



ERG Power Generation

Annual Report as at 31 December 2021

The Annual Report 2021 constitutes a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815.

We are #SDGsContributors



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Directors' Report

INTRODUCTION

OPERATING SEGMENTS

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

The results by business segment also reflect the energy sales on markets by Group Energy Management, in addition to the application of effective hedges of the generation margin. The above mentioned hedges include, inter alia, the use of instruments by the Energy Management department to hedge the price risk. In order to give a clearer representation of the businesses in terms of technology, the wind and hydroelectric power results include the hedges entered into in relation to renewable sources ("RES") and the thermoelectric power results include the hedges on the "spark spread".

ALTERNATIVE PERFORMANCE INDICATORS (APIS) AND ADJUSTED RESULTS

Some of the Alternative Performance Indicators (APIs) used in this document are different from the financial indicators expressly provided for by the IAS/IFRS adopted by the Group.

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

Finally, in order to facilitate an understanding of the business segments' performance, the operating results are shown with the exclusion of significant special income components of an extraordinary nature (special items): these results are indicated with the term "**Adjusted results**".

The results corresponding to the values indicated in the Notes to the consolidated financial statements and including significant special income components of an extraordinary nature (special items) are defined as "**Reported results**".

A definition of the indicators and the reconciliation of the amounts involved are provided in the specific "Alternative Performance Indicators" section and the comments in the following IFRS 16 paragraph.

FINALISATION OF THE SALE OF THE HYDROELECTRIC BUSINESS

On 3 January 2022, ERG concluded its transaction with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Hydro S.r.l., as announced on 2 August 2021, following the approval of the Italian Antitrust Authority and the successful completion of the golden power procedure at the Italian Presidency of the Council of Ministers. The consideration totals approximately EUR 1.265 billion, including the mark-to-market valuation of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Hydro S.r.l. plants. The sale and purchase agreement envisages a further price adjustment mechanism in the coming months based on the actual values, recorded at the closing date, of the net working capital, the net financial position and the actual level of water reserves of some of ERG Hydro S.r.l.'s reservoirs.

With reference to what has been said above, in the **reported financial statements** the accounting results of the hydroelectric assets being sold are indicated separately in accordance with IFRS 5.

To enhance understandability of the Group's performance, the **adjusted results** commented on in this Report also include in ordinary operations the results of the assets being sold at the reporting date.

For the reconciliation of these values, please refer to the section "Alternative performance indicators".

AGREEMENT FOR THE SALE OF THE THERMOELECTRIC BUSINESS

On 9 February 2022, ERG signed an agreement with Enel Produzione S.p.A. for the sale of the entire capital of ERG Power S.r.l. The consideration in terms of Enterprise Value, at 31 December 2021, is EUR 188 million and will be subject to a price adjustment at the closing. This will include, among other things, a monthly décalage mechanism consistent with the expected cash flows of the business plan. It will also include the mark-to-market valuation at the closing of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Power's plants.

The transaction is expected to be concluded in the third quarter of 2022.

In consideration of the above, in this Annual Financial Report, the Net Assets under Assets held for sale were not recorded in the reported financial statements as the conditions set forth in paragraph 12 of IFRS 5 were not met.

THE GROUP

CORPORATE BODIES

BOARD OF DIRECTORS

Chairman
VITTORIO GARRONE

Chief executive officer
RENATO STURANI

Directors
ITALO GIORGIO ALFIERI
GIORGIO CORAGGIOSO
MICHELE PEDEMONTE
ANDREA NAVARRA

BOARD OF STATUTORY AUDITORS¹

Chairman
LELIO FORNABAIO

Standing auditors
LUISELLA BERGERO
VINCENZO CAMPO ANTICO

INDEPENDENT AUDITORS

KPMG S.P.A.²

¹ Appointed by the ERG Power Generation S.p.A. Shareholders' Meeting of 22 April 2021 for the period 2021 – 2023.

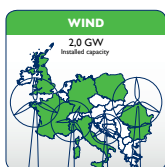
² Appointed by the ERG Power Generation S.p.A. Shareholders' Meeting of 22 April 2021 for the period 2021 – 2023.

BUSINESS DESCRIPTION

The ERG Group is a major independent operator in the production of electricity from renewable sources such as wind, solar, hydroelectric and high-efficiency, low environmental impact cogenerative thermoelectric power plants. Management of the industrial and commercial processes of the ERG Group is entrusted to the subsidiary ERG Power Generation S.p.A., which carries out:

- centralised Energy Management & Sales activities for all generation technologies in which the ERG Group operates with the mission of securing production through long-term contracts and managing the hedging of merchant positions in line with the Group's risk policies; ;
- the Operation and Maintenance activities of its Italian wind and solar farms and part of the plants in France and Germany, as well as the Priolo CCGT plant and the Terni Hydroelectric Complex³. It provides technical and administrative services in France for both Group companies and third parties through its foreign subsidiaries.

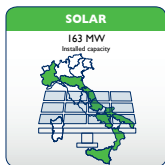
ERG Power Generation S.p.A., with generating facilities comprising 3,425 MW of installed capacity, also operates, directly or through its subsidiaries, in the following electric power generation sectors:



Wind

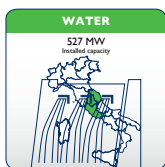
ERG is active in the generation of electricity from wind sources, with 2,198 MW of installed capacity. ERG is the leading wind power operator in Italy and one of the top ten in Europe.

The wind farms are mainly concentrated in Italy (1,093 MW), but with a significant and growing presence abroad (1,105 MW operational), mainly in France (502 MW), Germany (327 MW), Poland (82 MW), Romania (70 MW), Bulgaria (54 MW) and the UK (70 MW).



Solar

ERG is active in the generation of electricity from solar sources with an installed capacity of 220 MW, of which 141 MW in Italy, with 33 photovoltaic plants located in 9 regions, and 79 MW in France with 9 plants acquired during the year.

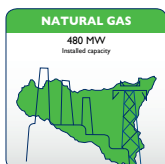


Hydroelectric

ERG is active in the generation of electricity from hydroelectric sources through an integrated system of assets consisting of 19 plants, 7 dams, 3 reservoirs and one pumping station, geographically located in the Umbria, Marche and Lazio regions, connected by a network of rivers and canals of over 150 km and with a capacity of 527 MW.

It should be noted that on 2 August 2021 the Group reached an agreement with Enel Produzione for the sale of the hydroelectric plants.

This transaction was concluded on 3 January 2022.



Thermoelectric

ERG is active in the generation of electricity from thermoelectric sources through the CCGT plant (480 MW) at the industrial site in Priolo Gargallo (SR), Sicily. This is a high-efficiency cogeneration plant (HEC) with low-environmental impact, based on combined cycle technology fuelled with natural gas. It entered commercially into operation in April 2010 along with other ancillary plants for the production of steam and, to a lesser extent, of other utilities. It should be noted that on 9 February 2022, the Group reached an agreement with Enel Produzione for the sale of the thermoelectric plants. The transaction is expected to be concluded in the third quarter of 2022.

³ Maintenance of the Terni Hydroelectric Complex is managed by staff of the subsidiary ERG Hydro.

GEOGRAPHICAL SEGMENTS AT 31 DECEMBER 2021

TOTAL: 3,425 MW

Wind: 2,198 MW (1,093 MW Italy and 1,105 MW abroad)

Solar: 220 MW (141 MW Italy and 79 MW abroad)

Hydroelectric: 527 MW

Thermoelectric: 480 MW

In construction/RtB: 474 MW

UK: 179 MW

Poland: 60 MW

France: 20 MW

Italy: 153 MW

Sweden: 62 MW

FRANCE

Wind: 502 MW

Solar: 79 MW

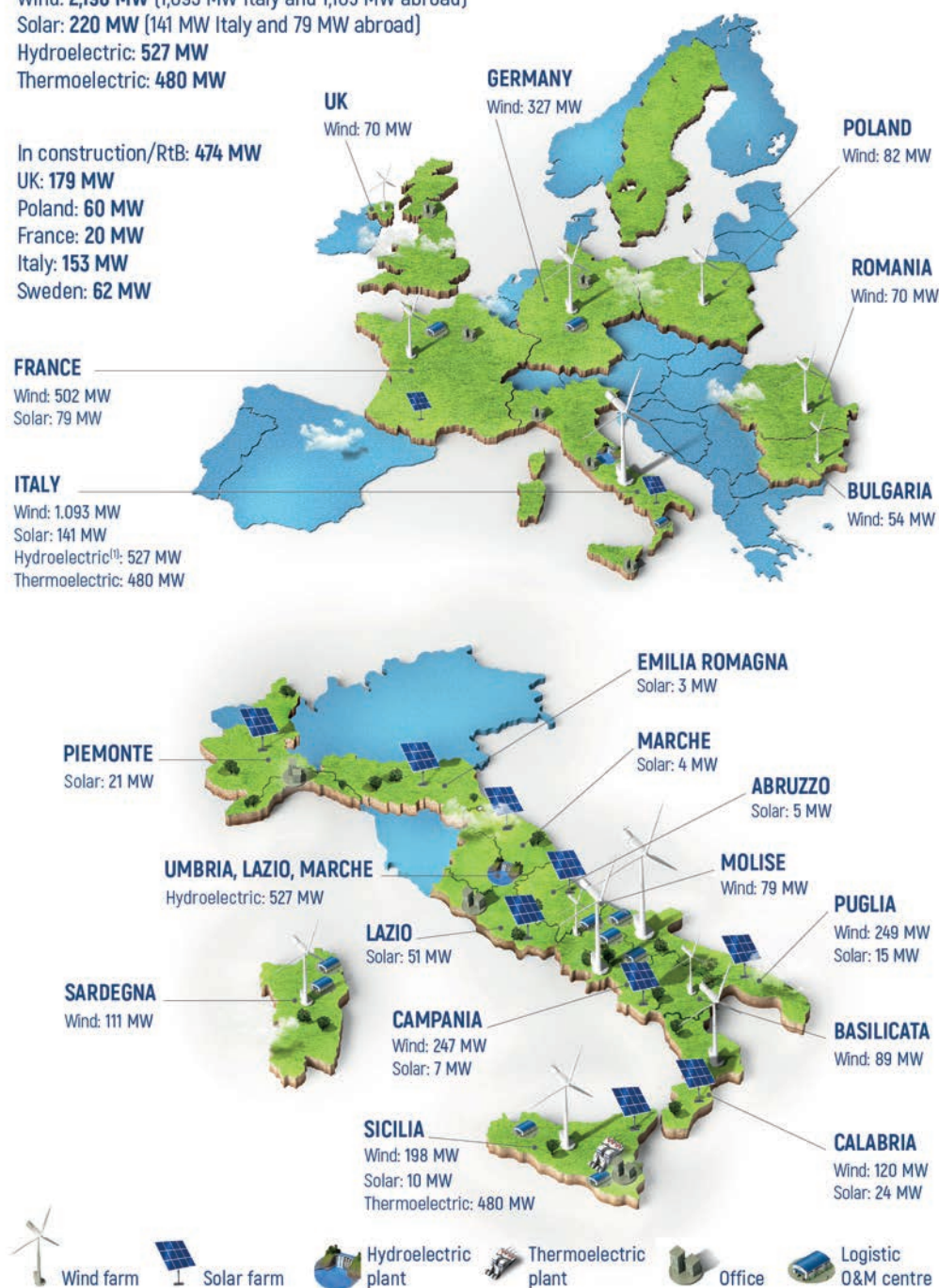
ITALY

Wind: 1,093 MW

Solar: 141 MW

Hydroelectric⁽¹⁾: 527 MW

Thermoelectric: 480 MW



(1) Sold on 3 January 2022.

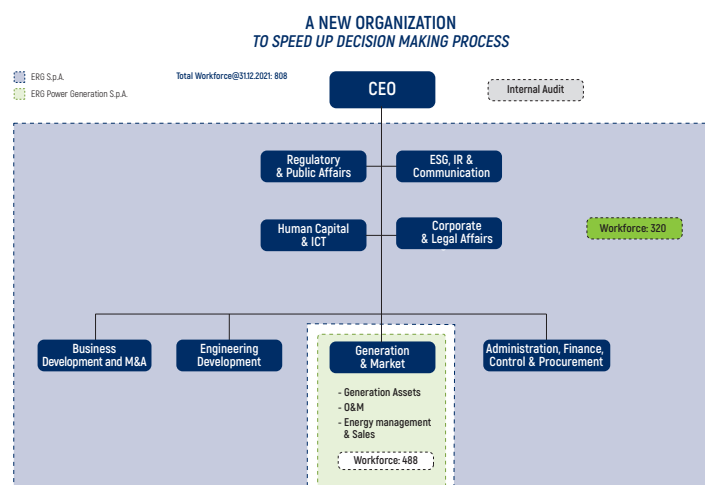
CONSOLIDATION SCOPE AT 31 DECEMBER 2021



ORGANISATIONAL MODEL

The Group's organisational structure features a strong focus on process logic and the implementation of strategic business leverages, and provides for the definition of two macro-roles:

- ERG S.p.A. - Corporate - which ensures the strategic direction, is directly responsible for the business development processes and ensures management of all business support processes. Following the organisational changes that took place in April 2021, the company has been organised into the following areas:
 - Business Development and Merger & Acquisitions;
 - Engineering Development;
 - Administration, Finance, Control & Procurement;
 - Human Capital & ICT;
 - Regulatory & Public Affairs;
 - Corporate & Legal Affairs;
 - ESG, IR & Communication.
- ERG Power Generation S.p.A., which is assigned responsibility for the Group's industrial and commercial processes, organised into:
 - Wind, Solar, Hydro and Thermo generation technologies, which in turn are organised into production units on a geographical basis⁴;
 - Energy Management & Sales, as a single entry point to organised markets and the main clients/counterparties;
 - a centre of process engineering technological excellence;
 - a structure dedicated to managing health, safety and environmental protection issues for the entire Group.



⁴ Starting from February 2022, in order to continue the path of growth started and achieve the ambitious targets set in the Business Plan, the Group has implemented a business model rooted in the different realities and at the same time flexible, which takes into account both the geographical and the technological diversification, particularly in the solar business. Therefore, within the Business Development and M&A Organisational Unit, two macro areas have been set up at European level – Central West Europe & Nordics and Central East Europe – bringing together the Country Business Development and M&A organisational structures. These remain responsible for identifying, coordinating and finalising organic development and M&A initiatives at local level.

STRATEGY

THE RESULTS ACHIEVED IN 2021

In 2021, in line with but well in advance of the provisions of the **2021-2025 Business Plan** approved by the Board of Directors and presented to the Financial Community in May, ERG achieved important results in its strategic path to decarbonise and grow the RES portfolio.

Growth and securing of the RES portfolio:

In the course of 2021, the Group's installed capacity in Wind and Solar power increased by 309 MW of which:

- 77 MW in the UK and France from organic developments;
- 232 MW (of which 79 MW solar) through M&A transactions in France and Germany.








In addition to this, 2021 saw the entry into wind power in Sweden, with the acquisition of a Ready to Build project for 62 MW, now under construction, and in Spain, with the signing of an agreement for the acquisition of 92 MW of solar PV, which was then finalised on 1 February 2022.

In 2021, agreements were reached and subsequently finalised for the acquisition of a total of 386 MW, of which 170 MW in Solar, equal to 55% of the Plan's overall M&A target, demonstrating a strong capacity to execute.

In 2021, significant progress was also made in the repowering and green field project in Italy with 240 MW authorised and awarded at auction.

The objective of "securing revenues" was also implemented through the signing of long-term contracts for a total of approximately 0.7 TWh, of which approximately 0.3 TWh in Italy, 0.2 TWh in France and 0.3 TWh in Northern Ireland.

2021-2025 BP – RESULTS TO DATE

	Objectives of the 2021-2025 BP	Results to date
 RES portfolio growth	<ul style="list-style-type: none"> • +1.5 GW through RPW, Greenfield and M&A 	<ul style="list-style-type: none"> • + 386 MW¹ M&A equal to 55% of the M&A target of BP 21-25 • + 77 MW built in the UK and France • + 240 MW awarded at auction in Italy
 Securing of revenue	<ul style="list-style-type: none"> • 80% regulated 	<ul style="list-style-type: none"> • PPAs signed in Northern Ireland, Italy and France
 Geographical diversification	<ul style="list-style-type: none"> • Increased geographical diversification 	<ul style="list-style-type: none"> • 9 countries reached: Sweden and Spain added, and first MW installed in the UK
 Solar as a strategic pillar	<ul style="list-style-type: none"> • + 0.5 GW of solar 	<ul style="list-style-type: none"> • +170 MW¹ in solar
 Investment in innovation	<ul style="list-style-type: none"> • Search for opportunities in the Storage and Hydrogen sectors 	<ul style="list-style-type: none"> • Launch of the first Storage projects with the award of the capacity market auction
 Asset Rotation for Conventional Sources	<ul style="list-style-type: none"> • Asset rotation opportunities 	<ul style="list-style-type: none"> • Hydro closing on 3.1.22, CCGT signs on 9.2.22
 Incorporation of ESG matters	<ul style="list-style-type: none"> • ESG Plan 	<ul style="list-style-type: none"> • ESG 21-25 approved and integrated in the ERG strategy, D&I policy issued. ERG included in: S&P Global Clean Energy Index, MIB ESG and Bloomberg Gender Equality Index.

1 80 MW Joran (o/w 22 PV) – France; 152 MW Ventoux (o/w 57 MW PV) – France/Germany; 62 MW Erik – Sweden; 92 MW Valencia (100% PV) – Spain.

TRANSFORMATION INTO A PURE “WIND & SOLAR” MODEL

ERG has radically changed its business portfolio, anticipating long-term energy scenarios and achieving a leading position in renewables not only in the Italian market but also in Europe.

Since starting its industrial transformation from Oil to Green in 2008, the Company has become a primary independent producer of electricity from renewable sources.

In line with the third R of the 2021-2025 business plan, the Group has undertaken a major Asset Rotation project in order to complete its transformation towards a pure “Wind & Solar” business model, reaffirming its leading role in the Energy Transition process and in the decarbonisation process, also envisaged in the ESG plan.

On 3 January 2022, ERG completed the sale of its hydroelectric assets to Enel Produzione, with which it subsequently also reached an agreement to sell the Priolo Gargallo CCGT plant.

On 1 February 2022, the acquisition of 92 MW of Solar PV in Spain was completed.

As a result of these significant transactions, the Group has become a 100% Renewable operator with an installed capacity of 2,510 MW and a portfolio of assets diversified both technologically and geographically, in addition to a pipeline of both Wind and Solar projects in Italy and Europe for approximately 3,400 MW.

The financial resources from the divestment of hydroelectric and thermoelectric assets will give new impetus to growth, as will be shown in the Business Plan update.

BUSINESS PLAN

Following the sale of the hydroelectric business and the reaching of an agreement for the sale of the thermoelectric business, which is expected to be finalised in the third quarter of 2022, the Board of Directors of ERG approved a new 2022-2026 Business Plan aimed at reinvesting resources from disposals and confirming the growth strategy in Wind & Solar through a policy of geographic and technological diversification and the gradual securing of revenues.

The objective in the 2022-2026 period is to increase the installed capacity by approximately 2,200 MW, of which approximately 650 MW in Solar, and the first 50 MW in electrochemical storage through three channels:

- 1) **Greenfield and co-Development:** ERG intends to continue its growth strategy through the organic development of proprietary pipelines and co-development agreements in Italy and in the main European reference countries.
- 2) **Repowering of its plants in Italy and abroad:** in view of technological developments in the wind and solar sector, ERG aims to repower assets currently equipped with outdated technologies, with latest generation technologies aimed at significantly increasing production, taking advantage of the quality of the most productive sites. The revenues of the new wind farms will be secured through participation in the auction system or through long-term contracts known as PPAs.

- 3) **M&A:** ERG intends to seize opportunities for growth in renewables in the countries of interest to ERG, leveraging the financial resources deriving from asset rotation, the experience acquired during its transformation process and the synergies resulting from the consolidation with its portfolio.

The 2022-2026 Business Plan incorporates the ESG Plan, aligned with the Sustainable Development Goals of the United Nations, which confirms the Group's mission to *"keep growing in RES acting as #SDGsContributor"*.

The new plan will involve a new organisation and targeted re-skilling activities, and will also be backed by a solid financial structure.

The action plan for the 2022-2026 period will continue to be based on:



1. **Repositioning the Portfolio:** repositioning of the portfolio on a "quasi-regulated" basis with greater installed capacity in pure RES technologies (Wind & Solar), revenues secured through CFDs and PPAs and increased geographical and technological diversification.
2. **Reinforcing Organization:** strengthening of the organisation, particularly in the areas of Business Development, Construction and Sales.
3. **Rotating Invested Capital:** the sale of the hydroelectric business completed on 3 January 2022. On 9 February, an agreement was reached with ENEL Produzione for the sale of the CCGT plant in Priolo, which is expected to be finalised in the third quarter of 2022. The financial resources deriving from asset rotation will be allocated to growth in RES technologies (Wind & Solar)

The objective at the end of the plan is to achieve an installed capacity of 4.6 GW with an increase of 2.2 GW through:

- projects currently under construction the UK, Poland, France and Sweden and Repowering in Italy: +0.5 GW;
- additional repowering projects in wind in Italy and abroad: +0.2 GW (on a differential basis);
- greenfield projects in wind and solar: +0.5 GW;
- M&A transactions for approximately 1 GW (of which approximately 0.1 already finalised at the beginning of 2022).









EBITDA is expected to be around EUR 560 million in 2026, 85-90% of which quasi-regulated, thanks to participation in competitive auctions for the award of CfDs or long-term energy sale contracts at pre-established prices, PPAs (Power Purchase Agreements).

The capital expenditure relating to the strategy outlined amounted to approximately EUR 2.9 billion, of which EUR 2.8 billion intended for growth in renewable sources, and debt at the end of 2026 of EUR 2.1 billion, compared to EUR 2.0 billion at the end of 2021.

ERG has a solid financial structure capable of supporting sustainable growth with the aim of maintaining the Investment Grade BBB rating by the Fitch rating agency.

In light of the Group's financial strength, and also as a result of the resources deriving from disposals, as well as the positive growth prospects, the new Business Plan envisages an increase in the dividend from EUR 0.75 to EUR 0.90 per share over the five-year period of the Plan.

2022-2026 STRATEGIC PLAN OBJECTIVES

		Objectives of the 2021-2025 BP	New targets for 2026
	RES portfolio growth	<ul style="list-style-type: none"> • +1.5 GW through RPW, Greenfield and M&A 	<ul style="list-style-type: none"> • + 2.2 GW 22-26 (+ 309 MW in 2021) • 4.6 GW of installed capacity in 2026 (+2.5 GW 21-26)
	Securing of revenue	<ul style="list-style-type: none"> • 80% regulated 	<ul style="list-style-type: none"> • 85-90% regulated of total EBITDA; • 2022: PPA/auction in the UK; PPA in Sweden; auctions for RPW in Italy
	Geographical diversification	<ul style="list-style-type: none"> • ~10 countries (vs 7 @2020) 	<ul style="list-style-type: none"> • 9-10 countries: EBITDA abroad of ~50% @ 2026
	Solar as a strategic pillar	<ul style="list-style-type: none"> • +0.5 GW of solar 	<ul style="list-style-type: none"> • ~650 MW of solar (out of 2,200 MW) • ~20% solar of total capacity @ 2026
	Investment in innovation	<ul style="list-style-type: none"> • Search for opportunities 	<ul style="list-style-type: none"> • Launch of the Recharge (Storage) project
	Asset Rotation for Conventional Sources	<ul style="list-style-type: none"> • Asset rotation opportunities 	<ul style="list-style-type: none"> • Completion of the sale of the CCGT
	Incorporation of ESG matters	<ul style="list-style-type: none"> • ESG Plan 	<ul style="list-style-type: none"> • ESG Plan update with more challenging KPIs
	Dividend policy	<ul style="list-style-type: none"> • Eur 0.75 per share 	<ul style="list-style-type: none"> • Eur 0.90 per share (+ 20% vs previous)

ESG PLAN

ERG's ESG strategy is based on four "pillars", which are closely related and integrated into our business model:

- 1) Planet: fight against climate change;
- 2) Engagement: commitment to local areas;
- 3) People: focus on the growth and well-being of people;
- 4) Governance: principles and management bodies inspired by best practices.

The 2022-2026 ESG plan sets out 16 well-defined objectives that are measurable through constantly monitored KPIs, with a view to guaranteeing a tangible contribution to the creation of value over time for all our stakeholders and

reaching 14 of the 17 SDGs established by the United Nations, incorporated in the management's short and long-term incentive system.

Within the 16 objectives we have identified 8 strategic priorities that will be the distinctive elements of our ESG plan and another 8 objectives on projects already under way with a view to continuous improvement.

	STRATEGIC PRIORITIES	PROJECTS ALREADY UNDER WAY
 Planet    	<ul style="list-style-type: none"> • Net Zero • Circular Economy (Wind & Solar) 	<ul style="list-style-type: none"> • Energy Efficiency • Biodiversity
 Engagement    	<ul style="list-style-type: none"> • ERG Academy for Next Generation • >1% for the Community 	<ul style="list-style-type: none"> • Trust & Reputation
 People    	<ul style="list-style-type: none"> • ERG Academy for ERG People • Inclusion & Diversity 	<ul style="list-style-type: none"> • Health and Safety always • Employees' well-being
 Governance    	<ul style="list-style-type: none"> • ESG objectives into MBO and LTI • ESG Finance 	<ul style="list-style-type: none"> • Tax Control Framework abroad • Sustainable Procurement • Enhancing Governance Model

In the **Planet Pillar**, ERG sets itself the ambitious goal of becoming Net Zero by 2040, and reaffirms its strong commitment to the circular economy with the objective of recovering materials from the dismantling of all our wind and solar plants subject to repowering. This environmental objective will be supported by projects for the re-use of photovoltaic panels in good condition.

In the **Engagement Pillar**, we will continue to be committed to supporting our local areas, with a contribution of at least 1% of turnover to the communities where we operate with our plants.

We will also lay the foundations for the ERG Academy which will have educational programmes for the Next Generations on Sustainability and Renewable Energy and will also include all training content for our people.

Indeed, in the **People Pillar** we envisage employee growth programmes with objectives up to 2026 that focus on both defining individual development plans (for at least 80% of ERG People) and internal training activities (for 100% of our people).

Diversity & Inclusion are central to our strategy because we want to continue to work towards a more international and inclusive ERG, aiming to create the right conditions so that all talents can express themselves.

In the **Governance Pillar**, the commitment to having best-in-class governance continues with the inclusion of ESG targets in the MBO/LTI remuneration systems. We aim to guarantee increasingly Green financial strategies, with 90% "Green" loans.

In the course of 2021, ERG made significant progress along the path outlined by the ESG plan and the results achieved are in line with the objectives defined in the ESG Plan and also included in the short-term incentive system. The results achieved are summarised below:



Planet



1. Carbon Neutrality:

- Carbon index -20%
- 100% reblading blades recovered as secondary solid fuel

2. >98% Circular Wind:

- Renewal of TEE for 10 years for module 1 CCGT
- Solar: +1,8 GWh (+0,5 GWh vs target 2021)

3. Energy Efficiency:



Engagement



4. Next Generation:

- Italy: 5,832 students

5. 1% for the Community:

- 2 UK wind farms (Evisharagan and Craiggore) commissioned in December 2021

6. Trust & Reputation:

- Score 66.7/100 (target 65/100)



People



8. Diversity & Inclusion

- 14% women among key leaders
- 8% key eladers abroad
- 60% women increase in staff
- D&I Policy Approved

9. Healt & Safety, always:

- FI= 2.39 (target 2.95)
- SI= 0.09 (target <1)



Governance



10. Sustainability Incentives:

- 100% MBO/LTI with ESG targest

11. Enhancing Governance Model:

- Gender Diversity and Indipendance in BoD & Board Committees
- Lead Independent Director

13. Sustainable Procurement:

- 2021 Evaluation: +3% (target +2%)

CHANGE IN BUSINESS SCOPE IN 2021

Wind - Sweden

- On **10 May 2021** ERG, through its Swedish holding, completed the acquisition from the BayWa r.e. Group, active in the development, construction and management of renewable energy plants, of the permits for the construction of a wind farm with a capacity of 62 MW in southern Sweden.

The project envisages the installation of 10 latest generation Siemens Gamesa turbines of 6.2 MW with estimated annual output of approximately 210 GWh, equal to almost 3,400 equivalent hours and roughly 140 kt of CO₂ emissions avoided each year. Construction started on the wind farm in the first half of 2021, and it is expected to enter into operation by the end of 2022. The total capital expenditure amounts to EUR 99 million, including both construction permits and construction costs.

BayWa r.e will support ERG through the entire phase of construction, until commissioning of the plant.

Wind, Solar – France

- On **24 June 2021** ERG, through its subsidiary ERG Eolienne France SAS, signed an agreement with FPCI Capenergie 3, the fund managed by the Parisian private equity investor Omnes Capital, for the acquisition of 100% of the share capital of Omniwatt, a French company that owns a portfolio composed of 5 wind farms, for a total of 58 MW and two solar plants for a total of 22 MW.

The average entry into operation of the portfolio is 2017; the plants benefit from an incentive tariff regime with average expiry in 2034. The estimated total annual production is 174 GWh, equal to more than 2,400 equivalent hours for wind assets and over 1,200 equivalent hours for photovoltaic assets, and corresponding to 95 kt of avoided CO₂ emissions every year.

The value of the transaction in terms of equity value is EUR 45 million. The average expected EBITDA is around EUR 11 million and the net financial position at the end of 2020 is EUR 101 million.

In consideration of the fact that the companies were acquired at the end of June, this Report reflects the full contribution to the income statement of the results of the assets acquired from the second half of the year.

Wind, Solar – France and Germany

- On **1 October 2021**, ERG, through its subsidiaries ERG Eolienne France SAS and ERG Windpark Beteiligungs GmbH, signed two agreements with NAEV Austria Beteiligungs GmbH and NAEV Austria GmbH & Co. OG to acquire 100% of the share capital of 15 companies that own a 152.4 MW renewable portfolio in operation in France and Germany. The plant portfolio consists of seven photovoltaic installations and three wind farms in France, for a total installed capacity of 56.7 MW and 40.6 MW, respectively, and five wind farms in Germany, for a total of 55.1 MW.

The plants came into operation between 2013 and 2015. They benefit from an incentivised tariff system with an average expiry date of 2032 and an estimated total annual production of 273 GWh, equal to approximately 2,100 equivalent hours for wind assets and approximately 1,300 equivalent hours for photovoltaic assets, which amount to 150 kt of avoided CO2 emissions each year. The value of the transaction in terms of enterprise value is EUR 202 million. This Report reflects the full contribution to the income statement of the assets acquired starting from the fourth quarter of 2021.

Hydroelectric

- It should be noted that, as described in more detail in the significant events that occurred during the year or after year-end, on 3 January 2022 ERG completed an agreement with Enel Produzione S.p.A. for the sale of the entire capital of ERG Hydro S.r.l. The transaction was concluded in line with what was announced on 2 August 2021. Therefore, this Report does not reflect the effects of the sale.

SIGNIFICANT EVENTS DURING THE YEAR

CORPORATE

Date	Significant event	Press release
21 April 2021	ERG enters the "S&P Global Clean Energy Index", Standard & Poor's stock exchange index which includes 82 companies that are key players at international level in the production of green energy with high ESG standards.	Press Release of 21 April 2021
14 May 2021	ERG's Board of Directors approves the Business Plan and the 2021-2025 ESG Plan. Sustainability-oriented growth in renewables continues, with an increase in installed power of 1.5 GW, investments of approximately EUR 2 billion and EBITDA at the end of the plan of EUR 550 million.	Press Release of 14 May 2021
5 August 2021	ISS ESG has promoted ERG to A- rating (formerly B+), placing the Group in first place in the world ranking in the "Electric Utilities" sector, which includes 125 international companies.	Press Release of 5 August 2021
14 October 2021	ERG and the Italian Institute of Technology (Istituto Italiano di Tecnologia, IIT) have signed a multi-year collaboration agreement aimed at accelerating the digitisation process in the renewable energy sector.	Press Release of 14 October 2021
19 October 2021	ERG enters the new MIB ESG Index of Borsa Italiana, the first ESG index dedicated to the 40 leading listed Italian issuers that stand out for their best practices in the field of sustainability.	Press Release of 19 October 2021
9 December 2021	CDP confirms ERG's "A-" rating in the Climate Change programme promoted by Carbon Disclosure Project (CDP), the global non-profit organisation which, by monitoring company performance in the fight against climate change, guides companies and governments towards the reduction of greenhouse gas emissions.	Press Release of 9 December 2021

WIND - SOLAR

Date	Country	Significant event	Press release
28 January 2021	UK	ERG has signed a framework agreement with ENERCON GmbH to supply wind-power generators with a potential capacity of approximately 190 MW, which are earmarked for repowering projects in Italy and a greenfield project in the United Kingdom.	Press release of 28/01/2021
14 April 2021	Italy	ERG has obtained Single Authorisations as part of the Repowering project for the wind farms of Mineo - Militello - Vizzini and Monreale/Partinico, located in the Sicily region, for a total capacity of 143 MW.	
27 April 2021	Spain	ERG and Renergetica, a company that develops renewable energy source projects on the international market and is listed on the AIM Italia market managed by Borsa Italiana, have signed a co-development agreement in the Spanish market for greenfield projects in the photovoltaic and wind power sectors, with an objective of roughly 100 MW per year, when at operating at full capacity.	Press release of 27/04/2021
10 May 2021	Sweden	ERG, through its Swedish holding, has completed the acquisition from the BayWa r.e. Group of permits for the construction of a 62-MW wind farm located in southern Sweden. Entry into operation is expected by the end of 2022. The total capital expenditure amounts to EUR 99 million, including both construction permits and construction costs.	Press release of 10/05/2021
14 May 2021	Italy	ERG and TIM have signed a ten-year corporate PPA (Power Purchase Agreement) for the supply of 3.4 TWh of green energy for the period 2022-2031.	Press release of 14/05/2021
24 June 2021	Wind France Solar France	ERG has today signed an agreement with FPCI Capenergie 3, the fund managed by the Parisian private equity investor Omnes Capital, for the acquisition of 100% of the share capital of Omniwatt, a French company that owns a portfolio consisting of five wind farms, for a total of 58 MW and two solar plants for a total of 22 MW.	Press release of 21/05/2021 and 24/06/2021
21 July 2021	UK	ERG has signed a long-term agreement with ElectroRoute Energy Supply Ltd for two Power Purchase Agreements (PPAs) for the supply of renewable energy produced by the onshore wind farms of Evishagaran and Craiggorr in Northern Ireland. Energy will be supplied in "pay as produced" mode, with remuneration at a fixed price on all energy produced. ElectroRoute will also guarantee the "Route to Market" service to allow the energy to be fed into the country's electricity grid.	Press release of 21/07/2021

28 September 2021	Italy	<p>ERG has been awarded a tariff for 20 years on 143 MW of new wind capacity as part of the seventh auction called by GSE (Gestore dei Servizi Elettrici). This refers, specifically, to three repowering projects, Partinico-Monreale, Mineo-Militello and Vizzini, all located in Sicily, for which ERG obtained the Single Authorisations on 14 April 2021. ERG's projects were awarded at a minimum discount of 2%.</p> <p>The entry into operation of the new wind farms, the construction of which is in the start-up phase and the generation of which is estimated to be approximately 330 GWh per year, equal to approximately 166 kt of CO₂ emissions avoided each year, is expected between the end of 2022 and the third quarter of 2023.</p> <p>The total capital expenditure in the three projects amounts to approximately EUR 150 million.</p>	Press release of 28/09/2021
1 October 2021 and 28 October 2021	Wind France Solar France Wind Germany	<p>ERG, through its subsidiaries ERG Eolienne France S.a.s. and ERG Windpark Beteiligungs GmbH, has signed two agreements with NAEV Austria Beteiligungs GmbH and NAEV Austria GmbH & Co. OG to acquire 100% of the share capital of 15 companies that own a 152.4 MW renewable portfolio in operation in France and Germany. The plant portfolio consists of seven photovoltaic installations and three wind farms in France, for a total installed capacity of 56.7 MW and 40.6 MW, respectively, and five wind farms in Germany, for a total of 55.1 MW.</p>	Press release of 01/10/2021 and 28/10/2021
1 October 2021	France	<p>ERG has signed an agreement with ENGIE SA for a five-year Power Purchase Agreement (PPA) for the withdrawal of renewable energy produced by five ERG wind farms located in France.</p> <p>The five plants, which have a total installed capacity of 55 MW and an annual energy output of over 100 GWh, will exit the FIT (Feed in Tariff) incentive scheme at the end of 2021. Energy will be supplied in "pay as produced" mode, with remuneration at a fixed price on all energy produced.</p>	Press release of 01/10/2021
9 December 2021	Spain	<p>ERG has signed an agreement with GEI Subasta 1 SA for the acquisition of 100% of two Spanish project companies owning two operational solar plants located in southern Spain in the regions of Castilla de la Mancha and Andalusia, of 50.0 MW and 41.6 MW respectively for a total of 91.6 MW. The plants were commissioned in early 2020, having participated in the auctions regulated by Italian Royal Decree no. 359 of 2017 and have an estimated total annual production of 188 GWh, equal to over 2,050 equivalent hours/year, one of Europe's highest, corresponding to 110 kt of CO₂ emissions avoided every year.</p> <p>The consideration for the transaction amounts to EUR 96.2 million (asset value). The transaction was concluded on 31 January 2022.</p>	Press release of 9/12/2021
29 December 2021	UK France	<p>The first two wind farms in the UK, in Craiggore and Evishagaran, County Londonderry, Northern Ireland, with a capacity of 23.5 MW and 46.8 MW, respectively, for a total of 70.3 MW, have started production.</p> <p>In addition, to be noted is the commissioning of the Vallée de l'Aa wind farm at Pas-de-Calais, in Hauts-de-France for 7 MW. The project is the extension of the 13.2 MW Parc Eolien Vallée de l'Aa2 launched by the Group at the end of 2018.</p>	Press release of 29/12/2021

HYDROELECTRIC

Date	Significant event	Press release
2 August 2021	<p>ERG, through its subsidiary ERG Power Generation S.p.A., has completed an agreement with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Hydro S.r.l. The operation of the hydroelectric complex is ensured by 114 people, included within the scope, including technicians highly specialised in the operational management of the plants, energy management specialists and dedicated staff. Thanks to a successful collaboration with the trade unions and the serious willingness of the buyer, the company has reached an innovative agreement for the electricity sector that guarantees important protections for the ERG employees who are part of the company being sold.</p> <p>The transaction was concluded on 3 January 2022 for EUR 1,265 billion.</p>	Press release of 2 August 2021

THERMOELECTRIC

Date	Significant event	Press release
6 August 2021	<p>Through its investee ERG Power Generation S.p.A., ERG has concluded an agreement with ISAB (Lukoil Group) for the amendment and extension to 2032 of the current contract for the supply of the entire energy requirements of the ISAB refinery in Priolo Gargallo, for which the term had been envisaged at 31 March 2025. ERG's CCGT plant will supply approximately 150 GWh of electricity and approximately one million tons of steam to ISAB, the main consumer of the Priolo site, on an annual basis.</p>	Press release of 6 August 2021

COVID-19 EMERGENCY

The COVID-19 Public Health Emergency of International Concern continued in 2021. ERG proceeded, in this regard, to implement 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, as recommended by the competent Authorities, was remote working, which it extended to all the Group's offices across Italy and abroad, involving over 70% of the corporate workforce (all "white collar" staff), and excluding only personnel dedicated to the maintenance of plant in order to safeguard operational and management continuity and ensure the safety of company assets.

In 2021, staff initially worked remotely for five days a week; subsequently, as from July, remote working was confirmed for two working days a week. This option, as stated previously, was extended to all the Group's offices in Italy and abroad where the remote working option is compatible with the effective performance of the duties assigned, ensuring that the utmost attention is given to guaranteeing full business continuity.

ERG continues to very carefully manage 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 the Workplace Anti-Covid Protocol and recommendations by the competent authorities, and in agreement with trade union organisations. The Company documents that regulate the actions undertaken have been made available to all personnel in a special section of the company intranet and are periodically updated.

As part of the broader framework of the national vaccination campaign in progress and with the aim of making a proactive contribution to it, ERG ran a vaccine information campaign, to ensure people can participate in a fully informed manner. The initiative was entrusted to the Internal Managers of the Prevention and Protection Services and to the company doctors in the various offices.

No staff reductions have been planned or carried out since the start of the pandemic. Moreover, the company has not had to make use of so-called 'social shock absorbers' nor has it had to implement the forced reduction of working hours. By contrast, the Group welcomed 50 new hires in 2020 and a further 74 in 2021, in order to support the company's growth process. Engagement and partnership activities with the areas in which ERG is present have continued and specific financial resources have been allocated by group companies and employees themselves to meet the most urgent needs of healthcare facilities.

Starting from 15 October, as required by Italian Decree Law no. 127 of 21 September 2021, in order to access the workplace, it is mandatory to possess and exhibit, upon request, the COVID-19 Green Pass, except for those who are exempted from the vaccination campaign on the basis of appropriate medical certification. Green Pass possession will be verified by means of spot checking; specific operating procedures have been defined for each site, taking into consideration the variability of the activities carried out and the number of people present; the INPS portal is also used for the aforementioned controls, allowing for the automatic verification of the possession of COVID-19 green certifications for access to the workplace.

PROFIT FOR THE YEAR AND SCENARIO

PERFORMANCE HIGHLIGHTS

(EUR million)	Reported ⁽²⁾		Adjusted ⁽¹⁾	
	Year 2021	Year 2020	Year 2021	Year 2020
MAIN INCOME STATEMENT DATA				
Revenue	1,038	856	1,232	974
Gross operating profit (EBITDA)	452	419	596	495
Operating profit (EBIT)	195	169	326	203
Net profit (loss)	118	144	230	134
of which profit attributable to owners of the parent	209	143	228	132
MAIN FINANCIAL DATA				
Net invested capital ⁽³⁾	3,097	3,343	3,640	3,247
Equity	2,446	2,578	2,459	2,576
Total net financial indebtedness ⁽³⁾	1,391	767	1,194	668
of which non recourse Project Financing ⁽⁴⁾	417	417	417	417
Financial leverage	36%	23%	33%	21%
EBITDA Margin %	44%	49%	48%	51%
OPERATING DATA				
Installed capacity at period end – wind farms	MW		2,198	1,967
Electricity output from wind farms	KWh million		3,917	3,911
Installed capacity of thermoelectric plants	MW		480	480
Electricity output from thermoelectric plants	KWh million		1,869	2,441
Installed capacity at period end – hydroelectric plants	MW		527	527
Electricity output from hydroelectric plants	KWh million		1,637	1,097
Installed capacity at period end – solar plants	MW		141	141
Electricity output from solar plants	KWh million		240	228
Total sales of electric power	KWh million		14,160	14,897
Capital expenditure ⁽⁵⁾	EUR million		646	154
Employees at the end of the period	Units		603	537
NET UNIT REVENUE ⁽⁶⁾				
Wind Italy	EUR/MWh		148,7	118,6
Wind Germany	EUR/MWh		111,9	95,8
Wind France	EUR/MWh		87,9	89,4
Wind Poland	EUR/MWh		101,2	78,1
Wind Bulgaria	EUR/MWh		127,6	66,3
Wind Romania	EUR/MWh		134,5	56,0
Wind UK	EUR/MWh		n.a.	n.a.
Solar Italy	EUR/MWh		334,6	315,3
Solar France	EUR/MWh		90,1	0,0
Hydroelectric	EUR/MWh		118,4	108,8
Thermoelectric ⁽⁷⁾	EUR/MWh		29,9	35,0

(1) Adjusted economic indicators do not include special items and related applicable theoretical taxes.

(2) Reported economic indicators are calculated on the basis of the Financial Statements and include special items and related theoretical taxes. The reported values for the year 2020 are restated in application of IFRS 5.

(3) Adjusted net financial indebtedness and the Adjusted net invested capital are presented net of the effects deriving from the application of IFRS 16 and IFRS 5.

(4) Including cash and cash equivalents and excluding the fair value of the derivatives hedging interest rates.

(5) In property, plant and equipment and intangible assets. They also include Merger & Acquisition investments of EUR 389 million.

(6) Net unit revenue is expressed in EUR/MWh and is calculated by dividing the technology output by the revenue achieved on energy markets, inclusive of the impact of hedges, of any incentives due and the relative variable costs associated to generation/sale including, for example, the cost of fuel and imbalance costs.

(7) With regard to thermoelectric, the contribution margin is calculated net of the related variable costs (the main ones being CO₂ and gas).

PERFORMANCE BY SECTOR

(EUR million)	Year	
	2021	2020
ADJUSTED REVENUE		
Wind		
Wind Italy	317	227
Wind France	76	85
Wind Germany	48	45
Wind Bulgaria	23	12
Wind Romania	29	13
Wind Poland	22	19
Wind UK		0
Total Wind	515	402
Solar		
Solar Italy	73	73
Solar France	2	0
Total Solar	75	73
Hydroelectric	194	118
Thermoelectric⁽¹⁾	448	381
Total adjusted revenue	1,232	974
ADJUSTED EBITDA		
Wind		
Wind Italy	243	165
Wind France	44	58
Wind Germany	28	28
Wind Bulgaria	8	9
Wind Romania	21	8
Wind Poland	16	15
Wind UK	(2)	(1)
Wind Sweden	(0)	0
Total Wind	358	282
Solar		
Solar Italy	65	66
Solar France	1	-
Total Solar	66	66
Hydroelectric	151	81
Thermoelectric⁽¹⁾	20	66
Adjusted EBITDA	596	495

(1) Includes the residual contribution from minor portfolios managed by Energy Management not attributable to individual business units. With regard to revenues, the share for the resale of electricity purchased from the market was approximately EUR 173 million (EUR 50 million in 2020).

(EUR million)	Year	
	2021	2020
ADJUSTED AMORTISATION, DEPRECIATION AND IMPAIRMENT		
Wind		
Wind Italy	(81)	(91)
Wind France	(36)	(34)
Wind Germany	(22)	(23)
Wind Bulgaria	(4)	(4)
Wind Romania	(5)	(5)
Wind Poland	(6)	(6)
Wind UK	(0)	(0)
Wind Sweden	-	-
Total Wind	(153)	(163)
Solar		
Solar Italy	(41)	(42)
Solar France	(1)	-
Total Solar	(42)	(42)
Hydroelectric	(44)	(57)
Thermoelectric ⁽¹⁾	(31)	(30)
Adjusted amortisation, depreciation and impairment	(270)	(292)
ADJUSTED EBIT		
Wind		
Wind Italy	162	74
Wind France	8	24
Wind Germany	6	6
Wind Bulgaria	4	5
Wind Romania	16	3
Wind Poland	11	9
Wind UK	(2)	(1)
Wind Sweden	(0)	-
Total Wind	205	120
Solar		
Solar Italy	24	23
Solar France	(0)	0
Total Solar	24	23
Hydroelectric	108	24
Thermoelectric ⁽¹⁾	(11)	36
Adjusted EBIT	326	203
CAPITAL EXPENDITURE		
Wind		
Wind Italy	16	10
Wind France	202	44
Wind Germany	93	2
Wind Bulgaria	0	0
Wind Romania	0	0
Wind Poland	47	21
Wind UK	123	50
Wind Sweden	57	-
Total Wind	538	127
Solar		
Solar Italy	1	2
Solar France	74	-
Total Solar	76	2
Hydroelectric	7	6
Thermoelectric ⁽¹⁾	25	18
Total capital expenditure ⁽²⁾	646	154

(1) Includes the residual contribution from minor portfolios managed by Energy Management not attributable to individual business units.

(2) Includes investments in property, plant and equipment and intangible assets and M&A investments.

COMMENTS ON THE PERFORMANCE FOR THE YEAR

In 2021, **adjusted revenue** amounted to EUR 1,232 million, up EUR 258 million compared to 2020 (EUR 974 million) mainly due to the higher hydroelectric and wind production in Italy, the increase in the unit value of the incentive in Italy (from 99.0 to 109.4 EUR/MWh) and the increase in energy sale prices. These effects were only partly offset by the reduction in wind generation abroad and by the end of the first decade of high cogeneration of the CCGT plant.

Adjusted EBITDA, net of special items, stood at EUR 596 million, up EUR 101 million from EUR 495 million in 2020.⁵ The change is a result of the following factors:

- **Wind (EUR +76 million):** gross operating profit (EBITDA) of EUR 358 million, up compared to 2020 (EUR 282 million) due to the improved result in Italy of EUR 243 million (EUR 165 million in 2020), primarily due to the increased wind speeds, the higher value of the GRIN incentive and the better market scenario compared with the particularly depressed market of 2020. The margin abroad was down slightly at EUR 115 million (EUR 117 million in 2020), despite the contribution resulting from the consolidation of the new wind farms in France and Germany, due to worse wind conditions compared to the particularly high values of 2020 (1,838 GWh in 2021 compared to 2,009 GWh in 2020).
- **Solar:** gross operating profit (EBITDA), equal to EUR 66 million, is substantially in line with 2020 thanks also to the contribution of EUR 1 million deriving from the new solar farms in France.
- **Hydroelectric (EUR +70 million):** gross operating profit (EBITDA) of EUR 151 million (EUR 81 million in 2020), up considerably compared with the previous year. The result benefits from notably higher outputs (1,637 GWh in 2021 compared to 1,097 GWh in 2020), thanks to the high resource availability in the early months of the year, particularly when compared to 2020, which was well below the average historical levels.
- **Thermoelectric (EUR -45 million):** thermoelectric EBITDA, amounting to EUR 20 million, is below the EUR 66 million in 2020 mainly as a result of the end of the high-efficiency cogeneration period on both modules of the CCGT plant for approximately EUR 22 million. The scenario effect, with the reduction in generation margins due mainly to the significant increase in gas and CO₂ prices, was only partly mitigated by hedging transactions. The results

⁵ The adjusted EBITDA is shown net of the positive effects arising from the application of IFRS 16, equal to approximately EUR 10 million, to other special items for EUR 12 million and the IFRS 5 reclassification.

are affected by the general shutdown of Module 1 aimed at guaranteeing the HEC qualification, which started in early September and was concluded in early December. It should also be noted that 2020 benefited from some insurance reimbursements and adjustments relating to site contracts.

It should be noted that the total gross operating profit (EBITDA) is impacted by the electricity price hedging policies implemented in line with the Group's risk policies.

Adjusted EBIT amounted to EUR 326 million (EUR 203 million in 2020), after depreciation and amortisation of EUR 270 million, down significantly compared to 2020 (EUR 292 million), mainly as a result of the review of the useful life of some assets relating to hydroelectric and wind plants, only partially offset by the contribution of wind and solar assets acquired during the year.

EBIT was EUR 195 million (EUR 169 million in 2020) after amortisation, depreciation and write-downs of EUR 257 million (EUR 250 million in 2020), which includes the application of IFRS 5 with the reversal of the economic results relating to the hydroelectric business sold and the effects of the write-down of the wind assets subject to repowering.

Adjusted profit attributable to the owners of the parent was EUR 228 million, including approximately EUR 2 million attributable to minority interests, up significantly compared to 2020 (EUR 132 million), in view of the above-mentioned improved operating results and lower financial expense. Net financial expense (EUR 20 million) was lower than the same period of 2020 due to the reduction in the cost of gross debt thanks to the full contribution of liability management transactions that took place over the last two years.

Profit attributable to owners of the parent was EUR 209 million, an increase compared to the EUR 143 million in 2020 due to the same reasons outlined above. The result also includes the effects of the application of IFRS 5 for ERG Hydro and the write-down of the wind assets subject to repowering and the costs related to the liability management transactions carried out in 2021.

In 2021, **capital expenditure** totalled EUR 646 million (EUR 154 million in 2020), and refer primarily to the acquisition of wind farms and solar plants in France (EUR 147 million) in June, of a project for the construction of a wind farm in Sweden (EUR 41 million) and of wind farms and solar plants in France and Germany (for EUR 202 million) in October. During the period, **investments in property, plant and equipment and intangible assets** were also made in the amount of approximately EUR 257 million, of which 86% in the Wind sector (74% in 2020), mainly in relation to the continuation of the construction of the wind farms in the UK for roughly 250 MW (70 MW of which became operational in December), Poland for 60 MW, France for 27 MW (7 MW of which became operational in December) and Sweden for 62 MW, and to the start of Repowering activities on the Partinico-Monreale, Mineo-Militello and Vizzini wind farms for 143 MW of new wind capacity; 10% refers to the Thermoelectric sector (17% in 2020) as a

result of capital expenditure to modernise and boost the efficiency of the combined cycle, which guaranteed the HEC (High-Efficiency Cogeneration) qualification for Module 1 of the CCGT for an additional ten years, 3% refers to the Hydroelectric sector (6% in 2020) and 1% to the Solar sector (3% in 2020).

Adjusted net financial indebtedness totalled **EUR 1,194 million**, up considerably (EUR 525 million) compared to 31 December 2020 (EUR 668 million). The change reflects mainly the impact of recent acquisitions in France, Germany and Sweden (EUR 389 million), capital expenditure in the period (EUR 257 million) connected mainly with the development of wind farms in the United Kingdom, Poland, France and Sweden, as well as developments on Repowering and Reblading projects, the distribution of dividends to the parent company ERG S.p.A. (EUR 50 million), the payment of taxes (EUR 26 million) and the impact on liquidity of daily settlement of the fair value change in futures on commodities (EUR 321 million), partly offset by the positive cash flow (EUR 524 million⁶).

It should also be noted that the indebtedness at the end of the period reflects the negative fair value of future commodities of approximately EUR 344 million (EUR 277 million at 30 September 2021 and EUR 23 million at 31 December 2020).

Adjusted financial indebtedness is presented net of the effects deriving from the application of IFRS 16, therefore excluding the discounting of future lease payments of approximately EUR 125 million at 31 December 2021.

6 Includes adjusted EBITDA, the change in working capital and net financial income (expense).

PROFIT FOR THE YEAR – BUSINESS

REFERENCE MARKET

Price scenario

	Year	
	2021	2020
Price scenario (EUR/MWh)		
Italy		
National single price - Electricity reference price in Italy (baseload) ⁽¹⁾	125.5	38.9
Electricity price - North area	125.2	37.8
Electricity price - Central-North area	125.4	38.7
Electricity price - Central-South area	125.3	39.7
Electricity price - South area	123.6	39.0
Electricity price - Sardinia	123.6	39.0
Electricity price - Sicily	129.0	46.2
Electricity price - Calabria	123.3	n.a.
Zonal price - Central-North area (peak)	143.1	45.3
Zonal price - Central-South area (peak)	139.3	45.0
Feed-In Premium (FIP) (former Green Certificates) - Italy	109.4	99.1
Abroad		
France (baseload electricity)	109.2	32.2
Germany (baseload electricity)	96.8	30.7
Poland	128.9	77.8
<i>of which (baseload electricity)</i>	87.0	46.8
<i>of which Certificates of Origin</i>	41.9	31.0
Bulgaria (baseload electricity)	108.7	39.3
Romania (baseload electricity + 1 Green Certificate)	140.8	68.8
<i>of which baseload electricity</i>	111.4	39.4
<i>of which Green Certificate</i>	29.4	29.4
Northern Ireland (baseload electricity)	136.1	37.6
Great Britain (baseload electricity)	137.6	39.6

(1) Single National Price.

Italian Market – Demand and output

	Year	
	2021	2020
Italian market⁽¹⁾ (GWh)		
Demand	318,075	301,180
Pumping consumption	2,827	2,668
Import/Export	42,793	32,200
Internal generation ⁽²⁾	278,109	271,648
of which		
<i>Thermoelectric</i>	180,579	173,888
<i>Hydroelectric</i>	46,317	48,952
<i>Geothermal</i>	5,526	5,647
<i>Wind</i>	20,619	18,609
<i>Photovoltaic</i>	25,068	24,552

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

(2) Output net of consumption for auxiliary services.

In **2021**, demand for electricity from the Italian electricity system amounted to 318 TWh, up by 5.6% compared to the values recorded in 2020. With regard to Sicily, a region in which ERG is present with its CCGT plant and with wind farms and photovoltaic plants, a requirement of around 19.0 TWh was registered in the period, up (+3.5%) compared to 2020, while in the group of regions including Abruzzo-Lazio-Marche-Molise-Umbria, where ERG was active in 2021 with its hydroelectric plants, the request for electricity came to 44.8 TWh (+7.5%).

In the same period, (net) domestic electricity generation amounted to 278.1 TWh, up compared to the same period 2020, whilst the net balance of trading with foreign countries recorded net imports of 42.7 TWh (+33% compared to 2020).

A total of 65% of (net) domestic output was covered by thermoelectric power plants and the remaining 35% by renewable sources; specifically, 17% of output was from hydroelectric power, 9% from photovoltaic plants, 7% from wind farms and 2% from geothermal sources. Compared to 2020, production from all renewable sources increased, with the exception of hydroelectric production, which recorded a 5% reduction.

GROUP SALES

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

During **2021**, total sales of electricity came to 14.2 TWh (14.9 TWh in 2020), in the presence of an overall value of production for the Group plants of around 7.7 TWh (7.7 TWh in 2020), of which roughly 1.9 TWh abroad and 5.8 TWh in Italy. The latter figure corresponds to approximately 1.8% of electricity demand in Italy (1.9% in 2020).

The breakdown of sales volumes and electricity output, by type of source, is shown in the following table⁷:

SOURCES OF ELECTRIC POWER (GWh)	Year	
	2021	2020
Wind - wind power generation Italy	2,078	1,902
Wind - wind power generation Abroad	1,838	2,009
Solar - photovoltaic power generation Italy	216	228
Solar - photovoltaic power generation Abroad	24	-
CCGT - thermoelectric power generation	1,869	2,441
Hydro - hydroelectric power generation	1,637	1,097
ERG Power Generation - purchases	6,497	7,219
Total	14,160	14,897

SALES OF ELECTRIC POWER (GWh)	Year	
	2021	2020
Electricity sold to captive customers	513	441
Electricity sold wholesale (Italy)	11,784	12,447
Electricity sold abroad	1,863	2,009
Total	14,160	14,897

Wholesale sales of energy include sales on the IPEX electricity stock exchange, both on the "day-ahead market" (MGP) and on the "intraday market" (MI), as well as the "dispatching services market" (MSD), in addition to sales to the main operators of the sector on the "over the counter" (OTC) platform. The latter are carried out by the Energy Management & Sales Operating Unit, with a view to developing the forward contracting activities and also hedging output, in line with Group risk policies, also through the use of the Power Purchase Agreements (PPAs).

⁷ Electric power sources refer to the output of the Group's plants and to the purchases made on wholesale markets; uses include sales made through physical bilateral agreements and on the spot and forward markets.

WIND

The ERG Group operates in the wind sector through its companies that own wind farms in Italy and abroad. Wind farms consist of wind-power generators that transform the kinetic energy of wind into mechanical energy, which is used in turn to generate electricity. Aside from the availability of the plants, the performance expected from each wind farm is obviously influenced by the wind speed profile of the site on which the wind farm is located.

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

INSTALLED POWER (MW)

	Year		Δ	Δ%
	2021	2020		
Italy	1,093	1,093	0	0%
of which				
<i>Campania</i>	247	247	0	0%
<i>Calabria</i>	120	120	0	0%
<i>Puglia</i>	249	249	0	0%
<i>Molise</i>	79	79	0	0%
<i>Basilicata</i>	89	89	0	0%
<i>Sicily</i>	198	198	0	0%
<i>Sardinia</i>	111	111	0	0%
Abroad	1,105	874	230	26%
of which				
<i>Germany</i>	327	272	55	20%
<i>France</i>	502	397	105	27%
<i>Poland</i>	82	82	0	0%
<i>Bulgaria</i>	54	54	0	0%
<i>Romania</i>	70	70	0	0%
<i>UK</i>	70	0	70	n.a.
Total installed capacity at the end of the year ⁽¹⁾	2,198	1,967	230	12%

(1) Power of plants in operation at the end of the period.

Installed capacity at 31 December 2021, amounting to 2,198 MW, refers for 1,093 MW to Italian wind farms (of which 750 MW incentivised) and for 1,105 MW to foreign wind farms (of which 946 MW incentivised). During the year, capacity increased in France to 105 MW, in Germany to 55 MW and in the UK to 70 MW following the recent acquisitions of 13 wind farms in France and Germany and the entry into operation of one wind farm in France and two in the UK.

Highlights of adjusted performance items

OPERATING RESULTS (EUR million)	Year	
	2021	2020
Adjusted revenue	515	402
Adjusted EBITDA ⁽¹⁾	358	282
Amortisation, depreciation and impairment losses ⁽¹⁾	(155)	(165)
Adjusted EBIT ⁽¹⁾	203	118
Investments in property, plant and equipment and intangible assets	538	127
EBITDA MARGIN % ⁽²⁾	70%	70%
Total wind farm generation (GWh)	3,917	3,911

(1) Not including special items as indicated in the "Alternative performance indicators" section, to which reference should be made for further details.

(2) Ratio of adjusted EBITDA to revenue from sales and services.

Consolidated **revenue** recorded in **2021** increased mainly as a result of the increased output in Italy, the growing market scenario and the increase deriving from the higher unit value of the GRIN incentive (from 99.0 to 109.4 EUR/MWh) in Italy, only partly offset by the lower output Abroad compared with the particularly high output in 2020.

Net unit revenue in Italy in 2021, taking into consideration the sale price of electricity, including the value of incentives (former green certificates) and the effects net of hedges, as well as other minor components, was equal to 149 EUR/MWh for ERG, up compared to 119 EUR/MWh in 2020, mainly as a result of the higher unit revenue obtained on the energy markets net of hedges and the higher value of the GRIN incentive.

Finally, starting from 2016, the reference value of the incentives (former green certificates) is calculated on the basis of energy market prices for the previous year. Consequently, unlike what took place in the past, changes in energy prices are no longer partially offset (78%) by the prices of the incentive provided for the year, but have an impact on the incentive for the subsequent year. The higher market prices for the year will therefore have a significant impact on the value of the GRIN incentive in 2022, which will decrease from 109.4 EUR/MWh to 42.9 EUR/MWh.

The following table reports revenue by country:

ADJUSTED EBITDA

(EUR million)

	Year			
	2021	2020	Δ	Δ%
Italy	317	227	90	40%
Abroad	198	175	23	13%
of which				
Germany	48	45	3	6%
France	76	85	(9)	-11%
Poland	22	19	3	15%
Bulgaria	23	12	11	87%
Romania	29	13	16	124%
UK	-	-	-	n.a
Total	515	402	113	28%

NET UNIT REVENUE

EUR/MWh

	Year			
	2021	2020	Δ	Δ%
Wind Italy	149	119	30	25%
Wind Germany	112	96	16	17%
Wind France	88	89	(1)	-2%
Wind Poland	101	78	23	30%
Wind Bulgaria	128	66	61	92%
Wind Romania	135	56	79	140%
Wind UK	n.a.	n.a.	n.a.	n.a.

In **2021**, net unit revenues in France and Germany were 88 EUR/MWh and 112 EUR/MWh respectively (including reimbursements for limitations in Germany), with France in line with 2020 and Germany up due to the improved market scenario. The main changes in net unit revenues in Eastern Europe occurred in Romania (+140%), Poland (+30%) and Bulgaria (+92%) following the sharp increase in energy sale prices.

GENERATION (GWh)

	Year			
	2021	2020	Δ	Δ%
Italy	2,078	1,902	176	9%
of which				
Campania	475	430	45	10%
Calabria	227	239	(12)	-5%
Puglia	516	461	54	12%
Molise	165	151	13	9%
Basilicata	180	166	13	8%
Sicily	320	262	58	22%
Sardinia	196	191	5	2%
Abroad	1,838	2,009	-171	-9%
of which				
Germany	428	470	(42)	-9%
France	865	952	(88)	-9%
Poland	216	244	(28)	-11%
Bulgaria	148	150	(2)	-1%
Romania	181	193	(11)	-6%
UK	0	0	0	n.a
Total wind farm output	3,917	3,911	5	0%

In **2021**, the **electricity output** from wind power amounted to 3,917 GWh, in line with 2020 (3,911 GWh), due to increased volumes in Italy (+9%) offset by less favourable wind conditions abroad (-9%) compared to the particularly high wind levels in 2020.

The increased output in Italy (+176 GWh) is linked to better wind conditions than those recorded in 2020, with higher volumes across all regions with the exception of Calabria (-5%). In particular, Sicily recorded significantly higher volumes (+22%).

The reduction of 171 GWh in output abroad due to the low wind speeds recorded with respect to the same period of 2020 is attributable to all countries and is more pronounced in France (-88 GWh) despite the consolidation of five wind farms as from 30 June 2021 (+61 GWh) and three wind farms as from 1 October 2021 (+30 GWh), Germany (-42 GWh) despite the consolidation of five wind farms in the fourth quarter (+28 GWh) and Poland (-28 GWh).

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

	Year		Δ
	2021	2020	
LOAD FACTOR %			
Italy	22%	20%	2%
of which			
Campania	22%	20%	2%
Calabria	22%	23%	-1%
Puglia	24%	21%	3%
Molise	24%	22%	2%
Basilicata	23%	21%	2%
Sicily	18%	15%	3%
Sardinia	20%	20%	1%
Abroad	23%	26%	-4%
of which			
Germany	17%	20%	-3%
France	23%	27%	-5%
Poland	30%	34%	-4%
Bulgaria	31%	32%	0%
Romania	30%	31%	-2%
Load factor ⁽¹⁾	22%	23%	-1%

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

In **2021**, the overall load factor of 22% was slightly lower than in 2020 (23%).

Abroad, the decrease in the load factor from 26% to 23% is affected by the low wind speeds recorded in 2021, compared with the exceptional wind speeds recorded in 2020.

The load factor in Italy is 22% and is up compared to the same period of 2020 due to the better wind conditions recorded.

The breakdown of adjusted EBITDA between the various geographical segments of the Wind business is as follows:

ADJUSTED EBITDA (EUR million)	Year		Δ	$\Delta\%$
	2021	2020		
Italy	243	165	78	47%
Abroad	115	117	(2)	-2%
of which				
Germany	28	28	(0)	-1%
France	44	58	(14)	-24%
Poland	16	15	1	8%
Bulgaria	8	9	(1)	-10%
Romania	21	8	13	164%
UK	(2)	(1)	(1)	n.a.
Sweden	(0)	n.a.	(0)	
Total	358	282	76	27%

Adjusted EBITDA in **2021** totalled EUR 358 million, up compared to 2020 (EUR 282 million), due to the greater wind speeds in Italy in a general context of increased energy sale prices throughout Europe, compared with the particularly depressed prices in 2020, which were significantly affected by the health emergency.

The contribution in Italy, up EUR 78 million compared to 2020, mainly reflects the higher production recorded in addition to the increase in prices in the energy sale market and in the value of the price of the GRIN incentive.

The lower results abroad (EUR -2 million) reflect the lower volumes due to the aforementioned lower wind speeds recorded, largely mitigated by the better scenario in Germany and Eastern Europe and by the scope effect relating to the consolidation of the wind farms acquired in France and Germany.

The **EBITDA margin** for **2021** was 70% overall, confirming its particularly high absolute value, in line with the same period of the previous year (70%).

Amortisation/depreciation in the period decreased with respect to the corresponding period in 2020, mainly as a result of the review of the useful life of some assets and the end of the useful life of some components of the wind farms.

Capital expenditure

Capital expenditure in **2021 (EUR 538 million)** refers primarily to the acquisition of wind farms in France and Germany (154 MW), a project for the construction of a wind farm in Sweden (62 MW) and the development and construction of new wind farms in the UK (EUR 123 million), Poland (EUR 47 million), France (EUR 20 million) and Sweden (EUR 16 million), the start of Repowering activities on the Partinico-Monreale, Mineo-Militello and Vizzini plants (EUR 5 million) and the completion of Reblading activities on the Lacedonia-Monteverde plant (EUR 6 million), in addition to the usual maintenance aimed at further increasing plant efficiency.

With regard to the wind farms under construction, the two projects in the UK (in Northern Ireland), Evishagaran for 47 MW and Craiggore for 24 MW, and the Valle dell'Aa Ext. project in France for 7 MW were started at the end of 2021. For the remaining wind farms under construction in the UK (Scotland), Poland and France, whose CODs are expected in 2022, the construction timelines are confirmed.

Relevant legislative and regulatory updates during the period

See also the "Relevant regulatory and institutional updates" chapter.

ITALY

- **ARERA – Average annual value of electricity for incentive calculation**

On 26 January 2021, ARERA published resolution no. 22/2021 on the determination of the average electricity sale price for 2020, for the purpose of quantifying the value of the Green Certificate replacement incentives for 2021. This average value is 39.80 EUR/MWh; consequently, the incentive value for 2021 is 109.36 EUR/MWh.

For incentives relating to 2022, the average sale price for 2021, equal to 125.06 EUR/MWh, was published in resolution no. 26/2022. The incentive for 2022 is therefore reduced to 42.85 EUR/MWh.

- **Onshore wind power auctions – photovoltaic: publication of the rankings of the sixth and seventh auction sessions. Schedule of new calls 2022**

On 27 September 2021, GSE published the ranking of the sixth call for the RES auctions of June 2021 envisaged by the Italian Ministerial Decree of 4 July 2019.

The 3 ERG Repowering ERG projects for a total of 143 MW are included in the ranking. ERG projects are the only repowering initiatives in the ranking.

Out of a quota of 2,308 MW available for the auctions of Group A (wind plus photovoltaic), 595 MW of capacity was awarded – divided into 23 photovoltaic and 12 wind projects – with 74% unused.

The reference tariff was 66.5 EUR/MWh, while the maximum discount offered by the successful bidders amounts to 2.06%, a value practically coinciding with the minimum allowable reduction of 2%. ERG's projects were awarded at a minimum discount of 2%.

The seventh and last auction scheduled to date by the Italian Ministerial Decree of 4 July 2019 was held in the period between 30 September and 30 October 2021; the auction quota for Group A, which also takes into account the capacity not assigned in the previous tenders, amounts to 3,312 MW.

On 28 January 2022, GSE published the results of the seventh RES auction envisaged by the Decree.

In the ranking, 2 ERG projects were awarded, one for repowering and one for new construction, for a total of 97.2 MW.

Out of a quota of 3,312.5 MW available for the auctions in Group A (wind plus photovoltaic), 975 MW of capacity was awarded – divided into 59 photovoltaic projects for 582.5 MW and 18 wind projects for 392.5 MW – with 70% unused.

The reference tariff was 66.5 EUR/MWh, while the maximum discount offered by awarded was 3.5%, with an average discount of 2.1%. ERG's projects were awarded at a minimum discount of 2%.

In implementation of Italian Legislative Decree no. 199/2021 transposing the RED II Directive, GSE published the new 2022 schedule of auctions that make available the power not assigned in the previous tenders envisaged by the Italian Ministerial Decree of 4 July 2019 (the RES 1 Ministerial Decree). An eighth call is therefore envisaged, which opened on 31 January 2022, for the assignment of the residual quota of the previous auctions.

If, even with the eighth call, all the available power is not assigned, GSE will open a new tender procedure on 31 May 2022.

- **Implementation of the Circular Economy Strategy**

On 28 September 2021, the Ministry of Ecological Transition published the decrees implementing the circular economy strategy defined in the National Recovery and Resilience Plan (NRRP).

The Ministerial Decrees lay down the selection criteria for projects relating to separate waste collection, recycling plants and "flagship" initiatives for the paper and cardboard, plastics, WEEE and textiles chains.

In particular, it will be possible through special tenders to finance "flagship" circular economy projects that promote the use of innovative technologies and processes in certain production sectors, including plants for the recycling of waste electrical and electronic equipment (WEEE) including wind turbine blades and photovoltaic panels.

FRANCE

- **Amendment of the onshore wind auction procedures relating to the eighth session of 2021**

On 19 February 2021, the French Energy Regulatory Authority (CRE) updated the procedures for onshore wind auctions. Specifically, the capacity quota established for the eighth and final auction, which ended on 16 April 2021, was increased to 700 MW. It is also specified that in the event of compliant offers exceeding the available quota, capacity could be increased up to 925 MW.

- **Criteria for the installation of wind turbines in radar controlled areas**

Last June saw criteria published for the installation of wind turbines in areas subject to radar control, based

on the intervisibility principle, maintaining a maximum visual impact distance of 70 km.

The application of these new criteria and their impact on the wind sector will be monitored by the Ministries of Ecological Transition and Defence on a quarterly basis, for a duration of two years.

- **Amendments to the regulations for onshore wind auctions for the period 2021-2026**

Following approval by the European Commission at the end of July, on 6 August 2021 the Energy Regulatory Commission published the new regulations for onshore wind auctions for the period 2021-2026. Ten auction sessions are scheduled starting from November 2021 until 2026 for a total of 9,025 MW, for the assignment of a two-way CfD contract with a twenty-year duration, with a base price (cap) unchanged at 70 EUR/MWh. The criterion for forming the rankings has changed, no longer being based solely on the discount offered but also on whether or not there is local participation in the project (*Financement collectif* or *Gouvernance partagé*). Projects for the renovation of wind farms are admitted to auctions if certain conditions on the start of works and on the components used are met. A clause on the carbon footprint along the life cycle of the turbine has also been introduced.

The first auction session according to the new procedures was in November 2021 with a quota of 700 MW, which can be increased up to 925 MW in the event of subscriptions exceeding this quota. A quota modulation mechanism is envisaged to foster the competitiveness of the prices awarded in the event that applications do not meet the available total.

ROMANIA

- **Definition of the mandatory quota for the purchase of GCs for 2022**

With Order no. 131/2021, the Regulatory Agency for the Energy Sector (ANRE) defined the 2022 mandatory quota, equal to 0.5014313 GC/MWh.

- **Approval of the new method for settling imbalances**

Through Resolution no. 63/2020, ANRE approved the programme to transition the relevant period for the calculation of imbalances from 1 hour to 15 minutes. The implementation of the measure is effective from 1 February 2021.

BULGARIA

- **Definition of the value of incentives for the regulatory period 1 July 2021 - 30 June 2022**

The incentive component is calculated as the difference between the reference tariff for the individual plant and the estimate of the adjusted baseload market price (*Forecasted Market Price for Wind Producers - FMP*) on the national wind profile. On 30 June 2021, for the regulatory period 1 July 2021 - 30 June 2022, the Bulgarian National Authority made provision for an increase of more than 35% in the values of the FMP market prices, which resulted in a reduction of almost 30% in the value of the incentive for the onshore wind farms of the ERG Group. In light of the increase in energy prices (which deviated by more than 15% compared to the June estimate), the Bulgarian National Authority decided to redetermine the estimate of the FMP market price with decision №ЛJ-2 of 1 January 2022, thus eliminating the value of the incentive for the remaining 6 months of the year (January - June 2022).

UK

- **CfD**

On 25 November 2021, the UK Government's Department for Business, Energy and Industrial Strategy (BEIS) published the final economic budget and allocation framework for the fourth cycle of CfD auctions (AR4). For the consolidated technologies grouping (Pot 1) – which also includes onshore wind, solar and hydroelectric power – a spending budget of 10 million GBP/year (from 2023/24 to 2026/27) in real 2012 values is envisaged, for a total target capacity of 5 GW; the maximum allocation capacity for onshore wind and photovoltaic power is 3.5 GW for each source (without prejudice to the overall maximum capacity of 5 GW). The plants under construction – such as ERG's Creag Riabhach and Sandy Knowe wind projects – are entitled to participate in the auction.

The calls remained open from 13 December 2021 to 14 January 2022. The projects selected at the auction called for POT1 will be able to run the CfDs from April 2023 until the end of March 2025 (Delivery Year 2023/24 and 2024/25).

SOLAR

ERG is active in the generation of electricity from solar sources, with an installed capacity of 220 MW, of which 141 MW in Italy, with 33 photovoltaic plants located in 9 regions, and 79 MW in France with a further two plants fully consolidated from 30 June 2021 and seven plants consolidated from the fourth quarter of 2021.

Highlights of adjusted performance items during the year

OPERATING RESULTS (EUR million)	Year	
	2021	2020
Adjusted revenue	75	73
Adjusted EBITDA ⁽¹⁾	66	66
Amortisation, depreciation and impairment losses ⁽¹⁾	(42)	(42)
Adjusted EBIT ⁽¹⁾	24	23
Investments in property, plant and equipment and intangible assets	76	2
EBITDA MARGIN % ⁽²⁾	88%	90%
Total solar plant generation (GWh)	240	228

(1) Not including special items as indicated in the "Alternative Performance Indicators" section, to which reference should be made for further details.

(2) Ratio of adjusted EBITDA to adjusted revenue from sales and services.

In **2021**, output amounted to approximately 240 GWh, up compared to 228 GWh in 2020 due to the new acquisitions in France (+24 GWh). The load factor was 14%, down compared to 2020 due to the lower irradiation recorded in the period; this value is estimated taking into account the actual entry into operation of the parks within the individual periods.

Revenue for 2021 totalled EUR 75 million, of which EUR 59 million relating to revenue from feed-in premiums and EUR 16 million to revenue from the sale of energy.

In 2021 the relative **net unit revenue** in Italy totalled 335 EUR/MWh compared to 315 EUR/MWh in 2020, of which mainly 273 EUR/MWh relating to feed-in premiums and approximately 63 EUR/MWh to revenue from energy sales. The increase is mainly due to higher unit revenues relating to the sale of energy due to the upward scenario and to revenue deriving from plants with various incentive schemes (so-called "Feed-In Premium"). Abroad, net unit revenue of 90 EUR/MWh was recorded.

The **Adjusted EBITDA** for 2021, amounting to EUR 66 million, is in line with the previous year and presents a scope effect of EUR 1 million relating to the acquisition in France of two photovoltaic installations consolidated as from 30 June 2021 and an additional seven photovoltaic farms consolidated as from the fourth quarter. The total EBITDA margin for 2021 amounted to 88% (90% in 2020).

Capital expenditure

Capital expenditure in **2021 (EUR 76 million)** refers mainly to the acquisition of photovoltaic plants in France (79 MW) and to contracts aimed at further improving the efficiency of plants.

Relevant legislative and regulatory updates during the year

See also the "Relevant regulatory and institutional updates" chapter and the paragraph dedicated to wind power.

FRANCE

- **Amendment of the photovoltaic auction procedures relating to the tenth session of 2021**

On 15 June 2021, the French Energy Authority (CRE) updated the procedures for auctions dedicated to ground-mounted photovoltaic installations. The tenth session was held from 14 June to 26 July 2021, for a volume of 700 MW (of which 450 MW for ground-mounted systems exceeding 5 MW, 180 MW for ground-mounted systems between 500 kW and 5 MW and the remainder for smaller capacity systems), which can be increased up to 1 GW if applications exceed the quota. Provision is also made for a quota modulation mechanism to promote the competitiveness of the prices awarded in the event that applications do not cover the available total.

- **Amendments to the regulations for PV auctions for the period 2021-2026**

Following approval by the European Commission at the end of July, on 6 August 2021 the Energy Regulatory Commission published the new regulations for PV auctions for the period 2021-2026. Ten auction sessions are scheduled starting from November 2021 until 2026 for a total of 9,025 MW, for the assignment of a two-way CfD contract with a twenty-year duration, with a base price (cap) at 90 EUR/MWh for all types of PV plant. The first auction session according to the new procedures was set for December 2021 with a quota of 700 MW, which can be increased up to 925 MW should participating projects exceed these quotas. A quota modulation mechanism is envisaged to foster the competitiveness of the prices awarded in the event that applications do not meet the available total.

HYDROELECTRIC

On 3 January 2022, ERG concluded the transaction with Enel Produzione S.p.A. for the sale of the hydroelectric assets owned by the subsidiary ERG Hydro S.r.l. The transaction was concluded in line with what was communicated on 2 August 2021 and the consideration in terms of enterprise value totalled approximately EUR 1.265 billion, including the mark-to-market valuation of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Hydro S.r.l. plants.

For greater disclosure, note that the results of the assets being sold as part of ordinary operations are shown and commented in the adjusted values of this Report, with the full contribution of the related amortisation and depreciation for the entire year.

The hydroelectric assets refer to the Terni Hydroelectric Complex (527 MW), including a system of programmable and flexible plants located in central Italy; these plants are used within the scope of the related hydroelectric concessions that will expire at the end of 2029.

The overall efficient power of the plants of the Terni complex was equal to 527 MW, including 512 MW pertaining to large-scale diversions and 15 MW pertaining to small-scale diversions and minimum vital outflows.

Highlights of adjusted performance items during the year

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

OPERATING RESULTS (EUR million)	Year	
	2021	2020
Adjusted revenue	194	118
Adjusted EBITDA ⁽¹⁾	151	81
Amortisation, depreciation and impairment losses ⁽¹⁾	(44)	(57)
Adjusted EBIT ⁽¹⁾	108	24
Investments in property, plant and equipment and intangible assets	7	6
EBITDA MARGIN % ⁽²⁾	78%	69%
Total hydroelectric plant generation (GWh)	1,637	1,097

(1) Not including special items as indicated in the "Alternative Performance Indicators" section, to which reference should be made for further details.

(2) Ratio of adjusted EBITDA to adjusted revenue from sales and services.

In **2021, revenue**, amounting to EUR 194 million, related mainly to electricity sales (mostly on the spot market) for EUR 113 million and revenue from the feed-in premium (former Green Certificates) recognised in the amount EUR 80 million in view of the greater incentivised output accrued vis-à-vis GSE.

The costs are essentially attributable to concession fees, personnel costs, Operation & Maintenance, insurance payments and costs for services.

Gross operating profit (EBITDA) for 2021 was EUR 151 million (EUR 81 million in 2020), an increase, mainly due to the high level of water resources recorded in the early months of the year, in particular when compared to the especially low levels recorded in 2020 and the higher value of the incentive.

The total **output** of ERG Hydro in **2021**, equal to 1,637 GWh, benefited from a net unit revenue, considering the sale value of energy on the markets and from incentives in the period and other minor components, amounting to

approximately 118 EUR/MWh, up slightly compared to 109 EUR/MWh in the same period of 2020.

It should be noted that the average sale prices reflect both the sale price of electricity net of hedges and the feed-in premium (former Green Certificate), recognised on a portion of more than 40% of output for a unit value greater than that of 2020 of 99.0 EUR/MWh and equal to approximately 109.4 EUR/MWh.

The **EBITDA margin** for **2021** totalled 78%, up on 69% in 2020.

The final load factor in the period, equal to 35% (compared to 24% in 2020), reflects the good availability of water resources recorded in the early months of the year, with levels above the historical average.

The levels of the reservoirs of the Turano, Salto and Corbara lakes were respectively approximately 523, 519 and 128 metres above sea level at the end of the period, compared to 533, 529 and 137 meters above sea level at 31 December 2020. Overall, the energy stored was down as a result of the uses in the period and the low availability of water in the last few months of the year.

Amortisation and depreciation in the period decreased with respect to the corresponding period in 2020, mainly as a result of the lengthening of the useful life of some assets of the Terni Hydroelectric Complex.

Capital expenditure

Capital expenditure in **2021 (EUR 7 million)**, relates mainly to mini hydro plant development contracts, maintenance contracts and planned projects in the fields of seismic improvement of infrastructures, Health, Safety and the Environment.

Relevant legislative and regulatory updates during the year

See also the "Relevant regulatory and institutional updates" chapter and the paragraph dedicated to wind power.

- **European Commission - dismissal of infringement proceedings 2011/2026 against Italy**

In September 2021, the European Commission closed infringement proceedings 2011/2026 against Italy for the regulation on hydroelectric concessions.

At the same time, all the proceedings opened in recent years on hydroelectric power against other EU Member States were closed.

The proceedings against Italy were formally open from the beginning of March 2011, with simultaneous formal notice. A second additional formal notice was resolved in March 2019.

- **BIM surcharge update**

After updating the surcharges for coastal entities at the end of 2019, the Italian Ministry for the Environment published the Directorial Decree for the determination of the BIM surcharge – owed by concession holders

for the diversion of water for hydroelectric use, with capacity exceeding 220 kW – for the period 1 January 2020 to 31 December 2021 included within a mountain catchment area (BIM).

This figure was increased for the years 2020-2021 to 31.13 EUR/kW

- **Update of the Umbria Region State fee**

At the beginning of 2021, the Umbria Region published the updated state fee due for concessions for large-scale diversion of water for hydroelectric use, which was determined by adjusting the 2020 fee in line with the planned inflation rate of 0.5%; the 2021 fee is therefore 32.63 EUR/kW.

- **Update of the Lazio Region State fee**

On 9 March 2021, the Lazio Region published the state fees due for concessions for large-scale diversion of

water for hydroelectric use, which were determined by adjusting the 2020 fee in line with the planned inflation rate of 0.5%; the 2021 fee is therefore 31.88 EUR/kW.

- **Incentive system for the upgrading of production plants included in the restart plan (Regulation no. 2017/2196 on electricity emergency and restoration)**

With resolution no. 324/2020, ARERA established an incentive system for the upgrading of the new restart units, identified by Terna, included in the electricity restoration plan (PdRR). Requirements include the installation of a system and the provision of black start capacity – where not already present –

as well as the availability of backup power systems. With respect to these measures, the resolution (i) sets the deadline for the upgrading of the plants at 18 December 2022 and (ii) provides for an incentive system for plant owners related to the timeliness of upgrades. By means of subsequent resolution no. 44/2021, ARERA introduced a similar mechanism for the installation of Power System Stabiliser devices, to offset the expenses incurred to update the plants to the PdRR. The resolution sets the end date for intervention at 30 June 2022 and provides for an incentive mechanism for software/hardware interventions commensurate with the timeliness of adaptation.

THERMOELECTRIC

ERG is active in the generation of electricity from thermoelectric sources through the investment in ERG Power S.r.l., owner of the high output, high efficiency, low emission, highly modulable and flexible CCGT cogeneration plant (480 MW). On 9 February 2022, an agreement was signed with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Power S.r.l., which owns the low-environmental-impact and high-efficiency Combined Cycle Gas Turbine (CCGT) cogeneration plant powered by natural gas located at Priolo Gargallo, in the province of Syracuse.

The consideration in terms of Enterprise Value, at 31 December 2021, is EUR 188 million and will be subject to a price adjustment at the closing. This will include, among other things, a monthly décalage mechanism consistent with the expected cash flows of the business plan. It will also include the mark-to-market valuation at the closing of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Power's plants.

Highlights of the adjusted performance items during the year

OPERATING RESULTS (EUR million)	Year	
	2021	2020
Adjusted revenue from sales and services ⁽¹⁾	448	381
Adjusted EBITDA ⁽²⁾	21	67
Amortisation, depreciation and impairment losses ⁽²⁾	(31)	(30)
Adjusted EBIT ⁽²⁾	(10)	37
Investments in property, plant and equipment and intangible assets	25	18
EBITDA MARGIN % ⁽³⁾	5%	18%
Total thermoelectric plant generation (GWh)	1,869	2,441

(1) It includes the residual contribution from minor portfolios managed by Energy Management not attributable to individual business units. The share for the resale of electricity purchased from the market was approximately EUR 173 million (EUR 50 million in 2020).

(2) Not including special items as indicated in the "Alternative performance indicators" section, to which reference should be made for further details.

(3) Ratio of adjusted EBITDA to adjusted revenue from sales and services.

Following the entry into force from 1 January 2018 of the legislation on internal user networks (IUN), all of the electricity output of ERG Power is allocated to the market by capturing the Sicily area price, while electricity intended to cover the needs of the Priolo industrial site, which falls within the scope of the legislation on internal user networks from 2018, is purchased on the wholesale market at the Single National Price.

In 2021, ERG Power's net electricity power generation was 1,869 GWh, down on the same period of 2020 (2,441 GWh) due to a market environment with generation margins strongly affected by the significant increase in the price of gas and CO₂, partially offset by the clean spark spread hedging policies implemented in line with the Group's risk policies and the greater use of the dispatching services market. The results are also affected by the general shutdown of Module 1 aimed at guaranteeing the HEC qualification, started at the beginning of September and concluded in early December.

The net supply of steam to captive customers of the Priolo Gargallo petrochemical site totalled 1,024 thousand tonnes, down slightly compared with 1,067 thousand tonnes in the same period of 2020.

Adjusted EBITDA in **2021** amounted to EUR 21 million (EUR 67 million in 2020), with results down mainly due to the termination of the high-yield cogeneration period on Module 2 of the CCGT plant as from 1 January 2021 and the decrease in margins due to higher gas and CO2 costs, only partly mitigated by the positive effect of hedging and the higher revenues from dispatching services (MSD). It is recalled that 2020 benefited from insurance reimbursements and adjustments relating to site contracts for approximately EUR 10 million.

Capital expenditure

Capital expenditure in **2021 (EUR 25 million)** relates mainly to the project to revamp the steam turbine, the electric generator and the steam generation plants of Module 1 of the CCGT plant, geared towards greater plant efficiency, which will make it possible to renew the right to accrual of energy efficiency certificates from the parallel connection of new components, expected by the end of 2021, for a further ten years.

In addition, targeted investment initiatives continue to be made in order to preserve the operating efficiency, flexibility and reliability of the plants. Progress was also made on the planned health, safety and environmental projects.

Relevant legislative and regulatory updates during the year

See also the "Significant legislative and regulatory updates during the period" chapter.

- **Operating Regulations for the return of the REtee element**

On 15 December 2020, by means of resolution no. 548/2020, ARERA approved and supplemented the Operating Regulations, prepared by GSE pursuant to resolution no. 96/2020, concerning the methods by which producers who draw natural gas for the generation of electricity may submit a request to return the portion of the RE and REt tariff components intended to cover the costs deriving from the EEC mechanism (so-called "REtee" element). The Regulations were published by GSE on 23 February 2021.

The right to repayment of the REtee element will take effect from the first day of the second month after the one in which the request is submitted to GSE (in any case, not before 1 July 2021).

- **Determination of the national quantitative energy saving targets for electricity and gas distribution companies for the years 2021-2024**

Italian Ministerial Decree of 21 May 2021 identifies, through the reference to the INECP (Integrated National Energy and Climate Plan), the national quantitative energy saving targets for the years 2021-2024, the savings obligations for electricity and natural gas distributors and the regulation for the implementation of energy efficiency projects for access to energy efficiency certificates (EEC). The decree makes provision for the reduction of the national quantitative targets and the associated obligations for the year 2020 and for the 2021-2024 period, the admission of temporary associations of companies among the possible holders of an energy efficiency project and the introduction of a new savings incentive system through Dutch auction procedures. Provision is also made, among other things, for the revision of the procedure of evaluation of projects by GSE and the restoration of the cumulability with tax credits for all projects presented as from 1 January 2020.

REGULATORY FRAMEWORK – INCENTIVES

WIND SECTOR INCENTIVES

Italy

- Plants that entered into operation before 2013: feed-in premium (FIP) equal to $(180 \text{ EUR/MWh} - P_{-1}) \times 0.78$ where P_{-1} is the average annual value of the sale price of the electricity of the previous year. Duration of the incentive: 15 years
- Plants that entered into operation from 2013: FIP against a reference rate awarded through participation in Dutch auctions. With the Italian Ministerial Decree of 4 July 2019, wind power and photovoltaic compete for the same quota both for the registries and for the auctions and the FIP is a "two-way CfD". Duration of the incentive: 20 years
- Plants undergoing full reconstruction (Repowering) that have not adhered to the so-called "Spalmaincentivi" incentive allocation may participate in auctions provided that there is a residual quota volume after allocation to greenfield plants and with a further reduction of the tariff of 5% with respect to the auction reference price.

Germany

- Plants that entered into operation by July 2014: feed-in tariff (FIT) and, on an optional basis, FIP plus a management premium (EEG 2012).
- Plants that entered into operation from August 2014 to December 2016: FIP (EEG 2014).
- Plants authorised by the end of 2016 and in operation by the end of 2018: transitional period provided for during which it is possible to continue to benefit from the tariffs provided for in EEG 2014 of decreasing value in relation to the actual new installed capacity in the period.
- Plants that entered into operation from 2017 onwards: FIP incentives allocated through Dutch auctions (EEG 2017 and EEG 2021).

France

- Plants that stipulated the application to purchase electricity generation by December 2015: a feed-in tariff (FIT) for 15 years, defined based on the year the application to purchase electricity generation was made and updated annually according to a formula tied to the index of hourly labour cost and to the index of the generation prices of industrial products. After 10 years of operation, it will be reduced for the subsequent 5 years of the incentive based on the wind farm's actual load factor if the annual number of hours of operation exceed 2,400.
- Plants that stipulated the application to purchase electricity generation in 2016: feed-in premium (FIP). The FIP is divided into several components: the incentive component (*complément de rémunération*), calculated as the difference between the current FIT and the average monthly price of energy weighted on the national wind power profile, plus a management premium to cover the costs for managing the sale of energy.
- New plants that do not fall into the above categories: recognition of incentives occurs through auction procedures or direct access in the case of plants with a capacity below 18 MW and wind turbines with unit power not exceeding 3 MW.

Bulgaria

- A feed-in tariff (FIT) in brackets based on hours of operation, which is constant in nominal terms. The duration of the incentive varies based on the date of entry into operation, and can be equal to 12 years or 15 years. From 1 January 2019, for existing plants with capacity of over 4 MW, the incentive scheme moved from a FIT structure to a FIP structure. The incentive is calculated as the difference between the value of the FIT, as previously recognised, and a Reference Price calculated on the estimate of the future price of electricity adjusted on the wind profile. From 1 October 2019, existing plants with capacity between 1 MW and 4 MW also moved to the FIP.

Poland

- Plants in operation by July 2016: Certificates of Origin (CO). The Substitution Fee (the penalty applied in the event of non-compliance with the CO purchase obligation) is calculated on the basis of the weighted annual average of the prices of the COs recorded the previous year, plus 25%.
- From 2018 onwards, a multi-technology Dutch auction system was reintroduced, i.e. wind – photovoltaic. The quotas and the starting auction prices are defined by the Government. The incentive is calculated as the difference between the awarded price, inflated on a yearly basis, and the average daily price of electricity (two-way CfD).

Romania

- Green certificates with a duration of 15 years with delayed assignment with respect to the underlying electricity output. Specifically:
 - a) recovery period of the Green Certificates (GCs) held from 1 July 2013 to 31 March 2017 (it takes place at constant instalments through the years 2018-2025);
 - b) period of validity of the GCs, which is planned until 31 March 2032 (only the GCs issued before 31 March 2017 maintain the validity of 12 months).
- The cap and the floor between which the price of the GCs may fluctuate were set respectively at 35 EUR/MWh and 29.4 EUR/MWh.
- From 2018 onwards, the mandatory quota for the electricity consumers shall be determined according to a pre-set fixed volume of GCs on the market and a maximum average expense on the end consumer.

SOLAR SECTOR INCENTIVES**Italy**

- Incentives for photovoltaic systems are paid through a FIP tariff on energy fed into the network for the duration of 20 years.
- The feed-in tariff was introduced in Italy with Interministerial Decrees of 28 July 2005 and of 06 February 2006 (1st Feed-in Premium), which provided for a financing system for electric power generation operating expenses.
- New measures were introduced with Italian Ministerial Decree of 19 February 2007 (2nd Feed-in Premium) such as the application of the incentive tariff on all energy produced by the plant and differentiation of tariffs also based on the type of architectural integration and the size of the plant.
- In 2010, the 3rd Feed-in Premium came into effect with Italian Ministerial Decree of 06 August 2010, applicable to plants that came into operation from 1 January 2011 to 31 May 2011, which introduced specific tariffs for integrated photovoltaic plants with innovative characteristics. Italian Law no. 129/2010 (so-called "save Alcoa law") then confirmed the 2010 tariffs of the 2nd Feed-in Premium for all plants able to certify the conclusion of works by 31 December 2010 and become operational by 30 June 2011.
- The Italian Ministerial Decree of 05 May 2011 (4th Feed-in Premium) defined the incentive mechanism relating to plants coming into operation after 31 May 2011 and introduced an annual cumulative cost limit for incentives, set at EUR 6 billion.
- The Italian Ministerial Decree of 05 July 2012 (5th Feed-in Premium) partly confirmed the provisions of Italian Ministerial Decree of 05 May 2011 and fixed the cumulative cost of incentives at EUR 6.7 billion. The incentive provisions of the Feed-in Premium were no longer applied after 6 July 2013 when the ceiling of EUR 6.7 billion was reached.

Italy	<ul style="list-style-type: none"> • The Italian Ministerial Decree of 17 October 2014 (so-called "Spalmaincentivi" decree) made it mandatory for producers to choose, by November 2014, a method for remodulating incentive: <ul style="list-style-type: none"> a) extension of the incentive period by a further 4 years with simultaneous reduction of the unit incentive by a value of between 17% and 25%, depending on the residual life of the right to incentives; b) an initial period of incentive reduction followed by a subsequent period of increase thereof for an equivalent amount; c) flat reduction applied for the remaining incentive period, variable between 6% and 8% depending on the size of the plant. • The Italian Ministerial Decree of 4 July 2019 allows photovoltaic plants to access the incentives, for 20 years, through auctions and registries together with the wind power quota provided that: <ul style="list-style-type: none"> a) they are authorised; b) they use new components; c) they comply with the prohibition to install ground-located modules in a farming area.
Germany	<ul style="list-style-type: none"> • Plants that entered into operation from 2017 onwards: FIP incentives allocated through Dutch auctions (EEG 2017). • The value of the incentive is determined on the basis of a one-way Contract for Difference (CfD). Ground-mounted photovoltaic systems up to a capacity of 20 MW can access the incentive.
France	<ul style="list-style-type: none"> • A FIT system introduced in 2000 and from 2011 auctions for photovoltaic plants with a capacity of between 250 kW and 17 MW. • From 2018, auctions for photovoltaic plants with a capacity exceeding 500 kW for the assignment of a two-way CfD.
Spain	<ul style="list-style-type: none"> • <i>Regimen Específico</i>, where the main element of integration of revenue is the "<i>Retribución a la Inversión</i>" (Return on Investment), expressed in EUR/MW, calculated on an annual basis and paid for the entire duration of the incentive period of 30 years, based on the plant's capacity. • From 2016: the introduction of the auction mechanism for the recognition of "<i>Retribución a la Inversión</i>", calculated on an annual basis and paid for the entire duration of the incentive period of 25 years, based on the plant's capacity and the winning bid. Discount offered on the standard value of the initial investment (EUR/MW), which represents the main remuneration parameter for calculation of the Return on Investment. • From 2020, abandonment of the previous incentive system, based on a Return Asset Base system, in favour of the adoption of a system based on remuneration of the electricity produced. The incentive is calculated as the difference between the price awarded and the average daily price of electricity (two-way CfD). The remuneration period is not fixed but lasts for a period no less than 12 years and up to the attainment of the maximum volume of energy subject to incentives.

HYDROELECTRIC SECTOR INCENTIVES

Italy

- Plants that entered into operation before 2013: feed-in premium (FIP) equal to $(180 \text{ EUR/MWh} - P_{-1}) \times 0.78$ where P_{-1} is the average annual value of the sale price of the electricity of the previous year. Duration of the incentive: 15 years.
- Plants that entered in operation from 2013 onwards, which requested the incentive in accordance with the Italian Ministerial Decree of 6 July 2012 and the Italian Ministerial Decree of 23 June 2016:
 - if their power is less than 250 kW, all-inclusive tariff for 20 years through direct access;
- Plants requesting the incentives in accordance with the Italian Ministerial Decree of 4 July 2019:
 - if their power is less than 250 kW and they are included among certain cases, access to all-inclusive tariff through Registry for 20 years.

Most of the hydroelectric plants of the ERG Group are incentivised through FIP tariff for 15 years as a result of partial hydroelectric revamping.

Additional mini-hydroelectric plants are incentivised through fixed all-inclusive tariff assigned with direct access (in accordance with the Italian Ministerial Decree of 23 June 2016) or as a result of successful participation in the selection through registries in accordance with the Italian Ministerial Decree of 4 July 2019.

THERMOELECTRIC SECTOR INCENTIVES (Cogeneration)

Italy

- High-Efficiency Cogeneration - HEC (cogeneration of electricity and useful heat) is incentivised through the recognition of Energy Efficiency Certificates - EECs (White Certificates), issued for ten years on the basis of the primary energy savings that cogeneration makes it possible to achieve when compared to the separate production of the same amount of electricity and heat. Energy Efficiency Certificates are exchanged in a regulated market managed by GME (Gestore dei Mercati Energetici) or through bilateral negotiations between operators.
- ERG owns a high-efficiency cogeneration (HEC) plant, based on combined-cycle, natural gas fuelled technology, which has Energy Efficiency Certificates on the basis of the energy savings achieved annually. It should be noted in particular that Module 1, which benefited from them until 2019, has been revamped and therefore has the right to recognise EECs for a further ten years from the date of entry into service following the revamp, which took place in December. On the other hand, Module 2 ended the period for the recognition of EECs on 31 December 2020.

RELEVANT LEGISLATIVE AND INSTITUTIONAL UPDATES

EUROPEAN UNION

• **Funds for the post-pandemic recovery: EMS-COVID and Next Generation EU**

The financing package prepared by the European Union to deal with the crisis triggered by the COVID-19 pandemic involves an increase in the EU Budget for the period 2021-2027 to approximately EUR 1,100 billion and the creation of an extraordinary fund of EUR 750 billion – called Next Generation EU (NGEU) – consisting partly of grants and partly of loans with long repayment 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 have submitted 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. In June 2021, the European Commission evaluated the majority of the plans presented positively, including those of Italy, Germany, France and Spain. Italy will be the first beneficiary of NGEU, with roughly EUR 192 billion in loans and grants, that rises to EUR 235 billion, if we also consider the other funds allocated in the European domain.

• **Taxonomy of sustainable activities and investments. Publication of delegated acts.**

On 21 April, the European Commission adopted the package of measures aimed at improving capital flows to sustainable activities throughout the entire European Union (known as the Taxonomy Regulation).

A first delegated act on “sustainable activities for climate change adaptation and mitigation objectives” The list includes wind and photovoltaic installations.

A second delegated act for the remaining objectives, which must clarify the classification of investments in gas or nuclear powered plants, will be published in 2022.

• **European Green Deal - Fit for 55 package**

On 14 July, in accordance with the European Green Deal roadmap, the European Commission published its “Fit for 55” package, consisting of a series of new measures and adaptations of existing regulations necessary to achieve the objectives of reducing greenhouse gas emissions by 2030.

Among the most interesting measures, which will be finalised no earlier than 2023, are the Directives for the Emissions Trading System (ETS) – the CO₂ emission trading scheme –, the new Carbon Border Adjustment Mechanism (CBAM), the Renewable Energy Directive (RED III), the Energy Taxation Directive (ETD) and the Effort Sharing Regulation (ESR) – the sharing of targets among the EU Member States.

• **European Commission - new Climate, Energy and Environmental Aid Guidelines**

In December 2021, the European Commission approved its new Climate, Energy and Environmental Aid Guidelines (CEEAG).

The changes introduced with respect to the previous version, which expired at the end of 2021 having been extended for one year, aim to align the guidelines with the policies adopted with the European Green Deal, in particular with the objectives of net carbon neutrality by 2050 and the reduction of greenhouse gases by at least 55% by 2030.

The new guidelines will apply to all economic aid decisions taken by Member States starting from January 2022; however, the support instruments adopted must be adapted to the new guidelines, where materially applicable, by 31 December 2023.

ITALY

• **Italian “Semplificazioni 2020” Decree Law and Conversion Law no. 120/2020**

The “Semplificazioni 2020” Decree Law, 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]). These initiatives are also granted participation in any additional support instrument for the implementation of the Integrated National Energy and Climate Plan.

As regards authorisations, 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.

- **Italian "Semplificazioni 2021" Decree Law and Conversion Law no. 108/2021**

At the end of May 2021, Italian Decree Law no. 77/2021 was published containing "Governance of the national recovery and resilience plan and the first measures for strengthening of the administrative structures and streamlining of procedures", so-called "Semplificazioni 2021" Decree (2021 simplifications decree).

The decree's conversion into law with Law no. 108/2021 was published on 30 July.

The main provisions introduced include the definition of non-substantial modifications to existing RES plants. For wind farms, where certain conditions are met, modification interventions can be carried out by simply providing notice of commencement, without prejudice to environmental obligations. For photovoltaic and hydroelectric plants, unlimited interventions on post-construction electrical power are included, provided that certain dimensional and grid connection conditions are met.

Various provisions were also introduced on the authorisation procedures side, first and foremost the redefinition of the powers of the Italian Ministry of Culture in the authorisation procedure of RES plants, related interconnections and infrastructures.

- **Decree Law implementing the NRRP and conversion law no. 233/2021**

In December 2021, Italian Law no. 233/2021, converting into law Italian Decree Law no. 152/2021 for the implementation of the NRRP, was published.

The main provision envisages enabling both full reconstruction projects (i.e. repowering) and greenfield projects to participate in future GSE auctions within the same quota.

This therefore brings to an end the limitation introduced by the Italian "Semplificazioni 2020" Decree Law, which stipulated that repowering

projects could participate in RES auctions after new projects only in the event of there being remaining capacity within the quota.

- **Roadmap for the Ministry of Ecological Transition's Renewable Electricity Strategy**

In October 2021, the Ministry of Ecological Transition published the Government Roadmap for the implementation of the renewable electricity growth strategy, aligned with the objectives of the European Commission's "Fit for 55" package.

The Roadmap envisages new installations of renewable energy for approximately 60 GW by 2030, of which 43 GW for the photovoltaic sector and 12 GW for wind power.

RES auctions are confirmed as the main planning tool for "wind & solar" installations to achieve objectives.

Auctions are expected to be used long term, for at least a further 5 years, with a minimum of 3 sessions per year, for the awarding of (two-way) Contracts for Differences.

- **Italian Legislative Decree no. 199/2021 transposing Directive no. 2018/2001 (RED II)**

In November 2021, Italian Legislative Decree no. 199/2021, for the implementation of European Directive no. 2018/2001 on the promotion of the use of energy from renewable sources (RED II), was published.

Included in the main provisions is the possibility of support for the production of electricity from renewable sources, which, for plants with a capacity of more than 1 MW, is achieved through auctions for specific power quotas. In accordance with the Roadmap, the auctions are aimed at the awarding of two-way contracts for differences and are planned for at least five years.

For quotas not awarded through the tenders envisaged by the Italian Ministerial Decree of 4 July 2019 (Ministerial Decree FER 1), other auction sessions will be held after 2021, until all available capacity has been used.

The concept of "Suitable areas" for the installation of renewable energy plants is introduced, understood as areas with "high renewable potential", identified by the Regions through regional law on the basis of implementation criteria defined by the Government.

Pending definition by the Regions, areas for repowering projects qualified as "non-substantial" according to the "Semplificazioni 2021" Decree Law are considered suitable.

Impetus is given to simplifying the authorisation process for renewable energy projects, through the establishment of a new Single Digital Platform for Renewable Energy and Single Digital Models for

authorisation procedures. In the case of plant projects in suitable areas, the standard authorisation times are reduced by 1/3, while Superintendencies and the Ministry of Culture must express a non-binding opinion for the environmental impact assessment.

To encourage long-term supply contracts between private parties (PPAs) GSE provides for a market platform with voluntary participation.

GME is tasked with creating a digital notice board aimed at matching up parties interested in PPAs, while Consip, the central purchasing body of the Italian public administration, will provide public entities with tender tools for the long-term supply of electricity from renewable sources.

• **Italian Legislative Decree no. 210/2021 transposing Directive no. 2019/944 on the internal market for electricity**

December 2021 saw the publication of Italian Legislative Decree no. 210/2021 transposing EU Directive no. 2019/944 on the internal market for electricity, and adapting national legislation to EU regulations no. 943/2019 on the internal market for electricity and no. 941/2019 on risk preparedness in the electricity sector.

Among the provisions of greatest interest are the project to replace the national single price (PUN) for electricity with zonal prices after verification of feasibility, as well as some regulations on energy communities and on the development of storage capacity.

In particular, auctions organised by Terna are envisaged for the long-term procurement of storage capacity, according to criteria and regulations defined by ARERA. GME is responsible for creating a centralised platform for the allocation of this capacity.

• **Extension of GSE obligation deadlines – COVID-19 emergency**

In view of the extension of the national state of emergency, on 15 October 2021 GSE again updated the obligation deadlines for access to RES incentives and White Certificates for new projects.

In relation to the sixth RES auction procedure closed in June 2021, the following deadlines were extended by a total of 95 days:

- the deadline of 31 months from the date of awarding at auction for the entry into operation of onshore wind farms;
- the deadline of 15 months for the application of the 1% reduction of the tariff offered, in the event that the awardee wind farms have not yet entered into operation.

• **2022 Budget Law**

In December 2021, Italian Law no. 234/2021 relating to the state budget for financial year 2022 and the multi-year budget for the three-year period 2022-2024 was published.

Starting from 2022, further measures are envisaged to support companies with cash flow and access to credit; the entry into force of the sugar tax and plastic tax was postponed to 1 January 2023; funds were allocated to contain the increase in energy costs.

• **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 no. 103/2019 came into force. The subdivision 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).

• **Provisions for the implementation of single coupling in the intra-day electricity market**

Through resolution no. 218/2021, ARERA completed the process to amend the Italian intra-day market so as to allow the start of continuous trading and gate closure one hour before the delivery of energy. These provisions also enable Italy to participate in the European intra-day electricity market, integrating its system with the *Single Intra-Day Coupling platform (SIDC)* and the *Complementary Regional Intra-Day Auctions (CRIDA)*.

Italy's integration went live on 21 September 2021.

• **Capacity Market Auctions 2024 – implementing provisions**

Over the course of 2021, provisions for the implementation of the new auctions for the Italian Capacity Market (CM) relating to the delivery years 2024 and 2025 were published.

ARERA published resolution no. 370/2021 relating to the parameters for determining the reliability standard (RS) of the Italian electricity system.

Through the subsequent resolution no. 399/2021, subsequently amended with resolution no. 578/2021, it established the economic parameters for both the 2024 auction and the 2025 auction.

Specifically, the maximum premium established for participation in the CM auction for existing capacity was confirmed as 33,000 EUR/MW/year, while the maximum premium established for new unauthorised capacity was set at 70,000 EUR/MW/year.

The Ministry of Ecological Transition then published the decree approving the regulations, instructing Terna to start the auction procedures for the year 2024 only; only at the end of this procedure will the conditions for a possible further auction for 2025 be assessed.

The main auction for 2024 was held on 21 February 2022.

- **Capacity Market 2019 – 2022 delivery period**

On 1 January 2022, the delivery period concerning the Capacity Market auction held on 6 November 2019 began.

On that occasion, the ERG Group was assigned 340 MW of capacity referring to the Priolo CCGT plant for an economic value of EUR 11,200,000/year.

- **Determination of the avoided fuel cost adjustment value for 2008 for electricity withdrawn by the Gestore dei Servizi Energetici (Energy Services Operator) pursuant to measure Cip 6/92, in compliance with ruling 4778/20 of the Council of State**

ARERA, by means of resolution no. 233/2021, concludes the procedure launched under resolution no. 354/2020, confirming for 2008, in compliance with ruling no. 4778/20 of the Council of State, the avoided fuel cost adjustment value, already defined under resolution no. 553/2013, for electricity withdrawn by GSE pursuant to measure Cip 6/92.

- **Provision for the supply of the service for the transmission, distribution and dispatching of electricity withdrawn to allow subsequent injection into the grid.**

ARERA, by means of resolution no. 109/2021, defines and standardises the conditions for the supply of the service for the transmission, distribution and dispatching of energy withdrawn and injected into the grid by stock-piling systems and auxiliary services, regardless of the plant configuration. Withdrawals of electricity from the grid, both for the powering of auxiliary services, and for stock-piling systems (without any difference), for the purposes of the subsequent re-injection into the grid, will be treated as negative electricity injected from 1 January 2023, i.e. upon cessation of the validity of Article 16 of the Integrated Law on Transport. The application of the new regulation is voluntary; operators must choose whether to adhere to the new regulation by 30 June 2022.

- **Approval of the regulations on imbalances**

With resolution no. 523/2021, ARERA approved the regulations on imbalances in implementation of the European regulatory framework. The reform came into force on 1 April 2022.

Among the most significant decisions, the imbalance price areas continue to coincide with the market area, postponing the determination of "dynamic" areas to a later date.

For the identification of the imbalance price, the single pricing model is extended to all units, replacing (i) the dual pricing currently applied to Enabled Units (such as the ERG CCGT) and (ii) the equalisation regime available for non-programmable RES.

A macro-zonal non-arbitrage fee is established for Enabled Units, to neutralise any economic benefits deriving from opportunistic trading, as well as a fee for non-compliance with dispatching orders or for deviations in certain circumstances.

- **Introduction of a new market session prior to the MGP**

With resolution no. 517/2021, ARERA approved Terna's proposal to add a new market session, prior to the Day-Ahead Market, regarding tertiary replacement reserve exchange.

This is an instrument of last resort in force since 1 January 2022, to be used in situations of lack of supply and, in particular, when in adverse weather situations the contribution of imports or the tertiary replacement reserve is insufficient.

All Dispatching Users authorised to participate in the MSD must submit – every day of the year – offers for this market session.

In the event of participation in the Capacity Market, the quantities offered contribute towards the obligation to offer on the market.

- **Data exchange between TSOs-DSOs-Significant Grid Users**

With resolution no. 540/2021/R/eel, ARERA established the reference regulation for data exchange between Terna-DSOs-Significant Grid Users, aimed at ensuring greater observability of generation on the MV grid.

The measure confirms the need to (I) adjust existing plants on the MV grid to make them visible to Terna; (II) ensure that new plants are equipped with observability functions from the date of entry into operation; (III) provide for the disbursement of a grant to cover the adjustment costs proportionate to the time required for the work.

- **“Sostegni-ter” Decree containing measures to limit the effects of price increases in the electricity sector**

On 27 January, Italian Decree Law no. 4/2022 was published, introducing urgent measures to support businesses and economic operators, employment, health and local services, in connection with the COVID-19 emergency, as well as to contain the effects of price increases in the electricity sector.

The provisions targeted at the energy sector envisage the elimination from bills – for the first quarter of 2022 – of the general system charges applied to users with available power equal to or greater than 16.5 kW. The related charges are met through the corresponding use of a portion of the proceeds from the auctions of CO₂ emission quotas.

Another specific provision aims to guarantee energy-intensive companies partial compensation of the extra costs resulting from the exceptional increase in energy costs.

In the same period, companies experiencing an energy bill increase of more than 30% compared to 2019, are given an extraordinary contribution in the form of a tax credit.

A specific article of the Decree, later replaced by a similar provision in the subsequent “Anti-Fraud” Decree no. 13/2022, provides that from 1 February 2022 to 31 December 2022, a two-way energy price compensation mechanism shall apply to the electricity produced by some renewable sources plants that do not have access to incentive mechanisms.

This mechanism applies exclusively to photovoltaic production incentivised up to the fourth Feed-in Premium, as well as to all non-incentivised production of RES plants (solar, hydroelectric, geothermal and wind), provided that they entered into operation on 1 January 2010. However, even these types of production are excluded from the scope of application of the rules if they are the subject of energy sales contracts (supply contracts) concluded before 27 January 2022, at a fixed price, not dependent on market fluctuations and provided that the price is not 10% higher than the reference price indicated in the Anti-Fraud Decree, limited to the duration of such contract.

- **“Energy” Decree containing further measures to contain the electricity and natural gas costs and develop renewable energy**

Italian Decree Law no. 17/2022, dedicated to containing the costs of electricity and natural gas, was published on 1 March as a result of the repercussions of the conflict between Russia and Ukraine.

Some of the measures envisaged are aimed at

speeding up the development of renewable energies by simplifying, including from a procedural point of view, the installation of such plants.

For renewable plants installed on “suitable” areas, the opinion of the Ministry of Culture, although mandatory, is no longer considered binding for the assessment of environmental impact.

It also regulates the development of photovoltaics in agricultural areas, granting access to support mechanisms in relation to the degree of occupation of the agricultural area.

Finally, measures are envisaged to streamline and simplify the authorisation procedures for off-shore renewable plants.

GERMANY

- **EEG Reform**

The German parliament approved the reform of the Renewable Energy Sources Act called Erneuerbare-Energien-Gesetz (EEG), which entered into force on 1 January 2021.

The new version of the EEG outlines the growth process of the various renewable technologies up to 2028 and establishes climate neutrality by 2050.

From 2021, the base price for photovoltaic auctions will fall to 59 EUR/MWh. Starting from 2022, it will be the average of the highest bids from the last three auctions, plus an 8% markup.

For onshore wind, the auction base price will be reduced to 60 EUR/MWh, while from 2022 it will be reduced by 2% per year.

The 2021 EEG also provides for an increase in the capacity limit for ground-mounted plants participating in photovoltaic auctions from 10 MW to 20 MW.

In June 2021, the federal Government reached an agreement to increase auction volumes for 2022 for both onshore wind and photovoltaics.

More specifically, the onshore wind quota is increased from 2.9 GW to 4 GW; the photovoltaic quota is more than tripled, going from 1.9 GW to 6 GW, of which 3,600 MW on ground-mounted plants and 2,300 MW on roof-top installations.

UK

- **Ireland: electricity market**

SEM Committee, the authority that supervises the functioning of Ireland’s Electricity Market, called the I-SEM (*Integrated Single Electricity Market*), confirmed the continuation of operations of the single electricity market between the Republic of Ireland and Northern Ireland following the entry into force of BREXIT.

- **Measures to mitigate the increase in the price of electricity and gas**

On 14 January 2022, Ofgem, the British energy authority, approved the introduction of a cap of 20 GBP/MWh on *Balancing Services Use of System* (BSUoS) charges to contain the increase resulting from high energy costs. The cap applies from 17 January to 31 March 2022 and any excess costs are carried forward to the year 2022/23 up to a maximum of GBP 200 million. If the maximum of GBP 200 million is reached before the end of the year of application of the measure, the latter will cease to be applied early.

FRANCE

- **Climate and Resilience Law**

On 24 August 2021, the "Climate and Resilience" Law was published.

The main provisions regarding the onshore wind and photovoltaic solar sectors include the regionalisation of renewable energy objectives, to be defined with a specific decree, to contribute to the national objectives of the multi-year energy plan (PPE).

Through the decree, common methods and indicators will be established to monitor the implementation of regional objectives.

With another specific decree, a regional energy commission was established, responsible for the preparation of regionalisation proposals and monitoring.

For the photovoltaic sector, the obligation for some buildings to integrate renewable energy production or planting systems on at least 30% of their surface is extended.

- **Measures to mitigate the increase in the price of electricity and gas**

On 19 January 2022, the French Energy Regulatory Authority (CRE) approved the resolution on the determination of regulated tariffs for the sale of electricity containing all temporary measures aimed at mitigating the impact of the increase in energy prices on electricity bills in 2022. In short, these measures involve substantially reducing the national tax on final electricity consumption (TICFE), the possibility for the French government to limit the increase in energy sales tariffs to 4% for the whole of 2022, and the obligation for EDF to increase the volume of nuclear energy sold at a reduced price by 20 TWh, from 100 TWh in 2022.

ROMANIA

- **Measures to mitigate the increase in the price of electricity and gas**

To mitigate the effects linked to the increase in the price of energy, temporary amendments were published to Ordinance no. 118/2021, which governs the electricity market. For the period 1 November 2021 - 31 March 2022, the Green Certificates paid on the first 200 MWh of electricity consumed each month are cancelled and a new tax on energy producers of 80% is applied on revenues exceeding a pre-established threshold (450 RON/MWh). This surtax does not apply to producers of electricity from fossil fuels.

- **Transposition of European Directive no. 2019/944 for the internal market for electricity**

At the end of 2021, by means of emergency ordinance no. 143/2021 (GEO 143), the government approved a series of amendments to Electricity and Natural Gas Law no. 123/2012. These amendments will take effect from 1 January 2022. The ordinance introduces (i) the possibility of stipulating long-term supply contracts (PPAs) outside the OPCOM centralised market, (ii) the partial abolition of the obligation for private producers of electricity to sell energy on OPCOM and (iii) the possibility for other markets, market platforms and brokers to offer their services on the Romanian market.

BULGARIA

- **Introduction of changes pertaining to the balancing market**

With decision № LJ-44 of 30 December 2021, the Bulgarian Energy Authority (EWRC) set certain limits for the conclusion of transactions on the energy balancing market in force from 1 January 2022.

It also introduced an amendment to the Electricity Exchange Regulation, aimed at eliminating the possibility for balancing groups to calculate imbalances on the basis of the entire portfolio.

POLAND

- **State aid: approval by the EU Commission of the extension of incentives for the production of electricity from renewable sources from 2022 to 2027**

On 30 November 2021, the European Commission approved the extension to the period 2022-2027 of the auction mechanism for the assignment of two-way CfDs for a total renewable power quota of 9 GW, within the limits of a spending budget of PLN 43.85 billion.

RISKS AND UNCERTAINTIES

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 periodically updated in line with the evolution of the Group and the context in which it operates; in this regard, it should be noted that, in the subsequent description of the main risks to which the Group is subject, the effects linked to the divestment of the Hydro business have already been taken into account.

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 prospective risks, including medium and long term risks, with an organic and comprehensive vision.

It should be pointed out that, at the date of preparation of this Report, no particular risks and uncertainties are envisioned, in addition to those mentioned in the document, which may determine significant consequences on the operating results, financial position and cash flows of the ERG Group.

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

In view of its operations, ERG classifies the risks to which it is exposed into four categories: Strategic, Financial, Operational and Compliance.

	Strategic	<ul style="list-style-type: none"> • Availability of renewable resources • Evolution of the regulatory framework • Climate Change • New capital expenditure • Risks related to Parent Company Rating and Reputation
	Financial	<ul style="list-style-type: none"> • (Commodity) price risk • Liquidity • Credit and Counterparties • Exchange Rate and Interest Rates • Disputes
	Operational	<ul style="list-style-type: none"> • Health, Safety and Environment (HSE) • ICT and Cyber Security • Continuity of service • Human Capital • Procurement and Supply Chain
	Compliance	<ul style="list-style-type: none"> • Anti-corruption legislation • Country

STRATEGIC RISKS

Availability of renewable resources

This risk refers to the possibility that the Group may incur economic damages deriving from the volatility of Electricity generation volumes, with particular reference to renewable production and to the availability of natural resources (such as Wind and Sun).

The risk is mitigated through:

- Technological diversification of renewable energy plants (e.g. Wind and Solar) and the geographic diversification of the generating farms, which reduce both the impact and likelihood of occurrence of the risk;
- Scheduling the outages of renewable facilities in relation to the periods of low contribution of renewable sources, thereby reducing their impact;
- The use of more accurate meteorological forecasting tools in order to define generation plans that allow for improvement in Volume Risk management strategies over the short term.

The use of statistical risk analysis models is also envisaged, as they enable quantification of the economic impacts over the term of the plan. It should be noted that, following the divestment of the Hydro business, the Group will no longer be subject to the volatility of the availability of water resources which, in the past, has proved to be more volatile than that of wind and solar resources.

Evolution of 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, or have significant economic

impacts on the value of the assets.

The Group continuously monitors the development of the regulatory framework in the countries where it is present, in order to prevent and/or mitigate the effects on the different business areas, through safeguards spanning multiple levels, which entail, at the local, national, and European level, collaborative dialogue with institutions and with the bodies governing and regulating the sector through active participation in business associations and in working groups established in the same agencies, as well as the examination of the regulatory developments and of the instructions of the sector Authority and the preparation of specific position papers to communicate its position in this regard.

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. Among the main matters subject to regulatory developments, the following are highlighted 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 (e.g., transition from FIT to FIP; introduction of the Auction);
- energy savings certification within the White Certificates mechanism by 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.

Climate Change

Climate change risk is the possibility that climate changes in the short, medium and long term may have impacts on ERG's business with economic/financial consequences 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 in part is already having on the planet (among others – intensification of heat waves and of extreme weather events, rising sea levels, thinning 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 on risks and the related opportunities, also issued by the European Commission in the publication of June 2019. The TCFD guidelines require providing disclosure with respect to four broad topic areas: **Governance; Strategy; Risk Management; Metrics & Targets**. In this context and with reference to the TCFD guidelines, ERG structured a path of analysis that has been carried out through:

- *Identification of the reference scenarios*: three scenarios have been taken as reference from among the most accredited in the literature: a physical scenario developed by the Intergovernmental Panel of Climate Change (IPCC), which assumes the absence of mitigation actions; two transition scenarios that focus

on actions to limit GHG emissions (Below 2 Degree Scenario - B2DS; Science Based Targets Initiative - SBT; Sustainable Development Scenario - SDS)

- *Identification of the variables that impact ERG's business*: the different variables have been identified and classified as either "Physical" or "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;), "Market" aspects (e.g. uncertainty in the demand for electricity; Increased competitive pressure), "Reputational" aspects, those related to Technological Innovation (e.g. promotion of energy efficiency) and those related to "Resilience" in particular referring to actions aimed at combating the negative effects of climate change.
- *Identification of the risks and opportunities tied to climate change in relation to ERG's business*: the project has allowed the Group to identify the risks and opportunities determined by climate changes, 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 to infrastructures and/or interruption in the supply chain due to acute physical events; (ii) reduction in the performance of plants due to heat waves with negative impact on their efficiency. Opportunities include, for example: (i) increase in electricity demand for cooling; (ii) possible increase in the price of electricity favored by the exit from coal. To mitigate the related risks and exploit any opportunities, the ERG Group, one of the main renewable operators at national and European level, makes its decisions in an "aware and responsible"

manner, implementing a strategy based on the fight against 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, ERG has transformed from an operator in the refinement and distribution of fuels to a primary operator in Italy and Europe in the generation of electricity from renewable sources. ERG is committed, through its own targets of investment in "zero emission" green technologies and in particular in wind and in solar power, to providing its own contribution to the fight against climate change in line with COP21 objectives.

New Capital Expenditure

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.

To minimise risk, in accordance with company policies, the ERG Group has defined specific structured processes for the selection of investments, providing for 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 and financial assessment/planning models. For all relevant projects, the main risks are associated with:

- Potential impacts and strategy/measures to contain/eliminate risk;
- Items follow-up 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.

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

Any downgrades by rating agencies could limit the possibility of accessing capital markets and raise the cost of funding with consequent negative effects on the Group's financial position, results of operations and cash flows.

ERG implements a risk mitigation strategy, which runs at different levels and involves pursuing: (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 including through the long-term securing of sales revenues and (iv) geographical and technological diversification of its plants.

In 2021, ERG's risk profile, as assessed by the Fitch rating agency, remains Investment Grade "BBB-" with stable outlook. In addition to strictly endogenous and market variables, ERG's rating is also linked to Italy's sovereign rating.

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 various factors that negatively affect 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 reputation among stakeholders, through:

- a structured ESG process that envisages a strategic ESG plan with measurable objectives and KPIs, social responsibility initiatives and the disclosure of the "Non-Financial Statement";
- continuous monitoring of stakeholders' perception of the ERG brand;
- specific active communication and information relations with the main stakeholders;
- constant monitoring of all communication channels;
- a Crisis Management process that, through a structured approach, makes it possible to promptly manage and contain the effects of crises to safeguard ERG's reputation.
- the definition of risk exposure limits and of an associated escalation process if the limits are exceeded, identifying the persons responsible for defining/authorising actions to return below the limits;
- the definition of processes and responsibilities for monitoring the exposure level using appropriate indicators (e.g., P@R, V@R, Stop Loss, Profit Taking, Open positions);
- the definition of minimum and maximum hedging quantities (Hedging Ratios) on electricity sales over the life of the plan;
- the 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 only if there is an underlying asset to pursue the reduction of the economic impacts tied to price volatility on the financial market and it is constantly monitored;
- Where possible, balancing of the purchase formulas (for example, for natural gas) with chargeback to end customers and/or transfer into sales agreements of the higher costs arising from fluctuations in prices, including specific clauses reducing emerging costs (e.g., linked to the profile).

FINANCIAL RISKS

Commodity price risk

This risk is identified as the possibility that fluctuations in the purchase and sale price of Commodities will cause variations in the operating results such to compromise achievement of the objectives defined in the strategic plan. In conducting its activities, the ERG Group is mainly exposed to the following Price risks:

- fluctuations in Electricity prices for all production plants for which the sale of electricity on the Market is envisaged;
- fluctuation in the prices of gas, CO₂ and Energy Efficiency Certificates (EEC) attributable to the generation of ERG Power's natural gas-fired electricity co-generation plant (CCGT).

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

- an aggregate view by portfolio, which permits the allocation of risks where they can be more effectively managed, benefiting from the offsetting of positions with opposite signs;

Liquidity

This is 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 may not be able to meet its commitments (funding liquidity risk) or that it may only be able to do so at unfavourable economic conditions due to situations of tension or to the changed market perception of riskiness of the Group (or of 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 both under normal conditions of conducting business and under crisis conditions, optimising the related opportunity cost;
- ensuring an adequate level of operational elasticity, optimising 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 (e.g. 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 thanks to 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;
- to guarantee 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 ERG Group's

stock of financial assets is used in short-term financial instruments that are highly liquid, preferring a very limited risk profile. Short selling is not permitted under any circumstances.

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

Trade credit risk

This is the risk of unexpected changes in the 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 risk profile at extremely low levels, through the preliminary evaluation of creditworthiness of the counterparties and the adoption, where deemed necessary, of risk mitigation tools, 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 reliability 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.

Credit risk towards Financial Counterparties

This is the risk that unexpected changes in the creditworthiness of a financial counterparty to which an exposure exists (e.g., liquidity deposits) could cause consequent negative economic/equity impacts and damage to the company's image. The Group's objective is to find the right balance between the return on financial investments and minimise the relative counterparty risk, through:

- dealing with counterparties with Investment Grade Public Rating or, in the absence thereof, a specific authorisation by the CEO with the input of the Risk Committee;
- risk diversification strategies (e.g., by depositing liquidity in various banks and/or using investment funds) as per the guidelines of the Risk Committee;
- verification that each financial counterparty is not on any national and/or international Black List;
- constant monitoring of the standing of counterparties and an escalation process in case of negative events and/or worsening 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.

Interest Rate risk

This is the risk that an unexpected change in interest rates may entail a change in the value of financial positions and of the related level of expenses. In this sense, changes in market rates can have negative impacts on the level of financial expense, such as to compromise the financial stability of the Group and its capital adequacy. The ERG Group mitigates this risk by:

- seeking and finding financial resources at the best conditions offered by the market, in compliance with the restrictions set by the Risk Committee, including through the use of the bond market which makes it possible to contain the risk through the issue of fixed-rate bonds with medium/long-term maturities;
- regularly monitoring the level of exposure to the risk and compliance with the restrictions set by the Risk Committee;
- using derivative instruments (e.g. IRS, Interest Rate Swaps), authorised exclusively in view of the existence of an underlying asset;

pursuing the following objectives:

- Identifying the optimal combination between fixed rate and floating rate;
- Optimising the Group's cost of debt within the risk limits assigned by the Chief Executive Officer, whose decision is supported by the input of the Risk Committee, and made in line with the business nature;
- Reducing the possible economic impacts tied to rate volatility on the financial market.

Currency Risk

Changes in the exchange rates of the foreign currencies with which the Group operates may impact:

- profits, as a result of (i) the different percentage of costs and revenue expressed in a foreign currency with respect to when the price conditions were defined (economic risk); (ii) the translation of trade receivables or payables or financial assets or liabilities denominated in a foreign currency (transaction risk);
- on the consolidated financial statements (profit and equity) by effect of the conversion of assets and liabilities of companies that prepare their financial statements in another currency (translation risk).

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

- the definition of exposure limits and of an associated escalation process if the limits are exceeded, identifying the persons responsible for defining/authorising actions to return below the limits;
- the definition of processes and responsibilities for monitoring the exposure level using appropriate indicators (e.g., CashFlow@Risk, EBITDA@Risk);
- pursuit of a balance between assets and liabilities in foreign currency, minimising net exposure and providing M/L term financing of capital expenditure in local currency, whose profitability and cash flows are in currencies other than the ERG Group's functional currency;
- the repatriation, as soon as possible, of the net cash generated by Foreign Operations, within the limits of the liquidity necessary to support their operations, in compliance with the contractual restrictions of project financing and consistently with the expiration dates of any hedging derivatives that may have been approved.

Derivative instruments may be agreed for hedging purposes solely when there is an underlying asset and their agreement is approved by the Risk Committee and subject to periodic monitoring.

Disputes

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. The risk refers also to the possibility that a Group company may impugn an act or a measure harming its own interests, promulgated by institutions or administrative bodies or by 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 submission of periodic reports providing updates on the disputes, also through 231 flows to the Supervisory Bodies.

In the event of extraordinary transactions (e.g. acquisition of companies, establishment of JVs), specific Due Diligences (e.g., legal, tax) are conducted in order to mitigate the risk of disputes and, if considered appropriate, the counterparty is asked to provide the specific guarantees outlined in the contractual agreements governing the transaction.

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

- regular and correct management, coordinated at Group level, of direct relations, or through trade associations, with Institutional Stakeholders at the local, national and international level;
- participation in preparation of the acts or measures (including consultation procedures);
- any appeal before the competent authorities against the acts or measures considered to be detrimental.

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

OPERATIONAL RISKS

Health, Safety and Environment (HSE) Risk

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

- Health risks are those that can potentially impact and compromise the natural equilibrium of the personnel tasked with performing operations or work, following the emission of environmental risk factors, of a chemical, physical and biological nature, into the environment. 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.

In addition, the ERG Group has adopted safety standards and high quality, reliable operating practices to ensure regulatory compliance, the continued improvement of environmental performance, and efficiency in the actions undertaken in terms of prevention and reduction of the possible environmental impacts.

In particular, all Companies that manage industrial assets are provided with an OHSAS 18001 and ISO 14001 certified Management system, as well as achievement of EMAS certification on the main plants. ERG S.p.A.'s management system has been ISO 45001-certified since December 2019.

In 2020, the certification agencies carried out periodic visits and 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 prevention programmes and by spreading a "safety culture", directed both at internal personnel and suppliers that operate at the plants.

Adoption of the best available technologies, the application of ever more rigorous and stringent operating practices in terms of prevention and reduction

of pollution and the correct management of the waste produced allow the efficient management of the business and Environmental matters. 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 ensure 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 of the various Group companies.

ERG also appointed 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.

Information & Communication Technology risks

In the ICT field, the main risks concern attacks on systems with data breaches, 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 infrastructure 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 on a daily basis within the electrical market, particular attention is paid to monitoring systems that interface with the market. These systems are subject to specific management and maintenance procedures designed 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 managing the security of company systems and 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. In the Cyber Risk area, at the end of July 2021 the Group was involved in a Supply Chain Cyber Attack event that hit an infrastructure service provider. The ICT Security procedures defined by the Group were immediately activated, in particular to guarantee the protection of the plants and the provision of the related services, which were never interrupted. Following in-depth checks subsequently

carried out on all the Group's systems, it was also ascertained that the event did not result in any exfiltration of data, confirming the validity of the risk posture and of the investments made by the Group in Cyber Risk prevention, protection and management measures.

Continuity of service

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

As regards 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 the best industrial practices;
- the adoption and constant updating, in line with sector best practices, of scheduled maintenance procedures, both ordinary and preventive, to identify and prevent potential critical issues, also based on specific engineering analyses conducted by specialised personnel;
- periodic revision of the plants and the use of control and remote control instruments in order to monitor technical parameters and promptly detect any potential anomalies as well as, where possible, the use of component redundancy to ensure the continuity of productive processes;
- ongoing specialised training courses for technical personnel working on the plants.

ICT solutions are also expected to be adopted to identify technical problems, aimed at allowing a predictive approach for planning maintenance operations in order to limit outages for accidental breakdowns.

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

The ERG Group uses the insurance market to cover natural and catastrophic risks and to transfer its own industrial risks, 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 were taken 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, there have been no interruptions to business activities at any production site since the start of the emergency.

Human Capital

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 through the development of remuneration strategies and policies, based on weighing and matching positions, aligned with market benchmarks, in order to assure the effectiveness of the rewarding components (monetary and otherwise). 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. From this perspective, the fixed component of remuneration assures

retention through continuous market benchmarks, while the variable component assures the alignment between corporate objectives and individual interests by awarding bonuses upon attaining long-term objectives (LTI) and short-term objectives (MBO).

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.

Procurement and Supply Chain

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 and order concentration parameters as defined in Group policies.

With reference to COVID-19, all appropriate actions 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 warehouses close to plants has proved to be a key decision for business continuity, minimising dependence on suppliers.

It should also be noted that in recent months there has been a generalised increase in the price of all the main raw materials (prices more than doubled compared to YoY) as a result, in particular, of the post-COVID-19 reopening of the markets and consequent increases in demand and production (e.g. China and USA). Increases in the following were significant for ERG:

- The price of copper, for which the significant increase in prices seems to be structural, with impacts primarily on cables for BoP and connections
- The price of steel, the impact of which relates in particular to WTGs and was limited for ERG thanks to the mitigations negotiated as part of the Framework Agreements (FA) signed. In particular, the Vestas FA provides for a "steel" clause with fixed prices for 15 months from September 2020 and, for all WTG ex-works deliveries from January 2022, indexing to the price of steel limited only to the weight of the tower (excluding nacelles, rotor/hub, drive train, other components).

There is continued pressure also in logistics (very high freight rates and shortage of containers), and the price

of products (e.g. turbines, solar panels) is increasing as a result of pressures in the raw materials markets in early 2021.

COMPLIANCE RISKS

Risk of violation of Anti-corruption Regulations

This risk pertains to the possibility that an employee and/or a group company may be involved in a proceeding for offences committed in violation of current anti-corruption regulations.

ERG condemns all corrupt practices with the utmost rigour and without exception. To prevent corruption offences, the Group has adopted 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 comply with 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 autonomously;
- Specific employee training programmes are defined and implemented, to enhance employee knowledge, on one hand, of the regulatory anti-corruption framework (and the relative sanctions system), and on the other hand the rules of conduct adopted by the Group (e.g., Code of Ethics, 231 Models and Anti-Corruption Policy); these activities also involve the Directors;

- There is an ongoing process, overseen by the Supervisory Bodies under Italian Legislative Decree no. 231/01, for the management of the reports of conduct contrary to the principles of the Code of Ethics and of the 231 Models; this process, with reference to possible violations of the Anti-corruption Policy, is overseen 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.

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 with targets for combating climate change with the consequent reduction of investments in renewable energies, including in infrastructure supporting the development of the renewable generation (e.g., transmission and distribution networks).

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

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

The mitigation of risk also involves the creation, development and maintenance of relations with key institutions and stakeholders, in order to understand the political, institutional and regulatory scenario of the country of interest for the Group and its possible impacts on the business. 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 itself to combat Climate Change (e.g. renewable energy penetration targets).

HEALTH, SAFETY AND ENVIRONMENT

Foreword

Protecting the health and safety of people and safeguarding the environment have always been priorities in the ERG Group's corporate culture: prevention and management of the connected risks are therefore central in 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 of the environment and attention to both internal and external stakeholders.

Health and Safety

The ERG Group has continued to pursue the objective of "zero accidents", implementing a whole series of preventive measures with the aim of minimising the number of accidents.

Without a doubt, the most significant event in 2021 from a Health & Safety point of view has been the ongoing global COVID-19 health emergency, for which reference is made to the specific paragraph in the Directors' Report and the Notes to the Financial Statements.

The ERG Group offered also the flu vaccine to all staff, something that this year has assumed particular importance given the concomitance of symptoms between the annual flu and COVID-19 disease.

The efforts made in 2021 made it possible to keep injury rates largely at the same level as in 2020. More specifically, there were two injuries for the Group's internal staff in Italy, while four injuries were recorded to employees of third-party companies as part of the activities contracted out across the group's various sites, one in Italy in Hydro, one in the UK, one in Germany and one in France in the Wind & Solar Unit.

In 2021, the "Leadership in Safety" project continued to be rolled out across the Group, aimed at promoting the adoption of behavioural leadership models in relation to safety matters by those in charge of operations, starting from top management and down to the local supervisors who directly manage the workers' operating activities. In 2021, the focus was on contractor personnel, offering workshops on Health & Safety leadership models very similar to those dedicated to internal personnel in previous years.

Environment

For the Group, environmental protection is a cultural value in the way it does business. Consequently, ERG has developed a business model that allows the production of energy with a very low environmental impact. In compliance with this principle, the Group undertakes to:

- prioritise the development of renewable sources and the use of low carbon intensity fuels;
- minimise the environmental impact of its activities, reducing energy consumption, atmospheric emissions and waste production, also by improving the quality and efficiency of its plants;
- consider the protection of biodiversity, natural habitats and ecosystems as a significant component of sustainable development in the realisation of its projects;
- promote the knowledgeable and responsible use of all natural resources available to the Group;
- adopt, in its operations, Environmental Management Systems certified according to recognised standards, with a view to continuously improving its performance, mitigating risk and seizing opportunities.

Management Systems and Certifications

As a consolidated practice, the ERG Group has adopted as continuous improvement instruments management systems for safety and the environment, consistent with international standards. Specifically:

- In 2019, ERG S.p.A. transitioned its certification of the safety management system from the OHSAS 18001 standard to the ISO 45001 standard; in 2021 the certification was renewed for a further three years;
- In July 2020, ERG Power Generation S.p.A., including all its subsidiaries, transitioned to the standard ISO 45001 for the management of health and safety aspects. In 2021, a supervisory audit was carried out with a positive outcome.

Another important objective achieved by ERG Power and ERG Hydro in 2021 was confirmation of adherence to the EMAS regulation, in accordance with EC Regulation no. 1221/2009 and EU Regulation no. 2017/1505.

The EMAS (Eco-Management and Audit Scheme), together with the adoption of an Environmental Management System consistent with the ISO 14001 international standard, allows for the consolidation of an effective and efficient management of environmental aspects, based on trust and transparency in dealing with the institutions and with the public and on the active participation of the employees and of the Third Parties that operate in the operating sites.

FINANCIAL STATEMENTS AND OTHER INFORMATION

FINANCIAL STATEMENTS

INCOME STATEMENT

In order to facilitate an understanding of the Group's operating performance, as already specified in the Introduction, this section contains both the reported operating results, calculated on the basis of the data presented in the Notes to the Consolidated Financial Statements, and the adjusted operating results, presented to exclude the impacts relating to the adoption of IFRS 9 and of special items, and with the reclassification for IFRS 16.

The adjusted operating results also include in ordinary operations the results of the hydroelectric assets being sold, including among other things the full contribution of amortisation and depreciation for 2021.

Lastly, this Report reflects the economic impacts of the consolidation of the companies acquired during the year as from:

- 1 July 2021 for the French wind companies acquired in June 2021;
- 1 October 2021 for the wind and solar companies in France and Germany acquired in October 2021.

For the definition of indicators, the composition of the financial statements and the reconciliation of the amounts involved, reference is made to that indicated in the Alternative Performance Indicators section below.

(EUR million)		Reported		Adjusted	
		2021	2020	2021	2020
Revenue	1	1,038	856	1,232	974
Other income	2	7	17	10	20
Total revenue		1,045	873	1,242	994
Purchases and change in inventories	3	(393)	(282)	(395)	(282)
Services and other operating costs	4	(164)	(139)	(207)	(176)
Personnel expense		(36)	(34)	(44)	(41)
Gross operating profit (EBITDA)		452	419	596	495
Amortisation, depreciation and impairment of non-current assets	5	(257)	(250)	(270)	(292)
Operating profit (EBIT)		195	169	326	203
Net financial income (expense)	6	(41)	(74)	(21)	(37)
Net gains (losses) on equity investments		(0)	0	0	0
Profit before taxes		154	96	305	166
Income taxes	7	(36)	(13)	(76)	(32)
Net profit (loss) from continuing operations		118	83	230	134
Net profit (loss) from discontinued operations		93	61	0	0
Profit (loss) for the period		210	144	230	134
Non-controlling interests		(2)	(2)	(2)	(2)
Profit attributable to the owners of the parent		209	143	228	132

1 - Revenue

Revenue from sales consists mainly of:

- sales of electricity produced by wind farms, solar installations and thermoelectric installations. The electricity is sold on wholesale channels to industrial operators of the Priolo Site and to customers via bilateral agreements. Specifically, electricity sold wholesale includes sales on the IPEX electricity exchange, both on the “day-ahead market” (MGP) and on the “intraday market” (MI), as well as the “dispatching services market” (MSD), in addition to sales to the main operators of the sector on the “over the counter” (OTC) platform and Power Purchase Agreements (PPAs), long-term energy sale contracts at pre-established prices, currently active in the French wind sector. And lastly, sales of steam and other utilities supplied to industrial operators at the Priolo site.
- incentives related to the output of wind farms in operation and solar installations.

Reported revenue for 2021 was EUR 1,038 million, up compared with EUR 856 million in 2020.

The change is a result of the following factors:

- the increase (EUR +113 million) in the **Wind sector** mainly as a result of the strongly growing market scenario and the increase deriving from the higher unit value of the GRIN incentive in Italy, partly offset by lower output on the foreign portfolio (totalling EUR 515 million compared to EUR 402 million);
- the **Solar sector**, up slightly compared to 2020, thanks also to the full contribution of the newly acquired companies in France last June and October (EUR 75 million versus EUR 73 million);
- the **Thermoelectric sector**, up compared to 2020 (EUR 448 million versus EUR 381 million), as a result of the improvement in the scenario, partly offset by the end of the period of high-efficiency cogeneration on both modules of the CCGT plant, the first of which returned to operation in December 2021. It should also be noted that in 2020 the item included positive adjustments relating to site contracts for approximately EUR 5 million.

The adjusted revenues include revenues deriving from the **Hydroelectric sector**, which increased sharply in 2021 (EUR +76 million) due to the extraordinary availability of water and the higher output recorded during the year, and the higher value of the incentive (EUR 194 million compared to EUR 118 million).

2 - Other income

Other income includes mainly insurance reimbursements, compensation and expense repayments and grants related to income.

In 2020, the item included the insurance reimbursement (equal to EUR 4.7 million) in compensation for accidents that occurred in previous years in relation to the CCGT plant.

Adjusted other income includes the other income deriving from the Hydroelectric sector of approximately EUR 3 million.

3 - Purchases and changes in inventories

Costs for purchases include costs for the purchase of gas and CO₂, utilities and steam intended to fuel the ERG Power S.r.l. CCGT plant and costs for electric power intended for resale on the market within the sphere of the Energy Management activities.

4 - Services and other operating costs

Costs for services include maintenance costs, commercial expenses (including energy transport costs), costs for utilities, for agreements with local authorities, for consulting services, insurance, and for services rendered by third parties.

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

The adjusted values include the full contribution of hydroelectric assets and in 2021 do not include:

- the ancillary costs relating to non-recurring transactions equal to approximately EUR 0.3 million;
- allocations to the provision for disposed Businesses of approximately EUR 1 million.

Furthermore, for the purposes of the adjusted values, lease charges (lease costs for IFRS 16 purposes) of EUR 9 million (EUR 9 million in 2020) are classified under this item of the reclassified income statement. For a more detailed explanation of this classification, please refer to the "IFRS 16" paragraph, available under "Definitions" in the "Alternative Performance Indicators" section.

5 - Amortisation, depreciation and impairment of non-current assets

Reported amortisation and depreciation refer to wind farms, the CCGT plant and solar installations. The increase in the period is mainly linked to the contribution made by the wind and solar assets acquired during the year and to the write-downs carried out in the Repowering area in Italy, partially offset by the review of the useful life of some assets relating to the wind farms and the end of the useful life of some components of the wind farms.

It should be noted that the adjusted values for 2021 do not include:

- the write-down of the net residual value of the property, plant and equipment and intangible assets of wind farms in the Italian portfolio, following the authorisation of three Repowering projects obtained during the year, amounting to approximately EUR 22 million;
- the write-down of the CCGT plant in Sicily following the impairment test procedures, for approximately EUR 3 million;
- the amortisation and depreciation related to the application of IFRS 16, as previously discussed under item 4.

The item also includes the full contribution of the amortisation and depreciation of the hydroelectric complex to be sold. To this end, it should be noted that the reported net result includes the depreciation of the aforementioned hydroelectric assets calculated only for the first six months of 2021, up to the date of first application of IFRS 5 on ERG Hydro.

6 - Net financial income (expense)

Reported net financial expense in 2021 amounted to EUR 41 million, a significant decrease compared to 2020 (EUR 74 million), thanks to the effects deriving from the aforementioned significant liability management transactions.

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

Lastly, it is specified that the adjusted values do not include the following extraordinary components (special items) linked to liability management operations:

- expense (EUR -15 million) relating to the repayments of some project financing for operational wind farms and the related IRS derivatives;
- financial expense (EUR -1.7 million), tied to the reversal effect relating to refinancing operations carried out in previous years in application of IFRS 9;
- financial expense related to the liability recognised upon application of the equity method introduced by IFRS 16 (EUR -4 million), as previously discussed under item 4.

7 - Income taxes

Reported income taxes for 2021 amounted to EUR 36 million, up compared to EUR 13 million in 2020, mainly due to higher taxable income due to the already discussed results in the period.

Adjusted income taxes amounted to EUR 76 million, a significant increase compared to EUR 32 million in 2020 mainly as a consequence of the higher taxable income due to the results in the year.

The taxes for 2021 include the effects (approximately EUR 5 million) of the Wind Fall Tax introduced in Romania in view of the high energy sale prices.

The adjusted tax rate for 2021, obtained from the ratio between income taxes and pre-tax profit, amounted to 25% (19% in 2020).

STATEMENT OF FINANCIAL POSITION

The reclassified statement of financial position contains the assets and liabilities of the mandatory financial statements, used in the preparation of the annual financial report, highlighting the **uses** of resources in non-current assets and in working capital and the related funding **sources**. For the definition of the indicators for the main items used in the Reclassified Statement of Financial Position, reference is made to that indicated in the "Alternative Performance Indicators" section below.

Both the reported values and the adjusted values are shown below. The adjusted values at 31 December 2021 do not include:

- the impact deriving from the application of IFRS 16 of increased net financial indebtedness of approximately EUR 125 million with a balancing entry in net invested capital amounting to approximately EUR 128 million;
- the impact related to the application of IFRS 5 on the hydroelectric scope.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(EUR million)	Reported		Adjusted	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Non-current assets	3,049	3,319	3,586	3,221
Net operating working capital	105	160	186	160
Employee benefits	(3)	(4)	(4)	(4)
Other assets	541	350	587	351
Other liabilities	(596)	(481)	(715)	(481)
Net invested capital continuing operations	3,097	3,343	3,640	3,247
Net invested capital assets held for sale	683	0		
Net invested capital	3,780	3,343	3,640	3,247
Equity attributable to the owners of the parent	2,449	2,567	2,437	2,569
Non-controlling interests	10	10	10	10
Net financial indebtedness	1,391	767	1,194	668
Current net financial indebtedness	(69)	0	0	0
Equity and financial debt	3,780	3,343	3,640	3,247

1 - Non-current assets

(EUR million)	Intangible assets	Property, plant and equipment	Financial assets	Total
Non-current assets at 31/12/2020	1,020	2,247	51	3,319
Capital expenditure	2	254	0	257
Change in the consolidation scope	144	249	2	396
Divestments and other changes	(5)	21	(9)	8
Amortisation/Depreciation	(66)	(207)	0	(273)
IFRS 16	0	27	0	27
IFRS 5 Reclassification	(129)	(555)	(0)	(684)
Non-current assets at 31/12/2021	967	2,038	45	3,049
Adjustment for impact of IFRS 5	120	542	0	662
Adjustment for impact of IFRS 16	0	(125)	0	(125)
Adjusted non-current assets at 31/12/2021	1,087	2,454	45	3,586

The "Change in the scope of consolidation" refers to the acquisition of:

- wind and solar farms in France, consolidated on a line-by-line basis in the second half of 2021;
- the acquisition of a project for the development of a wind farm in Sweden;
- wind and solar farms in France and Germany, consolidated on a line-by-line basis in the fourth quarter of 2021.

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

2 - Net operating working capital

This item includes spare parts, amounts due for incentives, amounts due for the sale of electricity, and trade payables mainly concerning the purchase of electricity and gas, the maintenance of wind power plants and other trade payables. The change in the period is mainly linked to the increase in the sale price of energy in the second half of 2021.

3 - Other assets

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

The change in the period is tied mainly to the positive effect of the fair value of derivatives hedging gas due to the trend in commodity prices, to the related change in deferred tax assets and to the higher VAT receivables linked to the investments in installations under construction abroad.

4 - Other liabilities

These concern mainly the negative effect of the fair value of derivatives hedging electricity due to the trend in commodity prices, to the deferred tax liabilities calculated on the differences between carrying amounts and the related tax basis (mainly concessions and non-current assets), the estimate of income taxes due for the period, and the provisions for risks and charges.

5 - Non-controlling interests

Non-controlling interests relate to the non-controlling interest (78.5%) in Andromeda PV S.r.l., acquired in 2019.

6 - Net financial indebtedness

Adjusted indebtedness does not include the financial payable related to the application of IFRS 16 of approximately EUR 129 million (EUR 101 million at 31 December 2020).

ERG POWER GENERATION GROUP – SUMMARY OF INDEBTEDNESS

(EUR million)	Reported		Adjusted	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Non-current financial indebtedness	349,5	739,3	227,3	648,4
Current financial indebtedness	972,0	27,9	966,4	20,0
Total	1,321,5	767,2	1,193,8	668,4

The following table illustrates the **non-current financial indebtedness** of the ERG Group:

NON-CURRENT FINANCIAL INDEBTEDNESS

(EUR million)	31/12/2021	31/12/2020
Non-current bank loans and borrowings	-	-
Current portion of bank loans and borrowings	-	-
Non-current financial liabilities	17,0	279,1
Total	17,0	279,1
Non-current Project Financing	237,2	417,1
Current portion of Project Financing	(26,8)	(47,9)
Non-current Project Financing	210,4	369,2
IFRS 16 financial liabilities (non-current)	122,1	90,9
Reported non-current financial indebtedness	349,5	739,3
Adjustment IFRS 16	(122,1)	(90,9)
Adjusted non-current financial indebtedness	227,3	648,4

- **“Non-current financial liabilities”**, amounting to EUR 17 million, refer mainly to:
 - liabilities relating to deferred components of considerations for the purchase of assets and authorisations (EUR 14 million);
 - net liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 3 million.
- The payables for **“Project Financing”** of EUR 237 million at 31 December 2021 relate to:
 - EUR 108 million in loans relating to the company acquired by Soles Montalto in 2019;
 - EUR 136 million in loans disbursed for the construction of wind farms, recognised for a total net of ancillary costs, recorded for accounting purposes with the amortised cost method (EUR 3 million) and the effect of the renegotiation of loans (EUR 3 million) following the application of IFRS 9.

The breakdown of current net financial indebtedness is shown below:

CURRENT FINANCIAL INDEBTEDNESS (AND CASH AND CASH EQUIVALENTS)

(EUR million)	31/12/2021	31/12/2020
Current bank loans and borrowings	0,2	0,2
Current portion of bank loans and borrowings	-	-
Other current financial liabilities	1,269,4	105,3
Current financial liabilities	1,269,6	105,5
Cash and cash equivalents	(167,4)	(52,5)
Securities and other current financial assets	(128,0)	(16,2)
Current financial assets	(295,4)	(68,7)
Current Project Financing	26,8	47,9
Cash and cash equivalents	(34,6)	(64,7)
Project Financing	(7,8)	(16,8)
IFRS 16 financial liabilities (current)	5,6	7,9
IFRS 5	69,1	
Current financial indebtedness (and cash and cash equivalents)	1,041,1	27,9
Adjustment IFRS 16	(5,6)	(7,9)
IFRS 5	(69,1)	
Adjusted current financial indebtedness	966,4	20,0

Other current borrowings mainly include the liabilities relating to a loan to the parent company ERG S.p.A. The significant increase in these disbursements was used to manage the impact on liquidity of the daily settlement of the fair value change in commodity future hedging instruments.

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

Cash flows

The statement of cash flows is presented based on **adjusted** values (including flows generated by ERG Hydro S.r.l. now ENELHydro Appennino Centrale S.r.l.) because they are more representative of the cash flows of the year.

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

(EUR million)	Year	
	2021	2020
Adjusted IAS EBITDA	596	520
Change in working capital	(55)	44
Cash flows from operations	541	564
Capital expenditure on property, plant and equipment and intangible assets	(257)	(66)
Asset acquisitions and business combinations	(389)	(364)
Capital expenditure on non-current financial assets	(0)	-
Divestments and other changes	(3)	2
Cash flows from investments/divestments	(649)	(428)
Adjusted financial income (expense)	(21)	(55)
Financial expense for closing loans	(15)	(43)
Net gains (losses) on equity investments	0	0
Cash flows from financing activities	(35)	(99)
Cash flows from tax management	(26)	(41)
Distribution of dividends	(52)	(36)
Other changes in equity	(304)	2
Cash flows from Equity	(356)	(34)
Opening net financial indebtedness	668	1,146
<i>Net change</i>	<i>525</i>	<i>37</i>
Closing net financial indebtedness	1,194	1,184

Cash Flows from operations in 2021 are positive by EUR 541 million, down by EUR 23 million compared to the corresponding period of 2020, mainly due to the operating performance and the changes in working capital.

Cash Flows from investments in 2021 are tied mainly to the M&A activity and in particular to the acquisition of operational wind farms and solar installations in France and Germany (EUR 348 million) and a project for the construction of a wind farm in Sweden (EUR 41 million), and to the capital expenditure in the period (EUR 258 million) for the development of wind farms in the United Kingdom, Poland, France and Sweden, as well as developments on the Repowering and Reblading projects.

Cash Flows from financing activities refer to the interest accrued in the year and to the financial expense within the scope of the Liability Management activities. It should be noted that in the second half of 2021 some Project Financing was repaid in advance, incurring early termination charges of approximately EUR 15 million.

Cash flows from Equity refer to the changes in the hedging reserve tied to derivative financial instruments, the translation reserve and the dividends distributed.

ALTERNATIVE PERFORMANCE INDICATORS

Definitions

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

Some of the Alternative Performance Indicators (APIs) used in this document are different from the financial indicators expressly provided for by the IAS/IFRS adopted by the Group.

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

Finally, in order to facilitate an understanding of the business segments' performance, the operating results are shown with the exclusion of significant special income components of an extraordinary nature (special items): these results are indicated with the term "Adjusted results".

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

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

- **Adjusted revenue⁸** is revenue, as indicated in the Financial Statements, with the exclusion of significant special income components of an exceptional nature (special items);
- **Gross operating profit (EBITDA)** is an indicator of operating performance calculated by adding "Amortisation, depreciation and impairment losses" to the Net Operating Profit. Gross operating profit (EBITDA) is explicitly indicated as a subtotal in the Financial Statements;
- **Adjusted EBITDA** is the gross operating margin, as defined above, with the exclusion of significant special income statement components of an extraordinary nature (special items) and with the reclassification of the impact tied to the application of IFRS 16;

⁸ Moreover, the adjusted results do not reflect the effects of the application of IFRS 5 to the hydroelectric assets being sold.

- **Adjusted EBIT** is the net operating profit, explicitly indicated as a subtotal in the Financial Statements, with the exclusion of significant special income statement components of an extraordinary nature (special items) and with the reclassification of the impact tied to the application of IFRS 16;
- **EBITDA margin** is an indicator of the operating performance calculated by comparing the adjusted EBITDA to the Revenue from sales and services of each individual business segment;
- The **adjusted tax rate** is calculated by comparing the adjusted values of taxes and pre-tax profit;
- **Adjusted profit attributable to the owners of the parent** is the profit attributable to the owners of the parent, with the exclusion of significant special income statement components of an extraordinary nature (special items), and with the reclassification of the impact tied to the application of IFRS 16, net of the related tax effects;
- **Investments** are the sum of Investments in property, plant and equipment and intangible assets;
- **Net operating working capital** is the sum of Inventories, Trade Receivables and Trade Payables;
- **Net invested capital** is the sum of Non-current assets, Net operating working capital, Liabilities related to Post-employment benefits, Other assets and Other liabilities;
- **Adjusted net invested capital** is Net invested capital, as defined above, with the exclusion of the impact relative to the application of IFRS 16 mainly linked to the increase in right-of-use assets;
- **Net financial indebtedness** is an indicator of the financial structure and is determined in accordance with ESMA Guidelines 32-382-1138 (Guidelines on Prospectus disclosures) and CONSOB Warning Notice no. 5/2021, including the portion of non-current assets relative to derivative financial instruments.
- **Adjusted net financial indebtedness** is the net financial indebtedness, as defined above, net of the liability linked to the discounting of future lease payments, following the application of IFRS 16.
- **Financial leverage** is calculated by comparing the adjusted net financial indebtedness (including Project Financing) to the adjusted net invested capital.
- **Special items** include significant special income components of an exceptional nature. These include:
 - income and expense connected to events whose occurrence is non-recurring, i.e. those transactions or events that do not frequently re-occur over the normal course of business;
 - income and expense related to events that are not typical of normal business activities, such as restructuring and environmental costs;
 - capital gains and losses linked to the disposal of assets;
 - significant impairment losses recognised on assets following impairment tests;
 - income and the associated reversals recognised in application of IFRS 9, in relation to the restructuring of loans in place.

IFRS 16

The Group, as lessee, has recognised new liabilities for leases and higher right-of-use assets related mainly to the Wind business and to the relative use of land, warehouses, buildings, equipment, substations and machine inventory. The application of the standard has changed the presentation in the income statement of costs for operating leases: these costs are now recognised as depreciation of the right-of-use assets and as financial expense correlated to the liability linked to the discounting of future lease payments.

Previously, the Group recognised costs for operating leases on a straight-line basis over the lease term, essentially when the relative lease payments were made.

The application of IFRS 16 in 2021 therefore led to:

- an improvement in gross operating profit (EBITDA) in respect of the lease payments that fall within the scope of IFRS 16, of approximately EUR 9 million;
- an increase (approximately EUR 125 million) in the net financial indebtedness and the net invested capital (approximately EUR 128 million) in relation to the application of the equity method indicated by the standard;
- greater depreciation and amortisation (EUR 6 million) and greater financial expense (EUR 4 million) linked to the application of the above-mentioned method.

Based on the above, and given the typical nature of the item, in order to best present the business profitability, it has been deemed opportune to recognise, in the adjusted Income Statement, the amortisation of the right-of-use assets during the period and the financial expense on the IFRS 16 liability within the adjusted EBITDA, by way of a reasonable estimate of the lease costs in accordance with the financial expression (periodic instalment) of the same. Similarly, the adjusted net financial indebtedness and the adjusted net invested capital are presented net of the liability linked to the discounting of future lease payments.

ERG Hydro Asset Rotation

In the first half of 2021, the ERG Group implemented an evaluation process relating to the opportunity for a potential asset rotation of the hydroelectric plants to aid in further accelerating the growth and development of its business model.

Following the close of the first half of 2021, bids from interested operators were received in early July 2021.

Having examined the market assessments, the Group therefore decided, starting from 20 July, to launch a programme for the potential disposal of the hydroelectric plants, entrusting its management with the initiation of negotiations and the related analyses for the potential disposal of the aforementioned assets.

On 2 August 2021, ERG concluded this programme, signing an agreement with Enel Produzione S.p.A. for the sale of the entire capital of ERG Hydro S.r.l. The transaction was concluded on 3 January 2022 and the consideration totalled approximately EUR 1,265 billion, including the mark-to-market valuation of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Hydro S.r.l. plants.

The scope of the transaction includes the portfolio of assets owned by ERG Hydro S.r.l., which consists of an integrated system for the generation of hydroelectric energy that extends across Umbria, Lazio and Marche. It consists of

19 hydroelectric plants, 7 mini-hydro plants, 7 dams, 4 water basins (corresponding to Salto, Turano, Corbara and Piediluco) and a pumping station, for an effective capacity of 527 MW. The operation of the hydroelectric complex is ensured by 114 people, included within the scope, including technicians highly specialised in the operational management of the plants, energy management specialists and dedicated staff.

In consideration of the above, for the purposes of the application of the IFRS 5 provisions, the Net Assets and the results relating to the hydroelectric scope described above were recorded under assets/liabilities held for sale in the reported financial statements at 31 December 2021.

For greater disclosure, note that the results of the assets being sold as part of ordinary operations are shown and commented in the adjusted values of this Report.

Furthermore, it should be noted that in application of IFRS 5, the depreciation of hydroelectric assets was calculated up to the IFRS 5 classification date (beginning of July 2021, corresponding to the date on which Group management was entrusted with the start of negotiations for the asset disposal): for the purposes of the adjusted results, the full contribution of depreciation in 2021 was instead taken into consideration.

ERG Power Asset Rotation

In the first half of 2021, the ERG Group implemented an evaluation process relating to the opportunity for a potential asset rotation of the thermoelectric plants to aid in further accelerating the growth and development of its business model.

Following the close of the first half of 2021, bids from interested operators were received in early July 2021.

The Group, having read the market indications, continued the process of assessing the potential sale of the thermoelectric plant which, at 31 December 2021 (Reporting Date of this Report), was still being finalised. Furthermore, at the Reporting Date, the thermoelectric plant was not yet available for immediate sale in its current condition.

During 2022, following the in-depth analysis carried out, Group management began negotiations for the sale of the thermoelectric plant, signing an agreement on 9 February 2022 with Enel Produzione S.p.A. for the sale of the entire capital of ERG Power S.r.l. The consideration in terms of Enterprise Value, at 31 December 2021, is EUR 188 million and will be subject to a price adjustment at the closing. This will include, among other things, a monthly décalage mechanism consistent with the expected cash flows of the business plan. It will also include the mark-to-market valuation at the closing of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Power's plants.

Subject, among other things, to the approval of the relevant antitrust authorities and the successful completion of the Golden Power procedure at the Italian Presidency of the Council of Ministers, the deal should be closed within the third quarter of 2022.

In consideration of the above and in application of the provisions of paragraph 12 of IFRS 5, in this Report none of the relative Net Assets were classified as assets/liabilities held for sale at 31 December 2021.

Reconciliation with adjusted operating results

GROSS OPERATING PROFIT (EBITDA)

(EUR million)	12 months	
	2021	2020
EBITDA from continuing operations	452	419
Contribution from discontinued operation	152	67
IAS Reported EBITDA	604	487
Special items exclusion		
Thermoelectric - Hydroelectric		
- Reversal of ancillary charges on non-recurring transactions (Special Projects)	1	0
- IFRS 16 reclassification	2	(1)
- Reversal of allocation to provision for Local Entities	3	16
Wind		
- Reversal of ancillary charges on non-recurring transactions (Special Projects)	1	0
- IFRS 16 reclassification	2	(8)
- Reversal of allocation to provision for Local Entities	3	1
Solar		
- IFRS 16 reclassification	2	(0)
- Reversal of allocation to provision for Local Entities		0
Adjusted EBITDA	596	495

AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

(EUR million)	12 months	
	2021	2020
Depreciation continuing operations	(257)	(250)
Contribution Assets held for sale	(22)	(57)
Amortisation, depreciation and impairment losses	(279)	(308)
Special items exclusion:		
- IFRS 5 adjustment on ERG Hydro amortisation	4	(22)
- Adjustment for impact of IFRS 16	2	6
- Reversal of write-down Repowering Wind Italy	5	0
- Reversal of write-down Tangible Impairment Test	6	9
Adjusted depreciation and amortisation	(270)	(292)

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

(EUR million)	12 months	
	2021	2020
Profit attributable to owners of the parent	209	143
Special items exclusion		
Exclusion of IFRS 5 adjustment on ERG Hydro amortisation	(16)	1
Exclusion of IFRS 16 impact	2	26
Exclusion of ancillary charges on loan prepayments	7	0
Exclusion of ancillary charges on non-recurring transactions	1	0
Exclusion of expenses related to allocations to tax-related provisions	4	0
Exclusion balance IRAP 2019 - Decreto Rilancio	8	(1)
Exclusion of expenses related to allocations to Local Entities provisions	3	14
Exclusion of write-down Repowering Wind Italy		0
Exclusion of expenses related to disposed businesses	10	(0)
Exclusion of deferred taxes on goodwill exemption Solar and revaluation Hydro plants	9	(57)
Exclusion of expenses related to write-down I-Test	6	7
Exclusion of impact gain on refinancing IFRS 9	11	(0)
Adjusted profit attributable to owners of the parent	228	132

1. Ancillary charges relating to other non-recurring transactions and the acquisitions in 2021 relating to operational wind farms and solar installations in France and Germany, the acquisition of a project for the development of a wind farm in Sweden, as well as the unsuccessful acquisitions.
2. Reclassification for impact of IFRS 16. Reference is made to the comments made in the previous paragraph.
3. Allocations to provisions for risks vis-à-vis institutional counterparties in respect of charges related to fees to be paid to Local Entities for public concessions.
4. Exclusion of the amortisation adjustment of ERG Hydro, in application of IFRS 5 following the classification as an Asset held for sale.
5. Write-down of the net residual value of the property, plant and equipment and intangible assets of wind farms in the Italian portfolio, following the authorisation of four Repowering projects obtained during the year.
6. Write-down of the CCGT plant in Sicily following the 2021 Financial Statements Impairment Test procedure. Write-down of some wind farms in Germany following the 2020 Financial Statements Impairment Test procedure.
7. Financial expense related to the early closure of Corporate loans and project financing as part of Liability Management transactions.
8. Reversal of the IRAP benefit deriving from the Italian "Rilancio" Decree, which introduced the cancellation of the payment of the IRAP balance for the 2019 tax period.
9. Exclusion of the positive effect related to the release of deferred taxation on the revaluation of hydroelectric plants and the substitute tax on capital gains related to the Andromeda (Solar) Business Combination in 2019.
10. Provisions related to exceptional items on businesses disposed of by the Group.
11. The Group renegotiated a number of loans during the year. IFRS 9 does not allow for the deferment of the positive economic effects of the renegotiation of loans on the residual life of the liability: this resulted in a net expense of approximately EUR 2 million being accounted for in 2021. For the purposes of clearer disclosure of the cost of net financial indebtedness, it was considered appropriate to show in the adjusted income statement financial expense related to the debt service payment, deferring the recognition of benefits of the renegotiation over the remaining term of the liability and not recognising them all in one immediate entry at the time of the amendment. The adjustment commented herein relates primarily to the reversal of the aforementioned benefit net of the effects linked to the reversal of similar income relating to re-financing operations of previous years.

Below is the reconciliation between the Financial Statements and the adjusted statements shown and commented upon in this Report:

INCOME STATEMENT 2021

(EUR million)	Financial Statements	Reversal of IFRS 5 adjustment ERG Hydro	Reversal of IFRS 5 reclassifications ERG Hydro	Adjustment for impact of IFRS 16	Adjustment for impact of IFRS 9	Reversal of special items	Adjusted Income Statement
Revenue	1,038,3	-	193,5	-	-	-	1,231,9
Other income	7,1	-	2,6	-	-	-	9,7
Total revenue	1,045,4	-	196,1	-	-	-	1,241,5
Purchases and change in inventories	(392,8)	-	(1,9)	-	-	-	(394,7)
Services and other operating costs	(164,1)	-	(35,1)	(9,1)	-	1,6	(206,8)
Personnel expense	(36,4)	-	(7,6)	-	-	-	(44,0)
Gross operating profit (EBITDA)	452,1	-	151,5	(9,1)	-	1,6	596,0
Amortisation, depreciation and impairment of non-current assets	(257,3)	(21,9)	(21,9)	6,2	-	24,8	(270,0)
Operating profit (EBIT)	194,8	(21,9)	129,6	(2,9)	-	26,4	326,0
Net financial income (expense)	(41,0)	-	0,0	4,0	1,7	14,7	(20,7)
Net gains (losses) on equity investments	(0,1)	-	-	-	-	0,2	0,1
Profit before taxes	153,6	(21,9)	129,6	1,1	1,7	41,3	305,4
Income taxes	(36,0)	6,3	(37,1)	-	(0,4)	(8,5)	(75,6)
Net profit (loss) from continuing operations	117,6	(15,6)	92,5	1,1	1,3	32,8	229,8
Net profit (loss) from discontinued operations	92,5	-	(92,5)	-	-	-	-
Profit (loss) for the period	210,2	(15,6)	-	1,1	1,3	32,8	229,8
Non-controlling interests	(1,6)	-	-	-	-	-	(1,6)
Profit (loss) attributable to the owners of the parent	208,6	(15,6)	-	1,1	1,3	32,8	228,3

INCOME STATEMENT 2020

(EUR million)	Financial Statements	Adjustment for impact of IFRS 16	Adjustment for impact of IFRS 9	Reversal of special items	Adjusted Income Statement
Revenue	973,9	-	-	-	973,9
Other income	20,1	-	-	-	20,1
Total revenue	994,0	-	-	-	994,0
Purchases and change in inventories	(281,9)	-	-	-	(281,9)
Services and other operating costs	(184,5)	(9,2)	-	17,3	(176,4)
Personnel expense	(41,0)	-	-	-	(41,0)
Gross operating profit (EBITDA)	486,7	(9,2)	-	17,3	494,8
Amortisation, depreciation and impairment of non-current assets	(307,7)	6,5	-	9,3	(292,0)
Operating profit (EBIT)	178,9	(2,7)	-	26,6	202,8
Net financial income (expense)	(73,6)	3,8	(0,0)	33,3	(36,5)
Net gains (losses) on equity investments	0,5	-	-	(0,4)	0,1
Profit before taxes	105,8	1,1	(0,0)	59,5	166,3
Income taxes	38,4	-	0,0	(70,8)	(32,4)
Net profit (loss) from continuing operations	144,2	1,1	(0,0)	(11,4)	133,9
Net profit (loss) from discontinued operations	-	-	-	-	-
Profit (loss) for the period	144,2	1,1	(0,0)	(11,4)	133,9
Non-controlling interests	(1,7)	-	-	-	(1,7)
Profit (loss) attributable to the owners of the parent	142,6	1,1	(0,0)	(11,4)	132,3

ERG POWER GENERATION S.P.A. OPERATING RESULTS, FINANCIAL POSITION AND CASH FLOWS

The separate financial statements of ERG Power Generation S.p.A. for the year ended 31 December 2021 were drafted in accordance with the National Accounting Standards and with prevailing law governing the drafting of financial statements, interpreted and added to the accounting standards issued by the National Board of Chartered Accountants and the Italian Accounting Body, and take account of the revisions and updates of prevailing Italian accounting standards.

INCOME STATEMENT

RECLASSIFIED INCOME STATEMENT

(EUR thousand)	2021	2020
Revenue from sales and services	828,512	639,393
Increases in non-current assets for internal work	(4,849)	4,015
Other revenue and income	1,944	3,509
TOTAL REVENUE	825,607	646,917
Purchases	(850,818)	(402,138)
Change in inventories	291	799
Services and other operating costs	(188,477)	(181,964)
Personnel expense	(29,614)	(29,485)
GROSS OPERATING PROFIT (EBITDA)	(243,011)	34,129
Economic-technical amortisation, depreciation and impairment losses	(2,158)	(2,235)
OPERATING PROFIT (EBIT)	(245,169)	31,894
Net financial income (expense)	406,522	76,342
Value adjustments to financial assets and liabilities	19,739	598
PROFIT (LOSS) FROM ORDINARY OPERATIONS	181,093	108,834
Income taxes	61,356	(9,217)
PROFIT FOR THE YEAR	242,449	99,616

Revenue from sales and services

Revenue from sales and services, amounting to EUR 742.7 million, mainly comprise revenue from sales for EUR 567.5 thousand, for sales of electricity, steam, gas and other utilities, essentially to GME, ISAB S.r.l. and other customers in the Priolo industrial district. Revenue from sales includes, in addition to the sale of electricity generated by the CCGT plant owned by ERG Power S.r.l., that of the Italian wind farms, ERG Hydro S.r.l. and, as from 1 January 2019, also the solar companies (former Forvei).

Revenue from sales includes the negative impact of the hedging transactions carried out during the year.

Revenue increased compared to last year due to the scenario effect, even if the overall margin is negative mainly

due to the market context with generation margins strongly affected by the significant increase in the price of gas and CO₂, also due to the effect of hedges that ERG Power Generation has reflected in its financial statements for the management of hedges of its subsidiaries.

Revenue from services, equal to EUR 85.8 million, includes services rendered to subsidiaries for Operation & Maintenance and BoP, i.e., management and maintenance of the wind aerogenerators and substations.

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

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

Change in inventories of work in progress

The item "Inventories of contract work in progress" in 2021, in addition to the ordinary change in the period relating to engineering costs, purchases of blades and ancillary costs including internal personnel costs incurred for the Repowering & Reblading projects on the plants of some wind subsidiaries, has undergone a significant decrease compared to 2020 due to the completion of the reblading works of the Monteverde and Lacedonia wind farm relating to the subsidiary ERG Wind Energy S.r.l., subsequent to which ERG Power Generation S.p.A. invoiced the costs relating to engineering, purchases of blades and other ancillary costs including internal personnel costs, to the subsidiary. It should be noted that on 14 April 2021, ERG Wind Energy S.r.l. obtained the Single Authorisations as part of the Repowering project for the wind farms of Mineo - Militello - Vizzini and Monreale/Partinico, located in the Sicily region, for a total capacity of 143 MW; once the terms of any appeal of the Single Authorisation against third parties had expired, ERG Power Generation S.p.A. re-charged the subsidiary for the charges incurred to date relating to the repowering of the wind farms in question.

Other revenue and income

"Other revenue from Group companies" essentially regard charge-backs to parent companies and subsidiaries for costs incurred and sale of spare parts.

The "Revenue other than the above" item includes mainly the positive effect of the closure of accounting items relating to previous years.

The item decreased compared to the previous year due to the termination of the contract with Jao for energy transmission capacity.

Purchases

Costs for purchases include mainly costs for the purchase of electricity, primarily from GME and from the subsidiaries, as well as purchases of gas, primarily from Edison and ENI for the CCGT plant owned by ERG Power S.r.l., and are up significantly compared to 2020 mainly as a result of the higher purchase price of gas and energy and the scenario effect.

Costs for purchases include the positive effect of the hedging transactions carried out during the year.

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

Services and other operating costs

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

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

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

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

Personnel expense

This item amounts to EUR 29.6 million and reflects the cost of Company personnel.

Amortisation, depreciation and impairment losses

Economic-technical amortisation of EUR 1.5 million was allocated during the year for intangible assets and EUR 0.7 million for property, plant and equipment.

Net financial income (expense)

This item includes mainly income from equity investments for dividends, for distributions of reserves from subsidiaries and for the decrease in the share capital of ERG Hydro S.r.l. reflected during 2021 for approximately EUR 395.5 million, and interest income from subsidiaries (for EUR 20.8 million).

This item also includes financial expense accrued on the loan taken out with the parent company ERG S.p.A. for approximately EUR 9.6 million and other minor expenses.

Value adjustments to financial assets

The net item includes mainly the fair value of derivative instruments open at 31 December 2021 and the changes in fair value of non-hedging instruments made during 2021.

The item includes EUR 19.9 million for the reversal of the impairment loss of the equity investment in ERG Hydro S.r.l. in consideration of the market value.

Income taxes

Taxes on the net profit for the year amounted to EUR 61.4 million.

STATEMENT OF FINANCIAL POSITION

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(EUR thousand)	31/12/2021	31/12/2020
Non-current assets	2,685,466	2,978,630
Net operating working capital	939,092	40,988
Post-employment benefits	(2,608)	(2,728)
Other assets	383,891	80,476
Other liabilities	(215,507)	(34,066)
NET INVESTED CAPITAL	3,790,335	3,063,301
Equity	2,267,746	2,359,694
Non-current financial indebtedness	(0)	257,405
Current financial indebtedness	1,522,589	446,202
EQUITY AND FINANCIAL DEBT	3,790,335	3,063,301

The net invested capital amounted to EUR 3,790 million at 31 December 2021.

Non-current assets

Non-current assets primarily comprise financial assets, which include the shareholdings held in the fully-owned subsidiary ERG Power S.r.l., and the investments relating to the renewable and solar companies. This item also includes non-current financial receivables due from Subsidiaries.

The item also includes receivables from ECC (European Commodity Clearing), relating to the margin deposit (Futures) for an amount of approximately EUR 98 million; the item has increased significantly compared to 2020 in view of the significant increase in the fair value of the financial instruments in question due to price.

In consideration of the finalisation of the agreement for the sale of the entire share capital of ERG Hydro S.r.l. to ENEL Produzione, which took place on 3 January 2022 following the preliminary agreement finalised on 2 August 2021, and for clearer disclosure, it was deemed appropriate to classify the investment in question in Current Assets in the Financial Statements of ERG Power Generation S.p.A. It should also be noted that in consideration of the aforementioned agreement, and the market value of the investment being higher than the original carrying amount, the reversal of the impairment loss of the investment was recognised for EUR 19,916 thousand, in view of the fact that the reasons for the write-down made in 2019 no longer exist.

On 9 February 2022, ERG Power Generation S.p.A. signed an agreement with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Power S.r.l., which owns the low-environmental-impact and high-efficiency Combined Cycle Gas Turbine (CCGT) cogeneration plant powered by natural gas located at Priolo Gargallo.

Net operating working capital

Net operating working capital consists mainly of trade receivables and payables from and to group companies and third parties and of spare parts inventories. The equity investment of ERG Hydro S.r.l. is shown in current assets as a result of the above.

Other assets

These consist mainly of tax assets and amounts due from group companies. The item includes receivables for FV derivatives, deferred tax assets, prepaid expense for emission trading, prepaid expense and other assets paid as advances for the purpose of potential development of wind farms abroad.

The item increased significantly compared to 2020 mainly due to the increase in the fair value of derivative assets (particularly swaps), the increase in prepaid taxes, the increase in receivables from ERG S.p.A. for the sale of IRES as part of the tax consolidation.

Other liabilities

These mainly comprise short-term tax liabilities, amounts due to Group companies and other liabilities. This item includes also other provisions for risks and charges and provisions related to the negative effects of mainly commodity hedging derivatives.

The item increased significantly compared to 2020 mainly due to the increase in the FV of derivatives liabilities (particularly Contracts for Difference and physical non-hedging instruments).

FINANCIAL INDEBTEDNESS

(EUR thousand)	31/12/2021	31/12/2020
Current bank loans and borrowings	-	-
Financial payables due to Group companies	1,553,684	700,207
Financial payables due to third parties within 12 months	2,424	14,353
Current financial liabilities	1,556,108	714,560
Cash and cash equivalents	(5,906)	(3,505)
Financial receivables from Group companies	(4,687)	(5,852)
Other current financial receivables	(22,927)	(1,597)
Current financial assets	(33,520)	(10,954)
Total	1,522,589	703,606

Net financial indebtedness mainly comprises:

- other financial payables to Group companies, which include the financial payable to ERG S.p.A. for EUR 1,270.1 million and financial payables to subsidiaries for EUR 283.6 million. The item increased significantly compared to 2020 due to the increase in the payable to ERG S.p.A. mainly generated by higher cash requirements due to the early repayment of some project financing of subsidiaries within the scope of the liability management activities carried out by the ERG group, to the ERG group's growth transactions and to the daily settlement of the fair value differentials and payments by way of margin deposit to guarantee futures transactions, considering the increase in prices that characterised the current year;

- loans and borrowings due to third parties primarily include the payable for the acquisition of the equity investment in Laszki for EUR 0.6 million and other minor items;
- financial receivables due from Group companies, which include receivables for cash advances to subsidiaries;
- other current financial receivables, which mainly comprise the fair value of contracts stipulated (futures) for approximately EUR 21 million and other minor items.

MANAGEMENT NOTES ON THE MAIN NON-CONSOLIDATED SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

In addition, it is pointed out that the Group holds equity investments in non-operating subsidiaries, listed below:

- Parc Eolien de Saint-Loup sur Cher S.a.r.l.;
- Parc Eolien du Puits Gergil S.a.r.l.;
- Parc Eolien du Plateau de la Perche S.a.r.l.;
- Parc Eolien des Boules S.a.r.l.
- Parc Eolien de la Foye S.a.s.;
- Ferme Eolienne de la voie Sacree sud S.a.s.;
- Parc Eolien Des Grandes Bornes S.a.s.;
- Parc Eolien Des Jonquilles S.a.s.;
- Parc Eolien De La Plaine De Burel;
- Parc Eolien De Saint Priest En Murat;
- Parc Eolien Des Vents Communaux;
- ERG Germany Verwaltungs GmbH;
- ERG Windpark Aukrug GmbH & Co. KG;
- ERG Windpark Bischhausen & Co. KG;
- ERG Windpark Bokel GmbH & Co. KG;
- ERG Windpark Heyen GmbH & Co. KG;
- Rigghill Wind Farm Limited (jointly controlled company);
- Creggan Wind Farm Limited as a “dormant” company;
- Longburn WindFarm Ltd. as a “dormant” company.

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

With reference to the provisions of Article 2497-ter of the Italian Civil Code, we report below the decisions taken by the administrative body of **ERG Power Generation S.p.A.** subject to management and coordination by ERG S.p.A. - within the remit of Corporate Affairs - which must be included in the financial statements at 31 December 2021 of the aforementioned company:

- Board of Directors' meeting of 25 February 2021:
 - agenda item 1. Reorganisation of the ERG Wind companies; inherent and consequent resolutions
- Board of Directors' meeting of 22 April 2021:
 - agenda item 1. New transaction in the renewable energy sector in Sweden; inherent and consequent resolutions
 - agenda item 2. Framework Agreement for the development of new projects in the renewable energy sector in Spain; inherent and consequent resolutions
 - agenda item 3. Exercise of the option to purchase a project in the UK
 - agenda item 4. Sending of Notice to Proceed under the WTG Framework Agreement in relation to a project in France; inherent and consequent resolutions
 - agenda item 5. Establishment of new companies in Germany
- Board of Directors' meeting of 11 May 2021:
 - agenda item 3. Quarterly forecast for the annual investments budget
 - agenda item 4. Remuneration of the Chairman and Chief Executive Officer
 - agenda item 5. Multi-year electricity supply contract with Telenergia S.r.l. (Tim Group); inherent and consequent resolutions
 - agenda item 6. New transaction in the renewable energy sector; inherent and consequent resolutions
- Board of Directors' meeting of 29 July 2021:
 - agenda item 3. Agreement for the supply of utilities between ERG Power Generation S.p.A. and ISAB S.r.l.; inherent and consequent resolutions
 - agenda item 4. Extraordinary transaction in Italy; inherent and consequent resolutions
 - agenda item 5. Repowering of some wind farms in Italy; inherent and consequent resolutions
 - agenda item 6. Quarterly forecast for the annual investments budget
 - agenda item 7. Intragroup corporate transactions; inherent and consequent resolutions

- Board of Directors' meeting of 6 August 2021:
 - agenda item 1. New transaction in the renewable energy sector in France and Germany; inherent and consequent resolutions

- Board of Directors' meeting of 16 September 2021:
 - agenda item 1. Early repayment of some project financings pertaining to ERG Group companies; inherent and consequent resolutions
 - agenda item 2. Incorporation of new companies in Germany

- Board of Directors' meeting of 10 November 2021:
 - agenda item 3. Quarterly forecast for the annual investments budget
 - agenda item 4. Loan agreement with ERG S.p.A.; inherent and consequent resolutions
 - agenda item 5. Early repayment of some project financing pertaining to ERG Group companies; inherent and consequent resolutions
 - agenda item 6. Transaction on the share capital of Corni Eolian SA; inherent and consequent resolutions
 - agenda item 7. Amendment of the framework agreement for the development of new projects in the renewable energy sector in Spain; inherent and consequent resolutions
 - agenda item 8. Extraordinary transaction in Italy; any inherent and consequent resolutions

- Board of Directors' meeting of 2 December 2021:
 - agenda item 1. Extraordinary transaction in the renewable energy sector in Spain; any inherent and consequent resolutions
 - agenda item 2. Developments on the extraordinary transaction in Italy; any inherent and consequent resolutions

- Board of Directors' meeting of 14 December 2021:
 - agenda item 1. Development projects of some wind farms in Italy; inherent and consequent resolutions
 - agenda item 2. New transaction in the renewable energy sector in Italy; inherent and consequent resolutions
 - agenda item 3. Investments budget for 2022
 - agenda item 4. Establishment of new company in France; inherent and consequent resolutions
 - agenda item 5. Calendar of meetings of corporate bodies for 2022

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Date	Sector	Significant event	Press release
3 January 2022	Hydroelectric	ERG, through its subsidiary ERG Power Generation S.p.A., has completed an agreement with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Hydro S.r.l. The consideration totals approximately EUR 1.265 billion, including the mark-to-market valuation of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Hydro S.r.l. plants.	Press release of 03/01/2022
26 January 2022	Corporate	ERG entered Bloomberg's Gender Equality Index (GEI), which includes more than 400 companies in 45 countries worldwide – measures companies' commitment to supporting gender equality by promoting a more inclusive environment, ensuring the transparent and comprehensive representation of information. Bloomberg has acknowledged the effectiveness of ERG's initiatives to promote gender equality among its staff in all countries, through clear guidelines in recruitment processes, development plans in line with best practices, equal pay, inclusive culture and maximum clarity and quality in data reporting.	Press release of 26/01/2022
31 January 2022	Wind	ERG has been awarded a tariff for 20 years on 97.2 MW of new wind capacity as part of the seventh auction called by GSE (Gestore dei Servizi Elettrici). These are, in particular, the repowering project in Camporeale (50.4 MW) and the greenfield project in Roccapalumba (46.8 MW), both located in Sicily, for which ERG obtained the Single Authorisations, respectively, on 22 September and 4 October 2021.	Press release of 31/01/2022
31 January 2022	Solar	ERG has acquired from GEI Subasta 1 SA 100% of the capital of two Spanish project companies owning two operational solar plants located in southern Spain in the regions of Castilla de la Mancha and Andalusia, of 50.0 MW and 41.6 MW respectively.	Press release of 31/01/2022

9 February 2022	Thermoelectric	<p>ERG, through its subsidiary ERG Power Generation S.p.A., has signed an agreement with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Power S.r.l., which owns the low-environmental-impact and high-efficiency Combined Cycle Gas Turbine (CCGT) cogeneration plant powered by natural gas located at Priolo Gargallo, in the province of Syracuse. With an installed capacity of 480 MW, the average annual production is around 2.4 TWh.</p> <p>The consideration in terms of Enterprise Value, at 31 December 2021, is equal to EUR 188 million and will be subject to price adjustment at closing. The transaction is expected to be concluded in the third quarter of 2022.</p>	Press release of 09/02/2022
10 February 2022	Corporate	<p>ERG has entered the CDP (Carbon Disclosure Project) "Suppliers Engagement Leaderboard", which brings together the best-performing companies globally in the creation of a sustainable supply chain. Amongst more than 13,000 companies assessed in 2021, ERG is among the 8% of companies who have received an 'A' rating, the highest on the scale created based on CDP's 'Climate Change' questionnaire.</p>	Press release of 10/02/2022
23 February 2022	Corporate	<p>ERG enters the storage market with two projects for a total of 22 MW of installed capacity in the Centre-South and Sicily. The two projects are currently in the authorisation phase and the construction is planned near two ERG wind farms in operation in Ginestra degli Schiavoni in Campania and in Vicari in Sicily.</p>	Press release of 23/02/2022

As already discussed in the "Significant regulatory updates" section, in early 2022 urgent measures were introduced to contain the effects of price increases in the electricity sector. ARERA is still in the process of issuing its procedures for the implementation of these measures, on the basis of which it will be possible to more clearly establish the impacts for the Group.

Finally, it is noted that in view of the war that broke in Ukraine at the end of February 2022, management is monitoring any critical issues and impacts that the conflict could have on the ERG Group, in particular with reference to credit risk, security and business continuity.

The geopolitical tensions are significantly impacting the financial and commodities markets, with a sharp increase in gas and electricity prices, in respect of which further regulatory measures in the energy sector cannot be ruled out.

BUSINESS OUTLOOK

In a context of high market prices due to the energy crisis and high natural gas prices, it should be noted that ERG, in line with the best practices in the sector and its consolidated risk policy which reflects a non-speculative approach to business, has in recent years made forward sales, mainly through long-term supply contracts at fixed prices (so-called PPAs) and forward contracts also through derivative financial instruments, at prices considerably lower than current prices. These hedges, carried out with a portfolio approach by the Group's Energy Management through ERG Power Generation S.p.A., are then allocated by agreement to the various project companies, which own the Production Units (PUs).

The hedge allocation criterion follows a cascade mechanism which, with the idea of mitigating the associated risks, has the following order of priority:

- 1) electricity produced by PUs that do not have an incentive mechanism and are therefore fully exposed to the risk of market price volatility;
- 2) electricity produced by PUs that are subject to "Feed in Premium" tariffs, or mechanisms that provide for an incentive that is added to the market price;
- 3) any residual hedges are finally attributed to the quantities of electricity subject to for-difference incentive mechanisms, such as the former green certificate incentive tariffs (GRIN).

However, no hedges are envisaged for production subject to two-way for-difference incentive mechanisms.

In line with changes to the group's business model, starting from 2022 the economic and financial results will be represented by geographical area.

The expected outlook for the main operating and performance indicators in 2022 is as follows:

Italy

Wind: gross operating profit (EBITDA) is expected to decrease compared to 2021 as a result of the substantial decrease in the value of the incentive, determined by difference taking into account the average energy prices for the year 2021.

Solar: stable performance over time is confirmed and there will be continued benefit from certain synergies deriving from the optimisation of the Energy Management portfolio.

On the basis of the hedge allocation criteria referred to in the introduction and production estimates based on historical

averages, it is expected that a large majority of wind and solar production in Italy exposed in any way to market risk will be forward valued at an average price of approximately 65 EUR/MWh.

Wind & Solar Italy gross operating profit (EBITDA) for 2022 is expected to decrease compared to 2021.

Abroad

The **Wind Abroad** result is expected to increase in comparison to 2021 due to more favourable statistical wind forecasts compared to the particularly low forecasts for 2021, in a context of rising market prices in Europe. Furthermore, the results will benefit from the full contribution of the Wind and Solar farms acquired during 2021 as well as the two plants in Northern Ireland (70 MW) and one in France (7 MW) developed organically and entered into operation at the end of 2021. The results will also reflect the contribution of the new plants in France (20 MW), the UK (142 MW) and Poland (61 MW) which are expected to come into operation in 2022. **Solar Abroad**, in particular, will benefit from the contribution for the entire year of the plants consolidated in France (79 MW) between June and October 2021 and the new plants acquired in Spain (92 MW) in January 2022.

The result in **France** is expected to improve, not only due to more favourable wind forecasts compared to those in 2021, but mainly due to the contribution over the entire year of the wind farms (98 MW) and photovoltaic plants (79 MW) acquired between June and October 2021, and the commissioning of a wind farm at the end of 2021 (7 MW) and, in the course of 2022, of a wind farm currently under construction (20 MW).

The result in **Germany** is expected to improve mainly due to the effect of higher statistically estimated volumes than the particularly low volumes for 2021, in addition to the contribution for the entire year of the scope deriving from the wind farms acquired in October 2021 (55 MW).

The result in **Eastern Europe** was mainly influenced by the favourable price scenario and by the entry into operation of two wind farms in Poland (61 MW).

The plants in two new countries, the **United Kingdom** and **Spain**, will contribute to the 2022 results.

Gross operating profit (EBITDA) for Wind & Solar Abroad is therefore expected to increase significantly compared to 2021.

Total EBITDA for 2022 is forecast within a range of between **EUR 400 million** and **EUR 430 million**. The reference figure for 2021, assuming the same Wind & Solar scope, and net of the full allocation of the residual plant costs, is equal to EUR 399 million (EUR 580 million also including Hydro and CCGT).

Capital expenditure for 2022, forecast in the range between **EUR 420 million** and **EUR 480 million** (EUR 617 million in 2021 assuming the same Wind & Solar scope and EUR 648 million including Hydro and CCGT), includes the acquisition of two solar farms in Spain (92 MW) in January 2022, the repowering activities of the Italian farms and the development of greenfield investments through the construction of wind farms in the United Kingdom for approximately 142 MW, in Poland for 61 MW and in France for 20 MW, in addition to the usual capital expenditure for fleet maintenance.

Net financial indebtedness at the end of 2022 is expected to be in the range between **EUR 750 million** and **EUR 850 million** (EUR 2,051 million at the end of 2021), including the distribution of the ordinary dividend of EUR 0.9 per share. As regards the thermoelectric business, the sale of the assets is expected by the third quarter of 2022. For this reason, the relative results are not included in the continuing operations commented on above, and will be classified in the financial statements under discontinued operations.

Genoa, 11 March 2022

on behalf of the Board of Directors

The Chief Executive Officer

Renato Sturani

A handwritten signature in black ink, appearing to be 'R. Sturani', with a horizontal line extending to the right.



Consolidated Financial Statements

INCOME STATEMENT⁽¹⁾

(EUR thousand)	Notes	2021	2020
Revenue	1	1,038,346	856,246
Other income	2	7,084	16,951
Costs for the purchase of commodities	3	(379,680)	(268,362)
Other purchases	4	(13,133)	(13,169)
Services and other operating costs	5	(155,721)	(138,387)
Losses due to impairment of receivables		(8,420)	(438)
Personnel expense	6	(36,372)	(33,550)
GROSS OPERATING PROFIT (EBITDA)		452,103	419,292
Amortisation of intangible assets	21	(46,748)	(50,833)
Depreciation of property, plant and equipment	21	(185,081)	(191,443)
Reversals of impairment losses (impairment losses)	21	(25,516)	(8,092)
OPERATING PROFIT (EBIT)		194,759	168,924
Financial income	35	10,349	20,841
Financial expense	35	(51,395)	(94,439)
Net financial income (expense)		(41,046)	(73,599)
Net gains (losses) on equity-accounted investments	24	122	120
Other net gains (losses) on equity investments	24	(192)	376
Gains (losses) on equity investments		(70)	496
PROFIT (LOSS) BEFORE TAXES		153,643	95,821
Income taxes	39	(35,994)	(13,022)
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS		117,649	82,799
Net profit (loss) from assets held for sale		92,549	61,434
PROFIT FOR THE YEAR		210,198	144,233
Non-controlling interests		(1,553)	(1,655)
PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT		208,645	142,578

(1) The notes commenting on individual items are an integral part of these Consolidated Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME⁽¹⁾

(EUR thousand)	Notes	2021	2020
Profit for the year		210,198	144,234
Changes that will not be reclassified to profit or loss			
Actuarial change provisions for employee benefits		138	(132)
Related tax		(33)	32
	15	105	(100)
Changes that will be reclassified to profit or loss			
Changes in the hedging reserve		(368,408)	3,074
Related tax		88,418	(738)
	28	(279,990)	2,336
Changes in the translation reserve		5,230	(7,012)
Related tax		(993)	1,331
	28	4,237	(5,681)
Other comprehensive income (expense) net of the tax effect		(275,648)	(3,445)
Comprehensive income for the year		(65,450)	140,789
Non-controlling interests		1,553	1,655
Comprehensive income attributable to the owners of the parent		(67,003)	139,133

(1) The notes commenting on individual items are an integral part of these Consolidated Financial Statements.

STATEMENT OF FINANCIAL POSITION⁽¹⁾

(EUR thousand)	Notes	31/12/2021	31/12/2020
ASSETS			
Authorisations and Concessions	15	655,141	784,759
Other intangible assets	16	5,820	11,590
Goodwill	17	306,114	223,378
Property, plant and equipment	18	1,912,350	2,149,375
Right-of-use assets	19	125,356	98,068
Equity investments:		11,653	12,223
- carried at equity	23	11,232	11,874
- other equity investments	23	421	350
Other non-current financial assets	25	32,939	39,275
Deferred tax assets	41	147,291	47,883
Other non-current assets	11	54,088	49,095
Non-current assets		3,250,750	3,415,648
Inventories	8	32,300	49,380
Trade receivables	7	320,775	180,791
Other receivables and current assets	10	130,295	75,496
Current tax assets	40	14,672	15,443
Financial assets measured at fair value	31	146,037	14,259
Current financial assets	32	128,005	16,250
Cash and cash equivalents	30	132,774	117,147
Current assets		904,858	468,767
Assets held for sale	45	822,147	-
TOTAL ASSETS		4,977,754	3,884,416
Share capital	28	100,000	100,000
Other Reserves	28	1,870,583	2,093,585
Retained earnings/(Accumulated losses)	28	269,822	230,392
Profit for the year	28	208,645	142,578
Equity attributable to the owners of the parent		2,449,050	2,566,556
Non-controlling interests	29	9,639	9,669
Equity		2,458,689	2,576,225
LIABILITIES			
Employee benefits	14	3,261	4,213
Deferred tax liabilities	41	102,609	117,048
Provisions for dismantling expenses	20	60,908	48,119
Other non-current provisions	26	14,724	13,695
Financial liabilities measured at fair value	34	37,692	18,397
Non-current financial liabilities	32	224,018	629,972
Non-current lease liabilities	33	122,104	90,932
Other non-current liabilities	13	31,487	31,810
Non-current liabilities		596,802	954,187
Other current provisions	26	50,174	56,114
Trade payables	9	246,322	68,846
Financial liabilities measured at fair value	34	170,857	17,213
Current financial liabilities	32	1,299,154	143,887
Current lease liabilities	33	5,522	7,912
Other current liabilities	12	62,870	45,880
Current tax liabilities	40	17,649	14,154
Current liabilities		1,852,547	354,005
TOTAL LIABILITIES		2,449,349	1,308,192
Liabilities related to assets held for sale	45	69,716	-
TOTAL EQUITY AND LIABILITIES		4,977,754	3,884,416

(1) The notes commenting on individual items are an integral part of these Consolidated Financial Statements.

STATEMENT OF CASH FLOWS^{(1) (2)}

(EUR thousand)	2021	2020
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A):		
Profit for the year	210,198	142,578
Amortisation, depreciation and impairment of non-current assets	278,520	299,642
Increase in other provisions	19,077	18,283
Decrease in other provisions	(3,661)	(4,028)
Impairment of current assets	8,420	438
Gains (losses) on equity investments	70	(496)
Changes to post-employment benefits	(69)	(2)
Financial expense	41,046	73,578
Income taxes	73,048	(38,408)
Other changes in non-monetary items	(19,396)	(70)
	607,253	491,517
Change in other current assets and liabilities:		
Change in inventories	16,734	(5,915)
Change in trade receivables	(165,551)	13,187
Change in trade payables	117,725	(10,325)
- Net change in other receivables/payables and other assets/liabilities	30,229	7,147
Change in fair value of hedging derivatives on commodities with monetary expression	(321,038)	(35,527)
Tax payment	(65,168)	(35,700)
- Change in current tax assets	-	-
	(387,069)	(67,133)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A):	220,184	424,385
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES OF ASSETS HELD FOR SALE	(145,489)	-
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES OF CONTINUING OPERATIONS (A)	74,696	424,385
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B):		
Acquisitions of intangible assets and goodwill	(3,749)	(5,066)
Acquisitions of property, plant and equipment	(254,479)	(105,343)
Acquisitions of equity investments and other non-current financial assets	8,320	852
Net change in other increases/decreases in non-current assets	(15,796)	4,902
Disposals of intangible assets and goodwill	1,884	327
Disposals of property, plant and equipment and related gains/losses	2,362	1,635
Disposals of equity investments and other non-current financial assets	501	1,619
Net change in other current financial assets	(169,365)	(4,454)
Change in the Consolidation Scope due to business combination	(19,247)	(2,210)
Change in the Consolidation Scope due to acquisition of assets	(31,612)	(1,169)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B):	(481,181)	(108,907)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES OF ASSETS HELD FOR SALE	6,551	-
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES OF CONTINUING OPERATIONS (B)	(474,630)	(108,907)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C):		
Increase in non-current loans	-	-
Decrease in non-current loans	(306,848)	(343,325)
Net change in loans to Group companies not consolidated line by line	930,964	(166,522)
Net change in other current financial assets/liabilities	(183,077)	(88,065)
Net change in current bank loans and borrowings	-	-
Interest paid	(26,062)	(45,004)
Early closure of loans	(14,657)	(24,662)
ERG Power Generation share capital increase	-	350,000
Dividends paid to third parties	(51,584)	(48,516)
Decrease in lease liabilities	(3,047)	(5,139)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C):	345,689	(371,234)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES OF ASSETS HELD FOR SALE	69,872	-
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES OF CONTINUING OPERATIONS (B)	415,561	(371,234)
NET CASH FLOWS FOR THE YEAR (A+B+C)	15,627	(55,756)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	117,147	172,903
NET CASH FLOWS FOR THE YEAR	15,627	(55,756)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	132,774	117,147

(1) The notes commenting on individual items are an integral part of these Consolidated Financial Statements.

(2) The 2021 figures include the flows generated by the "Assets and liabilities held for sale". The flows generated by the "Assets and liabilities held for sale" are indicated separately for the financial flows deriving from Operating, Investing and Financing activities, respectively. The flows of "Continuing operations" are obtained by adding together the above items.

STATEMENT OF CHANGES IN EQUITY⁽¹⁾

(EUR thousand)	Share capital	Reserves	Profit (loss) for the year	Equity attributable to the owners of the parent	Non-controlling interests	Equity
BALANCE AT 31/12/2019	100,000	1,961,611	60,424	2,122,035	11,530	2,133,564
Allocation of 2019 profit	-	60,424	(60,424)	-	0	-
Share-based payments with equity-linked instruments	-	55	-	55	-	55
Transactions with Shareholders:						
Distribution of dividends	-	(45,000)	-	(45,000)	(3,516)	(48,516)
Acquisitions of companies with third parties	-	-	-	-	-	-
ERG Power Generation share capital increase	-	350,000	-	350,000	-	350,000
Other changes	-	333	-	333	-	333
Profit for 2019	-	-	142,578	142,578	1,655	144,234
Actuarial gains (losses)	-	(100)	-	(100)	-	(100)
Changes in the hedging reserve	-	2,336	-	2,336	-	2,336
Changes in the translation reserve	-	(5,681)	-	(5,681)	-	(5,681)
Comprehensive income (expense)	-	(3,445)	142,578	139,133	1,655	140,789
BALANCE AT 31/12/2020	100,000	2,323,978	142,578	2,566,556	9,669	2,576,225
Allocation of 2021 profit	-	142,578	(142,578)	-	-	-
Share-based payments with equity-linked instruments	-	-	-	-	-	-
Transactions with Shareholders:						
Distribution of dividends	-	(50,000)	-	(50,000)	(1,584)	(51,584)
Acquisitions of companies with third parties	-	-	-	-	-	-
Other changes	-	(498)	-	(498)	-	(498)
Profit for 2021	-	-	208,645	208,645	1,553	210,198
Actuarial gains (losses)	-	105	-	105	-	105
Changes in the hedging reserve	-	(279,990)	-	(279,990)	-	(279,990)
Changes in the translation reserve	-	4,237	-	4,237	-	4,237
Comprehensive income	-	(275,648)	208,645	(67,003)	1,553	(65,450)
BALANCE AT 31/12/2021	100,000	2,140,410	208,645	2,449,057	9,639	2,458,696

(1) The notes commenting on individual items are an integral part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. INTRODUCTION

ERG Power Generation S.p.A. is the entity that prepares the financial statements and has its registered office in via De Marini 1, Genoa (WTC Tower).

The 2021 Consolidated Financial Statements comprise the financial statements of ERG Power Generation S.p.A. and of its subsidiaries (together, "ERG Power Generation" or "the Group").

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

The publication of these consolidated financial statements was authorised by the Board of Directors on 11 March 2022.

The Shareholders' Meeting called to approve the financial statements is entitled to request changes to them.

BASIS OF PREPARATION

These Consolidated Financial Statements, expressed in thousands of Euro (functional currency of the parent company ERG Power Generation S.p.A. and its presentation currency), were prepared:

- in compliance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union as well as in compliance with the provisions issued in implementation of Article 9 of Italian Legislative Decree no. 38 of 28 February 2005;
- on a going concern basis and therefore assuming that the Group will be able to meet the mandatory repayment conditions of the credit facilities granted by the banks and the bond issues as indicated in **Note 38 – Disclosure on financial risks**.

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

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

The accounting standards and measurement criteria are presented in each note to which they refer.

Changes in the application of the accounting standards, where relevant, are described in the following paragraphs.

BASIS OF PRESENTATION

These Financial Statements consist of:

- **the primary financial statements**, with the following characteristics:
 - the consolidated **Statement of Financial Position** shows the assets and liabilities according to their maturity, separating current and non-current items. Current assets are those held to be realised, sold or consumed in the normal operating cycle of the Group or in the 12 months after year end; current liabilities are those expected to be extinguished within the normal operating cycle of the Group or in the 12 months after year end;
 - the **Income Statement** includes an analysis of the items by nature, which is deemed more representative than presenting them by function. The form chosen is in fact consistent with internal reporting and management procedures;
 - the **Statement of Comprehensive Income** shows mainly the profit or loss items provisionally recognised in shareholders' equity;
 - the **Statement of Cash Flows** is based on the indirect method, with the indication of the cash flows from operating activities and investing activities.
 - the **Statement of changes in shareholders' equity** is prepared in accordance with the provisions of IAS 1 and shows separately the flows relating to the components of the reserve for other components of comprehensive income;
- the **Notes to the Consolidated Financial Statements**.

USE OF ESTIMATES – RISKS AND UNCERTAINTIES

Definition and recognition and measurement criteria

Preparation of the financial statements and notes to the financial statements pursuant to IFRS requires ERG to make estimates and assumptions that affect the carrying values of the assets, liabilities, costs and revenue recognised in the Financial Statements and disclosures relating to contingent assets and liabilities. Available information and subjective

evaluations were used to obtain these estimates.

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

Listed below are the main estimates for which the use of subjective assessments is more heavily required.

Financial Statement Area	Description of the accounting estimates and assumptions
Impairment testing of goodwill, authorisations and concessions, intangible assets and property, plant and equipment and right-of-use assets	<p>The main assumptions for determining the recoverable amounts (Note 22 – Impairment test) concern, in particular:</p> <ul style="list-style-type: none"> • the identification of expected energy and gas prices; • the assessment of the availability of renewable resources, changes to the regulatory framework; • the identification of macroeconomic variables such as inflation and discount rates. • the definition of the fair market value of the ERG Power S.r.l. CCGT plant, net of the estimated sales costs.
Determination of the amortisable amount of concessions for large-scale diversion of water for hydroelectric use	<p>The depreciation period of hydroelectric plants is currently commensurate with the technical economic life of the individual asset. Starting from the previous financial year, following the revaluation pursuant to Italian Legislative Decree no. 104/2020 carried out in the 2020 Financial Statements and in consideration of the technical opinions received, the Group extended the useful life of the residual higher value recorded in the consolidated financial statements at the time of the Purchase Price Allocation, essentially in line with that used by ERG Hydro S.r.l. (now Enel Hydro Appennino Centrale) in the preparation of its financial statements and therefore with reference to the technical economic life of the individual assets. It should be noted that the sale of the hydroelectric assets to Enel Produzione S.p.A. was completed on 3 January 2022; for further details, please refer to Section VII. Operating assets held for sale.</p>
Definition of the useful life of Authorisations and Concessions, other intangible assets, property, plant and equipment and the related amortisation and depreciation	<p>Authorisations and Concessions are amortised on the basis of their residual duration. Other intangible assets are amortised over a maximum period of 5 years.</p> <p>The useful life of property, plant and equipment is reviewed annually and adjusted where the most recent estimate differs from those previously. Any changes in estimates relating to useful life are recognised prospectively. If an item of property, plant and equipment comprises various parts having different useful lives, these parts are recognised separately (significant components).</p> <p>Freely transferable assets are depreciated over the estimated life of the asset or the concession term, whichever is shorter.</p> <p>See Section III. Investing Activities for more details.</p>

Financial Statement Area	Description of the accounting estimates and assumptions
Recoverability of deferred tax assets	These are recognised on the basis of the Group's future taxability of profits as forecast by business plans as well as of the expected settlement and renewal of tax consolidation agreements (Note 42 – Deferred taxes).
Measurement of provisions and contingent liabilities related to civil, administrative and tax proceedings	The valuation processes are based on complex elements that by their nature imply reliance on the Directors' judgement, also taking into account the elements acquired by external consultants, and involve both determining the degree of likelihood of the occurrence of conditions that may entail a cash outlay and hence classification among liabilities or among contingent liabilities, and quantifying the related amount. See Section IV. Provisions and Contingent Liabilities .
Estimate of the revenue referred to the thermoelectric business	The estimate relates to the determination of the fair value of energy efficiency certificates (Note 1 - Revenue); their value is measured on the basis of the price agreed in the bilateral agreement for the sale of the Energy Efficiency Certificates (EECs) or in the trading sessions of the GME (Electricity Market Manager) platform, taking into account that the certificates are made available in the operator's account during the year subsequent to the reference year. If there is no sale during the year, the value is estimated on the basis of the most recent trades recorded on the GME platform and the maximum value that distributors are normally willing to pay for the purchase of EECs from the GSE as an alternative to purchase on the market.
Determination of loss allowances and impairment of other assets	Trade receivables and other receivables and assets deriving from contracts with customers are subject to impairment testing in accordance with the provisions of IFRS 9 on expected credit losses. Expected credit losses (ECL) are an estimate of losses weighted on the basis of the probability of default of the counterparty. See Note 7 – Trade receivables .
Fair value measurements	Some standards and disclosure obligations require the Group to measure the fair value of financial and non-financial assets and liabilities. The Group has its own structure of appraisers, responsible in general for all significant fair value measurements, including Level 3 measurements (if present). Non-observable input data and valuation adjustments are subjected to regular reappraisal. When information provided by third parties, such as broker quotes or pricing services, is used to determine fair value, the team of appraisers assesses and documents the evidence obtained from third parties to support the fact that such measurements comply with the provisions of EU-IFRS, including the level of fair value hierarchy in which the related measurement has to be classified. The significant aspects relating to the measurement are communicated to the Control and Risk Committee of the Group. See also Section V. Financing activities .
Business Combination	Fair value measurement of the consideration transferred (including the contingent consideration) and fair value of the assets acquired and liabilities assumed, measured on a provisional basis.
Determination of the discount rate of financial liabilities and valuation of the renewal options	The borrowing rate used is the incremental borrowing rate, determined as the sum of the Group's credit spread and the forward curve based on Euro area swap rates. In relation to the renewal options, the Group estimated the term of the related lease agreements taking into account the reasonable certainty that the option will be exercised. See also Note 19 – Right-of-use assets .

COVID-19 emergency

The COVID-19 Public Health Emergency of International Concern continued in 2021. ERG proceeded, in this regard, to implement 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, as recommended by the competent Authorities, was remote working, which it extended to all the Group's offices across Italy and abroad, involving over 70% of the corporate workforce (all "white collar" staff), and excluding only personnel dedicated to the maintenance of plant in order to safeguard operational and management continuity and ensure the safety of company assets.

In 2021, staff initially worked remotely for five days a week; subsequently, as from July, remote working was confirmed for two working days a week. This option, as stated previously, was extended to all the Group's offices in Italy where the remote working option is compatible with the effective performance of the duties assigned, ensuring that the utmost attention is given to guaranteeing full business continuity.

ERG continues to very carefully manage 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 the Workplace Anti-Covid Protocol and recommendations by the competent authorities, and in agreement with trade union organisations. The Company documents that regulate the actions undertaken have been made available to all personnel in a special section of the company intranet and are periodically updated.

As part of the broader framework of the national vaccination campaign in progress and with the aim of making a proactive contribution to it, ERG ran a vaccine information campaign, to ensure people can participate in a fully informed manner. The initiative was entrusted to the Internal Managers of the Prevention and Protection Services and to the company doctors in the various offices.

No staff reductions have been planned or carried out since the start of the pandemic. Moreover, the company has not had to make use of so-called 'social shock absorbers' nor has it had to implement the forced reduction of working hours. By contrast, the Group welcomed 50 new hires in 2020 and a further 74 in 2021, in order to support the company's growth process. Engagement and partnership activities with the areas in which ERG is present have continued and specific financial resources have been allocated by group companies and employees themselves to meet the most urgent needs of healthcare facilities.

Starting from 15 October, as required by Italian Decree Law no. 127 of 21 September 2021, in order to access the workplace, it is mandatory to possess and exhibit, upon request, the COVID-19 Green Pass, except for those who are exempted from the vaccination campaign on the basis of appropriate medical certification. Green Pass possession will be verified by means of spot checking; specific operating procedures have been defined for each site, taking into consideration the variability of the activities carried out and the number of people present; the INPS portal is also used for the aforementioned controls, allowing for the automatic verification of the possession of COVID-19 green certifications for access to the workplace.

With reference to the recommendations made by the European Securities and Markets Authority (ESMA) on 29 October 2021 (European common enforcement priorities for 2021 annual financial reports) and that indicated in previous communications, and by CONSOB, pursuant to "Warning Notices" no. 6/20 of 9 April 2020, no. 8/20 of 16 July 2020 and no. 1/21 of 16 February 2021, Group management has implemented regular monitoring of the actual and potential impacts of the COVID-19 emergency on the Group's business operations, financial position and results of operations.

Particular focus is given to developments in the macroeconomic and electricity scenarios, in terms of trends in demand and in electricity and gas prices, including for the purposes of assessing the recoverability of the values recorded for non-current assets, and the specific assessment of the credit risk and liquidity risk, as described in more detail below and in the Directors' Report.

- During the period, the ERG Group updated the "expected losses" on trade receivables from customers and on loan assets with banks (Group liquidity) to reflect the development of post-COVID-19 business scenarios. The impacts for the Group are not significant; there were no impacts on trade receivables.
- With regard to IFRS 16, it should be noted that the ERG Group has not been affected by the effects of the pandemic on the management of wind farms and therefore the IASB amendment "*COVID-19-Related Rent Concessions – Amendment to IFRS 16*" has had no effect on the Group and therefore its possible application was not deemed necessary.

As stated previously, with regard to **credit risk**, the ERG Group has always implemented a strategy to mitigate this risk that provides for, in line with the Risk Policy, a portfolio focused mainly on large national and international industrial customers recognised as being robust and reliable; therefore, even in this historic time, the credit risk toward such counterparties remains limited. In the year, therefore, no receivables were written down in relation to the impacts of the health emergency.

As regards **liquidity risk**, which is constantly monitored by top management within the Risk Committee, ERG implements a mitigation strategy in line with the Risk Policy that will allow the Group to be solvent both under normal operations and in crisis conditions, through the careful planning and monitoring of its financial structure. This strategy aims on the one hand to ensure the maintenance of an adequate level of liquidity, through the systematic generation of cash by its own business activities, and on the other to optimise the cost of funding, by maintaining a balance in terms of duration and composition of the debt. Even in the current reference context, post COVID-19, the liquidity risk remains limited and there are no significant impacts on year 2022.

The following are the new tax regulations regarding the outright grant, disbursed directly by the Italian Revenue Agency and intended for entities affected by the COVID-19 epidemiological emergency (relevant for the purposes of the limit set forth in the Temporary Framework):

- Italian Decree Law no. 41/2021 so-called "Sostegni" Decree (converted to Italian Law no. 69/2021, published in Official Journal no. 120 of 21 May 2021);

- Italian Decree Law no. 73/2021 so-called "Sostegni Bis" Decree (converted to Italian Law no. 106/2021, published in Official Journal no. 176 of 24 July 2021).

The **operational continuity of all the production assets** both in Italy and abroad is confirmed, through a structured approach to Business Continuity Management and the definition and application of supply plans, which **cover supplies for the whole of 2022 at least**, with identification of backup providers for all the Main Components and the main services. Having its staff present on the ground to carry out Operation & Maintenance activities and its own warehouses close to production plants has proved to be a winning strategy for ensuring business continuity, minimising dependence on external suppliers.

There were therefore no interruptions to business activities, either in Italy or abroad, in 2021 as a result of the healthcare matters already mentioned.

In view of the above, therefore, there are no critical issues or points for attention, in relation to the COVID-19 emergency, regarding the **business continuity** of the Group.

BASIS OF CONSOLIDATION AND CHANGES IN THE SCOPE OF CONSOLIDATION

Definition and recognition and measurement criteria

Consolidation criteria and methods

Subsidiaries are consolidated on a line-by-line basis if, and only if, the Group has:

- power over the investee;
- exposure, or rights, to variable returns deriving from the relationship with the investee;
- ability to exercise its power over the investee to affect the amount of its returns.

When assessing control, IFRS 10 requires judgment and continuous assessment. For details on when the equity interest does not imply de facto control, please refer to **Note 48 - List of Group companies and transactions during the year**.

The financial statements of subsidiaries are included in the Consolidated Financial Statements from the time the parent starts exercising control until the date on which control ceases.

Associates over which the Group exercises a significant influence (generally corresponding to an equity investment of between 20% and 50%) are accounted for using the equity method.

For the purposes of the disclosure of the nature, extent and financial effects of the Group's interests in subsidiaries, please

refer to **Note 48 - List of Group companies and transactions during the year** and **Note 29 - Non-controlling interests**.

Translation of financial statements in currencies other than the Euro (i.e. foreign operations) and functional currency

The Group's functional currency is the Euro. The financial statements of subsidiaries expressed in currencies other than the Euro are converted according to the following methods:

- The assets and liabilities, including goodwill and adjustments to fair value deriving from the acquisition, are translated into Euro using the closing rates.
 - The revenue and costs of foreign operations in the income statement and in the statement of comprehensive income are converted into Euro using the average rate for the period.
- Exchange differences are recognised in the Statement of comprehensive income and included in the translation reserve, with the exception of the exchange differences that are attributed to non-controlling interests.

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

exchange rate: foreign currency/EUR	Currency	Statement of Financial Position ⁽¹⁾	Income Statement ⁽²⁾
Poland	PLN – Zloty	4.597	4.565
Romania	RON – Romanian Leu	4.949	4.922
UK	GBP – British Pound	0.840	0.860
Bulgaria	BGN – Bulgarian LEV	1.956	1.956

(1) Exchange rate at 31 December 2021.

(2) Average exchange rate of 2021.

The changes in the scope of consolidation in 2021 are summarised below, broken down by business:

WIND	<ul style="list-style-type: none"> On 10 May 2021 ERG, through its Swedish holding, completed the acquisition from the BayWa r.e. Group, active in the development, construction and management of renewable energy plants, of the permits for the construction of a wind farm with a capacity of 62 MW in southern Sweden.
WIND/ SOLAR	<ul style="list-style-type: none"> On 24 June 2021 ERG, through its subsidiary ERG Eolienne France, signed an agreement with FPCI Capenergie 3, the fund managed by the Parisian private equity investor Omnes Capital, for the acquisition of 100% of the share capital of Omniwatt, a French company that owns a portfolio composed of 5 wind farms, for a total of 58 MW and two solar plants for a total of 22 MW. On 1 October 2021, ERG, through its subsidiaries ERG Eolienne France SAS and ERG Windpark Beteiligungs GmbH, signed two agreements with NAEV Austria Beteiligungs GmbH and NAEV Austria GmbH & Co. OG to acquire 100% of the share capital of 15 companies that own a 152.4 MW renewable portfolio in operation in France and Germany. The plant portfolio consists of seven photovoltaic installations and three wind farms in France, for a total installed capacity of 56.7 MW and 40.6 MW, respectively, and five wind farms in Germany, for a total of 55.1 MW. On 28 October 2021 ERG, through its subsidiary ERG Eolienne France SAS, completed an agreement with NAEV Austria Beteiligungs GmbH for the acquisition of the entire capital of the French companies owning an operational renewable portfolio consisting of seven photovoltaic plants and three wind farms in France, for a total installed capacity of 56.7 MW and 40.6 MW, respectively.

The following table summarises the impacts related to the consolidation on an line-by-line basis of the companies acquired in 2021:

(EUR thousand)	Joran ⁽¹⁾	Erik ⁽²⁾	Ventoux ⁽³⁾	TOTAL
Authorisations and Concessions	16,506	31,607	13,439	61,551
Other intangible assets	-	-	-	-
Goodwill	37,479	(0)	45,271	82,751
Property, plant and equipment	94,319	9,673	145,211	249,203
Right-of-use assets	7,930	-	18,367	26,297
Equity investments	-	-	(0)	(0)
Financial assets measured at fair value	-	-	-	-
Other non-current financial assets	607	-	1,433	2,041
Deferred tax assets	3,603	-	6,084	9,687
Other non-current assets	286	-	1,798	2,084
Non-current assets	160,731	41,280	231,603	433,613
Inventories	-	-	-	-
Trade receivables	3,138	-	3,212	6,351
Other receivables and current assets	378	33	-	410
Current tax assets	493	-	-	493
Financial assets measured at fair value	-	-	-	-
Other current financial assets*	990	0	(0)	990
Cash and cash equivalents*	(23,715)	(31,612)	4,468	(50,859)
Current assets	(18,716)	(31,579)	7,680	(42,615)
TOTAL ASSETS	142,015	9,701	239,283	390,998
Equity attributable to the owners of the parent	-	-	-	-
Non-controlling interests	-	-	-	-
Employee benefits	-	-	-	-
Deferred tax liabilities	4,869	-	4,870	9,739
Provision for disposed businesses	-	-	-	-
Provisions for dismantling expenses	2,357	-	3,481	5,838
Other non-current provisions	1,443	-	1,363	2,806
Financial liabilities measured at fair value	-	-	-	-
Non-current financial liabilities*	110,021	-	147,683	257,704
Non-current lease liabilities*	7,930	-	18,367	26,297
Other non-current liabilities	1	-	180	181
Non-current liabilities	126,621	-	175,944	302,565
Other current provisions	-	-	-	-
Trade payables	585	1	2,619	3,205
Financial liabilities measured at fair value	-	-	-	-
Current financial liabilities*	13,371	9,679	58,448	81,498
Current lease liabilities*	-	-	-	-
Other current liabilities	1,437	21	2,197	3,655
Current tax liabilities	-	-	75	75
Current liabilities	15,393	9,701	63,339	88,433
TOTAL EQUITY AND LIABILITIES	142,014	9,701	239,283	390,998
*Impact on Net Financial Position (a)	(154,047)	(41,290)	(220,030)	(415,368)
<i>IFRS 16 impact on Net Financial Position (b)</i>	<i>(7,930)</i>	<i>-</i>	<i>(18,367)</i>	<i>(26,297)</i>
Impact on Net Financial Position Directors' Report c = (a-b)	(146,117)	(41,290)	(201,663)	(389,071)

(1) 10 French companies from FPCI Capenergie 3 – Joran business combination.

(2) 1 Swedish company from BayWa – acquisition of Erik assets.

(3) 15 companies, of which 10 French and 5 German, from NAEV Austria Beteiligungs GmbH and NAEV Austria GmbH & Co. OG – Ventoux business combination.

The table above provides a breakdown of the assets acquired and the liabilities assumed inclusive of the impacts of the adoption of IFRS 16.

* The impact on the Net Financial Position relates to the following items: cash and cash equivalents (which includes the consideration paid for the acquisition), non-current financial liabilities, non-current lease liabilities and current financial liabilities.

For further details on business combinations, please refer to **Note 45 – Business combinations and asset acquisition** in section **VIII. Other Notes**.

II. OPERATIONAL MANAGEMENT

This section discusses the items in the Consolidated Financial Statements strictly related to the operating and current management of the Group's assets as well as the reporting by operating segment. In particular, it discusses the income statement items that make up the gross operating profit (EBITDA) and the statement of financial position items relating to the net operating working capital as well as other assets and liabilities.

It should be noted that the 2021 statement of financial position and income statement figures and the 2020 income statement figures have been presented in accordance with IFRS 5 with reference to the sale of hydroelectric assets on 3 January 2022. For further details, please refer to Section **VII. Operating assets held for sale**.

REPORTING BY OPERATING SEGMENT

Definition and recognition and measurement criteria

The operating segments identified pursuant to IFRS 8 coincide with the three different technologies used to generate power, listed below:

- Wind
- Solar
- Thermoelectric

Following the sale of the hydroelectric assets to Enel Produzione S.p.A. on 3 January 2022, the figures relating to the hydroelectric sector were reclassified as "Assets held for sale". For more information, refer to **Note 44 - Net profit (loss) from assets held for sale**.

The analysis of the operating performance of the Wind and Solar sector is further monitored, for some indicators, with reference to the country in which the Group operates.

This information structure corresponds to the reporting structure periodically analysed by the Management and the Board of Directors of the Parent for the purposes of monitoring and managing business performance.

The tables below show the information by segment of the results indicated in the financial statements.

It should be noted that in the Directors' Report in order to facilitate the understanding of the operating segments' performance, the operating results are also shown with the exclusion of significant income components of an exceptional

nature (non-recurring items, reclassifications and other) and with the inclusion of discontinued operations that contributed fully in 2021: these results are indicated with the term "adjusted". For more information on the operating segment performance and the measurement and reconciliation of adjusted results and other alternative performance indicators, please refer to the Directors' Report and to **Note 46 – Non-recurring items**.

Gross operating profit (EBITDA) and Operating profit (EBIT)

Gross operating profit (EBITDA) and operating profit (EBIT) are determined by the operating activities of the Group that generate continuing revenue and by the other income and costs related to the operating activities. Gross operating profit (EBITDA) does not include net financial income and expense, gains and losses on equity investments, income taxes, amortisation, depreciation, reversals of impairment losses and impairment losses on:

- Authorisations and concessions;
- Other intangible assets;
- Property, plant and equipment;
- Right-of-use assets.

Operating profit (EBIT) is equal to the gross operating profit (loss) less amortisation, depreciation, reversals and write-downs on authorisations and concessions, other intangible assets, property, plant and equipment and right-of-use assets.

Reporting by segment

2021

(EUR million)	TOTAL	of which		
		Wind	Thermoelectric	Solar
Total revenue	1,038.3	515.3	447.9	75.2
Gross operating profit (EBITDA)	452.1	365.6	20.2	66.3
Amortisation, depreciation and impairment losses	(257.3)	(180.1)	(35.0)	(42.3)
Operating profit (EBIT)	194.8	185.5	(14.8)	24.0
Capital expenditure in non-current assets	249.9	223.3	25.2	1.4
Capital expenditure in non-current assets held for sale	6.6	-	-	-

2020

(EUR million)	TOTAL	of which		
		Wind	Thermoelectric	Solar
Total revenue	856.2	402.2	381.5	72.6
Gross operating profit (EBITDA)	419.3	288.6	65.5	65.2
Amortisation, depreciation and impairment losses	(250.4)	(177.1)	(30.8)	(42.4)
Operating profit (EBIT)	168.9	97.4	65.1	20.2
Capital expenditure in non-current assets	103.1	82.3	18.4	2.4
Capital expenditure in non-current assets held for sale	6.3			

Reporting by geographical segment

2021

(EUR million)	TOTAL	of which							
		Italy	France	Germany	Poland	Bulgaria	Romania	UK	Sweden
Total revenue	1,038.3	876.4	78.3	47.9	21.9	23.3	28.7	-	-
Gross operating profit (EBITDA)	452.1	304.9	47.0	30.6	16.4	8.3	21.2	(2.4)	(0.1)
Amortisation, depreciation and impairment losses	(257.3)	(185.2)	(36.7)	(23.4)	(5.8)	(4.2)	(5.0)	(0.1)	-
Operating profit (EBIT)	194.8	119.7	10.3	7.2	10.7	4.1	16.2	(2.5)	(0.1)
Capital expenditure in non-current assets	249.9	42.9	21.9	0.4	46.6	-	0.0	122.6	15.5
Capital expenditure in non-current assets held for sale	6.6								

2020

(EUR million)	TOTAL	of which							
		Italy	France	Germany	Poland	Bulgaria	Romania	UK	Sweden
Total revenue	856.2	681.3	85.5	45.1	19.0	12.5	12.8	-	-
Gross operating profit (EBITDA)	419.3	298.0	59.3	30.6	15.3	9.2	8.1	(1.2)	-
Amortisation, depreciation and impairment losses	(250.4)	(166.8)	(34.5)	(33.7)	(6.0)	(4.2)	(5.1)	(0.1)	-
Operating profit (EBIT)	168.9	131.2	24.8	(3.1)	9.3	5.0	3.0	(1.3)	-
Capital expenditure in non-current assets	103.1	38.6	2.3	1.7	19.0	-	-	49.9	-
Capital expenditure in non-current assets held for sale	6.3								

REVENUES AND OPERATING MARGINS

NOTE 1 - REVENUE

Definition and recognition and measurement criteria

Revenue from contracts with customers is recognised in accordance with IFRS 15.

The main types of revenue of the Group that generate separate performance obligations, pursuant to IFRS 15, are:

1. Revenue from the sale of commodities;
 - Sales of electricity on the electricity exchange;
 - Sales of electricity to end customers;
 - Sales of electricity, steam and other utilities to the operators of the Priolo site;
 - Sale of electricity through Power Purchase Agreements (PPAs).
2. Revenue for incentivising tariffs (feed-in tariff, auctions, feed-in premiums, etc.) on electricity;
3. Revenue for energy efficiency certificates, green certificates (foreign companies) and guarantees of origin.

As regards the **sale of commodities**, the contracts entered into with customers are generally short-term (up to one year) and their price profiles can be according to the market (spot), fixed or with price formulas only partially correlated with spot or forward prices. These promises to sell energy, although fixed term (if in respect of the criteria laid down by the own-use exemption) fall within the scope of an agreement/contract to sell energy and represent a promise to transfer a series of distinct goods that are substantially the same, and that have the same pattern of transfer to the customer. The output method is used as the unit of measurement for calculating progress. Revenue is recognised on the basis of direct assessments of the value the goods or services transferred until the date in question have for the customer with respect to the goods or services promised in the contract that remain to be transferred. As a practical measure, the company having the right to a consideration paid by the customer, the amount of which corresponds directly to the value of the services provided to the customer up to the date in question (commodities are generally billed either at a fixed amount or at market price for every quarter of an hour/hour of supply), revenue is recognised for the amount it is entitled to invoice.

The Power Purchase Agreements (PPAs) are long-term and characterised by a defined price and aim to guarantee a revenue structure with a medium/low level of risk and to ensure a stable return on the investments made to realise the aforementioned growth plan.

The Group stipulates commodity derivatives to manage the risk of volatility in the price of electricity. Revenue includes also income and expenses deriving from the reclassification of the hedging reserve relating to derivative instruments with the objective of hedging Power and Gas sales. For further details, please refer to **Note 38 – Disclosure on financial risks**.

As regards revenue for the **feed-in premium**, with a duration

between 10 and 20 years, this may be invoiced to the customer together with the electricity transferred, or applied separately by the Regulators to the company (in Italy typically by the GSE). These agreements are considered to be distinct performance obligations from the supply of energy and, in the event that they are billed together with the price for energy sold to the customer, the revenue from the customer excludes the feed-in premium portion. The feed-in premium performance obligation is fulfilled at a point in time (when the specific conditions agreed with the Regulator are met/reached: production of electricity from renewable sources), since none of the criteria for fulfilment over time has been met. However, in view of the fact that the electricity is produced and sold at essentially the same time, the accounting of revenue for the feed-in premium corresponds to that of the revenue for the sale of electricity.

As regards **revenue for certificates**, with a duration between 10 and 20 years, this derives from the fact that the Group has mainly renewable generation assets (wind and solar) or cogeneration assets (ERG Power S.r.l.), for whose production the Regulators assign certificates to the Group.

Certificates are therefore instruments to encourage the demand (Certificates of Origin) and supply (Green Certificates) of renewable or cogeneration energy (White Certificates or "EECs" – energy efficiency certificates).

Green Certificates are issued for every MWh of electricity produced and White Certificates for every TOE (Tonne of Oil Equivalent) saved as a result of the implementation of energy efficiency measures in plants for co-generative electricity production (ERG Power S.r.l.). A Guarantee of Origin (GO) is an electronic certificate attesting to the renewable origin of the sources used by IGO qualified plants, and for each MWh of renewable electricity fed into the network by IGO qualified plants, the GSE issues a "GO" certificate.

The Group considers the certificate to have been essentially assigned at the moment the renewable energy is produced, and revenue is recognised when the energy is produced.

The following information is also noted in relation to the disclosure requirements of IFRS 15:

- there are no contracts with significant financing components;
- The costs for the purchase of raw materials (gas) are the main costs incurred for the fulfilment of contracts and there are no other costs incurred for the fulfilment of the contract with the customer that fall within the scope of another EU-IFRS standard;
- there are no contracts with variable fees;
- as a practical measure, the entity recognised the incremental costs to obtain the contract as expenditure in the moment in which they were incurred, since the period of depreciation of the assets that the entity would otherwise recognise does not exceed one year.

2021

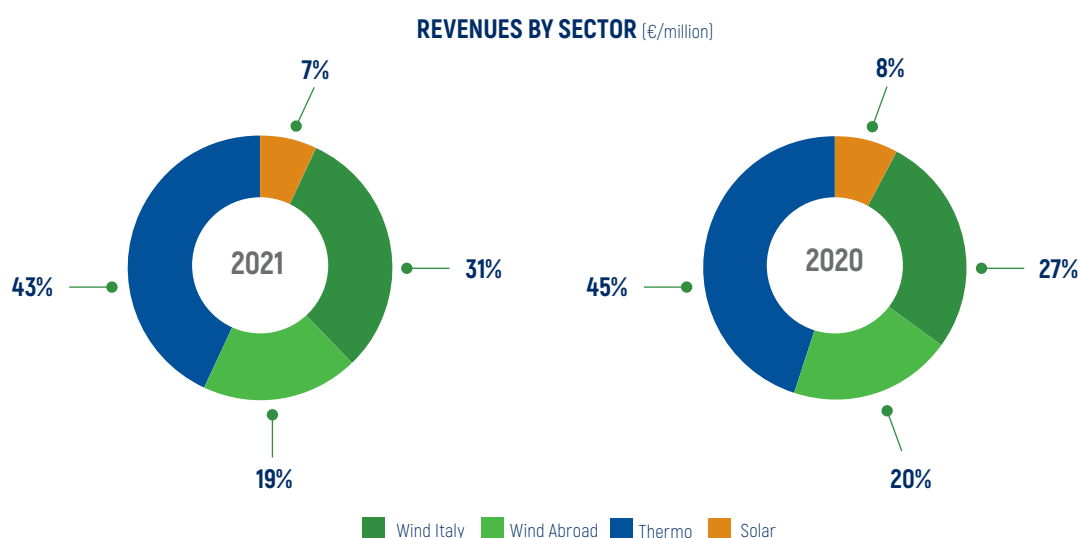
(EUR thousand)	Wind Italy	Wind Abroad	Thermoelectric ⁽¹⁾	Solar	Total
Revenue from sales					
Energy to the market	154,900	35,256	247,345	15,583	453,083
Energy to end customers	-	-	74,437	-	74,437
Sales to Group companies not consolidated on a line-by-line basis	-	-	19,084	-	19,084
Third party transport and dispatching	-	-	5,333	-	5,333
Steam - Gas and other utilities	-	-	90,802	-	90,802
Incentive rate - Feed in Tariff - GO	162,227	147,335	-	59,573	369,135
White Certificates	-	-	1,936	-	1,936
Green Certificates abroad	-	15,344	-	-	15,344
Total Revenue from sales	317,126	197,935	438,937	75,156	1,029,155
Revenue from the provision of services					
Other - Services	-	165	9,026	-	9,191
Total Revenue for services	-	165	9,026	-	9,191
Total Revenue	317,126	198,100	447,963	75,156	1,038,346

(1) Revenues for Energy to the market include the portion for the resale of electricity purchased from the market of approximately EUR 173 million.

2020

(EUR thousand)	Wind Italy	Wind Abroad	Thermoelectric ⁽¹⁾	Solar	Total
Revenue from sales					
Energy to the market	89,899	18,551	227,547	10,514	346,510
Energy to end customers	-	-	52,121	-	52,121
Sales to Group companies not consolidated on a line-by-line basis	-	-	7,939	-	7,939
Third party transport and dispatching	-	-	4,325	-	4,325
Steam - Gas and other utilities	-	-	59,132	-	59,132
Incentive rate - Feed in Tariff - GO	136,731	143,213	-	62,065	342,009
White Certificates	-	-	23,585	-	23,585
Green Certificates abroad	-	13,185	-	-	13,185
Total Revenue from sales	226,630	174,950	374,649	72,579	848,807
Revenue from the provision of services					
Other - Services	624	-	6,815	-	7,439
Total Revenue for services	624	-	6,815	-	7,439
Total Revenue	227,254	174,950	381,464	72,579	856,246

(1) Revenues for Energy to the market include the portion for the resale of electricity purchased from the market of approximately EUR 50 million.



For further details regarding the prices and quantities sold, please refer to the comments in the Directors' Report.

A single customer accounts for revenue exceeding 10% of the total revenue of the Group.

Revenue from energy sales to the market includes the net negative impact of EUR 271 million (EUR 35 million positive in 2020) of derivatives hedging commodities. Please refer to **Note 38 – Disclosure on financial risks** for further details.

(EUR thousand)	2021	2020
Gains on Power sales cash flow hedges	180	34,178
Gains on Gas sales cash flow hedges	-	504
Total	180	34,682
Losses on Power sales cash flow hedges	(271,567)	(58)
Losses on gas sales cash flow hedges	-	-
Total	(271,567)	(58)
Total revenue	(271,387)	34,624









The timeframe for the collection of receivables related to revenue depends on the type of revenue. Receivables for energy sold to the market have average realisation times of less than three months, for contracts with end customers and for transport revenue the time-frame varies according to the counterparty.

As regards the timeframe for the distribution of incentives in Italy for the generic "m" month the payment, following publication of the report highlighting the incentives due for the month "m+1", takes place by the end of the "m+2" month.

In 2021, the Group, as leader in the generation of electricity from renewable sources and based on a strategic plan geared towards growth in installed capacity in Italy and abroad, started to stipulate medium/long-term supply contracts based on which the counterparty acquires, for a contractually predetermined period, the output of one or more identified farms.

The Power Purchase Agreements (PPAs) are long-term and characterised by a defined price and aim to guarantee a revenue structure with a medium/low level of risk and to ensure a stable return on the investments made to realise the aforementioned growth plan.

In this context, a summary of the main PPAs signed in 2021 is provided below:

COUNTRY	START DATE/ DURATION	COUNTERPARTY	VOLUME	TYPE	PRICE	PLANTS/ CAPACITY	ACCOUNTING
 ITALY	January 2022 / 10 years	TIM	≈340 GWh Baseload / Pay as produced	PHYSICAL	COLLAR	WIND ITALY Portfolio / 77 MW 	IFSR 15
 FRANCE	May - September 2021 /5 years	ENGIE	≈45 GWh Pay as produced	PHYSICAL	FIXED	Bois Bigot / Bois de l'Arche / 21 MW 	IFSR 15
 FRANCE	October - December 2021 /5 years	ENGIE	≈100 GWh Pay as produced	PHYSICAL	FIXED	Theta Portfolio / 55 MW 	IFSR 15
 UK	April - December 2022 /5 years	ELECTROROUTE	≈236 GWh Pay as produced	PHYSICAL	FIXED	Evishagaran / Craggoire / 70 MW 	IFSR 15

NOTE 2 - OTHER INCOME

Other income mainly includes insurance reimbursements, compensation and expense repayments, immaterial chargebacks to third parties and grants related to income.

(EUR thousand)	2021	2020
Indemnities	1,029	8,110
Other income	1,102	2,331
Non-recurring income	1,339	3,583
Income for resale of electricity transmission capacity	38	1,571
Reimbursement of expenses	3,575	1,356
Total	7,084	16,951

The change compared to 2020 mainly reflects the collection in 2020 of an insurance indemnity (EUR 4.7 million) by way of compensation for accidents occurred in previous years in relation to the CCGT plant in Priolo Gargallo, the closure of some previous entries relating to the thermoelectric business in 2020 and the non-renewal in 2021 of a contract for the resale of electricity capacity with a Group customer.

NOTE 3 - COSTS FOR THE PURCHASE OF COMMODITIES

Definition and recognition and measurement criteria

A contract for the purchase of a non-financial item is classified as a "normal purchase or sale agreement" if it was entered into:

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

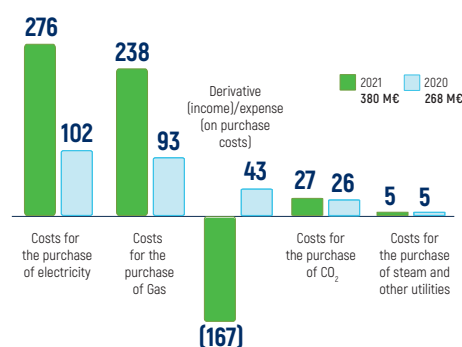
The Group analyses all contracts to buy non-financial assets, with particular attention to forward purchases of electricity and energy commodities, in order to determine whether they should be classified and treated in accordance with IFRS 9 or whether they were entered into for "own use exemption".

In relation to the regulatory obligations arising from the CO₂

emissions, the Group mainly uses emission quotas to meet its own requirements during the year (own use). For the purposes of the recognition of the expense deriving from these regulatory obligations, the Group applies the "net liability approach". Purchased certificates are recognised at the specific cost on an accruals basis. If the purchased certificates, net of any assigned free of charge, exceed the amount necessary to meet the regulatory obligations, this excess is recognised under Inventories. Costs for the purchase of commodities include also income and expenses deriving from the reclassification of the hedging reserve relating to derivative instruments with the objective of hedging Power and Gas purchases.

(EUR thousand)	2021	2020	Change
Costs for the purchase of electricity	275,874	101,633	174,242
Costs for the purchase of gas	238,431	92,646	145,785
Derivative (income)/expense on purchase costs	(167,293)	43,419	(210,712)
Costs for the purchase of CO ₂	27,217	26,035	1,182
Costs for the purchase of steam and other utilities	5,450	4,629	821
Total	379,680	268,362	111,318

COSTS FOR THE PURCHASE OF COMMODITIES



Purchase costs include the net positive impact of EUR 167 million (negative EUR 43 million in 2020) of commodity hedging derivatives. Please refer to **Note 38 – Disclosure on financial risks** for further details.

(EUR thousand)	2021	2020
Gains on power purchases cash flow hedges	48,932	30
Gains on gas purchases cash flow hedges	125,527	-
Total	174,459	30
Losses on power purchases cash flow hedges	(73)	(7,154)
Losses on gas purchases cash flow hedges	(7,093)	(36,295)
Total	(7,166)	(43,449)
Total	167,293	(43,419)

NOTE 4 - OTHER PURCHASES

The item, amounting to EUR 13,133 thousand (EUR 13,169 thousand in 2020), includes costs for the purchase of plant components (spare parts) and consumables, mainly in relation to thermoelectric and wind power plants.

NOTE 5 - SERVICES AND OTHER OPERATING COSTS - LOSSES DUE TO IMPAIRMENT OF RECEIVABLES

(EUR thousand)	2021	2020
Services	129,667	119,976
Accruals of provisions for liabilities and charges	9,862	2,949
Rental, lease and hire expenses	2,213	2,139
Taxes and duties	9,972	10,443
Impairment of receivables	8,420	438
Other operating costs	4,006	2,879
Total	164,141	138,825

Rental, lease and hire expenses refer mainly to fees for the use of company software, not falling within the scope of application of IFRS 16.

The higher provisions for risks and charges in 2021 mainly refer to disputes with local authorities and risks on potential contractual charges.

The item Impairment of receivables refers to doubtful receivables of certain subsidiaries in Eastern Europe.

Costs for services are broken down as follows:

(EUR thousand)	2021	2020
Costs for services from Group companies not consolidated line by line	46,315	44,099
Maintenance and repairs	40,231	36,212
IT services and overheads	10,273	7,684
Consultancy	9,258	12,384
Insurance	6,118	5,674
Royalties and surface rights	11,019	7,024
Costs for electricity transport	699	3,199
Utilities and consumption	4,795	2,754
Commercial, distribution and transport costs	850	780
Advertising and promotions	108	167
Total	129,667	119,976

- **Maintenance and repairs** consist mainly of the costs for routine maintenance of electricity generation plants;
- **Information Technology (IT) services and overheads** relate to IT services, bank expenses, overheads, security and cleaning services and ancillary personnel and HSE costs.
- Consultancy mainly includes expenses for legal, technical and professional consultancy
- **Commercial, distribution and transportation costs** refer to ancillary costs relative to the distribution of electricity.

NOTE 6 - PERSONNEL EXPENSE

(EUR thousand)	2021	2020
Wages and salaries	26,491	22,786
Social security contributions	7,048	7,129
Post-employment benefits	1,486	1,320
Other personnel costs	1,348	2,314
Total	36,372	33,550

At 31 December 2021, the total number of employees was 603 (537 in 2020).

	2021	2020
Executives	13	11
Middle managers	124	89
White-collar workers	275	257
Blue-collar workers – Intermediate	191	180
Total	603	537

The cost for post-employment benefits pertains mainly to the portion of benefits relating to defined contribution plans. The cost also includes the contributions paid to defined contribution plans in favour of key management personnel, for the details of which please see the Related Parties section.

Other costs include additional post-employment benefits.

WORKING CAPITAL AND OTHER ASSETS AND LIABILITIES

(EUR thousand)	Notes	31/12/2021	31/12/2020
Trade receivables	7	320,775	180,791
Inventories	8	32,300	49,380
Trade payables	9	(246,322)	(68,846)
Operating working capital		106,753	161,326
Other receivables and current assets	10	130,295	75,496
Other non-current assets	11	54,088	49,095
Other non-current liabilities	13	(31,487)	(31,810)
Other current liabilities	12	(62,870)	(45,880)
Employee benefits	15	3,261	4,213
Other assets (liabilities)		93,288	43,202

NOTE 7 - TRADE RECEIVABLES

Definition and recognition and measurement criteria

Initial recognition takes place at fair value, subsequently they are measured using the amortised cost criterion.

Trade receivables and other receivables and assets deriving from contracts with customers are subject to impairment testing in accordance with the provisions of IFRS 9 on expected credit losses. Expected credit losses (ECL) are an estimate of

losses weighted on the basis of the probability of default of the counterparty.

For customers, the Group individually assesses the time frame and amount of the write-down on the actual expectation of recovery.

(EUR thousand)	31/12/2021	31/12/2020
Receivables from customers	257,892	122,968
Receivables for incentives	72,254	62,678
Receivables from Group companies not consolidated on a line-by-line basis	3,033	4,625
Loss allowance	(12,404)	(9,480)
Total	320,775	180,791

The item mainly includes receivables for the supply of electricity to third parties, sale of utilities to customers operating at the Priolo site and environmental certificates (feed-in tariff, green certificates and white certificates). The change in the year is mainly attributable to the improvement in the electricity and commodity prices scenario as well as to the higher production of wind power in Italy.

For information concerning receivables from non-consolidated group companies, reference is made to [Note 47 – Related parties](#).

The loss allowance changed as follows:

(EUR thousand)	31/12/2021	Increases	Decreases	31/12/2020
Loss allowance	(12,404)	(8,420)	5,496	(9,480)
Total	(12,404)	(8,420)	5,496	(9,480)

The Group assesses the existence of objective evidence of impairment on an individual basis. The aforesaid analyses are validated at the level of each individual entity by the Credit Committee which meets periodically to analyse the

situation of past-due receivables and of the critical issues for their collection.

The increases refer to the provision made on some doubtful receivables of some subsidiaries in Eastern Europe.

The decreases refer to the reclassification to "Assets held for sale" of the loss allowance of the company ERG Hydro S.r.l. (now Enel Hydro Appennino Centrale S.r.l.).

Below is a breakdown of trade receivables outstanding at year-end.

The ageing brackets are presented net of the related loss allowance.

(EUR thousand)	31/12/2021	31/12/2020
Receivables not past due	316,845	175,439
Receivables past due:		
within 30 days	1,635	1,577
within 60 days	520	568
within 90 days	490	755
after 90 days	1,284	2,450
Total	320,775	180,791

NOTE 8 - INVENTORIES

Definition and recognition and measurement criteria

Spare parts

Inventories are recognised at cost, determined using the weighted average cost method, or market value (replacement cost), whichever is lower. The cost includes direct materials and, where applicable, direct labour costs and overheads that have been incurred to bring the inventories to their current position and condition.

The cost is calculated using the weighted average cost method. For the net realisable value, the replacement cost is normally taken as reference or, where available, the net realisable value of the assets.

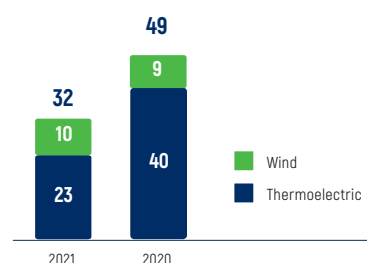
Quotas of deferred purchases of CO₂

The CO₂ quotas refer to the expense generated by the requirements of the CCGT; the excess CO₂ purchased for future year coverage is valued only in the event of transfer of ownership.

The CO₂ quotas held for own-use ("Industrial Portfolio") exceeding the requirement, determined in relation to the obligations accrued at the end of the year ("surplus"), are recorded under Inventories at cost incurred.

(EUR thousand)	31/12/2021	31/12/2020	Change
Quotas of deferred purchases of CO ₂	9,144	25,911	(16,768)
Inventories of spare parts	23,157	23,469	(312)
Total	32,300	49,380	(17,080)

INVENTORIES BY BUSINESS (M€)



The change in the year is mainly due to the use of the shares pertaining to 2021 and in general to the lower volumes purchased.

NOTE 9 - TRADE PAYABLES

Definition and recognition and measurement criteria

These are liabilities deriving from commercial transactions and are payable within the next year.

These refer mainly to payables for the purchase of utilities (gas and electricity) and for investments. Initial recognition takes place at fair value, subsequently they are measured using the

amortised cost criterion.

The Group proceeds with the derecognition when the obligation has been fulfilled, cancelled or expired. For further details, see the comments on financial assets and liabilities in **Note 37 – Financial instruments**.

(EUR thousand)	31/12/2021	31/12/2020
Payables to suppliers	225,719	56,303
Group companies not consolidated on a line-by-line basis	20,604	12,543
Total	246,322	68,846

The increase in the year is mainly due to the increase in the purchase price of commodities and to capital expenditure related to the development and construction of new wind farms in the United Kingdom, Poland, Sweden and France.

NOTE 10 - OTHER CURRENT ASSETS AND RECEIVABLES

(EUR thousand)	31/12/2021	31/12/2020
VAT receivables	36,627	32,334
Tax assets	2,581	2,551
Receivables from Group companies	68,680	10,016
Portions of deferred charges	18,764	3,393
Other receivables	3,643	27,202
Total	130,295	75,496

VAT and tax assets relate to tax-related receivables such as VAT and other tax receivables. The item does not include receivables relating to direct taxes, for which reference is made to **Note 41– Current tax assets and liabilities**.

The **portions of deferred charges** refer mainly to lease payments to municipalities, surface rights and insurance premiums for approximately EUR 8 million and for approximately EUR 7 million to deferred charges relating to development projects.

Other assets refer for around EUR 46 million to Group receivables accrued as part of the tax consolidation scheme from ERG Hydro S.r.l. (now Enel Hydro Appennino Centrale S.r.l.) and which, following the sale to Enel Produzione S.p.A. on 3 January 2022, were reclassified to “Assets held for sale” as they are no longer subject to intra-group elimination, as indicated in **Note 43 - Assets and liabilities held for sale**.

NOTE 11 - OTHER NON-CURRENT ASSETS

Other non-current assets, equal to EUR 54,088 thousand (EUR 49,095 thousand at 31 December 2020) relate mainly to:

- the portion still to be collected (EUR 22 million) of the grants per Italian Law no. 488/92 relating to wind farms acquired with the ERG Wind transaction. With respect to the aforesaid receivables, a liability of an equal amount has been allocated and it was recognised in the 2013 Consolidated Financial Statements as part of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (**Note 13 – Other non-current liabilities**);
- amounts of EUR 10 million due as compensation for the liability tied to interest and revaluations on the grants under Italian Law no. 488/1992 relating to wind farms acquired with the ERG Wind transaction and revoked by the Italian Ministry of Economic Development as discussed more thoroughly in **Note 26 – Other Provisions**;
- deferred tax charges relating to subsequent years (EUR 7 million), relating mainly to the substitute tax on the Andromeda PV S.r.l. goodwill exemption.

NOTE 12 - OTHER CURRENT LIABILITIES

(EUR thousand)	31/12/2021	31/12/2020
Tax liabilities	(39,362)	8,298
Group companies not consolidated on a line-by-line basis	77,989	16,134
Payables to employees	3,847	3,653
Payables to pension and social security institutions	2,600	2,482
Portions of income deferred to subsequent years	11,498	14,453
Other current liabilities	6,298	860
Total	62,870	45,880

The change in tax liabilities is mainly linked to the recognition of the payable for substitute tax recognised following the aforementioned revaluation of the hydroelectric plants carried out pursuant to Italian Law no. 104/2020.

NOTE 13 - OTHER NON-CURRENT LIABILITIES

(EUR thousand)	31/12/2021	31/12/2020
Liabilities for prior year taxes from merger of foreign companies	18,594	18,594
Price of Wind Group acquisition	9,821	9,821
Portions of income deferred to subsequent years	1,412	1,631
Other minor items	1,660	1,763
Total	31,487	31,810

The item "Other minor items" relates mainly to medium/long-term payables to directors.

NOTE 14 - EMPLOYEE BENEFITS

Definition and recognition and measurement criteria

Employee benefits include the estimated liability relating to the benefits payable to employees when they terminate their employment.

Short-term benefits for employees

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

Post-employment benefits

These are provided through:

- *defined contribution plans*: contributions paid to independent institutions that deal with their administrative and financial management are recognised as a cost in profit/(loss) over the period in which the employees work;
- *defined benefit plans*: the sum of future obligations under these plans is based on actuarial assumptions using the projected unit credit method. The calculation is carried out by an independent actuary. This calculation is based on assumptions relating to mortality, staff turnover and estimated future salary increases, as well as the specific economic conditions of each country or Group company. The discount rates are determined, at the measurement date, with reference to the yield of investment grade corporate bonds in the relevant geographical area (or of government bonds in countries where there is no representative market for these corporate bonds).

Below is a schematic representation of the cases pertaining to the classification of post-employment benefits for IAS 19 purposes based on the main types of post-employment benefits in the light of the introduction of Italian Law no. 296 of 27 December 2006.

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

* For newly incorporated companies, the number taken as a reference relates to the first year of business.

** Without prejudice to options to allocate the post-employment benefits to supplemental pension plans.

Termination benefits

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

(EUR thousand)	31/12/2021	31/12/2020
Balance at the beginning of the year	4,213	4,215
Liabilities held for sale	(883)	-
Revaluation	0	144
Decreases in the year	(69)	(146)
Balance at the end of the year	3,261	4,213

The main assumptions used in determining the actuarial value of the liability are shown below:

	2021	2020
Discount rate	1.0%	0.3%
Inflation rate	1.0%	0.5%
Average turnover rate	3.0%	3.0%
Average rate of salary increase	1.5%	1.5%
Average age	46	45

III. INVESTING ACTIVITIES

NOTE 15 - AUTHORISATIONS AND CONCESSIONS

Definition and recognition and measurement criteria

Authorisations and Concessions include concessions, authorisations and rights to operate wind farms, solar plants and hydroelectric plants, including any rights to feed-in tariffs, amortised based on their residual useful life. These intangible

assets are recognised at purchase cost, inclusive of all related charges net of amortisation and any impairment losses as indicated in **Note 22 – Impairment Test**.

(EUR thousand)	Authorisations and concessions	reclassification to assets held for sale
Historical cost	1,137,207	-
Amortisation	(352,448)	-
BALANCE AT 31/12/2020	784,759	-
Assets held for sale	-	-
Changes for the year:		
Change in the consolidation scope	60,897	-
Capital expenditure	142	-
Capitalisations and reclassifications from/to intangible assets	-	-
Reclassifications from other items	-	-
Disposals and divestments	-	-
Amortisation	(53,358)	(8,225)
Impairment losses	(9,777)	-
Other changes	-	-
Assets held for sale	(127,522)	
Historical cost	980,111	218,903
Amortisation	(324,970)	(91,381)
BALANCE AT 31/12/2021	655,141	127,522

For greater comprehension, changes during the period relating to reclassifications, disposals and divestments and other changes are shown net of the related accumulated amortisation and write-downs.

The amounts reclassified to assets held for sale refer to the authorisations and concessions of the company ERG Hydro S.r.l. (now Enel Hydro Appennino Centrale S.r.l.) as indicated in **Note 43 - Assets and liabilities held for sale**. Note that the reclassified amount refers to the final balance.

The **change in the scope of consolidation** refers to the Joran and Ventoux business combinations as well as the acquisition of the Ready to Build project in Sweden in 2021. For further details, please refer to **Note 45 – Business combinations and asset acquisition**.

NOTE 16 - OTHER INTANGIBLE ASSETS

Definition and recognition and measurement criteria

Other intangible assets refer mainly to software licences. Intangible assets are recognised at purchase cost, including all related ancillary charges.

Other intangible assets are amortised over a maximum period of 5 years.

(EUR thousand)	Other intangible assets	Assets under development	Total	of which assets held for sale
Historical cost	27,841	6,924	34,765	
Amortisation	(23,174)	-	(23,174)	
BALANCE AT 31/12/2020	4,667	6,924	11,590	
Changes for the year:				
Change in the consolidation scope	-	(14)	(14)	-
Capital expenditure	2,087	1,521	3,608	90
Capitalisations and reclassifications from/to intangible assets	3,195	(8,041)	(4,846)	54
Reclassifications from other items	-	-	-	-
Disposals and divestments	(1,458)	24	(1,434)	-
Amortisation	(1,767)	-	(1,767)	(166)
Impairment losses	-	-	-	-
Other changes	29	0	29	-
Assets held for sale	(1,257)	(91)	(1,347)	
Historical cost	26,912	323	27,234	4,775
Amortisation	(21,416)	-	(21,416)	(3,428)
BALANCE AT 31/12/2021	5,496	323	5,820	1,347

For greater comprehension, changes during the period relating to reclassifications, disposals and divestments and other changes are shown net of the related accumulated amortisation and write-downs.

The amounts reclassified to **assets held for sale** refer to the other property, plant and equipment of the company ERG Hydro S.r.l. (now Enel Hydro Appennino Centrale S.r.l.) as indicated in **Note 43 - Assets and liabilities held for sale**. Note that the reclassified amount refers to the final balance.

Assets under development at the end of the year refer to investments in software, mainly in ERG Power Generation.

NOTE 17 - GOODWILL

Definition and recognition and measurement criteria

Goodwill acquired in a business combination is not amortised, but is subjected to impairment tests pursuant to the procedures provided for in IAS 36 - Impairment of Assets every year, or more frequently if specific events or changes

in circumstances indicate the possibility that there may have been any impairment ("trigger events"). For more information, see the comments in **Note 22 - Impairment Test**.

The table below shows the changes in the item "Goodwill" during the year:

(EUR thousand)	Wind Italy	Wind France	Wind Germany	Solar Italy	Solar France	Total
Balance at 31/12/2020	125,932	34,944	6,440	56,062	-	223,378
Changes for the year:						
"Joran" Business Combination	-	31,595	-	-	5,884	37,479
"Ventoux" business combination France	-	10,180	-	-	9,140	19,321
"Ventoux" business combination Germany	-	-	25,951	-	-	25,951
Impairment losses	-	-	-	-	-	-
Balance at 31/12/2021	125,932	76,720	32,391	56,062	15,024	306,114

NOTE 18 - PROPERTY, PLANT AND EQUIPMENT

Definition and recognition and measurement criteria

Property, plant and equipment

These are recognised at purchase cost, inclusive of capitalised financial expense, net of accumulated depreciation and any impairment losses (for which reference is made to the Impairment Test section). They are depreciated on a straight-line basis over the estimated useful life.

The assets cost, in presence of current obligations, includes charges for dismantling, assets removal and site restoration to be incurred at the time facilities are abandoned, which are presented as a contra-asset in a specific provision.

Main assumptions – useful life and depreciation

The useful life of property, plant and equipment is reviewed annually and adjusted where the most recent estimate differs from those previously. Any changes in estimates relating to the useful life of property, plant and equipment are recognised prospectively. If an item of property, plant and equipment comprises various parts having different useful lives, these parts are recognised separately (significant components).

Freely transferable assets are depreciated over the estimated life of the asset or the concession term, whichever is shorter.

The depreciation rates applied are as follows:

	%
Wind-power generators	5
Industrial and commercial buildings	2.5 - 7.34
Fixed hydraulic works	1
Pressure pipes	2.5
Hydraulic and electrical machinery	3.3
Automation and control systems	10
Plant and machinery	5
Digital control-remote transmission facilities	10
Transport lines	5
Lightweight constructions	10
General plant	8.45 - 10.0
CCGT plant*	6,1
Digital control and remote transmission facilities	10
Motor vehicles, furniture and furnishings	8.38 - 25.0
Surface rights and other civil works	3.5
Photovoltaic modules	5
Other assets/equipment	from 10 to 20

* Average rates

(EUR thousand)	Land and buildings	Plant and equipment	Other assets	Assets under construction	Total	of which assets held for sale
Historical cost	221,917	4,776,499	25,358	145,157	5,168,931	
Depreciation and impairment losses	(117,225)	(2,886,563)	(15,769)	-	(3,019,557)	
BALANCE AT 31/12/2020	104,692	1,889,937	9,589	145,157	2,149,374	
Changes for the year:						
Change in the consolidation scope	-	239,420	-	9,673	249,093	-
Capital expenditure	505	39,600	444	213,930	254,479	6,551
Capitalisations and reclassifications from/to property, plant and equipment	786	128,873	1,245	(126,058)	4,846	(54)
Disposals and divestments	-	(1,250)	(20)	-	(1,270)	(174)
Depreciation	(5,313)	(185,198)	(1,726)	-	(192,237)	(13,477)
Impairment losses	-	(15,000)	-	-	(15,000)	-
Other changes	(153)	6,138	8	11,848	17,841	(0)
Assets held for sale	(44,529)	(504,069)	(539)	(5,642)	(554,778)	
Historical cost	99,639	4,171,222	24,128	248,908	4,543,897	1,250,138
Depreciation and impairment losses	(43,651)	(2,572,770)	(15,128)	-	(2,631,549)	(695,360)
BALANCE AT 31/12/2021	55,988	1,598,452	9,000	248,908	1,912,350	554,778

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

The amounts reclassified to assets held for sale refer to the property, plant and equipment of the company ERG Hydro S.r.l. (now Enel Hydro Appennino Centrale S.r.l.) as indicated in **Note 43 - Assets and liabilities held for sale**. Note that the reclassified amount refers to the final balance.

The **change in the consolidation scope** refers mainly to the aforementioned business combinations during the year, relating to the wind farms and photovoltaic plants in France and Germany and a Ready to Build project in Sweden.

For a more detailed analysis, reference should be made to **Note 45 – Business combinations and asset acquisition**.

Capital expenditure refers mainly to the development of wind farms under construction in the United Kingdom, Poland, Sweden and France.

The item **Reclassifications** includes reclassifications between different asset classes, relating to the development of wind farms under construction in the United Kingdom and France.

The item **Reversals/(Write-downs)** refers mainly (approximately EUR 12 million) to the write-down performed for plants to be dismantled following the obtaining of the Single Authorisation of five Repowering projects; the amount corresponds to the net residual value of the plants at the date of the plant shutdown. It also refers to the write-down of the CCGT plant of ERG Power S.r.l. (approximately EUR 3 million) following impairment testing.

The item **Other changes** mainly refers to the capitalisation of interest (approximately EUR 6 million) relating to the wind farms under construction in the United Kingdom, Poland and Sweden, as well as to the change in the exchange rate effect that occurred during the year for approximately EUR 5 million.

With regard to the existence of restrictions on the assets held by the Group, please refer to **Note 38 – Disclosure on financial risks**.

NOTE 19 - RIGHT-OF-USE ASSETS

Definition and recognition and measurement criteria

Leases

The Group's leases, as per the IFRS 16 definition, relate to land, warehouses, properties, equipment, substations and vehicle fleet. Leased assets are recorded in the Consolidated Financial Statements with the recognition of an asset representing the right to use the underlying asset and a liability representing the obligation to make lease payments.

Financial liabilities are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group uses the incremental borrowing rate (determined as the sum of the Group's credit spread and the forward curve based on Euro area swap rates).

Main assumptions – lease evaluation

The Group applies judgment in determining whether a contract contains a lease. The Group analysed all the lease contracts, defining the lease term for each of them, the "non-cancellable" period.

The Group's leases have an average term of 14 years, with the inclusion for some leases of a renewal option that can be exercised at the end of the binding period. Others provide for additional payments linked to the change of local price indices. In relation to the renewal options, the Group estimated the term of the related lease agreements taking into account the reasonable certainty that the option will be exercised.

Specifically, for land and buildings, this assessment considered the specific facts and circumstances of each asset. It should be noted that starting from the condensed interim consolidated financial statements at 30 June 2021, following a review of the renewal options, the estimate of the average residual duration has been updated from 16 to 19 years. With regard to the other categories of assets, mainly corporate cars and equipment, the Group generally deemed improbable that extension or early termination clauses would be exercised in consideration of the practice usually followed by the Group.

The change in the right-of-use assets over the year is shown in the following table:

(EUR thousand)	Land and buildings	Specific plants	Equipment	Other assets	Total
BALANCE AT 31/12/2020	95,658	598	-	1,812	98,069
Increase in right-of-use assets	8,462	-	-	-	8,462
Increase in right-of-use assets due to business combinations	26,299	-	-	-	26,299
Derecognition of right-of-use assets	(898)	(140)	-	(114)	(1,152)
Depreciation for the year	(5,379)	(34)	-	(909)	(6,322)
BALANCE AT 31/12/2021	124,142	424	-	789	125,356

NOTE 20 - PROVISIONS FOR DISMANTLING EXPENSES

Definition and recognition and measurement criteria

The Group is required to dismantle the technical equipment and restore the sites. When the obligation arises, the costs of dismantling are capitalised to increase the carrying amount of the asset to which they refer as a balancing entry to the related provision for dismantling. Capitalised costs are

allocated to the income statement via depreciation.

The discount rates used for the financial revaluation of the costs of restoring wind and solar farms, depending on the country of reference, are within the range of 1%-3.5%.

(EUR thousand)	31/12/2021	Increases	Decreases	Change in the consolidation scope	31/12/2020
Provisions for dismantling expenses	60,908	6,633	-	6,155	48,119
Total	60,908	6,633	-	6,155	48,119

The increase for the year in the item "land and buildings" is mainly due to the recognition of the right of use on the land of the wind farms and solar farms referring to the previously commented Joran and Ventoux business combinations. For further details on business combinations, please refer to **Note 45 – Business combinations and asset acquisition** in section **VIII. Other Notes**.

NOTE 21 - AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

Definition and recognition and measurement criteria

Authorisations and Concessions are amortised on the basis of their residual duration. Other intangible assets are amortised over a maximum period of 5 years.

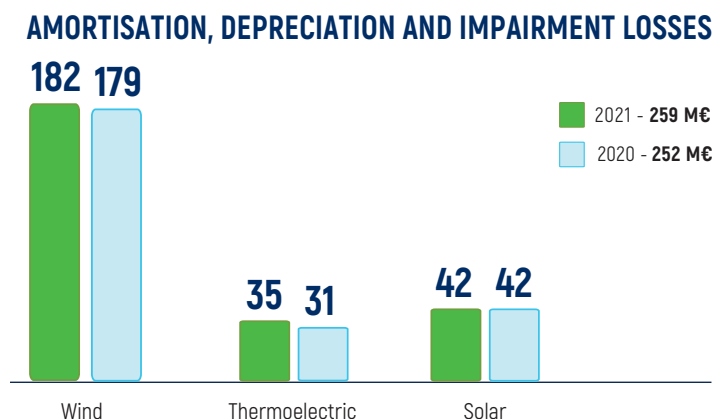
Property, plant and equipment are depreciated on a straight-line basis over their estimated useful life.

(EUR thousand)	2021	2020
Amortisation of Authorisations and Concessions	45,133	49,394
Amortisation of Other intangible assets	1,615	1,439
Total	46,748	50,833
Depreciation of Property, Plant and Equipment	178,759	185,003
Depreciation of right-of-use assets	6,322	6,440
Total	185,081	191,443
Impairment losses (reversals of impairment losses) of Other intangible assets	10,516	(60)
Impairment losses (reversals of impairment losses) of Property, plant and equipment and Right-of-use assets	15,000	8,152
Total	25,516	8,092
Total	257,345	250,368

Amortisation and depreciation refer to wind farms, the CCGT plant and solar installations.

The change in the year refers mainly to the contribution made by the wind and solar assets acquired during the year, and the write-downs of the net residual value of the plants carried out following the obtainment of the Single Authorisation for five Repowering projects (approximately EUR 10 million) in Italy, partially offset by the review of the useful life of some assets relating to wind farms and the end of the useful life of some components of the wind farms. The item also includes the write-down of the ERG Power S.r.l. CCGT plant recognised following the Impairment Test procedures, for an amount of approximately EUR 3 million.

The following chart provides details on amortisation and depreciation broken down by Business:



NOTE 22 - IMPAIRMENT TESTING

Definition and recognition and measurement criteria

This section provides a description of the impairment tests on the Group's main assets, as required by IAS 36.

In particular, it should be noted that for the verification:

- of Goodwill, a test was conducted on the recoverable amount determined at CGU Group level, and identified in the value in use calculated on the estimated cash flows over the useful life of the assets allocated to the aforesaid Groups,
- of property, plant and equipment, intangible assets and right-of-use assets, with finite useful lives allocated to individual

CGUs, in accordance with IAS 36, indicators were identified that can provide evidence that an asset may have undergone impairment. If the comprehensive analysis of the indicators shows that there was a potential impairment loss for a CGU, then the related recoverable amount is determined.

The above tests were carried out in accordance with the Impairment Test Procedure approved by the Board of Directors of ERG S.p.A. on 22 February 2022.

Identification of Groups of cash-generating units (CGUs)

For the purposes of impairment testing, the operating segments currently identified by the Group coincide with the three different technologies used for power generation, listed below:

- Wind
- Solar
- Thermoelectric

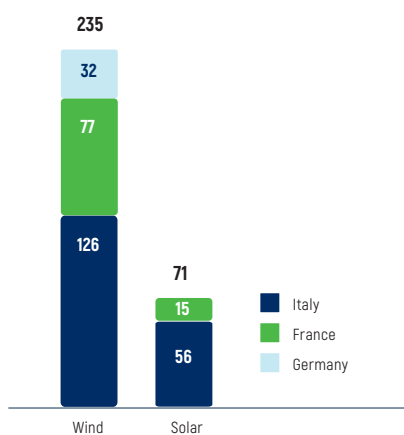
The analysis of the operating performance of the Wind and Solar sectors is further monitored, for some indicators, with reference to the country in which the Group operates.

	Wind	Solar	Thermo
Italy	✓	✓	✓
France	✓	✓	–
Germany	✓	–	–
Poland	✓	–	–
Romania	✓	–	–
Bulgaria	✓	–	–
UK	✓	–	–

The groups of units were then identified, consistently with the Group's organisational and business structure, as assets that generate independent cash inflows deriving from their continuous use and they follow a dual dimension pertaining, on one hand, to generating technology and, on the other hand, to the current reference market, identified in the country where the facilities are located, for a total of 10 groups of CGUs.

In view of the foresaid considerations, the recoverable value of the groups of units to which goodwill is allocated was tested by determining the value in use by discounting operating cash flows on the basis of the following assumptions:

ALLOCATION OF GOODWILL (€/million)



- the groups of units coincide with the set of wind farms in Italy, France and Germany, and the solar plants in Italy and France;
- to determine the value in use, the present value of the expected operating cash flows associated with the CGU Groups was estimated on the basis of a period which is the lower of the expected duration of the land leases and the estimated duration of the wind farms established by the Longlife Time Extension (LTE) project undertaken by the Group with reference to the plants already in operation. For the new acquisitions made starting from 2021 and for the new greenfield projects, a time horizon of 40 years from the Commercial Operation Date (COD) of the project was considered, in line with the assumptions for the choice of investment;
- a discount rate equal to the industry WACC (post tax) was used to compute the present value of expected cash flows (4.32% in Italy, 3.63% in France and 3.41% in Germany).

The Group adopted an after-tax discount rate that reflects the market's current assessment of the cost of money and the specific risk associated with the CGUs. In determining the discount rate, the financial parameters considered were the Beta and Debt/Equity ratios derived from panels of comparable companies, in order to consider both the market risk of companies operating in the same industry and a market-based financial structure. With regard, instead, to the cost of equity (Ke), this includes the rate of return of risk-free assets and it is identified as the rate of return of German ten-year government bonds.

The growth rates used are based on growth forecasts for the Group's industry, taking into account the Group's market share. Changes in sale prices and in direct costs are determined on the basis of past experience and on future market expectations.

	Wind Italy	Solar Italy	Wind France	Solar France	Wind Germany
Recoverable value basis	Value in use				
Methodology	Discounted Cash Flow				
Terminal value	Flow subsequent to the end of the useful life of the asset, determined according to the estimated residual duration of the Authorisations/Concessions and the availability of the land on which the plants stand				
WACC (post tax)	4.32%	4.32%	3.63%	3.63%	3.41%

In particular, the following were taken into account for the determination of the cash flows:

- the 2022-2026 Business Plan examined by the Board of Directors of ERG S.p.A.
- for subsequent years, the data processed on the basis of models simulating the macroeconomic and energy scenario and assuming a steady production trend.

Group management deems the assumptions used to identify the recoverable amount of the goodwill connected with the four groups of units to be reasonable and, on the basis of the aforementioned assumptions, no impairment has emerged.

The verifications carried out for the purposes of these Consolidated Financial Statements showed, for all the groups of CGUs assessed, a positive difference (headroom) between the recoverable amount and the carrying amount¹:

(EUR million)

CGU Group	Headroom*
Wind Italy	699
Wind France	121
Wind Germany	45
Solar Italy	77
Solar France	3

* Positive difference (headroom) between the recoverable amount and the carrying amount.

Sensitivity analysis

The result of the impairment test derives from the estimates made by Group management on the basis of the information available to date and the assumptions shown in the previous section. The most uncertain assumptions for which subjective assessments are more usually required regard in particular those relating to the identification of the expected energy prices and the estimation of the financial parameters used to determine the discount rate, and those relating to the assessment of the availability of renewable resources. The Group took account of the aforesaid uncertainties in developing and defining the basic assumptions used to determine the recoverable amount of the gains allocated to the segments examined, and also carried out a sensitivity analysis on the recoverable amount of the groups of units. This analysis assumed two scenarios:

¹ The carrying amount corresponds to the Net Invested Capital and is determined by the algebraic sum of the Non-current assets (including Goodwill), Net operating working capital, Liabilities related to Post-employment benefits, Other assets and Other non-financial liabilities, and the lease payables of all the companies within the group of CGUs, including the consolidation entries consistent with the Group consolidated Financial Statements but considering the different sub-aggregation of data corresponding with the group of CGUs

- that total revenue from sales of energy (i.e. energy remuneration and generation) could undergo upward or downward fluctuations of an estimated 5% compared to the values estimated for the Plan;
- that the discount rate used could be increased by 1 percentage point.

(EUR million)	Changes in Headroom*	
CGU Group	-5% Revenue	+1% Wacc
Wind Italy	-116	-182
Wind France	-67	-83
Wind Germany	-32	-33
Solar Italy	-26	-26
Solar France	-6	-7

* Positive difference (headroom) between the recoverable amount and the carrying amount

The recoverable amount would be equal to the reference carrying amount (headroom equal to zero) in the following **revenue reduction** assumptions for the respective groups of CGUs.

- Wind Italy: -33.4%
- Wind France: -9.0%
- Wind Germany: -7.3%
- Solar Italy: -17.0%
- Solar France: -2.5%

The recoverable amount would be equal to the reference carrying amount (headroom equal to zero) in the following **WACC increase** assumptions for the respective groups of CGUs.

- Wind Italy: with Wacc equal to 11.0%
- Wind France: with Wacc equal to 5.1%
- Wind Germany: with Wacc equal to 4.9%
- Solar Italy: with Wacc equal to 8.2%
- Solar France: with Wacc equal to 4.0%

The above analyses confirm the sensitivity of the assessments of the recoverability of non-current assets to changes in the aforesaid variables; in this context, the Directors will systematically monitor changes in the aforesaid external, uncontrollable variables in order to make any necessary adjustments to the estimates of the recoverability of the carrying amounts of goodwill in the Consolidated Financial Statements.

Testing of intangible assets with finite useful lives and of Property, plant and equipment and Right-of-Use Assets

For the purposes of the 2021 Consolidated Financial Statements, the Group verified whether there are any indications that either property, plant and equipment or intangible assets with finite useful lives may have become impaired.

To this end, it is specified that for the ERG Group:

- **property, plant and equipment** are represented by the electricity generation plants of different technologies (wind farms in Italy and abroad, solar plants in Italy and the CCGT thermoelectric plant located in Sicily);
- **intangible assets** are mainly represented by the residual value of the values² allocated in the purchase price

² Values relating to business combinations from previous years.

allocation and recorded as increases in the value of the concessions, authorisations and rights to operate wind farms and solar plants, including any rights to feed-in tariffs for plants in operation.

In line with the previous years, these values are allocated to the individual reference CGU represented by the individual legal entities and/or business combinations that generated them.

In accordance with IAS 36, the group identified a list of indicators, which can indicate that an asset may have become impaired (triggering events):

For this purpose, both internal and external sources of information have been considered.

- with regard to **internal sources**, the following were examined: (i) the obsolescence or physical deterioration of the asset, (ii) any significant changes in the use of the asset and (iii) the economic performance of the asset with respect to the forecast.
- with regard to **external sources**, on the other hand, the following are considered: the trend in market prices of the assets, any technological, market or regulatory discontinuities and the trend in market interest rates. To verify this information, a synthetic indicator was also identified ("profitability indicator") calculated by discounting the sum of the operating cash flows (EBITDA) for the residual observation period, determined on the basis of the same procedures and assumptions already commented in the previous paragraph for Goodwill testing. To also capture the related tax effects, the indicator is net of notional taxes on EBITDA.

The indicator thus calculated is compared with that of the previous year in order to verify the potential impairment loss, pursuant to the provisions of paragraph 15 of IAS 36.

Lastly, the Group verifies that the carrying amount of the Group's net assets is not higher than the stock market capitalisation.

If the comprehensive analysis of the indicators shows that both property, plant and equipment and intangible assets with finite useful lives may have become impaired, the recoverable amount will be determined and compared with the carrying amount.

The recoverable amount for the individual CGUs is calculated as the value in use with the same procedures and assumptions already commented on in the previous section for Goodwill testing.

If this amount is lower, the carrying amount of the assets would be reduced to the related recoverable amount with the exception of the cases in which fair value net of costs to sell was higher.

The tests described above did not reveal the need to proceed with the determination of the recoverable value, other than as commented below:

- **Wind farms subject to already authorised repowering**

In 2021, following the obtaining of the authorisations for the repowering of the wind farms of Partinico-Monreale, Mineo-Militello and Vizzini, the residual net value of the related property, plant and equipment and intangible assets was written down in view of the planned removal of the old plants that will be carried out in the course of 2022. The write-down amounts to approximately EUR 22 million.

Recoverable value of the CGU Groups

Finally, it should be noted that, even if not expressly required by IAS 36, Group Management proceeded to determine the recoverable value, understood as value in use, of the CGU Groups to which no goodwill is allocated, comparing it with the related carrying amount. No impairment emerged as a result of this test.

NOTE 23 - EQUITY INVESTMENTS

Definition and recognition and measurement criteria

Joint ventures

Joint ventures are an agreement through which the Group has rights on the net assets rather than rights on the assets and obligations for the liabilities (companies over whose assets the Group has joint control as defined by IFRS 11 – Joint Arrangements). The Consolidated Financial Statements include the Group's share of the profit or loss of the joint venture, measured using the equity method, starting from the date when joint control starts until the time when it ceases to exist.

If the Group's share of the joint venture's losses exceeds the carrying value of the investment in the Consolidated Financial Statements, the value of the investment is written down to zero and the share of additional losses is not recognised, except and to the extent to which the Group is obligated to be liable for them.

Associates

These are companies in which the Group exercises significant influence, but not control or joint control, over financial and operating policies, as defined by IAS 28 – Investments in associates and joint ventures. The Consolidated Financial Statements include the Group's share of the results of the associates, measured under the equity method, starting from the date when significant influence starts until the time when it ceases to exist. If the Group's share of the associate's losses exceeds the carrying value of the investment in the Consolidated Financial Statements, the value of the investment is written down to zero and the share of additional losses is not recognised, except and to the extent to which the Group is obligated to be liable for them.

The breakdown of the item Equity investments held at 31 December 2021 is shown below:

(EUR thousand)	Measured at Equity	Measured at cost	Total
Equity investments:			
- in subsidiaries not consolidated on a line-by-line basis	-	180	180
- in joint ventures	-	238	238
- in associates	11,232	-	11,232
- in other companies	-	3	3
Total	11,232	421	11,653

(EUR thousand)	Equity investments				
	Subsidiaries not consolidated on a line-by-line basis	Jointly controlled subsidiaries	Associates	Other companies	Total
Balance at 31/12/2020	129	221	11,874	-	12,223
Changes for the year:					
Acquisitions/share capital increases/increases	28	-	-	-	28
Change in consolidation method	-	45	-	-	45
Impairment losses/utilisation of loss allowances	-	-	-	-	-
Disposals and divestments	-	-	(765)	-	(765)
Measurement of company with equity method	-	-	122	-	122
Balance at 31/12/2021	156	266	11,232	-	11,653

The negative change in the item **Disposals and divestments** refers to the sale of part of the equity investments held by ERG Power S.r.l. in the company Priolo Servizi S.C.p.A.

The positive change arising from the **Measurement using the equity method** is attributable to the performance during the period of the investee Priolo Servizi S.C.p.A.

NOTE 24 - NET GAINS (LOSSES) ON EQUITY INVESTMENTS

In 2021, gains (losses) on equity investments amounting to EUR -70 thousand (EUR 496 thousand in 2020) refer mainly to the negative adjustment relating to the sales of equity investments in previous years of EUR 192 thousand. The item includes also the Group's share of the result of Priolo Servizi S.C.p.A. for EUR 122 thousand.

Pursuant to IFRS 12, shown below are the main economic and financial data for the contribution of Priolo Servizi S.C.p.A., a consortium company controlled by ERG Power S.r.l. (20.31%), ISAB S.r.l. (36.82%) and the other shareholders of the Versalis S.p.A. group (37.22%) and Syndial S.p.A. (5.65%).

(EUR thousand)	31/12/2021	31/12/2020
Net invested capital	61,446	58,569
Equity attributable to the owners of the parent	55,298	55,093
Financial indebtedness	6,147	5,576

	2021	2020
Revenue	59,896	23,820
Profit for the year	604	262

NOTE 25 - OTHER NON-CURRENT FINANCIAL ASSETS

(EUR thousand)	31/12/2021	31/12/2020
Tied assets - Escrow Account Italian Law no. 488/92 grants	24,240	31,621
Security deposits and other	8,699	7,654
Total	32,939	39,275

The **receivables tied up in the Escrow** Account relate to the sums deposited by the Group awaiting the decision of the Court of Avellino, with reference to grants pursuant to Italian Law no. 488/92 relating to wind farms acquired as part of the ERG Wind transaction. With respect to the aforesaid receivables, a liability of an equal amount has been allocated and it was recognised in the 2013 Consolidated Financial Statements as part of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (**Note 13 – Other non-current liabilities**);

The change in the year refers mainly to the repayment of the amounts deposited in the Escrow Account in relation to 2 projects of ERG Wind Sicilia 2 (EUR 3,127 thousand) and ERG Wind Sicilia 3 (EUR 4,255 thousand), according to the provisions of the ruling of the Court of Avellino of 3 December 2020.

Italian Law no. 488/92 contributions by ERG Wind

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

In the first half of 2007, an investigation was initiated by the Public Prosecutor at the Court of Avellino in relation to the allocation of these grants with specific reference to the alleged falseness of certain of the documents provided with the grant application.

In 2007, the attachment of the Italian Law no. 488/1992 incentives still to be provided was ordered (EUR 21.9 million) and on 30 September 2008 the Public Prosecutor ordered the precautionary attachment of seven wind farms. Following the deposit of an amount equal to EUR 31.6 million by the involved companies, in January 2010 the wind farms which have been under precautionary attachment were released, upon attachment of the aforementioned amounts.

These amounts were then transferred to the Escrow Account.

The first instance proceedings were opened in 2012 before the Criminal Section of the Court of Avellino against the aforementioned companies and other defendants.

These proceedings were concluded in December 2020 with a ruling that ordered (i) the acquittal of/nonsuit against all natural persons; (ii) the acquittal of some companies with reference to 2 projects with immediate repayment of the amounts subject to preventive attachment, equal to approximately EUR 7.4 million and (iii) the conviction of some companies with reference to 7 projects, with confiscation of the amounts relating to the grants pursuant to Italian Law no. 488/92 disbursed to the same and already deposited with the Escrow Account (Fondo Unico di Giustizia - FUG) for a total amount of approximately EUR 24.2 million, with the provision of administrative pecuniary sanctions, for a total amount of approximately EUR 0.5 million, and 1-year interdiction orders. The confiscation and the sanctions indicated above are not immediately enforceable until the judgement becomes final.

The convicted companies appealed the ruling of the Court of Avellino according to the legal terms, the proceedings are now pending before the Naples Court of Appeal.

By contrast, the Public Prosecutor did not appeal the ruling,

which therefore became final in the part which acquits ERG Wind Sicilia 3 S.r.l. and ERG Wind Sicilia 2 S.r.l. (the latter in relation solely to the Camporeale project).

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

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

On 27 July 2015, the beneficiary companies were issued with payment notices relating to the return of the incentives. Said notices were challenged with the submission of opposition proceedings before the Court of Genoa.

As part of said proceedings, the Civil Judge ruled the tax assessments suspended against the submission of bank guarantees for the entire value of the latter (EUR 49 million). At the hearing of 23 October 2018, the Civil Judge, noting the prejudicial nature of the proceeding initiated with the extraordinary appeal before the President of the Republic of Italy, ordered the suspension of the civil proceedings while the administrative case is pending.

The proceedings subsequent to the filing of the extraordinary appeals to the Head of State are also still pending and, despite the reminders filed by the applicants, the decision on the appeal and on the merits did not take place during 2021. Ideally, the appeals will be decided upon in 2022.

In view of: (i) the guarantees issued by the seller of the companies of the International Power Group to ERG in the contract of transfer of the investments in these companies, (ii) the settlement agreement concluded between said seller and ERG dated 19 December 2016, in which these guarantees were confirmed and further detailed, and (iii) the fact that in the 2013 Consolidated Financial Statements a liability for an amount corresponding to the nominal amount of the incentives for which the Italian Ministry of Economic Development is requesting the return (see definition of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (**Note 13 – Other non-current liabilities**)) had already been allocated, further provisions are not required.

IV. PROVISIONS AND CONTINGENT LIABILITIES

NOTE 26 - OTHER PROVISIONS

Definition and recognition and measurement criteria

The amounts recorded under Other provisions against obligations existing at the reporting date are measured on the basis of the best estimate of the financial outlay that will be necessary to fulfil the obligation. Changes in estimates are reflected in the income statement in the period in which they occur.

The other categories of provisions reflect the measurement of probable liabilities related to some pending disputes for which it was possible to make a reliable estimate of the corresponding expected obligation. For these provisions, no discounting was applied because of the uncertainty about the utilisation times.

(EUR million)	31/12/2021	Increases	Decreases	Increases/Decreases Liabilities held for sale	Change in the consolidation scope	31/12/2020
Provisions for tax risks	24,408	474	(2,631)	-	-	26,565
Provisions for institutional counterparty risks	26,471	2,659	(1,005)	(16,228)	-	41,045
Provisions to cover losses of investees	-	-	-	-	-	-
Provision for legal risks	3,528	2,668	-	-	-	860
Other provisions for risks and charges	10,490	6,979	(25)	(410)	2,607	1,339
Total other provisions	64,897	12,780	(3,661)	(16,638)	2,607	69,809

The **provision for tax risks** includes, inter alia, the allowance relating to the existing dispute and to the potential dispute in relation to local taxes brought as a result of the different interpretation provided by the Italian Revenue Agency regarding application of the regulatory provisions introduced by Italian Law no. 208/2015 (in particular, wind towers are considered by the Italian Revenue Agency to be relevant for the purposes of calculating cadastral rent). The decrease refers to a compensatory effect on some special indemnities relating to the solar business and to uses of the aforementioned provision.

The **provision for institutional counterparty risks** refers to the following risks:

- charges tied to interest and revaluations on the grants under Italian Law no. 488/1992 (EUR 15.6 million), relating to wind farms acquired as part of the ERG Wind transaction and revoked by the Italian Ministry of Economic Development, as described in more detail in **Note 25 - Other non-current financial assets**. It should be noted that the risks associated with the revocation of the aforementioned grants are covered in the ERG Wind acquisition agreements by specific indemnity obligations issued by the seller and therefore the related receivable was allocated to "Other non-current assets";
- contingent charges of foreign companies (EUR 9 million) refers to contingent liabilities concerning Romania, recognised in 2015 on the winding up of the joint venture LUKERG Renew.

The change in the year refers to the increase (EUR 2.6 million) due to charges related to fees to be paid to local entities for public concessions.

The decreases in liabilities held for sale refer for approximately EUR 16 million to the reclassification to "Liabilities held for sale" of the provision for charges related to fees to be paid to local authorities in relation to public concessions of the company ERG Hydro S.r.l., now Enel Hydro Appennino Centrale S.r.l.

The **provision for legal risks** mainly relates to provisions for risks relating to the wind and solar business.

The increase in the period relates to the provision for disputes with local authorities relating to the wind business.

The increase in **other provisions for risks and charges** for the year mainly refers to risks on potential higher contractual charges (approximately EUR 3 million) as well as disputes with local authorities relating to the wind business (EUR 2.5 million).

The increase in the change in the scope of consolidation refers to the recognition of a provision against tax and legal risks identified in relation to the acquisitions during the year.

NOTE 27 - CONTINGENT LIABILITIES AND DISPUTES

ERG is a party in civil, administrative and tax proceedings and legal actions connected with the normal course of its operations.

Where no explicit mention is made of a provision, the Group has assessed the corresponding risk as possible and provides the relevant information.

The Notes to the Financial Statements illustrate the significant contingent liabilities represented by:

- possible (but not probable) obligations arising from past events, the existence of which will be confirmed only upon occurrence of one or more uncertain future events not wholly within the company's control;
- present obligations arising from past events the amount of which cannot be reliably estimated, or for which it is probable that settlement will not be onerous.

For the purposes of these Consolidated Financial Statements, there are no obligations falling within the definition described above.

V. FINANCING ACTIVITIES

OWN FUNDS

NOTE 28 - EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT

The change in equity during the year is shown below:

(EUR thousand)	31/12/2021	31/12/2020
Share capital	100,000	100,000
Share premium reserve	7,000	7,000
Revaluation reserves	37	37
Legal reserve	20,000	17,826
Merger reserve	1,924,568	1,924,568
Retained earnings	269,830	230,392
Other reserves	(81,022)	144,153
Profit for the year	208,645	142,578
Equity attributable to the owners of the parent	2,449,058	2,566,556
Non-controlling interests	9,639	9,669
Equity	2,458,697	2,576,225

Dividends

The dividends paid by ERG Power Generation S.p.A. to the parent company ERG S.p.A. in 2021 amounted to EUR 50 million (EUR 45 million in 2020).

Supplementary information on capital

The objectives identified by the Group for capital management are to safeguard corporate viability, to create stakeholder value and to support Group development. In particular, the Group pursues the maintenance of an adequate level of capitalisation that allows it to produce a satisfactory economic return for the shareholders and to assure access to external financing sources, also through the achievement of an adequate rating. In this context, the Group manages its own capital structure and makes adjustments to it, if changes in the economic conditions require it. There were no substantial changes to the objectives, to the policies or to the processes at the date of preparation of this document.

NOTE 29 - NON-CONTROLLING INTERESTS

Non-controlling interests relate to the consolidation on a line-by-line basis of the following companies that have other shareholders.

Company	% non-controlling interest	non-controlling interests	Profit/(Loss)
Andromeda PV S.r.l.	21.50%	9,639	1,553

Note also that dividends of EUR 1,584 thousand were paid to non-controlling interests

NET FINANCIAL INDEBTEDNESS

Definition and recognition and measurement criteria

For the purposes of defining the net financial position, from the Condensed Interim Consolidated Financial Statements at 30 June 2021 reference is made to the details on the matter in CONSOB Warning Notice no. 5/21 of 29 April 2021. The comparative data at 31 December 2020 have been restated to provide a better representation in accordance with the provisions of the aforementioned CONSOB Warning Notice. In detail, the net financial position is broken down as follows:

- A. Cash
- B. Cash equivalents
- C. Other current financial assets
- D. Liquidity (A) + (B) + (C)
- E. Current financial liabilities
- F. Current portion of non-current financial liabilities
- G. Current financial indebtedness (E) + (F)
- H. Net current financial indebtedness (G) - (D)
- I. Non-current financial liabilities
- J. Debt instruments
- K. Trade payables and other current liabilities
- L. Non-current financial indebtedness (I) + (J) + (K)
- M. Net financial indebtedness (H) + (L)

Financial assets and Financial liabilities

All financial assets and liabilities are initially recognised on the trading date, i.e. when the Group becomes a contractual party to the financial instrument. Financial instruments are initially measured at fair value plus or minus, in the case of financial assets or liabilities not at FVTPL, transaction costs directly attributable to the acquisition or to the issue of the financial instrument. Subsequently, their valuation and classification is based on the analysis of contractual cash flows and on the business model adopted by the Group for the management of these instruments. They can therefore be measured and classified as follows:

- **Amortised cost.** They mainly include instruments such as financial receivables and other loans granted by the Group. The amortised cost is decreased by impairment loss. Interest, determined using the effective interest method,

exchange gains and losses and impairment losses are recognised in profit or loss for the year as are any gains or losses on derecognition.

- **Fair value through profit or loss for the year (FVTPL)** These instruments are recognised at fair value even after initial recognition and changes in fair value are recognised in profit or loss for the year. They include equity investments and derivative instruments not classified by the Group as hedging instruments.
- **Fair value recognised in the Statement of Comprehensive Income (FVOCI).** These instruments are recognised at fair value even after initial recognition. They mainly include debt securities, equities and derivative instruments classified by the Group as hedging instruments. Interest income calculated in accordance with the effective interest method, exchange gains and losses and impairment losses are recognised in profit or loss for the year; other net gains and losses are recognised in the Statement of Comprehensive Income. When the financial asset is derecognised, the gains or losses previously recognised in the Statement of Comprehensive Income are reclassified to the income statement.

Financial liabilities measured at amortised cost using the effective interest method or at FVTPL. Any changes to financial liabilities measured at FVTPL, including interest expense, are recognised in profit/(loss) for the year. In the case of financial liabilities subsequently measured at amortised cost, interest expense and exchange gains/(losses) are recognised in profit/(loss) for the year, as well as any gains or losses deriving from derecognition.

Financial liabilities measured at amortised cost include loans, trade payables and other financial liabilities; those measured at FVTPL include derivative financial instruments. When a financial asset is derecognised, the difference between the carrying amount of the extinguished financial liability and the price paid (including the assets not represented by cash transferred or the assumed liabilities) is recognised in the profit or loss for the year.

Please refer to **Note 37 – Financial instruments** for further details.

(EUR thousand)	31/12/2021	31/12/2020
Cash and notes on hand	(132,774)	(117,147)
Bank and postal deposits	-	-
	(132,774)	(117,147)
Current loan assets	(186,606)	(16,250)
	(186,606)	(16,250)
Bank borrowings	239	177
Current portion of bank loans and borrowings	-	-
Current portion of Project Financing	26,444	47,514
Loans and borrowings to ERG S.p.A.	1,270,206	81,832
Instruments measured at fair value	55,856	9,528
Other current financial liabilities	2,265	14,364
	1,355,010	153,415
Current lease liabilities	5,522	7,912
Net current financial position	1,041,152	27,930
Non-current portion of bank loans and borrowings	-	-
Non-current portion of Project Financing	210,384	369,243
Loans and borrowings to ERG S.p.A.	(6)	257,405
Other non-current payables	13,639	3,324
Non-current financial liabilities	224,018	629,972
Instruments measured at fair value	3,320	18,397
Non-current lease liabilities	122,104	90,932
Net non-current financial indebtedness	349,443	739,301
Net financial indebtedness	1,390,595	767,231
Net financial indebtedness Operating liabilities held for sale	69,088	-

Indirect and contingent indebtedness

In accordance with ESMA Guidelines, the description and nature of the Group's indirect and contingent indebtedness at 31 December 2021 is provided below.

The Group's indirect and contingent indebtedness at 31 December 2021 amounted to approximately EUR 312 million, mainly attributable to the development of wind farms in the United Kingdom, France, Poland and Sweden (approximately EUR 170 million) and the development of Repowering and Revamping projects on wind farms and photovoltaic plants in Italy for around EUR 141 million.

NOTE 30 - CASH AND CASH EQUIVALENTS

Definition and recognition and measurement criteria

Cash and cash equivalents are presented at fair value, which corresponds to their nominal amount. In accordance with IAS 7, the definition of cash equivalents comprises cash on hand and bank/postal deposits repayable on demand, together

with short-term investments that are convertible to a known amount of cash. It also includes short-term investments whose reimbursement value is predetermined at the date of initial purchase/recognition.

This item, equal to EUR 133 million at 31 December 2021 (EUR 117 million at 31 December 2020), is made up of the balance in the accounts of wind and solar companies owned by ERG Power Generation S.p.A. according to the restrictions on use set forth in the relative project financing agreements for an amount of approximately EUR 50 million.

With regard to earmarked liquidity, reference is made to **Note 38 – Disclosure on financial risks**.

NOTE 31 - FINANCIAL ASSETS MEASURED AT FAIR VALUE

(EUR thousand)	31/12/2021	31/12/2020	Impact on Net Financial Indebtedness
Receivables for commodity hedging derivatives	87,436	14,259	
Receivables for non-commodity hedging derivatives	58,601	-	✓
Total current portion	146,037	14,259	

The current portion, equal to EUR 146 million at 31 December 2021 (EUR 65 million at 31 December 2020), consists of receivables for derivatives hedging commodities amounting to EUR 87.4 million at 31 December 2021 (EUR 14 million at 31 December 2020) referring to the positive fair value of the instruments hedging commodity price risk, which are not included in the classification of financial assets and therefore are not included in the net financial position, as well as the fair value of physical-delivery commodity derivatives for an amount equal to EUR 59 million.

NOTE 32 - CURRENT FINANCIAL ASSETS

The item, amounting to EUR 128 million at 31 December 2021 (EUR 16 million at 31 December 2020), fully included in the net financial position, consists mainly of cash collateral for transactions in futures derivatives.

NOTE 33 - CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

Project Financing, amounting to EUR 237 million at 31 December 2021 (EUR 417 million at 31 December 2020) refers to:

- EUR 107 million in loans relating to the company acquired by Soles Montalto in 2019;
- EUR 129 million in loans issued for the construction of wind farms.

Disbursement	Company	Type of loan	Maturity	Rate	Carrying amount	Nominal amount
2017	ERG Eolica Fossa del Lupo	Secured Project financing	2027	IRS: Euribor + Spread	81,330	87,534
2015	EW Orneta 2 SP Z.O.O.	Secured Project financing	2029	IRS: Wibor + Spread	27,164	27,753
2018	ERG Windpark Linda GmbH & Co. KG	Secured Project financing	2038	Fixed	20,774	20,942
2010	Andromeda S.r.l.	Secured Project financing	2028	Fixed	107,557	107,738
Total					236,825	243,966

The loans indicated above are recognised net of ancillary costs, recognised with the amortised cost method (EUR 3.4 million) and the effect of the renegotiation of borrowing (EUR 3.8 million).

Project financing is guaranteed by the underlying asset. Please refer to **Note 38 – Disclosure on financial risks** for comments regarding any relevant *Covenants and negative pledges*.

Other payables for the non-current portion refer to deferred components of the purchase price of companies operating in the wind business abroad mainly attributable to the acquisition of the Ready to Build project in Sweden for approximately EUR 9.5 million.

Other payables for the current portion refer to deferred components of the purchase price of companies operating in the wind business abroad mainly for approximately EUR 2 million.

NOTE 34 - LEASE LIABILITIES

Financial liabilities arisen as a result of the application of IFRS 16 totalling EUR 128 million (EUR 99 million in 2020), EUR 122 million of which (EUR 91 million in 2020) non-current and EUR 6 million (EUR 8 million in 2020) current.

The liability refers to the present value of payments due and not paid at the start date of the lease plus implicit interest accrued on said liability and less payments made during the year.

The increase in the year mainly refers to the liability recognised for the acquisitions that took place during the year. For further details, please refer to **Note 45 – Business combinations and asset acquisition**.

NOTE 35 - FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

(EUR thousand)	31/12/2021	31/12/2020	Impact on Net Financial Indebtedness
Fair Value derivatives hedging interest rates	3,321	18,391	✓
Liabilities for commodity hedging derivatives	34,372		
Total non-current portion	37,692	18,391	
Liabilities for commodity hedging derivatives	115,001	7,685	
Liabilities for non-commodity hedging derivatives	55,856	9,528	✓
Total current portion	170,857	17,213	

The current portion of EUR 171 million (EUR 17 million at 31 December 2020) is made up for an amount equal to EUR 115 million (EUR 8 million at 31 December 2020) of payables for derivatives hedging commodities referring to the negative fair value of the instruments hedging commodity price risk, which are not included in the classification of financial assets and therefore are not included in the net financial position, as well as at the negative fair value referring to energy contracts with physical delivery for EUR 56 million (EUR 9 million at 31 December 2020).

The non-current portion of EUR 38 million (EUR 18 million at 31 December 2020) is made up of liabilities deriving from the fair value measurement of the derivative instruments hedging interest rates for EUR 3 million (EUR 18 million at 31 December 2020), in addition to payables for derivatives hedging commodities for EUR 34.4 million referring to the negative fair value of the instruments hedging commodity price risk, which are not included in the classification of financial liabilities and therefore are not included in the net financial position. For further details on the derivative instruments adopted by the Group, please refer to [Note 38 – Disclosure on financial risks](#).

NOTE 36 - NET FINANCIAL INCOME (EXPENSE)

(EUR thousand)	2021			2020		
	Financial income	Financial expense	Net	Financial income	Financial expense	Net
Bank interest income (expense) on current accounts	65	(2)	63	59	(2)	57
Interest rate derivatives financial income (charges) - differential	10	(5,110)	(5,100)	10	(8,946)	(8,937)
Financial income (expense) from the parent company	-	(9,829)	(9,829)	-	(7,907)	(7,907)
Financial income (expense) from associates	16	-	16	3	0	3
Interest expense on project financing	-	(11,211)	(11,211)	-	(19,518)	(19,518)
Liability management transactions	-	(14,657)	(14,657)	-	(33,365)	(33,365)
Liquidity management/Cost of debt	91	(40,809)	(40,719)	71	(69,737)	(69,666)
Other financial income (expense)	7,180	(1,995)	5,185	2,506	(1,846)	660
Derivative financial income (charges) – delta fair value	2,731	(1,851)	879	18,246	(13,797)	4,449
Loan renegotiations gain (loss)	-	(1,356)	(1,356)	-	(1,880)	(1,880)
Amortised cost on loans, borrowings and project financing	-	(1,307)	(1,307)	-	(3,197)	(3,197)
Interest expense on lease liabilities	-	(3,985)	(3,985)	-	(3,773)	(3,773)
Exchange gains (losses)	347	(91)	256	18	(210)	(192)
Other income (expense)	10,258	(10,586)	(327)	20,770	(24,702)	(3,932)
Total	10,349	(51,395)	(41,046)	20,841	(94,439)	(73,598)

The **Interest payable to third parties on loans/borrowings** and **Interest expense on project financing** included in the cost of debt represent the portion of financial charges relating to contractual interest, while their adjustment to the effective interest rate is represented by the items "Loan renegotiations – IFRS 9" and "Amortised cost on loans, borrowings and project financing".

The change in **Interest payable to third parties on loans/borrowings** and **Interest expense on project financing** is mainly due to the significant liability management transactions, started in 2019 and continued in 2020 and 2021, which led to a significant reduction in the cost of gross debt during the year.

The item **liability management transactions** includes the non-recurring charges linked to the closure of some corporate loans and project financing of some operating wind and solar companies, in addition to the partial settlement of the fair value relating to the derivative financial instruments hedging related interest rates.

The item **Derivative financial income (charges) - delta fair value** refers to the ineffective portion of the change in fair value of derivative financial instruments.

The item **Loan renegotiations – IFRS 9** refers to the effect of the application of IFRS 9 relating to the renegotiation of existing loans and includes financial income and the related reversals on restructuring transactions.

NOTE 37 - FINANCIAL INSTRUMENTS

Definition and recognition and measurement criteria

Derivative financial instruments

Derivative financial instruments, including embedded derivatives subject to separation from the host contract, are assets and liabilities recognised at fair value.

Derivative instruments, including forward transactions, are classified as follows:

- 1) **derivative instruments that can be defined as hedges pursuant to IFRS 9:** this includes (i) cash flow hedges (CFH) on interest rates, exchange rates and commodities and (ii) fair value hedges (FVH) on commodities (price and exchange rate);
- 2) **forward transactions and derivative instruments that cannot be defined as hedges pursuant to IFRS 9,** meeting the requirements of compliance with the company policies for the management of risk on exchange rates and energy commodities.

The Group carries out the basis adjustment, reclassifying the effective result of the hedge to adjust the initial recognition value of the hedged item, in the case of cash flow hedges of non-financial elements. For all cash flow hedges, including those of transactions involving the recognition of a non-financial asset or liability, the cumulative gain or loss in the hedging reserve was reclassified to profit or loss for the year in the same year or in the same years in which the hedged expected future cash flows have an effect on profit or loss.

The Group analyses all contracts to buy or sell non-financial assets, with particular attention to forward purchases or sales of electricity and energy commodities, in order to determine whether they should be classified and treated in accordance with IFRS 9 or whether they were entered into for "own use exemption".

Fair value hierarchy according to IFRS 13

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

- Level 1: quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: **inputs** other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (prices) and indirectly (derived from prices).
- Level 3: unobservable **inputs** for the asset or liability.

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

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

31/12/2021

The following table shows, for each financial asset and liability, the carrying amount and the fair value. Information on the fair value of financial assets and liabilities not measured at fair value are excluded, when the carrying amount represents a reasonable approximation of fair value.

31/12/2021

(EUR thousand)	Fair value - Hedging instruments	FVTPL instruments - other	FVOCI instruments	Financial assets measured at amortised cost	Other financial liabilities	Total Carrying amount	Fair Value	Level 1	Level 2	Level 3	Total
Equity investments		882				882	882	882			882
Other non-current financial assets	-	-	-	32,939	-	32,939	32,939		32,939		32,939
Interest rate swap hedging	-	-	-	-	-	-	-				-
Commodity derivatives	87,436	71,985				159,421	159,421		159,421		159,421
Other current loan assets	-	-	-	128,005	-	128,005	128,005		128,005		128,005
Trade receivables	-	-	-	320,775	-	320,775	320,775				
Current financial securities	-	-	-	-	-	-	-				-
Other receivables	-	-	-	37,343	-	37,343	37,343		37,343		37,343
Cash and cash equivalents	-	-	-	132,774	-	132,774	132,774				
Total assets	87,436	72,867	-	651,835	-	812,139	812,139	882	357,708	-	358,590
Loans and borrowings	-	-	-	-	-	-	-		-		-
Bond Loans	-	-	-		-	-	-		-		-
Non-recourse project financing	-	-	-	-	236,829	236,829	278,137		278,137		278,137
Bank borrowings to parent companies	-	-	-	-	1,270,445	1,270,445	1,270,445		1,270,445		1,270,445
Financial liabilities	-	-	-	-	71,754	71,754	71,754		71,754		71,754
Interest rate swap hedging	3,321	-	-	-	-	3,321	3,321		3,321		3,321
Commodity derivatives	149,373	55,856				205,229	205,229		205,229		205,229
Trade payables	-	-	-	-	246,322	246,322	246,322				
Other payables	-	-	-	-	-	166,126	166,126				
Total liabilities	152,693	55,856	-	-	1,825,350	2,200,025	2,241,334	-	1,828,886	-	1,828,886

(*) The item also includes the fair value of the futures for which cash settlement of open positions is also envisaged (for which the relative fair value cannot be found in the statement of financial position as it has already been settled).

To determine the market value of these instruments, ERG uses various models for measuring and valuation, as summarised below:

Type	Instrument	Pricing model	Calculation tool	Market data used	Data provider	IFRS 7 hierarchy
Interest Rate derivatives	Interest Rate Swap	Discounted Cash Flow	- MS Excel - FINCAD XL	- Deposit rates (Euribor) - Swap rates	- Refinitiv Eikon	Level 2
	Interest Rate Option (Cap, Floor)	Black & Scholes	- MS Excel - FINCAD XL	- Deposit rates (Euribor) - Swap rates - Implied volatility of rates	- Refinitiv Eikon - Refinitiv Eikon	Level 2
Commodity derivatives	Commodity Swap	Discounted Cash Flow	- MS Excel	- Official spot quotes on reference commodities	- Refinitiv Eikon	Level 2
	Gas formulas		- FINCAD XL	- ECB Spot rates		
	Commodity Futures	Listed instrument		- Official settlement prices – Source: EEX	- EEX via Refinitiv Eikon	Level 1
	Contract for Difference (CfD)	Discounted Cash Flow	- MS Excel	- Forward national single price quoted on the OTC market	- EEX via Refinitiv Eikon	Level 2
Foreign exchange derivatives			- FINCAD XL	- Zero coupon curve on the Euro	- Refinitiv Eikon	
	Forward purchase/sale (Outright, FX Forward)	Discounted Cash Flow	- MS Excel - FINCAD XL	- Short-term (deposit rates) and medium/long-term interest rates (swap rates) for both reference currencies. - ECB Spot rates.	- Refinitiv Eikon	Level 2

NOTE 38 - FINANCIAL RISK DISCLOSURE

The principal risks identified and actively managed by the ERG Group are the following:

- the **credit risk**, which highlights the possibility of default of a counterparty or any impairment of the assigned credit rating;
- the **market risk**, deriving from exposure to exchange rate fluctuations, mainly between Euro and US Dollar, to interest rate fluctuations, and to the change in the prices of the products sold and of the purchases of raw materials (commodity price volatility risk);
- the **liquidity risk**, the risk of available financial resources being insufficient to fulfil payment commitments.
- **Climate change risk** is the possibility that climate changes in the short, medium and long term may have impacts on ERG's business with economic/financial consequences 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.

The ERG Group attaches great importance to identifying and measuring risks and to the related controls, in order to ensure efficient management of the risks it runs. Consistently with this objective, an advanced Risk Management system was adopted that assures, in compliance with the existing policies on the matter, the identification, measurement and central level control for the entire Group of the degree of exposure to individual risks.

The Group Risk Management & Corporate Finance function ensures consistency with the assigned risk limits and provides adequate support with its own analyses, both to individual subsidiaries and to the Risk Committee and Top Management of the Parent, for strategic decisions.

Credit risk

Exposure to credit risk, inherent in the probability that a given counterparty will not be able to fulfil its contractual obligations, is managed by means of appropriate analysis and evaluation, also supported by primary providers on the analysis of the credit risk, assigning each counterparty an internal rating (Internal Based Rating, summary indicator of creditworthiness assessment). The rating classes provide an estimation of the probability of default of a specific counterparty, on which the degree of creditworthiness assigned depends, which is accurately monitored and must not be overrun. The choice of counterparties both for the industrial business and financial negotiations underlies the decisions of the Credit Committee, whose choices are supported by creditworthiness analyses.

Concentration risk, both by customer and by segment, is continuously monitored, though no warning situations have ever occurred.

At 31 December 2021, maximum exposure to credit risk on trade receivables, broken down by geographical region, is as follows:

(EUR thousand)	31/12/2021	31/12/2020
Italy	256,746	142,200
France	16,067	11,055
Germany	11,807	6,808
Bulgaria	6,275	6,307
Poland	8,939	4,282
Romania	20,368	22,814
UK	-	-
Total	320,202	193,466

The receivables value includes an amount of approximately EUR 114 million relating to the two main customers of the Group, operators of the market and of electrical services in Italy.

The following table provides information on the ERG Group's exposure to credit risk at year-end, by a classification of credits that are not overdue (see **Note 7 – Trade receivables**) according to the credit rating corresponding to the ratings assigned by the information provider and assigned internally.

(EUR thousand)	31/12/2021	31/12/2020
AAA Rating	11,807	6,052
AA+ / AA- Rating	16,067	9,637
A+ / A- Rating	74,543	6,849
BBB+ / BBB- Rating	141,512	109,862
BB+ / BB- Rating	17,799	16,266
B+ / B- Rating	9,477	8,830
CCC Rating	36,263	2,531
CC Rating	0	100
Total	307,469	160,126

In relation to receivables not subject to write-downs, the Group assigns each exposure a credit rating class that provides a forecast of the risk of loss and takes into account the proven experience in evaluating receivables. The credit rating classes are defined using qualitative and quantitative factors indicating the risk of default.

The following table shows the exposure to credit risk and the expected losses on trade receivables not past due at 31 December 2021 (with respect to the table above, the carrying amount is recognised net of items included under liabilities as an adjustment to receivables and of receivables already collected at the date of this document).

(EUR thousand)	Carrying amount	Weighted average loss percentage*	Loss allowance
AAA Rating	11,807	0.01%	1
AA+ / AA- Rating	16,067	0.03%	4
A+ / A- Rating	74,543	0.03%	25
BBB+ / BBB- Rating	141,512	0.16%	224
BB+ / BB- Rating	17,799	0.15%	27
B+ / B- Rating	9,477	0.34%	32
CCC Rating	36,263	0.73%	265
Total	307,469		579

* Parameter assessed for each country on the basis of the Probability of Default (PD) and the statistically recognised Loss Given Default (LGD).

Liquidity risk

Liquidity risk is the risk that financial resources may not be sufficient to cover all obligations falling due. To date, the ERG Group guarantees with the generation of cash flows and with the availability of credit facilities, made available by different counterparties, the adequate coverage of its financial requirements.

The following tables summarise the maturity profile of the Group's financial liabilities, including interest, at 31 December 2021, based on undiscounted contractual payments and the relative carrying amount.

31/12/2021

(EUR thousand)	Carrying amount	Maturity of liabilities					
		Total	On demand	less than 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years
Non-recourse project financing	236,825	284,038	-	9,070	25,974	165,626	83,368
Payables to parent companies	1,270,206	1,270,206	-	1,270,206	-	-	-
Other payables	15,904	15,904	-	-	2,265	13,639	-
Trade payables	246,322	246,322	3,955	242,368	-	-	-
Total non-derivative financial liabilities	1,769,257	1,816,470	3,955	1,521,643	28,239	179,266	83,368
Interest Rate Swap hedging interest rate risk	3,187	3,187	-	-	1,299	1,248	640
Derivatives hedging commodity price risk	205,229	205,229	-	-	170,857	34,372	-
Total derivative financial liabilities	208,416	208,416	-	-	172,156	35,620	640

31/12/2020

(EUR thousand)	Carrying amount	Maturity of liabilities					
		Total	On demand	less than 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years
Non-recourse project financing	416,740	484,748	-	11,056	50,028	251,145	172,519
Payables to parent companies	339,236	339,236	-	81,832	257,405	-	-
Other payables	27,393	27,393	-	-	24,068	3,324	-
Trade payables	68,845	68,845	19,410	49,435	-	-	-
Total non-derivative financial liabilities	852,215	920,223	19,410	142,323	331,501	254,469	172,519
Interest Rate Swap hedging interest rate risk	18,397	18,228	-	19	6,006	8,993	3,211
Derivatives commodity price risk	16,095	16,095	-	-	12,309	3,786	-
Total derivative financial liabilities	34,492	34,323	-	19	18,315	12,778	3,211

Covenants and negative pledges

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

The above-mentioned financial liabilities contain covenants typical of the financial market, which place limits on the financed company in line with the prevailing market practice for similar agreements.

These agreements also contain negative pledges, clauses that generally prohibit assets being used as collateral for any other third-party lenders and protect the creditor's right over the assets pledged by the debtor as a guarantee for repayment of the loan.

As regards commitments and guarantees issued in favour of lenders, these mainly refer to:

- I) the special lien on movable assets;
- II) the mortgage of real estate;
- III) the pledge on restricted current accounts;
- IV) the pledge on 100% of the share capital (including the pledge of 100% of the share capital of any subsidiaries).

The table below provides details on the financial parameters relating to the above loans/Project Financing.

2021 Financial Statements	2020 Consolidated Financial Statements	Project Financing	Compliance with covenant(s)	Event of Default	Remedies in case of Event of Default*
✗	✓	ERG Eolica Adriatica S.r.l. Project Financing	n/a	HDSCR less than 1.05x and FDSCR less than 1.05x	n/a
✓	✓	ERG Eolica Fossa del Lupo S.r.l. Project Financing	✓	HDSCR less than 1.05x and FDSCR less than 1.05x	✓
✓	✓	EW Orneta 2 Sp. z o.o. Project Financing	✓	HDSCR less than 1.10x and LLCR less than 1.10x	✓
✗	✓	ERG Wind France 1 Project Financing	n/a	HDSCR less than 1.05x and LLCR less than 1.10x	n/a
✗	✓	Parc Eolien de La Vallee De Torfou Project Financing	n/a	HDSCR less than 1.05x	n/a
✗	✓	Parc Eolien du Melier Project Financing	n/a	HDSCR less than 1.05x	n/a
✓	✓	Windpark Linda GmbH Project Financing	✓	HDSCR less than 1.05x	✓
✓	✓	Andromeda PV S.r.l. Project Financing	✓	Historical Annual DSCR and Projected Annual DSCR greater than 1.10x	✓
✗	✓	UGE Barkow GmbH & Co.KG Project Financing	n/a	HDSCR less than 1.00x and FDSCR less than 1.05x	n/a
✗	✓	UGE Barkow Zwei GmbH & Co.KG Project Financing	n/a	HDSCR less than 1.00x and FDSCR less than 1.05x	n/a
✗	✓	UGE Barkow Drei GmbH & Co.KG Project Financing	n/a	HDSCR less than 1.00x and FDSCR less than 1.05x	n/a

LLCR: Loan Life Cover Ratio;

HDSCR: Historical Debt Service Coverage Ratio

FDSCR: Forecast Debt Service Coverage Ratio

* Contractually established remedies that the Company can take to avoid default.

Liquidity Risk and Expected Liquidity Losses

ERG implements a risk mitigation strategy aimed at preventing the emergence of liquidity crisis situations that involves pursuing a balanced financial structure in terms of duration and composition, continuous monitoring of financial balances and systematic generation of cash by its business activities, 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 ERG Group's stock of financial assets is used in short-term financial instruments that are highly liquid, preferring a very limited risk profile. Short selling is not permitted under any circumstances.

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

Market risk

This comprises exchange rate risk, interest rate risk and commodity price risk. The management of these risks is regulated by the guidelines provided in the Group Policy and by internal procedures in the Finance area.

Moreover, specific risk management policies and procedures have been developed, based on industry best practices, for the continuous measurement of exposure levels with respect to a Risk Capital value allocated by the parent.

In view of the war that broke in Ukraine at the end of February 2022, there are no particular impacts that this conflict could have on the ERG Group, in particular:

- In relation to credit risk, there are no open positions with Russian/Ukrainian counterparties.
- In relation to plant safety linked to the position of the Group's wind farms in Eastern Europe (Poland and Romania) close to the Ukrainian border, since these are countries that are part of NATO, risks directly linked to the conflict must be excluded.
- In relation to business continuity regarding the supply of gas from Russian or Russia-related suppliers, in the case of sanctions related to the export of gas from Russia, impacts on supply prices cannot be excluded.
- Any impacts on the CCGT plant and on site sales contracts are to be assessed according to the type of sanctions that will be imposed on the Russian counterparties.

Finally, it should be noted that the geopolitical tensions have already had, and will have, significant impacts on the financial and commodities markets, with a foreseeable sharp increase in gas and electricity prices, in respect of which further regulatory measures in the energy sector cannot be ruled out.

Market risk - interest rate

This risk identifies the change in future interest rate trends that may cause higher costs for the Group. Containment of the interest rate risk is pursued by using derivative contracts such as *Interest Rate Swaps and Interest Rate Options* (plain vanilla).

GROSS FINANCIAL INDEBTEDNESS (NOMINAL) - RATE BREAKDOWN

(EUR million)	December 2021		December 2020	
	Nominal	%	Nominal	%
Fixed rate loans	127	52%	212	50%
Variable rate loans – hedged	91	37%	190	44%
Variable rate loans	25	10%	26	6%
Total gross indebtedness	242	100%	427	100%

Market risk - commodity

Commodity price risk consists in unexpected fluctuations in the prices of raw materials, of procurement of services, of finished products and services provided for sale on the open market.

The Group implements all risk management strategies necessary to avoid the economic damages deriving from the volatility of the price for the sale and purchase of Electricity and from fluctuations in the Clean Spark Spread.

Commodity price risk consists in unexpected fluctuations in the prices of raw materials, of procurement of services, of finished products and services provided for sale on the open market.

The Group implements all risk management strategies necessary to avoid the economic damages deriving from the volatility of the price for the sale and purchase of Electricity and from fluctuations in the Clean Spark Spread.

(thousands of Mwh)	December 2021		
	Hedge Nominal	Trading Nominal	Total
Swaps - gas	1,838	-	1,838
Futures - electricity	3,045	1,396	4,441
CFD - electricity	1,229	643	1,872
Physical - Power	-	507	507
Total	6,112	2,546	8,658

Derivative instruments used

The main types of derivative instruments adopted in the management of financial risks, solely for hedging purposes, are as follows:

Options: a contract whereby one of the parties, on payment of a sum to the other (premium), acquires the right to buy (call option) or sell (put option), at a future date, a certain quantity of financial instruments (underlying asset) at an established price (exercise or strike price).

Forward contracts: contracts for the purchase or sale between two parties of a certain financial instrument (the

underlying asset) at a future date and at a price fixed at the time the contract is stipulated; this category also includes futures contracts, which unlike forward contracts are standardised, negotiated in lots and for predetermined maturity dates within regulated markets.

Swap: contract that determines, between two parties, the swap of flows of payments at certain dates. The payments can be expressed in the same currency or in different currencies and their amount is determined in relation to an underlying financial instrument.

The derivative instruments entered into by ERG and aiming to mitigate exposure to financial risks existing at 31 December 2021 are as follows:

Interest Rate derivatives

- Interest Rate Options that fix upper (*cap*) and lower (*floor*) limits to be applied to fluctuations in interest rates on variable rate loans;
- Interest Rate Swap instruments to bring bank loans with fixed and variable rate to the risk profile deemed most appropriate. IRS contracts provide that the counterparties, with reference to a defined notional value and to pre-set maturities, mutually exchange interest flows calculated in relation to fixed rates or to variable rate parameters agreed previously;

Commodity derivatives

- CfD (Contracts for Difference) instruments are used to hedge the risk of electricity price fluctuations; via this instrument it is possible to buy or sell block quantities of electricity by paying on maturity the difference between the price agreed to in the contract and the market price reported in the reference period;
- Swap instruments, used to manage the volatility risk of the natural gas price; this contract provides for the exchange of periodic payment flows based on the value of the underlying asset, and obtained from the difference between a fixed price agreed between the parties and a variable price taken from the market. This instrument makes it possible to set in advance the purchase price of natural gas for a particular maturity date;
- Futures instruments used to manage the volatility risk of electricity prices; this instrument makes it possible to purchase or sell a certain amount of energy at a certain price in a pre-established future period. The futures instruments used have both monthly and cascading maturities (annual, half-yearly, quarterly, etc.);
- Electricity contracts with physical delivery are stipulated on the wholesale energy market and measured at fair value as part of purchase and sale transactions with derivative financial instruments as a counter-entry.

Foreign exchange derivatives

- Currency forward purchase/sale instruments (Outright, FX Forward), used to manage the risk of exchange rate volatility in implementing foreign projects. These instruments allow the purchase/sale of a given quantity of currency with reference to a predefined expiry and at a pre-established forward exchange rate. They can be settled on expiry through physical delivery of the underlying currency or through the settlement of the difference in Euro between the contractual forward exchange rate and the spot exchange rate recorded on expiry of the contract.

Interest rate benchmark reform

The radical reform of the main benchmarks for determining the interest rates in place at global level makes provision, inter alia, for the replacement of the interbank offered rates (IBOR) with almost risk-free alternative rates ("IBOR reform").

The EURIBOR underwent methodological calculation reform in 2019, to make it consistent with the regulatory requirements established in the BMR (The Benchmarks Regulation).

At present, it is determined using a hybrid methodology based on the actual transactions available, and on other sources of market prices, where necessary.

Following an initial test phase, the hybrid calculation methodology became applicable, receiving authorisation from the competent authority to continue to be used also for contracts after 3 January 2022 (date of introduction of new benchmark rates).

Again for the Eurozone, as from 2 October 2019, the EONIA (Euro Overnight Index Average) rate was replaced with a new rate, the Euro Short-Term Rate (ESTER), calculated on the basis of transactions that have already taken place and considered more solid and reliable than the previous rate.

There are no situations of uncertainty stemming from the interest rate benchmark reform in relation to the transactions in place at Group level carried out on the money market.

Therefore, the Group continued to apply all provisions relating to hedge accounting to hedging relationships in line with the past.

The impacts of the above-mentioned reform are not significant for the Group at the date of this document given that only some of the foreign companies have modified some intercompany contracts using alternative reference rates.

In order to minimise the risk of one or more of the reference rates being phased out despite market participants continuing to have exposures indexed to said rate, financial institutions and customers are encouraged to use contractual clauses (fallback), which indicate an alternative reference rate as a substitute in the event of unavailability of one of the pre-existing reference rates.

Where present, an analysis will be conducted on the fallback clauses in contracts that will be closed, so that they are sufficient to ensure the transition to alternative reference rates if necessary.

Hedge Accounting

The Group uses derivative financial instruments to hedge its exposure to interest rate risks and commodity price risk. Furthermore, any derivative embedded in a hybrid contract is separated and measured at fair value, when the derivative contract meets the definition of a derivative and is not strictly related to the host contract.

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

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

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

If the hedge ceases to meet the qualifying criteria or the hedging instrument is sold, terminates or is exercised, hedge accounting is discontinued prospectively. When the cash flow

hedge transactions cease being reported, the cumulative gain or loss in the hedging reserve remains in equity until, in the case of a hedge of a transaction that entails the recognition of a non-financial asset or liability, it is included in the cost of the non-financial asset or liability at initial recognition or, in the case of the other cash flow hedges, it is reclassified to profit or loss for the year in the same year or years in which the hedged expected future cash flows have an effect on profit or loss for the year.

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

A hedging relationship is effective if and only if it meets the following requirements:

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

The Group carries out the basis adjustment, reclassifying the effective result of the hedge to adjust the initial recognition value of the hedged item, in the case of cash flow hedges of non-financial elements.

However, for all cash flow hedges, including those of transactions involving the recognition of a non-financial asset or liability, the cumulative gain or loss in the hedging reserve was reclassified to profit or loss for the year in the same year or in the same years in which the hedged expected future cash flows have an effect on profit or loss.

Climate Change Risk

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 in part is already having on the planet (among others – intensification of heat waves and of extreme weather events, rising sea levels, thinning 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 on risks and the related opportunities, also issued by the European Commission in the publication of June 2019. The TCFD guidelines require providing disclosure with respect to four broad topic areas: **Governance; Strategy; Risk Management; Metrics & Targets.**

In consideration of the above, the Group has expressed observations regarding the main risks associated with climate change as well as the related possible impacts on the various corporate business areas.

According to the Group's approach, the risks generated by Climate Change can be classified into the following main types:

- **Change in the contributions from renewable sources** (wind and sun) which may have impacts on ERG's business with consequences from an economic-financial point of view in the medium/long term deriving from possible lower output. In light of the uncertainties regarding the potential effects of a worsening of weather conditions in the areas in which ERG is present and the potential compensatory effects deriving from the Group's increasing geographical complementarity, it was not considered appropriate to reflect any negative effects in the medium-term (Market Plan) and long-term (impairment test) Business Plans.
- **Catastrophic events** referring in particular to "acute" and "chronic" physical phenomena linked to extreme natural events that could cause damage to production plants, impacting Business Continuity. The "acute" phenomena category includes risks characterised by a remote probability of occurrence but a potentially catastrophic impact, including: fires, earthquakes, volcanic phenomena, hurricanes, tsunamis/floods; while the increase in average temperature, rise in sea level, reduction in rainfall fall into the category of "chronic" events.
- **Regulatory changes** referring in particular to any changes in subsidies and incentives, change in the regulatory framework.

The management strategy for these risks adopted by the Group provides for:

- the reduction of the impacts related to catastrophic events through Business Continuity Management processes (for the physical protection of assets) and Disaster Recovery Plans, in particular in the ICT field.
- the transfer of risks to the insurance market. In particular, all extreme meteorological phenomena are covered (fires, earthquakes, volcanic phenomena, hurricanes, tsunamis/floods).

It should also be noted that the Group uses management, prevention and protection strategies to reduce the possible impacts on the areas surrounding its assets. Furthermore, the assets most exposed to extreme weather events or natural disasters are regularly checked and maintained in order to ensure that they are in the best possible condition to cope with extreme weather events.

All of the Group's production sites located in Italy are also subject to ISO 14001 environmental certification and potential sources of risk are monitored so that any critical issues can be detected promptly.

For more details, please refer to what is indicated in the Consolidated Non-financial Statement and in the Directors' Report.

NOTE 39 - GUARANTEES, COMMITMENTS AND RISKS

Sureties given (EUR 47,997 thousand)

These are mainly guarantees provided in favour of third parties, guarantees by the parent ERG S.p.A.

These are mainly counterparties with which commercial dealings were carried out, as well as a guarantee in favour of the Italian electricity market operator (GME) directed at allowing operations on said market.

Other Guarantees and commitments made (EUR 15,771 thousand)

The other guarantees and commitments made refer mainly to commitments related to the Group's information systems.

VI. TAXATION

NOTE 40 - INCOME TAXES

Definition and recognition and measurement criteria

Current taxes

Current taxes are recognised based on the estimated tax burden for the year, also taking into account the effects relating to the participation of most Group companies in the Tax Consolidation.

The Group has determined that the interest and penalties relating to income taxes, including the accounting treatments to be applied to income taxes of an uncertain nature, are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as they do not meet the definition of income taxes.

The amount of taxes due or to be received, determined on the basis of the tax rates in force or substantially in force at the end of the financial year, also includes the best estimate of any amount to be paid or received which is subject to factors of uncertainty.

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

The rates for foreign companies consolidated on a line-by-line basis are as follows:

France 25% - 28%;
Germany 26.6% - 30.5%;
UK 17% - 19%;
Romania 16%;
Poland 19%;
Bulgaria 10%

As regards deferred taxes, reference is made to the comments in the following Note.

(EUR thousand)	2021	2020
Current income taxes	40,915	37,711
Previous years taxes	(474)	(1,129)
Deferred tax assets and liabilities	(4,447)	(23,560)
Total	35,994	13,022

The increase in the year is mainly as a consequence of the higher taxable income due to the results in the period.

The taxes for 2021 include the effects (EUR 5 million) of the Wind Fall Tax introduced in Romania in view of the high energy sale prices.

NOTE 41 - CURRENT TAX ASSETS AND LIABILITIES

Current tax assets refer mainly to advances on direct taxes for the year 2022.

Current tax liabilities refer mainly to tax liabilities on direct taxes for the year 2021.

NOTE 42 - DEFERRED TAXATION

Definition and recognition and measurement criteria

Pursuant to the accrual basis of accounting, the Consolidated Financial Statements include deferred-tax assets and liabilities arising from temporary differences deriving from adjustments made to consolidated companies' separate financial statements in application of the Group's accounting standards, as well as from temporary differences between the statutory values and related tax values, and on unused tax losses.

Deferred tax assets are allocated when their future recovery is probable.

The recoverability of the temporary differences and of the tax

losses is contextualised within the various expiry dates of the tax consolidation agreements.

The quantitative limit of 80% does not apply for tax losses generated in the first three years from the incorporation of the company, provided that they refer to a new productive activity. Deferred taxes are calculated on the basis of the tax rates expected to be in force in the periods in which the taxable and deductible temporary differences will be reversed.

Deferred tax assets

(EUR thousand)	31/12/2021		31/12/2020	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Deferred tax assets				
Provisions for risks and charges	90,951	21,616	98,665	23,473
Tax losses	171,978	41,045	164,681	38,393
Derivative instruments	442,502	106,219	36,965	8,890
Amortisation, depreciation and impairment of non-current assets	225,041	53,953	361,361	86,726
Other impairment losses	13,537	3,249	17,670	4,241
Other	121,591	28,603	147,102	33,864
Total deferred tax assets before offsetting	1,065,600	254,685	826,443	195,587
Offsettable deferred taxes		(107,376)		(147,704)
Total deferred tax assets after offsetting		147,309		47,883

The Group considers it probable that the deferred tax assets recognised at 31 December 2020 will be recoverable.

Deferred tax liabilities

(EUR thousand)	31/12/2021		31/12/2020	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Deferred tax liabilities				
Purchase price allocation	738,655	183,970	1,047,227	257,312
Amortisation and depreciation of non-current assets	75,500	18,626	19,432	2,016
IFRS 9 tax effects	6,390	1,326	5,961	1,237
Other	211,849	11,160	16,648	4,188
Total deferred tax liabilities before offsetting	1,032,394	215,082	1,089,269	264,753
Offsettable deferred taxes		(107,376)		(147,704)
Total deferred tax liabilities after offsetting		107,706		117,048

VII. ASSETS HELD FOR SALE

Financial year 2021 saw the launch of a process to sell the subsidiary ERG Hydro S.r.l. (now Enel Hydro Appennino Centrale S.r.l.). The process was completed on 2 August with a preliminary agreement with the counterparty Enel Produzione S.p.A. for the sale of the entire capital of the company. The transaction was completed on 3 January 2022; the consideration in terms of enterprise value, calculated at 31 December 2021, totalled approximately EUR 1.265 billion, including the mark-to-market valuation of some hedging derivatives included in the scope and relating to part of the energy produced in the future by the plants of ERG Hydro S.r.l. (now Enel Hydro Appennino Centrale S.r.l.).

The aforementioned sale is presented as a Discontinued Operation pursuant to IFRS 5 on the basis of the following main elements:

- a) the signing of the shareholding transfer agreement with the counterparty, approved by ERG's Board of Directors, renders the transaction highly probable;
- b) ERG Hydro S.r.l. is available for immediate sale under current conditions, subject to conditions precedent which are usual for the type and significance of the transaction, which were met by the closing date set in the agreement;
- c) ERG Hydro S.r.l. represents an operating segment.

In consideration of the above, in these Financial Statements, the accounting results relating to assets held for sale are indicated separately in application of the requirements of IFRS 5.

The income statement figures are also presented for previous periods in application of the requirements of IFRS 5.

NOTE 43 - ASSETS AND LIABILITIES HELD FOR SALE

Definition and recognition and measurement criteria

Classification

An entity must classify a non-current asset (or a disposal group) as held for sale, if its carrying amount will be recovered primarily through a sale transaction rather than through its continuing use.

Two criteria must be met:

- the asset must be available for immediate sale in its current condition subject only to terms that are usual and customary for sales of such assets (or disposal groups);
- the sale must be highly probable.

IFRS 5 establishes that if a non-current asset (or disposal group) is classified as held for sale, it must be measured, at the time of its initial recognition, at the lower of the carrying amount and the fair value less costs to sell.

Intra-group transactions

In accordance with the provisions of IFRS 5, the Group has decided to eliminate intra-group items within income from continuing operations as the Group does not expect that in the future the Group's operating division will continue to operate with the division subject to disposal.

Accounting policies

A non-current asset classified as held for sale and the assets of a disposal group classified as held for sale must be recognised separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale must be presented separately from the other liabilities in the statement of financial position. These assets and liabilities must not be offset and shown in the financial statements as a net amount. An entity must not reclassify or re-present amounts previously classified as non-current assets, or as assets and liabilities belonging to disposal groups, classified as held for sale, in the statements of financial position of previous years presented for comparative purposes to align with the classification in the statement of financial position for the latest financial year presented.

Considerations on 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 no. 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 no. 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 with the technical economic 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.

The Statement of Financial Position at 31 December 2021 is represented as determined by IFRS 5, indicating separately under the item **"Assets held for sale"** and **"Liabilities held for sale"**.

The assets and liabilities to be sold referring to the company ERG Hydro S.r.l. (now Enel Hydro Appennino Centrale S.r.l.) are as follows:

(EUR thousand)	Notes	ERG Hydro S.r.l.	Intra-group transactions	TOTAL
ASSETS				
Authorisations and Concessions	a)	127,522	-	127,522
Other intangible assets	b)	1,346	-	1,346
Property, plant and equipment	c)	554,778	-	554,778
Right-of-use assets		216	-	216
Other non-current financial assets		57	-	57
Deferred tax assets	d)	34,220	-	34,220
Other non-current assets	e)	2,655	-	2,655
Non-current assets		720,795	-	720,795
Inventories		346	-	346
Trade receivables	f)	85,144	(61,282)	23,862
<i>Trade receivables ERG Group vs ERG Hydro S.r.l.</i>			(274)	(274)
Other receivables and current assets	g)	8,324	-	8,324
<i>Other receivables and assets ERG Group vs ERG Hydro S.r.l.</i>	h)		(98)	(98)
Cash and cash equivalents		69,191	-	69,191
Current assets		163,005	(61,654)	101,351
Operating assets held for sale		(883,800)	61,654	(822,147)
LIABILITIES				
Employee benefits		883	-	883
Deferred tax liabilities	g)	42,656	-	42,656
Other non-current provisions		130	-	130
Non-current lease liabilities		28	-	28
Other non-current liabilities		543	-	543
Non-current liabilities		44,241	-	44,241
Other current provisions	h)	16,508	-	16,508
Trade payables		5,010	(274)	4,735
<i>Trade payables ERG Group vs ERG Hydro S.r.l.</i>	i)		(61,282)	(61,282)
Current lease liabilities		74	-	74
Other current liabilities	j)	51,536	-	51,536
<i>Other payables and liabilities ERG Group vs ERG Hydro S.r.l.</i>			(98)	(98)
Current tax liabilities		14,001	-	14,001
Current liabilities		87,129	(61,654)	25,475
Operating liabilities held for sale		(131,370)	61,654	(69,716)

Notes

- a) Authorisations and Concessions include concessions, authorisations and rights to operate hydroelectric plants, including any rights to feed-in tariffs.
- b) Other intangible assets mainly include the costs for the purchase and subsequent adjustments of management application software.
- c) Property, plant and equipment consist of 19 hydroelectric plants, 7 mini-hydro plants, 7 dams, 4 water basins (corresponding to Salto, Turano, Corbara and Piediluco) and a pumping station, for an effective capacity of 527 MW.
- d) Deferred tax assets are mainly allocated against the reversal of the revaluation of property, plant and equipment pursuant to Italian Decree Law no. 104/2020 carried out in the 2020 OIC Financial Statements and reversed at consolidated level, and against the allocations of provisions for risks and charges. Other non-current assets mainly consist of receivables for indemnities recognised at the time of the Purchase Price Allocation.
- e) Other non-current assets mainly consist of receivables for indemnities recognised by E.ON Produzione against certain liabilities already recognised in the financial statements.
- f) Trade receivables mainly consist of receivables for incentives and trade receivables for the sale of electricity to the parent company ERG Power Generation S.p.A., no longer subject to elimination following the application of IFRS 5.
- g) Deferred tax liabilities relate to the recognition of the fair value of the concessions at the time of the PPA.
- h) Other current provisions refer to charges related to disputes with Local Authorities regarding concession fees.
- i) Trade payables of ERG Power Generation S.p.A. to ERG Hydro (now Enel Hydro Appennino Centrale S.r.l.) which, following the application of IFRS 5, are no longer subject to elimination.
- j) Other current liabilities mainly include tax payables, payables to personnel and to social security institutions.

Cash Flows

The following are the cash flows generated by the assets and liabilities held for sale:

(EUR thousand)	2021
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	126
CASH FLOWS USED IN OPERATING ACTIVITIES ASSETS HELD FOR SALE	145,489
CASH FLOWS FROM INVESTING ACTIVITIES ASSETS HELD FOR SALE	(6,551)
CASH FLOWS FROM FINANCING ACTIVITIES ASSETS HELD FOR SALE	(69,872)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	69,191

NOTE 44 - NET PROFIT (LOSS) FROM ASSETS HELD FOR SALE

Accounting policies

In the income statement, the entity must indicate a single amount referring to the discontinued operations or to the asset held for sale. This amount will relate to the entire period and not the result from the time the component became a discontinued

operation. An entity must present income statement figures for previous periods presented in the financial statements, so that the disclosure refers to all operations discontinued by the end of the most recent reporting year.

The income statements for the years 2021 and 2020 are represented in accordance with the provisions of IFRS 5, which prescribes how to report the profit or loss from discontinued operations, therefore excluding the result of the subsidiary Hydro S.r.l.

The impact of the aforementioned exclusion is indicated separately under the item "Net profit (loss) from assets held for sale".

Below is the income statement for the years 2021 and 2020 of the assets to be sold:

(EUR thousand)	Notes	2021	2020
Revenue	a)	193,505	117,606
Other income		2,576	3,152
Costs for the purchase of commodities		(1,437)	68
Other purchases		(447)	(410)
Services and other operating costs	b)	(35,058)	(45,630)
Losses due to impairment of receivables		(22)	0
Personnel expense		(7,597)	(7,420)
GROSS OPERATING PROFIT (EBITDA)		151,520	67,366
Amortisation of Intangible assets		(8,391)	(16,860)
Depreciation of property, plant and equipment and right-of-use assets	c)	(13,538)	(40,521)
Reversals of impairment losses (impairment losses)		-	-
OPERATING PROFIT (EBIT)		129,591	9,985
Financial income		13	23
Financial expense		(2)	(4)
Net financial income (expense)		12	20
Net gains (losses) on equity-accounted investments		-	-
Other net gains (losses) on equity investments		-	-
Gains (losses) on equity investments		-	-
PROFIT (LOSS) BEFORE TAXES		129,603	10,004
Income taxes		(37,054)	51,430
Net profit (loss) from assets held for sale		92,549	61,434

Notes

- a) Revenue refers to income relating to the "feed-in premium" paid to plants qualified as "IAFR" (Impianto Alimentato da Fonti Rinnovabili – Plant Powered by Renewable Sources), and the sales of electricity produced; the values are up compared to the previous period due to the higher output recorded during the year and the higher value of the incentive.
- b) Services and other operating costs refer to maintenance costs, commercial expenses, costs for utilities and agreements for local authorities, as well as provisions for risks and charges.
- c) The amortisation and depreciation for the period of intangible assets and property, plant and equipment for 2021 refers only to the amortisation and depreciation for the first six months, in application of IFRS 5. The decrease compared to the previous year is linked to the review of the useful life of the hydroelectric assets.

It is specified that no write-downs for impairment were recognised at the time of classification of the hydroelectric assets as "held for sale".

VIII. OTHER NOTES

NOTE 45 - BUSINESS COMBINATIONS AND ASSET ACQUISITION

Definition and recognition and measurement criteria

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at fair value and includes all contingent considerations at the acquisition date. Subsequent changes in the fair value of contingent considerations are recognised in the income statement, in compliance with applicable standards.

Goodwill, recognised at the date of acquisition of control, is equal to the difference between:

- *the consideration transferred, the amount of any non-controlling interest in the acquiree measured in accordance with IFRS 3 (fair value of the pro-rata share of net assets related to non-controlling interests);*
- *the net of the amounts of the identifiable assets acquired and the liabilities assumed, measured at fair value.*

The costs related to the acquisitions are recognised as

expenses in the periods in which they are incurred.

In the case of acquisition of operational (wind or photovoltaic) farms, in order to identify whether the object of the acquisition is a business according to the definition provided by IFRS 3, it is necessary to determine whether substantial processes have been acquired.

As part of this consideration, in the view of the Group's management, O&M activities are a critical process for the functioning of the farms, as these could not produce output or maintain the level of production without continuous O&M activities.

In the case of acquisition of projects (e.g. objects that do not yet generate outputs), the Group deems that the conditions for considering these transactions as business combinations are not met.

Consequently, project acquisitions will be accounted for as asset acquisitions.

"Joran" Business Combination

On **24 June 2021** ERG, through its subsidiary ERG Eolienne France, completed the agreement with FPCI

Capenergie 3, the fund managed by the Parisian private equity investor Omnes Capital, for the acquisition of 100% of the share capital of Omniwatt, a French company that owns a portfolio consisting of five wind farms for a total of 58 MW and two photovoltaic installations for a total of 22 MW.

The value of the acquisition in terms of Equity Value was EUR 45 million. The expected average annual EBITDA used for the valuations for the acquisition is approximately EUR 10.6 million.

The transaction is a business combination within the meaning of the definition provided by IFRS 3 applicable since 1 January 2020. To this end, it should be noted that the acquisition scope includes plants, Operation & Maintenance contracts, land lease agreements and the right to receive incentives (Feed-in tariff). In particular, the O&M activities are critical to the Group in terms of the functioning of the wind farms. Such contracts allow access to an organised workforce that carries out processes that are key to the ability of wind farms to continue producing output.

It should be noted that, in the Condensed Interim Financial Report at 30 June 2021, a purchase price allocation procedure was performed on the basis of the available information: in line with the provisions of IFRS 3 and in consideration of the short period of time between the acquisition date and the date of preparation of this document, this procedure was deemed to be provisional and subject to changes and adjustments. In accordance with the provisions of IFRS 3, for the purposes of these Financial Statements the purchase price allocation procedure was performed using the final information regarding the accounting statements of the companies acquired.

This uncovered only immaterial updates with respect to the year indicated above, shown in the following table.

Determination of the total acquisition price

The acquisition price was around EUR 33 million for the acquisition of 100% of the share capital of the target companies. It should also be noted that liabilities of EUR 121 million were assumed.

It should be specified that the acquisition-related costs incurred by the Group amounted to approximately EUR 1 million, concerning legal expense and costs of due diligence. These costs were included in the Services and other operating costs item.

Measurement of the assets and liabilities of the business combination at the acquisition date

The acquisition was recognised on a definitive basis; the fair value of the assets acquired was determined on the basis of the best estimate available at the acquisition date and are shown in the table below:

(EUR thousand)	Acquisition figures	Adjustment to the acquisition figures	Assets acquired and liabilities assumed
Authorisations and Concessions	-	16,506	16,506
Other intangible assets	-	-	-
Property, plant and equipment	94,319	-	94,319
Right-of-use assets	7,930	-	7,930
Other non-current financial assets	322	285	607
Deferred tax assets	-	3,603	3,603
Other non-current assets	286	-	286
Non-current assets	102,857	20,394	123,251
Trade receivables	3,138	-	3,138
Other receivables and current assets	378	-	378
Cash and cash equivalents*	8,949	-	8,949
Current assets	12,957	990	13,947
TOTAL ASSETS	115,815	21,384	137,199
Equity attributable to the owners of the parent	(19,511)	14,695	(4,816)
Non-controlling interests	-	-	-
Total Equity	(19,511)	14,695	(4,816)
Deferred tax liabilities	495	4,374	4,869
Provisions for dismantling expenses	2,357	-	2,357
Other non-current provisions	8	1,435	1,443
Non-current financial liabilities*	110,021	-	110,021
Non-current lease liabilities*	7,930	-	7,930
Non-current liabilities	120,812	5,809	126,621
Trade payables	585	-	585
Current financial liabilities*	13,371	-	13,371
Other current liabilities	557	880	1,437
Current liabilities	14,513	880	15,393
TOTAL EQUITY AND LIABILITIES	115,815	21,384	137,199
* Impact on Net Financial Position	(122,374)	990	(121,383)

The **Acquisition figures** column shows the opening balances determined on the basis of the accounting records at the date of first-time consolidation (30 June 2021) of the acquirees expressed in accordance with the IFRS:

- **property, plant and equipment:** wind and solar plants recognised at acquisition cost including ancillary costs and costs directly attributable to the asset and adjusted by the related accumulated depreciation;
- **right-of-use assets:** recognition of the right of use on land according to the provisions of IFRS 16;
- **trade receivables:** relative to the sale of electricity;
- **cash and cash equivalents:** cash on hand held in current accounts;
- **non-current financial liabilities:** medium-long term portion of bank borrowings for project financing;
- **lease liabilities:** recognition of the present value of payments due for the right of use of land;
- **trade payables:** mainly relative to payables to third-party suppliers for O&M;
- **current financial liabilities:** mainly the short-term portion of bank loans and borrowings for project financing.

In the column **Adjustments to the acquisition situation:**

- **intangible assets:** capital gain allocated upon recognition of the acquisition; this capital gain was posted to the item "Authorisations and Concessions" and relates in particular to the right to receive incentives (feed-in tariff) for a residual period of 20 years;
- **other financial assets:** inclusion of "special indemnities" determined at the time of acquisition;
- **deferred tax assets:** this item consists of the recognition of a Tax Asset determined at the time of acquisition;
- **deferred tax liabilities** relating to the above allocation and to the tax effect of the fair value adjustment of IRS on project financing;
- **other non-current provisions:** recognition of charges for contingent liabilities recognised at the time of acquisition, partially offset by the aforementioned "special indemnities";
- **current and non-current financial liabilities:** fair value adjustment of the IRS on the borrowing for project financing and recognition of the interest accrued on the Shareholder loan.

Determination of goodwill

The difference between the total acquisition price and the net value of the acquired assets and liabilities was recognised as goodwill, as illustrated in the following table:

(EUR thousand)

Acquisition price	32,664
Fair value of the acquired net assets	(4,816)
Goodwill	37,479

With regard to the definition of the total acquisition price, please refer to what has already been described in the previous paragraphs.

The goodwill deriving from the acquisition refers mainly to the synergies that are expected to be achieved as a result of integrating the acquiree into the Group. The goodwill recognised in the Financial Statements will not be deductible for income tax purposes.

Joran contribution in 2021

In the period between the date of first-time consolidation (1 July 2021) and the reporting date of these Consolidated Financial Statements, the acquirees contributed to the Group's income statement with revenue of EUR 5.2 million, a gross operating profit (EBITDA) of EUR 3.6 million and a net loss for the year of EUR 0.5 million.

It should be noted that if the acquisition had occurred on 1 January 2021, the acquirees would have contributed revenue of EUR 7.5 million to the Group's income statement, a gross operating profit (EBITDA) of EUR 5.2 million and a profit for the year of EUR 0.3 million.

Acquisition of "Erik" assets

On **10 May 2021** ERG, through its Swedish holding, completed the acquisition from the BayWa r.e. Group, active in the development, construction and management of renewable energy plants, of the permits for the construction of a wind farm with a capacity of 62 MW in southern Sweden.

The expected total capital expenditure required to build the wind farm, including the price for the purchase of construction permits, is approximately EUR 99 million.

Since it is an acquisition of authorisations for the construction of a wind farm, the acquired assets and liabilities do not comply with the definition of IFRS 3 – Business Combinations. Therefore, these assets and liabilities were recognised as acquisitions of individual assets and liabilities, allocating the difference between the paid price and net acquired assets to Authorisations and Concessions.

Determination of the total acquisition price

The acquisition price was around EUR 32 million for the acquisition of 100% of the share capital of the target company.

"Ventoux" Business Combination

On **1 October 2021** and **24 October 2021**, ERG, through its subsidiaries ERG Eolienne France SAS and ERG Windpark Beteiligungs GmbH, signed and completed with NAEV Austria Beteiligungs GmbH and NAEV Austria GmbH & Co. OG two agreements for the acquisition of the entire share capital of 15 companies owning a 152.4 MW renewable portfolio in operation in France and Germany. The plant portfolio consists of seven photovoltaic installations and three wind farms in France, for a total installed capacity of 56.7 MW and 40.6 MW, respectively, and five wind farms in Germany, for a total of 55.1 MW.

The Enterprise Value of the acquisition was EUR 202 million. The expected average annual EBITDA used for the valuations for purposes of the acquisition is approximately EUR 21 million.

The transaction is a business combination within the meaning of the definition provided by IFRS 3 applicable since 1 January 2020. To this end, it should be noted that the acquisition scope includes plants, Operation & Maintenance contracts, land lease agreements and the right to receive incentives (Feed-in tariff). In particular, the O&M activities are critical to the Group in terms of the functioning of the wind farms. Such contracts allow access to an organised workforce that carries out processes that are key to the ability of wind farms to continue producing output.

Determination of the total acquisition price

The acquisition price was around EUR 8 million for the acquisition of 100% of the share capital of the target companies. It should also be noted that liabilities of EUR 212 million were assumed.

It should be specified that the acquisition-related costs incurred by the Group amounted to approximately EUR 1 million, concerning legal expense and costs of due diligence. These costs were included in the Services and other operating costs item.

Measurement of the assets and liabilities of the business combination at the acquisition date

The acquisition was recognised on a definitive basis; the fair value of the assets acquired was determined on the basis of the best estimate available at the acquisition date and are shown in the table below:

(EUR thousand)	Acquisition figures	Adjustment to the acquisition figures	Assets acquired and liabilities assumed
Authorisations and Concessions	-	13,439	13,439
Goodwill	-	-	-
Property, plant and equipment	140,928	4,283	145,211
Right-of-use assets	18,367	-	18,367
Other non-current financial assets	1,433	-	1,433
Deferred tax assets	-	6,084	6,084
Other non-current assets	1,798	-	1,798
Non-current assets	162,526	23,805	186,332
Trade receivables	3,212	-	3,212
Current tax assets	-	-	-
Cash and cash equivalents*	12,165	-	12,165
Current assets	15,377	-	15,377
TOTAL ASSETS	177,904	23,805	201,709
Equity attributable to the owners of the parent	(50,551)	12,977	(37,574)
Non-controlling interests	-	-	-
Total Equity	(50,551)	12,977	(37,574)
Deferred tax liabilities	-	4,870	4,870
Provision for dismantling expenses	3,481	-	3,481
Other non-current provisions	663	700	1,363
Non-current financial liabilities*	146,683	1,000	147,683
Non-current lease liabilities*	18,367	-	18,367
Other non-current liabilities	180	-	180
Non-current liabilities	169,373	6,570	175,944
Trade payables	2,619	-	2,619
Current financial liabilities*	54,190	4,258	58,448
Other current liabilities	2,197	-	2,197
Current liabilities	59,081	4,258	63,339
TOTAL EQUITY AND LIABILITIES	177,904	23,805	201,709
* Impact on Net Financial Position	(207,075)	(5,258)	(212,333)

The **Acquisition figures** column shows the opening balances determined on the basis of the accounting records at the date of first-time consolidation (1 October 2021) of the acquirees expressed in accordance with the IFRS:

- **property, plant and equipment:** wind and solar plants recognised at acquisition cost including ancillary costs and costs directly attributable to the asset and adjusted by the related accumulated depreciation;
- **right-of-use assets:** recognition of the right of use on land according to the provisions of IFRS 16;
- **trade receivables:** relative to the sale of electricity;
- **cash and cash equivalents:** cash on hand held in current accounts;
- **non-current financial liabilities:** medium-long term portion of bank borrowings for project financing;
- **lease liabilities:** recognition of the present value of payments due for the right of use of land;
- **trade payables:** mainly relative to payables to third-party suppliers for O&M;

- **current financial liabilities:** mainly the short-term portion of bank loans and borrowings for project financing.

In the column **Adjustments to the acquisition situation:**

- **intangible assets:** capital gain allocated upon recognition of the acquisition; this capital gain was posted to the item "Authorisations and Concessions" and relates in particular to the right to receive incentives (feed-in tariff) for a residual period of 20 years;
- **other financial assets:** inclusion of "special indemnities" determined at the time of acquisition;
- **deferred tax assets:** this item consists of the recognition of a Tax Asset determined at the time of acquisition;
- **deferred tax liabilities** relating to the above allocation and to the tax effect of the fair value adjustment of IRS on project financing;
- **other non-current provisions:** recognition of charges for contingent liabilities recognised at the time of acquisition, partially offset by the aforementioned "special indemnities";
- **current and non-current financial liabilities:** fair value adjustment of the IRS on the borrowing for project financing and recognition of the interest accrued on the Shareholder loan.

Determination of goodwill

The difference between the total acquisition price and the net value of the acquired assets and liabilities was recognised as goodwill, as illustrated in the following table:

(EUR thousand)

Acquisition price	7,698
Fair value of the acquired net assets	(37,574)
Goodwill	45,271

With regard to the definition of the total acquisition price, please refer to what has already been described in the previous paragraphs.

The goodwill deriving from the acquisition refers mainly to the synergies that are expected to be achieved as a result of integrating the acquiree into the Group. The goodwill recognised in the Financial Statements will not be deductible for income tax purposes.

Ventoux contribution in 2021

In the period between the date of first-time consolidation (1 October 2021) and the reporting date of these Consolidated Financial Statements, the acquirees contributed to the Group's income statement with revenue of EUR 7.1 million, a gross operating profit (EBITDA) of EUR 4.6 million and a net profit for the year of EUR 0.1 million.

It should be noted that if the acquisition had occurred on 1 January 2021, the acquirees would have contributed revenue of EUR 25.7 million to the Group's income statement, a gross operating profit (EBITDA) of EUR 18.2 million and a profit for the year of EUR 4.4 million.

NOTE 46 - NON-RECURRING ITEMS

The table below shows significant income and expense deriving from non-recurring transactions or events that do not occur frequently in the ordinary course of business.

(EUR thousand)		2021	2020
Revenue		-	-
Other income		-	-
Purchases		-	-
Change in inventories		-	-
Services and other operating costs	1)	(1,569)	(17,250)
Personnel expense		-	-
Amortisation, depreciation and impairment of non-current assets	2)	(24,840)	-
Net financial income (expense)	3)	(16,375)	(33,263)
Net gains (losses) on equity investments	4)	(190)	374
Income taxes	5)	8,872	68,136
Profit (loss) from continuing operations of non-recurring items		(34,102)	17,997
Profit (loss) from discontinued operations of non-recurring items	6)	15,561	-
Profit (loss) of non-recurring items		(18,540)	17,997
Non-controlling interests		-	-
Profit (loss) of non-recurring items		(18,540)	17,997

In 2021:

- 1) Costs for services and other operating costs refer to business combinations, unsuccessful acquisition projects, termination indemnities as a result of the changeover of the Chief Executive Officer on 26 April 2021 and allocations to the provision for disposed businesses;
- 2) Write-down of the net residual value of the property, plant and equipment and intangible assets of wind farms in the Italian portfolio, following the authorisation of five Repowering projects obtained during the year;
- 3) Charges related to the early closure of Project Financing and related IRSs, as part of Liability Management activities;
- 4) Gains on equity investments refer mainly to the price adjustment on the sale of equity investments in previous years;
- 5) Income taxes refer to the tax effect of the items commented on above;
- 6) The net result from discontinued operations refers to the application of IFRS 5 with regard to ERG Hydro S.r.l.

NOTE 47 - RELATED PARTIES

The transactions carried out by ERG Power Generation with related parties pertain mainly to:

- the exchange of goods, the performance of services, the provision and use of financing;
- the provision and use of financing with respect to the parent company ERG S.p.A.

(EUR thousand)	Revenue	Other income	Purchases	Services and other operating costs	Financial income	Financial expense
ERG S.p.A.	85	97	-	(38,438)	8,114	(9,829)
Priolo Servizi S.C.p.A.	19,493	-	-	(7,878)	-	-
Directors and statutory auditors	-	-	-	(414)	-	-
TOTAL	19,577	97	-	(46,729)	8,114	(9,829)

(EUR thousand)	Other non-current financial assets	Other non-current assets	Trade receivables	Other receivables and current assets	Current financial assets	Non-current financial liabilities	Other non-current liabilities	Trade payables	Current financial liabilities	Other current liabilities
ERG S.p.A.	-	-	91	68,680	8,114	(6)	-	-	1,270,206	77,989
Priolo Servizi S.C.p.A.	-	-	2,843	-	-	-	-	253	-	-
TOTAL	-	-	2,934	68,680	8,114	(6)	-	253	1,270,206	77,989

NOTE 48 - LIST OF GROUP COMPANIES AND TRANSACTIONS FOR THE YEAR

The transactions that took place during the year regarding equity investments are reported below:

- on **5 January 2021**, the French companies Parc Eolien de la Plaine du Burel S.a.s. and Parc Eolien de Saint Priest en Murat S.a.s., with registered offices in Paris, were established;
- on **5 January 2021**, the deed of merger by incorporation of ERG Wind France 2 S.a.r.l. into ERG Wind France 1 S.a.s. was signed, effective from 1 January 2021;
- on **9 June 2021**, the German companies ERG Windpark Aukrug GmbH & Co. KG, ERG Windpark Bischhausen GmbH & Co. KG and ERG Windpark Bokel GmbH & Co. KG, with registered office in Hamburg, were formed;
- on **27 October 2021**, the deed of merger by incorporation of ERG Wind 4 S.r.l. and ERG Wind Leasing 4 S.r.l. into ERG Wind Energy S.r.l. was signed. The merger took effect from 1 November 2021, while accounting and tax effects apply as from 1 January 2021;
- on **26 October 2021** ERG Wind Investments Ltd. transferred its registered office from Gibraltar, 57/63 Line Wall Road, to Italy, Genoa, via De Marini 1, and changed its name to ERG Wind Investments S.r.l.;
- on **4 November 2021**, the German company ERG Windpark Heyen GmbH & Co. KG, with registered office in Hamburg, was formed;
- on **20 December 2021**, the deeds of merger by incorporation of ERG Solar Campania S.r.l., ERG Solar Marche 1 S.r.l., ERG Solar Marche 2 S.r.l., ERG Solar Puglia 1 S.r.l. and ERG Solar Puglia 2 S.r.l. into Calabria Solar S.r.l., and of ERG Solar Holding S.r.l. into ERG Solar Holding 1 S.r.l. (which will change its name to ERG Solar Holding S.r.l.) were signed. The merger took effect from 31 December 2021, while accounting and tax effects apply as from 1 January 2021;
- on **22 December 2021**, ERG Power Generation S.p.A. transferred to ERG Wind RE Beteiligungs GmbH the 100% stake held in ERG Wind 105 GmbH & Co. KG as consideration for the reserved share capital increase.

The following tables list the companies consolidated on a line-by-line basis, those measured using the equity method, and those measured at fair value, including the transactions detailed above.

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

	Registered office	Direct investment	Group's investment	Share/quota capital ^{(1) (2)}	Equity ^{(1) (2)}
ERG Power Generation S.p.A.					
Corni Eolian S.A.	Constanta (Romania)	100%	100%	33,818	42,271
ERG Eolica Adriatica S.r.l.	Genoa (Italy)	100%	100%	10	54,635
ERG Eolica Campania S.p.A.	Genoa (Italy)	100%	100%	120	89,691
ERG Eolica Faeto S.r.l.	Genoa (Italy)	100%	100%	10	12,196
ERG Eolica Fossa del Lupo S.r.l.	Catanzaro (Italy)	100%	100%	50	72,376
ERG Eolica Ginestra S.r.l.	Genoa (Italy)	100%	100%	10	38,278
ERG Eolica San Vincenzo S.r.l.	Genoa (Italy)	100%	100%	3,500	31,462
ERG Eolica Tirreno S.r.l.	Camporeale (Italy)	100%	100%	10	226
ERG Eolienne France S.a.s.	Paris (France)	100%	100%	112,450	123,097
ERG Hydro S.r.l.	Genoa (Italy)	100%	100%	5,000	692,306
ERG Power S.r.l.	Genoa (Italy)	100%	100%	5,000	244,873
ERG Solar Holding 1 S.r.l.	Genoa (Italy)	100%	100%	20	119,520
ERG UK Holding Ltd.	Edinburgh (UK)	100%	100%	0	19,878
ERG Wind Bulgaria S.p.A.	Genoa (Italy)	100%	100%	50	21,275
ERG Wind Investments Ltd.	Genoa (Italy)	100%	100%	97,046	672,238
ERG Wind Neunte GmbH	Hamburg (Germany)	100%	100%	25	93
ERG Wind Park Beteiligungs GmbH	Hamburg (Germany)	100%	100%	25	(3,184)
ERG Wind RE Beteiligungs GmbH	Hamburg (Germany)	100%	100%	25	15
EW Ornet 2 Z.O.O	Warsaw (Poland)	100%	100%	164,688	136,843
Green Vicari S.r.l.	Camporeale (Italy)	100%	100%	119	24,681
ISAB Energy Solare S.r.l.	Genoa (Italy)	100%	100%	100	169
Andromeda PV S.r.l.	Genoa (Italy)	100%	78.5%	50	87,404
Laszki Wind Sp. Z.o.o	Warsaw (Poland)	100%	100.0%	5	(1,334)
ERG Poland Holding Sp. Z.o.o	Warsaw (Poland)	100%	100.0%	5	5
ERG Sweden Holding AB	Stockholm (Sweden)	100%	100.0%	50	50

(1) Data referring to the latest approved financial statements.

(2) Figures expressed in thousands of Euro with the exception of Corni Eolian SA whose figures are expressed in thousands of RON, EW Ornet 2 SP. ZOO whose figures are expressed in thousands of Zloty and ERG Sweden Holding AB whose figures are expressed in thousands of SEK.

	Registered office	Direct investment	Group's investment	Share/quota capital ^{(1) (2)}	Equity ^{(1) (2)}
ERG Eolienne France S.a.s.					
Eoliennes du Vent Solaire S.a.s.	Paris (France)	100%	100%	37	(4,921)
Parc Eolien de Lihus S.a.s.	Paris (France)	100%	100%	1,114	2,771
Parc Eolien de Hetomesnil S.a.s.	Paris (France)	100%	100%	1,114	2,876
Parc Eolien de la Bruyère S.a.s.	Paris (France)	100%	100%	1,060	4,030
Parc Eolien du Carreau S.a.s.	Paris (France)	100%	100%	861	5,639
Parc Eolien les Mardeaux S.a.s.	Paris (France)	100%	100%	1,097	2,452
Epuron Energies Renouvelables S.a.s.					
Parc Eolien de la vallée de Torfou S.a.r.l.	Paris (France)	100%	100%	8	2,256
Parc Eolien du Melier S.a.r.l.	Paris (France)	100%	100%	8	(121)
Parc Eolienne de la Voie Sacree S.a.s.	Paris (France)	100%	100%	74	5,623
Parc Eolienne d'Epense S.a.s.	Paris (France)	100%	100%	802	1,412
ERG Wind French Holdings S.a.s.					
ERG Wind France 1 S.a.s.	Paris (France)	100%	100%	1,410	(879)
WP France 10 S.a.s.	Paris (France)	100%	100%	1,097	6,254
WP France 6 S.a.s.	Paris (France)	100%	100%	6	(120)
ERG France S.a.r.l.	Paris (France)	100%	100%	6	1,733
Les Moulins de Fruges S.a.s.					
Ferme Eolienne De Saint Pierre De Maillé 1 S.a.s.	Paris (France)	100%	100%	2,000	(2,088)
Holding Quesnoy 2 S.a.s.	Paris (France)	100%	100%	42,100	21,042
Holding Chery S.a.s.	Paris (France)	100%	100%	5,639	2,889
Omniwatt S.a.s.	Paris (France)	100%	100%	2,810	1,388
Ferme Eolienne de Moquepanier	Paris (France)	100%	100%	2,410	414
Ferme Eolienne de Clamecy S.a.s.	Paris (France)	100%	100%	1,101	218
Crampon Puchot Energies S.a.s.					
Solaires Sisteron S.a.s.	Paris (France)	100%	100%	2,519	(4,244)
Solaire Sénénergues S.a.s.	Paris (France)	100%	100%	2,000	2,197
Solaire Arpajon-sur-Cere S.a.s.	Paris (France)	100%	100%	1,091	495
Arsac 1 S.a.s.	Paris (France)	100%	100%	334	(1,547)
Arsac 3 S.a.s.	Paris (France)	100%	100%	-	(1,383)
Solaire Greoux S.a.s.	Paris (France)	100%	100%	451	(1,696)
Solaire Salaunes S.a.s.	Paris (France)	100%	100%	0	(1,295)
				1	(1,794)
				-	(1,184)
				-	(981)
Epuron Energies Renouvelables S.a.s.					
ERG Développement S.a.s.	Paris (France)	100%	100%	100	(4,476)
Caen Renewables Energy S.a.s. (en liquidation)	Paris (France)	100%	100%	37	(78)
Parc Eolien de la Charente Limousine S.a.r.l.	Paris (France)	100%	100%	8	(18)
Parc Eolien de la Boeme S.a.r.l.	Paris (France)	100%	100%	8	(15)
Parc Eolien du Moulin du Bois S.a.r.l.	Paris (France)	100%	100%	8	(26)
Parc Eolien des Bouchats S.a.r.l.	Paris (France)	100%	100%	8	(24)
Parc Eolien de Saint Maurice la Clouere S.a.r.l.	Paris (France)	100%	100%	8	(13)
Parc Eolien du Pays a Part S.a.r.l.	Paris (France)	100%	100%	8	(20)
Parc Eolien de Saint Sulpice S.a.r.l.	Paris (France)	100%	100%	8	(4)
Parc Eolien du Plateaux de l'Ajoux S.a.r.l.	Paris (France)	100%	100%	8	(4)
Parc Eolien des Terres et Vents de Ravieres S.a.r.l.	Paris (France)	100%	100%	8	(5)
Parc Eolien de Porspoder S.a.r.l.	Paris (France)	100%	100%	8	(4)
ERG Solar Holding S.r.l.					
Calabria Solar S.r.l.	Genoa (Italy)	100%	100%	10	30,102
ERG Solar Piemonte 3 S.r.l.	Genoa (Italy)	100%	100%	10	17,008
ERG UK Holding Ltd.					
Craigmore Energy	Belfast (UK)	100%	100%	0	299
Creag Riabhach Wind Farm Ltd.	Edinburgh (UK)	100%	100%	50	(147)
Evishagaran Windfarm Ltd.	Belfast (UK)	100%	100%	0	(772)
Sandy Knowe Wind Farm Ltd.	London (UK)	100%	100%	0	(525)
ERG Wind RE Beteiligungs GmbH					
Parc Eolien de St Riquier 3 S.a.s.	Paris (France)	100%	100%	37	(546)
Parc Eolien de St Riquier 4 S.a.s.	Paris (France)	100%	100%	37	(685)

(1) Data referring to the latest approved financial statements.

(2) Data expressed in thousands of Euro with the exception of Creag Riabhach and Craigmore Energy whose data are given in thousands of GBP.

	Registered office	Direct investment	Group's investment	Share/quota capital ^{(1) (2)}	Equity ^{(1) (2)}
ERG Wind Bulgaria S.p.A.					
Globo Energy EOOD	Sofia (Bulgaria)	100%	100%	2,239	3,628
K&S Energy EOOD	Sofia (Bulgaria)	100%	100%	1,625	2,044
K&S Energy 1 EOOD	Sofia (Bulgaria)	100%	100%	1,546	3,006
K&S Energy 2 EOOD	Sofia (Bulgaria)	100%	100%	1,560	3,171
Mark 1 EOOD	Sofia (Bulgaria)	100%	100%	2,103	3,468
Mark 2 EOOD	Sofia (Bulgaria)	100%	100%	2,103	3,542
VG-1 EOOD	Sofia (Bulgaria)	100%	100%	777	1,296
VG-2 EOOD	Sofia (Bulgaria)	100%	100%	1,551	2,490
VG-3 EOOD	Sofia (Bulgaria)	100%	100%	1,563	2,634
VG-4 EOOD	Sofia (Bulgaria)	100%	100%	1,511	3,384
VG-5 EOOD	Sofia (Bulgaria)	100%	100%	1,564	2,664
VG-6 EOOD	Sofia (Bulgaria)	100%	100%	1,545	2,541
Wind Park Kavana East EOOD	Sofia (Bulgaria)	100%	100%	258	1,623
Wind Park Kavana West EOOD	Sofia (Bulgaria)	100%	100%	89	1,786
WP Bulgaria 4 EOOD	Sofia (Bulgaria)	100%	100%	1,103	1,844
ERG Wind France 1 S.a.s.					
Cepe Pays De Montbeliard S.a.s.	Paris (France)	100%	100%	365	1,163
Cepe de Murat S.a.s.	Paris (France)	100%	100%	444	2,847
Cepe de Saint Florentin S.a.s.	Paris (France)	100%	100%	251	841
Ferme Eolienne de Teterchen S.a.s.	Paris (France)	100%	100%	100	3,391
Parc Eolien du Bois de l'Arche S.a.s.	Paris (France)	100%	100%	100	5,975
Parc Eolien du Bois de Bigot S.a.s.	Paris (France)	100%	100%	80	3,538
ERG Wind French Holdings S.a.s.					
Parc Eolien de la Chaude Vallee S.a.r.l.	Paris (France)	100%	100%	8	(736)
Parc Eolien de Morvilers S.a.r.l.	Paris (France)	100%	100%	8	(473)
Parc Eolien de Garcelles-Sacqueville S.a.s.	Paris (France)	100%	100%	1,037	67
Parc Eolien du Patis S.a.s.	Paris (France)	100%	100%	1,164	1,574
Parc Eolien Hauts Moulins	Paris (France)	100%	100%	15	(2,509)
Parc Eolien Moulins des Camps	Paris (France)	100%	100%	15	(2,178)
Parc Eolien de St Riquier 1 S.a.s.	Paris (France)	100%	100%	37	(2,955)
Société d'Exploitation du Parc Eolien de la Souterraine S.a.s.	Paris (France)	100%	100%	505	(457)
Parc Eolien de Oyre Saint Sauveur	Paris (France)	100%	100%	37	(1,720)
Société d'Exploitation du Parc Eolien Le Nouvion S.a.s.	Paris (France)	100%	100%	37	(2,470)
ERG Wind Investments Ltd.					
ERG Wind Holdings (Italy) S.r.l.	Genoa (Italy)	100%	100%	212	253,251
ERG Wind MEI 2-14-1 Ltd.	London (UK)	100%	100%	0	(6,479)
ERG Wind MEI 2-14-2 Ltd.	London (UK)	100%	100%	0	(1,202)
ERG Wind Holdings (Italy) S.r.l.					
ERG Wind 4 S.r.l.	Genoa (Italy)	100%	100%	6,633	113,819
ERG Wind Energy S.r.l.	Genoa (Italy)	68%	100%	1,000	1,093
ERG Wind Leasing 4 S.r.l.	Genoa (Italy)	100%	100%	10	442
ERG Wind Sardegna S.r.l.	Genoa (Italy)	100%	100%	77	58,960
ERG Wind Sicilia 6 S.r.l.	Genoa (Italy)	100%	100%	77	49,457
ERG Wind Sardegna S.r.l.					
ERG Wind Sicilia 2 S.r.l.	Genoa (Italy)	100%	100%	77	34,809
ERG Wind Sicilia 4 S.r.l.	Genoa (Italy)	100%	100%	77	10,687
ERG Wind Sicilia 5 S.r.l.	Genoa (Italy)	100%	100%	77	16,564
ERG Wind 2000 S.r.l.	Genoa (Italy)	100%	100%	77	19,420
ERG Wind Sicilia 6 S.r.l.					
ERG Wind 6 S.r.l.	Genoa (Italy)	100%	100%	77	35,839
ERG Wind Sicilia 3 S.r.l.	Genoa (Italy)	100%	100%	77	25,266

(1) Data referring to the latest approved financial statements.

(2) Data expressed in thousands of Euro.

	Registered office	Direct investment	Group's investment	Share/quota capital ^{(1) (2)}	Equity ^{(1) (2)}
ERG Wind MEI 2-14-1 Ltd.					
ERG Wind MEG 1 LLP ⁽³⁾	London (UK)	80%	100%	33,168	37,158
ERG Wind MEG 2 LLP ⁽³⁾	London (UK)	80%	100%	28,010	31,868
ERG Wind MEG 3 LLP ⁽³⁾	London (UK)	80%	100%	33,585	33,216
ERG Wind MEG 4 LLP ⁽³⁾	London (UK)	80%	100%	29,721	31,691
ERG Wind Park Beteiligungs GmbH					
ERG Wind 117 GmbH & Co. KG	Hamburg (Germany)	100%	100%	1	(3,053)
Voltwerk Energy Park 8 GmbH & Co. KG	Hamburg (Germany)	100%	100%	1	(2,757)
Voltwerk Windpark Worbzig GmbH & Co. KG	Hamburg (Germany)	100%	100%	-	1,935
Voltwerk Windpark Beesenstedt GmbH & Co. KG	Hamburg (Germany)	100%	100%	-	2,803
Windpark Cottbuser Halde GmbH & Co. KG	Hamburg (Germany)	100%	100%	5	(7,929)
Windpark Achmer Vint GmbH & Co. KG	Hamburg (Germany)	100%	100%	7,500	3,073
ERG Wind Dobberkau GmbH & Co. KG	Hamburg (Germany)	100%	100%	5,505	3,890
ERG Wind Weselberg GmbH & Co. KG	Hamburg (Germany)	100%	100%	1	(3,213)
Windpark Linda GmbH & Co. KG	Hamburg (Germany)	100%	100%	-	(462)
ERG Development Germany GmbH & Co. KG	Hamburg (Germany)	100%	100%	3	(450)
UGE Barkow GmbH & und Co. KG	Hamburg (Germany)	100%	100%	1	(855)
UGE Barkow Zwei GmbH & und Co. KG	Hamburg (Germany)	100%	100%	1	(435)
UGE Barkow Drei GmbH & und Co. KG	Hamburg (Germany)	100%	100%	1	(229)
ERG Germany GmbH	Hamburg (Germany)	100%	100%	210	(1,658)
ERG Wind Ebersgrun GmbH & Co. KG	Hamburg (Germany)	100%	100%	162	(5,268)
ERG Wind Hollige GmbH & Co. KG	Hamburg (Germany)	100%	100%	200	(7,881)
ERG Wind Norath GmbH & Co. KG	Hamburg (Germany)	100%	100%	185	(5,850)
ERG Wind Offenheim GmbH & Co. KG	Hamburg (Germany)	100%	100%	287	(7,742)
ERG Wind Nack GmbH & Co. KG	Hamburg (Germany)	100%	100%	228	(6,256)
EW Orneta 2 Z.O.O.					
Blachy Pruszyński-Energy SP.Z.O.O.	Warsaw (Poland)	100%	100%	7,100	46,909
Hydro Inwestycje SP.Z.O.O.	Warsaw (Poland)	100%	100%	42	37,050
Les Moulins de Fruges S.a.s.					
Mont Félix	Paris (France)	100%	100%	1,891	2,775
Fond du Moulin	Paris (France)	100%	100%	344	(839)
Chemin Vert	Paris (France)	100%	100%	1,804	(1,209)
Le Marquay	Paris (France)	100%	100%	679	(452)
Les Trentes	Paris (France)	100%	100%	1,935	8
Sole de Bellevue	Paris (France)	100%	100%	1,925	1,132
Holding Chery S.a.s.					
Ferme Eolienne De Chery S.a.s.	Paris (France)	100%	100%	37	(2,564)
Holding Quesnoy 2 S.a.s.					
Ferme Eolienne De Quesnoy-Sur-Airaines 2 S.a.s.	Paris (France)	100%	100%	37	(2,019)
ERG Poland Holding					
EW Piotrków kujawski SP. z o.o.	Warsaw (Poland)	100%	100%	5	(0)
ERG Sweden Holding AB					
Furukraft AB	Malmö (Sweden)	100%	100%	50	504
Omniwatt S.a.s.					
Omniwatt S.a.s.	Paris (France)	100%	100%	4,339	(8,657)
Capenergie 3 Wind GmbH	Frankfurt (Germany)	100%	100%	25	151
Les Eoliennes de Saint Fraigne S.a.s.	Paris (France)	100%	100%	3,700	(3,546)
Neuilly Saint Front Energies S.a.s.	Paris (France)	100%	100%	37	1,525
Monnes Energies S.a.r.l.	Paris (France)	100%	100%	1	1,050
Omnigreen S.a.s.					
Sainte Helene Energies S.a.r.l.	Paris (France)	100%	100%	1	2,421
lel Exploitation 12 S.a.r.l.	Paris (France)	100%	100%	1	322
Reuilly et Diou Energies S.a.r.l.	Paris (France)	100%	100%	1	637
Capenergie 3 Wind GmbH					
Saint Congard Energies S.a.s.	Paris (France)	100%	100%	2	1,398
Crampon Puchot Energies S.a.s.					
Wkn Picardie Verte II S.a.s.	Paris (France)	100%	100%	1	4,730

(1) Data referring to the latest approved financial statements

(2) Data expressed in thousands of EUR with the exception of the companies Blachy Pruszyński-Energy SP Z.O.O. and Hydro Inwestycje SO Z.O.O., whose data are expressed in thousands of Zloty and ERG Sweden Holding AB whose data are expressed in thousands of SEK.

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

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

	Registered office	Direct investment	Group's investment	Share/quota capital ^{(1) (2)}	Equity ^{(1) (2)}	Carrying amount 31/12/2021
ERG Power S.r.l.						
Priolo Servizi S.c.p.A. ⁽³⁾	Melilli (Italy)	20.3%	20.3%	28,100	55,298	11,231
Associates						11,231

(1) Data referring to the latest approved financial statements.

(2) Data expressed in thousands of Euro.

(3) The consortium is subject to joint control with ISAB S.r.l., Versalis S.p.A. and Syndial.

List of companies **measured at cost:**

	Registered office	Direct investment	Group's investment	Share/quota capital ^{(1) (2)}	Equity ^{(1) (2)}	Carrying amount 31/12/2021
ERG Power Generation S.p.A.						
ERG Germany Verwaltungs GmbH	Paris (France)	100%	100%	25	25	25
Eolico Troina S.r.l. in liquidazione	Palermo (Italy)	99%	99%	20	232	25
Subsidiaries						50
ERG Eolienne France S.a.s.						
Parc Eolien de Saint-Loup sur Cher S.a.r.l. ⁽³⁾⁽⁴⁾	Paris(France)	100%	100%	8	(3)	8
Parc Eolien du Puits Gergil S.a.r.l. ⁽³⁾⁽⁴⁾	Paris (France)	100%	100%	8	(3)	8
Parc Eolien du Plateau de la Perche S.a.r.l. ⁽³⁾⁽⁴⁾	Paris (France)	100%	100%	8	(3)	8
Parc Eolien des Boules S.a.r.l. ⁽³⁾⁽⁴⁾	Paris (France)	100%	100%	8	(3)	8
Ferme Eolienne de la voie Sacree sud S.a.s. ⁽³⁾⁽⁴⁾	Paris (France)	100%	100%	10	(23)	10
Francese Parc Eolien Des Grandes Bornes S.a.s. ⁽³⁾⁽⁴⁾	Paris (France)	100%	100%	8	8	8
Parc Eolien Des Jonquilles S.a.s. ⁽³⁾⁽⁴⁾	Paris (France)	100%	100%	8	8	8
Parc Eolien De La Plaine De Burel S.a.s. ⁽³⁾⁽⁴⁾	Paris (France)	100%	100%	8	8	8
Parc Eolien de Saint Priest en Murat S.a.s. ⁽³⁾⁽⁴⁾	Paris (France)	100%	100%	8	8	8
Parc Eolien de Vent Communaux S.a.s. ⁽³⁾⁽⁴⁾	Paris(France)	100%	100%	8	8	8
Parc Eolien de la Foye S.a.s. ⁽⁵⁾	Paris (France)	100%	100%	8	8	8
Subsidiaries						86
ERG Wind Park Beteiligungs GmbH						
ERG Windpark Aukrug GmbH & Co. KG	Hamburg (Germany)	100%	100%	5	5	5
ERG Windpark Bischhausen GmbH & Co. KG	Hamburg (Germany)	100%	100%	5	5	5
ERG Windpark Heyen GmbH & Co. KG	Hamburg (Germany)	100%	100%	5	5	5
ERG Windpark Bokel GmbH & Co. KG	Hamburg (Germany)	100%	100%	5	5	5
						20
ERG UK Holding Ltd.						
High Cairn Wind Farm Limited	Edimburgh (UK)	100%	100%	-	-	-
Creggan Wind Farm Limited ⁽²⁾⁽³⁾	Seebeck House (UK)	100%	100%	-	-	-
Longburn Wind Farm Ltd. ⁽²⁾⁽³⁾	Seebeck House (UK)	100%	100%	0	-	-
Subsidiaries						-
ERG UK Holding Ltd.						
Rigghill Wind Farm Limited ⁽³⁾	Seebeck House (UK)	50%	50%	-	-	238
Joint Ventures						238

(1) Data referring to the latest approved financial statements.

(2) Data expressed in thousands of Euro with the exception of companies with registered offices in the UK whose data are given in thousands of GBP.

(3) Companies measured at cost as they are not yet operational.

(4) French company, not yet operational, set up on 31 December 2018.

(5) French company set up on 22 November 2019.

NOTE 49 - IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED STARTING ON 1 JANUARY 2021

As from 1 January 2021 the following standards, interpretations and amendments to existing standards, in relation to which no significant effects on the Consolidated Financial Statements are reported, have become applicable:

- **Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9** issued on 25 June 2020;
- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2**, issued on 27 August 2020. The amendment was necessary as a result of the IBOR reform. The IASB published the document to take account of the consequences of the reform on financial reporting and so that companies can continue to comply with the provisions assuming that the interest rate benchmarks are not modified as a result of the reform of interbank rates. The amendment introduced the practical expedient to account for the effects of the IBOR reform, by updating the effective interest rate.

NOTE 50 - IFRS/IFRIC STANDARDS, AMENDMENTS AND INTERPRETATIONS PUBLISHED BUT NOT YET ADOPTED EARLY BY THE GROUP AT 31 DECEMBER 2021

Below are the new standards or amendments to the standards, applicable for financial years beginning on or after 1 January 2020 and for which earlier application is allowed. However, the Group has decided not to adopt them in advance for the preparation of these Consolidated Financial Statements.

Entry into force	Description	Issue date	Approved
1° January 2021	Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 19	25 June 2020	✓
	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2	27 August 2020	✓
1° January 2022	Amendments to: • IFRS 3 Business Combinations; • IAS 16 Property, Plant and Equipment; • IAS 37 Provisions, Contingent Liabilities and Contingent Assets • Annual Improvements 2018-2020	14 May 2020	✓
1° January 2023	IFRS 17 Insurance Contracts including Amendments to IFRS 17	18 May 2017 – 25 June 2020	✓
	Amendments to IAS 1 'Presentation of financial statements' on the classification of liabilities	23 January 2020	
	Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies	12 February 2021	
	Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates	12 February 2021	
	Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	7 May 2021	
	Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative information	9 December 2021	

Any impacts of the aforesaid standards are currently being assessed.

NOTE 51 - OTHER INFORMATION

No atypical and/or unusual transactions took place during the year. Atypical and/or unusual transactions are those transactions that due to their significance/relevance, nature of the counterparties, subject of the transaction, procedures for determining the transfer price and timeframe of the event (proximity to the end of the year) can give rise to doubts with regard to: the correctness/completeness of the information in the Consolidated Financial Statements, conflicts of interest, wealth preservation and the protection of non-controlling interests.

No advances were provided and there are no receivables from directors and statutory auditors of the parent for the performance of their duties also in other companies included in the consolidation scope.

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 grants from public administrations to publish the amounts received in their Notes to the Separate Financial Statements 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 grants 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 (e.g. Fondi impresa), since such funds are a form of partnership governed by private law, financed with the contributions paid by the companies themselves.

(EUR million)	Revenue 2021	of which feed-in premium	of which white certificates	of which guarantees of origin	of which DD	of which RES
Wind Italy	157	156	-	1	-	-
Hydroelectric Italy	89	80	-	0	7	1
Thermoelectric Italy	1	0	1	-	-	-
Solar Italy	62	60	-	0	2	-
Total	308	296	1	1	9	1

(EUR million)	Receipts 2021	of which feed-in premium	of which white certificates	of which guarantees of origin	of which DD	of which RES
Wind Italy	138	137	-	1	-	-
Hydroelectric Italy	67	62	-	1	4	1
Thermoelectric Italy	24	-	24	-	-	-
Solar Italy	60	60	-	-	-	-
Total	290	259	24	2	4	1

The reference amounts indicated in the tables above are also reported in the Financial Statements of the Group companies concerned.

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.

It should be noted that, for the company ERG Power Generation, in 2021 the fixed premiums resulting from the awarding of the two Capacity Market auctions for the delivery years 2022 and 2023 were entered in the National Register of State Aid. The auctions were held in November 2019 and specifically concern the CCGT plant in Priolo Gargallo (SR), which was awarded a total amount of EUR 22.4 million relating to the 2022 and 2023 financial years.

NOTE 52 - AUDIT FEES

Based on Article 149-duodecies of the Issuers' Regulation, the 2021 costs relating to the services performed by the independent auditors KPMG S.p.A., the main auditor of the ERG Group, and by the companies belonging to its related network, are shown below.

The prospectus is prepared in line with the "Procedure for the assignment of audit engagements to companies in the ERG Group and the monitoring of additional services".

Audit services comprise the complete audit of the separate and consolidated financial statements and the audit of the reporting package of the parent for the purposes of the preparation of the Consolidated Financial Statements of the ultimate parent.

Type of service	Party that performed the service	Recipient	Fees 2021 (EUR thousand)
Statutory audit	Auditor of the parent	parent	231
	Auditor of the parent	subsidiaries	626
	Network of the parent's auditor	subsidiaries	244
Total Audit Services			1,101
Non-audit services	Tax advice services	subsidiaries	-
	Auditor of the parent	parent	15
	Network of the parent's auditor	parent	-
	Network of the parent's auditor	subsidiaries	-
	Auditor of the parent	subsidiaries	47
Total non-audit services			62
Total			1,163

NOTE 53 - SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Date	Sector	Significant event	Press release
3 January 2022	Hydroelectric	ERG, through its subsidiary ERG Power Generation S.p.A., has completed an agreement with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Hydro S.r.l. The consideration totals approximately EUR 1.265 billion, including the mark-to-market valuation of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Hydro S.r.l. plants.	Press release of 03 January 2022
26 January 2022	Corporate	ERG entered Bloomberg's Gender Equality Index (GEI), which includes more than 400 companies in 45 countries worldwide – measures companies' commitment to supporting gender equality by promoting a more inclusive environment, ensuring the transparent and comprehensive representation of information. Bloomberg acknowledged the effectiveness of ERG's initiatives to promote gender equality among its staff in all countries, through clear guidelines in recruitment processes, development plans in line with best practices, equal pay, inclusive culture and maximum clarity and quality in data reporting.	Press release of 26 January 2022
31 January 2022	Wind	ERG has been awarded a tariff for 20 years on 97.2 MW of new wind capacity as part of the seventh auction called by GSE (Gestore dei Servizi Elettrici). These are, in particular, the repowering project in Camporeale (50.4 MW) and the greenfield project in Roccapalumba (46.8 MW), both located in Sicily, for which ERG obtained the Single Authorisations, respectively, on 22 September and 4 October 2021.	Press release of 31 January 2022
31 January 2022	Solar	ERG, through its Spanish holding, has acquired from GEI Subasta 1 SA 100% of the capital of two Spanish project companies owning two operational solar plants located in southern Spain in the regions of Castilla de la Mancha and Andalusia, of 50.0 MW and 41.6 MW respectively.	Press release of 31 January 2022

9 February 2022	Thermoelectric	<p>ERG, through its subsidiary ERG Power Generation S.p.A., has signed an agreement with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Power S.r.l., which owns the low-environmental-impact and high-efficiency Combined Cycle Gas Turbine (CCGT) cogeneration plant powered by natural gas located at Priolo Gargallo, in the province of Syracuse. With an installed capacity of 480 MW, the average annual production is around 2.4 TWh.</p> <p>The consideration in terms of Enterprise Value, at 31 December 2021, is equal to EUR 188 million and will be subject to price adjustment at closing. The transaction is expected to be concluded in the third quarter of 2022.</p>	Press release of 09 February 2022
10 February 2022	Corporate	<p>ERG has entered the CDP (Carbon Disclosure Project) "Suppliers Engagement Leaderboard", which brings together the best-performing companies globally in the creation of a sustainable supply chain. Amongst more than 13,000 companies assessed in 2021, ERG is among the 8% of companies who have received an 'A' rating, the highest on the scale created based on CDP's 'Climate Change' questionnaire.</p>	Press release of 10 February 2022
23 February 2022	Corporate	<p>ERG enters the storage market with two projects for a total of 22 MW of installed capacity in the Centre-South and Sicily. The two projects are currently in the authorisation phase and the construction is planned near two ERG wind farms in operation in Ginestra degli Schiavoni in Campania and in Vicari in Sicily.</p>	Press release of 23 February 2022

Asset Rotation – ERG Power

In the first half of 2021, the ERG Group implemented an evaluation process relating to the opportunity for a potential asset rotation of the thermoelectric plants to aid in further accelerating the growth and development of its business model.

Following the close of the first half of 2021, bids from interested operators were received in early July 2021.

The Group, having read the market indications, continued the process of assessing the potential sale of the thermoelectric plant which, at 31 December 2021 (Reporting Date of this Report), was still being finalised. Furthermore, at the Reporting Date, the thermoelectric plant was not yet available for immediate sale in its current condition.

In consideration of the above and in application of the provisions of paragraph 12 of IFRS 5, in this Report none of the relative Net Assets were classified as assets/liabilities held for sale at 31 December 2021.

During 2022, following the in-depth analysis carried out, Group management began negotiations for the sale of the thermoelectric plant, signing an agreement on 9 February 2022 with Enel Produzione S.p.A. for the sale of the entire capital of ERG Power S.r.l. The consideration in terms of Enterprise Value, at 31 December 2021, is EUR 188 million and will be subject to a price adjustment at the closing. This will include, among other things, a monthly décalage

mechanism consistent with the expected cash flows of the business plan. It will also include the mark-to-market valuation at the closing of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Power's plants.

Subject, among other things, to the approval of the relevant antitrust authorities and the successful completion of the Golden Power procedure at the Italian Presidency of the Council of Ministers, the deal should be closed within the third quarter of 2022.

Regulatory measures regarding the containment of the increase in energy prices

In early 2022, urgent measures were introduced to contain the effects of price increases in the electricity sector, as described in more detail in the Directors' Report. ARERA is still in the process of issuing its procedures for the implementation of these measures, on the basis of which it will be possible to more clearly establish the impacts for the Group.

The war in Ukraine

In view of the war that broke in Ukraine at the end of February 2022, management is monitoring any critical issues and impacts that the conflict could have on the ERG Group, in particular with reference to credit risk, security and business continuity.

As regards **credit risk**, there are no open positions directly with Russian and Ukrainian counterparties; however, it should be noted that the main customer of the Group on the Priolo Gargallo site is an Italian company indirectly controlled by a Russian group.

In relation to **plant safety**, note the position of some of the Group's wind farms in Eastern Europe (Poland and Romania) close to the Ukrainian border: since these are countries that are part of NATO, there are currently no risks directly linked to the conflict.

In relation to **business continuity** with regard to gas supply, in the case of sanctions linked to the export of gas from Russia, impacts on prices and supply volumes cannot be excluded. Any impacts on the CCGT plant and on site sales contracts will be assessed according to the type of sanctions that may be imposed on energy exports from Russia. The geopolitical tensions are significantly impacting the financial and commodities markets, with a sharp increase in gas and electricity prices, in respect of which further regulatory measures in the energy sector cannot be ruled out.

NOTE 54 - PUBLICATION DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS

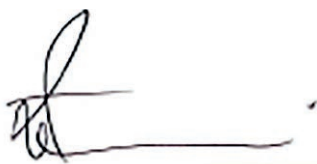
On 11 March 2022, the Board of Directors of ERG Power Generation S.p.A. authorised the publication of the Consolidated Financial Statements together with the reports of the Supervisory Bodies in compliance with the deadlines prescribed by current laws and regulations.

Genoa, 11 March 2022

on behalf of the Board of Directors

The Chief Executive Officer

Renato Sturani

A handwritten signature in black ink, consisting of a stylized 'R' followed by a horizontal line and a small dot at the end.

AUDITORS' REPORT



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(This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

To the sole shareholder of
ERG Power Generation S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the ERG Power Generation Group (the "Group"), which comprise the statement of financial position as at 31 December 2021, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the ERG Power Generation Group as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of ERG Power Generation S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

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ERG Power Generation Group
Independent auditors' report
31 December 2021

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;



ERG Power Generation Group
Independent auditors' report
31 December 2021

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The directors of ERG Power Generation S.p.A. are responsible for the preparation of the directors' report at 31 December 2021 and for the consistency of such report with the related consolidated financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the Group's consolidated financial statements at 31 December 2021 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the Group's consolidated financial statements at 31 December 2021 and has been prepared in compliance with the applicable law.



ERG Power Generation Group
Independent auditors' report
31 December 2021

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 2022

KPMG S.p.A.

(signed on the original)

Luisa Polignano
Director of Audit



Financial Statements and Explanatory Notes

STATEMENT OF FINANCIAL POSITION

ASSETS

(EUR)	31/12/2021	31/12/2020
A) SUBSCRIBED CAPITAL, UNPAID	-	-
B) NON-CURRENT ASSETS		
I. Intangible assets		
1) Start-up and expansion costs	-	-
2) Development costs	-	-
3) Industrial patents and intellectual property rights	3,120,094	1,893,071
4) Concessions, licences, trademarks and similar rights	7,167	7,667
5) Goodwill	1,876,809	2,252,171
6) Assets under development and advances	1,796,581	2,442,734
7) Other	1,920	2,484
Total	6,802,571	6,598,127
II. Property, plant and equipment		
1) Land and buildings	161,869	82,453
2) Plant and machinery	155,091	165,486
3) Industrial and commercial equipment	1,780,507	1,923,612
4) Other assets	254,075	326,461
5) Assets under construction and advances	175,595	281,773
Total	2,527,136	2,779,785
III. Financial assets		
1) Equity investments in:		
a) subsidiaries	1,352,678,779	2,200,471,869
b) associates	-	-
c) parent companies	-	-
d) companies subject to control by parent companies	-	-
d-bis) other companies	3,436	1,635
	1,352,682,214	2,200,473,504
2) Receivables from:		
a) subsidiaries	1,223,939,611	751,929,587
b) associates	-	-
c) parent companies	-	-
d) companies subject to control by parent companies	-	-
d-bis) others	99,513,329	16,848,687
	1,323,452,940	768,778,275
3) Other securities	-	-
4) Derivative financial instruments	-	-
Total	2,676,135,155	2,969,251,779
TOTAL NON-CURRENT ASSETS (B)	2,685,464,862	2,978,629,691

(EUR)		31/12/2021	31/12/2020
C) CURRENT ASSETS			
I. Inventories			
1)	Raw, ancillary and consumable materials	10,478,554	10,187,388
2)	Work in progress and semi-finished products	-	-
3)	Contracts in progress	4,348,971	9,198,470
4)	Finished products and goods	-	-
5)	Advances	-	-
Total		14,827,526	19,385,858
II. Receivables			
	of which beyond 12 months:		of which beyond 12 months
1)	from customers	- 206,442,114	- 82,529,590
2)	from subsidiaries	- 22,806,362	- 21,940,968
3)	from associates	- 3,026,212	- 1,278,485
4)	from parent companies	- 64,688,288	- 3,210,928
4 ^{-quarter})	assets for substitute tax from realignment	-	-
5)	from companies subject to control by parent companies	-	-
5 ^{-bis})	tax receivables	- 21,232,805	1,256,394 16,117,178
5 ^{-ter})	deferred tax assets	88,504,390 107,995,242	4,183,323 7,767,918
5 ^{-quater})	from others	17,059,364 38,640,801	10,559,366 12,929,452
Total		464,831,824	145,774,519
III. Short-term financial assets			
1)	Equity investments in subsidiaries	1,026,915,816	-
2)	Equity investments in associates	-	-
3)	Equity investments in parent companies	-	-
3 ^{-bis})	Equity investments in companies subject to control by parent companies	-	-
4)	Other equity investments	-	-
5)	Derivative financial instruments	159,421,487	14,279,333
6)	Other securities	-	-
7)	Financial assets for centralised treasury management in respect of parent company	-	-
Total		1,186,337,302	14,279,333
IV. Cash and cash equivalents			
1)	Bank and postal deposits	5,906,181	3,506,033
2)	Cheques	-	-
3)	Cash and notes on hand	-	69
Total		5,906,181	3,506,102
TOTAL CURRENT ASSETS (C)		1,671,902,833	182,945,813
D) ACCRUALS AND DEFERRALS		13,144,224	29,670,325
TOTAL ASSETS		4,370,511,919	3,191,245,829

LIABILITIES

(EUR)	31/12/2021	31/12/2020
A) EQUITY		
I) Share capital	100,000,000	100,000,000
II) Share premium reserve	7,000,000	7,000,000
III) Revaluation reserves	2,221,445	2,221,445
IV) Legal reserve	20,000,000	17,825,569
V) Statutory reserves	-	-
VI) Other reserves, indicated separately	-	-
Reserves for shareholders contributions	1,311,732,646	1,311,732,646
Capital grants reserve	-	-
Extraordinary reserve	5,829,878	5,829,878
Legal reserve, additional VAT deductions	642	642
Reserve pursuant to Italian Law no. 308/82	363	363
Operating grants	861	861
Merger goodwill	5,855,286	5,855,286
Merger goodwill 2017	606,980,447	606,980,447
VII) Reserve for transactions to hedge expected cash flows	(295,975,762)	(11,578,639)
VIII) Retained earnings	261,651,078	214,209,097
IX) Profit for the year	242,448,700	99,616,412
X) Negative reserve for treasury shares in portfolio	-	-
TOTAL	2,267,745,584	2,359,694,007
B) PROVISIONS FOR RISKS AND CHARGES		
1) for pensions and similar obligations	-	-
2) for taxes, including deferred	-	-
3) financial derivative liabilities	205,228,385	17,212,610
4) Other	2,572,239	2,428,623
TOTAL	207,800,624	19,641,232
C) POST-EMPLOYMENT BENEFITS	2,607,812	2,728,394
D) PAYABLES	of which beyond 12 months:	of which beyond 12 months:
1) Bonds	-	-
2) Convertible bonds	-	-
3) Shareholder loan payables	-	1,270,120,561
4) Payables to banks	-	257,404,686
5) Payables to other lenders	-	308,643,994
6) Advances	-	33
7) Payables to suppliers	-	-
8) Payables represented by securities	-	1,025,880
9) Payables to subsidiaries	-	31,250,280
10) Payables to associates	-	-
11) Payables to parent companies	-	438,249,815
11 ^{-bis}) Payables to companies subject to control by parent companies	-	-
12) Tax liabilities	-	6,469,448
13) Payables to social security and pension institutions	-	4,838,399
14) Other payables	-	1,636,781
TOTAL	1,892,357,898	17,067,565
E) ACCRUALS AND DEFERRALS	1	1
TOTAL LIABILITIES	4,370,511,919	3,191,245,829

INCOME STATEMENT

(EUR)	2021	2020
A) VALUE OF PRODUCTION		
1) Revenue from sales and services	828,511,795	639,393,259
2) Changes in inventories of work in progress, semi-finished products and finished products	-	-
3) Changes in contracts in progress	(4,848,709)	4,014,512
4) Increases in non-current assets for internal work	-	-
5) Other revenue and income		
- other	1,944,231	3,508,745
- operating grants	-	-
TOTAL	825,607,317	646,916,516
B) COST OF PRODUCTION		
6) For raw, ancillary and consumable materials and goods	(850,817,808)	(402,138,152)
7) For services	(176,529,084)	(176,962,375)
8) For leased goods	(2,195,871)	(2,371,583)
9) For employees:		
a) salaries and wages	(21,619,107)	(20,343,891)
b) social security contributions	(5,590,687)	(5,875,563)
c) post-employment benefits	(1,485,446)	(1,320,046)
d) pensions and similar obligations	-	-
e) other costs	(919,126)	(1,945,712)
	(29,614,366)	(29,485,211)
10) Amortisation, depreciation and impairment losses:		
a) amortisation of intangible assets	(1,496,263)	(1,173,612)
b) depreciation of property, plant and equipment	(661,693)	(631,535)
c) other impairment losses of non-current assets	-	-
d) impairment losses of receivables included in current assets and cash and cash equivalents	-	(429,758)
	(2,157,956)	(2,234,905)
11) changes in inventories of raw, ancillary and consumable materials and goods	291,166	798,697
12) provisions for risks	(645,193)	(1,450,000)
13) other provisions	-	-
14) sundry operating costs	(9,106,426)	(1,180,509)
TOTAL	(1,070,775,538)	(615,024,038)
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A-B)	(245,168,221)	31,892,478

(EUR)	2021	2020
C) FINANCIAL INCOME AND EXPENSE		
15) Income from equity investments:		
- from subsidiaries	395,473,766	68,295,233
- from associates	-	-
- from parent companies	-	-
- from companies subject to control by parent companies	-	-
- from others	-	373,979
	395,473,766	68,669,212
16) Other financial income:		
a) from receivables recorded under non-current assets		
- from subsidiaries	20,677,539	14,524,138
- from associates	-	-
- from parent companies	-	-
- from companies subject to control by parent companies	-	-
- from others	-	-
	20,677,539	14,524,138
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	85,619	39,430
- from associates	-	-
- from parent companies	-	-
- from companies subject to control by parent companies	-	-
- from others	226,077	314,206
	311,696	353,636
	20,989,235	14,877,775
17) Interest and other financial expense		
- to subsidiaries	-	-
- to associates	-	-
- to parent companies	(9,552,503)	(6,893,557)
- to companies subject to control by parent companies	-	-
- to others	(228,191)	(108,891)
	(9,780,694)	(7,002,448)
17 ^{bis}) Exchange rate gains and losses	(160,375)	(202,506)
TOTAL	406,521,932	76,342,033

(EUR)	2021	2020
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES		
18) Revaluations:		
a) of equity investments	19,915,816	-
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	159,190,287	11,930,359
	179,106,103	11,930,359
19) Impairment losses:		
a) of equity investments	-	(132,609)
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	(159,366,972)	(11,199,147)
	(159,366,972)	(11,331,755)
TOTAL ADJUSTMENTS (18 - 19) (D)	19,739,131	598,604
PROFIT (LOSS) BEFORE TAXES (A - B +/- C +/- D)	181,092,842	108,833,114
20) Income taxes for the year: current, deferred and prepaid	61,355,858	(9,216,703)
21) PROFIT (LOSS) FOR THE YEAR	242,448,700	99,616,412

STATEMENT OF CASH FLOWS

(EUR)	2021	2020
A. CASH FLOW FROM OPERATING ACTIVITIES (INDIRECT METHOD)		
Profit (loss) for the year	242,448,700	99,616,412
Income taxes	(61,355,858)	9,216,703
Interest expense/(interest income)	(11,208,541)	(7,875,325)
(Dividends)	(395,473,766)	(68,669,212)
(Capital gains)/capital losses from the disposal of assets	-	-
1. Profit (loss) for the year before income tax, interest, dividends and capital gains/losses from transfers	(225,589,465)	32,288,578
Allocations to provisions	2,130,639	2,770,046
Amortisation/depreciation of non-current assets	2,157,956	1,805,147
Impairment losses	-	200,000
Other adjustments for non-monetary elements	(18,659,421)	-
Value adjustments to financial assets and liabilities of financial derivatives that do not involve financial transactions	(25,640,766)	12,609,509
2. Cash flow before changes in net working capital	(265,601,057)	49,673,280
Decreases/(increases) in inventories	4,558,333	(4,813,210)
Decreases/(increases) in trade receivables	(122,810,932)	(2,476,613)
Increases/(decreases) in trade payables	248,517,435	(11,025,606)
Decreases/(increases) in accrued income and prepaid expenses	16,526,101	(5,245,486)
Increases/(decreases) in accrued expenses and deferred income	-	(1,977)
Other changes in net working capital	(42,461,327)	(2,599,888)
3. Cash flow after changes in net working capital	(161,271,446)	23,510,499
Interest received/(paid)	11,208,541	7,875,325
Income taxes (paid)/collected for national tax consolidation scheme	(12,504,551)	3,230,644
Dividends received	395,473,766	68,669,212
(Use of post-employment benefits provision)	(1,606,027)	(1,403,124)
(Use of provisions)	(501,576)	(1,993,230)
Other collections and payments	-	-
4. Cash flow after other adjustments	230,798,707	99,889,326
CASH FLOW FROM OPERATING ACTIVITIES (A)	230,798,707	99,889,326

(EUR)	2021	2020
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Property, plant and equipment		
(Capital expenditure)	(404,095)	(409,138)
Divestments	-	126,605
Intangible assets		
(Capital expenditure)	(1,705,821)	(1,884,780)
Divestments	-	-
Financial assets		
(Capital expenditure)	(705,645,741)	(360,267,371)
Divestments	309,045	-
Current financial assets		
(Capital expenditure)	-	-
Divestments	-	-
CASH FLOW FROM INVESTING ACTIVITIES (B)	(707,446,612)	(362,434,684)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings		
Increase (decrease) in short-term bank borrowings	-	(3,197)
Increase (decrease) of short-term financial payables/receivables to/from Group companies	844,812,862	(11,605,668)
Loans taken out	-	-
Repayment of loans	-	-
Equity		
Paid share capital increases	-	350,000,000
(Repayment of capital)	-	-
Sale (purchase) of treasury shares	-	-
Changes in equity due to reserve for hedging futures (paid)/collected	(315,764,878)	(35,526,803)
Dividends (and advances on dividends) paid	(50,000,000)	(45,000,000)
CASH FLOWS FROM FINANCING ACTIVITIES (C)	479,047,984	257,864,332
Increase (decrease) of cash and cash equivalents (A ± B ± C)	2,400,079	(4,681,027)
Opening cash and cash equivalents	3,506,102	8,187,129
CLOSING CASH AND CASH EQUIVALENTS	5,906,181	3,506,102

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2021

The financial statements of ERG Power Generation S.p.A. (hereinafter also "Company"), drawn up in accordance with the regulations contained in Articles 2423 et seq. of the Italian Civil Code, interpreted and added to the accounting standards issued by the Italian Accounting Body (the "OIC accounting standards"), comprise the following documents: Statement of Financial Position, Income Statement, Statement of Cash Flows and Notes to 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 2020 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.

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 Directors and included to the following financial statements.

It should be noted that on 3 January 2022 the transaction with Enel Produzione S.p.A. for the sale of the entire capital of ERG Hydro S.r.l. was concluded. However, for the purposes of preparing these financial statements at 31 December 2021, the economic and equity transactions between the Company and ERG Hydro are shown in the separate financial statements and in the corresponding analysis tables in relations with subsidiaries.

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 to the Financial Statements include a summary statement of the key data from the latest financial statements of said company.

ERG Power Generation S.p.A. is controlled directly by ERG S.p.A., with registered office at Via De Marini 1, in Genoa, and indirectly by San Quirico S.p.A., with registered office in Via Martin Piaggio 17/4, 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 S.p.A. are available on the internet site of ERG S.p.A., at www.erg.eu, while the consolidated financial statements of San Quirico S.p.A. are available at the company's registered office.

THE COMPANY

The company is currently a wholly-owned subsidiary of ERG S.p.A.

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

- centralised Energy Management & Sales activities for all generation technologies in which the ERG Group operates with the mission of securing production through long-term contracts and managing the hedging of merchant positions in line with the Group's risk policies;
- the Operation & Maintenance activities of its Italian wind and solar farms and part of the plants in France and Germany, as well as the Priolo CCGT plant and the Terni Hydroelectric Complex¹. It provides technical and administrative services in France for both Group companies and third parties through its foreign subsidiaries.

Therefore, at 31 December 2021, ERG Power Generation S.p.A. is assigned responsibility for the Group's industrial and commercial processes, organised into:

- Wind, Solar, Hydro and Thermo generation technologies, which in turn are organised into production units on a geographical basis;²
- Energy Management & Sales, as a single entry point to organised markets and the main clients/counterparties;
- a centre of process engineering technological excellence;
- a structure dedicated to managing health, safety and environmental protection issues for the entire Group.

¹ Maintenance of the Terni Hydroelectric Complex is managed by staff of the subsidiary ERG Hydro.

² Starting from February 2022, in order to continue the path of growth started and achieve the ambitious targets set in the Business Plan, the Group has implemented a business model rooted in the different realities and at the same time flexible, which takes into account both the geographical and technological diversification, particularly in the solar business. Therefore, within the Business Development and M&A Organisational Unit headed by Corporate, two macro areas have been set up at European level – Central West Europe & Nordics and Central East Europe – bringing together the Country Business Development and M&A organisational structures. These remain responsible for identifying, coordinating and finalising organic development and M&A initiatives at local level.

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

- in the generation of electricity from wind sources, with 2,198 MW of installed power. ERG is the leading wind power operator in Italy and one of the top ten in Europe.

The wind farms are mainly concentrated in Italy (1,093 MW), but with a significant and growing presence abroad (1,105 MW operational), mainly in France (502 MW), Germany (327 MW), Poland (82 MW), Romania (70 MW), Bulgaria (54 MW) and the UK (70 MW);

- in the generation of electricity from solar sources with an installed capacity of 220 MW, of which 141 MW in Italy, with 33 photovoltaic plants located in 9 regions, and 79 MW in France with 9 plants acquired during the year;
- in the generation of electricity from hydroelectric sources through an integrated system of assets consisting of 19 plants, 7 dams, 3 reservoirs and one pumping station, geographically located in the Umbria, Marche and Lazio regions, connected by a network of rivers and canals of over 150 km and with a capacity of 527 MW. It should be noted that on 2 August 2021 the Group reached an agreement with Enel Produzione for the sale of the hydroelectric plants. This transaction was concluded on 3 January 2022;
- in the generation of electricity from thermoelectric sources through the CCGT plant (480 MW) at the industrial site in Priolo Gargallo (SR), Sicily. This is a high-efficiency cogeneration plant (HEC) with low-environmental impact, based on combined cycle technology fuelled with natural gas. It entered commercially into operation in April 2010 along with other ancillary plants for the production of steam and, to a lesser extent, of other utilities. It should be noted that on 9 February 2022 the Group reached an agreement with Enel Produzione for the sale of the thermoelectric plants. This transaction is expected to be concluded by the third quarter of 2022.

During the course of the year, the Company carried out mainly activities:

- a) in the electricity sector, including the purchase, generation, import, export and sale (including to end customers) of electricity and related products such as, for example, securities and instruments related to those activities;
- b) in the energy sector in general, including the purchase, import and sale (including to end customers) of fuels and other utilities;
- c) in other sectors that are related or close to the activities carried out in the above-mentioned sectors, which allow for better use of the structures, resources and skills used, allowing the goods produced and services provided in the above-mentioned sectors to be used more effectively.

The following activities form also part of the Company business purposes (i) the design, construction, maintenance and management of plants; (ii) production and sale of equipment; (iii) research, consultancy services and assistance; and (iv) the purchase, sale and marketing of goods and services referred to in the sectors described under letters a), b) and c) of the preceding paragraph (including, by way of example, marketing and management services, as well as performance monitoring).

COVID-19 emergency

The COVID-19 Public Health Emergency of International Concern continued in 2021. ERG proceeded, in this regard, to implement 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, as recommended by the competent Authorities, was remote working, which it extended to all the Group's offices across Italy and abroad, involving over 70% of the corporate workforce (all "white collar" staff), and excluding only personnel dedicated to the maintenance of plant in order to safeguard operational and management continuity and ensure the safety of company assets.

In 2021, staff initially worked remotely for five days a week; subsequently, as from July, remote working was confirmed for two working days a week. This option, as stated previously, was extended to all the Group's offices in Italy and abroad where the remote working option is compatible with the effective performance of the duties assigned, ensuring that the utmost attention is given to guaranteeing full business continuity.

ERG continues to very carefully manage 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 the Workplace Anti-Covid Protocol and recommendations by the competent authorities, and in agreement with trade union organisations. The Company documents that regulate the actions undertaken have been made available to all personnel in a special section of the company intranet and are periodically updated.

As part of the broader framework of the national vaccination campaign in progress and with the aim of making a proactive contribution to it, ERG ran a vaccine information campaign, to ensure people can participate in a fully informed manner. The initiative was entrusted to the Internal Managers of the Prevention and Protection Services and to the company doctors in the various offices.

No staff reductions have been planned or carried out since the start of the pandemic. Moreover, the company has not had to make use of so-called 'social shock absorbers' nor has it had to implement the forced reduction of working hours. By contrast, the Group welcomed 50 new hires in 2020 and a further 74 in 2021, in order to support the company's growth process. Engagement and partnership activities with the areas in which ERG is present have continued and specific financial resources have been allocated by group companies and employees themselves to meet the most urgent needs of healthcare facilities.

Starting from 15 October, as required by Italian Decree Law no. 127 of 21 September 2021, in order to access the workplace, it is mandatory to possess and exhibit, upon request, the COVID-19 Green Pass, except for those who are exempted from the vaccination campaign on the basis of appropriate medical certification. Green Pass possession will be verified by means of spot checking; specific operating procedures have been defined for each site, taking into consideration the variability of the activities carried out and the number of people present; the INPS portal is also used for the aforementioned controls, allowing for the automatic verification of the possession of COVID-19 green certifications for access to the workplace.

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. No revaluations of assets were carried out during the year pursuant to special laws on the subject.

Preparation of the financial statements requires estimates that affect the values of assets and liabilities and the relative financial statements. The final results may differ from these estimates. Estimates are reviewed periodically, and the effects of changes in estimates, where not arising from errors in the estimates, are stated in the income statement in the year in which the changes occur, if they only affect that year, and even in subsequent years if the changes impact both the current year as well as later years.

The main estimates for which the use of subjective assessments is more heavily required were used, inter alia, for:

- 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 taxes, recognised on the basis of the future taxability of expected profits generated in accordance with business plans as well as of the expected renewal of tax consolidation regimes;
- the estimate of revenues from ordinary operations pertaining to the energy business, in relation to determination of the value of the energy efficiency certificates;
- the procedure for verifying equity investments, described in more detail in the sections "Impairment" and "Equity investments" which involves – in estimating the value in use – the use of the investees' business plans, based on a set of assumptions regarding inflation, discount rates, expected energy prices, availability of renewable resources, changes to the regulatory framework;
- the fair value calculation for derivatives, performed on the basis of the estimate of future cash flows, discounted at the measurement date. The estimate of variable future prices is carried out on the basis of forward prices of the

commodities. The measurement techniques used are based exclusively on parameters such as spot and forward price, interest rates and commodity price directly observable on the market.

For 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 impairment losses 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.

Amortisation begins at the moment in which the asset is available and ready for use.

These amounts are reduced on an annual basis and recognised in the income statement using an amortisation process, on a straight-line basis in accordance with their useful lives and also considering any residual possibility of use. The systematic nature of amortisation is linked to the correlation of the expected benefits.

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

Leasehold improvements are capitalised and recognised under "other intangible assets" if they cannot be separated from the assets themselves (otherwise they are recognised under the specific item of "property, plant and equipment"), and amortised on a straight-line basis at the lower of the period of expected future utility and the residual lease, taking into account any renewal period, if dependent on the Company.

If, regardless of any amortisation already recognised, there proves to be impairment, the asset is written off accordingly.

If in later years the reason for the write-off no longer applies, the original value is restored to the extent of the value the asset would have had if the write-down had never been made, with the exception of "Deferred charges" pursuant to number 5 under Article 2426 of the Italian Civil Code.

The amortisation rate on software is 33%, while leasehold improvements are amortised at 20%.

In general, intangible assets are amortised over a maximum period of five years.

Goodwill includes amounts paid with regard to company purchase transactions or other corporate transactions and is amortised based on useful life. The useful life is estimated upon initial recognition of goodwill and is not changed in subsequent years. If it is not possible to estimate useful life, goodwill is amortised over a period of 10 years.

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

Property, plant and equipment

In accordance with the provisions of the OIC 16 Italian accounting standard, non-current assets are initially recognised on the date in which the risks and benefits connected with the acquired asset are transferred, which usually occurs when the ownership title is transferred. In any case, 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. In any case, in carrying out this analysis, all the contractual clauses are analysed.

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

The values recorded are adjusted annually based on the corresponding accumulated depreciation. The depreciation amounts recognised in the income statement are calculated on a straight-line basis, using rates considered to be representative of the estimated economic-technical useful life of the assets to which they refer.

Depreciation begins at the moment in which the asset is available and ready for use. In application of the principle of materiality, pursuant to Article 2423, paragraph 4, of the Italian Civil Code and the provisions of the relative accounting standard, the depreciation rates were reduced by half during the first year of depreciation.

Property, plant and equipment recorded in the financial statements were revalued exclusively in accordance with the legal provisions and within the limits of the higher of current value and value in use.

Depreciation rates are determined in accordance with prudential criteria and the estimated residual possibility of use of each asset in accordance with rates of use in previous years.

If, at year-end, regardless of the depreciation already recognised, impairment occurs, the non-current 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.

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

On the basis of OIC 9, the Company subjects its property, plant and equipment and intangible assets to impairment testing to determine whether there are indications that they may have suffered impairment at the dates of the financial statements. If such an indication exists, the Company estimates the recoverable amount of the asset to determine the amount of the impairment loss.

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.

An asset is impaired when its carrying amount exceeds its recoverable amount. Should the impairment of an asset,

other than goodwill and deferred charges, subsequently no longer apply or be reduced, the carrying amount 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. Were such an indication to exist, the Company would estimate the recoverable amount of the asset and write it off only if the latter were lower than the corresponding carrying amount.

Equity investments, financial receivables and securities

Financial assets include equity investments, financial receivables and securities.

Equity investments and debt securities recognised as non-current assets are due to be held permanently among the Company's assets. Equity investments are measured using the cost method, adjusted for impairment losses. The cost method assumes that the recognition value is calculated on the basis of the purchase or subscription price, including ancillary costs. When impairment is detected, the carrying amount of the investment is written off to its lowest recoverable amount, calculated on the basis of future benefits expected as inflows by the investor. The original value of the equity investment is written back in later years if the reasons for the write-off should no longer apply.

For the 2021 financial statements, as in previous years, the recoverability of the carrying amounts of the equity investments in subsidiaries and in joint ventures was tested.

Note that no impairment was identified with regard to the equity investments of ERG Power Generation S.p.A. at 31 December 2021, following the Group's impairment tests.

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).

To determine the estimated realisable amount from market trends, the replacement cost is normally taken as reference or, where available, the net realisable value of the assets.

In the event of obsolescence or slow turnover of the materials, the carrying amount is written down accordingly with a provision used to directly cut the inventories value.

Contracts in progress reflect the actual progress of the works and services performed by the Company in favour of its subsidiaries in projects regarding Repowering and Reblading, in accordance with the provisions of OIC 23.

Contracts in progress, with duration of less than 12 months, include contracts in progress and are evaluated using the completed contract criterion, at the lower of the cost incurred and the presumed realisable value based on market conditions. The revenue and contract margin are recognised upon completion of the contract, i.e. on the date on which the transfer of risks and benefits related to the asset produced occurs or the services are rendered.

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 criterion and discount all receivables that arose prior to 1 January 2016.

Trade receivables with expiry beyond 12 months from initial recognition, without payment of interest, or with interest significantly different from the market interest rates, and the relative revenues, are initially recognised at the value determined by discounting the future cash flows at the market interest rate. The difference between initial recognition value of the receivable determined in this manner and the final value is recorded in the income statement as financial income throughout the duration of the receivable, using the effective interest rate method.

All the trade receivables in the financial statements have expiries of less than 12 months and are therefore recognised at nominal amount.

Moreover, the receivables are recognised at estimated realisable value. The value of receivables is adjusted to the estimated realisable value through the allocation of an appropriate loss allowance, established by taking into account the country risk and the economic conditions in general and within the specific sector. The loss allowance is estimated through an analysis of the significant receivables individually and at the portfolio level for the remaining ones, calculating the presumed losses on receivables at the reporting date.

Receivable operations carried in foreign currencies are converted into Euro at the exchange rate on the date of the operation, and the difference between the amount and the amount actually received is recognised under the income statement under financial income and expense.

The exchange rate differences resulting from adjustment of the receivables in foreign currency to the exchange rate at year-end with respect to the date of the operation are recognised in the income statement.

Financial assets

The item *Short-term financial assets* under current assets includes equity investments not held as non-current assets which are valued on the basis of the lower of the purchase cost and the realisable value that can be deduced from market performance.

The item typically includes equity investments previously included in the non-current financial assets of the Company subsequently reclassified as current financial assets following changes in the corporate strategy, and this new allocation is based on decision-making processes already completed at the end of the year and consistent with corporate objectives and strategies.

The Company participates in the centralised treasury management programme (cash pooling) carried out by the parent company ERG S.p.A., which in turn has a centralised treasury management programme for the subsidiaries.

Withdrawals from the common current account (pool account) constitute a payable to the company that administers

the cash pooling, while payments into the common current account constitute a receivable from the company.

As indicated in OIC 14, receivables generated by centralised management of treasury (i.e. cash pooling) are recognised, if permitted by the terms of collection, under "Short-term financial assets", as "Financial assets for centralised treasury management", indicating the counterparty (for example, parent company or subsidiary). If the short-term collection terms are not satisfied, these receivables are recorded under financial assets.

Cash and cash equivalents

These are recorded at estimated realisable value, which generally coincides with the nominal amount, 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, the required 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. Treasury shares are recorded at a value corresponding to their purchase cost in a negative shareholders' reserve, upon purchase of the shares themselves.

The negative reserve is reversed, following a shareholders' resolution to cancel treasury shares, and the share capital is simultaneously reduced by the nominal amount of the shares cancelled. Any difference between the carrying amount of the reserve and the nominal amount of the cancelled shares is recognised as an increase or decrease to equity.

In the event of disposal of treasury shares, any difference between the carrying amount of the negative reserve and the realisable value of the disposed shares is recognised as an increase or decrease to another item of equity.

Should the company purchase shares from the parent company, within the limits set out by Article 2359-bis, paragraph 3, of the Italian Civil Code, a specific unavailable reserve is created under equity for an equal amount.

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

Provisions for risks and charges

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

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.

If the possibility of realisation of a risk is considered to be remote, it will not be taken into account.

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

Employee benefits

Based on contracts stipulated with a number of employees, the Company has certain obligations with regard to additional monthly pay and electricity discounts.

The amount of the benefit provided to the employee is quantifiable only after termination of the employment relationship and is linked to one or more factors, such as age, years of service, and remuneration. Therefore, the relative cost is recognised in the income statement on an actuarial basis. The liability is recognised in the financial statements at the present value of the obligation at the reporting date.

Derivative instruments

Derivative financial instruments are financial assets and liabilities recognised at fair value at each reporting date.

Fair value is the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction between market operators at the valuation date and, in the case of unlisted derivatives, is determined by the Company using the appropriate valuation techniques, through assumptions, parameters and fair value hierarchy levels envisaged by the reference accounting standard.

Derivatives are classified as hedging instruments only when, at the beginning of the hedge, there is a close and documented correlation between the characteristics of the hedged asset and those of the derivative, and the hedge itself is formally documented and its effectiveness, verified periodically, is high.

Derivative financial instruments may be designated as hedging transactions when:

- a) the hedging relationship solely consists of allowable hedging instruments and allowable hedged items;
- b) at the beginning of the hedging relationship, there is a designation and formal documentation on the hedging relationship, of the objectives of the Company with regard to risk management and of the hedging strategy;
- c) the hedging relationship satisfies the qualitative and quantitative requirements of effectiveness of the hedge.

When derivatives hedge against the risk of changes in future cash flows of the hedged asset, the effective portion of profits or losses on the derivative instrument is suspended in equity. The profits and losses associated with a hedge are recognised in the income statement as regards the ineffective portion. Cumulative profits and losses recognised in equity up to that moment are recognised in the income statement when the relative transaction occurs (adjusting or integrating the income statement items impacted by the hedged cash flows).

Therefore, the changes in fair value of hedging derivatives are recognised:

- in the income statement under items D18 or D19 in the event of fair value hedging of an asset or liability recognised in the financial statements, as well as changes in the fair value of hedged items (if the change in fair value of the hedged asset is higher in absolute terms than the change in fair value of the hedging instrument, the difference is recognised under the relative income statement item of the hedged item);
- in a specific shareholders' equity reserve (under the item AVII "Cash flow hedging reserve") in the event of hedging of cash flows using methods to offset the effects of the hedged flows (the ineffective component, as well as the change in time value of the options and forwards, is classified under items D18 and D19).

For derivative financial instruments classified as trading, which do not satisfy the requirements to be handled in hedge accounting, the changes in fair value are recognised in the statement of financial position and posted to the income statement under items D18 and D19 upon subsequent measurement and when the derivative is eliminated from the accounts.

Post-employment benefits

Recorded within the item post-employment benefits are the amounts that employees would be entitled to receive in the event of termination of the employment relationship at the reporting date. The seniority indemnities comprising this item, namely the provisions allocated for the year and the annual revaluation of the pre-existing fund, are calculated in accordance with the regulations in effect. The Post-employment benefits are recognised under item C of liabilities and the relative provision under item B9 of the income statement.

Following the introduction of the provisions of the 2007 Italian Budget 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 accrued from 1 January 2007 is therefore considered as equivalent to contributions of other nature, with regard to the supplementary pension option as well as in the case of designation to the Treasury Fund established with INPS. The item therefore includes contributions accrued by employees prior to the date indicated and not yet paid, net of any advances received in accordance with the regulations in effect.

Payables

Payables are liabilities of a specified nature and certain existence that represent obligations to pay fixed or determinable amounts of cash to lenders, suppliers and other parties. The classification of payables among the various debt items is made on the basis of their nature (or origin) with respect to ordinary operations, regardless of the period of time within which the liabilities must be settled.

Payables arising from the purchase of assets are recognised when the production process for the assets has been completed and the ownership has been transferred, using the transfer of risks and benefits as the reference parameter.

Payables for services are recognised when the services have been received.

Payables are recorded based on the amortised cost method, taking into account the time factor. The amortised cost method is not applicable to payables if its effects are irrelevant. The effects are considered irrelevant for short-term payables (namely those due in less than 12 months). For the amortised cost method, see the description for receivables. Payable transactions in foreign currency carried out during the year are converted into 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 expense and income.

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

Statement of Cash Flows

The statement of cash flows includes all cash inflows and outflows during the year.

The single cash flows are presented individually in the following categories of the statement of cash flows:

- a. operating activities;
- b. investing activities;
- c. 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 OIC 10 accounting standard provides also that:

- interest paid and collected is presented separately among cash flows from operating activities, except for specific cases in which it refers directly to investments (investing activities) or financing (financing activities);
- dividends received and paid are presented separately, respectively, under operating activities or financing activities, respectively;
- cash flows relating to income tax are presented separately and classified under operating activities.

Revenues and costs for the year

Revenues and income from the sale of goods, costs and charges are recognised, net of returns, discounts and rebates, as well as the taxes directly connected to the sale of the products and to the provision of the services, when the actual and not merely formal transfer of the title of ownership, assumed as the reference parameter, for substantial transfer of risks and benefits has taken place, in accordance with the accrual principle and with the principle of prudence, regardless of the date of collection and payment.

Revenues from the sale of products, goods or services with respect to ordinary operations are recorded net of returns, discounts, rebates and premiums, and of the taxes directly connected to the sale of products and provision of services. Revenues for the performance of services are recognised upon completion and/or accrual.

White certificates (Energy Efficiency Certificates) are recognised by the GSE upon achievement of energy savings achieved in end uses through the use of appropriate technologies and the implementation of efficient systems.

White certificates are accounted for on an accrual basis among revenues for the year, based on one certificate for every TOE (Tonnes of Oil Equivalent) actually saved during the year.

Their value is measured on the basis of the price agreed in the bilateral agreement for the sale of the Energy Efficiency Certificates (EECs) or in the trading sessions of the electricity market operator (Gestore dei Mercati Energetici, GME) platform, taking into account that the certificates are made available in the operator's account during the year subsequent to the reference year.

If there is no sale during the year, the value is estimated on the basis of the most recent trades recorded on the GME platform and the maximum value that distributors are normally willing to pay for the purchase of EECs from the GSE as an alternative to purchase on the market.

In relation to the regulatory obligations arising from the CO₂ emissions, the Company mainly uses emission quotas to meet its own requirements during the year. Purchased certificates are recognised at the specific cost on an accruals basis. If the purchased certificates exceed the amount necessary to meet the regulatory obligations, this excess is recognised under prepaid expenses.

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

Costs are accounted for based on the accrual principle, regardless of the date of collection and payment, net of returns, discounts, rebates and premiums.

Dividends

Dividends are recorded in the year in which they are resolved by the Shareholders' Meeting. Dividends are recognised as financial income regardless of the nature of the reserves to be distributed.

Financial income and 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.

Financial expense is recognised for an amount equal to the amount accrued during the year.

Foreign currency items

Non-monetary assets and liabilities originally stated in foreign currency are recognised in the statement of financial position at the exchange rate in effect upon their purchase, or at the initial recognition cost.

Monetary assets and liabilities originally stated in foreign currency are converted in the financial statements at the spot exchange rate at the end of the year; the relative exchange rate gains and losses are recognised in the income statement and any net income is allocated to a specific non-distributable reserve until realisation.

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 payable 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 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).

Furthermore, in the case of companies recording excess interest expense, excess interest income or excess ROL, the consolidating company recognises a payable equal to 24% of 50% of the excess interest expense or the excess interest income or the excess ROL transferred and offset at group level (in these cases, the consolidated company recognises a receivable from the consolidating company). In the event that the Company meets the requirements to benefit from the tax relief tied to economic growth (ACE) but, due to the lack of taxable income, cannot benefit from it individually, if the conditions exist, it may transfer the amount of unused ACE to the tax consolidation so that it can be deducted from the group's tax base.

In this case, the consolidating Company will recognise a payable, to the Company that contributed the ACE, equal to 24% of the amount transferred.

The balance sheet therefore includes the receivables and payables due from and to the consolidator as a result of quantification of the tax advantages granted and received.

Tax payments are arranged by the Consolidator.

Deferred tax assets and liabilities are calculated and allocated on the basis of temporary differences between the value assigned to a given asset or liability in accordance with statutory provisions and the value assigned for tax purposes, in compliance with the principles of prudence and accrual accounting. They are measured by taking into account the presumed tax rate that the Company expects to apply in the year in which the differences will be considered in forming the tax result, considering the rates in force or already confirmed at the reporting date and allocated respectively to the "deferred tax provision" as part of the provisions for risks and charges under liabilities and item 5-ter) "deferred tax assets" under current assets.

Deferred tax assets are recognised for all deductible temporary differences in compliance with the principle of prudent accounting, if there is reasonable certainty of taxable income not less than the total differences to be offset in the year in which they will be reversed.

Vice versa, deferred tax liabilities are recognised on all taxable temporary differences.

In compliance with the provisions of Article 2424 of the Italian Civil Code, deferred tax assets are indicated in the Statement of Financial Position in the item "Deferred tax assets" under current assets, whilst deferred tax liabilities are indicated under "Provisions for risks and charges" in the item "Deferred tax provision". The Notes to the Financial Statements include a statement of the temporary differences that led to the recognition of deferred tax assets and liabilities, 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.

The rate used to calculate deferred taxes is the nominal IRES (corporate tax) rate of 24% and the IRAP, where envisaged under the regulations in force.

Intra-group relations and relations with related parties

Please refer to the relevant section at the end of these Notes to the Financial Statements for the disclosure relating to intra-group relations and relations with related parties.

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

It should be noted that on 3 January 2022, the transaction with Enel Produzione S.p.A. for the sale of the entire capital of ERG Hydro S.r.l. was concluded.

As this transaction is a significant event that took place after the end of the 2021 financial year, ERG Hydro S.r.l. is presented in these financial statements as a subsidiary company, it being such at 31 December 2021. Consequently, the economic and equity transactions between the Company and ERG Hydro S.r.l. are shown in the separate financial statements and in the corresponding analysis tables in relations with subsidiaries.

It should also be noted that on 9 February 2022, the Group reached an agreement with Enel Produzione S.p.A. for the sale of the thermoelectric plants. Since this transaction is a significant event which took place after the end of the 2021 financial year, and as it is expected to be concluded in the third quarter of 2022, the economic and equity transactions between the Company and ERG Power are shown in the separate financial statements and in the corresponding analysis tables in relations with subsidiaries.

Company drawing up the consolidated financial statements

Starting from 2017, Management opted to prepare IAS consolidated financial statements, drawn up in compliance with the international accounting standards issued by the International Accounting Standards Board (IASB) and regulated by the European Union.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

ASSETS

NON-CURRENT ASSETS (EUR 2,685,465 THOUSAND)

Intangible assets (EUR 6,803 thousand)

	Start-up and expansion costs	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Goodwill	Assets under development and advances	Other	Total
Historical cost	22	6,961	616	3,754	2,443	6,001	19,797
Amortisation	(22)	(5,068)	(609)	(1,501)	-	(5,999)	(13,199)
Balance at 31/12/2020	-	1,893	8	2,252	2,443	2	6,598
Changes in the year:							
Acquisitions	-	316	-	-	1,389	-	1,705
Capitalisations/reclassifications	-	2,030	-	-	(2,035)	-	(5)
Disposals and divestments	-	-	-	-	-	-	-
Amortisation	-	(1,119)	-	(376)	-	(1)	(1,496)
Impairment losses	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
Historical cost	22	9,307	616	3,754	1,797	6,002	21,497
Amortisation	(22)	(6,187)	(609)	(1,877)	-	(6,000)	(14,695)
Balance at 31/12/2021	-	3,120	7	1,877	1,797	2	6,803

At 31 December 2021, intangible assets totalled EUR 6,803 thousand.

They refer mainly to the software used for the sale of electricity, intended for long-term use, currently being used or which will be used when completed.

The item also includes EUR 1,877 thousand regarding the residual value at 31 December 2021 of the goodwill generated by the merger, effective 1 January 2017, with ERG Renew S.p.A.

Assets under development, amounting to EUR 1,797 thousand, relate mainly to the development and integration of management systems and software.

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

Property, plant and equipment (EUR 2,527 thousand)

	Land and buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total
Historical cost	1,030	322	5,290	2,630	281	9,553
Revaluations	-	-	-	-	-	-
	1,030	322	5,290	2,630	281	9,553
Depreciation	(60)	(105)	(3,367)	(2,304)	-	(5,836)
Impairment losses	(887)	(51)	-	-	-	(938)
Balance at 31/12/2020	83	166	1,923	326	281	2,779
Changes in the year:						
Acquisitions	19	-	219	9	158	405
Capitalisations/reclassifications	77	-	132	60	(263)	5
Disposals and divestments	-	-	-	-	-	-
Depreciation	(17)	(11)	(493)	(141)	-	(662)
Impairment losses	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
Historical cost	1,126	322	5,641	2,699	176	9,963
Revaluations	-	-	-	-	-	-
	1,126	322	5,641	2,699	176	9,963
Depreciation	(77)	(116)	(3,860)	(2,445)	-	(6,498)
Impairment losses	(887)	(51)	-	-	-	(938)
Balance at 31/12/2021	162	155	1,781	254	176	2,527

At 31 December 2021, property, plant and equipment amounted to EUR 2,527 thousand.

The item "Industrial and commercial equipment" includes the metallic structures used in the work warehouses and various equipment for maintenance of the wind farms of subsidiaries.

The item "Other assets" mainly refers to furniture, fittings, electronic machinery and light vehicles, as well as hardware (videowall) installed in the Energy Management Control and Bidding Centre for the market supply of all assets of the ERG Group, integrated and dynamic management of the electricity portfolio and implementation of dispatching.

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

Financial assets

Equity investments (EUR 1,352,682 thousand)

The item includes mainly equity investments in subsidiaries detailed in the following table:

	Registered office	Direct investment	Group's investment	Share capital ^{(1) (2)}	Equity ^{(1) (2)}	Carrying amount
Subsidiaries						
ERG Eolica Adriatica S.r.l.	Genoa (Italy)	100%	100%	10	54,635	69,817
ERG Eolica Campania S.p.A.	Genoa (Italy)	100%	100%	120	89,691	100,104
ERG Eolica Faeto S.r.l.	Genoa (Italy)	100%	100%	10	12,196	5,322
ERG Eolica Fossa del Lupo S.r.l.	Catanzaro (Italy)	100%	100%	50	72,376	16,020
ERG Eolica Ginestra S.r.l.	Genoa (Italy)	100%	100%	10	38,278	46,728
ERG Eolica San Vincenzo S.r.l.	Genoa (Italy)	100%	100%	3,500	31,462	20,875
ERG Eolica Tirreno S.r.l.	Camporeale (Italy)	100%	100%	10	226	406
Green Vicari S.r.l.	Camporeale (Italy)	100%	100%	119	24,681	18,570
ERG Wind Bulgaria S.p.A.	Genoa (Italy)	100%	100%	50	21,275	32,178
ERG Wind Investments S.r.l.	Genoa (Italy)	100%	100%	97,046	672,238	372,792
Eolico Troina S.r.l. in liquidazione	Palermo (Italy)	99%	99%	40	428	25
Andromeda PV S.r.l.	Genoa (Italy)	78.5%	78.5%	50	87,404	96,519
ERG Solar Holding S.r.l.	Genoa (Italy)	100%	100%	20	119,520	171,713
ISAB Energy Solare S.r.l.	Genoa (Italy)	100%	100%	100	169	-
ERG Power S.r.l.	Genoa (Italy)	100%	100%	5,000	244,873	30,105
ERG Eolienne France S.a.s.	Paris (France)	100%	100%	112,450	123,097	235,453
ERG Wind Neunte GmbH	Hamburg (Germany)	100%	100%	25	93	88
ERG Wind Park Beteiligungs GmbH	Hamburg (Germany)	100%	100%	25	(3,184)	12,169
ERG Wind RE Beteiligungs GmbH	Hamburg (Germany)	100%	100%	25	15	5,641
ERG Germany Verwaltungs GmbH	Hamburg (Germany)	100%	100%	25	3	25
ERG UK Holding Ltd	Edinburgh (UK)	100%	100%	0	19,878	25,914
ERG Sweden Holding AB	Stockholm (Sweden)	100%	100%	50	50	3,005
ERG Poland Holding Sp. Z.O.O.	Warsaw (Poland)	100%	100%	5	5	1
EW Orneta 2 Z.O.O.	Warsaw (Poland)	100%	100%	164,688	136,843	35,720
Laszki Wind Sp. Z.O.O.	Warsaw (Poland)	100%	100%	5	(1,334)	1,283
Corni Eolian SA	Constanța (Romania)	100%	100%	33,818	42,271	52,202
Total equity investments in subsidiaries						1,352,679

(1) Amounts are reported in EUR thousand.

(2) The Share Capital and the Equity of ERG UK Holding Ltd., ERG Sweden Holding AB, ERG Poland Holding Sp. Z.O.O., EW Orneta 2 Z.O.O., Laszki Wind Sp. Z.O.O. and Corni Eolian S.A. in local currency.

In 2021, the main transactions carried out on the equity investments held directly by Company were:

- 1 January 2021: increase in the value of the equity investment of ERG Eolica Ginestra S.r.l. by effect of the capital contribution for an amount of EUR 33.9 million;
- 30 April 2021: acquisition of ERG Sweden Holding AB;
- 14 June 2021: increase in the share capital of ERG Eolienne France S.a.s. by means of a cash payment for an amount of EUR 15 million;
- 21 September 2021: increase in the share capital of ERG Eolienne France S.a.s. by means of a cash payment for an amount of EUR 82.1 million;

- 30 November 2021: increase in the value of the equity investment of ERG Sweden Holding AB by effect of the capital contribution for an amount of EUR 3 million;
- 22 December 2021: increase in the value of the equity investment of ERG Wind RE Beteiligungs GmbH through the transfer of the equity investment in ERG Wind 105 GmbH & CO. KG for an amount of EUR 5.6 million;
- 23 December 2021: increase in the value of the equity investment of Corni Eolian S.A. due to the increase in the share capital and the capital contribution for a total amount of EUR 25 million;
- 31 December 2021: increase in the value of the equity investment of ERG Eolica Tirreno S.r.l. by effect of the capital contribution for an amount of EUR 200 thousand.

The following extraordinary transactions relating to the ONE Group project which took place during the 2021 financial year in the companies indirectly controlled by ERG Power Generation S.p.A. are noted:

- transfer of the business branches of the wind companies ERG Wind Sardegna S.r.l., ERG Wind Sicilia 2 S.r.l., ERG Wind Sicilia 3 S.r.l., ERG Wind Sicilia 4 S.r.l., ERG Wind Sicilia 5 S.r.l., ERG Wind Sicilia 6 S.r.l., ERG Wind 6 S.r.l., ERG Wind 2000 S.r.l. to the company ERG Wind Energy S.r.l.;
- merger of the wind companies ERG Wind 4 S.r.l. and ERG Wind Leasing 4 S.r.l. into the company ERG Wind Energy S.r.l.;
- merger of the solar companies ERG Solar Campania S.r.l., ERG Solar Puglia 1 S.r.l., ERG Solar Puglia 2 S.r.l., ERG Solar Marche 1 S.r.l. and ERG Solar Marche 2 S.r.l. into the company Calabria Solar S.r.l.;
- merger of the solar company ERG Solar Holding S.r.l. into the company ERG Solar Holding S.r.l. (formerly ERG Solar Holding 1 S.r.l.);
- transfer of the registered office from Gibraltar to Italy of the company ERG Wind Investments Ltd and change of the name to ERG Wind Investment S.r.l.;
- transfer by the Company of the equity investment in ERG Wind 105 GmbH & CO. KG to ERG Wind RE Beteiligungs GmbH and consequent dissolution of ERG Wind 105 GmbH & CO. KG in ERG Wind RE Beteiligungs GmbH.

For the purposes of the 2021 Financial Statements, the Company verified the presence of any indicators of impairment of the equity investments.

To this end, the following were considered:

- both internal and external sources of information, including indicators of physical obsolescence and accident rates, changes in the estimated residual useful life, actual trends with respect to forecasts, technological, economic or market penalties, regulatory penalties, increase in rates;
- the dividends paid in 2021 by the subsidiaries to ERG Power Generation S.p.A. and, more generally, the change in respective net financial positions compared to the prior year.

This analysis revealed no elements requiring attention in relation to the equity investments recorded in Non-Current Assets or any reversals, other than as commented below.

In consideration of the finalisation of the agreement for the sale of the entire share capital of ERG Hydro S.r.l. to ENEL Produzione, which took place on 3 January 2022 following the preliminary agreement finalised on 2 August 2021, for clearer disclosure it was deemed appropriate to classify the investment in question in Current Assets in these Financial Statements. It should also be noted that in consideration of the aforementioned agreement, and the market value of the investment being higher than the original carrying amount, the reversal of the impairment loss of the investment was recognised for EUR 19,916 thousand, due to the fact that the reasons for the write-down made in 2019 no longer exist.

Any higher carrying amounts according to the historical cost criterion with respect to the equity belonging to the Company are justified by the future income expectations of the investees, which confirm their recoverability, even taking into account the uncertainties indicated in the section on the use of estimates in the "General principles in the preparation of the Financial Statements" paragraph.

Receivables (EUR 1,323,453 thousand)

(EUR thousand)	31/12/2021	31/12/2020
Non-current financial receivables due from Group companies	1,223,940	751,930
Non-current receivables from others	99,513	16,849
Total	1,323,453	768,779

The item "Financial receivables due from Group companies" includes receivables for loans to Group companies, particularly subsidiaries in the renewables sector.

The item "Non-current receivables from others" mainly comprises receivables from ECC (European Commodity Clearing) relating to the margin deposit and the fair value of the contracts stipulated (futures) for EUR 97,919 thousand, up compared to 2020 as a result of the significant increase of the fair value of the financial instruments in question due to price. It should be noted that the receivable in question, amounting to EUR 14,945 thousand at 31 December 2020, was classified under the item "Receivables from others" in current assets. Considering the financial nature of the item in question and with a view to uniformly presenting the data, it was reclassified to "Non-current receivables from others".

The item also includes deposits with respect to Terna for the capacity market and other minor items for a total of EUR 1,594 thousand.

In detail, a summary of the financial receivables by Country of the subsidiaries is provided below.

(EUR thousand)	31/12/2021	31/12/2020
Poland	104,452	60,822
France	390,691	205,595
Germany	299,686	152,603
Romania	8,547	51,499
UK	218,981	90,404
Italy	159,074	190,960
Other	42,509	47
Total	1,223,940	751,930

All loans are interest-bearing, and the following table summarises the rates applied for each company (in line with market rates):

Company	Country	Rate applied
EW Orneta 2	Poland	12-month Euribor plus 305 basis points
ERG Poland Holding sp. z o.o.	Poland	12-month Euribor plus 305 basis points
Laszki Wind sp. z o.o.	Poland	12-month Euribor plus 305 basis points
ERG Eolienne France S.a.s.	France	6-month Euribor plus 260 basis points
ERG Wind France 1	France	12-month Euribor plus 208 basis points
ERG Wind French Holdings S.a.s.	France	12-month Euribor plus 260 basis points
ERG WP France 6 S.a.s.	France	12-month Euribor plus 214 basis points
Wind Park Linda GmbH & Co. KG	Germany	12-month Euribor plus 200 basis points
Voltwerk Energy Park 8 GmbH & Co. KG	Germany	12-month Euribor plus 305 basis points
ERG Windpark Beteiligungs GmbH	Germany	12-month Euribor plus 305 basis points
ERG Wind RE Beteiligungs GmbH	Germany	12-month Euribor plus 305 basis points
ERG UK Holding Ltd	Great Britain	12-month Euribor plus 250 basis points
ERG Sweden Holding AB	Sweden	12-month Euribor plus 260 basis points
Andromeda PV S.r.l.	Italy	Fixed rate 6.8%
ERG Eolica Adriatica S.r.l.	Italy	12-month Euribor plus 260 basis points
ERG Eolica Ginestra S.r.l.	Italy	12-month Euribor plus 260 basis points
ERG Eolica Tirreno S.r.l.	Italy	12-month Euribor plus 260 basis points
ERG Wind Sardegna S.r.l.	Italy	12-month Euribor plus 260 basis points
ERG Wind Sicilia 2 S.r.l.	Italy	12-month Euribor plus 260 basis points
ERG Wind Sicilia 4 S.r.l.	Italy	12-month Euribor plus 260 basis points
ERG Wind Sicilia 5 S.r.l.	Italy	12-month Euribor plus 260 basis points
ERG Wind 2000 S.r.l.	Italy	12-month Euribor plus 260 basis points
ISAB Energy Solare S.r.l.	Italy	12-month Euribor plus 260 basis points
ERG Solar Holding S.r.l.	Italy	12-month Euribor plus 305 basis points
ERG Solar Piemonte 3 S.r.l.	Italy	12-month Euribor plus 305 basis points

The key transactions that took place during the course of 2021 are summarised below:

- On 1 January 2021, the financial receivable from ERG Eolica Ginestra S.r.l. was waived, for an amount of EUR 33.9 million;

- On 1 May 2021, the Company entered into loan agreements with the subsidiaries ERG Wind Sicilia 2 S.r.l., ERG Wind Sicilia 3 S.r.l., ERG Wind Sicilia 4 S.r.l., ERG Wind Sicilia 5 S.r.l., ERG Wind Sicilia 6 S.r.l., ERG Wind 6 S.r.l. and ERG Wind 2000 S.r.l. During the year, loans of approximately EUR 1 million were granted to the aforementioned companies.
- On 10 May 2021, the Company signed a loan agreement with the subsidiary ERG Sweden Holding AB. During the year, loans of EUR 42.5 million were granted for the construction of the Furukraft wind farm;
- On 12 October 2021, the Company entered into loan agreements with the subsidiaries ERG Wind Sardegna and ERG Eolica Tirreno S.r.l. During the year, loans of approximately EUR 252 thousand were granted to the aforementioned companies;
- On 22 December 2021, following the transfer by the Company of the investment in ERG Wind 105 GmbH & CO. KG to ERG Wind RE Beteiligungs GmbH and consequent dissolution of ERG Wind 105 GmbH & CO. KG into ERG Wind RE Beteiligungs GmbH, the financial receivable from the dissolved company, equal to approximately EUR 25 million, passed to ERG Wind RE Beteiligungs GmbH;
- On 23 December 2021, the financial receivable was waived in favour of Corni Eolian SA for an amount equal to EUR 25 million. Following this transaction, the loan agreement between the Company and its Romanian subsidiary was closed.
- Finally, during the 2021 financial year, loans were disbursed in favour of:
 - ERG Eolienne France S.a.s. (approximately EUR 219 million) for the acquisition of new wind farms and for the settlement of some project financing of its subsidiaries;
 - ERG Windpark Beteiligungs GmbH (approximately EUR 159 million) for the acquisition of new wind farms and for the settlement of some project financing of its subsidiaries;
 - ERG UK Holding Ltd (approximately EUR 133 million) for the construction of four wind farms located in Ireland and Scotland;
 - Laski Wind sp. z oo (approximately EUR 28 million) for the development of the related project;
 - ERG Poland Holding sp. z oo (approximately EUR 22.7 million) for the construction of the Piotrkow wind farm.

CURRENT ASSETS (EUR 1,671,903 THOUSAND)

Inventories (EUR 14,828 thousand)

(EUR thousand)	31/12/2021	31/12/2020
Inventories of spare parts	11,857	11,488
Inventory write-down provision	(1,378)	(1,301)
Total Inventories of spare parts	10,479	10,187
Inventories of contract work in progress	4,349	9,198
Total	14,828	19,386

The item "Inventories of spare parts", net of the inventory write-down provision, is equal to EUR 10,479 thousand at 31 December 2021 and reflects the value of the spare parts necessary to conduct maintenance work on the aerogenerators and wind turbines.

The item at 31 December 2021 shows a slight increase compared to 31 December 2020 due to the ordinary management of inventories for the period. The inventory write-down provision at 31 December 2021 is deemed to express the decrease in functionality of a part of the spare parts inventory.

The item "Inventories of contracts in progress" in the 2021 financial statements includes works relating to the "Repowering & Reblading" project.

ERG had launched the "Repowering & Reblading Project" process with the objective of conducting a technological analysis of the wind farms and the overall assessment of feasibility, profitability and relative implementation timing of an important plan to boost efficiency through two types of intervention:

- total renovation (Repowering);
- partial renovation (Reblading).

The current organisational structure of ONE Company has placed project management in the hands of parent company ERG Power Generation S.p.A., with regard to the necessary purchases, management of third-party services and, consequently, the employment of internal personnel to carry out the projects, particular those relating to Reblading.

The item "Inventories of contract work in progress" in 2021, in addition to the ordinary change in the period relating to engineering costs, purchases of blades and ancillary costs including internal personnel costs incurred for the Repowering & Reblading projects on the plants of some wind subsidiaries, has undergone a significant decrease compared to 2020 due to the completion of the reblading works of the Monteverde and Lacedonia wind farm relating to the subsidiary ERG Wind Energy S.r.l., subsequent to which ERG Power Generation S.p.A. invoiced the costs relating to engineering, purchases of blades and other ancillary costs including internal personnel costs, to the subsidiary.

It should be noted that on 14 April 2021, ERG Wind Energy S.r.l. obtained the Single Authorisations as part of the Repowering project for the wind farms of Mineo - Militello - Vizzini and Monreale/Partinico, located in the Sicily region, for a total capacity of 143 MW. It was also awarded a tariff for 20 years on the new wind capacity of these plants as part of the sixth auction called by GSE (Gestore dei Servizi Elettrici). As a result of the above, and once the terms of any appeal of the Single Authorisation against third parties had expired, ERG Power Generation S.p.A. re-charged the subsidiary for the charges incurred to date relating to the repowering of the wind farms in question.

Receivables (EUR 464,832 thousand)

Receivables can be summarised as follows:

(EUR thousand)	31/12/2021	31/12/2020
Receivables from customers	206,442	82,530
Receivables from subsidiaries	22,806	21,941
Receivables from associates	3,026	1,278
Receivables from parent companies	64,688	3,211
Tax assets	21,233	16,117
Deferred tax assets	107,995	7,768
Receivables from others	38,641	12,929
Total	464,832	145,774

Receivables from customers (EUR 206,442 thousand)

Receivables from customers comprise mainly:

- receivables relating to the sale of electricity generated under the tolling contract by the CCGT plant of ERG Power S.r.l., the Italian wind farms of its renewables subsidiaries and the hydroelectric plant of ERG Hydro S.r.l. in relation to the GME for EUR 56,921 thousand;
- receivables relative to the sale of electricity, steam and other utilities to customers of the Priolo Gargallo site, including in particular to ISAB (Lukoil Group) for EUR 23,438 thousand, and to Versalis for EUR 7,957 thousand;
- receivables relating to the sale of electricity to other end customers and wholesale customers, including in particular Enel Global Trading for EUR 25,445 thousand, Trailstone Renewables for EUR 9,280, Fincantieri for EUR 8,399 thousand, A2A for EUR 6,653 thousand and ACEA Energia for EUR 5,901 thousand;
- confirmation of the receivable relating to Energy Efficiency Certificates ("white certificates") for energy production in December 2021, for EUR 1,225 thousand.

The receivables from customers at 31 December 2021 are mostly from Italian customers and are due for payment within the following year.

Note that receivables from customers are stated net of the loss allowance for EUR 3,287 thousand, allocated in order to cover any doubtful receivables.

Receivables from subsidiaries (EUR 22,806 thousand)

This item is broken down as follows:

- trade receivables for EUR 16,430 thousand, mainly attributable to services rendered and not yet collected under the Operation & Maintenance contract on the CCGT plant owned by ERG Power S.r.l., as well as services rendered and not yet collected under the Operation & Maintenance and B.o.P. contracts on wind farms of the subsidiaries. Moreover, the item includes services charged to all subsidiaries under the administrative and corporate service agreement. The item also includes charge-backs of development costs for EUR 5,570 thousand made during the year to an English subsidiary.
- financial receivables of EUR 4,687 thousand relating to cash advances to foreign subsidiaries;
- other receivables for EUR 407 thousand.

Receivables from associates (EUR 3,026 thousand)

The trade receivables from Priolo Servizi S.C.p.A. include the provision of utility services (in particular sea water, electricity and others) and services rendered within the scope of the Operation & Maintenance contract.

Receivables from parent companies (EUR 64,688 thousand)

The item mainly includes EUR 64,597 thousand of other receivables from the direct parent company ERG S.p.A. for IRES corresponding to the tax loss transferred to the ERG Group Tax Consolidation.

Tax receivables (EUR 21,233 thousand)

This item mainly includes:

- the VAT receivable relating to the third and fourth quarters of 2021 equal to EUR 18,154 thousand;
- the advance on electricity and gas excise duties for EUR 1,743 thousand;
- the IRAP receivable, for EUR 885 thousand, relating to the excess of advances paid with respect to the current tax charge recorded at the end of the year;
- the amount requested for reimbursement relating to the tax inspection for 2004 for EUR 55 thousand.

The amount includes also taxes paid pending a ruling by the merged company ISAB Energy Services S.p.A. (EUR 171 thousand), in addition to EUR 143 thousand regarding the IRES receivable for deductibility of IRAP, with request made to financial administration via consolidating company ERG S.p.A. but not yet reimbursed.

It should be noted that during the year, following an unfavourable ruling by the Court of Cassation, a VAT receivable purchased by ERG Renew from third parties equal to EUR 1,256 thousand was written off.

Deferred tax assets (EUR 107,995 thousand)

The deferred tax assets relate to the tax effect of the deductible temporary differences that will be repaid in future years. The breakdown of the main temporary differences and related tax effects are presented below.

	31/12/2021		31/12/2020	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Write-down of inventory	1,378	397	1,301	375
Other provisions	4,297	1,125	3,651	879
Other changes in IRES (Corporate tax)	7,391	1,907	6,823	1,826
Derivative instruments	400,541	104,566	16,266	4,688
Total		107,995		7,768

Maintenance of the deferred tax assets in the financial statements for the year ended on 31 December 2021 is supported by reasonable elements of certainty regarding their recoverability in the years in which they are expected to be repaid.

This assumption is mainly based on the fact that the company forms part of the tax consolidation regime with the parent company ERG S.p.A., in view of the expected Group taxable amounts.

Receivables from others (EUR 38,641 thousand)

(EUR thousand)	31/12/2021	31/12/2020
Receivables from ECC – European Commodity Clearing	20,721	1,488
Receivables from Jao	826	829
Receivables from GME	7,050	550
Receivables under Italian Law no. 488/1992	10,009	10,009
Other receivables	34	54
Total	38,641	12,929

The item "Receivables from ECC" consists of the fair value pertaining to 30 December 2021 recognised by the Institute at the beginning of 2022, for EUR 20,721 thousand.

The item "Receivables from GME" includes security deposits to GME for EUR 7,050 thousand.

The item "Receivables under Italian Law no. 488/1992" also includes receivables of EUR 10,009 thousand from Engie, referring to recovery of the revaluation and interest on the disbursements of Italian Law no. 488/1992, arising from the company merged from 1 January 2017, ERG Renew S.p.A.

Short-term financial assets (EUR 1,186,337 thousand)

Investments in subsidiaries (EUR 1,026,916 thousand)

The item consists of the equity investment in ERG Hydro S.r.l.

In consideration of the finalisation of the agreement for the sale of the entire share capital of ERG Hydro S.r.l. to ENEL Produzione, which took place on 3 January 2022 following the preliminary agreement finalised on 2 August 2021, for clearer disclosure it was deemed appropriate to classify the investment in question in Current Assets in these Financial Statements. It should also be noted that in consideration of the aforementioned agreement, and the market

value of the investment being higher than the original carrying amount, the reversal of the impairment loss of the investment was recognised for EUR 19,916 thousand, due to the fact that the reasons for the write-down made in 2019 no longer exist.

Derivative financial instruments (EUR 159,421 thousand)

The item includes derivative financial instruments with a positive fair value at the measurement date, generated in particular by the positive net impact of the measurement at 31 December 2021 of the Swaps and other derivatives with a positive fair value.

Note that the positive fair value of the derivative instruments in question is expected to end within the next 12 months.

Cash and cash equivalents (EUR 5,906 thousand)

(EUR thousand)	31/12/2021	31/12/2020
Bank and postal deposits	5,906	3,505
Total	5,906	3,505

The item relates principally to the credit balances on bank current accounts, the carrying amount of which represents the estimated realisable value which coincides with the nominal amount.

Accruals and deferrals (EUR 13,144 thousand)

(EUR thousand)	31/12/2021	31/12/2020
Prepaid expenses - CO ₂ and others	13,093	29,458
Prepaid expenses - insurance premiums	48	48
Prepaid expenses - other payments	3	164
Total	13,144	29,670

The most significant item is "Prepaid expenses – CO₂ and others", which mainly includes:

- prepaid expenses recorded for CO₂ quotas purchased in excess of the quota requirements of the CCGT plant 2021 for an amount equal to EUR 9,145 thousand, down compared to the 2020 financial year mainly due to the use of quotas pertaining to 2021 and in general due to lower volumes purchased;
- prepaid expenses regarding the costs for development of wind energy projects abroad, specifically for a UK company, which is developing a wind power project in the United Kingdom for EUR 1,679 thousand.

The estimated classification by expiry of the items registered under assets is presented below:

	within 12 months	within 5 years	after 5 years	Total
Receivables under financial assets				
- from subsidiaries	8,547	1,215,393		1,223,940
- from others	97,919	1,594		99,513
Receivables under current assets				
- from customers	206,442			206,442
- from subsidiaries	22,806			22,806
- from associates	3,026			3,026
- from parent companies	64,688			64,688
- deferred tax assets	19,491	88,409	95	107,995
- from the tax authorities	21,233			21,233
- from others	21,581	17,059		38,641
Total	465,734	1,322,456	95	1,788,285

LIABILITIES

EQUITY (EUR 2,267,746 THOUSAND)

Share Capital (EUR 100,000 thousand)

The share capital at 31 December 2016, fully paid in, comprised 600,000 shares with a nominal amount of EUR 10 each for a total of EUR 6,000 thousand, and was fully held by ERG S.p.A.

The merger deed of 21 December 2016 in particular had provided full execution of the resolution of the Shareholders' Meeting of 18 November 2016 which had envisaged, effective 1 January 2017, a share capital increase of the merging entity ERG Power Generation S.p.A. for a total of EUR 94,000,000, with the issue of 9,400,000 new shares with a par value of EUR 10 each, assigned to the company ERG S.p.A., sole shareholder of the merging entity.

As a result of the above, the share capital at 31 December 2021 – as already at 31 December 2020 – amounts to EUR 100,000 thousand.

Share premium reserve (EUR 7,000 thousand)

The Company's shareholders' meeting of 20 June 2014 had decided to increase the share capital from EUR 5,000 thousand to EUR 6,000 thousand, i.e. by EUR 1,000 thousand, by issuing 100,000 shares with a par value of EUR 10 each and a share premium of EUR 7,000 thousand as payment for the "Power Business Unit", which took place on 1 July 2014.

Revaluation reserve (EUR 2,221 thousand)

The revaluation reserves, in the amount of EUR 37 thousand, had been transferred following the merger of ISAB Energy Services S.r.l. on 1 January 2015, which in turn derived from the spin-off from ERG Nuove Centrali S.p.A. on 1 July 2007 in proportion with its equity at 30 June 2007, transferred with the spin-off.

Italian Decree Law no. 104/2020 ("Decreto Agosto" – August Decree) reintroduced the possibility of revaluing company assets and carrying out the so-called "realignment" of misalignments between the statutory and tax reporting values. Subsequently, the 2021 Budget Law extended the possibility of realigning tax values to the statutory values, including for goodwill and other intangible assets. The Company decided to realign the goodwill recognised in the 2020 financial statements and consequently placed a portion of the retained earnings reserves in a special deferred tax provision. The amount of the deferred tax provision, equal to EUR 2,185 thousand, corresponds to the value of the realignment carried out net of the substitute tax due.

Legal reserve (EUR 20,000 thousand)

The legal reserve was established in 2012 following the decision by the ordinary Shareholders' Meeting of 16 April 2012, which approved the financial statements for 2011.

The Shareholders' Meeting held on 22 April 2015 had approved the financial statements for 2014 and voted to allocate

5% of the total profit for the period, amounting to EUR 632 thousand, to the reserve.

The Shareholders' Meeting held on 21 April 2016 had approved the financial statements for 2015 and voted to allocate EUR 507 thousand to the reserve.

The Shareholders' Meeting held on 19 April 2017 resolved to allocate EUR 3,838 thousand to the reserve.

The Shareholders' Meeting held on 19 April 2018 resolved to allocate EUR 3,924 thousand to the reserve.

The Shareholders' Meeting held on 16 April 2019 resolved to allocate EUR 3,034 thousand to the reserve.

The Shareholders' Meeting held on 20 April 2020 resolved to allocate EUR 5,829 thousand to the reserve.

The Shareholders' Meeting held on 22 April 2021 resolved to allocate EUR 2,174 thousand to the reserve.

Other reserves (EUR 1,930,400 thousand)

The item "Other reserves" comprises the capital account payment by parent company ERG S.p.A. for a total amount of EUR 961,733 thousand, of which EUR 261,733 thousand in 2015 and EUR 700,000 thousand in July 2016, following the decision by ERG S.p.A. to make a capital contribution in favour of ERG Power Generation S.p.A. and extinguish the existing loan between ERG S.p.A. and ERG Power Generation S.p.A. via offsetting.

This item includes also the extraordinary reserve to which EUR 5,830 was allocated, as a result of the share capital reduction in FY 2011, and the merger goodwill amounting to EUR 5,855 thousand, relative to the merger by incorporation of ISAB Energy Services S.r.l. on 1 January 2015.

The subject item includes also an amount equal to EUR 606,980 thousand, of which EUR 607,050 thousand referring to the equity of companies ERG Renew S.p.A. and ERG Renew Operation & Maintenance S.r.l., incorporated into ERG Power Generation S.p.A. as from 1 January 2017, and EUR 70 thousand related to reclassification of the item Retained earnings of profit and loss carried forward of the branches eliminated from the Company as from 1 January 2018.

In order to balance the capital structure of ERG Power Generation S.p.A., following the financial rationalisation operations of certain Subsidiaries, the Board of Directors of ERG S.p.A. resolved on 15 October 2020 to waive a financial receivable of EUR 350 million and convert it into a capital contribution of the same amount.

The remaining portion consists of sundry reserves of insignificant amount (EUR 2 thousand) transferred to the company following the merger through incorporation of ISAB Energy Services S.r.l. on 1 January 2015.

Cash flow hedging reserve (EUR -295,976 thousand)

This item comprises the fair value changes of the effective component of the hedging derivatives open at the reporting date, net of deferred taxes.

Retained earnings (EUR 261,651 thousand)

This item includes the profits and losses carried forward from previous years.

Note that on 14 December 2021, the Shareholders' Meeting resolved the distribution, as a dividend, of EUR 50,000 thousand in retained earnings in favour of the sole shareholder ERG S.p.A.

The table showing the changes in the equity items of the Company over the past three years is shown below:

	Share capital	Share premium reserve	Revaluation reserves	Legal reserve	Other reserves	Hedging reserve	Retained earnings (Accumulated losses)	Profit (loss) for the period	Total Equity
Balance at 31/12/2018	100,000	7,000	37	8,963	1,580,400	(18,125)	128,065	60,687	1,867,026
Distribution of dividends	-	-	-	-	-	-	(35,000)	-	(35,000)
Allocation of prior year profit (loss)	-	-	-	3,034	-	-	57,652	(60,687)	-
Capital increases	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	13,387	-	-	13,387
Profit (loss) for the year	-	-	-	-	-	-	-	116,573	116,573
Balance at 31/12/2019	100,000	7,000	37	11,997	1,580,400	(4,738)	150,717	116,573	1,961,986
Distribution of dividends	-	-	-	-	-	-	(45,000)	-	(45,000)
Allocation of prior year profit (loss)	-	-	-	5,829	-	-	110,744	(116,573)	-
Capital increases	-	-	-	-	350,000	-	-	-	350,000
Other changes	-	-	2,185	-	-	(6,841)	(2,252)	-	(6,908)
Profit (loss) for the year	-	-	-	-	-	-	-	99,616	99,616
Balance at 31/12/2020	100,000	7,000	2,221	17,826	1,930,400	(11,579)	214,209	99,616	2,359,694
Distribution of dividends	-	-	-	-	-	-	(50,000)	-	(50,000)
Allocation of prior year profit (loss)	-	-	-	2,174	-	-	97,442	(99,616)	-
Capital increases	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	(284,397)	-	-	(284,397)
Profit (loss) for the year	-	-	-	-	-	-	-	242,449	242,449
Balance at 31/12/2021	100,000	7,000	2,221	20,000	1,930,400	(295,976)	261,651	242,449	2,267,746

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

	Amount	Possibility of utilisation	Amount available	Amount subject to tax suspension
Share capital	100,000	-	-	3,009
Revaluation reserves	2,221	A,B,C	2,221	2,221
Share premium reserve	7,000	A,B	7,000	
Legal reserve	20,000	B	20,000	
Other reserves/Capital account payment	1,311,733	A,B,C	1,311,733	
Other reserves	11,687	A,B,C	11,687	
Other reserves/Merger goodwill 2017	606,980	A,B,C	606,980	
Cash flow hedging reserve	(295,976)	-	-	
Retained earnings	261,651	A,B,C	261,651	
Profit for the year	242,449	A,B,C	242,449	
Total	2,267,746		2,463,722	5,230
Total - net of the negative reserve	2,267,746		2,167,746	

Key:

A - for share capital increase

B - for loss coverage

C - for distribution to shareholders

The Company did not allocate deferred tax liabilities on the capital portion related to operations subject to tax on distribution (for EUR 3,009 thousand) or on the revaluation reserves (for EUR 2,221 thousand) since no utilisation that could generate taxation is expected.

Provisions for risks and charges (EUR 207,801 thousand)

(EUR thousand)	31/12/2021	31/12/2020
Financial derivative liabilities	205,229	17,213
Other provisions	2,572	2,429
Total	207,801	19,642

The item derivative financial instruments payable, equal to EUR 205,229 thousand, includes derivative financial instruments with negative fair value at the measurement date, generated in particular by the net negative impact of the measurement at 31 December 2021 of the "Contracts for Difference" and the non-hedging physical instruments. The negative fair value is shown below broken down by delivery date.

(EUR thousand)	within 12 months	within 5 years	after 5 years
Financial derivative liabilities	170,857	34,372	-

A summary of the item "Other provisions" is provided below:

(EUR thousand)	31/12/2020	Increases	Decreases	31/12/2021
Provision to cover losses of investees	127	-	-	127
Other current provisions	827	645	-	1,473
Provisions for current environmental risks	6	-	-	6
Other current provisions for risks	1,450	-	(491)	958
Other non-current provisions for charges	18	-	(10)	8
Total	2,428	645	(501)	2,572

The item "Other current provisions" includes EUR 827 thousand from potential expenses regarding uncertainty of the results of projects mainly linked to the business of renewables companies.

The key transactions in the provisions for liabilities in 2021 are outlined below:

- allocation of a provision for EUR 401 thousand relating to potential risks associated with the energy business;
- allocation of a provision for risks of EUR 244 thousand relating to potential charges deriving from a dispute dating back to previous years;
- use of the provision for charges relating to legal expenses in connection with a dispute in relation to the purchase of an equity investment in previous years for EUR 491 thousand.

Post-employment benefits (EUR 2,608 thousand)

(EUR thousand)	31/12/2021	31/12/2020
Opening balance	2,728	2,812
Increases	1,657	1,320
Decreases	(1,777)	(1,403)
Closing balance	2,608	2,728

This item includes the liabilities related to the post-employment benefits due to employees.

The provision increased by the amounts allocated in favour of employees for post-employment benefits and decreased mainly due to payments to Supplementary Funds and to the Treasury Fund.

Payables (EUR 1,892,358 thousand)

The payables can be summarised as follows:

(EUR thousand)	31/12/2021	31/12/2020
Shareholder loan payables	1,270,121	308,644
Advances	-	1,026
Payables to suppliers	132,262	31,250
Payables to subsidiaries	478,236	438,250
Payables to parent companies	241	6,469
Tax liabilities	2,249	4,838
Payables to social security and pension institutions	2,088	1,637
Other payables	7,160	17,068
Total	1,892,358	809,182

Shareholder loan payables (EUR 1,270,121 thousand)

The item includes payables to Shareholders for credit lines made available by the shareholder and for the cash pooling relationship.

The increase in the item in question was mainly generated by higher cash requirements due to the early repayment of some project financing of subsidiaries within the scope of the liability management activities carried out by the ERG group, to the ERG group's growth transactions, finalised through the Company, relating to the organic development of projects already owned by the Group and the development through mergers & acquisitions, and to the daily settlement of the fair value differentials and payments by way of margin deposit to guarantee futures transactions, considering the increase in prices that characterised the current year.

Payables to suppliers (EUR 132,262 thousand)

Payables to suppliers stem from commercial transactions.

The payables to suppliers at 31 December 2021 were mostly to Italian counterparties.

The breakdown of trade payables is mainly as follows:

- payable to GME, for an amount of EUR 20,091 thousand, relating to the purchase of electricity;
- payable to Edison for an amount of EUR 26,465 thousand and to ENI for an amount of EUR 27,520 thousand, relating to the purchase of gas;
- payables relating to hedging derivatives, still to be paid at the end of the financial year for a total of EUR 23,310 thousand;
- payables relating to the purchase for the completion of the emission quota obligation for the year 2021, for EUR 13,690 thousand;
- payables relating to the termination of a contract for the supply of electricity at a fixed price for approximately EUR 7,005 thousand;
- payables to other counterparties such as TERNA for EUR 3,547 thousand;

- trade payables for ancillary charges on the sale of electricity (such as, for example, to Enel Distribuzione S.p.A. for EUR 1,509 thousand).

The item also comprises trade payables to third parties for services connected to maintenance of the wind farms.

Payables to subsidiaries (EUR 478.236 thousand)

The subject item consists mainly of the following:

- loans and borrowings to subsidiaries, amounting to EUR 283,563 thousand, relating to zero balance cash pooling and cash advance agreements, mainly due to ERG Wind Investments S.r.l. (EUR 178,923 thousand), ERG Eolica Campania S.p.A. (EUR 33,274 thousand) and ERG Solar Holding S.r.l. (EUR 20,964 thousand). It should be noted that on 23 December 2021 the cash pooling agreement between the Company and ERG Hydro S.r.l. was ended. The corresponding balance was zeroed by offsetting the receivable due from ERG Hydro originating from the distribution of a portion of the latter's shareholders' equity, and by paying the residual debt.
- trade payables to group companies, equal to EUR 194,673 thousand, which regard payables to the wind and solar subsidiaries for EUR 117,704 thousand for the purchase of electricity and Guarantees of Origin (GOs), payables to ERG Hydro S.r.l. for EUR 61,282 thousand mainly for the purchase of electricity and GOs, and payables for services during the year, particularly in respect of the subsidiary ERG Power S.r.l., totalling EUR 15,688 thousand as part of the tolling agreement.

Payables to parent companies (EUR 241 thousand)

The item, equal to EUR 241 thousand, mainly includes charges for service costs by the parent company ERG S.p.A.

Tax payables (EUR 2,249 thousand)

This item mainly refers to payables to the tax authorities for withholdings for EUR 862 thousand and payables for excise duty related to electricity and gas for EUR 1,367 thousand.

Payables to social security and pension institutions (EUR 2,088 thousand)

This refers mainly to what is due in salaries and wages for December for social security, pension and insurance obligations.

Other payables (EUR 7,160 thousand)

(EUR thousand)	31/12/2021	31/12/2020
Payables to employees	2,987	2,604
Payables to third parties for equity investments	2,424	14,353
Sundry payables	1,749	111
Total	7,160	17,068

The item includes payables to employees relating to wages for the period not yet settled and comprises holidays, unused time off "in lieu" and the estimated productivity bonus and variable remuneration linked to company objectives. "Payables to third parties for equity investments" mainly refer to the payable for the acquisition of the equity investment in Laszki (EUR 575 thousand) and the payable, equal to EUR 1,844 thousand, deriving from the merger of ERG Renew S.p.A. The latter relates to the valuation of a put option on 0.69% of Ansaldo Fuel Cells S.p.A. granted by ERG Renew S.p.A. to Gepafin S.p.A. expiring on 29 January 2009. Gepafin S.p.A. had notified exercising of its put option; ERG Renew S.p.A. did not consider the right on said shares of Ansaldo Fuel Cells S.p.A. to be valid and informed Gepafin S.p.A. that it would not purchase the shares that were the subject of the option. Gepafin filed proceedings to obtain payment of the debt and, at present, the proceedings in question are pending before the Court of Cassation.

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

	within 12 months	within 5 years	after 5 years	Total
Payables				
- shareholder loan payables	1,270,121	-	-	1,270,121
- to suppliers	132,262	-	-	132,262
- to subsidiaries	478,236	-	-	478,236
- to parent companies	241	-	-	241
- tax payables	2,249	-	-	2,249
- to social security and pension institutions	2,088	-	-	2,088
- other payables	7,160	-	-	7,160
Total	1,892,358	-	-	1,892,358

INCOME STATEMENT ANALYSIS

VALUE OF PRODUCTION (EUR 825,607 THOUSAND)

Revenue from sales and services (EUR 828,512 thousand)

(EUR thousand)	2021	2020
Revenue from sales	742,679	567,526
Revenue from the provision of services	85,832	71,867
Total	828,512	639,393

Revenue from sales comprise mainly:

- sales of electricity to third parties and the allocation of white certificates for approximately one month of production;
- electricity sales and the supply of steam and other utilities to the other companies operating in the industrial site in Priolo Gargallo.

Note that ERG Power Generation S.p.A. manages the ERG Group's electricity sales, performed in Italy through the Energy Management department, which refer to the electricity generated by its wind, thermoelectric, hydroelectric and solar plants, as well as purchases on organised markets and through physical bilateral agreements, with the exception of the energy produced by some wind and solar plants for which dispatching has been outsourced to third parties.

Revenue from services mainly comprises remuneration established in the Operation & Maintenance service contract from the subsidiary ERG Power S.r.l., from the associated company Priolo Servizi S.C.p.A. and from ISAB S.r.l. The item includes also the provision of technical services and central staff services charged back to ERG Power S.r.l.

This item includes also revenues from Terna for the capacity payment.

From 1 January 2017, revenue from services includes services rendered to the wind subsidiaries for Operation & Maintenance and BoP, i.e., management and maintenance of the wind aerogenerators and substations. In addition, as from 1 January 2018, this item also includes Operation & Maintenance activities performed in respect of the subsidiaries of the solar business.

For complete disclosure, we provide below a breakdown of the revenue from sales and services:

	2021	2020
Sales		
Electricity	635,665	482,671
Steam	72,660	45,955
Gas	-	-
CO ₂	11,035	-
GO	1,290	1,479
White Certificates	1,936	23,585
Utilities	20,093	13,836
Total sales	742,679	567,527
Services		
Dispatching Services Market revenues from TERNA	1,210	1,525
Service contracts in respect of ERG Power - ERG Hydro	10,916	11,353
Service contract in respect of wind subsidiaries	7,327	7,419
O&M for ERG Power and third parties site	13,000	12,562
O&M for wind subsidiaries	35,178	34,962
Other from subsidiaries	12,667	916
Other	5,535	3,130
Total services	85,832	71,867
TOTAL REVENUE FROM SALES AND SERVICES	828,512	639,393

Revenue for electricity is mainly from GME and Terna, ACEA and A2A.

Revenue from sales of electricity refers to the energy generated by the wind, thermoelectric, hydroelectric and solar plants of the Italian subsidiaries in 2021.

Energy sold in the market includes sales within the IPEX electrical market as well as in the "day-ahead market" (MGP), the "intraday market" (MI) and the "market for dispatching services" (MSD) in addition to being sold to the primary operators of the sector within the OTC (over the counter) platform. The latter were realised by Energy Management in order to develop forward contracts, also with the objective of hedging the generation, in accordance with the Group's risk policy. With regard to the matter in question, it should be noted that following the results achieved in the year and also in consideration of the assessments made starting from the end of 2021, the intercompany contracts for the supply of electricity from the SPVs to the Company are currently being modified, particularly as regards the energy sale price formula, with the aim of achieving better margins for both the Company and its subsidiaries.

In 2021, electricity revenue includes the negative impact of the hedging transactions concluded in the period for an amount of EUR 271,387 thousand, for which a detailed table is shown below:

(EUR thousand)	2021	2020
Gains on Power sales cash flow hedges	180	34,178
Gains on Gas sales cash flow hedges	0	504
Total	180	34,682
Losses on Power sales cash flow hedges	(271,567)	(58)
Losses on Gas sales cash flow hedges	0	0
Total	(271,567)	(58)
Total revenue	(271,387)	34,624

Note that the average PUN (Single National Price) in 2021 was 125.5 EUR/MWh, up compared to the value recognised in 2020 (38.9 EUR/MWh).

The sale of steam and utilities relate mainly to customers from the Priolo industrial area, more specifically Versalis S.p.A., ISAB S.r.l. and Priolo Servizi S.C.p.A.

The decrease in revenue for white certificates for the year is mainly due to the high-efficiency cogeneration period on Module 2 of the CCGT plant ending from 1 January 2021.

It should be noted that the general shutdown of Module 1 aimed at guaranteeing the HEC qualification, which started at the beginning of September and ended in early December, allowed the Company to accrue EECs on the production of Module 1 in December 2021.

Revenue for services also includes services provided by O&M to the wind subsidiaries.

The item includes also revenue for technical services and central staff services provided to the subsidiaries, in addition to service contracts to wind companies.

The item "Other from subsidiaries" includes revenue for reblading from ERG Wind Energy S.r.l.: in 2021, following the completion of the reblading of the Monteverde and Lacedonia wind farms relative to the subsidiary ERG Wind Energy S.r.l., ERG Power Generation S.p.A. invoiced the costs related to engineering, purchases of blades and other ancillary costs including internal personnel costs, to the subsidiary.

The item also includes revenue from ERG Wind Energy S.r.l. for the re-charging of costs incurred by ERG Power Generation S.p.A. in relation to the wind farms owned by ERG Wind Energy S.r.l. which have obtained the Single Authorisation and for which the terms of any appeal by third parties have expired, as previously mentioned. The subsidiary will manage the dismantling and construction of the new wind farms directly, with the support of third party suppliers and making use of a service contract with the internal staff of ERG Power Generation S.p.A.

Lastly, the item includes revenue from ERG Wind Energy S.r.l. for the re-charging of costs incurred by ERG Power Generation S.p.A. in relation to projects that Management has decided not to continue and complete.

The item "Other" comprises mainly charge-backs to Terna in regard to fees for Lost Wind Power Output and other services to third parties, including site customers.

Changes in contracts in progress (EUR -4,849 thousand)

This item reflects the costs of engineering, purchase of the blades and ancillary costs, including internal personnel costs sustained in 2021 by ERG Power Generation S.p.A. for the Repowering & Reblading projects on the plants of a number of wind subsidiaries, as commented in the "Inventories" paragraph of these Notes. The item is negative mainly due to the re-charging of the costs incurred by ERG Power Generation S.p.A. in relation to the wind farms owned by ERG Wind Energy and for the re-charging of the costs incurred by ERG Power Generation S.p.A. in relation to projects that Management has decided not to continue and complete, as mentioned in the previous item.

Other revenue and income (EUR 1,944 thousand)

(EUR thousand)	2021	2020
Other revenue and income from Group companies	568	498
Incentive	10	13
Insurance indemnities	-	12
Expense recoveries	488	445
Other revenue for capacity resale	-	1,571
Revenue other than the above	878	970
Total	1,944	3,509

"Other revenue from Group companies" regard essentially charge-backs to parent companies and subsidiaries for costs incurred and sale of spare parts.

The "Revenue other than the above" item includes mainly the positive effect of the closure of accounting items relating to previous years.

PRODUCTION COSTS (EUR 1,070,776 THOUSAND)

Production costs are broken down as per the table below.

(EUR thousand)	2021	2020
Costs for raw, ancillary and consumable materials	850,818	402,138
Services	176,529	176,962
Costs for leased goods	2,196	2,372
Employee expense	29,614	29,485
Amortisation, depreciation and impairment losses	2,158	2,235
Changes in inventories of raw, ancillary and consumable materials and goods	(291)	(799)
Provisions for risks	645	1,450
Sundry operating costs	9,106	1,181
Total	1,070,776	615,024

Costs for raw, ancillary and consumable materials and goods (EUR 850,818 thousand)

The purchase costs of electricity regard mainly purchases from the GME, from the wind and solar subsidiaries and from ERG Hydro S.r.l.

The gas purchase costs are essentially related to Edison and ENI.

The above costs include the positive adjustment generated by the hedging transactions concluded during the period, amounting to lower costs of EUR 167,293 thousand, for which a detailed table is shown below:

(EUR thousand)	2021	2020
Gains on Power purchases cash flow hedges	48,932	30
Gains on Gas purchases cash flow hedges	125,527	0
Total	174,459	30
Losses on Power purchases cash flow hedges	(73)	(7,154)
Losses on Gas purchases cash flow hedges	(7,093)	(36,295)
Total	(7,166)	(43,449)
Total costs	167,293	(43,419)

The purchases of utilities and steam relate mainly to the relations with the Companies at the industrial site in Priolo Gargallo.

Costs include outlays to purchase spare parts, referring to the costs of raw materials acquired by third parties and subsidiaries to conduct maintenance on the wind aerogenerators on behalf of the subsidiaries.

Service costs (EUR 176,529 thousand)

(EUR thousand)	2021	2020
Costs for services from third parties	40,610	52,095
Costs for services from subsidiaries	97,578	89,193
Costs for services from parent companies	38,341	35,674
Total	176,529	176,962

The "Costs for services from subsidiaries" relate to the tolling fee paid to the subsidiary ERG Power S.r.l. as part of the tolling contract.

"Costs for services from parent companies" reflect essentially the costs for staff services rendered by the company ERG S.p.A. and include charge-backs for administrators' fees.

"Costs for services from third parties" comprise mainly the following:

(EUR thousand)	2021	2020
Maintenance costs	9,191	7,898
Technical, legal and other consulting services	1,932	2,871
Payments to statutory auditors	66	73
Utilities and consumption	26	34
Insurance costs	369	361
Other services	29,026	40,858
Total	40,610	52,095

"Maintenance costs" refer to the costs incurred in 2021 for the assistance, management and maintenance activities for the wind farms of subsidiaries.

The item "Technical, legal and other consulting services" includes mainly approximately EUR 500 thousand for legal consultancy costs, EUR 547 thousand for technical professional consultancy costs, EUR 153 thousand for assessments, inspections and testing, EUR 163 thousand for anemometry services, EUR 61 thousand for analyses and sampling, EUR 49 thousand in feasibility studies and other minor costs for services.

The item includes also payment to the independent auditors KPMG S.p.A.,³ of which EUR 217 thousand related to the audit services provided and EUR 14 thousand for non-audit services.

"Insurance expenses" includes the premiums paid in previous years.

Note that the items "Costs for services from parent companies" and "Other services" include directors' fees for a total of EUR 1,195 thousand.

The table below shows the main breakdown of the item "Other services", which includes:

(EUR thousand)	2021	2020
Costs for electricity transport, gas and other capacity charges	12,260	19,288
Other personnel services	1,739	1,671
Italian and foreign bank fees	933	956
Other Terna and IPEX fees	7,912	13,530
Other services	6,181	5,412
Total	29,026	40,858

- transport costs relating to electricity, equal to EUR 12,260 thousand, are down compared to 2020 due to the decrease in electricity sales due to the termination of contracts with some end customers;
- other personnel services, largely in line with 2020, amounted to EUR 1,739 thousand;
- other Terna and IPEX fees amounted to EUR 7,912 thousand in 2021, down compared to 2020 due to ordinary operations.

³ Values not including monetary revaluation, expenses, CONSOB supervisory contribution.

Costs for leased goods (EUR 2,196 thousand)

(EUR thousand)	2021	2020
Rent expenses	345	339
Lease expenses	598	716
Rents and leases	1,253	1,317
Total	2,196	2,372

Costs for leased goods refer mainly to rent expense on warehouses, fees and costs for leased automobiles and trucks.

Employee costs (EUR 29,614 thousand)

Employee costs relate to the total costs of 381 employees during the year (381 at the end of the year).

(EUR thousand)	2021	2020
Wages and salaries	21,619	20,344
Social security contributions	5,591	5,876
Post-employment benefits	1,485	1,320
Pensions and similar obligations	-	-
Other costs	919	1,946
Total	29,614	29,485

The following shows the breakdown of the Company's personnel:

	2021	2020
Executives	8	10
Middle managers	66	62
White-collar workers	159	162
Blue-collar workers – Intermediate	148	143
Total	381	377

Amortisation, depreciation and impairment losses (EUR 2,158 thousand)

(EUR thousand)	2021	2020
Amortisation of intangible assets	1,496	1,174
Depreciation of property, plant and equipment	662	632
Impairment losses of receivables included in current assets and cash and cash equivalents	-	430
Total	2,158	2,236

Amortisation of the intangible assets refers to the other intangible assets, especially the software used to carry out the activities and the goodwill generated by the merger.

It should be noted that, due to the changes introduced by the 2022 Budget Law, the goodwill subject to tax realignment in 2021 will be tax deductible over 50 years.

Change in inventories of raw, ancillary and consumable materials and goods (EUR -291 thousand)

The item refers to the change in inventories of spare parts, acquired in order to conduct maintenance activities on the wind turbines owned by the subsidiaries that produce energy from wind.

Provisions for risks (EUR 645 thousand)

The item includes:

- an allocation of a provision for EUR 401 thousand relating to potential risks associated with the energy business;
- an allocation to a provision for risks for EUR 244 thousand relating to potential charges deriving from a dispute dating back to previous years.

Miscellaneous operating expenses (EUR 9,106 thousand)

(EUR thousand)	2021	2020
Municipal property tax	5	5
Other duties and taxes	215	287
Other sundry expenses from third parties	8,886	889
Total	9,106	1,181

The item increased in 2021 mainly because it reflects the charges deriving from a 2021 settlement agreement finalised with a third party for EUR 7 million and from the derecognition of the VAT receivable for EUR 1.3 million, commented on previously.

FINANCIAL INCOME AND EXPENSE (EUR 406,522 THOUSAND)

(EUR thousand)	2021	2020
Income from equity investments	395,474	68,669
Other financial income	20,989	14,878
Interest and other financial expense	(9,781)	(7,002)
Exchange rate gains and losses	(160)	(203)
Total	406,522	76,342

Income from equity investments (EUR 395,474 thousand)

In 2021, the Company received dividends, the distribution of profit reserves and other distributions from subsidiaries as outlined in the following table:

(EUR thousand)	2021	2020
Distribution of dividends		
ERG Eolica San Vincenzo S.r.l.	-	1,503
ERG Eolica Campania S.p.A.	5,000	13,000
ERG Eolica Adriatica S.r.l.	3,000	12,000
ERG Eolica Fossa del Lupo S.r.l.	14,000	3,121
Green Vicari	1,500	3,000
ERG Eolica Faeto S.r.l.	1,000	1,500
ERG Hydro S.r.l.	-	21,335
ERG Wind Bulgaria S.p.A.	263	-
Andromeda PV S.r.l.	3,826	9,370
	28,589	64,828
Distribution of reserves		
ERG Hydro S.r.l.	315,792	-
ERG Wind Bulgaria S.p.A.	4,137	-
Andromeda PV S.r.l.	1,956	3,467
	321,885	3,467
Other income		
ERG Hydro S.r.l.	45,000	-
Brockaghboy Wind Park Limited	-	374
	45,000	374
Total	395,474	68,669

The item "Other income" reflects the decrease in the share capital of ERG Hydro S.r.l. approved by the Shareholders' Meeting of the aforementioned company on 14 September 2021, which became effective on 23 December 2021.

Other income (EUR 20,989 thousand)

The item comprises the following:

- financial income of EUR 20,763 thousand for interest income on loans granted to subsidiaries;
- interest income from third parties, mainly due to payment extensions, from the Tax Authorities and from banks for EUR 226 thousand.

Interest and other financial expense (EUR -9,781 thousand)

(EUR thousand)	2021	2020
Financial expense due to parent companies	9,553	6,894
Interest payable to banks	1	-
Other expense	227	109
Total	9,781	7,003

"Financial expense due to parent companies" refers to interest on the financial payable to the parent company ERG S.p.A.

Exchange rate gains and losses (EUR -160 thousand)

This item mainly includes the impact of exchange rate differences recognised during the period.

VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES (EUR 19,739 THOUSAND)

(EUR thousand)	2021	2020
Revaluations of derivative financial instruments	159,190	11,930
Impairment of derivative financial instruments	(159,367)	(11,332)
Total revaluations and impairment of derivative financial instruments	(177)	598
Revaluations of equity investments	19,916	-
Write-downs of equity investments	-	-
Total revaluations and write-downs of equity investments	19,916	-
Total	19,739	598

The items "Revaluation of derivative financial instruments" and "Impairment of derivative financial instruments" include the allocation to the income statement of the changes in fair value of the derivative instruments open at 31 December 2021, as well as the changes in fair value achieved during 2021 with regard to the financial derivatives that do not fully correlate with the physical underlying.

The significant increase in the revaluations and write-downs of derivative financial instruments is mainly attributable to the current year's price scenario, which saw spot prices of the underlying deviate from the price set using these instruments.

It should be noted that, starting from November, the Company received a mandate from the German subsidiaries for the stipulation and management of derivative contracts hedging the price risk of electricity for part of their electricity production.

The Company has therefore finalised hedging contracts (futures) to hedge the price of electricity, reversing the effects on the subsidiaries (CFDs). The revaluations and write-downs in question therefore include the accounting of the hedging instruments stipulated for the German subsidiaries.

The item "Revaluations of equity investments" includes the reversal of the impairment loss of the equity investment in ERG Hydro S.r.l., commented on in the Current financial assets section of these Notes to the Financial Statements.

INCOME TAXES FOR THE YEAR (EUR 61,356 THOUSAND)

(EUR thousand)	2021	2020
Current income taxes - IRES	60,570	(6,039)
Current income taxes - IRAP	-	(2,450)
Deferred tax assets	349	(672)
Previous year taxes	437	(56)
Total	61,356	(9,217)

Current IRES taxes, with a positive impact, amount to EUR 60,570 thousand and have been transferred in full to the tax consolidation.

No current IRAP taxes are due during the year, as the relative tax base is negative.

For the changes in deferred taxes, please refer to the corresponding sections of the statement of financial position.

The table below shows the reconciliation between the effective and theoretical tax expense.

Reconciliation between effective and theoretical tax expense

IRES		
Profit (loss) before taxes	161,177	
Theoretical tax charge (24%)		38,682
Impact of permanent tax changes	(414,421)	
Taxable IRES income	(253,244)	
IRES rate (24%)		(60,779)
IRES reported		(60,779)
IRAP		
Difference between production costs and revenues	(242,466)	
Costs and revenues not relevant for IRAP purposes	30,870	
Total theoretical taxable income for IRAP purposes	(211,596)	
Theoretical tax charge (4.82% rate)		(10,199)
Impact of permanent tax changes	(15,082)	
Taxable IRAP income	(226,678)	
IRAP rate (4.82%)		(10,926)
IRAP reported		0
Taxes adjustments previous years		(437)
Transfer of working hours benefit, tax consolidation		(102)
Other changes		(38)
Total income taxes as reported in the financial statements		(61,356)

COMMITMENTS AND GUARANTEES AND CONTINGENT LIABILITIES NOT INDICATED IN THE STATEMENT OF FINANCIAL POSITION

Sureties in favour of Group companies (EUR 2,466 thousand)

As a result of the merger of ERG Renew S.p.A. into ERG Power Generation S.p.A., the latter acquired ownership of the guarantees issued in favour of companies of the wind group, particularly Government Agencies, for restoration of the wind farm areas at the end of the electricity generation activity.

Sureties in favour of third parties issued on credit lines of the parent company (EUR 38,061 thousand)

These regard sureties issued by ERG Power Generation S.p.A. in favour of third parties, guaranteed by the direct parent ERG S.p.A.

These are mainly counterparties with which commercial dealings were carried out, as well as a guarantee in favour of the Italian electricity market operator (GME) directed at allowing operations on said market.

Collateral (EUR 1 thousand)

This item regards collateral dating back to the year 2012 for pledges on wind subsidiaries.

Commitments to suppliers (EUR 1,240 thousand)

These are commitments to suppliers in the field of information & communication technology for operating and capital account expenses to be incurred in the future already contracted for with the counterparty.

DISCLOSURE ON THE FAIR VALUE OF THE FINANCIAL INSTRUMENTS IN ACCORDANCE WITH ARTICLE 2427-BIS OF THE ITALIAN CIVIL CODE

The Company uses certain derivative instruments as part of Group policy to minimise the risks relating mainly to credit, market, liquidity and operational risks.

The following table shows the derivative financial instruments used by the Company at 31 December 2021.

(EUR thousand)		31/12/2021		
Type of contract		Underlying financial risk	MWh/thousand	FV
Contract for Difference & Other/Physical	Thousands of MWh	Electricity purchase price risk	2,379	(133,244)
Impact on profit or loss			1,150	16,129
Impact on equity			1,229	(149,373)
Commodities swaps	Thousands of MWh	Gas purchase price risk	1,838	87,436
Impact on profit or loss			-	-
Impact on equity			1,838	87,436
Commodities Futures	Thousands of MWh	Electricity sale price risk	4,441	(347,901)
Impact on profit or loss			1,396	(9,297)
Impact on equity			3,045	(338,605)
Total			8,658	(393,709)

Electricity price risk hedging swap

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

Electricity price risk hedging CfD

CfD (Contract for Difference) transactions to hedge the risk of fluctuation in the price of electricity with respect to forward agreements for the purchase and sale of electricity. These are contracts whereby the parties undertake to liquidate, at a certain date, the difference between the price agreed and the market price of the reference period.

Futures

Futures transactions are fixed-term, standardised contracts. These are contracts whereby two parties agree to exchange, at a future date, a certain asset at a price determined upon stipulation of the contract.

The fair value is calculated based on the estimate of future cash flows, discounted at the measurement date (Discounted Cash Flow Model). The estimate of variable future prices is carried out on the basis of forward prices of the commodities. The measurement techniques used are based exclusively on parameters such as spot and forward price, interest rates and commodity price directly observable on the market.

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

- No transactions subject to the obligation of retrocession upon completion were carried out (Article 2427, no. 6-ter);
- No financial expenses were posted to the asset values of the Statement of Financial Position during the year (Article 2427, no. 8);
- As regards 2427, there are no significant revenues 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 assets were allocated to a specific business (Article 2427, no. 20), and no loans were granted or stipulated with regard to a specific business (Article 2427, no. 21);
- No finance lease transactions involving the transfer to the lessee of the predominant portion of risks and benefits of the underlying asset were carried out (Article 2427, no. 22);
- Transactions with related parties (Article 2427, no. 22-bis) are illustrated in the next paragraph;
- There are no known agreements whose effects are not mentioned in the Statement of Financial Position (Article 2427, no. 22-ter).

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

Article 1, paragraph 125 of Italian Law no. 124 of 4 August 2017 introduced the obligation for companies that receive grants from public administrations to publish the amounts received in their Notes to the separate financial statements 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 grants 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), since such funds are a form of

partnership governed by private law, financed with the contributions paid by the companies themselves.

In accordance with the provisions of Article 3-quater of Italian Law no. 12 of 11 February 2019 135/2018, 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.

It should be noted that in 2021 the fixed premiums resulting from the awarding of the two Capacity Market auctions for the delivery years 2022 and 2023 were entered in the National Register of State Aid. The auctions were held in November 2019 and specifically concern the CCGT plant in Priolo Gargallo (SR), which was awarded a total amount of EUR 22.4 million relating to the 2022 and 2023 financial years.

It should be noted that with reference to the 2021 financial year, ERG Power Generation S.p.A. has benefited from the contribution relief, recognised by INPS, pursuant to Article 1 paragraphs 161 to 168 of Law no. 178 of 30 December 2020 ("Decontribuzione Sud" - [Southern tax relief]) for an amount equal to EUR 1.1 million.

Type of contribution	Disbursing party	Revenue recorded in 2021 (EUR thousand)	Collection in 2021 (EUR thousand) (*)
White Certificates	GSE	1,936	23,563

(*) Note that the certificates in 2021 (relative to 2020) were sold and therefore collected by third parties.

RELATIONS WITH PARENT COMPANIES, SUBSIDIARIES, ASSOCIATES, COMPANIES CONTROLLED BY THE PARENT COMPANIES AND OTHER RELATED PARTIES

The main relations between the Company and the companies that form part of the ERG Group are set out below, with transactions settled on an arm's length basis.

Intra-group relations in 2021 refer to Company operations.

In particular, the Company received from parent company ERG S.p.A. debits for compensation due to directors who are employees of the parent company, for services as well as for the cash pooling zero balance contract.

The payables due to the subsidiary ERG Power S.r.l. relate to the tolling agreement, while the receivables refer mainly to operation and maintenance services under the Operation & Maintenance contract, as well as the service agreement.

The payables due to ERG Hydro S.r.l. refer mainly to the contract for the purchase of electricity produced.

The trade receivables from wind and solar companies regard mainly the O&M and BoP maintenance contracts.

The trade payables to wind and solar companies regard mainly contracts for the purchase of electricity produced by the SPVs.

Financial assets and liabilities refer to existing loan agreements between the Company and the wind and solar companies.

It should be noted that, starting from November, the Company received a mandate from the German subsidiaries for the stipulation and management of derivative contracts hedging the price risk of electricity for part of their electricity production.

The Company has therefore finalised hedging contracts (futures) to hedge the price of electricity, reversing the effects on the subsidiaries (CFDs).

Starting from 2016, the Company became the sole supplier for group companies with respect to electricity users, a service provided exclusively by Axpo from 1 January 2022.

The table below summarises the financial and equity items for the year 2021 with Group companies.

	Revenue			Costs		
	Sales and services	Other revenue	Financial income	Purchases	Costs for services and other costs	Financial expense
Subsidiaries						
ERG Power S.r.l.	13,836	-	-	-	(97,578)	-
ERG Hydro	9,689	-	360,792	(181,906)	-	-
ERG Wind Investments S.r.l.	108	-	-	-	-	-
ERG Wind Holdings (Italy) S.r.l.	19,676	283	-	(126)	-	-
ERG Wind Sardegna S.r.l.	14	-	1	-	-	-
ERG Wind Sicilia 6 S.r.l.	3	-	-	(1,332)	-	-
ERG Wind 4 S.r.l.	(0)	-	-	-	-	-
ERG Wind Leasing 4 S.r.l.	0	-	-	-	-	-
ERG Wind 6 S.r.l.	4	-	-	(732)	-	-
ERG Wind Sicilia 2 S.r.l.	1	-	6	-	-	-
ERG Wind Sicilia 3 S.r.l.	1	-	-	(580)	-	-
ERG Wind Sicilia 4 S.r.l.	2	-	8	-	-	-
ERG Wind Sicilia 5 S.r.l.	3	-	7	-	-	-
ERG Wind 2000 S.r.l.	5	-	3	-	-	-
ERG Wind Energy S.r.l.	13,245	-	37	(120,829)	-	-
ERG Wind Park Beteiligungs GmbH	-	-	3,715	-	-	-
Epuron RE Beteiligungs GmbH	-	-	14	-	-	-
ERG Wind 105 GmbH	-	-	646	-	-	-
ERG Wind French Holdings S.a.s.	-	-	1,670	-	-	-
ERG Germany GmbH	150	39	86	(63)	-	-
ERG France S.a.r.l.	265	1	-	-	-	-
Voltwerk Energy Park 8 GmbH	-	-	161	-	-	-
Voltwerk Windpark Worbzig GmbH	-	-	188	-	-	-
Voltwerk Windpark Beesenstedt GmbH	-	-	210	-	-	-
Windpark Cottbuser Halde GmbH	-	-	547	-	-	-
WP Achmer Vinte GmbH	-	-	558	-	-	-
ERG Wind 117 (Frehne) GmbH	-	-	284	-	-	-
PERUN Mob Co. KG	-	-	725	-	-	-
SIGAR Mob Co. KG	-	-	564	-	-	-
TANURI Mob. Co. KG	-	-	857	-	-	-
ERG Wind France 1	-	-	296	-	-	-
ERG Eolica San Vincenzo S.r.l.	2,370	-	-	(16,868)	-	-
ERG Eolica Faeto S.r.l.	1,085	-	1,000	(6,214)	-	-
ERG Eolica Ginestra S.r.l.	1,510	-	269	(7,987)	-	-

	Revenue			Costs		
	Sales and services	Other revenue	Financial income	Purchases	Costs for services and other costs	Financial expense
ERG Eolica Tirreno S.r.l.	16	-	1	-	-	-
Green Vicari S.r.l.	1,322	-	1,500	(8,457)	-	-
ERG Eolica Fossa del Lupo S.r.l.	5,400	-	14,000	(36,326)	-	-
ERG Eolica Adriatica S.r.l.	3,760	-	3,296	(31,441)	-	-
ERG Eolica Campania S.p.A.	3,755	-	5,000	(32,984)	-	-
EW Orneta 2 Sp. z.o.o.	10	-	882	-	-	-
Hydro Inv. (PL)	10	-	-	-	-	-
Blachy P (PL) - Paires 2	10	-	-	-	-	-
Corni Eolian	30	-	1,202	-	-	-
Globo Energy EOOD	3	-	-	-	-	-
K&S Energy EOOD	3	-	-	-	-	-
K&S Energy 1 EOOD	6	-	-	-	-	-
K&S Energy 2 EOOD	6	-	-	-	-	-
Mark 1 EOOD	4	-	-	-	-	-
Mark 2 EOOD	4	-	-	-	-	-
VG 1 EOOD	3	-	-	-	-	-
VG 2 EOOD	6	-	-	-	-	-
VG 3 EOOD	6	-	-	-	-	-
VG 4 EOOD	6	-	-	-	-	-
VG 5 EOOD	6	-	-	-	-	-
VG 6 EOOD	6	-	-	-	-	-
Wind Park Kavarna Est	6	-	-	-	-	-
Wind Park Kavarna Ovest	6	-	-	-	-	-
WP Bulgaria 4 EOOD	4	-	-	-	-	-
ERG Wind Bulgaria S.p.A.	16	-	4,409	-	-	-
Dobberkau	-	-	478	-	-	-
Weselberg	-	-	551	-	-	-
ERG Eolienne France	-	-	2,865	-	-	-
ERG Solar Holding S.r.l.	0	-	-	-	-	-
ERG Solar Holding S.r.l.	28	-	1,559	-	-	-
Calabria Solar S.r.l.	2,489	-	-	(10,447)	-	-
ERG Solar Campania S.r.l.	0	-	-	-	-	-
ERG Solar Marche 1 S.r.l.	(0)	-	-	-	-	-
ERG Solar Marche 2 S.r.l.	0	-	-	(0)	-	-
ERG Solar Piemonte 3 S.r.l.	564	-	1,305	(3,733)	-	-
ERG Solar Puglia 1 S.r.l.	0	-	-	(0)	-	-
ERG Solar Puglia 2 S.r.l.	(0)	-	-	0	-	-
WP France 6	-	-	178	-	-	-
ISAB Energy Solare	11	-	55	-	-	-
ERG Wind Park Linda	-	-	130	-	-	-
Creagg Riabhach	15	-	-	-	-	-
Craigmore Energy Ltd	15	-	-	-	-	-
Barkow 1	-	-	516	-	-	-
Barkow 2	-	-	509	-	-	-
Barkow 3	-	-	504	-	-	-
Laszki Wind sp. zo.o	-	-	642	-	-	-
ERG Sweden Holding AB	-	-	467	-	-	-
Andromeda S.r.l.	444	-	6,572	-	-	-
ERG UK Holding	30	59	3,040	-	-	-
Sandy Knowe	15	-	503	-	-	-
Evishagaran	15	-	-	-	-	-
ERG Poland Holding	-	-	503	-	-	-
Associates						
Priolo Servizi S.c.p.a.	20,263	88	-	-	-	-
Parent companies						
ERG S.p.A.	165	98	-	-	(38,341)	(9,553)

	Receivables			Payables		
	Trade	Other	Financial	Trade	Other	Financial
Subsidiaries						
ERG Power S.r.l.	2,100	-	-	(15,688)	-	(5,854)
ERG Hydro	274	98	-	(61,282)	-	-
ERG Wind Park Beteiligungs GmbH	-	-	261,939	-	-	-
Epuron RE Beteiligungs GmbH	-	-	25,186	-	-	-
ERG Wind French Holdings S.a.s.	-	-	74,764	-	-	-
ERG Germany GmbH	41	-	4,087	-	-	-
ERG France S.a.r.l.	67	-	600	-	-	-
Voltwerk Energy Park 8 GmbH	15	-	3,949	-	-	-
Voltwerk Windpark Worbzig GmbH	47	-	141	-	-	(1,578)
Voltwerk Windpark Beesenstedt GmbH	68	-	142	-	-	(3,752)
Windpark Cottbuser Halde GmbH	150	-	397	-	-	-
WP Achmer Vinte GmbH	111	-	447	-	-	-
ERG Wind 117 (Frehne) GmbH	86	-	198	-	-	-
Parc Eolien de Garcelles-Sacqueville S.a.s.	-	-	-	-	-	-
Parc Eolien du Patis S.a.s. (Jallais)	-	-	-	-	-	-
Parc Eolien de St Riquier 1 S.a.s.	-	-	-	-	-	-
Parc Eolien de la Souterraine	-	-	-	-	-	-
Parc Eolien de Oyre Saint Sauveur	-	-	-	-	-	-
PERUN Mob Co. KG	59	-	666	-	-	-
SIGAR Mob Co. KG	59	-	505	-	-	-
SIRAN Mob Co. KG	-	-	-	-	-	-
MANDANA Mob Co. KG	-	-	-	-	-	-
TANURI Mob. Co. KG	83	-	774	-	-	-
ERG Wind France 1	-	-	18,695	-	-	-
ERG Eolica San Vincenzo S.r.l.	539	-	-	(6,896)	-	(19,775)
ERG Eolica Faeto S.r.l.	196	-	-	(2,828)	-	(5,845)
ERG Eolica Ginestra S.r.l.	382	-	6,633	(3,682)	-	(182)
ERG Eolica Tirreno S.r.l.	130	-	51	-	-	(19)
Green Vicari S.r.l.	229	-	-	(3,667)	-	(11,586)
ERG Eolica Fossa del Lupo S.r.l.	1,013	-	-	(14,341)	-	-
ERG Eolica Adriatica S.r.l.	500	-	38,266	(13,541)	-	(1,465)
ERG Eolica Campania S.p.A.	642	-	-	(14,333)	-	(33,274)
EW Orneta 2 Sp. z.o.o.	-	-	28,748	-	-	-
Corni Eolian	8	-	8,547	-	-	-
Globo Energy EOOD	5	-	-	-	-	-
K&S Energy EOOD	5	-	-	-	-	-
K&S Energy 1 EOOD	9	-	-	-	-	-
K&S Energy 2 EOOD	9	-	-	-	-	-
Mark 1 EOOD	6	-	-	-	-	-
Mark 2 EOOD	6	-	-	-	-	-
VG 1 EOOD	5	-	-	-	-	-
VG 2 EOOD	9	-	-	-	-	-
VG 3 EOOD	9	-	-	-	-	-
VG 4 EOOD	9	-	-	-	-	-
VG 5 EOOD	9	-	-	-	-	-
VG 6 EOOD	9	-	-	-	-	-
Wind Park Kavarna Est	9	-	-	-	-	-
Wind Park Kavarna Ovest	9	-	-	-	-	-

	Receivables			Payables		
	Trade	Other	Financial	Trade	Other	Financial
WP Bulgaria 4 EOOD	7	-	-	-	-	-
ERG Wind Bulgaria S.p.A.	332	-	-	-	-	-
Dobberkau	138	-	340	-	-	-
Weselberg	138	-	412	-	-	-
ERG Eolienne France	4	-	286,711	-	-	-
Parc Eolienne de la Voie Sacrée	-	-	-	-	-	-
ERG Solar Holding S.r.l.	6	-	60,921	-	-	(20,964)
Calabria Solar S.r.l.	429	21	-	(1,958)	-	-
ERG Solar Piemonte 3 S.r.l.	103	-	39,131	(623)	-	(327)
WP France 6	-	-	10,520	-	-	-
Epuron S.a.s.	-	-	-	-	-	-
ISAB Energy Solare	16	-	2,392	-	-	(18)
ERG Wind Park Linda	-	-	8,659	-	-	-
Creagg Riabhach	69	-	-	-	-	-
Craiggore Energy Ltd.	69	-	-	-	-	-
Barkow 1	106	-	410	-	-	-
Barkow 2	99	-	410	-	-	-
Barkow 3	121	-	382	-	-	-
Laszki Wind sp. zo.o	-	-	41,413	-	-	-
ERG Sweden Holding AB	-	-	42,463	-	-	-
Andromeda S.r.l.	73	-	10,462	-	-	-
ERG UK Holding	47	74	218,981	-	-	-
Sandy Knowe	5,839	-	-	-	-	-
Evishagaran	108	331	-	-	-	-
ERG Poland Holding	-	-	34,291	-	-	-
ERG Wind Investments S.r.l.	9	-	-	-	-	(178,923)
ERG Wind Holdings (Italy) S.r.l.	801	-	-	(20)	-	-
ERG Wind Sardegna S.r.l.	-	-	201	-	-	-
ERG Wind Sicilia 2 S.r.l.	-	-	406	-	-	-
ERG Wind Sicilia 4 S.r.l.	-	-	203	-	-	-
ERG Wind Sicilia 5 S.r.l.	-	-	203	-	-	-
ERG Wind 2000 S.r.l.	-	-	203	-	-	-
ERG Wind MEG 1 LLP	-	-	-	-	-	-
ERG Wind MEG 2 LLP	-	-	-	-	-	-
ERG Wind MEG 3 LLP	-	-	-	-	-	-
ERG Wind MEG 4 LLP	-	-	-	-	-	-
ERG Wind Energy S.r.l.	2,288	645	-	(55,816)	-	-
Associates						
Priolo Servizi S.c.p.a.	3,026	-	-	-	-	-
Parent companies						
ERG S.p.A.	91	64,597	-	(241)	-	(1,270,121)

OPERATING RESULTS

The financial statements for the year ended 31 December 2021 close with a profit of EUR 242,449 thousand, after confirmed tax receivable of EUR 61,356 thousand.

KEY FIGURES FROM THE MOST RECENT FINANCIAL STATEMENTS OF ERG S.P.A., WHICH CARRIES OUT THE MANAGEMENT AND COORDINATION OF ERG POWER GENERATION S.P.A.

STATEMENT OF FINANCIAL POSITION

(EUR thousand)	31/12/2020
Intangible assets	2,288
Property, plant and equipment	10,085
Right-of-use assets	1,858
Equity investments	2,086,182
Other non-current financial assets	257,405
Deferred tax assets	14,959
Other non-current assets	579
Non-current assets	2,373,355
Trade receivables	4,249
Other receivables and current assets	21,832
Current tax assets	11,597
Current financial assets measured at fair value	80,223
Other current financial assets	55,624
Cash and cash equivalents	538,420
Current assets	711,945
Assets held for sales	-
TOTAL ASSETS	3,085,300
Equity	1,263,995
Employee benefits	1,594
Provision for disposed businesses	73,579
Other non-current provisions	1,906
Non-current financial liabilities measured at fair value	24,264
Other non-current financial liabilities	1,599,292
Non-current lease liabilities	923
Other non-current liabilities	3,350
Non-current liabilities	1,704,909
Other current provisions	3,445
Trade payables	11,536
Other current financial liabilities	79,259
Current lease liabilities	949
Other current liabilities	15,980
Current tax liabilities	5,228
Current liabilities	116,396
TOTAL EQUITY AND LIABILITIES	3,085,300

INCOME STATEMENT

(EUR thousand)	2020
Revenue	35,545
Other income	3,375
Purchases	(357)
Services and other operating costs	(31,822)
Personnel expense	(24,538)
GROSS OPERATING PROFIT (EBITDA)	(17,797)
Amortisation of Intangible assets	(3,640)
OPERATING PROFIT (EBIT)	(21,437)
Financial income	14,083
Financial expense	(29,722)
NET FINANCIAL INCOME (EXPENSE)	(15,639)
Net gains (losses) on equity investments	44,848
NET GAINS (LOSSES) ON EQUITY INVESTMENTS	44,848
PROFIT (LOSS) BEFORE TAXES	7,773
Income taxes	4,579
PROFIT (LOSS) FROM DISCONTINUED OPERATIONS IN OPERATION	12,352
Profit (loss) from discontinued operations	–
PROFIT FOR THE YEAR	12,352

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Starting from 1 January 2022, ERG Power Generation S.p.A. adheres as parent company to the group VAT settlement procedure pursuant to Article 73 of Italian Presidential Decree no. 633 of 26/10/1972 and to the Italian Ministerial Decree of 13 December 1979.

On 2 August 2021, ERG Power Generation S.p.A. signed an agreement with Enel Produzione S.p.A. for the sale of the entire capital of ERG Hydro S.r.l. The consideration totals approximately EUR 1,265 billion, including the mark-to-market valuation of some hedging derivatives included in the scope and relating to part of the energy produced in the future by ERG Hydro S.r.l. plants. This transaction was concluded on 3 January 2022.

On 9 February 2022, ERG Power Generation S.p.A. signed an agreement with Enel Produzione S.p.A. for the sale of the entire share capital of ERG Power S.r.l., which owns the low-environmental-impact and high-efficiency Combined Cycle Gas Turbine (CCGT) cogeneration plant powered by natural gas located at Priolo Gargallo, in the province of Syracuse. With an installed capacity of 480 MW, the average annual production is around 2.4 TWh.

The consideration in terms of Enterprise Value, at 31 December 2021, is equal to EUR 188 million and will be subject to price adjustment at closing. The transaction is expected to be concluded in the third quarter of 2022.

On 14 February 2022, the Board of Directors of ERG Power Generation S.p.A. resolved to proceed with all the activities required to carry out the transfer of the Business Branch by ERG Power Generation S.p.A. to ERG Power S.r.l. including the contracts, the employees and other assets necessary for the generation, management, sale, transport and dispatch of electricity, steam and demineralised water produced by the plants already owned by ERG Power S.r.l.

In early 2022, urgent measures were introduced to contain the effects of price increases in the electricity sector, as described in more detail in the Directors' Report. ARERA is still in the process of issuing its procedures for the implementation of these measures, on the basis of which it will be possible to more clearly establish the impacts for the Group.

In view of the war that broke in Ukraine at the end of February 2022, management is monitoring any critical issues and impacts that the conflict could have on the ERG Group, in particular with reference to credit risk, security and business continuity.

As regards credit risk, there are no open positions directly with Russian and Ukrainian counterparties; however, it should be noted that the main customer of the Group on the Priolo Gargallo site is an Italian company indirectly controlled by a Russian group.

In relation to plant safety, note the position of some of the Group's wind farms in Eastern Europe (Poland and Romania) close to the Ukrainian border: since these are countries that are part of NATO, there are currently no risks directly linked to the conflict.

In relation to business continuity with regard to gas supply from Russian or Russia-linked suppliers, in the case of sanctions linked to the export of gas from Russia, impacts on prices and supply volumes cannot be excluded. Any impacts on the CCGT plant and on site sales contracts will be assessed according to the type of sanctions that may be imposed on energy exports from Russia.

The geopolitical tensions are significantly impacting the financial and commodities markets, with a foreseeable sharp increase in gas and electricity prices, in respect of which further regulatory measures in the energy sector cannot be ruled out.

PROPOSAL BY THE BOARD OF DIRECTORS

Dear Shareholders,

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

- to approve the financial statements of your Company for the year ended 31 December 2021, which show a profit of EUR 242,448,699.78;
- carry forward the profit for the year.

Genoa, 11 March 2022

on behalf of the Board of Directors

The Chief Executive Officer

Renato Alessandro Sturani



BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING FOR APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021, PURSUANT TO ARTICLE 2429, PARAGRAPH 2, OF THE ITALIAN CIVIL CODE

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To the Shareholders' Meeting of ERG Power Generation S.p.A.

During the year ended 31 December 2021, we conducted the supervisory activities required of the Board of Statutory Auditors, in accordance with Article 2403 of the Italian Civil Code and Italian 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 compliance with all legislative and regulatory provisions.

With reference to the main activities carried out by the Company and its subsidiaries in 2021 and reported in the explanatory notes:

- 1 January 2021: increase in the value of the equity investment in ERG Eolica Ginestra S.r.l. by effect of the capital contribution for an amount of EUR 33.9 million;
- 30 April 2021: acquisition of ERG Sweden Holding AB;
- 14 June 2021: increase in the share capital of ERG Eolienne France S.a.s. by means of a cash payment for an amount of EUR 15 million;
- 30 November 2021: increase in the value of the equity investment in ERG Sweden Holding AB by effect of the capital contribution for an amount of EUR 3 million;
- 22 December 2021: increase in the value of the equity investment in the company ERG Wind RE Beteiligungs GmbH through the transfer of the equity investment in ERG Wind 105 GmbH & CO. KG for an amount of EUR 5.6 million;
- 23 December 2021: increase in the value of the equity investment in Corni Eolian S.A. due to the increase in the share capital and the capital contribution for an amount of EUR 25 million;
- 31 December 2021: increase in the value of the equity investment in ERG Eolica Tirreno S.r.l. by effect of the capital contribution for an amount of EUR 200 thousand.

Finally, on 3 January 2022, we note that the agreement for the sale ERG Hydro S.r.l. to ENEL Produzione was completed following the preliminary agreement finalised on 2 August 2021.

Within the scope of the corporate reorganisation and simplification of the group (One Company project), the following transactions were carried out:

- transfer of the business branches of the wind companies ERG Wind Sardegna S.r.l., ERG Wind Sicilia 2 S.r.l., ERG Wind Sicilia 3 S.r.l., ERG Wind Sicilia 4 S.r.l., ERG Wind Sicilia 5 S.r.l., ERG Wind Sicilia 6 S.r.l., ERG Wind 6 S.r.l., ERG Wind 2000 S.r.l. to the company ERG Wind Energy S.r.l.;
- merger of the wind companies ERG Wind 4 S.r.l. and ERG Wind Leasing 4 S.r.l. into the company ERG Wind Energy S.r.l.;
- merger of the solar companies ERG Solar Campania S.r.l., ERG Solar Puglia 1 S.r.l., ERG Solar Puglia 2 S.r.l., ERG Solar Marche 1 S.r.l. and ERG Solar Marche 2 S.r.l. into the company Calabria Solar S.r.l.;
- merger of the solar company ERG Solar Holding S.r.l. into the company ERG Solar Holding S.r.l. (formerly ERG Solar Holding 1 S.r.l.);
- transfer of the registered office from Gibraltar to Italy of the company ERG Wind Investments Ltd. and change of the name to ERG Wind Investment S.r.l.;
- transfer by the Company of the equity investment in ERG Wind 105 GmbH & CO. KG to ERG Wind RE Beteiligungs GmbH and consequent dissolution of ERG Wind 105 GmbH & CO. KG in ERG Wind RE Beteiligungs GmbH.

As regards the activities carried out by the Board during the 2021 financial year:

- we held 5 meetings of the Board of Statutory Auditors and participated in the Shareholders' Meeting and all of the Board of Directors' meetings, monitoring compliance with the articles of association and with the laws and regulations that govern the operation of Company bodies;
- we obtained information from the Directors, at least every quarter, 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 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 has acknowledged - based on the reports received - the positive assessment of the ERG S.p.A. Control and Risk Committee on the adequacy of the overall internal control system, as stated in its annual report on the activities carried out in 2021;
- we verified the adequacy of the organisational structure, and we report that, at 31 December 2021, the workforce of ERG Power Generation S.p.A. stood at 381 units;
- we noted in the joint meetings and from the report received from the Supervisory Body, established pursuant to Italian Legislative Decree 231/01, that no significant 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;
- confirming all the certifications in effect of the Integrated Management Systems. In July 2020, ERG Power Generation S.p.A. and all its subsidiaries transitioned to the standard ISO 45001 for the management of health and safety aspects.

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 obtained from the directors information on the measures adopted by the Company in response to the COVID-19 emergency. ERG Power Generation S.p.A., and indeed the whole of the ERG Group, has continued, since the beginning of the pandemic, to put 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, also in line with the recommendations of the competent Authorities, was remote working, 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 maintenance of plants in order to safeguard operational and management continuity and ensure the safety of company assets.
- ERG continues to very carefully manage the staff employed across its production sites through the adoption of appropriate organisational safety measures and prevention and protection measures, in compliance with the Workplace Anti-COVID Protocol and recommendations by the competent authorities, and in agreement with trade union organisations. No staff reductions have been planned or carried out since the start of the pandemic. Moreover, the Company has not had to make use of so-called 'social shock absorbers' nor has it had to implement the forced reduction of working hours. By contrast, there were 50 new hires in 2020 and a further 74 in 2021, in order to support the Company's growth process;
- 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;
- on the basis of what emerged from the impairment test which we will explain below, we have given our consent to the recognition of goodwill generated by the merger by incorporation of ERG Renew Operations & Maintenance

S.r.l. and ERG Renew S.p.A. into ERG Power Generation S.p.A. amounting to EUR 3,754 thousand, with an estimated useful life of ten years and a residual value in the 2021 financial statements of EUR 1,877 thousand;

- 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;
- we made our reasoned proposal to engage the company KPMG S.p.A. to act as our auditing firm for the financial years 2021-2023.

Moreover, we highlight the following:

- the company subject to management and coordination of the 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 by ERG S.p.A. were mentioned in the Directors' Report;
- following the sale of the hydroelectric business and the reaching of an agreement for the sale of the thermoelectric business, which is expected to be finalised in the third quarter of 2022, the Board of Directors of ERG approved a new 2022-2026 Business Plan aimed at reinvesting resources from disposals and confirming the growth strategy in Wind & Solar through a policy of geographic and technological diversification and the gradual securing of revenues. The 2022-2026 Business Plan incorporates the ESG Plan, aligned with the Sustainable Development Goals of the United Nations, which confirms the Group's mission to *"keep growing in RES acting as #SDGsContributor"*;
- in consideration of the completion of the agreement for the sale of ERG Hydro S.r.l. to ENEL Produzione, which took place on 3 January 2022 following the preliminary agreement finalised on 2 August 2021, the equity investment in ERG Hydro S.r.l. was entered as current assets;
- the company proceeded to check the presence of impairment indicators in compliance with the provisions of IAS 36 accounting standard; the tests carried out did not identify any items requiring attention regarding the tangible fixed assets or the intangible fixed assets or the equity investments and there were no write-downs made. With reference to the equity investment in ERG Hydro S.r.l., due to the sales agreement and a market value higher than the original carrying amount of the same, the Company recognised the restated equity investment in question in the financial statements for an amount of approximately EUR 19.9 million;
- 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.

The 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 Separate Financial Statements and the Consolidated Financial Statements.

During the year, regular contact was maintained with the Independent Auditors, both through formal meetings attended by the Company's administrative managers, and through informal contact maintained with the individual members of the Board and representatives of the Independent Auditors, for the 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 them with the Company Registry, also drawing up the periodic reports for the submission of the economic and financial position used to draw up the interim financial reports and the consolidated financial statements of ERG S.p.A. in accordance with the IAS/IFRS international accounting standards;
- 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 compliance of the Directors' Report with the law and issues a declaration on any significant errors. Therefore, the Board refers to the information provided by the Auditor in its report.

The Directors' Report includes also a description of the following:

- developments of the applicable regulatory framework in 2021, 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 significant events after the reporting date, including a reference to the impact of the war in Ukraine and the monitoring implemented by management for any critical events or impacts that the conflict could have on the Erg Group in particular with reference to credit risks, plant safety and business continuity.

The Notes to the Financial Statements 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 2022, expresses the opinion that *"the financial statements provide a true and accurate representation of the financial and economic position of ERG Power Generation S.p.A. at 31 December 2021, 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"*.

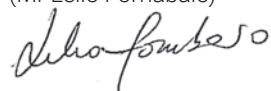
The Board of Statutory Auditors, within the scope of its responsibilities, acknowledging the results of the financial statements at 31 December 2021 and of the Independent Auditors' Report on said financial statements, has no objections with regard to approval of the financial statements and of the proposal for allocation of profit as indicated by the Directors in the Notes to the Financial Statements.

Genoa, 25 March 2022

The Board of Statutory Auditors

Chairman

(Mr Lelio Fornabaio)



Statutory Auditor

(Ms Luisella Bergero)



Statutory Auditor

(Mr Vincenzo Campo Antico)



AUDITORS' REPORT



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(This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

To the sole shareholder of
ERG Power Generation S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of ERG Power Generation S.p.A. (the "Company"), which comprise the balance sheet as at 31 December 2021, the profit and loss account and cash flow statement for the year then ended and notes thereto.

In our opinion, the financial statements give a true and fair view of the financial position of ERG Power Generation S.p.A. as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with the Italian regulations governing their preparation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report. We are independent of ERG Power Generation S.p.A. in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

As required by the law, the Company disclosed the key figures from the latest financial statements of the company that manages and coordinates it in the notes to its own financial statements. Our opinion on the financial statements of ERG Power Generation S.p.A. does not extend to such data.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Limited, società di diritto inglese.

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ERG Power Generation S.p.A.
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Responsibilities of the Company's directors and board of statutory auditors ("Collegio Sindacale") for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the Italian regulations governing their preparation and, in accordance with the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;



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- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The directors of ERG Power Generation S.p.A. are responsible for the preparation of the directors' report at 31 December 2021 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 2021 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 2021 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 2022

KPMG S.p.A.

(signed on the original)

Luisa Polignano
Director of Audit



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ERG S.p.A. - May 2022

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