties in terms of credit limit granted and sales;
 - Conduct ageing analyses and constant monitoring of the overall exposure and of the exposure by counterparty, evaluating the definition and implementation of specific corrective measures.

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

With reference to the ongoing health emergency, a portfolio focused mainly on large national and international industrial customers, recognised as being robust and reliable, ensures that credit risk remains extremely contained.

15. Credit Risk towards Financial Counterparties

This risk is defined as the risk that an unexpected change in the creditworthiness of a financial counterparty with which the group has an exposure (for example, cash deposit) may cause consequent negative impacts at economic/financial level and reputational damage. The Group's objective is to find a proper balance between the return on financial investments and the minimisation of the related counterparty risk through:

- dealing with counterparties with Investment Grade rating or, in the absence thereof, a specific authorisation by the CEO upon obtaining the opinion of the Risk Committee;
- risk diversification strategies (for example, by depositing liquidity in various banks and/or using investment funds) as per the guidelines of the Risk Committee;
- for each financial counterparty, the verification that it is not included in any National and/or International Black Lists.
- continuous monitoring of the Counterparties' standing and an escalation process in case of negative events and/or deterioration of the risk profile.

At Group level, a structured process is in force, entailing:

- the autonomy of Finance in depositing cash up to 12 months at banks with an Investment Grade Rating (at least one Investment Grade Rating by S&P, Moody's or Fitch);
- an authorisation process (involving the Risk Committee) for uses of cash over 12 months or at banks with a rating below Investment Grade.

16. Risk of losing key professionals

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

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 the effectiveness of the rewarding components (monetary and non-monetary). In particular, the Group uses differentiated retention instruments according to the level of strategic relevance and seniority of its personnel, in line with company policies. In this respect, the fixed component of remuneration ensures retention through continuous benchmarking to the market, while the variable

component guarantees the alignment of company objectives and the individual's interests by paying bonuses upon reaching long-term (LTI) and short-term objectives (MBO).

17. Risks related to the loss of key suppliers

This risk is identified as the possibility that the Group will incur losses or higher costs, reputation damage or interruption in business continuity, at least in the short term, as a result of the loss of a strategic supplier (e.g. going out of business, bankruptcy). ERG minimises the risk through:

- the development of a process to select suppliers and qualify them (economic/financial, technical and HSE) in accordance with defined parameters and criteria, relying on calls for tenders with the identification of a minimum number of suppliers, assuring structured rotation whenever possible;
- specific functions responsible for the selection and control of supplier performance;
- the provision of protection clauses both in the General Conditions and in specific contracts;
- the structured monitoring of the pool of suppliers and the control of purchases, aimed at ensuring compliance with the quality parameters and concentration of orders as defined in Group policies.

With reference to COVID-19, all appropriate measures were implemented to ensure the continuity of supplies both in Italy and abroad, through the definition of procurement plans and the identification of backup suppliers for all the Main Components. Having its staff present on the ground for O&M activities and its own warehouses close to plants has proved to be a key decision for business continuity, minimising dependence on suppliers.

18. 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 the 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 Workers' Representative Organisations at national and local level;
- employees' participation in business objectives;
- second level negotiation activities.

19. Climate Change risk

Climate change risk is the possibility that climate changes in the short, medium and long term may have impacts on the business of the ERG Group with consequences from an economic and financial point of view in terms of (some examples): decreased availability of renewable resources (water, wind and sun); limitations or impediments to operations, increased O&M costs, increased insurance costs, higher compliance costs, etc.

To combat the climate change already underway, the Intergovernmental Panel on Climate Change (IPCC) has

highlighted in its publications the effects that global warming may have and is already having on the planet (among others – intensification of heat waves and of extreme weather events, rising sea levels, the thinning of Arctic sea ice and continental glaciers) and the importance of keeping the rise of average temperatures under 2°C. The path to reach this goal requires timely interventions in all sectors of the economy and industry on a global scale and the Energy sector is one of the key factors to assure the planet's sustainability.

In June 2017, the Task Force on Climate-related Financial Disclosures (TCFD) published a series of recommendations on the reporting of risks and related opportunities, also taken up by the European Commission in the June 2019 publication. The guidelines of the TCFD require providing disclosure with respect to four topic areas: Governance, Strategy, Risk Management, Metrics & Targets. In this context and with reference to the TCFD guidelines, the ERG Group has structured an analysis process that has been developed through:

- the identification of the reference scenarios: three scenarios were taken as reference, from among those most accredited in the literature: a physical scenario developed by the Intergovernmental Panel of Climate Change (IPCC) that assumes the absence of mitigation actions; two transition scenarios that focus on actions to limit GHG emissions (Below 2 Degree Scenario – B2DS; Science Based Target Initiative – SBT; Sustainable Development Scenario – SDS);
- the identification of the variables that impact the business of the ERG Group: the various variables have been identified, classified into “Physical” and “Transitory” events. Physical events include “Acute” events (e.g. storms, floods, intense heat waves), and “Chronic” events (rise in average temperature; rise in sea level; reduction in rainfall). Transitory events include “Regulatory” aspects (e.g. change in subsidies and incentives; change in the regulatory framework of GHG emissions;), of “Market” aspects (e.g. Uncertainty of electricity demand; increased competitive pressure), “Reputational” aspects, those linked to Technological Innovation (e.g. promotion of energy efficiency) and those on “Resilience”, in particular referring to actions aimed at combating the negative effects of climate change;
- the identification of the risks and opportunities linked to climate change in relation to the ERG Group business. The project has made it possible to identify the risks and opportunities caused by Climate Change, any financial impact (in qualitative and not quantitative terms) and the related management strategies implemented to mitigate risks. In particular, the risks include, for example: (i) possible damage to plants and/or infrastructures and/or Interruptions in the Supply Chain due to Acute Physical events; (ii) reduction in plant performance due to heat waves with a negative impact on their efficiency; (iii) decrease in average rainfall with negative impacts on the electricity output of hydroelectric assets. The opportunities include, for example: (i) increase in electricity demand for cooling (ii) possible increase in the price of electricity promoted by the exit from coal.

To mitigate the related risks and exploit any opportunities, the ERG Group, one of the leading renewable energy operators at national and European level, makes its choices in an “Aware and Responsible” manner, implementing a strategy based on combating climate change that is closely integrated with the business strategy.

Moreover, over the years the Group has demonstrated its ability to anticipate radical changes in the context in

which it operates, promptly modifying its growth strategy. Over the years, the ERG Group has changed from being an operator in the refining and distribution of fuels to being a leading operator in Italy and Europe in the production of energy from renewable sources. The ERG Group is committed, through its own targets of investment in “zero emission” green technologies and in particular in wind and solar sectors, to providing its own contribution to the fight against climate change in line with COP21 objectives.

The results of this activity on Climate Change are reported in more detail in the Group's 2020 Non-Financial Statement.

HEALTH, SAFETY AND ENVIRONMENT

Despite the difficulties due to the COVID-19 pandemic, 2020 saw the strengthening of the symbiotic organisational structure of the ERG Group companies and of the various electricity production businesses, a project launched in 2017 and characterised by a strong focus on process logic and a willingness to “reunite” the entire organisation towards a single common vision.

In this scenario, we can distinguish:

- Corporate ERG S.p.A., which ensures strategic guidance, is directly responsible for business development processes and ensures the management of all business support processes;
- ERG Power Generation S.p.A., electricity generation and sale company, dedicated to the overall integrated management of the four different and complementary production technologies currently possessed by the Group (Thermo, Hydro, Wind and Solar units), and to the sale of electricity through a single centralised Energy Management structure;
- ERG Hydro S.r.l., a generation company using hydroelectric technology, owner of the hydroelectric assets currently comprising 19 plants, 7 dams, 3 reservoirs and a pumping station, located in Umbria, Marche and Lazio.

Safeguarding 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 with regard to health, safety and the environment are stated in the Sustainability Policy, which outlines the values, commitments and objectives that ERG aims to pursue in terms of sustainability with respect to all stakeholders. In line with its Code of Ethics and Human Rights Policy, ERG guides the activities of the entire Group, combining the objective of creating sustainable value over time with that of respect for the environment and attention to both internal and external stakeholders. For the ERG Group, growing in a sustainable manner means integrating the economic and business growth objectives with the creation of value for the Environment and for the Company, increasing the value generated and transforming it into competitive advantage. Within this system, the “central HSE” Organisational Unit was established, tasked with functionally coordinating the resources assigned to the individual Electricity generation units (Thermo, Hydro, Wind and Solar), with the objective of strengthening and integrating the issues of health, safety and environment.

Health, Safety and Environment

Due to being fully integrated in ERG Power Generation, ERG Hydro S.r.l. makes reference to the HSE policy of said group company.

This HSE Policy, which is integrated with the Group’s Sustainability Policy, outlines the specific commitments undertaken to protect the environment and the local communities, in accordance with the ISO 14001 international

standard and, in particular, with the new concepts of "Risk-based thinking" and "Life-cycle perspective".

During 2020, business activities continued in accordance with the HSE Policy and with the principles pursuant to the Guidelines, the Code of Ethics and the Human Rights adopted by the Group.

In terms of measures carried out, intensive training was carried out remotely, and multiple measures were applied in the field of health and safety in the workplace, at all organisational levels, involving the entire company population, in order to address the risks of COVID-19 virus infection. Compulsory training was also provided for industry regulations and for the figures concerned, as envisaged in the Training Plans. Moreover, in line with Group Policies, ERG Hydro S.r.l., which has always focused on promoting employee health and safety, offered its personnel the opportunity to undergo a series of medical tests in 2020; flu vaccinations and COVID-19 serological tests were also encouraged on the return from the summer holiday period for all company staff.

In line with what is already underway at other group companies and in order to promote activities linked to prevention in the workplace, ERG Hydro S.r.l. has adopted a project to create a culture of health, safety and the environment by increasing awareness amongst employees and third-party companies, with the objective of encouraging more conscious and responsible competencies and behaviours and attaining benefits in terms of improvement of the safety and environment standards within the relevant areas. The operational tool of this project is the "Safety and Environment Competition" also underway in other group companies. Having defined the competition structure and launched the initiative in 2019, the award ceremony was carried out in 2020 and at the same time the new edition was relaunched.

In addition, in 2020 the "Leadership in Safety" project continued across the entire group, aimed at encouraging the adoption of behavioural leadership models in relation to safety matters by operational managers, all the way from top management to local managers who directly manage the operational activities of workers. The main recipients were the operational managers within the group, i.e. those who are responsible for managing people, the HSE team, and, through cascaded management, also the employees of the group. In 2020, "training on the job" initiatives were adapted for remote connection, due to the COVID-19 emergency.

Management of hydroelectric assets in 2020 was conducted in a manner that complied with the objectives set out in the plans to improve ERG Hydro's environmental and safety management systems; no non-conformities were identified by the accredited certification bodies or by the competent authorities.

Management Systems and Certifications

ERG Hydro S.r.l., following the HSE Policy, fulfils all the obligations and applicable requirements, mandatory or voluntarily taken on, in order to achieve the objectives established by Management. ERG Hydro S.r.l. has defined its Integrated Management System (IMS) as the collection of "organisational structures, procedures, processes and resources that are needed to implement Environmental and Safety Management".

The Integrated Management System has the following objectives:

- to identify and describe, in detail, the productive processes 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 based on the requirements of the ISO 14001 and ISO 45001 standards;
- to adopt procedures and reference guidelines applicable to all units.

The process of harmonisation and integration of the Management Systems adopted by the various business units, including the Hydro unit in particular, through streamlining of the various certifications within the Group and a single accreditation body, continued in 2020. This resulted in a single certificate of compliance for each reference standard valid for the whole of ERG Power Generation, which also includes ERG Hydro.

In 2020, all the certifications of ERG Power Generation Management Systems were confirmed, including in relation to the ERG Hydro scope.

Lastly, with regard to health and safety aspects, the transition from OHSAS 18001 to ISO 45001 was validated. The new standard, in confirming the fundamental aspects of the previous one, nevertheless stresses the importance of some aspects, in particular the workers' involvement in the corporate processes that have implications in safety matters.

During the various external audits conducted remotely, no significant evidence emerged, only observations for improving certain processes, thereby noting the efficacy of management of corporate processes pertaining to the environment and to health and safety in the workplace.

In accordance with the provisions of these systems, internal audits were planned and carried out, again remotely, to verify compliance with the standards of the Management Systems adopted, and no significant evidence emerged.

With regard to environmental aspects, another important objective achieved by ERG Hydro S.r.l. in 2020 was maintenance of EMAS registration, pursuant to Regulation EC 1221/2009 and Regulation 2017/1505/EU.

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

The reports and indicators used in the updated Environmental Declaration, validated by an accredited Auditor, provide all stakeholders with an overview of the activities and main environmental issues. The document not only presents the results achieved, but proposes also the new environmental programme, the commitments and the new planned objectives that the organisation undertakes to implement in the three-year period 2020-2022.

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

PRIVACY

Since implementing the Privacy management system in May 2018 (the date of entry into force of Regulation (EU) no. 2016/679 – GDPR), the ERG Group has continued to monitor and develop it.

The objectives set for 2020, and the actions agreed with the Board of Directors, were pursued and the actions completed.

Furthermore, in 2020 the contact person for the ERG Group from a Privacy point of view carried out and completed the training course for the qualification of Data Protection Officer (a recognised course for the purposes of the AICQ SICEV certification process).

HUMAN RESOURCES

At 31 December 2020, ERG Hydro S.r.l.'s staff totalled 65 employees (compared to 66 at 31 December 2019), subdivided as follows: 1 executive, 6 managers, 35 white-collar workers and 23 blue-collar workers.

FINANCIAL STATEMENTS

INCOME STATEMENT

The economic results for the year 2020 are summarised in the statement below, obtained by reclassifying the Income Statement data based on management criteria.

(EUR thousand)	2020	2019
Revenue from sales and services	51,373	70,568
Other revenue and income	55,239	51,678
TOTAL REVENUE	106,612	122,246
Purchases	(1,538)	(1,469)
Change in inventories	154	5
Services and other operating costs	(47,332)	(32,185)
Personnel expense	(5,180)	(5,472)
GROSS OPERATING PROFIT (EBITDA)	52,716	83,126
Economic-technical amortisation, depreciation and impairment losses	(56,046)	(53,788)
OPERATING PROFIT (EBIT)	(3,330)	29,338
Net financial income (expense)	2,650	289
NET PROFIT (LOSS) FROM ORDINARY OPERATIONS	(680)	29,627
Income taxes	593	(8,292)
PROFIT (LOSS) FOR THE YEAR	(86)	21,335

Operations recorded a value of production of EUR 106,612 thousand, including revenues from the sale of electricity for EUR 51,373 thousand, revenue relative to the feed-in premium for EUR 49,736 thousand, and other items for a total of EUR 5,503 thousand, including, in particular, EUR 3,929 thousand in revenue for water diversion.

Production costs comprise energy purchased and other purchases of material for EUR 1,538 thousand. Services amounted to EUR 16,816 thousand, other operating costs include costs for water diversion fees of EUR 12,684 thousand, other costs for leased goods of EUR 290 thousand, sundry operating costs of EUR 2,121 thousand, provisions for risks of EUR 13,730 thousand and personnel expense of EUR 5,180 thousand. Net of the impairment of current assets relating to other revenue and income for EUR 1,691 thousand and the change in inventories – the latter increased by EUR 154 thousand compared to 31 December 2019 – EBITDA therefore stood at EUR 52,716 thousand. Net of amortisation/depreciation for the period, amounting to EUR 53,419 thousand, and impairment of current assets relating to financial income, equal to EUR 2,627 thousand, the EBIT stood at EUR -3,330 thousand.

Financial year 2020 closed with a loss of EUR 86 thousand after the recognition of net financial income and charges of EUR 2,650 thousand and after the recognition of positive taxes of EUR 593 thousand.

STATEMENT OF FINANCIAL POSITION

The Company's financial position is summarised in the statement below, obtained by reclassifying, based on management criteria, the statutory financial statements drawn up in accordance with Italian Legislative Decree no. 127/91.

(EUR thousand)	31/12/2020	31/12/2019
Non-current assets	627,188	465,492
Net operating working capital	12,017	9,897
Post-employment benefits	(694)	(743)
Other assets	19,031	22,021
Other liabilities	(33,693)	(12,144)
NET INVESTED CAPITAL	623,849	484,523
Equity	909,805	728,677
Current financial indebtedness	(285,956)	(244,154)
EQUITY AND FINANCIAL DEBT	623,849	484,523

As at 31 December 2020, the net invested capital amounted to EUR 623,849 thousand, the increase of which compared to the previous year is mainly affected by the revaluation of part of the property, plant and equipment in accordance with Decree Law 104/2020 ("August Decree"), as described in more detail in the Property, plant and equipment section of the Notes to the Financial Statements. Current financial indebtedness improved compared to the previous year as a result of lower dividends paid in the current year compared to those paid last year against a substantially stable cash flow from operations. Indeed, although the net profit is down compared to the previous year, this decrease is mainly due to non-monetary items.

Non-current assets

(EUR thousand)	31/12/2020	31/12/2019
Intangible assets	1,897	32,091
Property, plant and equipment	625,237	433,368
Financial assets	54	33
Total	627,188	465,492

Intangible assets refer mainly to goodwill generated by the merger by incorporation, which took place in 2001 and 2003, and to software costs regarding the sale of hydroelectric energy.

Property, plant and equipment included the hydroelectric complex comprising 19 hydroelectric plants, 7 dams, 3 reservoirs and a pumping station, located geographically throughout Umbria, Marche and Lazio, with an installed operating capacity of 526.9 MW.

Financial assets, such as financial receivables, consist of security deposits.

Net operating working capital

(EUR thousand)	31/12/2020	31/12/2019
Inventories	158	5
Trade receivables	16,450	16,541
Trade payables	(4,592)	(6,649)
NET OPERATING WORKING CAPITAL	12,017	9,897

The breakdown of trade receivables is mainly as follows:

- receivables from the sale of electricity to Parent Company ERG Power Generation S.p.A. (EUR 13,200 thousand);
- receivables from third parties for compensation from water diversion (EUR 6,327 thousand).

The receivables in the table are recognised net of the loss allowance.

Trade payables mainly refer to payables for the supply of material and equipment, tenders and services, and payables to the parent company for residual fees relating to ancillary services.

Other assets

(EUR thousand)	31/12/2020	31/12/2019
Other receivables to Group companies	1,502	5,861
Tax assets within 12 months	2,587	4,013
Other short-term receivables	1,961	4,292
Accrued income and prepaid expenses within 12 months	4,535	4,244
Tax assets over 12 months	8,446	3,611
Total	19,031	22,021

The "Sundry receivables from Group companies" item includes the tax consolidation receivable from the indirect parent company ERG S.p.A. The "Other short-term receivables" item refers mainly to receivables for the feed-in tariff (EUR 884 thousand).

The "Accrued income and prepaid expenses within 12 months" item refers to hydroelectric rent and insurance.

Other tax assets mainly refer to VAT receivables (EUR 2,559 thousand) and receivables for prepaid taxes (EUR 8,446 thousand).

Other liabilities

(EUR thousand)	31/12/2020	31/12/2019
Tax liabilities within 12 months	(3,999)	(246)
Other provisions for risks and charges	(14,005)	(276)
Other short-term payables	(7,120)	(6,237)
Short-term accrued expenses and deferred income	(8)	(9)
Tax liabilities over 12 months	(8,423)	(5,181)
Other medium/long-term liabilities	(138)	(195)
Total	(33,693)	(12,144)

The main items are:

- other short-term payables comprise mainly credit notes to be issued by customers (EUR 5,950 thousand), payables for rents and agreements (EUR 559 thousand), and payables to employees (EUR 290 thousand) and pension institutions (EUR 253 thousand);
- medium/long-term tax liabilities include the provision for deferred taxes and the instalments of the substitute tax payable on the revaluation of property, plant and equipment pursuant to Italian Decree Law 104/2020, to be paid from 2021 in three annual instalments of the same amount; Short-term tax liabilities refer mainly to the payable for IRAP for the year (EUR 1,697 thousand), to the withholdings made to employees in December and paid to the tax authorities in January 2020 (EUR 207 thousand) and to the instalment relating to the substitute tax on the revaluation of property, plant and equipment pursuant to Italian Decree Law 104/2020 to be paid in 2021 (EUR 2,088 thousand);
- other provisions for risks and charges include provisions for risks in relation to charges related to disputes with local entities regarding fees for concessions;
- other medium/long-term liabilities include employee expense.

Net financial position – Cash and cash equivalents

The net financial position saw an increase in the credit position towards the parent company, due to the positive cash flow generated by operations during the year.

(EUR thousand)	31/12/2020	31/12/2019
Cash and cash equivalents	(126)	(1,694)
Financial receivables from Group companies	(285,830)	(242,460)
Current financial assets	(285,956)	(244,154)
Total	(285,956)	(244,154)

The “Financial receivables from Group companies” item refers exclusively to the receivable from ERG Power Generation S.p.A. for the positive balance of the intra-group current account through which the cash flows are managed.

Analysis of the change in net financial position during the period in question highlights the following:

(EUR thousand)	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from current operations	65,505	75,581
Change in operating assets and liabilities	3,942	(8,737)
Total	69,447	66,844
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure	(6,325)	(5,619)
Divestments	14	6
Total	(6,311)	(5,613)
CASH FLOWS FROM EQUITY		
Distributed dividends	(21,335)	(71,408)
Other changes in equity	—	—
TOTAL	(21,335)	(71,408)
CHANGE IN NET FINANCIAL INDEBTEDNESS	41,801	(10,177)
OPENING NET FINANCIAL INDEBTEDNESS	(244,154)	(254,333)
CHANGE IN INDEBTEDNESS IN THE PERIOD	(41,801)	10,177
FINAL NET FINANCIAL INDEBTEDNESS	(285,956)	(244,154)

RELATIONS WITH PARENT COMPANIES, SUBSIDIARIES, ASSOCIATES AND COMPANIES SUBJECT TO CONTROL BY THE PARENT COMPANIES

With regard to the information required by Article 2428, paragraph 3, number 2) of the Italian Civil Code, 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 2020 are closely correlated to the Company's operations and specifically regard:

- "Centralised Financial Management Agreement" with the parent company ERG Power Generation S.p.A. to manage treasury flows and use the financial services. Financial transactions between the parties are settled through an intra-group current account and remunerated based on the 1-week Euribor rate plus a spread. Interest is tallied on a quarterly statement and paid via the intra-group account;
- "Services Contract" with parent company ERG Power Generation S.p.A., based on which the Company receives the administrative, legal and corporate, finance and treasury, information technology and human resource services;
- "Contract for the provision of electricity", according to which, starting from 1 July 2016, the Company sells the electricity generated by its own hydroelectric plants, except for the plants with agreements in place with the GSE for dedicated withdrawal, to the parent company ERG Power Generation S.p.A. and simultaneously grants the latter authorisation to act as dispatching user;
- "National Tax Consolidation Scheme", signed on 30 May 2016 with the parent company ERG S.p.A., based on which the Group taxation option was exercised. Participation of ERG Hydro S.r.l. in the National Tax Consolidation Scheme involves the transfer of its taxable income to the parent company ERG S.p.A., with subsequent recording in the Financial Statements of costs or revenue from the consolidation, as well as payables or receivables to/from parent company ERG S.p.A. for the consolidation. The option has a three-year duration, for the years 2019-2021, and is renewed automatically;
- "Contract for the purchase and sale of Certificates of Origin", which governs the sale of these certificates, recognised in respect of ERG Hydro S.r.l. for the production of electricity to the parent company ERG Power Generation S.p.A.

The table below summarises the financial and equity items for the year 2020 with the Group companies.

	Revenue				Costs	
	Sales and services	Other revenues	Financial income	Purchases	Services and other operating costs	Financial expense
(EUR thousand)						
Parent companies						
ERG S.p.A.		–	–	–	(45)	–
ERG Power Generation S.p.A.	48,162	367	–	(975)	(8,420)	

(EUR thousand)	Receivables			Payables		
	Trade	Other	Financial	Trade	Other	Financial
Parent companies						
ERG S.p.A.	–	1,502	–	(91)	–	–
ERG Power Generation S.p.A.	14,051	–	285,830	(124)	–	–

BRANCH OFFICES AND OFFICES

The registered office of ERG Hydro S.r.l. is in Genoa, with branches in:

- Province of Macerata: Visso
- Province of Perugia: Cerreto di Spoleto, Foligno and Preci
- Province of Rome: Rome
- Province of Rieti: Cittaducale, Rocca Sinibalda and Posta
- Province of Terni: Alviano, Baschi, Orvieto, Narni and Terni

RESEARCH AND DEVELOPMENT ACTIVITIES

The company did not conduct R&D activities during the period.

BUSINESS OUTLOOK

Volumes are expected to increase significantly compared to the very low levels of 2020, thanks also to the high availability of water in the reservoirs accumulated at the beginning of the year. This forecast of higher volumes will be accompanied by the optimisation of Energy Management generation on the energy markets. The result will also benefit from both the higher incentive price on at least 40% of outputs, and the improved price scenario.

Therefore, EBITDA is expected to increase sharply compared to the values of 2020.

Genoa, 10 March 2021

On behalf of the Board of Directors

The Chairman

Renato Alessandro Sturani





Financial Statements

STATEMENT OF FINANCIAL POSITION

ASSETS

(EUR)	31/12/2020	31/12/2019
(A) SUBSCRIBED CAPITAL, UNPAID	–	–
(B) NON-CURRENT ASSETS		
I. Intangible assets		
1) start-up and expansion costs	–	559
2) development costs	–	–
3) industrial patents and intellectual property rights	544,865	748,668
4) concessions, licences, trademarks and similar rights	–	–
5) goodwill	526,716	30,910,785
6) assets under development and advances	824,964	431,257
7) other	–	–
Total	1,896,544	32,091,269
II. Property, plant and equipment		
1) land and buildings	44,795,779	45,599,583
2) plant and equipment	573,731,709	381,651,390
3) industrial and commercial equipment	393,427	272,113
4) other assets	46,925	55,489
5) assets under construction and advances	6,269,232	5,789,674
Total	625,237,071	433,368,249
III. Financial assets		
1) equity investments in:		
a) subsidiaries	–	–
b) associates	–	–
c) parent companies	–	–
d) companies subject to control by parent companies	–	–
d-bis) other companies	–	–
2) receivables:		
a) from subsidiaries	–	–
b) from associates	–	–
c) from parent companies	–	–
d) from companies subject to control by parent companies	–	–
d-bis) from others	54,324	32,744
3) other securities	–	–
4) financial derivative instruments	–	–
Total	54,324	32,744
TOTAL NON-CURRENT ASSETS (B)	627,187,939	465,492,262

(EUR)	31/12/2020	31/12/2019
(C) CURRENT ASSETS		
I. Inventories		
1) raw, ancillary and consumable materials	158,204	4,596
2) work in progress and semi-finished products	–	–
3) contracts in progress	–	–
4) finished products and goods	–	–
5) advances	–	–
Total	158,204	4,596
II. Receivables		
	of which beyond 12 months:	of which beyond 12 months:
1) from customers	–	2,398,817
2) from subsidiaries	–	–
3) from associates	–	–
4) from parent companies	–	15,553,157
4- <i>quater</i>) assets for substitute tax from realignment	–	–
5) from companies subject to control by parent companies	–	–
5- <i>bis</i>) tax assets	–	2,587,216
5- <i>ter</i>) deferred tax assets	8,445,855	8,445,855
5- <i>quater</i>) from others	1,961,082	373,000
Total	30,946,128	34,318,266
III. Current financial assets		
1) equity investments in subsidiaries	–	–
2) equity investments in associates	–	–
3) equity investments in parent companies	–	–
3- <i>bis</i>) equity investments in companies subject to control by parent companies	–	–
4) other equity investments	–	–
5) financial derivative instruments	–	–
6) other securities	–	–
7) financial assets for centralised treasury management in respect of parent company	285,829,520	242,460,173
Total	285,829,520	242,460,173
IV. Cash and cash equivalents		
1) bank and postal deposits	126,217	1,694,309
2) cheques	–	–
3) cash and notes on hand	–	–
Total	126,217	1,694,309
TOTAL CURRENT ASSETS (C)	317,060,068	278,477,344
(D) ACCRUALS AND DEFERRALS ASSETS	4,535,107	4,243,520
TOTAL ASSETS	948,783,116	748,213,126

LIABILITIES

(EUR)	31/12/2020	31/12/2019
(A) EQUITY		
I) Share capital	50,000,000	50,000,000
II) Share premium reserve	252,010,000	252,010,000
III) Revaluation reserves	429,164,617	226,616,169
IV) Legal reserve	64,867,941	64,867,941
V) Statutory reserves	–	–
VI) Other reserves, indicated separately	–	–
Reserves for shareholder contributions	–	–
Capital grants reserve	–	–
Extraordinary reserve	–	–
Other reserves	113,848,348	113,848,348
VII) Reserve for transactions to hedge expected cash flows	–	–
VIII) Retained earnings (accumulated losses)	–	–
IX) Profit (loss) for the year	(86,172)	21,334,880
X) Negative reserve for treasury shares in portfolio	–	–
TOTAL	909,804,734	728,677,338
(B) PROVISIONS FOR RISKS AND CHARGES		
1) for pensions and similar obligations	–	–
2) for taxes, including deferred	4,246,547	5,180,644
3) financial derivative liabilities	–	–
4) other	14,143,101	470,241
TOTAL	18,389,648	5,650,885
(C) POST-EMPLOYMENT BENEFITS	693,736	743,240

(EUR)	31/12/2020			31/12/2019	
(D) PAYABLES					
		of which beyond 12 months:		of which beyond 12 months:	
1)	bonds	–	–	–	–
2)	convertible bonds	–	–	–	–
3)	shareholder loan payables	–	–	–	–
4)	payables to banks	–	–	–	1
5)	payables to other lenders	–	–	–	–
6)	advances	–	–	–	–
7)	payables to suppliers	–	4,376,835	–	5,700,971
8)	payables represented by securities	–	–	–	–
9)	payables to subsidiaries	–	–	–	–
10)	payables to associates	–	–	–	–
11)	payables to parent companies	–	214,864	–	947,745
11-bis)	payables to companies subject to control by parent companies	–	–	–	–
12)	tax liabilities	4,176,257	8,174,810	–	246,387
13)	payables to social security and pension institutions	–	252,998	–	274,392
14)	other payables	–	6,867,544	–	5,962,941
TOTAL		19,887,051		13,132,437	
(E) ACCRUALS AND DEFERRALS LIABILITIES		7,948		9,226	
TOTAL LIABILITIES		948,783,116		748,213,126	

INCOME STATEMENT

(EUR)	2020	2019
(A) VALUE OF PRODUCTION		
1) revenue from sales and services	51,373,426	70,568,212
2) changes in inventories of work in progress, semi-finished products and finished products	–	–
3) changes in contracts in progress	–	–
4) Increases in non-current assets for internal work	–	–
5) other revenue and income		
– other	55,238,854	51,678,021
– operating grants	–	–
TOTAL	106,612,280	122,246,233
(B) COST OF PRODUCTION		
6) for raw, ancillary and consumable materials and goods	(1,538,071)	(1,469,248)
7) for services	(16,816,318)	(16,993,374)
8) for leased goods	(12,974,180)	(12,907,558)
9) for employees:		
a) salaries and wages	(3,627,175)	(3,587,331)
b) social security contributions	(1,106,870)	(1,089,934)
c) post-employment benefits	(224,585)	(238,759)
d) pensions and similar obligations	–	–
e) other costs	(220,924)	(555,784)
	(5,179,554)	(5,471,809)
10) Depreciation and impairment losses:		
a) amortisation of intangible assets	(30,749,290)	(30,666,539)
b) depreciation of property, plant and equipment	(22,669,405)	(23,121,139)
c) other impairment losses of non-current assets	–	–
d) impairment losses of receivables included in current assets and cash and cash equivalents	(4,317,899)	(15,470)
	(57,736,594)	(53,803,148)
11) changes in inventories of raw, ancillary and consumable materials and goods	153,608	4,596
12) provisions for risks	(13,730,000)	–
13) other provisions	–	–
14) sundry operating costs	(2,120,765)	(2,268,473)
TOTAL	(109,941,874)	(92,909,014)
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A-B)	(3,329,594)	29,337,219

(EUR)	2020	2019
(C) FINANCIAL INCOME AND EXPENSE		
15) income from equity investments:		
– in subsidiaries	–	–
– in associates	–	–
– in parent companies	–	–
– in companies subject to control by parent companies	–	–
– from others	–	–
16) Other financial income:		
a) from receivables recorded under non-current assets		
– from subsidiaries	–	–
– from associates	–	–
– from parent companies	–	–
– from companies subject to control by parent companies	–	–
– from others	–	–
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 income		
– from subsidiaries	–	–
– from associates	–	–
– from parent companies	–	276,658
– from companies subject to control by parent companies	–	–
– from others	2,650,184	15,113
	2,650,184	291,771
	2,650,184	291,771
17) interest and other financial expense		
– to subsidiaries	–	–
– to associates	–	–
– to parent companies	–	–
– to companies subject to control by the parent companies	–	–
– to others	–	(506)
	–	(506)
17-bis) Exchange rate gains and losses	–	(1,886)
TOTAL	2,650,184	289,379

(EUR)	2020	2019
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES		
18) revaluations:		
a) of equity investments	—	—
b) of financial assets other than equity investments	—	—
c) of securities recorded under current assets that are not equity investments	—	—
d) of derivative financial instruments	—	—
	—	—
19) impairment losses:		
a) of equity investments	—	—
b) of financial assets other than equity investments	—	—
c) of securities recorded under current assets that are not equity investments	—	—
d) of derivative financial instruments	—	—
	—	—
TOTAL ADJUSTMENTS (18-19) (D)	—	—
PROFIT BEFORE TAXES (A - B +/- C +/- D)	(679,410)	29,626,598
20) income taxes for the year: current, deferred and prepaid	593,238	(8,291,718)
21) PROFIT (LOSS) FOR THE YEAR	(86,172)	21,334,880

STATEMENT OF CASH FLOWS

(EUR)	2020	2019
A. CASH FLOWS FROM OPERATING ACTIVITIES (INDIRECT METHOD)		
Profit (loss) for the year	(86,172)	21,334,880
Income taxes	(593,238)	8,291,718
Interest expense/(interest income)	(2,650,184)	(291,265)
(Dividends)		
(Capital gains)/capital losses from the disposal of assets		
1. Profit (loss) for the year before income taxes, interest, dividends and capital gains/losses from disposal	(3,329,594)	29,335,333
Allocations to provisions	13,954,585	–
Amortisation/depreciation of non-current assets	53,418,695	53,787,678
Impairment losses	–	15,470
Other adjustments for non-monetary elements		
Value adjustments to financial assets and liabilities of financial derivatives that do not involve financial transactions		
2. Cash flows before changes in net working capital	64,043,686	83,138,481
Decrease/(increase) in inventories	(153,608)	(4,596)
Decrease/(increase) in trade receivables	90,664	1,759,938
Increase/(decrease) in trade payables	(2,056,807)	(5,333,939)
Decrease/(increase) in accrued income and prepaid expenses	(291,587)	1,630,308
Increase/(decrease) in accrued expenses and deferred income	(1,279)	(2,118)
Other changes in net working capital	11,082,881	(46,277,237)
3. Cash flows after changes in net working capital	72,713,951	34,910,837
Interest received/(paid)	–	276,658
Income taxes paid	(2,935,474)	32,213,642
Dividends received	–	–
(Use of post-employment benefits provision)	(274,089)	(514,758)
(Use of the provisions)	(57,140)	(42,736)
Other collections and payments	–	–
4. Cash flows after other adjustments	69,447,248	66,843,643
CASH FLOWS FROM OPERATING ACTIVITIES (A)	69,447,248	66,843,643

	2020	2019
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Property, plant and equipment		
(Capital expenditure)	(5,787,492)	(5,136,176)
Divestments	14,100	4,552
Intangible assets		
(Capital expenditure)	(516,141)	(470,963)
Divestments		
Financial assets		
(Capital expenditure)	(21,580)	(11,826)
Divestments	–	1,000
Current financial assets		
(Capital expenditure)	(43,369,347)	11,695,709
Divestments		
CASH FLOWS FROM INVESTING ACTIVITIES (B)	(49,680,460)	6,082,296
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings		
Increase (decrease) in short-term bank borrowings		
Increase (decrease) of short-term payables/receivables to/from Group companies	–	–
Loans taken out		
Repayment of loans	–	(17)
Equity		
Paid share capital increases	–	–
(Repayment of capital)		
Sale (purchase) of treasury shares	–	–
Other changes SE	–	2
Dividends (and advances on dividends) paid	(21,334,880)	(71,408,377)
CASH FLOWS FROM FINANCING ACTIVITIES (C)	(21,334,880)	(71,408,392)
Increase (decrease) of cash and cash equivalents (A ± B ± C)	(1,568,092)	1,517,547
Opening cash and cash equivalents	1,694,309	176,762
CLOSING CASH AND CASH EQUIVALENTS	126,217	1,694,309

NOTES TO THE 2020 FINANCIAL STATEMENTS

The Financial Statements of ERG Hydro S.r.l. (hereinafter also the "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 Notes the Financial Statements.

For each item of the Statement of Financial Position, Income Statement and Statement of Cash Flows, the corresponding values at 31 December 2019 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 Notes to the Financial Statements.

The Statement of Cash Flows shows the positive or negative changes in cash and cash equivalents during the year and was drawn up using the indirect method, based on the format provided by OIC 10 accounting standard.

The Statement of Financial Position, Income Statement and Statement of Cash Flows were drawn up in Euro, without decimals, while the values in the Notes to the Financial Statements are expressed in thousands of Euro, unless otherwise specified.

In application of the principle of materiality, as set out in Article 2423, paragraph 4, of the Italian Civil Code, the Notes omit the comments on the items in the Financial Statements, even if specifically envisaged by Article 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 Company's 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 to the Financial Statements.

Note that, pursuant to Articles 2497 et seq. of the Italian Civil Code, the Company is subject to management and coordination by ERG S.p.A.; therefore, the Notes include a summary statement of the key data from its latest financial statements.

ERG Hydro S.r.l. is controlled directly by ERG Power Generation S.p.A., with registered office at Via De Marini 1, in Genoa, and indirectly by ERG S.p.A., also with registered office at Via De Marini 1, in Genoa, and by San Quirico S.p.A., with registered office in Via Martin Piaggio 17, in Genoa, 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 Power Generation S.p.A. and ERG S.p.A. are available on the website of ERG S.p.A., at www.erg.eu/en, while the Consolidated Financial Statements of San Quirico S.p.A. are available at the Company's registered office.

THE COMPANY

On 22 July 2015, Hydro Terni S.r.l. was founded with a share capital of EUR 10 thousand, fully underwritten and paid up by the company E.ON Italia S.p.A.

The Company's purpose involves the development, construction and management of hydroelectric plants for the production of electricity, as well as the sale of any related products.

On 26 August 2015, the project for the partial demerger of E.ON Produzione S.p.A., wholly-owned by E.ON Italia S.p.A. was approved, with simultaneous allocation of the demerged business branch in favour of Hydro Terni S.r.l.

On 5 November, the demerger deed that defined the set of assets and liabilities to be allocated to Hydro Terni S.r.l. was drawn up, comprising the hydroelectric complex consisting of 16 plants, 7 dams, 3 reservoirs and a pumping station, located in Umbria, Marche and Lazio, with an installed operating capacity of 526.5 MW and 91 employees.

On 30 November 2015, the date of effectiveness of the demerger, the Company acquired the aforementioned hydroelectric plant as well as the corresponding assets, which resulted in a share capital increase from EUR 10 thousand to EUR 50 million.

On the same date, transfer of the 100% equity investment in favour of ERG Power Generation S.p.A. became effective, and the Shareholders' Meeting of 30 November 2015 deliberated in favour of the modification of the company name to ERG Hydro S.r.l., as well as the transfer of the registered office from Milan to Via De Marini 1, in Genoa, and adoption of new Articles of Association. The Meeting also appointed the members of the Board of Directors and the Board of Statutory Auditors.

At 1 December 2015, the Company began activities for the production and sale of electricity.

The Shareholders' Meeting of 19 April 2018 renewed the mandate of the members of the Board of Directors up to approval of the Financial Statements for the year ending 31 December 2020 and assigned the mandate for auditing of the accounts to the company KPMG S.p.A. up to the same date.

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 year end, while the risks and losses pertaining to the 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 Article 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.

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 subjective assessments are more heavily required were used, inter alia, for:

- determination of the useful life of the assets, the relative depreciation/amortisation rates and any impairment losses;
- allocations to provisions for risks of 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 schemes.
- the procedure for verifying the recoverability of the carrying amount of property, plant and equipment and intangible assets, described in more detail in the relevant section "Impairment", which implies, in estimating the value in use, the use of assumptions regarding inflation, discount rates, expected energy prices, availability of renewable resources, developments in the regulatory framework and the estimate of the terminal value in particular for "dry" and "wet" works at the end of the major hydroelectric diversion concessions, also in relation to regulatory uncertainties.

For a clearer disclosure, it was deemed preferable to show all amounts rounded off to the nearest EUR thousand in the Notes to the Financial Statements; consequently, in some statements, total amounts 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 impairments 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 expense 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.

Start-up and expansion costs are amortised over five financial years on a straight-line basis.

Goodwill includes amounts paid in this respect with regard to company purchase transactions or other corporate transactions and is amortised based on useful life. The useful life 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 ten years.

In view of the faculty envisaged by the final transitional provisions pursuant to Article 12 of Italian Legislative Decree no. 139 of 18 August 2015 to not apply the new regulations (amortisation over ten years), as the effects in the financial statements have not yet terminated, goodwill is amortised on a straight-line basis over twenty years, in line with the same calculation methods used previously.

Goodwill is recorded under assets only if it is acquired for consideration, has a quantifiable value, comprises charges and costs with deferred usefulness over time, thereby ensuring future economic benefits, and the related cost can be recovered.

Industrial patents and intellectual property rights comprise essentially application software amortised on a straight-line basis over three years.

At year end, any intangible assets that were consistently worth less than the amount determined using the amortisation process were written down by the corresponding amount; this impairment was eliminated in following years if the conditions that had led to its impairment were no longer valid.

Note that the values at 31 December 2020 include the demerger carrying amounts from the books of the demerged company and the amortisation processes continued in accordance with the rates used previously. These rates are fully consistent with the residual useful lives of the assets.

Intangible assets are revalued, up to their recoverable value, only in cases envisaged or permitted by law.

Property, plant and equipment

Property, plant and equipment are recognised at purchase cost, including directly attributable ancillary charges and costs incurred to use the asset, net of any commercial discounts and cash discounts of a significant amount.

The values recorded are adjusted on an annual base on the corresponding accumulated depreciation and any impairments. 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.

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.

Depreciation rates were 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.

Note that the values at 31 December 2020 include the demerger carrying amounts from the books of the demerged company and the amortisation processes continued in accordance with the rates used previously. These rates are fully consistent with the residual useful lives of the assets.

Italian Legislative Decree no. 139/2015 replaced the principle of economic function with the principle of economic substance. In this respect, OIC 16 further specified that non-current assets are initially recognised on the date on which the risks and benefits of ownership of the asset are transferred, and later specified that the transfer of risks and benefits usually takes place when the title is transferred. In any case, it states that "if, by virtue of specific contractual clauses, the date on which the transfer of risks and benefits takes place and the date on which the title is transferred do not match, the date on which the transfer of risks and benefits takes place prevails" and that, in any case, "in carrying out this analysis, all contractual clauses must be analysed".

In the depreciation of hydroelectric plants, the annual amount was calculated based on the economic-technical life and not based on expiry of the concessions. Italian Decree Law no. 134 of 7 August 2012 modified radically the issue with regard to the hydroelectric concessions governed by Italian Royal Decree no. 1775 of 11 December 1933, which envisaged, upon expiry of the concession, transfer of ownership to the State, free of charge, of assets such as collection systems, regulation systems, penstocks and outlet channels.

The Italian Decree Law in question changed drastically this scenario, envisaging, among other things, that 5 years prior to the expiry of a concession on a large-scale diversion for hydroelectric use and, in cases of renouncement, forfeiture or revocation, where there is no overriding public interest in another use for the waters, the relative Administration shall issue a public call for tenders, for the paid assignment of the concession for a period of 20 years and up to a maximum of 30 years. In this respect, regulation of the method for transfer of the concession by the outgoing holder to the new holder, which envisages the initial assignment of consideration to be determined between the outgoing party and administration and based on specific elements that vary according to the asset in question, also become important. Therefore, to calculate the amount subject to depreciation, the value attributable to said consideration, which, as part of the normal depreciation process, is referred to as the "residual value", is of significant importance.

It is however necessary to point out that the current identification/determination of the elements at the basis of calculation of said consideration presents a significant amount of uncertainty, with difficulty in estimating the consideration amount. Therefore, the use of economic-technical rates was considered to be the most appropriate in calculating the depreciation amounts.

In detail, the following depreciation rates were applied.

	Economic-technical rate
Buildings	2.5%
Fixed hydraulic works	1.0%
Pressure pipes	2.5%
Hydraulic and electrical machinery	3.3%
Automation and control systems	10.0%
Plant and machinery	5.0%
Remote operation systems	10.0%
Telecommunication systems	10.0%
Transport lines	5.0%
Various equipment	10.0%
Other assets	from 10% to 20%

With regard to useful life, in 2016 the Company assigned an independent expert the task of determining the economic-technical duration of the assets. The analysis indicated the useful lives adopted by the Company for accounting purposes as reasonable and representative, on average, of the groups of assets comprising the subject categories of the analysis. Note that an analysis carried out at the "asset class" level is relatively approximate, due to the breadth of the analysis itself and to the composition of said classes. Further specific analyses could increase the precision of the estimated values, although this would require longer and more complex procedures, and the durations of the useful lives could vary over time according to technological turnover and many other factors, both internal and external.

Impairment losses of property, plant and equipment and intangible assets ("Impairment")

On the basis of OIC 9, the Company subjects its intangible assets and property, plant and equipment 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 impairment.

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 of its fair value less costs to sell, 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 amount is lower than the carrying amount. Should the impairment of an asset other than goodwill and long-term costs 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 would estimate the recoverable value of the asset and would write it down only if the latter were lower than the corresponding carrying amount.

Financial assets

Non-current financial assets comprise exclusively financial receivables recognised at presumed realisable value.

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 amount as deduced from market trends (Article 2426, paragraph 9, of the Italian Civil Code).

In order to determine the estimated recoverable amount that can be deduced from market performance, reference is generally made to the replacement cost 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 inventories value.

Receivables

Receivables are recorded in the Financial Statements according to 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 Article 12, paragraph 2, of Italian Legislative Decree no. 139/2015, the Company exercised the option not to apply the amortised cost method 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 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, calculated in consideration of the general economic conditions and the scenario within the sector.

Receivables include, in addition to tax assets, the value of deferred tax assets, calculated on the temporary differences

between the values of assets and liabilities determined according to statutory criteria and the corresponding values recognised for tax purposes. Recognition of deferred tax assets is subject to the reasonable certainty of their future recoverability.

Receivables from GSE (Gestore dei Servizi Elettrici S.p.A.) are recognised in the current assets section of the Statement of Financial Position CII.5) Receivables due from others. The incentives are calculated on a monthly basis, on the electricity fed into the grid by the plants, and the corresponding payments are disbursed on a monthly basis by Gestore dei Servizi Elettrici S.p.A. (GSE) by the last working day of the second month following that of electricity output.

Financial assets

As indicated in OIC 14, receivables generated by centralised treasury management (i.e. cash pooling) are recognised, if permitted by the terms of collection, under "Current financial assets", as "Financial assets for centralised treasury management", indicating the counterparty (for example, Parent Company). 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 accruals and deferrals item 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, value adjustments are made. In particular, in addition to the passage of time, the estimated realisable value is considered for accrued income, while for prepaid expenses the existence of a future economic benefit related to deferred costs is considered.

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 equity, while loans received from shareholders that envisage a repayment obligation are recorded under payables.

The effects on equity of application of the other accounting standards are commented on in the respective sections.

Post-employment benefits

Post-employment benefits correspond to the amounts accrued during the period of employment by employees, and is calculated in accordance with the laws and labour contracts in effect.

Following the introduction of the provisions of the 2007 Financial Law and relative implementation decrees, starting from 1 January 2007, the accrued post-employment benefits 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 accruing 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 includes liabilities accrued in respect of all employees prior to the date indicated and not yet paid, revalued based on ratios envisaged by the relative legislation, net of any advances paid pursuant to the law, any prepaid taxes and any amounts allocated to pension funds.

Employee benefits

Based on contracts stipulated with a number of employees, the Company has certain obligations with regard to loyalty rewards, and other additional monthly payments.

The amount of the benefit to be provided to the employee is generally quantifiable 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.

Provisions for risks and charges

Provisions for risks and charges are allocated against liabilities of a calculable nature, certain or probable, for which, however, the total or contingency date is not yet known at year-end.

Contingent 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. Measurement of the charge complies with the general prudence and accrual principles, which, vice versa, do not allow the allocation of provisions that are generic or without economic justification.

Any risks for which a liability is only possible are indicated in the Notes to the Financial Statements without the allocation of provisions for risks and charges.

Risks whose likelihood of occurrence is remote are not taken into consideration.

Allocations to 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 provisions is determined based on the best estimate of costs, including legal fees, at each reporting date. Moreover, if there is a provision for charges, 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.

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 Euro 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 income and expense.

The exchange rate differences resulting from alignment of the foreign currency payables to the exchange rate at year-end with respect to the date of the transaction are recognised in the Income Statement.

Tax liabilities for current taxes are estimated by applying the rate in effect at 31 December 2020. If the taxes to be paid are lower than the tax credit and advances paid, the difference is recognised as a tax credit and recorded under the relative asset item of the Statement of Financial Position.

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 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.

Memorandum accounts – Guarantees and Commitments

Following the amendments made by Italian Legislative Decree no. 139 of 18 August 2015 to Article 2424 paragraph 3), of the Italian Civil Code, the guarantees issued and commitments are no longer stated in the footnotes of the Statement of Financial Position, but are described in detail in the Notes. In particular, guarantees given are recorded at the value of the commitment or for an amount equal to the debt to which they refer, and commitments to third parties are highlighted based on the contracts stipulated.

Revenue and costs for the year

Revenue and costs are recognised, net of returns, discounts, rebates and bonuses, as well as the taxes directly connected to the sale of the products and to the provision of the services, in the Income Statement when the actual and not merely formal transfer of risks and benefits has taken place, in accordance with the accrual principle, regardless of the date of collection and payment.

Revenue for the sale of electricity is recognised upon disbursement of the supply or service, is determined based on stock market prices and/or contractual prices taking into account, where applicable, the tariffs and criteria envisaged by the legal provisions and by the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA).

Revenue from incentives produced by the Company's plants, for sales to producers or importers of energy from non-renewable sources or to the Gestore Servizi Elettrici (GSE), is recognised in the year in which the incentive, represented by the production of electricity from renewable sources, accrues, and is recognised under "Other revenue and income". Operations with the Parent Company and other ERG Group companies are carried out on an arm's length basis.

Financial income and expense

Financial income and expense 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.

In the event of application of the amortised cost method, interest is recognised using the effective interest method.

In relation to late payment in commercial transactions, the related interest on arrears is recorded under item C16 "other financial income", letter d) and, if the collection of interest is doubtful, an allocation to the loss allowance must be made based on the estimated possibility of recovery.

Current, prepaid 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 at the reporting date. The relative tax liability is recorded in the Statement of Financial Position 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.

The Company participates in the National Tax Consolidation scheme of the 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 consolidating company. The consolidating company then records a credit in respect of the consolidated company equal to the IRES payable (the consolidated company instead records a payable due to the consolidating company). Conversely, for companies recording a tax loss, the consolidating company recognises an IRES tax payable on the portion of the loss actually offset at group level (the consolidated entity records a tax receivable due from the consolidating company).

Therefore, the Statement of Financial Position includes the receivables and payables due from and to the consolidating company as a result of quantification of the tax advantages granted and received.

IRES tax payments are arranged by the Consolidating company, while IRAP tax payments are arranged directly by the Company.

Deferred tax assets and deferred tax liabilities are calculated and allocated on the basis of the temporary differences between the value attributed to a certain asset or liability in accordance with statutory criteria and the respective value attributed by applying the tax regulations in effect, in accordance with the accrual principle and the principle of prudence.

Deferred tax assets are accounted for if there is a reasonable certainty that they will be recovered by creating sufficient taxable income in the years in which the repayment of the temporary differences that had given rise to them will take place.

The tax benefit related to carrying forward any tax losses will be recorded when there is the reasonable expectation of its realisation in the tax period in which the losses are reported.

On the other hand, deferred tax liabilities are not recorded if there is not much chance of the relative debt arising.

Deferred tax assets or deferred tax liabilities are calculated by using the tax rate in effect in the year in which the temporary differences are repaid. If it is difficult to calculate the average rate, the rate expected for the following year will be applied.

In accordance 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 "Deferred tax provision" item.

These Notes includes 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 equity and the items excluded from the calculation, as well as the amount of deferred tax assets recorded in the Financial Statements relating to losses for the year or previous years and the amount of taxes not yet recorded.

As a result, therefore, the rate used to calculate deferred tax assets is the same as the nominal IRES (corporate tax) rate of 24% for those income items that were recognised for tax purposes starting from 1 January 2017, plus, where envisaged, the IRAP rate about 4.82%.

Intra-group relations and relations with related parties

With regard to the disclosure required by Article 2427, paragraph 22-bis), of the Italian Civil Code on intra-group transactions and those with related parties, settled at arm's length, please refer to the relative chapter in the Directors' Report.

Transactions with the parent company and with other ERG Group companies are carried out on an arm's length basis.

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. financing 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 new OIC 10 provides also that:

- interest paid and collected is presented separately among cash flows from operating activities, except special cases in which they refer to investing or financing activities;
- dividends received and paid are presented separately, respectively, under operating activities and financing activities;
- cash flows relating to income taxes are indicated separately and classified under operating activities.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

ASSETS

B) NON-CURRENT ASSETS – EUR 627,188 THOUSAND

B) I. Intangible assets – EUR 1,897 thousand

(EUR thousand)	Start-up and expansion costs	Industrial patents and intellectual property rights	Goodwill	Assets under development and advances	Total
Historical cost	3	3,642	1,303,685	431	1,307,761
Depreciation	(2)	(2,894)	(1,272,774)	–	(1,275,670)
BALANCE AT 31/12/2019	1	748	30,911	431	32,091
Changes during the period:					
Acquisitions	–	11	–	505	516
Capitalisations/ reclassifications	–	150	–	(111)	39
Disposals and divestments	–	–	–	–	–
Amortisation	(1)	(365)	(30,384)	–	(30,750)
Impairment losses	–	–	–	–	–
Other changes	–	–	–	–	–
Historical cost	3	3,803	1,303,685	825	1,308,316
Amortisation	(3)	(3,258)	(1,303,158)	–	(1,306,419)
BALANCE AT 31/12/2020	–	545	527	825	1,897

Goodwill was allocated through the demerger operation of E.On Produzione S.p.A., and arose in respect of the latter following the merger deficit generated by prior mergers by incorporation carried out in 2001 (merger of Elettrogen S.p.A. into Endesa Italia S.r.l. for EUR 1,292,385 thousand), this latter fully amortised at 31 December 2020, and in 2003 (merger of Endesa Italia S.r.l. into Endesa Holding S.r.l. for EUR 11,300 thousand).

In view of the faculty envisaged by the final transitional provisions pursuant to Article 12 of Italian Legislative Decree no. 139 of 18 August 2015 to not apply the new regulations pursuant to Article 6 of the same Decree, as the effects in the Financial Statements have not yet terminated, goodwill is amortised on a straight-line basis using the same calculation methods for the annual amount as used previously.

With regard to the requirements of OIC 9, no particular elements or indicators were identified that would make the goodwill value non-recoverable.

"Industrial patents and intellectual property rights" comprise predominantly costs for the purchase and subsequent adjustments of management application software amortised based on the expected benefits.

The capital expenditure for the year, amounting to EUR 516 thousand, refers mainly to the purchase of additional software and upgrades of existing software.

B) II. Property, plant and equipment – EUR 625,237 thousand

The changes per individual category are outlined in the table below:

(EUR thousand)	Land and buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total
Historical cost	38,636	394,275	2,355	362	5,790	441,418
Revaluations	81,768	480,019	–	–	–	561,787
	120,404	874,294	2,355	362	5,790	1,003,205
Depreciation	(74,804)	(492,643)	(2,083)	(307)	–	(569,837)
Impairment losses	–	–	–	–	–	–
BALANCE AT 31/12/2019	45,600	381,651	272	55	5,790	433,368
Changes during the period:						
Acquisitions	1,099	1,402	59	–	3,228	5,788
Capitalisations/reclassifications	763	1,813	122	3	(2,739)	(38)
Disposals and divestments	–	(14)	–	–	–	(14)
Depreciation	(2,665)	(19,934)	(59)	(11)	–	(22,669)
Impairment losses	–	–	–	–	–	–
Other changes	–	–	–	–	(10)	(10)
Revaluations ex lege 104/2020	–	208,813	–	–	–	208,813
Historical cost	40,497	397,476	2,535	365	6,269	447,142
Revaluations	81,768	688,832	–	–	–	770,600
	122,265	1,086,308	2,535	365	6,269	1,217,742
Depreciation	(77,469)	(512,576)	(2,142)	(318)	–	(592,505)
Impairment losses	–	–	–	–	–	–
BALANCE AT 31/12/2020	44,796	573,732	393	47	6,269	625,237

The balance is broken down as follows:

(EUR thousand)	Land and buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total
Original cost	40,497	397,476	2,535	365	6,269	447,142
Revaluations of residual related values:						
- monetary revaluation pursuant to Italian Law no. 576/1975	2,791	16,799				19,590
- monetary revaluation pursuant to Italian Law no. 72/1983	6,952	42,238				49,190
- monetary revaluation pursuant to Italian Law no. 413/1991	–	–				–
- adjustments pursuant to Italian Law no. 292/1993	8,914	66,732				75,646
- allocation of 2001 merger surplus	63,111	323,484				386,595
- revaluation pursuant to Italian Law no. 266/2005		30,766				30,766
- revaluation pursuant to Italian Law no. 104/2020		208,813				208,813
Total revaluations	81,768	688,832	–	–	–	770,600
Original value + revaluations	122,265	1,086,308	2,535	365	6,269	1,217,742
Accumulated depreciation	(77,469)	(512,576)	(2,142)	(318)	–	(592,505)
BALANCE AT 31/12/2020	44,796	573,732	393	47	6,269	625,237

Revaluation of property, plant and equipment

With Italian Decree Law no. 104 of 14 August 2020, on urgent measures to support and relaunch the economy (the "Agosto" Decree - august decree), converted with Italian Law no. 126 of 13 October 2020, the possibility was granted to joint-stock companies that adopt the OIC accounting standards to revalue property, plant and equipment and intangible assets as well as equity investments in subsidiaries and associates resulting from the financial statements for the current year at 31 December 2019 (Article 110, paragraph 1).

For entities that operate on a calendar year basis, the revaluation can be carried out in the financial statements for the year ended 31 December 2020.

The "Agosto" Decree governs the scope and limits of the revaluation, outlining the procedures for its exercise.

Both property, plant and equipment and intangible assets (excluding goodwill and other intangible assets without legal protection) and equity investments in other subsidiaries and associates may be revalued, with the exception of real estate assets on whose production or exchange business activities are focused.

The revaluation can be carried out both for homogeneous categories of assets and for individual assets specifically identified; the value of the revalued assets may not in any case exceed their recoverable value.

The revaluation of assets can be carried out for both accounting and tax purposes; the tax recognition (for the purposes of IRES, IRAP and related additional taxes) of the higher amounts subject to revaluation is possible with the exercise of a specific option in the tax return and the payment of a substitute tax equal to 3% of the revalued

amount (payment can be made in a single payment within the term for the payment of income taxes or in three annual instalments of the same amount).

The tax recognition of the revalued amounts starts from the tax period subsequent to that in which the revaluation is carried out (from 1 January 2021 for subjects that operate on a calendar year basis); in any case, it is envisaged that in the event of the sale or allocation outside the business purpose of the assets subject to revaluation on a date preceding the beginning of the fourth financial year following the year in which the revaluation was performed (1 January 2024 for subjects that operate on a calendar year basis), the fiscal value of the related capital gains and losses is determined with reference to the cost of the asset before the revaluation.

The positive balance resulting from the revaluation may be charged to the Company's share capital or allocated to a special reserve (tax deferred in the event of revaluation, including for tax purposes) recognised for a value equal to the revalued amount net of the substitute tax due.

The positive revaluation balance may be subject to exemption for tax purposes with the payment of an additional substitute tax (IRES, IRAP and any additional taxes) of 10%; otherwise, in the event of distribution to the shareholders of the revaluation reserve, the same will be taxable by the Company (for an amount gross of the substitute tax already paid and with the possibility of the deduction of the latter from the taxes due).

If the revaluation reserve is used to cover losses, no distribution of profits may be made until it has been reinstated or reduced accordingly by resolution of the extraordinary shareholders' meeting, since the provisions of paragraphs 2 and 3 of Article 2445 of the Italian Civil Code do not apply.

Accounting treatment

For parties that prepare their financial statements in accordance with national accounting standards, Interpretative Document OIC 5, which deals with the accounting aspects of the revaluation of business assets envisaged by the previous 2019 Budget Law (Italian Law 145/2018), serves as a useful reference. This document, among other provisions, indicates in particular that:

- the higher values recorded under assets as a result of the revaluation, if recognised also for tax purposes, do not involve the recognition of deferred taxes (a provision for deferred taxes must instead be recorded in the case of revaluation made solely for accounting purposes);
- the higher value of the revalued assets recorded under assets has as a contra-entry an equity reserve;
- the substitute tax must be deducted from the same equity reserve;
- if the revaluation reserve is not released, a taxable temporary difference emerges that requires the recognition of deferred tax liabilities at the revaluation date unless the probability of distributing the reserve to shareholders is low.

ERG Hydro S.r.l. intends to take advantage of the possibility of revaluing certain tangible assets present in the financial statements at 31 December 2019.

The subject of the revaluation is a part of the so-called "wet works", the net book value of which at 31 December 2020 was equal to EUR 84,051 thousand.

In order to identify the market value of the aforesaid assets, ERG Hydro appointed a specialised company to prepare an expert appraisal, which showed a value in use for the assets assessed of EUR 293,791 thousand, with a latent gain of EUR 209,740 thousand.

The company has therefore opted to revalue the above-assessed assets, for both accounting and tax purposes, with the exclusion of those assets with a residual useful life of three or fewer years. The positive revaluation balance recorded by ERG Hydro, amounting to EUR 208,813 thousand, does not therefore take into account the higher value attributable to the assets with a residual useful life of three or fewer years and equal to EUR 927 thousand.

The revaluation carried out therefore entailed the recognition of a higher value of property, plant and equipment of EUR 208.8 million and the establishment of a suspended-tax revaluation reserve pursuant to Italian Law 104/2020 of EUR 202.5 million, net of the 3% substitute tax payable of EUR 6.3 million.

It should be noted that the Company has not currently opted to release the newly emerged reserve as at present it is not expected to be distributed and therefore this reserve is subject to tax suspension.

The Directors believe that this revaluation is recoverable during the residual useful life of the assets subject to revaluation as the company is confident of obtaining the renewal of the concession upon its expiry.

Moreover, even in the event of non-renewal of the concession, the directors believe, on the basis of specific legal investigations carried out also with the support of external consultants, that the residual value of this revaluation must be recognised, in accordance with current regulations, by any takeover party as part of the transfer of wet works at the end of the concession currently in place.

The Directors, despite not having found from the overall analysis of the internal and external indicators (so-called triggering events) that the property, plant and equipment and intangible assets with a finite useful life may have become impaired, as a result of the revaluation carried out, deemed it appropriate also to determine their recoverable value and perform the relative comparison with their carrying amount.

As a result of this calculation and comparison, the net assets recognised in the company's financial statements at 31 December 2020 were found to be fully recoverable.

As part of the sensitivity scenarios developed, the Directors verified also the recoverability of the aforementioned net assets recognised, not taking into consideration the revaluation made in the calculation of the residual value at the end of the concession period, and did not identify any criticalities.

The changes in property, plant and equipment during the year are summarised below:

(EUR thousand)	Changes during the year
Capital expenditure	5,788
Amortisation and depreciation	(22,669)
Net disposals	(14)
Other changes	(10)
Reclassifications	(38)
Impairments	–
Revaluation	208,813
Total	191,870

For greater comprehension, changes during the period relating to reclassifications, disposals and divestments are shown net of the related accumulated depreciation.

Capital expenditure

Extraordinary maintenance on plant and equipment was carried out during the year.

There were several capital expenditures underway at the reporting date, which mainly refer to the study of new projects for the construction of additional mini-hydro plants.

Depreciation

Depreciation recognised during the year was calculated using the economic-technical rates and taking into account the residual lives of the plants.

At 31 December 2020, the statutory accumulated depreciation represents 48.7% of total non-current assets subject to depreciation (56.8% at 31 December 2019).

With reference to the requirements of OIC 9, the Company also assessed the recoverability of property, plant and equipment in 2020, as better described in the previous section (*Revaluation of property, plant and equipment – Accounting treatment*).

B) III. Non-current financial assets – EUR 54 thousand

Receivables from others – EUR 54 thousand

The value of non-current financial assets referring to receivables due from others regards security deposits with third parties.

C) CURRENT ASSETS – EUR 317,060 THOUSAND

C) I. Inventories (EUR 158 thousand)

(EUR thousand)	31/12/2020	31/12/2019
Spare parts inventories	158	5
Total	158	5

The increase in inventories recorded in the current year is linked to the procurement process for spare parts and ancillary materials and consumables to be temporarily allocated in the Company's warehouses in order to guarantee more timely interventions on the plants, a process that began during 2019 and became firmly established in the current year.

Inventories are valued at the lower of the purchase cost and the estimated realisable value that can be deduced from market performance.

C) II. Receivables – EUR 30,946 thousand

(EUR thousand)	31/12/2020	31/12/2019
Receivables from customers	2,399	2,678
Receivables from parent companies	15,553	19,724
Tax assets	2,587	4,013
Deferred tax assets	8,446	3,611
Receivables from others	1,961	4,292
Total	30,946	34,318

There are no receivables in foreign currency at the reporting date.

C) II. 1) Customer trade receivables – EUR 2,399 thousand

Receivables from customers comprise mainly:

(EUR thousand)	31/12/2020	31/12/2019
Electricity sales	1,364	1,977
Compensation from water diversion	6,327	577
Other receivables	204	1,301
Loss allowance	(5,496)	(1,178)
Total	2,399	2,678

Receivables from electricity sale (EUR 1,364 thousand) regard dealings with Gestore dei Servizi Energetici S.p.A. (GSE).

The amount relative to “Compensation from water diversion”, equal to EUR 6,327 thousand, concerns the use of water for which the Company holds the concession and includes also the recovery of diversions relating to previous years, including the corresponding arrears interest.

Other receivables refer essentially to lease payments and other services.

The loss allowance, established based on the individual non-performing receivables, is considered to be in line with the estimated risk, and includes also provisions for the year relating to the recovery of highly doubtful receivables.

C) II 4) Receivables from parent companies – EUR 15,553 thousand

(EUR thousand)	31/12/2020	31/12/2019
Trade		
ERG Power Generation S.p.A.	14,051	13,862
	14,051	13,862
Other receivables		
ERG S.p.A.	1,502	5,861
	1,502	5,861
Total	15,553	19,724

The item comprises trade receivables due from the direct parent ERG Power Generation S.p.A. mainly for the sale of electricity during the months of November and December 2020. Based on the contract for the provision of electricity,

starting from 1 July 2016, the Company sells the electricity generated by its own hydroelectric plants, except for the plants with agreements in place with GSE for dedicated withdrawal, to the Parent Company.

The item includes also the portion of IRAP advances exceeding the payable (EUR 1,502 thousand) to the parent company ERG S.p.A. deriving from participation in the tax consolidation scheme.

C) II. 5-bis) Tax assets – EUR 2,587 thousand

Tax assets refer mainly to the VAT receivable relating to the last two quarters of 2020 (EUR 2,559 thousand).

C) II. 5-ter) Deferred taxes – EUR 8,446 thousand

The deferred taxes relate to the tax effect of the temporary differences that will be deductible in future years.

The main temporary differences and relative tax effects are presented below:

(EUR thousand)	31/12/2020		31/12/2019	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Impairment of goodwill	–	–	152	7
Other changes in non-current assets	17,996	3,301	17,711	3,231
Other provisions	273	79	273	79
Provision for pensions and similar obligations	138	33	195	47
Provision for local entities charges	13,730	3,957	–	–
Other changes	4,486	1,077	1,029	247
Total	36,622	8,446	19,360	3,611

The maintenance of the deferred tax assets in the Financial Statements for the year ended 31 December 2020 is supported by reasonable certainty of their recoverability in future years.

Deferred tax assets are broken down as follows:

- EUR 3,301 thousand for property, plant and equipment;
- EUR 1,077 thousand for the loss allowance;
- EUR 112 thousand for the provisions for risks and charges;
- EUR 3,957 thousand referring to the provision for local entities charges.

The change in the period, an overall increase of EUR 4,835 thousand, refers mainly to the allocation to the provision for local entities charges and to the loss allowance for the year.

The rate used to calculate deferred taxes is 24% for IRES plus, where envisaged, the IRAP rate (4.82%).

C) II. 5-quater) Receivables from others – EUR 1,961 thousand

This item comprises mainly the residual credit for the feed-in premium relating to the year 2020 for a total of EUR 884 thousand and receivables from local entities and Municipalities. The reduction compared to 2019 is mainly related to the performance of incentivised production.

C) III. 7) Current financial assets – EUR 285,830 thousand

This item regards the receivable of a “financial nature” referring to the positive balance of the intra-group account with which the cash flows are managed with the parent company.

The Company stipulated an agreement with ERG Power Generation S.p.A. to manage the treasury cash flows, based on which credit and debit positions between the parties are regulated through an intra-group current account and remunerated based on market conditions (1-week Euribor rate plus a spread).

C) IV. Cash and cash equivalents – EUR 126 thousand

(EUR thousand)	31/12/2020	31/12/2019
Bank and postal deposits	126	1,694
Total	126	1,694

The “bank and postal deposits” item refers to the balance at 31 December 2020 of the current bank account opened with Banca Intesa Sanpaolo. This amount is the temporary liquidity connected to normal operating activities.

D) ACCRUED INCOME AND PREPAID EXPENSES – EUR 4,535 THOUSAND

(EUR thousand)	31/12/2020	31/12/2019
Other prepaid expenses	1	1
Prepaid expenses - insurance premiums	1,406	1,155
Prepaid expenses - other payments	3,128	3,088
Total	4,535	4,244

The subject item comprises prepaid expenses relative to:

- state fees for water diversion for EUR 3,128 thousand;
- insurance expenses on the production plants for EUR 1,406 thousand;
- other minor prepayments whose accrual falls in the subsequent year for EUR 1 thousand.

Collection of items recorded under Assets

The table provides the breakdown of receivables and prepayments, with a separate indication of their collection.

	Within 12 months	Within 5 years	After 5 years	Total
Receivables under financial assets				
from others		54		54
Receivables under current assets				
- from customers	2,399			2,399
- from parent companies	15,553			15,553
- deferred tax assets		5,145	3,301	8,446
- from others	1,961			1,961
- tax assets	2,587			2,587
Accrued income and prepaid expenses				
prepaid expenses	4,535	–	–	4,535
Total	27,035	5,199	3,301	35,535

LIABILITIES

A) EQUITY – EUR 909,805 THOUSAND

A) I. Share capital – EUR 50,000 thousand

The share capital, amounting to EUR 50,000 thousand, fully subscribed and paid in, is subdivided into units pursuant to the law and is entirely held by the sole shareholder ERG Power Generation S.p.A.

A) II. Share premium reserve – EUR 252,010 thousand

The amount of the Share premium reserve was acquired through the asset transfer following the demerger of E.ON Produzione S.p.A.

A) III. Revaluation reserve – EUR 429,165 thousand

The revaluation reserve refers to the revaluation of property, plant and equipment by E.ON Produzione S.p.A. based on Italian Law no. 266 of 23 December 2005 and acquired as a result of the transfer. The reserve is subject to tax in the event of distribution.

The item contains also the reserve recognised following the revaluation of part of the property, plant and equipment in compliance with the provisions of Italian Decree Law 104/2020 ("Agosto" Decree), net of the substitute tax of 3% of the total amount of the revaluation, as more fully detailed in the Property, plant and equipment section of these Notes. The reserve is subject to tax in the event of distribution.

A) IV. Legal reserve – EUR 64,868 thousand

The legal reserve was acquired through the transfer of assets following the demerger of E.ON Produzione S.p.A. The amount is higher than the value envisaged by Article 2430 of the Italian Civil Code.

A) VI. Other reserves – EUR 113,848 thousand

This item includes the "Alignment reserve" for EUR 113,848 thousand, established pursuant to Article 14 of Italian Law no. 342 of 2000 and extended by Italian Law no. 266 of 23 December 2005 (2006 Financial Law), following adjustment of the tax values of the assets to the higher statutory values. This reserve is subject to taxation in the event of distribution and was acquired through the asset transfer following the demerger of E.ON Produzione S.p.A.

A) IX. Profit (loss) for the year – EUR -86 thousand

Financial year 2020 closed with a loss of EUR 86 thousand.

The table below shows the changes in the company's equity items.

(EUR thousand)	Share capital	Share premium reserve	Revaluation reserve	Legal reserve	Other reserves	Profit (loss) for the period	Total Equity
BALANCE AT 31/12/2017	50,000	252,010	226,616	64,868	113,848	30,297	737,640
Distribution of dividends	–	–	–	–	–	–	(30,297)
Allocation of prior year profit (loss)	–	–	–	–	–	(30,297)	–
Reclassifications	–	–	–	–	–	–	–
Other changes	–	–	–	–	–	–	–
Profit (loss) for the year	–	–	–	–	–	71,408	71,408
BALANCE AT 31/12/2018	50,000	252,010	226,616	64,868	113,848	71,408	778,751
Distribution of dividends	–	–	–	–	–	–	(71,408)
Allocation of prior year profit (loss)	–	–	–	–	–	(71,408)	–
Reclassifications	–	–	–	–	–	–	–
Other changes	–	–	–	–	–	–	–
Profit (loss) for the year	–	–	–	–	–	21,335	21,335
BALANCE AT 31/12/2019	50,000	252,010	226,616	64,868	113,848	21,335	728,677
Distribution of dividends	–	–	–	–	–	–	(21,335)
Allocation of prior year profit (loss)	–	–	–	–	–	(21,335)	–
Reclassifications	–	–	–	–	–	–	–
Other changes	–	–	202,548	–	–	–	202,548
Profit (loss) for the year	–	–	–	–	–	(86)	(86)
BALANCE AT 31/12/2020	50,000	252,010	429,165	64,868	113,848	(86)	909,805

The following table lists equity items, indicating the possible utilisation for each of them, as well as any tax restrictions.

(EUR thousand)	Amount	Possibility of utilisation	Available portion	Portion subject to tax suspension
Share capital	50,000	–	–	–
Share premium reserve	252,010	A, B, C	252,010	–
Legal reserve, of which:	64,868			
Portion required by law	10,000	B	10,000	–
Excess portion	54,868	A, B, C	54,868	–
Revaluation reserve	429,165	A, B, C	429,165	429,165
Other reserves (alignment reserve)	113,848	A, B, C	113,848	113,848
Retained earnings (Accumulated losses)	–			
Net profit (loss) for the year	(86)	–	(86)	–
TOTAL	909,805		859,805	543,013
Non-distributable portion			10,000	
Residual distributable portion			849,805	

Key

A - for share capital increase

B - for loss coverage

C - for distribution to shareholders

The "revaluation" reserve and "alignment" reserve are considered taxable upon distribution.

B) PROVISIONS FOR RISKS AND CHARGES – EUR 18,390 THOUSAND

The provisions for risks and charges are broken down as follows:

(EUR thousand)	31/12/2020	31/12/2019
Provision for taxes, including deferred	4,247	5,181
Other provisions	14,143	470
Total	18,390	5,651

The change in the item during the year is broken down as follows:

(EUR thousand)	31/12/2020	Allocation	Utilisation/ Repayment	31/12/2019
Provision for taxes, including deferred	4,247	641	(1,575)	5,181
Other provisions	275	–	–	275
Provision for pensions and similar obligations	138	–	(57)	195
Provision for local entities charges	13,730	13,730	–	–
Total	18,390	14,371	(1,632)	5,651

The provision for deferred taxes, which amounts to a total of EUR 4,247 thousand, refers mainly to the assets that are significant for IRES purposes and to the tax exemption on interest on arrears receivable.

The change in the provision for deferred taxes, equal to a decrease of EUR 934 thousand, is mainly due to the reabsorption due to the different statutory reporting and tax value of the IRES amortisation, for EUR 123 thousand, the reabsorption due to the return of the impairment for IRAP purposes of the goodwill for EUR 1,452 thousand, and the arising of deferred tax liabilities on the tax exemption on interest on arrears of EUR 630 thousand.

The “Other provisions” item, totalling EUR 275 thousand, is mainly composed of the provision for charges for agreements, amounting to EUR 263 thousand.

The “Provision for pensions and similar obligations” item, totalling EUR 138 thousand, comprises mainly non-current provisions for personnel.

The “Provision for local authority charges” item, which amounts to EUR 13,730 thousand, refers to charges related to disputes with local authorities regarding concession fees.

C) POST-EMPLOYMENT BENEFITS – EUR 694 THOUSAND

(EUR thousand)	31/12/2020	31/12/2019
Opening balance	743	967
Increases	225	291
Decreases	(274)	(515)
Closing balance	694	743

The provision increased by the amounts allocated in favour of employees for post-employment benefits as required by law and decreased, not only due to the resignation of personnel and advances to personnel, but also due to payments to Supplementary Funds and to the INPS Treasury Fund.

The negative change is mainly due to the resignation of personnel and advances on post-employment benefits for a total of EUR 225 thousand.

D) PAYABLES – EUR 19,887 THOUSAND

(EUR thousand)	31/12/2020	31/12/2019
Payables to suppliers	4,377	5,701
Payables to parent companies	215	948
Tax liabilities	8,175	246
Payables to social security and pension institutions	253	274
Other payables	6,868	5,963
Total	19,887	13,132

There are no payables in foreign currency at the reporting date.

D) 7) Payables to suppliers – EUR 4,377 thousand

Payables to suppliers derive from commercial dealings.

These payables regard essentially the supply of materials and equipment, contracts and services.

D) 11) Payables due to parent companies – EUR 215 thousand

(EUR thousand)	31/12/2020	31/12/2019
Trade payables		
ERG S.p.A.	91	91
ERG Power Generation S.p.A.	124	857
TOTAL	215	948

This item includes mainly trade payables to Parent Company ERG Power Generation S.p.A. regarding ancillary services (EUR 124 thousand).

D) 12) Tax liabilities – EUR 8,175 thousand

The item refers mainly to:

- the payable for substitute tax equal to 3% of the total value of the revaluation described in the Property, plant and equipment section of these Notes to the Financial Statements (EUR 6,264 thousand);
- the payable for current IRAP for the period, net of advances already paid during the year (EUR 1,697 thousand);
- payables accrued in December 2020 and paid in January 2021 for withholdings on the incomes of employees and independent providers.

D) 13) Payables due to social security and pension institutions – EUR 253 thousand

This value refers to the payable for contributions by the Company, accrued at the reporting date and applicable to the remuneration disbursed, as well as to charges accrued and not paid to personnel for holidays and abolished public holidays, holidays not taken, overtime and other indemnities.

D) 14) Other payables – EUR 6,868 thousand

The item includes:

- payables due to the beneficiaries of water concessions for EUR 559 thousand;
- payables to personnel for amounts accrued but not yet paid such as holidays, compensatory rest periods and productivity bonuses for EUR 290 thousand;
- payables for amounts awaiting credit notes to be issued to customers for EUR 5,950 thousand.

E) ACCRUED EXPENSES AND DEFERRED INCOME – EUR 8 THOUSAND

The subject item includes the portion accrued in the subsequent year but collected in advance.

Collection of items recorded under Liabilities

The classification by expiry of the items recognised under liabilities is shown below:

(EUR thousand)	Within 12 months	Within 5 years	After 5 years	Total
Payables				
- to suppliers	4,377			4,377
- to parent companies	215			215
- tax liabilities	3,999	4,176		8,175
- to social security and pension institutions	253			253
- other payables	6,868			6,868
Accrued expenses and deferred income				
- accrued expenses and deferred income	8	–	–	8
TOTAL	15,720	4,176	–	19,895

INCOME STATEMENT ANALYSIS

A) VALUE OF PRODUCTION – EUR 106,612 THOUSAND

(EUR thousand)	2020	2019
Revenue from sales and services	51,373	70,568
Other revenue and income	55,239	51,678
Total	106,612	122,246

A) 1) Revenue from sales and services – EUR 51,373 thousand

The item includes mainly revenue for electricity sold to Parent Company ERG Power Generation S.p.A. under the dispatching agreement in place between the parties (EUR 48,162 thousand).

The item includes also electricity generated by plants with agreements in place for dedicated withdrawal and renewable energy sources by GSE for EUR 3,212 thousand.

The net quantity of electricity sold during the year amounted to 1,097 GWh, down compared to the previous 1,229 GWh, resulting, together with the drop in the average sale price, in a decrease in revenue from sales and services.

A) 5) Other revenue and income – EUR 55,239 thousand

(EUR thousand)	2020	2019
Feed-in premium	49,736	46,800
Other	5,503	4,878
Total	55,239	51,678

The item includes proceeds from the “feed-in premium” (EUR 49,736 thousand) recognised for plants qualified as “IAFR” (Impianto Alimentato da Fonti Rinnovabili – Plant Powered by Renewable Sources).

The slight increase in revenue from the feed-in tariff is linked to the increase in the unit value of the incentive compared to the value of the previous year, which more than offsets the decrease in volumes of the incentivised energy.

The item “Other” relates mainly to:

- water diversion for EUR 3,929 thousand;
- revenue from the sale of Certificates of Origin for EUR 367 thousand;
- income deriving from the release of the loss allowance allocated on other receivables from municipalities for EUR 764 thousand, recognised as a result of the Constitutional Court’s judgement of unconstitutionality of the amounts withheld by the municipalities, issued in December 2020;
- proceeds from repayment of the risk provisions (EUR 50 thousand) and from the lapse of debt items no longer collectible (EUR 296 thousand).

B) COST OF PRODUCTION – EUR 109,942 THOUSAND

(EUR thousand)	2020	2019
Costs for raw, ancillary and consumable materials	1,538	1,469
Services	16,816	16,993
Costs for leased goods	12,974	12,908
Personnel expense	5,180	5,472
Amortisation, depreciation and impairment losses	57,737	53,803
Changes in inventories of raw, ancillary and consumable materials and goods	(154)	(5)
Provisions for risks	13,730	–
Sundry operating costs	2,121	2,268
Total	109,942	92,909

B) 6) Costs for raw, ancillary and consumable materials and goods – EUR 1,538 thousand

This item includes electricity purchases, equal to EUR 975 thousand, referring to auxiliary plant services charged by Parent Company ERG Power Generation S.p.A. as part of the dispatching agreement.

The residual amount of the item refers to the purchase of various consumables.

B) 7) Services – EUR 16,816 thousand

The services received refer to:

(EUR thousand)	2020	2019
Services from third parties	8,351	7,699
Services from parent companies	8,465	9,294
Total	16,816	16,993

The costs charged by the parent company refer to the services contract provided by ERG Power Generation S.p.A., regarding administrative, legal and corporate, finance and treasury, information & technology and human resources services.

The subject item also includes the cost for directors (EUR 4 thousand).

Costs for services from third parties include:

(EUR thousand)	2020	2019
Maintenance costs	2,361	2,146
Technical, legal and other consulting services	635	413
Payments to statutory auditors	29	30
Utilities and consumption	45	58
Insurance costs	3,203	2,934
Other services	2,078	2,118
Total	8,351	7,699

Note that the “Technical, legal and other consulting services” item includes fees to KPMG S.p.A. for audit services (EUR 120 thousand) and for non-audit services (EUR 6 thousand).

"Other services" include mainly:

- payments to the market (EUR 478 thousand);
- IT services (EUR 331 thousand);
- building surveillance and cleaning services (EUR 744 thousand);
- other general expenses.

B) 8) Costs for leased goods – EUR 12,974 thousand

(EUR thousand)	2020	2019
Water lease expense	12,684	12,549
Rents expenses	2	12
Rents and leases	259	237
Other rents	29	109
Total	12,974	12,908

Costs for leased goods mainly regard the water lease expense:

- state property rent for EUR 8,241 thousand;
- watershed rents for EUR 2,185 thousand;
- coastal rents for EUR 2,258 thousand.

The item includes also rental costs (for EUR 259 thousand) and rent payable (for EUR 2 thousand).

B) 9) Personnel expense – EUR 5,180 thousand

Personnel expense refers to the total cost during the year for employees:

(EUR thousand)	2020	2019
Salaries and wages	3,627	3,587
Social security contributions	1,107	1,090
Post-employment benefits	225	239
Other costs	221	556
Total	5,180	5,472

The following shows the breakdown of the Company's personnel at 31 December 2020:

	2020	2019
Executives	1	1
Middle managers	6	5
Office workers	35	35
Blue-collar workers	23	25
Total	65	66

The reduction in personnel expense compared with the previous financial year is mainly due to the lower incidence of additional post-employment benefits.

B) 10) Amortisation, depreciation and impairment losses – EUR 57,737 thousand

The item is broken down as follows:

(EUR thousand)	2020	2019
Amortisation of intangible assets	30,749	30,667
Depreciation of property, plant and equipment	22,669	23,121
Impairment losses of receivables included in current assets and cash and cash equivalents	4,318	15
Total	57,737	53,803

Amortisation and depreciation include amounts allocated during the year based on the economic-technical rates and on the residual lives of the plants.

The impairment of receivables included in current assets for the year mainly concern non-performing credit positions.

B) 11) Change in inventories of raw, ancillary and consumable materials and goods (EUR -154 thousand)

The value of spare parts and consumables in stock is EUR 158 thousand (EUR 5 thousand at 31 December 2019).

The increase in inventories recorded during the year (EUR 154 thousand) reflects the continuation of a process of procurement of stocks by warehouses located near the Company's operating centres, which began in 2019 to meet its operational needs and continued in the current year.

B) 12) Provisions for risks – EUR 13,730 thousand

Provisions for the period refer to charges linked to disputes with Local Authorities regarding concession fees.

B) 14) Sundry operating costs – EUR 2,121 thousand

(EUR thousand)	2020	2019
Municipal property tax	1,694	1,588
Other duties and taxes	260	436
Other miscellaneous expenses from third parties	167	244
Total	2,121	2,268

Sundry operating costs refer mainly to IMU (unified estate tax) for EUR 1,694 thousand, to which the TASI (indivisible services tax) was merged as from the 2020 financial year. The Other duties and taxes item includes mainly contributions for large dams for EUR 158 thousand.

C) FINANCIAL INCOME AND EXPENSE – EUR 2,650 THOUSAND

(EUR thousand)	2020	2019
Other financial income	2,650	292
Interest and other financial expense	–	(1)
Exchange rate gains and losses	–	(2)
Total	2,650	289

C) 16) Other financial income – EUR 2,650 thousand

The item “Other financial income” includes mainly interest on arrears accrued on water diversions.

20) Income taxes for the year - EUR -593 thousand

(EUR thousand)	Current taxes	Deferred tax assets for the year	Recovery of deferred tax assets	Deferred tax liabilities for the year	Recovery of deferred tax liabilities	Taxes from previous years	Total taxes for the year
IRES	3,052	(4,383)	202	630	(123)	(69)	(691)
IRAP	2,193	(662)	8	10	(1,452)	–	97
Total	5,245	(5,045)	210	641	(1,575)	(69)	(593)

Current taxes

Income taxes for the period were calculated on the basis of expected taxable income.

The current IRES for the year, amounting to EUR 3,052 thousand, was calculated by applying the increases and decreases pursuant to the tax regulations in effect to the profit for the year, and applying a tax rate of 24%. Note that the Company has signed an agreement for participation in the National Tax Consolidation Scheme with the parent company. The IRES tax calculated is therefore transferred to the Parent Company, with subsequent recognition, in the Financial Statements of ERG Hydro S.r.l. of the payable with respect to the Parent Company.

Current IRAP amounts to EUR 2,193 thousand and was calculated as the difference between value and cost of production, pursuant to letters A) and B) of Article 2425 of the Italian Civil Code, excluding the items pursuant to numbers 9), 10) letters c) and d), 12) and 13), as per the Income Statement for the year, drawn up in accordance with the accounting standards. This taxable base was adjusted by making the appropriate changes (increases or decreases) in accordance with the tax regulations in effect. The rate of 4.82% was applied, effective at 31 December 2020 for the regions in which income was generated, namely Lazio and Umbria.

Deferred tax assets

Deferred tax assets were recognised in the financial statements.

As envisaged by Italian Law no. 208 of 28 December 2015 (2016 Stability Law), an IRES tax rate of 24% was applied to significant items starting from 2017.

The IRAP rate applied is 4.82%.

IRES deferred tax assets recorded during the year, equal to EUR 4,383 thousand, refer to the temporary recovery (increase) of the allocation to the "Provision for local entities charges" for EUR 3,295 thousand, to the temporary recovery (increase) relating to the different statutory reporting and tax value of depreciation of the assets of the company for IRES purposes for EUR 73 thousand and to the temporary recovery (increase) of the allocation to the loss allowance for EUR 1,014 thousand.

IRES deferred tax assets eliminated during the year, equal to EUR 202 thousand, refer mainly to the release of loss allowances for EUR 185 thousand and the use and reversal of provisions for risks and charges for personnel for EUR 14 thousand.

IRAP deferred tax assets eliminated during the year, equal to EUR 8 thousand, refer mainly to the recovery of the goodwill impairment while those arising during the year, amounting to EUR 662 thousand, refer to the temporary recovery (increase) of allocations to the "Provision for local entities charges".

Deferred tax liabilities

Deferred IRES tax liabilities paid during the year, amounting to EUR 123 thousand, relate to the increase in the different statutory reporting and tax value of the depreciation for IRES purposes.

Deferred IRAP tax liabilities paid during the year, amounting to EUR 1,452 thousand, relate to the return of the goodwill impairment for IRAP purposes.

Deferred IRES tax liabilities allocated during the year, amounting to EUR 630 thousand, relate to the tax exemption on the interest income on arrears recognised in the period.

Deferred IRAP tax liabilities allocated during the year, amounting to EUR 10 thousand, refer to the return of the goodwill impairment for IRAP purposes.

Previous years taxes

Taxes relative to prior years, equal to EUR 69 thousand, refer to the accounting adjustments adopted with regard to current taxes, prepaid taxes and deferred taxes allocated for the financial statements of prior years, upon alignment to the final values submitted in the tax returns.

The tables below show the reconciliation between the theoretical tax charges and the reported charges.

IRES		
Profit before taxes	(679)	
Theoretical tax charge (24%)		(163)
Impact of permanent tax changes	979	
Taxable IRES income	300	
IRES rate (24%)		72
IRES reported		72
IRAP		
Difference between production costs and revenues	(3,330)	
Costs and revenues not relevant for IRAP purposes	9,498	
Total theoretical taxable amount for IRAP purposes	6,168	
Theoretical tax charge (rate 4.82%)		297
Impact of permanent tax changes	(4,146)	
Taxable IRAP income	2,022	
IRAP rate (4.82%)		97
IRAP reported		97
Taxes adjustments previous years		(68)
Transfer of working hours benefit/interest income to tax consolidation		(694)
Total positive taxes in the financial statements		(593)

COMMITMENTS AND GUARANTEES

Following the repeal of Article 2424, paragraph 3, this information is no longer stated in the footnotes of the Statement of Financial Position under "memorandum accounts" but is described in detail in the Notes.

(EUR thousand)	31/12/2020	31/12/2019
Guarantees given		
Guarantees in favour of third parties	3,813	3,828
Commitments		
Commitments to suppliers	7,553	8,858
Total	11,366	12,686

Guarantees issued – EUR 3,813 thousand

Guarantees issued in favour of third parties consist of bank sureties in favour of the Umbria Region, to guarantee hydroelectric concessions for EUR 3,813 thousand;

Commitments to suppliers – EUR 7,553 thousand

The item includes commitments to suppliers for contracts for the supply of goods, spare parts and services.

DISCLOSURE OBLIGATIONS PERTAINING TO ITALIAN LAW NO. 124/2017 OF 4 AUGUST 2017

Article 1, paragraphs 125-129, of Italian 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 Notes and in the Consolidated Financial Statements, if these are drawn up. In view of the interpretation difficulties encountered in applying these provisions (Assonime – circular no. 5 of 22 February 2019) the legislator intervened, amending the said regulations several times. More specifically, the legal provisions of Italian Law no. 124/17 were most recently revised by Italian Decree Law no. 34 of 30 April 2019, which set forth urgent economic growth measures to resolve specific crisis situations, converted with Italian Law no. 58 of 28 June 2019, which provided responses to important issues in order to simplify and rationalise the regulations under consideration. The ERG Group has therefore decided to state in the separate financial statements of the companies belonging to the Group the financial contributions received from public administrations for use by all the companies and that come under the general scheme of the reference system defined by the State (e.g. feed-in premium, energy efficiency certificates, etc.) with the exception of those belonging to the following categories:

- tax relief;
- 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 no. 12 of 11 February 2019, for any funds received, please refer to the indications contained in the National Register of State Aid under Article 52 of Italian Law no. 234 of 24 December 2012.

Type of contribution (EUR thousand)	Disbursing party	Revenues recognised in the year	Collections in the year		Total collections
			relative to revenues recognised of the year	relative to amounts accrued in prior years	
Feed-in premium ⁽¹⁾	GSE	49,736	48,987	953	49,940
Certificates of Origin ^{(1) (2)}	GSE	367		604	604
RID ⁽³⁾	GSE	2,373	1,882	1,194	3,076
RES ⁽¹⁾	GSE	838	413	335	748
Total		53,314	51,282	3,086	54,368

(1) Gestore dei Servizi Energetici (GSE)

(2) sold to third parties

(3) energy sold to the Gestore dei Servizi Energetici (GSE) pursuant to Resolution no. 280 of 2007

OTHER INFORMATION REQUIRED BY ARTICLES 2427 AND 2427-BIS OF THE ITALIAN CIVIL CODE

Other significant information required by Articles 2427 and 2427-bis of the Italian Civil Code is provided below:

- there are no payables backed by collateral (Article 2427, no. 6);
- 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 assets values of the Statement of Financial Position during the year (Article 2427, no. 8);
- as regards Article 2427, there are no significant revenue or costs of an exceptional nature, other than those described in other revenue and income (Article 2427, no. 13);
- no bonus shares, bonds convertible into shares or securities or other similar instruments were issued (Article 2427, no. 18);
- no derivative financial instruments were issued (Article 2427, no. 19) and no shareholder loans were received (Article 2427, no. 19-bis);
- 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);
- related party transactions (Article 2427, no. 22-bis) are illustrated in the relative section of the Directors' Report;
- there are no known agreements whose effects are not mentioned in the Statement of Financial Position (Article 2427, no. 22-ter).

OPERATING RESULTS

The financial statements at 31 December 2020 closed with a loss of EUR 86 thousand, after allocation to amortisation/depreciation of EUR 53,419 thousand and after positive taxes of EUR 593 thousand.

THE KEY DATA FROM THE MOST RECENT FINANCIAL STATEMENTS OF ERG S.P.A., WHICH CARRIES OUT THE MANAGEMENT AND COORDINATION OF ERG HYDRO S.R.L.

STATEMENT OF FINANCIAL POSITION

(EUR thousand)	31/12/2019
Intangible assets	2,283
Property, plant and equipment	10,654
Right-of-use assets	2,393
Equity investments	1,736,127
Other financial assets	295,010
Deferred tax assets	12,233
Other non-current assets	2,277
Non-current assets	2,060,977
Trade receivables	3,859
Other receivables and current assets	19,728
Current tax assets	22,640
Current financial assets	222,430
Cash and cash equivalents	480,033
Current assets	748,691
Assets held for sale	–
TOTAL ASSETS	2,809,668
Equity	1,372,954
Provisions for employee benefits	1,549
Deferred tax liabilities	13
Other non-current provisions	80,746
Non-current financial liabilities	1,276,930
Non-current lease liabilities	1,497
Other non-current liabilities	2,825
Non-current liabilities	1,363,561
Provisions for current risks and charges	9,102
Trade payables	12,432
Current financial liabilities	14,312
Current financial liabilities for leased goods	906
Other current liabilities	25,572
Current tax liabilities	10,829
Current liabilities	73,152
TOTAL LIABILITIES	2,809,668

INCOME STATEMENT

(EUR thousand)	31/12/2019
Revenue from sales and services	36,913
Other revenue and income	10,010
Purchases	(204)
Services and other operating costs	(34,402)
Personnel expense	(27,080)
GROSS OPERATING PROFIT (EBITDA)	(14,764)
Amortisation, depreciation and impairment losses of non-current assets	(3,878)
OPERATING PROFIT (EBIT)	(18,642)
Financial income	14,750
Financial expense	(22,531)
Net financial income (expense)	(7,781)
Net gains (losses) on equity investments	34,654
Net gains (losses) on equity investments	34,654
PROFIT (LOSS) BEFORE TAXES	8,232
Income taxes	2,798
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	11,030
Profit from discontinued operations	–
NET PROFIT (LOSS) FOR THE PERIOD	11,030

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD (ARTICLE 2427, NO. 22-QUATER)

It should be noted that the months of December 2020 and January/February 2021 were characterised by intense rainfall that led to highly extraordinary and sequential flood events, with a subsequent impact on the catchment areas that bring water to the Velino, Salto and Turano rivers and, in particular, the Rieti Plain.

In order to limit the growth rate of the reservoir level and to recover the maximum seasonal regulation quotas, in accordance with the Concession Regulations, the Civil Protection Documents (DPC) and the Dams Operation and Maintenance Conditions Sheet (FCM), the surface overflows of the Turano Dam were opened, optimising the flow rate turbinised by the Cotilia derivation units, Salto branch.

The emergency was managed in agreement with the Civil Protection and the external bodies in charge, also through a daily Coordination Committee; all the dam checks carried out in accordance with the full management procedures confirmed the good state of the structure during the emergency.

PROPOSAL BY THE BOARD OF DIRECTORS

Dear Shareholders,

We would like to conclude this report by calling upon you to:

- approve the financial statements for your Company at 31 December 2020, which closed with a loss of EUR 86,171.70;
- cover the loss for the year of EUR 86,171.70 with part of the Share premium reserve.

Genoa, 10 March 2021

On behalf of the Board of Directors

The Chairman

Renato Alessandro Sturani



BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING FOR APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020, PURSUANT TO ARTICLE 2429, PARAGRAPH 2 OF THE ITALIAN CIVIL CODE

To the Shareholders' Meeting of ERG Hydro S.r.l.

During the year ended 31 December 2020, we conducted the supervisory activities required of the Board of Statutory Auditors, in accordance with Article 2403 of the Italian Civil Code and Legislative Decree 58/98, as applicable, based on the standards of conduct of the Board of Statutory Auditors in companies controlled by companies with shares listed on regulated markets, issued by the Consigli Nazionali dei Dottori Commercialisti e degli Esperti Contabili (National Board of Chartered Accountants), also taking into account the specific applicable regulations.

The Board states that it was able to verify respect of the legal regulations and of the Company's articles of Association.

With regard to the activities carried out during the period:

- we held 4 meetings of the Board of Statutory Auditors and participated in the Shareholders' Meetings and all of the Board of Directors' meetings held during the period of assessment, monitoring compliance with the articles of incorporation and with the laws and regulations that govern the operation of Company bodies;
- we obtained information from the Directors on the overall activities carried out by the Company and on the transactions of greatest economic and financial relevance, verifying that the actions decided on and carried out complied with the law and with the articles of association and that they were not openly imprudent or reckless, potentially in conflict of interest or conflicting with the resolutions passed by the Shareholders' Meeting or such as to compromise the integrity of the company's capital;
- we obtained from the directors information on the measures taken by the Company in response to the COVID-19 emergency. At the first signs of emergency ERG Hydro, and indeed the whole of the ERG Group, took promptly action, putting in place all the necessary measures to ensure both the health of its employees and the operational continuity of its assets in safe conditions. The main organisational measure taken, in line with the recommendations of the Competent Authorities, was remote working. This has been supported by the investments made by the Group in recent years as part of the ONE ICT plan for the modernisation and digitalisation of processes. With the support of the Parent Company ERG, ERG Hydro has very carefully managed the staff employed across its production sites through the adoption of appropriate organisational safety measures (aimed at ensuring social distancing and the reconfiguration of operational and logistical activities) and prevention and protection measures

(training and information, personal protective equipment, personal hygiene measures and cleaning/sanitisation of workplaces), in compliance with recommendations by the Competent Authorities and in agreement with Trade Union Organisations. With reference to production processes, the Company implemented all the actions to ensure the operational continuity of production assets both in Italy and abroad, through a structured Business Continuity Management approach. As proof of the effectiveness of the measures adopted, since the start of the health emergency there have been no interruptions to business activities at any production site;

- we verified the legitimacy of the management decisions made by the Management Body and their economic adequacy, excluding a verification of merit with regard to opportunity and feasibility;
- we checked the adequacy of the internal control system, structured at Group level and constantly updated both within the parent company as well as within the subsidiaries. The Board of Statutory Auditors acknowledges – based on what was reported by the group audit officer – that the audit activities providing an overall evaluation of the adequacy of the internal control system were completed, revealing no critical issues but instead identifying a number of improvement measures with regard to which management is already working;
- we verified the adequacy of the organisational structure, and we highlight that ERG Hydro S.r.l. had a total of 65 employees at 31 December 2020. The Company's workforce decreased by 1 compared to 2019;
- we noted in the joint meetings and from the report received from the Supervisory Committee, established pursuant to Italian Legislative Decree 231/01, that no critical aspects were identified during the year as regards the implementation and effectiveness of the Organisation and Management Model;
- the administrative-accounting system, to the extent that we verified and assessed through information obtained from the Head of the respective function, from an examination of the corporate documentation and from an analysis of the work carried out by the Independent Auditors, is suitable in accurately representing the operating events;
- we verified the timeliness with which the parent company was provided both the data required to draw up the Financial Statements and the information required to fulfil the disclosure obligations pursuant to Articles 114 and 115 of Italian Legislative Decree 58/98;
- we note that, in line with the Sustainability Policy adopted by the Group, during 2020 the process to unify all of ERG Power Generation S.p.A.'s certifications continued, with the objective of having a single accreditation entity of reference. In 2020, all ERG Hydro's Management Systems were confirmed as being certified in accordance with international standards. With regard to health and safety aspects, the transition from the standard OHSAS 18001 to ISO 45001, which the Company began in the previous financial year, was validated. ERG Hydro S.r.l. maintained also its EMAS registration in 2020, pursuant to EC Regulation no. 1221/2009 and Regulation 2017/1505/EU.

* * *

During the supervisory activities, as described above:

- we did not identify any transaction that was atypical or could be defined as unusual either with respect to third parties or with intra-group companies or related parties, in terms of nature or extent;

- we found that ordinary transactions had been carried out on an intra-group basis and with related parties, confirming the existence of and compliance with procedures to ensure that these operations were duly documented, settled on an arm's length basis and in line with the best interests of the companies. These transactions were adequately illustrated by the Directors in the Financial Statements and in the Directors' Report, to which reference is made. With regard in particular to intra-group service agreements, we agreed with the cost charge-back criteria employed;
- no complaints were made by the shareholders in accordance with Article 2408 of the Italian Civil Code;
- we did not find any omissions or actions liable to censure or unlawful actions to be reported to the competent bodies or to be mentioned in this Report.

* * *

Moreover, we highlight the following:

- the company subject to management and coordination by parent company ERG S.p.A.: in addition to the definition of business strategies, this activity includes the indication of strategic guidelines from an organisational perspective and personnel policies, as well as management of strategic finance and group treasury with respect to tax-related issues, especially with regard to planning, communication policies, policies regarding the environment, health and safety, and the IT systems.
- The obligations with regard to advertising, envisaged by Article 2497-bis of the Italian Civil Code were also respected. In particular, the decisions made as part of the management and coordination activities of ERG S.p.A. were mentioned in the Directors' Report;
- The company participates in the Domestic Tax Consolidation scheme, pursuant to Articles 117 et seq. of the Consolidated Law on Income Taxes, with the company ERG S.p.A., as consolidating company, and, as from 2019, no longer adheres to Group VAT, governed by the last paragraph of Article 73 of Italian Presidential Decree no. 633/1972.

* * *

Auditing of the Financial Statements was carried out by KPMG S.p.A., already appointed by parent company ERG S.p.A. to audit its own Separate Financial Statements and the Consolidated Financial Statements.

During the year, we communicated regularly with the Independent Auditors, for a mutual exchange of relevant data and information.

The utmost collaboration was always noted, also with regard to the preliminary activities for preparation of the financial statements, and no significant facts or aspects worthy of mention were identified.

* * *

Specifically with regard to the supervisory activity for the financial statements, the auditing of which was assigned to the independent auditors KPMG S.p.A., we declare that:

- the laws governing the preparation and arrangement of the financial statements and of the Directors' Report were respected. Moreover, the adoption of accounting standards based on the prospect of the company as a going concern is considered to be suitable, given the information illustrated in the Directors' Report with regard to the company's business outlook; the financial statement formats adopted and the accounting standards applied, described in the Notes to the Financial Statements, are compliant with the provisions of the law and adequate in relation to the company's business;
- as per the previous year, the Company has drawn up the financial statements in accordance with Italian accounting standards, for the purposes of lodging with the Companies Register, also drawing up the periodic reports for submission of the economic and financial position and consolidated financial statements of ERG S.p.A. in accordance with the IAS/IFRS international accounting standards;
- pursuant to Article 2426, paragraph 5, of the Italian Civil Code the values recorded under points B-I-1) of assets (start up and expansion costs) at 31 December 2020, have been fully amortised;
- pursuant to Article 2426, paragraph 6, of the Italian Civil Code the Board of Statutory Auditors acknowledges the existence of the "goodwill" item generated by the demerger of the company E.ON Produzione S.p.A. equal to EUR 1,303,685 thousand, with an estimated useful life of twenty years, the residual value of which in the 2020 financial statements is EUR 526,716. With regard to the requirements of OIC 9, no particular elements or indicators were identified that would make the goodwill value non-recoverable.
- pursuant to Italian Decree Law no. 104 of 14 August 2020, on urgent measures to support and relaunch the economy, ERG Hydro opted to take the opportunity to revalue some property, plant and equipment included in the financial statements for the year ended 31.12.2019 and, more specifically, to revalue the "wet assets", the net carrying amount of which was EUR 84,051 thousand at 31.12.2020. In order to identify the market value of the aforesaid assets, ERG Hydro appointed a specialised and independent company to prepare an expert assessment, which showed a value in use for the assets assessed of EUR 293,791 thousand, with a latent gain of EUR 209,740 thousand. The company opted to revalue the above-assessed assets, for both accounting and tax purposes, with the exclusion of those assets with a residual useful life of three or fewer years (equal to approximately EUR 927 thousand). The revaluation performed resulted in a higher value being recognised for property, plant and equipment for approximately EUR 208.8 million and a revaluation reserve subject to tax on distribution being established pursuant to Italian Law 104/2020 in the amount of EUR 202.5 million, net of the payable for the 3% substitute tax equal to EUR 6.3 million;
- the financial statements agree with the facts and information of which the Board of Statutory Auditors became aware in the performance of its supervisory duties and in the exercise of its oversight and inspection powers;
- the Directors' Report is consistent with the requirements of Article 2428 of the Italian Civil Code and with the data and entries shown in the financial statements; in compliance with audit standard 720B, the Independent Auditors attests to the conformity of the Directors' Report with the law and issues a declaration on any significant errors. The Board therefore refers to the information provided by the Auditor in its report.

The Report also illustrates the following:

- developments of the applicable regulatory framework in 2020, with reference to the matters considered to be of greatest interest or more directly relevant to the activities carried out directly or indirectly by the Company;
- the main risks and uncertainties to which the Company is exposed, in accordance with Article 2428 of the Italian Civil Code.

The Explanatory Notes illustrate adequately any changes in the Equity items, indicating the possibility of use and availability for distribution of each item, along with any tax restrictions.

* * *

The Independent Auditors' Report, issued pursuant to Articles 14 of Italian Legislative Decree no. 39 of 27/1/2010 and 165 of Italian Legislative Decree no. 58 of 24/2/1998, on 25 March 2021, expresses the opinion that "the financial statements provide a true and accurate representation of the financial and economic position of ERG HYDRO S.r.l. at 31 December 2020, and of the economic results and cash flows for the year ended at said date, in accordance with the Italian legislation governing the drafting criteria."

* * *

The Board of Statutory Auditors, within the scope of its responsibilities, acknowledging the results of the financial statements at 31 December 2020, which closed with a loss of EUR 86,172, and of the Independent Auditors' Report on said financial statements, has no objections with regard to approval of the financial statements and the proposal for allocation of profit as indicated by the Directors in the Explanatory Notes.

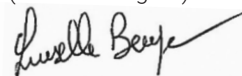
The mandate of the Board of Statutory Auditors appointed by the Shareholders' Meeting of 19 April 2018 will expire with the approval of the financial statements for 2020. We thank you for the trust you have placed in us and invite you to pass the necessary resolutions.

Genoa, 25 March 2021

The Board of Statutory Auditors
(Lelio Fornabaio)



(Luisella Bergero)



(Vincenzo Campoantico)



INDEPENDENT AUDITORS' REPORT



KPMG S.p.A.
Revisione e organizzazione contabile
Piazza della Vittoria, 15 int. 11
16121 GENOVA GE
Telefono +39 010 564992
Email it-fmauditaly@kpmg.it
PEC 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 quotaholder of
ERG Hydro S.r.l.*

Report on the audit of the financial statements

Opinion

We have audited the financial statements of ERG Hydro S.r.l. (the "Company"), which comprise the balance sheet as at 31 December 2020, 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 Hydro S.r.l. as at 31 December 2020 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 Hydro S.r.l. 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 Hydro S.r.l. 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 entità indipendenti affiliate a KPMG International Limited, società di diritto inglese.

Ancona Bari Bergamo
Bologna Bolzano Brescia
Catania Como Firenze Genova
Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescara Roma Torino Treviso
Trieste Varese Verona

Società per azioni
Capitale sociale
Euro 10.415.500,00 i.v.
Registro Imprese Milano Monza Brianza Lodi
e Codice Fiscale N. 00709600159
R.E.A. Milano N. 512867
Partita IVA 00709600159
VAT number IT00709600159
Sede legale: Via Vittor Pisani, 25
20124 Milano MI ITALIA



ERG Hydro S.r.l.
Independent auditors' report
31 December 2020

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;



ERG Hydro S.r.l.
Independent auditors' report
31 December 2020

- 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 Hydro S.r.l. are responsible for the preparation of the directors' report at 31 December 2020 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 2020 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 2020 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, 25 March 2021

KPMG S.p.A.

(signed on the original)

Luisa Polignano
Director of Audit



ERG HYDRO S.R.L.

REGISTERED OFFICE

via De Marini, 1 – 16149 Genoa

Tel +39 010 24011

PEC:erghydro@legalmail.it

Share Capital EUR 50,000,000.00 fully paid up

Econ. Admn. Index (REA) no. 480659

Company Register Genoa,

Tax code and VAT no. 09163930960

ERG S.p.A. – March 2021

This publication is available in PDF format at
www.erg.eu

Written by: Group Administration
erg@legalmail.it

Editing: Corporate Image
communication@erg.eu

www.erg.eu

