Press Release

The Board of Directors approves the consolidated financial statements and the draft financial statements as at 31 December 2018

Consolidated adjusted[1] EBITDA: Euro 491 million, restated[2] Euro 472 million in 2017
Adjusted Group net result: Euro 107 million, restated Euro 117 million in 2017
Proposed dividend per share of Euro 0.75

Fourth quarter of 2018

Consolidated adjusted EBITDA: Euro 109 million, restated Euro 116 million in 4Q 2017
Adjusted Group net result: Euro 15 million, restated Euro 29 million in 4Q 2017

Genoa, 7 March 2019 – The Board of Directors of ERG S.p.A., which met yesterday, approved the consolidated financial statements, the draft financial statements as at 31 December 2018, the report on corporate governance and ownership, the consolidated non-financial statement and the remuneration report.

Consolidated adjusted financial results

4th Quarter			Performance highlights (million Euro)	Year		
2018	2017 restated	Var. %		2018	2017 restated	Var. %
109	116	-6%	EBITDA	491	472	4%
38	52	-27%	EBIT	216	220	-2%
15	29	-49%	Group net result	107	117	-9%

	31.12.18	31.12.17	Variation
Net financial debt (million Euro)	1,343	1,233	+110
Leverage[3]	42%	40%	

Luca Bettonte, ERG's Chief Executive Officer, commented: "**In 2018, alongside the completion of the Group's industrial transformation process, we saw a strong acceleration with respect to the growth objectives for renewables, owing to the acquisition of 89 MW in the Italian Solar Power sector and the increase of 55 MW in connection with the wind power pipeline development in France.**
EBITDA, at 491 million Euro, has increased compared to both 472 million Euro in 2017 and the beginning-of-year forecast of 475 million Euro, and is in line with June's upward revision of the guidance figure.
Overall the year has benefited from the contribution of new wind power and solar power capacity in France and Italy and the excellent performance by the hydroelectric power business, although the fourth quarter was characterised by reduced margins in the thermoelectric power sector, due above all to the lower valorisation of white certificates, and by poor wind conditions both in Italy and abroad.
The trend in electricity prices as regards the Group's reference markets has been generally positive.
Following development investments amounting to approximately 510 million Euro, the net debt of 1,343 million Euro is above the figure of 1,300 million Euro estimated at the beginning of the year, as a result of the said accelerations, but is consistent with June's revision of the guidance to 1,350 million Euro.
The Group is going ahead with implementation of the business plan, focusing on the development of the wind power sector through the overseas pipeline and on the Italian Repowering projects, having achieved ahead of schedule the photovoltaic objectives, thanks to the recent acquisition of an additional 51 MW, in a perspective of strong growth in European renewables as confirmed by the drafts of the National Energy and Climate Plans.
As regards 2019 we expect to see, ahead of time with respect to the Plan objectives, EBITDA ranging between 495 and 515 million Euro and a net debt between 1,360 and 1,440 million Euro, including investments which will total between 340 and 370 million Euro.
The Board of Directors will propose to the Shareholders' Meeting an ordinary dividend of 0.75 Euro per share, in keeping with the indications contained in the Business Plan."

[1] In order to facilitate the understanding of business performance, the financial results are shown excluding significant income components of a non-recurring nature (special items): these results are indicated using the term "adjusted". For a definition of the indicators and reconciliation of the amounts in question, reference is made to the specific section of this Press Release "Alternative Performance Indicators"

[2] For a definition and reconciliation of Restated amounts reference is made to the Preliminary Remarks section of this Press Release

[3] The ratio of total net financial debt (including project financing) to net invested capital

The Board of Directors proposes to the Ordinary Shareholders' Meeting, to be convened on 17 April 2019 in first call and, if required, on 18 April 2019 in second call, the distribution of a dividend per share of 0.75 Euro, which will be available for payment starting from 22 May 2019 (payment date), with an ex-dividend date as of 20 May 2019 (ex-date) and record date of 21 May 2019 .

Preliminary remarks

Restated comparative data

The sale of TotalErg, completed on 10 January 2018, marked the definitive exit from the OIL industry on the part of the ERG Group, whose business starting from 2018 thus exclusively concerns the market for the generation of electricity from renewable sources. The comparison of 2018 results with those for the corresponding periods in 2017 is therefore affected by this variation in scope: consequently, in order to facilitate the understanding of performance and comparison of results during the two periods, and bearing in mind the Group's new strategic and industrial positioning, the comparative financial data for 2017 have been modified, excluding the adjusted results[4] pertaining to the TotalErg joint venture which were previously consolidated using the equity method and stated at the line "Net income (loss) from equity investments". In 2017 this contribution was positive by Euro 24 million.

Starting from 1 January 2018 accounting standard **IFRS 15 – Revenue from Contracts with Customers** has been applied, without significantly impacting the Group's Consolidated Financial Statements. More specifically, for some contracts ERG has been identified as "agent", providing for net revenue amounts to be reported showing just the total income.

Financial highlights	FY 2017	*Deconsolidation of TotalErg*	*IFRS 15 reclassifications*	*Special items*	FY 2017 restated
Revenues from ordinary operations	1.056	*(0)*	*(9)*	*0*	1.048
Adjusted EBITDA	**472**	***(0)***	***0***		**472**
Adjusted ABIT	**220**	***(0)***	***0***	***0***	**220**
Net result	207	*(90)*	*0*	*(9)*	108
Of which Group net result	207	*(90)*	*0*	*(9)*	108
Adjusted Group net result	**142**	***(24)***	***0***	***0***	**117**

Change in business perimeter during 2018

Wind power

During the first quarter of 2018, through its subsidiary ERG Eolienne France SAS, ERG finalised its acquisition from **Vent d'Est SAS** of a 75% equity stake in two companies owners of two wind farms with an overall capacity of 16.25 MW (Parc Eolienne de la Voie Sacrée SAS – 12.0 MW, which came on stream in 2007, and Parc Eolienne d'Epense SAS – 4.25 MW, which came on stream in 2005). The companies were consolidated from 1 January 2018. Subsequently, on **August 2nd**, the ERG Group acquired from Renvico France SAS the remaining 25% equity interest.

On **7 March 2018**, following the sale process launched at the end of 2017, ERG sold to the fund Greencoat UK Wind PLC a 100% equity stake in its subsidiary **Brockaghboy Windfarm Ltd** ("BWF"), an English company owner of a 47.5 MW wind farm constructed in Northern Ireland, in the county of Londonderry, by ERG and TCI Renewables Ltd. The overall cash-in for ERG thus amounted to around GBP 95 million (106 million Euro) of which about GBP 70 million (76 million Euro) fully covered the investments made by ERG to acquire the project and build the wind farm.

The sale of the assets on 7 March 2018 implied:

- a reduction of Euro 106 million in net financial debt in relation to the net sale price;
- the recognition of a realised capital gain amounting to Euro 27 million. The capital gain and other Income Statement components associated with the sale of the investment are considered special items and are therefore not included in the "Adjusted Group net result".

[4] Net of special items and inventory gains (losses)

We mention that in the Notes to the Consolidated Financial Statements for both FY 2017 and FY 2018, in consideration of the sale process, the accounting results pertaining to the assets being sold have been indicated separately, in accordance with the requirements laid down by IFRS 5.
As regards the Management Report, the final results from the sold assets for the period 1 January 2018 – 7 March 2018 have been shown under ordinary operations, in keeping with the approach already adopted for the 2017 Annual Report.

On **6 April 2018,** through its subsidiary ERG Power Generation S.p.A., ERG signed an agreement with Impax New Energy Holding Cooperatief W.A., a Dutch company owned by Impax New Energy Investors II, regarding the acquisition of:

- Parc Eolien du Melier SAS, owner of an 8 MW wind farm. The wind farm is entitled to benefit from the 2014 feed-in-tariff (FIT) for a period of 15 years following its coming on stream, which took place in November 2016;
- Parc Eolien de la Vallée de Torfou SAS, owner of an 18 MW wind farm under construction, with an estimated average output of 48 GWh, which came on stream at the end of 2018. The wind farm will benefit from the 2014 FIT for a period of 15 years;
- Epuron Energies Renouvelables SAS, which owns a pipeline of approximately 750 MW.

In terms of Enterprise Value, the total price recognised as at 31 December 2017 amounted to 57 million Euro, of which around 17 million Euro pertaining to the Project Financing outstanding as at 31 December 2017. The companies have been consolidated since 30 June 2018.

Solar power

On **12 January 2018** ERG completed the acquisition of 30 photovoltaic plants, which came on stream between 2010 and 2011 and are located in 8 regions across Northern and Southern Italy, with an installed capacity of 89 MW and annual output of around 136 GWh.
The entire installed capacity is eligible for incentives, with an average expiry date of 2030. The transaction's enterprise value amounted to around Euro 335 million. As at the date of acquisition, the assets were funded through non-recourse project financing for the amount of approximately Euro 180 million and leasing contracts amounting to around Euro 60 million.

Sale of investment in TotalErg

On **10 January 2018**, following approval by the Antitrust authority and completion of the spin-off of the TotalErg S.p.A. business unit operating in the lubricant sector in favour of Total Italia S.r.l., the transaction was finalised with the api Group concerning the sale of a 100% equity stake in TotalErg S.p.A., a company operating in oil product distribution and refining.
For a clearer understanding of the figures commented in this document, we particularly call attention to the following impacts:

- the reduction in net financial indebtedness by Euro 144 million in connection with the payment received in 2018;
- the recognition of the already commented receivable due from api S.p.A. in the amount of Euro 36 million. This receivable is included under financial debt insofar as it is a deferred component of the sale price.

There are no reported effects on the 2018 income statement since in the 2017 Consolidated Financial Statements the investment had already been measured in accordance with the requirements set forth by IFRS 5, thus recognising the economic impact of the transaction already during FY2017.

Fourth quarter 2018

Consolidated financial results

In the fourth quarter of **2018 revenues from ordinary operations** came to Euro 261 million, with a decrease compared to the corresponding period in 2017 (Euro 289 million) above all following the discontinuation of a major bilateral contract at the end of 2017 and the phase-out of incentives on part of the Italian production, partially offset by the higher volumes in the hydroelectric power sector within a situation of rising sales prices and the growth in output due to expansion of the managed asset portfolio, particularly as a result of entry into the solar power sector.

Adjusted EBITDA amounted to Euro 109 million, compared to Euro 116 million posted in the fourth quarter of 2017. The negative variation of Euro 7 million reflects the following:

Wind power (-14 million): EBITDA amounted to Euro 75 million, with a decrease compared to the corresponding period a year earlier (Euro 89 million) reflecting the less favourable wind conditions both in Italy and abroad. More specifically, the poorer results of the Italian wind farms (Euro -13 million) were also affected by the decrease in incentivised output (71% of the total compared to 78% in 2017), the lower unitary incentive value (99 Euro/MWh compared to 107 Euro/MWh), only partly offset by the positive price scenario on the energy markets. Results outside of Italy showed a downturn (Euro -1 million) due to the poorer wind conditions recorded, particularly in Germany and Poland, and following the sale of the UK plants at the beginning of 2018, partially offset by the increase in installed capacity in France and the more favourable scenario in Romania and Poland.

Solar Power (+4 million): EBITDA came to Euro 4 million, in line with forecasts, as regards the plants acquired from Forvei at the beginning of 2018, of which Euro 5 million for energy account revenues and Euro 1 million for market revenues, net of approximately Euro 1.5 million for overheads, mostly pertaining to operation & maintenance costs.

Hydroelectric Power (+8 million): EBITDA, at Euro 28 million (Euro 20 million in 2017), showed a strong growth compared to the fourth quarter of 2017. Performance was favourably impacted by the period's abundant water availability, together with the utilisation of reservoirs during the quarter.

Thermoelectric Power (-11 million): the result posted by thermoelectric power came to Euro 5 million, down by Euro 11 million compared to Euro 16 million in the fourth quarter 2017, due above all to the significantly less profitable trend in the clean spark spread, following the equally important increases in the price of CO2 and Gas, which were not fully reflected in the price of energy during the quarter.

Adjusted EBIT amounted to Euro 38 million (Euro 52 million in 2017) after amortisation and depreciation totalling Euro 71 million, up by Euro 7 million compared to 2017 (Euro 64 million) mainly following the new investments in Solar Power and the acquisition of wind farms in France during the course of 2018.

The **adjusted Group net result** was Euro 15 million, with a downturn compared to the restated result of Euro 29 million in 2017, reflecting the already commented operating results, the increase in amortisation and depreciation and higher financial charges, associated with the lower remuneration of liquid funds and the increase in debt connected with the investments carried out, despite a reduction in the average cost of debt compared to 2017, thanks to the conclusion of liability management transactions during the first six months of 2018.

The **Group net result** came to Euro 8 million (restated Euro 20 million in 2017), reflecting the already commented net operating results.

FY2018

Consolidated financial results

In 2018 **revenues from ordinary operations** came to Euro 1,027 million, showing a slight decrease compared to 2017 (Euro 1,048 million) above all following the discontinuation of a major bilateral contract at the end of 2017 and the phase-out of incentives on part of the Italian production, partially offset by the higher volumes in the hydroelectric power sector within a situation of rising sales prices and the growth in output due to expansion of the managed asset portfolio, particularly as a result of entry into the solar power sector.

Adjusted EBITDA, at Euro 491 million, showed an improvement compared to Euro 472 million posted in 2017. The positive variation of Euro 18 million reflects the following:

Wind Power (Euro -42 million): EBITDA amounted to Euro 274 million, with a downturn compared to the corresponding period a year earlier (Euro 316 million), reflecting the less favourable wind conditions both in Italy and abroad. More specifically, the poorer results of the Italian wind farms (Euro -46 million) were also affected by the decrease in incentivised output (72% of the total compared to 83% in 2017), the lower unitary incentive value (99 Euro/MWh compared to 107 Euro/MWh) and the increase in imbalance charges, only partly offset by the positive price scenario on the energy markets. Results outside of Italy showed an upturn (Euro +3 million) thanks to the increase in installed capacity in France and the more favourable scenario in Romania and Poland, despite the scarce wind conditions.

Solar Power (+32 million): EBITDA came to Euro 32 million, in line with forecasts, in connection with the plants acquired from Forvei at the beginning of 2018, of which Euro 30 million for energy account revenues and Euro 8 for market revenues, net of approximately Euro 6 million for overheads, mostly pertaining to operation & maintenance costs.

Hydroelectric Power (+53 million): EBITDA, at Euro 146 million (Euro 94 million in 2017), showed a strong growth compared to the previous year, which *inter alia* had benefited by Euro 8 million in connection with the recovery of prior incentives following the repeal of the revocation of the IAFR qualification for some plants. Performance was favourably impacted by the period's abundant water availability, particularly from March onwards, together with the utilisation of reservoirs during the year.

Thermoelectric Power (-26 million): the result posted by thermoelectric power came to Euro 53 million, down by Euro 26 million with respect to Euro 78 million in 2017, following above all the lower contribution to results from Energy Efficiency Certificates, which in 2017 had also benefited by around Euro 11 million from the revaluation of certificates accrued in 2016 and sold in 2017. The results were also affected by the significantly less profitable trend in the clean spark spread, following the equally important increases in the price of CO2 and Gas, which were not fully reflected in the price of energy during the year.

Adjusted EBIT amounted to Euro 216 million (220 million in 2017) after amortisation and depreciation totalling Euro 275 million, up by Euro 23 million compared to 2017 (Euro 252 million), mainly following the new investments in Solar Power and the acquisition of wind farms in France during the course of 2018.

The **adjusted Group net result** was Euro 107 million, with a downturn compared to the restated result of Euro 117 million in 2017, reflecting the already commented operating results, the increase in amortisation and depreciation and higher financial charges, associated with the lower remuneration of liquid funds and the increase in debt connected with the investments carried out, despite a reduction in the average cost of debt compared to 2017, thanks to the conclusion of liability management transactions during the first six months of 2018.

The **Group net result** came to Euro 133 million (restated Euro 108 million in 2017) and, in addition to the previously mentioned net operating results, also reflects the capital gain relating to the sale of Brockaghboy (Euro 27 million).

Net financial debt, at Euro 1,343 million, was up by Euro 110 million compared to 31 December 2017 (Euro 1,233 million). The variation reflects the period's investments (Euro 510 million), the distribution of dividends (Euro 171 million), the settlement of a debt position associated with OIL purchases in prior years (Euro 42 million) and the payment of taxes (Euro 21 million), largely offset by the positive cash flow during the period and the payments received for the sale of TotalErg (Euro 180 million) and Brockaghboy (Euro 106 million).

Investments

The breakdown of investments by sector is set out in the following table:

4th Quarter		Million Euro	Year	
2018	**2017**		**2018**	**2017**
17	9	Wind Power	146	75
0	-	Solar Power	345	-
4	4	Thermoelectric Power	8	10
4	3	Hydroelectric Power	7	6
1	1	Corporate	3	3
26	**17**	**Total investments**	**510**	**94**

Investments **in the fourth quarter of 2018** amounted to Euro 26 million (Euro 17 million in the fourth quarter of 2017) and mainly refer to the development of new wind farms in France (Vallée de l'AA and Torfou) and Germany (Windpark Linda).

Investments in **FY2018** totalled **Euro 510 million** (Euro 94 million in 2017) and mainly concern the purchase of solar power plants in Italy (Euro 345 million Euro), the French wind power companies acquired from Impax New Energy, consolidated from 30 June 2018 (Euro 67 million), the acquisition of two wind farms in France (Euro 14 million) and the company Creag Riabhach Wind Farm Ltd (Euro 23 million), holder of authorisations for the construction of a wind farm in Scotland. Moreover, during 2018 investments were carried out **in property, plant and equipment and intangible assets amounting to Euro 60 million** of which 70% in the Wind Power sector (65% in 2017), primarily connected with the development of new wind farms in France (Vallée de l'AA and Torfou) and Germany (Windpark Linda), 14% in the Thermoelectric Power sector (18% in 2017), 11% in the Hydroelectric Power sector (12% in 2017) and 5% in the Corporate sector (5% in 2017), mostly with reference to the ICT area.

Wind Power: investments (Euro 146 million) concern above all the two wind farms acquired in France (Euro 14 million), the acquisition of the French wind power companies from Impax New Energy (Euro 67 million) and acquisition of the company Creag Riabhach Wind Farm Ltd, holder of authorisations to construct a wind farm in Scotland (Euro 23 million Euro). Overall investments also include investments in property, plant and equipment and intangible fixed assets amounting to Euro 42 million, primarily connected with the development of the new wind farms in France (Vallée de l'AA and Torfou) and Germany (Windpark Linda).

Solar Power: investments concern the acquisition of 30 photovoltaic plants, which came on stream between 2010 and 2011 and are located in 8 regions across Northern and Southern Italy, with an installed capacity of 89 MW and annual output of around 136 GWh. The entire installed capacity is eligible for incentives, with an average expiry date of 2030. The transaction's enterprise value amounted to approximately Euro 345 million.

Hydroelectric Power: investments in hydroelectric power, amounting to Euro 7 million, refer above all to maintenance contracts and projects scheduled with regard to the seismic enhancement of infrastructures and in the area of Health, Safety and the Environment.

Thermoelectric Power: the investments (Euro 8 million) primarily concern ERG Power's CCGT facility, which continued with its initiatives aimed at maintaining the plants' operational efficiency, flexibility and reliability. Moreover, the scheduled interventions went ahead in the area of Health, Safety and the Environment.

Operational Data

Electricity sales by the ERG Group, carried out in Italy through ERG Power Generation S.p.A.'s Energy Management, refer to the electricity generated by its wind farms and its thermoelectric, hydroelectric and solar power plants, and to purchases on organised markets and via physical bilateral contracts.

In the **fourth quarter of 2018**, sales of electricity totalled 3.4 TWh (3.1 TWh in 2017), against an overall output by ERG Group facilities of approximately 1.8 TWh (2.0 TWh in 2017), of which around 0.4 TWh abroad and 1.4 TWh in Italy. The latter figure represents about 1.7% of overall domestic electricity demand (1.9% in 2017).

During 2018, overall sales of electricity amounted to 13.6 TWh (11.7 TWh in 2017), against a total of around 7.5 TWh (7.2 TWh in 2017) produced by the Group's facilities, of which approximately 1.5 TWh abroad and 6.0 TWh in Italy. The latter figure represents about 1.9% of overall domestic electricity demand (1.8% in 2017).

Electricity sold wholesale includes sales on the IPEX power exchange, in both the "Day-ahead Market" (*MGP*) and the "Intraday Market" (*MI*) and in the "Ancillary Services Market" (*MSD*), as well as sales to leading sector operators using the "over the counter" (OTC) platform. The latter are carried out by Energy Management with a view to developing forward contracting activities also for the purpose of hedging generation, in line with the Group's risk policy.

In the fourth quarter of 2018 steam sales[5] carried out amounted to 239 thousand tonnes (162 thousand tonnes in the corresponding period of 2017); in FY2018 sales totalled 737 thousand tonnes, in keeping with the previous year.

The following table shows the breakdown of output by sector:

[5] Steam supplied to end users net of the steam quantities withdrawn by the same and pipeline leaks.

4th quarter 2018	2017	Δ	Δ%	Electricity output (GWh)	Year 2018	2017	Δ	Δ%
955	1,081	-127	-12%	Wind power output	3,464	3,613	-150	-4%
522	*594*	*-72*	*-12%*	*- Italy*	*2,012*	*2,117*	*-105*	*-5%*
433	*487*	*-55*	*-11%*	*- Overseas*	*1,452*	*1,496*	*-45*	*-3%*
20	n.a.	20	n.a.	Solar power output	130	n.a.	130	n.a.
338	260	78	30%	Hydroelectric power output	1,740	1,144	595	52%
506	641	-135	-21%	Thermoelectric power output	2,151	2,453	-302	-12%
1,819	1,982	-163	-8%	ERG plants total output	7,484	7,211	273	4%

With regard to output in the **fourth quarter of 2018** we particularly report the following:

Wind Power: electricity generated from wind power totalled 955 GWh, with a falloff compared to the corresponding period in 2017 (1,081 GWh), reflecting downturns of around 12% in Italian output (from 594 GWh to 522 GWh) and 11% abroad (from 487 GWh to 433 GWh).
The decrease in production by Italian plants (-72 GWh) reflects the poorer wind conditions compared to those recorded in 2017 as regards essentially all regions, with the exception of Sicily.
Outside of Italy, the decrease of 55 GWh is ascribable to the lower output in Germany (-28 GWh) and Eastern Europe (-19 GWh), partly mitigated by the increase in French production (+23 GWh) which also benefited from about 20 GWh contributed by the French plants recently acquired (Vent d'est and the former Epuron) or that became commercially operational during the last quarter of the year.

Solar Power: output amounted to around 20 GWh, with a load factor of 10%.

Hydroelectric Power: ERG Hydro's output totalled 338 GWh, with a significant growth over the corresponding period in 2017 (260 GWh) owing to the abundant water availability and the management of reservoir levels.

Thermoelectric Power: ERG Power's net electricity output amounted to 506 GWh, with a downturn compared to the corresponding period in 2017 (641 GWh) in the presence of a less favourable market situation characterised by a decline in net generation margins, following the progressive growth in CO_2 and natural gas prices during the period not yet fully reflected in the sales prices. This falloff in output also reflects the maintenance shutdown that took place at the end of the year.

In FY2018:

Wind Power: wind power **electricity output** totalled 3,464 GWh, with a slight falloff compared to the corresponding period in 2017 (3,613 GWh), reflecting downturns of approximately 5% in Italian output (from 2,117 GWh to 2,012 GWh) and 3% outside of Italy (from 1,496 GWh to 1,452 GWh).
The decrease in production by Italian plants (-105 GWh) reflects the poorer wind conditions compared to those recorded in 2017 as regards essentially all regions, with the exception of Sicily.
Outside of Italy, the decrease of 45 GWh is ascribable to the lower output in Eastern Europe (-73 GWh) compared to the particularly high productions recorded in 2017 and in Germany (-31 GWh), partly mitigated by the increased output in France (+60 GWh) which also benefited from about 44 GWh contributed by the French plants recently acquired (Vent d'est and the former Epuron) or that became commercially operational during the last quarter of the year.

Solar Power: output amounted to around 130 GWh, with a load factor of 16%.

Hydroelectric Power: ERG Hydro's output amounted to 1,740 GWh, with a notable increase compared to 2017 (1,144 GWh), owing to the abundant water availability and the management of reservoir levels.

Thermoelectric Power: ERG Power's net electricity output amounted to 2,151 GWh, with a downturn compared to the corresponding period in 2017 (2,453 GWh) in the presence of a less favourable market situation characterised by a decline in net generation margins, following the progressive growth in CO_2 and natural gas prices during the period not yet fully reflected in the sales prices. This trend was in line with the more general trend recorded in Italy for the entire thermoelectric sector.

The net supply of steam to captive customers of the Priolo Gargallo petrochemical site came to 737 thousand tonnes, in line with the figure recorded in 2017.

Main events in 2018

Wind Power

On **12 January 2018**, through its subsidiary ERG Windpark Beteiligungs GmbH, ERG acquired a 100% equity stake in Windpark Linda GmbH & Co. KG, holder of authorisations for the construction of a wind farm in Germany with a capacity of 21.6 MW and annual output when fully operational estimated at around 50 GWh (see PR 15/1/2018).
On **7 March 2018** a 100% equity interest in Brockaghboy Windfarm Ltd was sold to the fund Greencoat UK Wind PLC (see PR 8/3/2018).
On **21 March 2018**, through its subsidiary ERG Eolienne France SAS, ERG acquired from Vent d'Est SAS a 75% equity interest in two companies owners of two wind farms in France with an overall capacity of 16.25 MW (see PR 22/3/2018).
On **6 April 2018**, through its subsidiary ERG Power Generation S.p.A., ERG executed an agreement with Impax New Energy Holding Cooperatief W.A. regarding the acquisition in France of two wind farms (26 MW) and a pipeline of approximately 750 MW. The transaction closing was completed on 15 May 2018 (see PR 6/4/2018).
On **27 April 2018**, through its subsidiary ERG Eolienne France SAS, ERG executed an agreement with Global Wind Power France regarding the acquisition of a 100% equity interest in WP France SAS, the holder of rights, permits and authorisations for a 6.9 MW wind farm project in France (see PR 27/4/2018).
On **18 May 2018** ERG, through its subsidiary Windpark Linda GmbH & Co. KG, holder of authorisations for the construction of a wind farm in Germany, having successfully participated in the auction held on 1 May last dedicated to the on-shore wind power sector, was assigned 21.6 MW of new wind power (see PR 18/5/2018).
On **1 August 2018** ERG acquired a 100% equity interest in **Creag Riabhach Wind Farm Ltd**, a company incorporated under Scottish law, holder of authorisations for the construction of a wind farm in Scotland (see PR 3/8/2018).
On **3 August 2018** ERG acquired the remaining 25% equity interest in two companies owners of two wind farms in France with an overall capacity of 16.25 MW; this followed the 75% stake already purchased from Vent d'Est SAS in March 2018 (see PR 3/8/2018).

Solar Power

On **12 January 2018**, through its subsidiary ERG Power Generation S.p.A., ERG acquired from VEI Green S.r.l. - an investment holding company controlled by PFH S.p.A., with the participation of leading Italian institutional investors – a 100% stake in ForVei S.r.l., the ninth largest photovoltaic operator in Italy with a total installed capacity of 89 MW (see PR 12/1/2018).
On **3 August 2018** ERG signed an agreement with Quercus for the creation of a public limited company, ERG Q Solar1, under the joint ownership of Erg (60%) and the sub-fund Quercus Italian Solar Fund (40%), with the objective of consolidating the Italian photovoltaic market (see PR 3/8/2018).

Thermoelectric Power

On **25 October 2018** ERG S.p.A., through its subsidiary ERG Power Generation S.p.A., and E.ON Energia S.p.A signed a framework agreement for the three-year supply of electricity destined for the Italian market, which may be renewed for an additional year. The agreement provides for ERG to supply E.ON with an overall volume of electricity up to approximately 3TWh during the three years 2019-21, to meet the needs of customers who are increasingly sensitive to the issue of environmental sustainability. Under the agreement, ERG may supply the quantities of electricity requested by E.ON to cover its customers' hour-by-hour requirements (see PR 25/10/2018).

Corporate

On **10 January 2018** ERG sold a 51% shareholding in TotalErg S.p.A. and a 51% stake in Total Italia S.r.l. Conclusion of the transaction followed approval by the competent Antitrust Authority and completion of the spin-off of the TotalErg S.p.A. business unit in favour of Total Italia S.r.l. (see PR 10/1/2018).
On **7 and 8 March 2018** ERG's Board of Directors approved the 2018-2022 Strategic Plan, which was then presented to the Financial Community (see PR 8/3/2018).
On **23 April 2018** the ERG S.p.A. Shareholders' Meeting appointed the new Board of Directors, confirming Edoardo Garrone as Chairman and resolving to pay a dividend of 1.15 Euro per share, including an extraordinary component of 0.40 Euro. ERG's Board of Directors confirmed Alessandro Garrone as

Executive Deputy Chairman, Giovanni Mondini as Deputy Chairman and Luca Bettonte as Chief Executive Officer (see PR 23/4/2018).

On **20 October 2018,** to mark the celebration of ERG's 80th anniversary, the parent company San Quirico S.p.A. and ERG S.p.A. signed an agreement providing for the gratuitous assignment of 80 ERG treasury shares in favour of each employee of the ERG Group's Italian companies, the cost of which (including the value of ERG's treasury shares) will be fully reimbursed by the aforesaid San Quirico S.p.A., the Garrone and Mondini families' holding company.

The assignment, finalised in January 2019, will concern an overall maximum number of 675 employees and 54,000 shares, currently held in the Company's portfolio, and will have an estimated total value of approximately 1.1 million Euro.

ERG also decided to allocate to the employees of all the Group's companies an extraordinary award in the amount of 1,500 Euro which, as regards the overseas company employees, will be increased by a sum corresponding to the value of the shares assigned to individual Italian company employees. The overall amount of this award is estimated at around 1.2 million Euro (see PR 20/10/2018).

Again as part of ERG's 80th anniversary celebrations, the Group offered to donate a contribution of 1 million Euro to the Municipality of Genoa towards the requalification and sustainable development projects in Valpolcevera following the collapse of the Morandi bridge.

On **20 November 2018** two senior unsecured medium-term Environmental Social and Governance loan agreements ("ESG Loans") were signed, each for the amount of up to 120 million Euro, respectively with Credit Agricole Corporate and Investment Banking ("CACIB") and BNL - BNP Paribas Group (see PR 20/11/2018).

On **19 December 2018** a programme was finalised for non-convertible medium/long-term bond issues (Euro Medium Term Notes Programme - EMTN) up to the overall maximum amount of Euro 1,000 million (see PR 19/12/2018).

Significant events after the year end

Wind Power

On **15 January 2019** the commissioning phase was completed for Parc Eolien de la Vallée de Torfou (17.6 MW - estimated average annual output 47 GWh), a wind farm forming part of the 768 MW of assets under construction and being developed by Epuron (acquired last year - see PR 6/4/2018), and Parc Eolien Vallée de l'Aa 2 (13.2 MW - estimated average annual output 29 GWh), corresponding to an overall total of around 45,000 t of avoided CO2 emission per year (see PR 15/1/2019).

Solar Power

On **11 January 2019** a 78.5% stake in Perseo S.r.l., 100% owner of Andromeda PV S.r.l., a company that in turn manages two photovoltaic power facilities with an overall installed capacity of 51.4 MW, was purchased by Soles Montalto Gmbh.

It was also stipulated that Soles Montalto GmbH will remain a minority quotaholder, based on a quotaholders' agreement granting ERG complete industrial control of the asset and its full consolidation (see PR 11/1/2019). The transaction closing took place on 12 February 2019.

Corporate

On **14 January 2019** the gratuitous assignment was completed of 80 ERG treasury shares in favour of each employee of the ERG Group's Italian companies, the cost of which (including the value of ERG's treasury shares) will be fully reimbursed by the parent San Quirico S.p.A., holding company of the Garrone and Mondini families (see PR 14/1/2019). The assignment, announced on 20 October last (*see PR of the same date*), concerned approximately 664 employees and 53,120 shares, held in ERG S.p.A.'s portfolio, with an overall value, including related ancillary costs, of 1.1 million Euro.

On **4 February 2019** ERG ranked 16th place in the "Corporate Knights Global 100 Most Sustainable Corporations in the World Index" published by the Canadian company Corporate Knights. With a score of 75.39%, ERG is the leading Italian company, as well as the only one included among the Top 50 (see PR 4/2/2019).

Business outlook

Set out below is the foreseeable trend in the main scenario and performance indicators during 2019.

Wind Power: ERG continues to pursue its international development strategy in the Wind Power sector; outside of Italy, in particular, a growth is anticipated owing to the full contribution from the Melier (8 MW),

Torfou (17.6 MW) and Vallée de l'Aa (13.2 MW) wind farms in France, which came on stream during 2018, and the scheduled coming on stream of the Linda wind farm (21.6 MW) in Germany. Regarding Italy, in keeping with the forecasts contained in the 2018 – 2022 Business Plan, a slight downturn in EBITDA is expected due to the lower incentive price, the value of which is determined based on the average price of electricity recorded in 2018, together with the progressive exit from the incentive system during the year of around 32 MW and the absence throughout 2019 as regards the 72 MW that left during 2018.
Generally speaking, the Wind Power sector is therefore expected to post a slight upturn in overall EBITDA, compared to the previous year.

Solar Power: In 2019 ERG has increased its presence in the Solar Power sector via the acquisition of ANDROMEDA (51 MW), further enhancing its technological diversification strategy. Moreover, due to the significant size achieved (approximately 140 MW) also following the acquisition in 2018 of FORVEI (89 MW), it will be possible to expand and optimise Energy Management's portfolio and capitalise on industrial skills in the operational consolidation of assets.
For FY2019 EBITDA is expected to double with respect to 2018 (Euro 32 million).

Hydroelectric Power: Regarding this asset, a decrease in results is anticipated compared to those posted in 2018 which had benefited from volumes significantly above the historical averages, together with a lower incentive price for which around 40% of output is eligible; the forecast decrease in volume will be accompanied by interventions to optimise Energy Management's production on the spot and ancillary services markets.
Hydroelectric Power is therefore expected to post a downturn in EBITDA with respect to the all-time highs recorded in 2018.

Thermoelectric Power: During 2019, ERG will continue to improve the operating efficiency of its CCGT plant, also following the scheduled shutdown that took place in November/December 2018. Notwithstanding the less favourable price scenario, thanks to the recovery of operational efficiency and Energy Management's activity on the spot and ancillary services markets EBITDA is expected to be in line with 2018.

Therefore, for FY2019 overall EBITDA is forecast within a range of between 495 and 515 million Euro, with an upturn compared to 2018 (Euro 491 million), despite the anticipated decline in volumes as regards the Hydro sector, the decreasing incentivised perimeter in the Italian Wind Power sector and the lower incentive price on incentivised volumes as regards both the Wind and Hydro sectors. These effects are more than offset by the contribution of the new Solar Power assets as well as, to a lesser extent, the new overseas Wind farms, and by operating efficiency and energy management interventions.
FY2019 investments are expected to be in a range of between 340 and 370 million Euro, less than in 2018 when some investments previously scheduled for 2019 were brought forward.
ERG's cash generation will make it possible to limit the increase in debt to between 1.36 and 1.44 billion Euro (Euro 1.34 billion in 2018), partially offsetting investments during the period, as well as the distribution of an ordinary dividend of €0.75 per share and the payment of financial charges.

Additional information

Appointment of the new Board of Statutory Auditors

The Ordinary Shareholders' Meeting will be called upon, *inter alia*, to pass resolution regarding the appointment of members to the Board of Statutory Auditors and the Chairman and the fixing of their retribution on the basis of proposals formulated in accordance with applicable legislative, regulatory and statutory provisions.

Directors' Fees

The Ordinary Shareholders' Meeting will be called upon, *inter alia*, to pass resolution with regard to the fee to be allocated to each member of the Board of Directors, valid until the date of the Shareholders' Meeting convened to approve the Annual Financial Statements for the period ending 31 December 2019, as well as the additional fee to be allocated to the Directors, other than Group employees, who do not hold offices within the Board and who are members of ERG's Control and Risk Committee and Nominations and Remuneration Committee, valid until the date of the Shareholders' Meeting convened to approve the Annual Financial Statements for the period ending 31 December 2019, on the basis of proposals formulated in accordance with applicable legislative, regulatory and statutory provisions.

Purchase and sale of treasury shares

The Ordinary Shareholders’ Meeting will be called upon, *inter alia*, to resolve on the authorisation of the Board of Directors for the purchase of treasury shares up to a revolving limit of 30,064,000 ordinary shares, corresponding to 20% of ERG's share capital (intending thereby the maximum quantity of treasury shares from time to time held in portfolio), subject to revocation, insofar as concerns the period still remaining, of the previous authorisation approved by the Shareholders’ Meeting on 23 April 2018, in order to optimise the equity structure with a view to maximising value creation for shareholders, also in relation to the significant liquidity available and in any case for any and all other purposes permitted by the current applicable legislative and regulatory provisions.
The authorisation will be valid for a period of twelve months with effect from the date of the resolution. The purchase must be conducted through the use of distributable profits and available reserves resulting from the last approved financial statements, in compliance with Article 132 of the Consolidated Finance Act and according to the procedures laid down in Article 144-*bis*, paragraph 1, letter b), of the Issuers’ Regulations, at a unitary price, including additional purchase charges, to be no more than 30% lower in minimum and no more than 10% higher in maximum with respect to the reference price recorded by the share during the stock exchange session on the day before each individual transaction. The Company currently holds 1,450,080 treasury shares, for an amount corresponding to 0.965% of share capital. The Ordinary Shareholders’ Meeting will be also called upon to resolve on the authorisation of the Board of Directors for the sale of treasury shares, in one or more stages, for a period of twelve months starting from the date when the related resolution is adopted, subject to revocation, insofar as concerns the period still remaining, of the previous authorisation approved by the Shareholders’ Meeting on 23 April 2018, in accordance with article 2357-*ter* of the Italian Civil Code, at a unitary price no more than 10% lower in minimum with respect to the reference price recorded by the share during the stock exchange session on the day before each individual sale. This is intended to optimise financial leverage and however in all other circumstances where the possibility to dispose of the shares appears, in the opinion of the administrative body, to be in keeping with the interests of the Company and the Shareholders.

Remuneration Report
The Ordinary Shareholders' Meeting will be required to pass resolution pursuant to Article 123-*ter* of the Consolidated Finance Act regarding the Remuneration Report, as approved by the Board of Directors in their meeting on 6 March last.

ERG Group consolidated non-financial Statement
The Board of Directors has approved the ERG Group consolidated non-financial Statement at 31 December 2018. The following important results emerged as having been achieved with regard to various aspects of sustainability:
- CO_2 avoided amounted to 3 million tonnes;
- the ERG Group’s energy production carbonisation factor has dropped to 0.14kgCO_2/MWh with a 42% reduction during the last four years;
- 90% of indirect energy consumption (to support facilities in the absence of own production) has been covered using “green” energy supply;
- more than 99% of employees are hired on a permanent basis, with a percentage of female employment exceeding 20% at Group level and 42% at the Genoa headquarters;
- each employee has, on average, taken part in 5.9 training days of which approximately 83% concerned technical and managerial refresher courses (so-called investment in training);
- a Human Rights Policy has been adopted, whereby the ERG Group has formalised its commitment to promote observance of human rights, equal opportunities and procedures for an open and transparent relationship with stakeholders, which have always formed part of ERG’s DNA and way of doing business.

In reference to the estimates and forecasts contained in this press release, we point out that actual results may differ even significantly from the announced results due to a multitude of factors, including: future trends in prices, the operating performance of plants, conditions with regard to wind, water availability and radiation, the impact of regulations for the oil and energy industry and for the environment, other changes in business conditions and in the action of the competition.

The layout of the accounting statements corresponds to the format used in the Report on Operations. Appropriate explanatory notes illustrate the adjusted results.

Pursuant to Article 154-bis(2) of the Consolidated Finance Act, the manager responsible for preparing the company's financial reports, Paolo Luigi Merli, declares that the accounting information contained in this press release corresponds to the accounting documents, books and records.

The results for the fourth quarter and FY2018 will be explained to analysts and investors today at 11 a.m. (CET), during the course of a conference call and simultaneous webcast, which may be viewed by visiting the Company's website (www.erg.eu); the presentation will be available on the said website, in the "Investor Relations/Presentations" section, at the offices of Borsa Italiana S.p.A. and on the eMarket Storage authorised storage mechanism (www.emarketstorage.com) 15 minutes before the conference call.

This press release, issued at 7.45 a.m. (CET) on 7 March 2019, is available to the public on the Company's website (www.erg.eu) in the section "Media/Press Releases", at the offices of Borsa Italiana S.p.A. and on the eMarket Storage authorised storage mechanism (www.emarketstorage.com).

The annual Financial Report, together with the reports of the Board of Statutory Auditors and of the Independent Auditors, the consolidated non-financial Statement and the Directors' Explanatory Report, as well as the additional documents prescribed, will be made available to the public within the deadlines and according to the procedures laid down in the current regulations at the Company's registered office at Via De Marini 1, Genoa, and on the Company website (www.erg.eu) in the section "Corporate Governance/2019 Shareholders' Meeting", at the offices of Borsa Italiana S.p.A. and on the eMarket Storage authorised storage mechanism (www.emarketstorage.com).

Contacts:

Sabina Alzona Head of Media Relations - tel. + 39 010 2401804 mob. + 39 340 1091311 – salzona@erg.eu
Emanuela Delucchi IR Manager – tel. + 39 010 2401806 – e-mail: edelucchi@erg.eu - ir@erg.eu
Matteo Bagnara IR - tel. + 39 010 2401423 **-** e-mail: ir@erg.eu
www.erg.eu - @ergnow

Performance highlights

4th quarter 2018	4th quarter 2017 restated	(EUR million)		Year 2018	Year 2017 restated
		Main Income Statement data			
261	289	Revenues adjusted		1,027	1,048
109	**116**	**EBITDA adjusted**		**491**	**472**
38	**52**	**EBIT adjusted**		**216**	**220**
8	20	Net income		133	108
8	20	of which Group net income		133	108
15	**29**	**Group net profit (loss) adjusted** [(1)]		**107**	**117**
		Main Financial data			
3,172	**3,110**	**Net invested capital**		**3,172**	**3,110**
1,829	1,877	Shareholders' Equity		1,829	1,877
1,343	1,233	Total net financial indebtedness [(2)]		1,343	1,233
1,178	1,115	of which non-recourse Project Financing [(3)]		1,178	1,115
42%	40%	Financial leverage		42%	40%
42%	**40%**	**EBITDA Margin %**		**48%**	**45%**
		Operating data			
1,822	**1,814**	**Installed capacity at period end - wind farms**	*MW*	**1,822**	**1,814**
955	1,081	Electric power generation from wind farms	*milioni di KWh*	3,464	3,613
480	**480**	**Installed capacity - thermoelectric plants**	*MW*	**480**	**480**
506	641	Electric power generation from thermoelectric plants	*milioni di KWh*	2,151	2,453
527	**527**	**Installed capacity at period end - Hydoelectric plants**	*MW*	**527**	**527**
338	260	Electric power generation from hydroelectric plants	*milioni di KWh*	1,740	1,144
90	**n.a.**	**Installed capacity - solar plants**	*MW*	**90**	**n.a.**
20	n.a.	Electric power generation from solar plants	*milioni di KWh*	130	n.a.
3,409	**3,146**	**Total sales of electric power**	*milioni di KWh*	**13,627**	**11,747**
26	17	Investments [(4)]	*milioni di Euro*	510	94
737	**714**	**Employees at period end**	*Unità*	**737**	**714**
		Net unit revenues [(5)]			
124.4	138.1	Wind Italy	*Euro/MWh*	124.9	144.5
95.9	98.4	Wind Germany	*Euro/MWh*	94.5	96.4
88.4	87.1	Wind France	*Euro/MWh*	87.4	88.4
57.7	47.0	Wind Poland	*Euro/MWh*	63.5	45.1
83.5	62.2	Wind Bulgaria	*Euro/MWh*	74.8	64.0
74.0	59.4	Wind Romania	*Euro/MWh*	58.2	58.1
n.a.	n.a.	Wind UK	*Euro/MWh*	100.4	n.a.
283.9	n.a.	Solar	*Euro/MWh*	293.5	n.a.
114.1	116.7	Hydroelectrict power	*Euro/MWh*	106.6	110.3
37.3	43.5	Thermoelectric power	*Euro/MWh*	41.4	45.5

To enhance understanding of the Group's business performance, adjusted revenue and operating results are shown, therefore excluding special items. The restated comparative 2017 figures do not take account of the adjusted results of TotalErg, sold in January 2018.

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

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

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

(4) in property, plant and equipment and intangible assets. Including investments through Mergers & Acquisitions equal to EUR 449 million performed in 2018 for the acquisition of the companies of the ForVei Group (solar) and for the acquisitions of companies owning wind farms in France, Germany and the United Kingdom. In 2017, investments through Mergers & Acquisitions amounted to EUR 39.5 million for the acquisition of the DIF Group companies (wind) in Germany.

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

Performance highlights by segment

4th quarter 2018	4th quarter 2017 restated	(EUR million)	Year 2018	Year 2017 restated
		Revenues adjusted:		
109	126	Wind power	389	445
6	n.a	Solar	38	n.a
43	32	Hydroelectric power	194	137
102	130	Thermoelectric power [(1)]	405	464
11	8	Corporate	36	38
(11)	*(7)*	*Intra-segment revenues*	*(36)*	*(37)*
261	**289**	**Total revenues adjusted**	**1,027**	**1,048**
		EBITDA adjusted		
75	89	Wind power	274	316
4	n.a	Solar	32	n.a
28	20	Hydroelectric power	146	94
5	16	Thermoelectric power [(1)]	53	78
(3)	**(10)**	Corporate	(15)	(16)
109	**116**	**EBITDA adjusted**	**491**	**472**
		Amortisation, depreciation and write-downs		
(39)	(41)	Wind power	(159)	(160)
(9)	n.a	Solar	(24)	n.a
(15)	(15)	Hydroelectric power	(58)	(58)
(8)	(8)	Thermoelectric power [(1)]	(31)	(31)
(1)	(1)	Corporate	(3)	(3)
(71)	**(64)**	**Amortisation and depreciation adjusted**	**(275)**	**(252)**
		EBIT		
36	49	Wind power	115	156
(5)	n.a	Solar	8	n.a
14	6	Hydroelectric power	88	35
(3)	8	Thermoelectric power [(1)]	22	48
(4)	(11)	Corporate	(18)	(19)
38	**52**	**EBIT adjsuted**	**216**	**220**
		Investments [(2)]		
17	9	Wind power	146	75
0	n.a	Solar	345	n.a
4	3	Hydroelectric power	7	6
4	4	Thermoelectric power	8	10
1	1	Corporate	3	3
26	**17**	**Total investments**	**510**	**94**

[(1)] Includes residual contribution of smaller portfolios managed by Energy Management not attributable to individual businesses

[(2)] Includes investments in property, plant and equipment and intangible assets through Merger & Acquisition operations

Adjusted Income Statement

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

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

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

4th quarter			Year	
2018	**2017 restated**	*(EUR million)*	**2018**	**2017 restated**
260.6	288.8	Revenues from ordinary operations	1,026.7	1,047.6
5.9	3.5	Other revenues and income	22.8	10.6
266.6	**292.4**	**TOTAL REVENUES**	**1,049.5**	**1,058.1**
(93.8)	(107.1)	Costs for purchase and changes in inventory	(327.2)	(355.8)
(44.5)	(51.9)	Costs for services and other operating costs	(167.3)	(166.5)
(19.0)	(17.5)	Cost of labor	(64.3)	(63.4)
109.3	**115.9**	**EBITDA**	**490.6**	**472.3**
(71.4)	(64.1)	Amortisation, depreciation and write-downs of fixed assets	(274.8)	(252.2)
37.8	**51.8**	**EBIT**	**215.8**	**220.1**
(16.6)	(16.3)	Net financial income (expenses)	(69.7)	(65.6)
(0.2)	(1.3)	Net income (loss) from equity investments	(0.1)	(1.2)
21.0	**34.2**	**Profit before taxes**	**146.1**	**153.4**
(6.2)	(5.3)	Income taxes	(39.0)	(36.2)
14.9	**28.9**	**Profit for the period**	**107.1**	**117.2**
0.0	0.0	Minority interests	(0.1)	0.0
14.9	**28.9**	**Group's net profit (loss)**	**107.0**	**117.2**

Reclassified Statement of Financial Position

The reclassified statement of financial position contains the assets and liabilities of the financial statements, used to prepare 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.

Reclassified Statement of Financial Position	12/31/2018	12/31/2017
(EUR million)		
Fixed assets	3,273.6	3,260.8
Net working capital	179.3	150.0
Employees' severance indemnities	(5.8)	(6.4)
Other assets	291.7	278.7
Other liabilities	(567.0)	(573.0)
Net invested capital	**3,171.8**	**3,110.1**
Group Shareholders' Equity	1,828.8	1,877.5
Minority interests	0.0	0.0
Net financial indebtedness	1,343.0	1,232.7
Shareholders' equity and financial debt	**3,171.8**	**3,110.1**

Cash Flow:

4th quarter 2018	2017	(EUR million)	Year 2018	2017
109.3	115.9	EBITDA adjusted	490.6	472.3
(7.2)	3.7	Change in working capital	(114.0)	19.7
102.1	**119.7**	**Operative Cash Flow**	**376.6**	**492.1**
(25.9)	(19.2)	Investments on tangible and intangible fixed assets	(60.2)	(54.4)
-	-	Acquisition of companies *(business combination)*	(449.4)	(39.5)
-	(15.0)	Investments on financial fixed assets	-	-
-	78.0	TotalErg transaction	179.5	78.0
-	-	Sale net asset Brockahgboy	105.7	-
(0.4)	(2.4)	Divestments and other changes	(0.2)	(2.4)
(26.3)	**41.3**	**Cash Flow from investments**	**(224.5)**	**(18.2)**
(16.6)	(16.3)	Net Financial income (expenses)	(69.7)	(65.6)
(0.2)	0.1	Net income (loss) from equit investments	(0.1)	-
(16.8)	**(16.2)**	**Cash Flow from financial management**	**(69.8)**	**(65.6)**
(12.4)	**(7.9)**	**Cash flow from tax management**	**(20.5)**	**(23.2)**
-	-	Distribution of dividends	(171.1)	(74.4)
0.1	0.6	Other changes in shareholders' equity	1.4	13.9
0.1	**0.6**	**Cash Flow from Shareholders'equity**	**(169.7)**	**(60.5)**
(0.3)	**-**	**Change in scope of consolidation**	**(2.4)**	**-**
1,389.4	**1,514.1**	**Initial net financial indebtedness**	**1,232.7**	**1,557.2**
(46.4)	*(137.4)*	*Change in the period*	*110.3*	*(324.5)*
1,343.0	**1,376.7**	**Final net financial indebtedness**	**1,343.0**	**1,232.7**

Cash flow from operations in **2018** was a positive EUR 377 million, a decrease of EUR 116 million compared to the same period of 2017, primarily due to the settlement of a EUR 42 million debt in relation to oil purchases in previous years and working capital dynamics influenced by TotalErg's exit from group VAT consolidation scheme.

Cash flow from investments in 2018 is mainly linked to M&A activities and in particular the acquisition of ForVei (EUR 345 million), Vent d'Est SAS (EUR 14 million), the French companies acquired by Impax New Energy (EUR 67 million) and Creag Riabhach Wind Farm Ltd, owner of authorisations for the construction of a wind farm in Scotland (EUR 23 million), as well as investments in property, plant and equipment and intangible assets (EUR 60 million). A detailed analysis of investments in property, plant and equipment and intangible assets during the year made may be found in the specific section.
The cash flow from divestments is mainly linked to the sale of the investment in TotalErg and of the UK Brockaghboy wind farm.

Cash flow from financial management refers to interest accrued during the year.

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

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

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

Alternative Performance Measures

Definitions

On 3 December 2015 CONSOB issued Communication no. 92543/15, which transposes the Guidelines regarding the use and presentation of Alternative Performance Indicators in the context of regulated financial information, issued on 5 October 2015 by the European Securities and Markets Authority (ESMA). The Guidelines, which updated the CESR Recommendation on Alternative Performance Indicators (CESR/05 - 178b), aim to promote the usefulness and transparency of alternative performance indicators so as to improve their comparability, reliability and comprehensibility.
Some of the APIs used in this document are different from the financial indicators expressly provided for by the IFRS adopted by the Group.
These alternative indicators are used by the Group in order to facilitate the communication of information on its business performance as well as its net financial indebtedness.
Finally, in order to enhance understanding of the business segments' performance, the operating results are shown excluding special income items: these results are indicated with the term "Adjusted results".
Since the composition of these indicators is not regulated by the applicable accounting reporting standards, the method used by the Group to determine these indicators may not be consistent with the method used by other operators and so these might not be fully comparable.

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

- **Adjusted revenue** is revenue, as indicated in the Financial Statements, with the exclusion of significant special income components (special items);
- **EBITDA** is an indicator of operating performance calculated by adding "Amortisation, depreciation and impairment" to the net operating profit. EBITDA is explicitly indicated as a subtotal in the financial statements;
- **Adjusted EBITDA** is the gross operating margin, as defined above, with the exclusion of significant special income components (special items);
- **Adjusted EBIT** is the net operating profit, explicitly indicated as a subtotal in the Financial Statements, with the exclusion of significant special income components (special items);

- **EBITDA margin** is an indicator of the operating performance calculated by comparing the adjusted EBITDA to the Revenue from sales and services of each individual business segment;
- The **adjusted tax rate** is calculated by comparing the adjusted values of taxes and profit before tax;
- **Adjusted profit attributable to the owners of the parent** is the profit attributable to the owners of the parent, with the exclusion of significant special profit or loss components (special items), net of the related tax effects;
- **Investments** are obtained from the sum of investments in property, plant and equipment and intangible assets. Starting from the Report at 31 March 2018, they also include the carrying amount of the acquisitions of net assets within the scope of M&A transactions;
- **Net working capital** is the sum of inventories, trade receivables and trade payables;
- **Net invested capital** is the algebraic sum of non-current assets, net working capital, liabilities related to post-employment benefits, other assets and other liabilities;
- **Net financial indebtedness** is an indicator of the financial structure and is determined in accordance with CONSOB communication 15519/2006, also including the non-current loan to API S.p.A. (EUR 36 million) as a deferred component of the TotalErg sale price, as well as the non-current portion of assets relating to derivative instruments;
- **Financial leverage** is calculated by comparing total net financial liabilities (including Project Financing) to the net invested capital.
- The **special items** include significant atypical income items. These include:
    - income and expenses connected to events whose occurrence is non-recurring, i.e. those transactions or events that do frequently re-occur over the normal course of business;
    - income and expenses related to events that are not typical of normal business activities, such as restructuring and environmental costs;

- capital gains and losses linked to the disposal of assets;
- significant write-downs recorded on assets following impairment tests;
- income and the associated reversals recognised in application of IFRS 9, in relation to the restructuring of loans in place.

Reconciliation with adjusted operating results

4th quarter 2018	4th quarter 2017 restated	EBITDA	Notes	Year 2018	Year 2017 restated
101.5	***101.2***	**EBITDA from continuing operations**		***479.6***	***457.6***
0.0	*2.3*	*Contribution of discontinuing operation (Brockahgboy)*	*1*	*3.3*	*2.33*
101.5	***103.5***	**EBITDA**		***482.9***	***459.9***
		Exclusion Special items:			
		Corporate			
2.7	*12.0*	*- Ancillary charges - extraordinary operations*	*2*	*2.7*	*12.0*
5.1	*0.0*	*- ERG 80 celebration costs*	*3*	*5.1*	*0.0*
		Thermoelectric power			
0.0	*0.3*	*- Ancillary charges - extraordinary operations*		*0.0*	*0.3*
		Wind power			
0.0	*0.1*	*- Ancillary charges - extraordinary operations*		*0.0*	*0.1*
109.3	***115.9***	**Adjusted EBITDA**		***490.6***	***472.3***
		Amortization and depreciation and write-downs			
(71.4)	***(64.1)***	**Amortization and depreciation on continuing operations**		***(274.1)***	***(252.2)***
0.0	*0.0*	*Contribution of discontinuing operation (Brockahgboy)*	*1*	*(0.7)*	*-*
(71.4)	***(64.1)***	**Amortization and depreciation adjusted**		***(274.8)***	***(252.2)***
		Exclusion Special items:			
0.0	*0.0*	*- Special Items*		*0.0*	*0.0*
(71.4)	***(64.1)***	**Amortization and depreciation adjusted**		***(274.8)***	***(252.2)***
		Group's net Profit (loss)			
8.3	**19.6**	**Group's net Profit (loss)**		**132.6**	**107.9**
2.2	*9.3*	*Exclusion of ancillary charges on extraordinary operations*	*2*	*2.2*	*9.3*
4.4	*0.0*	*Exclusion of ERG 80 celebration costs*	*3*	*4.4*	*0.0*
0.0	*0.0*	*Exclusion of capital gain of Brockaghboy sale*	*4*	*(26.2)*	*0.0*
(0.0)	*0.0*	*Exclusion of net proceeds (IFRS 9) on refinancing*	*5*	*(6.0)*	*0.0*
14.9	***28.9***	**Adjusted Group Net Profit (loss)**		***107.0***	***117.2***

1. The results of Brockaghboy, the subsidiary sold on 7 March 2018, are subject to the requirements of IFRS 5.
   In this Report, to facilitate understanding of the figures, the results achieved in the period 1 January 2018 to 7 March 2018 by the assets sold are shown and commented on in ordinary operations, in line with the approach already adopted in the Directors' Report in the 2017 Annual Report and with the Interim Financial Report at 30 June 2018.
2. Ancillary charges relating to other operations of a non-recurrent nature and capitalised charges on holdings managed as ancillary charges on Group consolidated.
3. Charges related to the ERG Group's 80th anniversary celebrations.

4. The aforementioned sale of Brockaghboy resulted in the recognition of a capital gain of EUR 26 million, net of the related tax effects and other ancillary components, which for the purposes of this Report is considered a special item.

5. The Group renegotiated a number of loans during the year. IFRS 9 does not allow for the deferment of the economic effects of the renegotiation of loans on the residual life of the liability: this resulted in a net gain of approximately EUR 6 million being accounted for in 2018. For the purposes of clearer disclosure of the cost of net financial indebtedness, it was considered appropriate to show in the adjusted income statement financial expense related to the debt service payment, deferring the recognition of benefits of the renegotiation over the remaining term of the liability and not recognising them all in one immediate entry at the time of the amendment. The aforementioned adjustment relates primarily to the reversal of the aforementioned benefit net of the effects linked to the reversal of similar income relating to re-financing operations of previous years.

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

Income Statement (2018)

(EUR million)	Values in Consolidated Financial Statement	*Reversal of Broackaghboy IFRS 5 reclassification*	*Reversal of special items*	Consolidated Financial Statement adjusted
Revenues from ordinary operations	1,023.7	*2.9*	-	1,026.7
Other revenues and income	21.9	*0.9*	-	22.8
TOTAL REVENUES	**1,045.6**	***3.8***	**-**	**1,049.5**
Costs for purchase	(328.0)	*(0.0)*	-	(328.0)
Changes in inventory	0.7	-	-	0.7
Costs for services and other operating costs	(172.0)	*(0.6)*	*5.3*	(167.3)
Cost of labour	(66.8)	-	*2.5*	(64.3)
EBITDA	**479.6**	***3.3***	***7.8***	**490.6**
Amortisation, depreciation and write-downs of fixed assets	(274.1)	*(0.7)*	-	(274.8)
EBIT	**205.5**	***2.6***	***7.8***	**215.8**
Net financial income (expenses)	(61.4)	*(0.6)*	*(7.7)*	(69.7)
Net income (loss) from equity investments	(0.1)	*26.7*	*(26.7)*	(0.1)
Profit before taxes	**144.0**	***28.7***	***(26.6)***	**146.1**
Income taxes	(39.7)	*(0.2)*	*1.0*	(39.0)
Net result from continued operations	**104.3**	***28.4***	***(25.6)***	**107.1**
Net result from asset sold	28.4	*(28.4)*	-	-
Profit for the period before minorities	**132.8**	**-**	***(25.6)***	**107.1**
Minority interests	(0.1)	-	-	(0.1)
Group's net profit (loss)	**132.6**	**-**	***(25.6)***	**107.0**

Restated comparative data for 2017

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

- the aforementioned **sale of TotalErg** on 10 January 2018, which marked the ERG Group's definitive exit from the OIL industry. Since 2018, its business has therefore been focused exclusively on the market for the generation of energy from renewable sources. The comparison of the 2018 results with those of the same periods of 2017 is therefore affected by this change in scope. As such, in order to enhance understanding of the Group's performance in the two periods and in view of its new strategic and industrial positioning, comparative figures for 2017 were amended so as to exclude the adjusted results[6] of the TotalErg joint venture which had previously been measured using the equity method and reported in the line "Net gains (losses) on equity investments". In 2017, this contribution was positive in the amount of EUR 24 million.
- **IFRS 15 – Revenue from Contracts with Customers** has been applied from 1 January 2018, with no significant impact on the Group's consolidated financial statements. In particular, for some contracts ERG has been identified as an "agent", requiring the netting of certain operating costs thereby reducing revenue.

[6] *Net of special items and inventory gains (losses)*

The table below presents a summary of the above effects:

(EUR million)	Values in Consolidated Financial Statement	IFRS 15 reclassifications	Reversal of TotalErg IFRS 5 reclassification	Reversal of Brockaghboy IFRS 5 reclassification	Reversal of special items	Reversal of TotalErg IFRS 5 effects	Consolidated Financial Statement adjusted
Revenues from ordinary operations	1,053.6	(8.9)	-	2.9	-	-	1,047.6
Other revenues and income	10.6	-	-	-	-	-	10.6
TOTAL REVENUES	**1,064.1**	**(8.9)**	**-**	**2.9**	**-**	**-**	**1,058.1**
Costs for purchase	(355.8)	-	-	-	-	-	(355.8)
Changes in inventory	-	-	-	-	-	-	-
Costs for services and other operating costs	(182.0)	8.9	-	(0.6)	7.1	-	(166.5)
Cost of labour	(68.7)	-	-	-	5.3	-	(63.4)
EBITDA	**457.6**	**-**	**-**	**2.3**	**12.4**	**-**	**472.3**
Amortisation, depreciation and write-downs of fixed	(250.9)	-	-	(1.3)	-	-	(252.2)
EBIT	**206.7**	**-**	**-**	**1.1**	**12.4**	**-**	**220.1**
Net financial income (expenses)	(65.3)	-	-	(0.3)	-	-	(65.6)
Net income (loss) from equity investments	(1.2)	-	99.6	-	-	(99.6)	(1.2)
Profit before taxes	**140.2**	**-**	**99.6**	**0.8**	**12.4**	**(99.6)**	**153.4**
Income taxes	(33.0)	-	(0.6)	(0.1)	(3.1)	0.6	(36.2)
Net result from continued operations	**107.2**	**-**	**99.0**	**0.6**	**9.3**	**(99.0)**	**117.2**
Net result from asset sold	99.6	-	(99.0)	(0.6)	-	-	0.0
Profit for the period before minorities	**206.8**	**-**	**-**	**-**	**9.3**	**(99.0)**	**117.2**
Minority interests	-	-	-	-	-	-	-
Group's net profit (loss)	**206.8**	**-**	**-**	**-**	**9.3**	**(99.0)**	**117.2**

Annex to the press release of 07 March 2019

Management Report as at 31 december 2018

Introduction

This document is an annex supporting the press release of 07 March 2019 to provide further details and to comment the 2018 results of the ERG Group.

The comments provided are an excerpt from the Report on Operations which, together with the Notes to the Financial Statements, will be published within the times prescribed by current regulations.

Disclosure pursuant to Articles 70 and 71 of the Issuers Regulations

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

Alternative Performance Indicators (APIs) and adjusted results

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

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

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

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

Restated comparative data

- *The sale of **TotalErg** on 10 January 2018 marked the ERG Group's definitive exit from the OIL industry. Since 2018, its business has therefore been focused exclusively on the market for the generation of energy from renewable sources. The comparison of the 2018 results with those of the same period of 2017 is therefore affected by this change in scope. As such, in order to enhance understandability of the group's performance and comparability of the results in the two periods and in view of its new strategic and industrial positioning, comparative figures for the corresponding period of 2017 were amended so as to exclude the adjusted results[7] of the TotalErg joint venture which had previously been measured using the equity method and reported in the line "Net gains (losses) on equity investments". In 2017, this contribution was positive in the amount of EUR 24 million.*
- ***IFRS 15 – Revenue from Contracts with Customers** has been applied from 1 January 2018, with no significant impact on the Group's consolidated financial statements. In particular, for some contracts, ERG is identified as an "agent", requiring revenue to be presented at its net value to show only the brokerage margin.*

Main income statement data	2017	TotalErg deconsolidation	IFRS 15 Reclassifications	Special items	2017 restated
Revenue from sales and services	1,056	(0)	(9)	0	1,048
Adjusted EBITDA	**472**	**(0)**	**0**	**0**	**472**
Adjusted EBIT	**220**	**(0)**	**0**	**0**	**220**
Profit	207	(90)	0	(9)	108
of which attributable to the owners of the parent	207	(90)	0	(9)	108
Adjusted profit attributable to the owners of the parent	**142**	**(24)**	**0**	**0**	**117**

Operating segments

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

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

Risks and uncertainties in relation to the business outlook

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

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

[7] Net of special items and inventory gains (losses)

BOARD OF DIRECTORS[8]

CHAIRMAN
Edoardo Garrone (executive)

DEPUTY CHAIRMAN
Alessandro Garrone (executive[9])
Giovanni Mondini (non-executive)

CHIEF EXECUTIVE OFFICER
Luca Bettonte

DIRECTORS
Massimo Belcredi (independent[10])
Mara Anna Rita Caverni (independent[11])
Barbara Cominelli (independent[11])
Marco Costaguta (non-executive)
Paolo Francesco Lanzoni (independent[10])
Silvia Merlo (independent[11])
Elisabetta Oliveri (independent[11])
Mario Paterlini (independent[11])

BOARD OF STATUTORY AUDITORS[12]

CHAIRMAN
Elena Spagnol

STANDING AUDITORS
Lelio Fornabaio
Stefano Remondini

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

Paolo Luigi Merli

INDEPENDENT AUDITORS

KPMG S.p.A.[13]

[8] Board of Directors appointed on 23 April 2018.
[9] Director in charge of the Internal Control and Risk Management System
[10] With reference to the provisions of Article 148, paragraph 3 (Or: article 148.3), of the Italian Consolidated Finance Act.
[11] With reference to the provisions of Article 148, paragraph 3 (Or: article 148.3), of the Italian Consolidated Finance Act and the matters contained in the current Corporate Governance Code recommended by Borsa Italiana S.p.A.
[12] Board of Statutory Auditors appointed on 3 May 2016.
[13] Appointed on 23 April 2018 for the period 2018 – 2026.

Business description

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

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

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

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

Wind

ERG is active in the generation of electricity from wind sources, with 1,822 MW of installed power at 31 December 2018. ERG is the leading wind power operator in Italy and one of the top ten in Europe.
The wind farms are mainly concentrated in Italy (1,093 MW), but with a significant and growing presence abroad (729 MW operational), mainly in France (307 MW), Germany (216 MW), Poland (82 MW), Romania (70 MW) and Bulgaria (54 MW).

Solar

As from January 2018, ERG is active in the generation of electricity from solar sources, with an installed capacity of 90 MW, through 31 photovoltaic plants which became operative between 2010 and 2011 and are located in 8 regions between the North and the South of Italy.
In January 2019, ERG further increased its presence in the sector following the acquisition of two photovoltaic plants, located in the Lazio region, with an installed capacity of 51.4 MW.

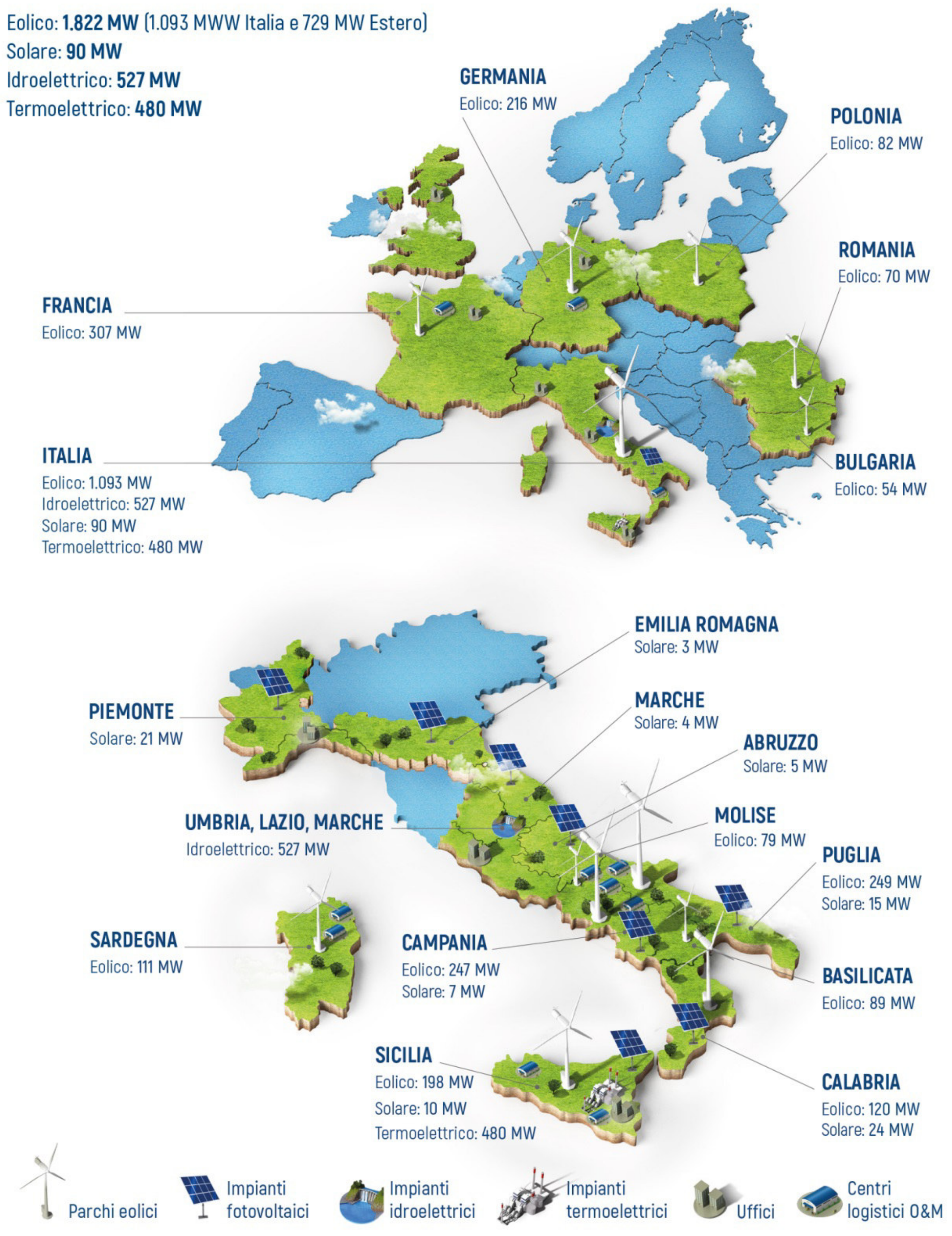
Hydroelectric

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

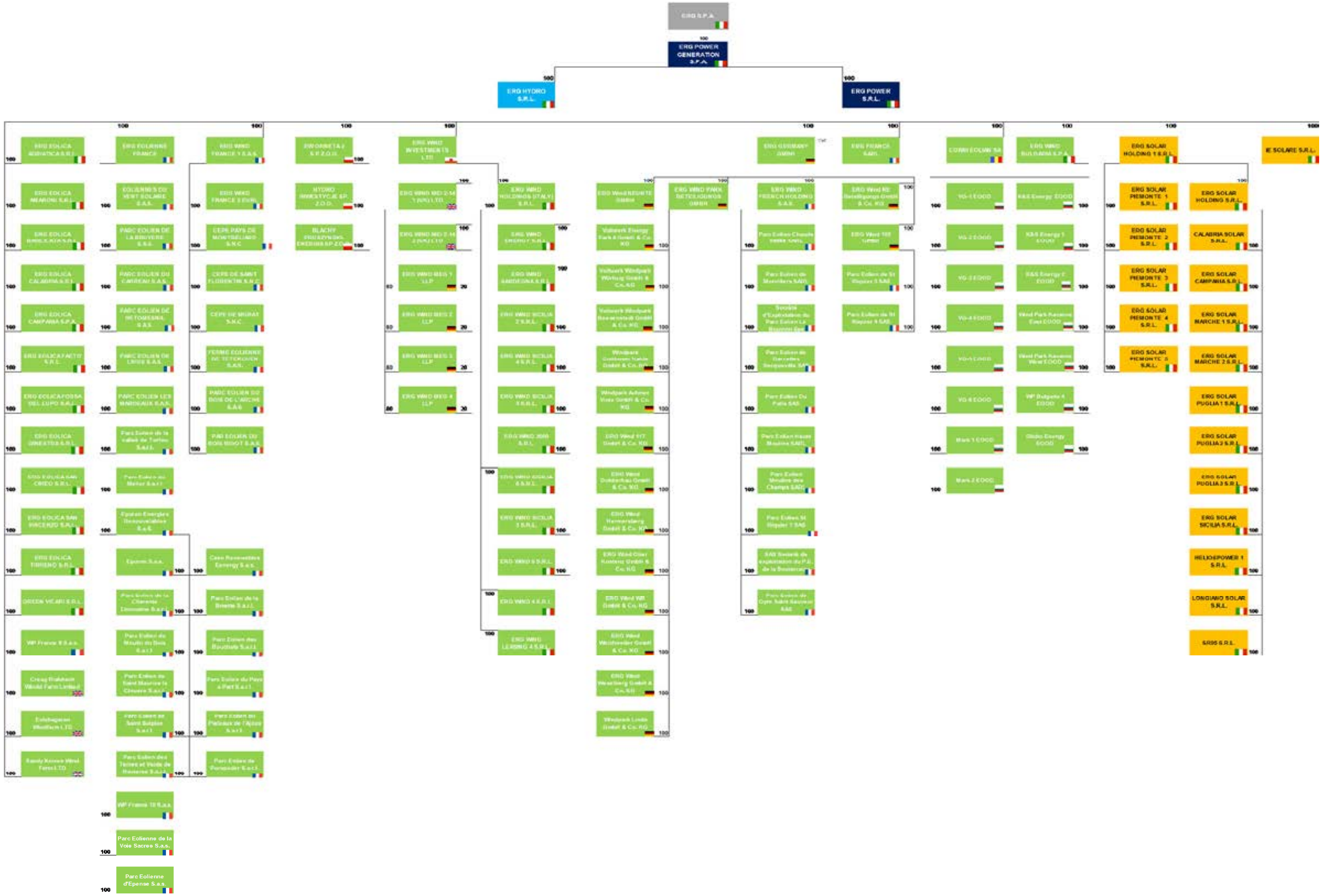
Thermoelectric

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

Geographical segments at 31 December 2018



Consolidation scope at 31 December 2018



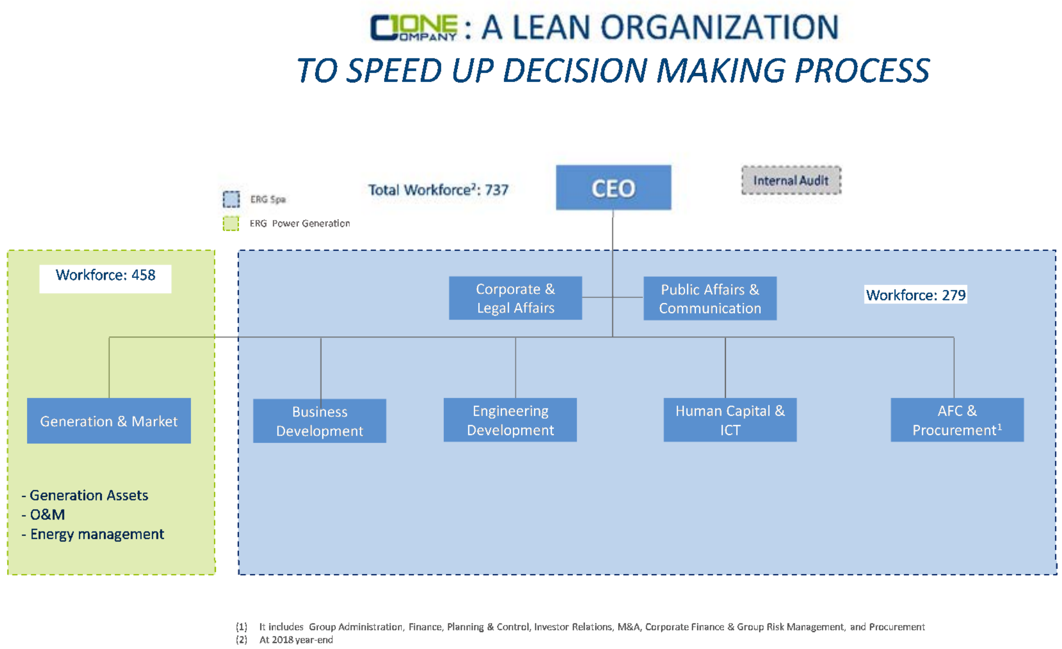
Organisational model

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

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

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

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



Strategy

ERG has radically changed its business portfolio in anticipation of long-term energy scenarios, achieving a leadership position in renewables not only in Italy but also in Europe.

Since completing the industrial transformation that it began 10 years ago, ERG has become one of the leading independent producers of energy from renewable sources in Europe. The Group has reached an installed capacity of more than 2900MW with a portfolio of assets that is well diversified, from both a technological and a geographical standpoint.

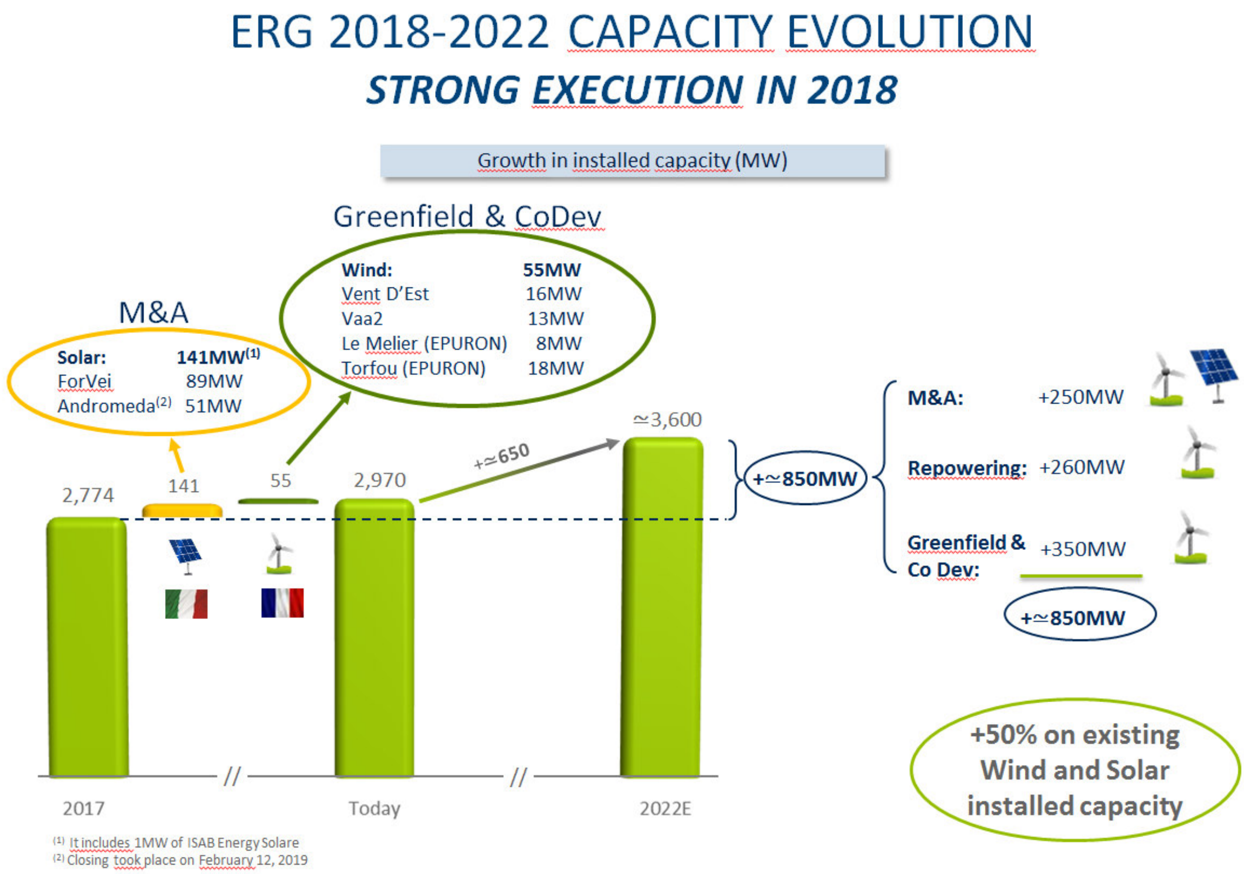
ERG's strategy has always been to anticipate trends in the industry and it is for this reason that the 2018-2022 Business Plan was approved a year in advance, in 2018. The industry for the generation of electricity from renewable sources has radically and fundamentally changed in recent years in Europe. While on the one hand governments are pushing ever harder for decarbonization in favour of renewable sources, on the other hand there has been a drastic change in the competitive scenario through the gradual introduction of competitive auctioning for the award of new renewable capacity and the consequent abandonment of incentive systems. Renewables have therefore changed from being a business with strong infrastructural connotations to a business with purely industrial characteristics.

Within the changed competitive environment, ERG's strategy is to continue growing in renewable energies, now leveraging its own industrial know-how, its territorial presence, the quality of its own assets, its operating efficiency and the flexibility of the integrated Energy Management portfolio.

The objective for the 2018-2022 period is to increase the installed capacity by approximately 850 MW via three channels:

1) **Greenfield and co-Development:** ERG intends to continue its growth strategy through internal growth of its pipeline of projects or co-development agreements in France, Germany and United Kingdom.
2) **Repowering and Reblading in Italy**: in view of technological developments in the wind power industry, ERG is aiming to carry out repowering and reblading on wind farms equipped with obsolete technology, with turbines below one MW, with incentives already expired or expiring, but at the same time located in the windiest sites and therefore with very high expected profitability even in the absence of incentives.
3) **M&A:** ERG intends to continue having an opportunistic approach, in order to exploit opportunities for growth in renewables in the countries of its interest, levering the experience acquired in the course of its transformation and the synergies deriving from consolidation with its own portfolio.

In the course of 2018, ERG took several steps forward in the growth outlined by the Business Plan, adding nearly 200 MW both through M&A in solar (with particular reference to the acquisition of Forvei for 89 MW and the recent acquisition of Andromeda for 51 MW, which is consolidated as from 2019), and through greenfield development (entry into operation of the Torfou and Valle del'Aa wind farms in France), and bringing forward the repowering project with presentation of the applications for authorisation for an even higher number of MW than included in the Plan.



Change in business scope in 2018

- **Wind**

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

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

    The sale of the assets on 7 March 2018 resulted in:
    - the reduction of net financial indebtedness by EUR 106 million in relation to the net sales price;
    - recognition of the realised capital gain of EUR 27 million. The gain and the other income statement components associated with the sale of the equity investment are considered special items and therefore are not reflected in "Adjusted profit attributable to the owners of the parent";

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

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

  - On 6 April 2018, ERG, through its subsidiary ERG Power Generation S.p.A., entered into an agreement with Impax New Energy Holding Cooperatief W.A., a Dutch company owned by Impax New Energy Investors II, to acquire:
    - Parc Eolien du Melier SAS, owner of an 8-MW wind farm with expected output of approximately 23 GWh. The wind farm is entitled to benefit from the 2014 feed-in-tariff (FIT) for a period of 15 years following its coming on stream, which took place in November 2016;

    - Parc Eolien de la Vallée de Torfou SAS, owner of an 18-MW wind farm currently under construction with estimated average output of 48 GWh, which came on stream at the end of 2018. The wind farm will benefit from the 2014 FIT for a period of 15 years;

- Epuron Energies Renouvelables SAS, which owns a pipeline of approximately 750 MW, comprising the following:
    - Wave I, which includes five projects that are at an advanced stage of development, with a combined capacity of 101 MW. These projects are expected to come on stream in the second half of 2021, and the authorisation procedure presently underway envisages access to the 2016 FIP tariff;
    - Wave II, which includes five projects that are at an intermediate stage of development, with a combined capacity of 143 MW. These projects are expected to come on stream in the second half of 2022, and the authorisation procedure is currently under appraisal;
    - Wave III, which includes "early stage" projects with a total capacity of over 500 MW, expected to come on stream after 2022.

Also included within the scope of the transaction is a team of 12 people, with sound and long-standing experience in the development of greenfield projects, which supplemented ERG's existing presence in France, taking it to a total headcount of 45 comprising technicians assigned to management of the assets and professionals engaged to maximise the installed capacity.
In terms of Enterprise Value, the total consideration amounted to EUR 57 million, of which around EUR 17 million pertaining to the Project Financing outstanding at 31 December 2017. The agreement, insofar as concerns the pipeline, also provides for an "earn-out" mechanism in favour of the Seller for a total of approximately EUR 5 million.
The acquisition by Impax New Energy Holding Cooperatief W.A. was completed on 15 May 2018.
The companies are consolidated from 30 June 2018.

- On 27 April 2018 ERG, through its subsidiary ERG Power Generation S.p.A., finalised an agreement with Global Wind Power France, a company owned by Global Wind Power Europe and Fred Olsen Renewables, to acquire from Wind 1019 GmbH 100% of WP France 10 SAS, the holder of rights, permits and authorisations for a 6.9-MW wind farm project. The project has already obtained all the necessary building authorisations; connection to the network is scheduled during the fourth quarter of 2021 and the coming on stream by December 2021.
  The wind farm will be located in Northern France, in the vicinity of ERG's other wind farms, and will benefit from the incentive tariff (2016 FIP) for a period of 15 years. Output is forecast at approximately 15 GWh per annum.
  The estimated investment required to build the wind farm is approximately EUR 10 million, including the amount paid to purchase the project.
  This transaction allows ERG to continue to develop its French portfolio, in line with the growth objectives envisaged in the Business Plan, achieving synergies with the adjacent Vallée de l'Aa (13 MW) project, currently under construction, of which it constitutes an extension.

- On 1 May 2018, the German company Windpark Linda Gmbh & Co. KG, which holds the permits for the construction of a wind farm in Germany, acquired by ERG during the first quarter, secured a 21.6-MW project in an on-shore wind power auction, corresponding to 10% of the capacity currently managed in the area.
  The wind farm, construction of which began in the second quarter of 2018 and whose annual output when fully operational is forecast at around 50 GWh, equal to approximately 39 kt of avoided CO_2 emissions per year, is scheduled to come on stream during the second half of 2019.
  This significant achievement, which confirms the validity of ERG's industrial strategy with regard to overseas expansion, allows it to continue to pursue organic growth in one of the most important European countries for wind power development, in line with the provisions of the 2018-2022 Business Plan.

- Through its subsidiary ERG Power Generation S.p.A., on 1 August 2018 ERG finalised the acquisition of 100% of Creag Riabhach Wind Farm Ltd., a Scottish company holding authorisation for the construction of a wind farm in Scotland, north of Inverness in the county of Sutherland. The wind farm will consist of 22 turbines for an approved capacity of 79.2 MW and estimated energy

production – once fully operational – of around 250 GWh per year, equal to over 3,000 equivalent hours and approximately 147 Kt of avoided CO_2 emissions.
Works for the construction of the wind farm are expected to start in 2020, and the entry into operation, following the finalisation of the connection to the national grid, is expected by March 2022. The wind farm will participate in the energy and capacity availability markets in the United Kingdom. The total estimated investment required to build the wind farm is approximately GBP 89 million (around EUR 98 million), already including the amount paid to purchase the equity investment.
By means of this operation, ERG strengthened its organic growth process abroad and, in particular, in the UK, where the secured construction capacity rose from 84 MW to 163 MW and, also thanks to the recent acquisitions in France, raised its secured capacity relating to all Plan objectives, which rose from 40% to around 70%.
The project, in line with ERG's industrial strategy, is characterised by a high level of quality, and allows the company to capitalise on the skills developed in-house in the fields of Engineering, Construction, Procurement and Asset Management, maximising their value.
In consideration of the new acquisition of assets in the UK market, as from the Interim Directors' Report at 30 September 2018, Evishagaran Wind Farm LTD and Sandy Knowe Wind Farm LTD are also fully consolidated. These companies own two already authorised development projects of 35 MW and 49 MW, respectively, in the United Kingdom and were previously measured using the cost method in view of the insignificant dimensions and given still not operational.

- **Solar**

On 12 January 2018, ERG completed **the acquisition of 30 photovoltaic plants**, entered into operation between 2010 and 2011 and located in 8 regions between the North and the South of Italy, with an installed capacity of 89 MW and an annual output of approximately 136 GWh.
100% of the total installed capacity benefits from incentives with an average expiry date of 2030.
The enterprise value of the transaction amounted to approximately EUR 335 million. The assets were financed through non-recourse project financing of approximately EUR 180 million, and lease contracts of approximately EUR 60 million at the acquisition date.
This Report and the Directors' Report 2018 reflect the impacts of the consolidation of the companies acquired since 1 January 2018: for more information on the *Purchase Price Allocation for solar*, reference is made to the section "Financial statements and Alternative Performance Indicators".
In view of the aforementioned entry into the solar business, ISAB Energy Solare S.r.l. (1 MW), a company already part of the Group and previously measured using the cost method due to it not being of a significant size, is fully consolidated from Financial statements 2018 onwards.

- **Sale of equity investment in TotalErg**

On **3 November 2017**, ERG S.p.A. and Total Marketing Services S.A. signed a binding agreement with the API Group for the **sale of 100% of TotalErg S.p.A.**, a company that is active in the distribution of petroleum products and refining. The scope of the transaction comprises approximately 2,600 network service stations, the Rome logistical hub and 25.16% of the Trecate refinery.
The transaction was completed on **10 January 2018**, following approval by the Antitrust Authority and the completion of the demerger of the TotalErg S.p.A. lubricants business unit to Total Italia S.r.l., with reference to which ERG S.p.A. and Total Marketing Services S.A. entered into a binding agreement on 3 November that provides for the sale by ERG S.p.A. to the Total Group of its own interest (51%) in that company. In addition, TotalErg S.p.A. had already completed, on 10 August 2017, the sale to the Ambienta sgr S.p.A. fund and to Aber S.r.l. of the subsidiary Restiani S.p.A., operating in the sector of heat services, and, on 5 October 2017, the sale to UGI Italia S.r.l. of the subsidiary Totalgaz Italia S.r.l., an LPG marketing company.
The consideration for the sale of the assets is EUR 194 million, EUR 14 million of which was already collected in advance in 2017, EUR 144 million was collected in 2018 at the time of closing and EUR 36 million is to be collected as a deferred component regulated by a vendor loan agreement with a term of 5 and a half years, signed with api S.p.A.
The equity value of the transaction was EUR 273 million which includes, in addition to the consideration indicated above, the non-recurring dividends distributed in 2017 by TotalErg S.p.A. to ERG S.p.A. totalling EUR 71 million (of which EUR 20 million paid on 11 May 2017 and the remaining EUR 51 million on 26 October 2017), the interest that will accrue on the vendor loan and the related tax effects.

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

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

There were no significant impacts on profit or loss in 2018 since the equity investment was measured in the 2017 Consolidated Financial Statements in accordance with the requirements of IFRS 5, with recognition of the effect of the transaction in 2017.

ERG's stock market performance

On 28 December 2018[14], the closing price of ERG's shares was EUR 16.50, up (+7.1%) from the end of 2017, in the presence of a drop, in the same period, in the FTSE All Share index (-16.7%), the FTSE Mid Cap index (-19.6%) and the Euro Stoxx Utilities Index (-0.6%).
During the period under review, the listed price of the ERG share ranged between a minimum of EUR 15.08 (2 January) and a maximum of EUR 20.34 (14 May).

Figures relating to the prices and exchange volumes of ERG's shares from 1 January 2018 to 28 December 2018 are set out below:

Share price	EUR
Reference price at 28.12.18	16.50
Maximum price (14.05.18) [(1)]	20.34
Minimum price (02.01.18) [(1)]	15.08
Average price	17.78

(1) lowest and highest price reached during the day's trading; hence they do not match the official and closing prices on the same date

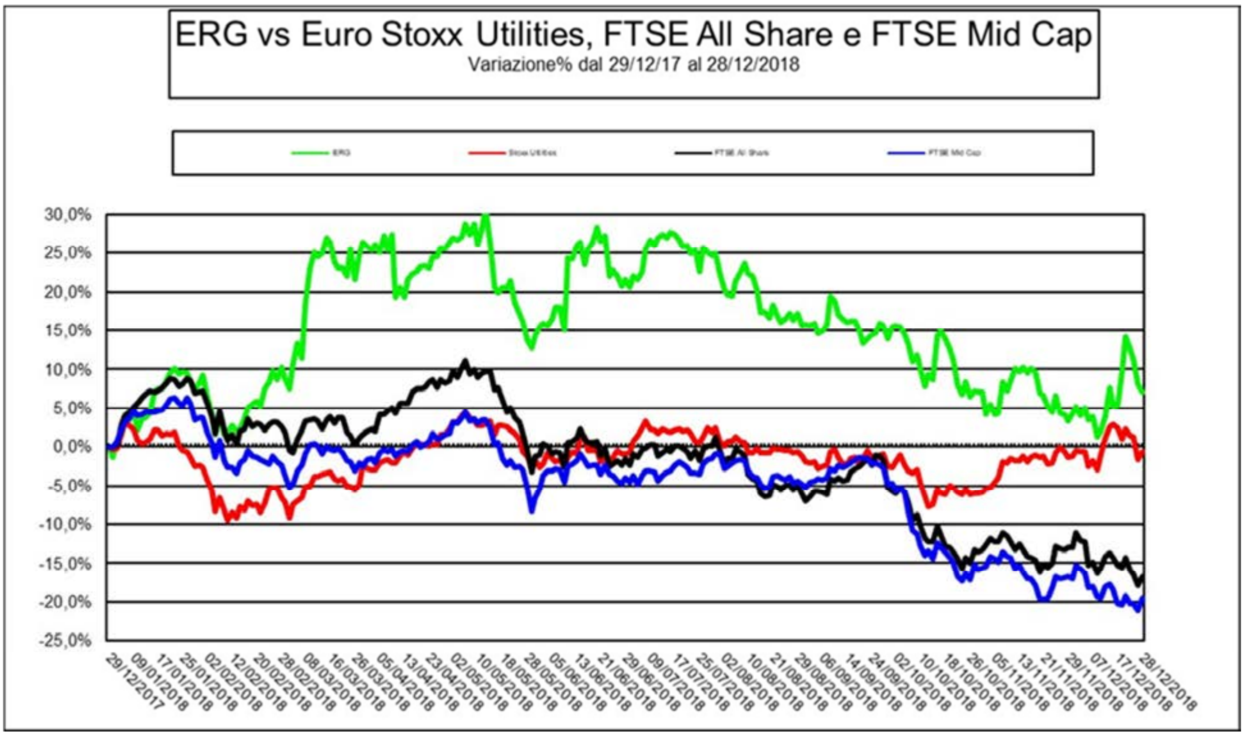
Volumes traded	No. of shares
Maximum volume (11.04.18)	4,438,532
Minimum volume (14.09.18)	61,218
Average volume	304,159

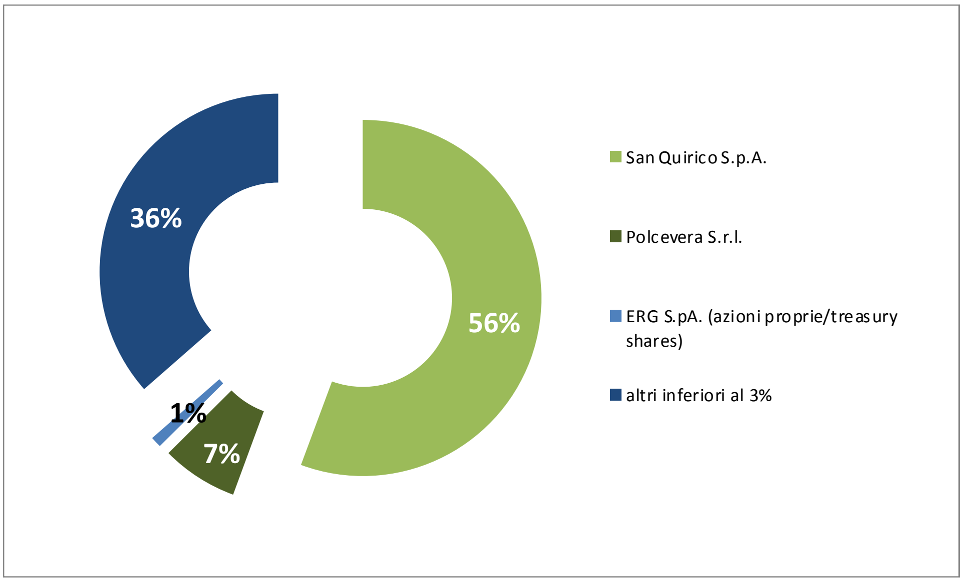
Market capitalisation was approximately EUR 2,480 million at 28 December 2018 (EUR 2,315 million at the end of 2017).

The average number of shares outstanding in 2018 was 148,816,800.

[14] Last available day for listing for 2018

Performance of ERG Shares and Shareholding Structure





Significant events during the year

Wind sector

Date	Country	Significant events	Press release
12 January 2018	Germany	**Acquisition** of 100% of Windpark Linda GmbH & Co. KG, a company that holds the **permits for the construction of a wind farm in Germany** with 21.6 MW of power and an estimated production speed of approximately 50 GWh per annum.	Press release 15/01/2018
7 March 2018	UK	**Sale** of 100% of Brockaghboy Windfarm Ltd to the Greencoat UK Wind PLC fund.	Press release 08/03/2018
21 March 2018	France	**Acquisition** by **Vent d'Est SAS** of 75% of the two companies that own two wind farms in France with an overall capacity of 16.25 MW.	Press release 22/03/2018
6 April 2018	France	**Signing of agreement** with Impax New Energy Holding Cooperatief W.A., for the acquisition in France of two wind farms (26 MW) and a pipeline of approximately 750 MW. The transaction's closing date was 15 May 2018.	Press release 06/04/2018
27 April 2018	France	**Signing of agreement** with Global Wind Power France for the acquisition of 100% of the capital of WP France S.a.s., the company which owns the rights, licences and permits for a 6.9-MW wind farm project in France.	Press release 27/04/2018
18 May 2018	Germany	**Windpark Linda GmbH & Co. KG**, which holds the permits for the construction of a wind farm in Germany, secured a 21.6-MW project in the on-shore wind power auction held on 1 May.	Press release 18/05/2018
1 August 2018	UK	**Acquisition** of 100% of the equity interest in **Creag Riabhach Wind Farm Ltd**, a company incorporated under Scottish law, holder of authorisations for the construction of a wind farm in Scotland.	Press release 03/08/2018
3 August 2018	France	**Acquisition** of the remaining 25% of two companies that own two wind farms in France with an overall capacity of 16.25 MW, 75% of which had already been acquired from Vent d'Est SAS in March 2018.	Press release 03/08/2018

Solar sector

Date		Significant events	Press release
12 January 2018		**Acquisition** from VEI Green S.r.l., a holding company controlled by PFH S.p.A. and owned by leading Italian institutional investors, of 100% of **ForVei** S.r.l., the ninth largest **photovoltaic** operator in Italy with total installed capacity of 89 MW.	Press release 12/01/2018
3 August 2018		**Agreement** between ERG and Quercus for the setup of a public limited company **ERG Q Solar1**, 60% owned by ERG and 40% by the Quercus Italian Solar Fund, with the aim of consolidating the Italian photovoltaic market.	Press release 03/08/2018

Thermoelectric sector

Date	Significant events	Press release
25 October 2018	ERG S.p.A., through its subsidiary ERG Power Generation S.p.A., and E.ON Energia S.p.A., signed a framework agreement for the three-yearly supply of electricity intended for the Italian market, which can be renewed for an additional year. The agreement makes provision for ERG's supply to E.ON of a total electricity volume of up to around 3TWh in the 2019-21 three-year period, which will meet the needs of customers who are increasingly more sensitive to environmental sustainability. Under the agreement, ERG will be able to supply the volumes of electricity required by E.ON to cover the hourly requirements of its customers.	Press release 25/10/2018

Corporate

Date		Significant events	Press release
10 January 2018		**Sale** of 51% of the shares of **TotalErg S.p.A**. and 51% of the shares of Total Italia S.r.l. The transaction was concluded following approval by the relevant Antitrust Authority and the completion of the demerger of the above-mentioned TotalErg S.p.A. lubricants business unit to Total Italia S.r.l.	**Press release 10/01/2018**
7 and 8 March 2018		Approval of **2018-2022 Strategic Plan by the Board of Directors of ERG S.p.A. and presentation thereof to the Financial Community.**	**Press release 08/03/2018**
23 April 2018		**The Shareholders of ERG S.p.A.** appoint the new Board of Directors, confirm Edoardo Garrone as Chairman and resolve on the payment of a dividend of EUR 1.15 per share of which EUR 0.40 extraordinary. The Board of Directors confirms Alessandro Garrone as executive Deputy Chairman, Giovanni Mondini as Deputy Chairman and Luca Bettonte as Chief Executive Officer.	**Press release 23/04/2018**
12 July 2018		Conclusion of **Liability Management** transactions for a total of EUR 500 million, which help to improve the financial terms and duration of the Group's debt structure.	**Press release 12/07/2018**
20 October 2018		To coincide with the celebration of ERG's 80th anniversary, the parent company San Quirico S.p.A. and ERG S.p.A. signed an agreement that provides for the free allocation of 80 ERG treasury shares to each employee of the Italian companies of the ERG Group, whose expenses (including the value of the ERG treasury shares) will be fully repaid by said San Quirico S.p.A., a holding of the Garrone and Mondini families. The allocation, which was finalised in January 2019, concerned a total number of 664 employees and 53,120 shares held in the portfolio by ERG S.p.A., for a total value, including the relative ancillary costs, of EUR 1.1 million. In addition, ERG decided to allocate to the employees of all Group companies, an extraordinary amount of EUR 1,500 which, with reference to the employees of foreign companies, will be increased by an amount corresponding to the value of the shares assigned to each employee of the Italian companies. The total estimated value of this payment is approximately EUR 1.2 million.	**Press release 20/10/2018**
		As part of the celebration of ERG's 80th anniversary, the Group also stated its readiness to donate EUR 1 million to the Municipality of Genoa to help with the renovation and sustainable development projects in Valpolcevera following the collapse of the Morandi bridge.	
20 November 2018		**Signing** of two senior unsecured medium/long-term Environmental Social Governance loan agreements ("**ESG Loans**") respectively with Credit Agricole Corporate and Investment Banking ("CACIB") and BNL BNP Paribas Group, each for EUR **120 million**.	**Press release 20/11/2018**
19 December 2018		**Finalisation** of a programme for non-convertible medium/long-term bond issues (Euro Medium Term Notes Programme - EMTN) up to the overall maximum amount of EUR **1,000 million**.	**Press release 19/12/2018**

Performance highlights

(EUR million)		Year 2018	2017 restated
Main income statement data			
Adjusted revenue		1,027	1,048
Adjusted EBITDA		**491**	**472**
Adjusted EBIT		**216**	**220**
Profit		133	108
of which attributable to the owners of the parent		133	108
Adjusted profit attributable to the owners of the parent[(1)]		**107**	**117**
Main financial data			
Net invested capital		**3,172**	**3,110**
Equity		1,829	1,877
Total net financial indebtedness[(2)]		1,343	1,233
of which non-recourse Project Financing[(3)]		1,178	1,115
Financial leverage		42%	40%
Ebitda Margin %		**48%**	**45%**
Operating data			
Installed capacity at year end – wind farms	*MW*	**1,822**	**1,814**
Electricity production from wind farms	*millions of KWh*	3,464	3,613
Installed capacity – thermoelectric plants	*MW*	**480**	**480**
Electricity production from thermoelectric plants	*millions of KWh*	2,151	2,453
Installed capacity at year end – hydroelectric plants	*MW*	**527**	**527**
Electricity production from hydroelectric plants	*millions of KWh*	1,740	1,144
Installed capacity at year end – solar plants	*MW*	**90**	**n.a.**
Electricity production from solar plants	*millions of KWh*	130	n.a.
Total sales of electric power	*millions of KWh*	**13,627**	**11,747**
Capital expenditure[(4)]	*EUR million*	510	94
Employees at year end	*Units*	**737**	**714**
Net unit revenue			
Wind Italy	*EUR/MWh*	124.9	144.5
Wind Germany	*EUR/MWh*	94.5	96.4
Wind France	*EUR/MWh*	87.4	88.4
Wind Poland	*EUR/MWh*	63.5	45.1
Wind Bulgaria	*EUR/MWh*	74.8	64.0
Wind Romania	*EUR/MWh*	58.2	58.1
Wind UK	*EUR/MWh*	100.4	n.a.
Solar	*EUR/MWh*	293.5	n.a.
Hydroelectric	*EUR/MWh*	106.6	110.3
Thermoelectric	*EUR/MWh*	41.4	45.5

To enhance understanding of the Group's business performance, adjusted revenue and operating results are shown, therefore excluding special items. The restated comparative 2017 figures do not take account of the adjusted results of TotalErg, sold in January 2018.

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

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

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

(9) in property, plant and equipment and intangible assets. Including investments through Mergers & Acquisitions equal to EUR 449 million performed in 2018 for the acquisition of the companies of the ForVei Group (solar) and for the acquisitions of companies owning wind farms in France, Germany and the United Kingdom. In 2017, investments through Mergers & Acquisitions amounted to EUR 39.5 million for the acquisition of the DIF Group companies (wind) in Germany.

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

Performance by sector

(EUR million)	Year 2018	2017 restated
Adjusted revenue		
Wind	389	445
Solar	38	n.a.
Hydroelectric	194	137
Thermoelectric [(1)]	405	464
Corporate	36	38
Intra-segment revenue	*(36)*	*(37)*
Total adjusted revenue	**1,027**	**1,048**
Adjusted EBITDA		
Wind	274	316
Solar	32	n.a.
Hydroelectric	146	94
Thermoelectric [(1)]	53	78
Corporate	(15)	(16)
Adjusted EBITDA	**491**	**472**
Amortisation, depreciation and impairment losses		
Wind	(159)	(160)
Solar	(24)	n.a.
Hydroelectric	(58)	(58)
Thermoelectric	(31)	(31)
Corporate	(3)	(3)
Adjusted amortisation and depreciation	**(275)**	**(252)**
Adjusted EBIT		
Wind	115	156
Solar	8	n.a.
Hydroelectric	88	35
Thermoelectric [(1)]	22	48
Corporate	(18)	(19)
Adjusted EBIT	**216**	**220**
Capital expenditure[(2)]		
Wind	146	75
Solar	345	n.a.
Hydroelectric	7	6
Thermoelectric	8	10
Corporate	3	3
Total capital expenditure	**510**	**94**

[(3)] Includes residual contribution of smaller portfolios managed by Energy Management not attributable to individual businesses

[(4)] Includes investments in property, plant and equipment and intangible assets through Merger & Acquisition operations

Comments on the year's performance

In 2018, **revenue from sales and services** amounted to EUR 1,027 million, down slightly compared to 2017 (EUR 1,048 million) mainly due to the loss of an important bilateral contract at the end of 2017 and to the loss of incentives on a part of wind power production in Italy, partly offset by greater volumes in hydroelectric power in a context of increasing sale prices, and an increase in production for the expansion of the portfolio of managed assets, in particular with the entry into solar.

Adjusted EBITDA amounted to EUR 491 million, up on the EUR 472 million recorded in 2017. The increase of EUR 18 million is a result of the following factors:

- **Wind (-42 million):** gross operating margin equal to EUR 274 million, down compared to the same period of the previous year (EUR 316 million), a less favourable wind context both in Italy and abroad. In particular, the poorer results of wind farms in Italy (EUR -46 million) have also been affected by lower incentivised production (72% of the total compared to 83% in 2017), the lower unit value (99 EUR/MWh compared to 107 EUR/MWh), and the higher imbalance costs, which were only partly offset by the positive price scenario in the energy markets. The results abroad were up (EUR +3 million) due to higher installed capacity in France and a favourable scenario in Romania and Poland, despite less favourable wind conditions.
- **Solar (+32 million):** gross operating margin equal to EUR 32 million, in line with the forecasts, relating to plants acquired at the beginning of 2018 from Forvei, of which EUR 30 million for revenue from the feed-in premium and EUR 8 million from market revenue, net of approximately EUR 6 million in fixed costs related mainly to operation & maintenance costs.
- **Hydroelectric (+53 million):** gross operating margin of EUR 146 million (EUR 94 million in 2017), up sharply compared with the previous year, which benefited however in the amount of EUR 8 million from the recovery of previous incentives as a result of the repeal of the revocation of the IAFR qualification of some plants. The performance benefited from the high level of water availability recorded during the year, and in particular in the month of March, in addition to the use of the reservoirs during the year.
- **Thermoelectric (-26 million):** the results of thermoelectric generation, amounting to EUR 53 million, down by EUR 26 million compared to EUR 78 million in 2017 due mainly to the decreased contribution of Energy Efficiency Certificates which in 2017 also benefited in the amount of approximately EUR 11 million from the revaluation of securities matured in 2016 and sold in 2017. The results were also affected by the significantly less profitable performance of the clean spark spread, due to the equally significant increase in the price of CO_2 and Gas, that was not fully reflected in the price of energy over the year.

Adjusted EBIT was EUR 216 million (EUR 220 million in 2017) after amortisation and depreciation of EUR 275 million, up EUR 23 million compared to 2017 (EUR 252 million) mainly due to new Solar investments and the acquisitions of wind farms in France that took place in 2018.

Adjusted Group EBIT was EUR 107 million, down compared to the result of EUR 117 million in 2017 restated, as a result of the aforementioned operating results, higher amortisation and depreciation and higher financial charges relating to a lower remuneration of liquidity and increased debt relating to investments, despite a lower average cost of debt compared to 2017, thanks to liability management transactions concluded during the first half of 2018.

The **profit for the year attributable to the owners of the parent** was EUR 133 million (EUR 108 million in 2017 restated) and reflects, in addition to the above-mentioned net operating results, the capital gain generated by the sale of Brockaghboy (EUR 27 million).

In 2018, **investments** totalled **EUR 510 million** (EUR 94 million in 2017) and relate mainly to the acquisition of solar installations in Italy (EUR 345 million), the acquisition of the French wind companies by Impax New Energy consolidated from 30 June 2018 (EUR 67 million), the acquisition of two wind farms in France (EUR 14 million) and the acquisition of the company Creag Riabhach Wind Farm Ltd (EUR 23 million), holder of authorisations for the construction of a wind farm in Scotland. **EUR 60 million in investments in property, plant and equipment and intangible assets** were also made during 2018, of which 70% in the Wind sector (65% in 2017), mainly related to the development of the new wind farms in France (Vallée de l'AA and

Torfou) and in Germany (Windpark Linda), 14% in the Thermoelectric sector (18% in 2017), 11% in the Hydroelectric sector (12% in 2017) and 5% in the Corporate sector mostly for ICT (5% in 2017).
Net financial indebtedness amounted to **EUR 1,343 million**, up (EUR 110 million) compared to 31 December 2017 (EUR 1,233 million). This change reflects the investments in the year (EUR 510 million), the distribution of dividends (EUR 171 million), the settlement of a debt in relation to oil purchases in previous years (EUR 42 million) and the payment of taxes (EUR 21 million), mainly offset by the positive cash flow in the year, the proceeds of the sale of TotalErg (EUR 180 million) and Brockaghboy (EUR 106 million).

Profit for the year – Business

REFERENCE MARKET

Price scenario

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

(1) Single National Price

Italian Market - Demand and output

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

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

(2) Output net of consumption for auxiliary services

In 2018, the electricity demand of the Italian electric system came to 321.9 TWh, in line with the values recorded in 2017. With regard to Sicily, a region in which ERG is present with its CCGT plant, demand of approximately 19.4 TWh was recorded during the year, down (-1.0%) with respect to 2017, while in the group of regions consisting of Abruzzo-Lazio-Marche-Molise-Umbria, where ERG has been active since the end of 2015 with its hydroelectric plants, the demand for electricity came to 44.7 TWh (+0.9%).

In the same period, net internal electricity generation was 280.2 TWh, down by 2% compared with 2017, whilst the net balance of trades with other countries recorded net imports of 43.9 TWh (+16% compared with 2017).
66% of (net) domestic output was covered by thermoelectric power plants and the remaining 34% by renewable sources; specifically, 17% of output was from hydroelectric power, 8% from photovoltaic plants, 6% from wind farms and 2% from geothermal sources. Compared to 2017, hydroelectric power generation grew (+31%) and wind remained the same (+0%), while thermoelectric, photovoltaic, geothermal and wind power generation declined (-8%, -5%, -2% and -1% respectively).

Group sales

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

During 2018, total sales of electricity amounted to 13.6 TWh (11.7 TWh in 2017), in the presence of an overall output for the Group plants of approximately 7.5 TWh (7.2 TWh in 2017), of which roughly 1.5 TWh abroad and 6.0 TWh in Italy. The latter figure corresponds to around 1.9% of electricity demand in Italy (1.8% in 2017).

The breakdown of sale volumes and electricity output, by type of source, is shown in the following table[15]:

Sources of electric power (GWh)		
	Year	
	2018	**2017**
Wind - wind power generation Italy	2,012	2,117
Wind - wind power generation Abroad	1,452	1,496
Solar - photovoltaic power generation	130	n.a.
CCGT - thermoelectric power generation	2,151	2,453
Hydro - hydroelectric power generation	1,740	1,144
ERG Power Generation - purchases	6,143	4,536
Total	**13,627**	**11,747**

Sales of electric power (GWh)		
	Year	
	2018	**2017**
Electric power sold to captive customers	550	539
Electric power sold to IREN	0	2,015
Electric power sold wholesale (Italy)	11,625	7,697
Electric power sold abroad	1,452	1,496
Total	**13,627**	**11,747**

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

[15] 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.

In 2018, steam sales[16] amounted to 737 thousand tonnes, in line with the previous year.

WIND

The ERG Group operates in the wind sector through its companies that own wind farms in Italy and abroad. Wind farms consist of wind-power generators that transform the kinetic energy of wind into mechanical energy, which is used in turn to generate electricity. Aside from the availability of the plants, the performance expected from each wind farm is obviously influenced by the wind speed profile of the site on which the wind farm is located.
Business performance is also influenced by the sale price of electricity, which can vary in relation to the geographic areas where the plants are located, and by the incentive systems for renewable energy sources, which differ from country to country, and the regulation of organised energy markets.

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

(1) power of plants in operation at year end.

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

[16] Steam supplied to end users net of the quantities of steam withdrawn by the users and pipeline losses.

Highlights of adjusted performance items

Operating results	Year 2018	2017 restated
Adjusted revenue from sales and services	**389**	**445**
Adjusted EBITDA (1)	**274**	**316**
Amortisation, depreciation and impairment losses (1)	(159)	(160)
Adjusted EBIT (1)	**115**	**156**
Investments in property, plant and equipment and intangible assets	146	75
Ebitda Margin % (2)	**70%**	**71%**
Total output by wind plants (GWh)	3,464	3,613

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

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

It is noted in particular that, compared to 2017, an additional 204 GWh of output is no longer incentivised, for an equivalent value of EUR 20.2 million.
These negative effects were only partly offset by a higher sale price of electricity in Italy.

Net unit revenue in Italy in 2018, taking into consideration the sale price of electricity, incentives (former green certificates) and other minor components, was equal to 124.9 EUR/MWh for ERG in Italy, down compared to 144.5 EUR/MWh in 2017, as a result of the expected and already discussed lower incidence of revenue from incentives.
Finally, as from 2016, the reference value for the incentives (former green certificates) is calculated on the basis of energy prices for the previous year. Consequently, unlike what took place in the past, changes in energy prices are no longer partially offset (78%) in the prices of the incentive provided for the year, but have an impact on the incentive for the subsequent year.

The following table shows revenue by country:

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

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

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

Output (GWh)	Year 2018	2017	Δ	Δ%
- Italy	**2,012**	**2,117**	**-105**	**-5%**
of which				
Campania	*439*	*489*	*-50*	*-10%*
Calabria	*219*	*238*	*-18*	*-8%*
Puglia	*471*	*531*	*-60*	*-11%*
Molise	*156*	*167*	*-11*	*-7%*
Basilicata	*178*	*183*	*-6*	*-3%*
Sicily	*341*	*299*	*42*	*14%*
Sardinia	*207*	*209*	*-2*	*-1%*
- Abroad	**1,452**	**1,496**	**-45**	**-3%**
of which				
Germany	*337*	*369*	*-31*	*-8%*
France	*552*	*491*	*60*	*12%*
Poland	*219*	*248*	*-29*	*-12%*
Bulgaria	*138*	*157*	*-19*	*-12%*
Romania	*176*	*201*	*-25*	*-13%*
UK	*29*	*29*	*-1*	*-3%*
Total wind farm output	**3,464**	**3,613**	**-150**	**-4%**

In 2018, the **electricity output** from wind power amounted to 3,464 GWh, down slightly compared to the same period of 2017 (3,613 GWh), as a result of a decrease in output of approximately 5% in Italy (from 2,117 GWh to 2,012 GWh) and 3% abroad (from 1,496 GWh to 1,452 GWh).
The decreased output in Italy (-105 GWh) is linked to poorer wind conditions than those recorded in 2017 across most regions, with the exception of Sicily.
As regards abroad, the decrease of 45 GWh is attributable to the lower output in Eastern Europe (-73 GWh) compared to the particularly high output seen in 2017 and in Germany (-31 GWh), partly mitigated by increased output in France (+60 GWh) which also benefited in the amount of approximately 44 GWh from the output of the recently acquired French plants (Vent d'est and former Epuron) or those that started commercial operations in the last quarter of the year.

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

Load Factor %	Year 2018	2017	Δ
- Italy	**21%**	**22%**	**-1%**
of which			
Campania	*20%*	*23%*	*-2%*
Calabria	*21%*	*23%*	*-2%*
Puglia	*22%*	*24%*	*-3%*
Molise	*22%*	*24%*	*-2%*
Basilicata	*23%*	*24%*	*-1%*
Sicily	*20%*	*17%*	*2%*
Sardinia	*21%*	*21%*	*0%*
- Abroad	**23%**	**25%**	**-1%**
of which			
Germany	*18%*	*19%*	*-2%*
France	*23%*	*22%*	*1%*
Poland	*31%*	*35%*	*-4%*
Bulgaria	*29%*	*33%*	*-4%*
Romania	*29%*	*33%*	*-4%*
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 2018, the overall load factor, equal to 22%, was down slightly with respect to that recorded in 2017 (23%), decreasing from 25% to 23% abroad and from 22% to 21% in Italy.

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

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

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

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

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

The EBITDA margin for 2018 was 70%, which was very positive despite the above-mentioned phase out of the incentives for some plants, and also due to the contribution of the new wind farms abroad.

Capital expenditure

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

Relevant legislative and regulatory updates during the year

Italy

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

  For the purposes of determining the 2018 feed-in premium (2018 FIP), the Authority disclosed, by means of resolution 32/2018/R/EFR of 25 January 2018, the average annual value recorded in 2017 for electricity sale prices, equal to 53.14 EUR/MWh. The value of the 2018 incentives, equal to 78% of the difference between 180 EUR/MWh and the average annual sales price of electricity in the previous year, therefore amounts to 98.95 EUR/MWh.

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

  For the purposes of determining the 2019 feed-in premium (2019 FIP), the Authority disclosed, by means of resolution 16/2019 of 22 January 2019, the average annual value recorded in 2018 for electricity sale prices, equal to 61.91 EUR/MWh. The value of the 2019 incentives, equal to 78% of the difference between 180 EUR/MWh and the average annual sales price of electricity in the previous year, therefore amounts to 92.11 EUR/MWh.

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

  In the second quarter of 2016 there were significant increases in dispatching service costs for end customers (specifically with regard to the uplift fee).
  On 27 June 2016, the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) published Resolution 342/2016/E/EEL, through which it launched a process for the timely adoption of prescriptive measures and the assessment of potential abuse on the electricity market, pursuant to Regulation (EU) no. 1227/2011 (REMIT), potentially committed in the recent past by several electricity market operators (including ERG Power Generation S.p.A. and ERG Hydro S.r.l.).
  Following the investigation by ARERA in September 2016, notifications were sent to the parties involved – including ERG Hydro S.r.l. and ERG Power Generation S.p.A. – containing the results of the assessments and the potential illegal activity detected by the Authority.
  ERG Power Generation S.p.A. and ERG Hydro S.r.l. presented an appeal to the Administrative Court of Lombardy for the partial repeal of the notifications indicated above, deeming that there were absolutely no grounds for the issue thereof.
  In April 2017, ARERA notified the companies concerned (ERG Hydro S.r.l and ERG Power Generation S.p.A.) of the resolutions issued as part of the proceedings initiated with Resolution 342/2016. The main elements of the above-mentioned notifications are the change in the method used to define the results of the assessment with respect to that used in the communication of September 2016, and a specific indication of the non-existence of unlawful behaviour pursuant to (EU) Regulation no. 1227/2011 (REMIT). With two successive resolutions approved in January and February 2018, the Authority closed the procedures related to the prescriptive measures for ERG Hydro S.r.l. and ERG Power Generation S.p.A. On the basis of the resolutions adopted by ARERA, Terna proceeded to quantify the amount to be returned, the economic impact of which is not considered significant. The companies involved proceeded to challenge, in the appropriate jurisdictions, both the resolutions of ARERA and the quantification performed by Terna.

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

On 11 May, the 2018 Financial Stability Law was published in the Sicilian Official Gazette. Article 17 of the Law lays down a 120-day suspension, as from 11 May, of authorisations related to wind power and photovoltaic plants pending the introduction of an appropriate planning tool to allow the visual and environmental impacts of the implementation of such electricity generation plants to be assessed. The moratorium, which was contested by the Italian Council of Ministers, was subsequently repealed by Regional Law No. 16 of 9 August 2018, published in Sicilian Official Gazette No. 36 of 17 August 2018.

Germany

- **Expansion acceleration transmission network**

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

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

  On 29 June, the amendment to the law on renewable energy sources, extending the suspension of the exemption for "citizen energy cooperatives" (*Bürgerenergiegenossenschaft*) from being required to submit previously authorised projects to auctions, came into force.
  The suspension, which aims to ensure a level playing field for all industrial operators, will be extended for the whole of 2019.

- **Second onshore wind power auction 2018**

  On 1 May 2018, Germany's second auction for onshore wind power in 2018 was closed.
  The results of the auction, published on 17 May, showed an average award price of 5.73 €cent/kWh. The capacity volume was undersubscribed for the first time, with just 90% of the total allocated.
  The ERG Group was among the successful tenderers, with a 21.6-MW onshore wind project.

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

  In December 2018, a new package of energy laws was adopted which provides for new auctions between 2019 and 2021, for a total of 4 GW of onshore wind and 4 GW of photovoltaic. Additional auctions to those already planned were added for wind and photovoltaic: for 2019 1 GW for each new auction, for 2020 1.4 GW for each new auction, and for 2021 1.6 GW for each new auction.

France

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

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

Bulgaria

- **Change to the incentive system**

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

Poland

- **Auction mechanism for onshore wind**

  Following the approval of an amendment to the RES Act of 29 June 2018, an auction was announced for the year for the granting of incentives to new wind power and photovoltaic plants. The multi-technological wind power-photovoltaic auction provided for a quota of power of approximately 1 GW. The 2018 auction was duly held in November.
  This amendment, which also impacts the identification of the components of wind turbines that are relevant for the purposes of calculating the Real Estate Tax, restored, effective retroactively to 1 January 2018, the more favourable method of real estate taxation of wind farms already in force until 1 January 2017.

Romania

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

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

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

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

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

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

UK

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

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

Republic of Ireland and Northern Ireland

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

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

- **Capacity Market**

  On 29 June 2018, Network Managers for the Republic of Ireland and Northern Ireland published the notice for participation in the T-4 auction for supply of existing and new capacity for the years 2022/2023.

For new construction capacity, contracts can be obtained for a maximum duration of 10 years. The auction, for which registration closed on 25 October, is scheduled for 28 March 2019.

SOLAR

As from January 2018, ERG is active in the generation of electricity from solar sources,_with an installed capacity of 89 MW and an annual output of approximately 136 GWh, through 30 photovoltaic plants which became operational between 2010 and 2011 and are located in 8 regions between the North and the South of Italy. 100% of the total installed capacity benefits from incentives with an average expiry date of 2030.
The results set out below also include the contribution of ISAB Energy Solare S.r.l., a group company, previously measured using the cost method due to it not being of a significant size (installed capacity of less than 1 MW and an annual output of approximately 1 GWh, through solar panels installed at the ISAB IGCC plant in Priolo, Sicily).

Highlights of adjusted performance items

	Year	
Operating results	**2018**	**2017**
(EUR million)		
Adjusted revenue from sales and services	**38**	**n.a.**
Adjusted EBITDA [(1)]	**32**	**n.a.**
Amortisation, depreciation and impairment losses [(1)]	(24)	n.a.
Adjusted EBIT [(1)]	**8**	**n.a.**
Investments in property, plant and equipment and intangible assets	345	n.a.
Ebitda Margin % [(2)]	**84%**	**n.a.**
Total output by solar plants (GWh)	**130**	**n.a.**

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

Output in 2018 amounted to approximately 130 GWh and the relative load factor was 16%.

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

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

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

The **EBITDA margin** for 2018 amounted to 84%.

Capital expenditure

Investments in 2018 refer to the acquisition of 30 photovoltaic plants, which came on stream between 2010 and 2011 and are located in 8 regions between the North and the South of Italy, with an installed capacity of 89 MW and an annual output of approximately 136 GWh. 100% of the total installed capacity benefits from incentives with an average expiry date of 2030. The enterprise value of the transaction amounted to approximately EUR 345 million.

Relevant legislative and regulatory updates during the year

With regard to the temporary suspension of authorisations for the installation of solar plants in Sicily, reference is made to the Wind section.

HYDROELECTRIC

ERG is active in the sector of the generation of electricity from hydroelectric sources through the equity investment in ERG Hydro S.r.l., owner of the Terni Hydroelectric Complex (527 MW), including a system of programmable and flexible plants located in central Italy; these plants are used under the related hydroelectric concessions that will expire at the end of 2029.
The total capacity of the plants at the Terni complex came to 526.9 MW, of which 512.4 MW relating to large offtakes and 14.5 MW related to small offtakes and minimum vital outflows, which increased by 0.4 MW as a result of the completion of the construction of three new mini hydro plants that can use the FER tariff as per the Italian Ministerial Decree of 23 June 2016.

Highlights of adjusted performance items

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

	Year	
Operating results	**2018**	**2017**
(EUR million)		
Adjusted revenue from sales and services	**194**	**137**
Adjusted EBITDA [(1)]	**146**	**94**
Amortisation, depreciation and impairment losses [(1)]	(58)	(58)
Adjusted EBIT [(1)]	**88**	**35**
Investments in property, plant and equipment and intangible assets	7	6
Ebitda Margin %	**75%**	**69%**
Total output by hydroelectric plants (GWh)	**1,740**	**1,144**

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

In 2018, revenue, amounting to EUR 194 million, related mainly to electricity sales (mostly on the spot market) for EUR 102 million, revenue from the feed-in premium (former Green Certificates) for EUR 78 million, and revenue from MSD for EUR 6 million.
The costs are essentially attributable to the concession fees, personnel expenses, operation & maintenance costs, insurance payments and costs for services.

EBITDA for 2018 amounted to EUR 146 million (EUR 94 million in 2017), up by EUR 53 million, mainly as a result of the increase in water availability and despite 2017 having benefited from approximately EUR 8 million in revenue from previous incentives.

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

ERG Hydro's total output in 2018 of 1,740 GWh therefore benefited from a net unit revenue, taking into consideration the sales price of electricity, revenue from MSD and from replacement incentives and other minor components, totalling approximately 107 EUR/MWh (110 EUR/MWh in 2017, excluding the recoveries of prior incentives, mentioned above).

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

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

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

Capital expenditure

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

Relevant legislative and regulatory updates during the year

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

- **Increase of BIM hydroelectric surcharge**

  Following the adjustment of the amount of the surcharge for hydroelectric offtakes in December 2017, on 23 January 2018 a Directorial Decree was published in the Official Gazette adjusting the surcharge for mountain river basins (BIM) owed by hydroelectric concessions for the two-year period 2018-2019.
  In accordance with the provisions contained in the environmental measure attached to the 2016 Stability Law, this surcharge was unified to 30.67 EUR/kW for all offtakes with over 220 kW of power, while until the previous two-year period (2015-2017) differentiation was made between 220 and 3000 kW and above 3000 kW.

- **Regional regulations**

  In terms of regional regulations, in October 2015 the Umbria Region published Resolution no. 1067/2015 which determined the increase in the value of state concession fees from 15.6 to approximately 31 EUR/kW, starting on 1 January 2016. ERG Hydro S.r.l. presented an appeal to the Higher Court of the Public Waters (TSAP) against that measure.
  At the hearing held on 7 December 2016, the parties stated their opinions; the judge then referred the parties to the board, scheduling the discussion hearing on 1 March 2017. During this hearing, first the issue of jurisdiction was addressed, filed with the office by the Chairman of the Board, and then the merits issues relevant to the illegality of the rental increase. With its ruling submitted on 19 April 2017, the TSAP declared its lack of jurisdiction in favour of the Regional Court of Public Waters (TRAP) of Rome before which it arranged for the continuance of the appeal.
  With respect to the TSAP ruling, an appeal was brought before the Court of Cassation, and the fixing of the hearing date by the Court is pending.

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

  Reference is made to the Wind section.

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

  Reference is made to the Wind section.

THERMOELECTRIC

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

Highlights of adjusted performance items

Operating results	Year 2018	2017 restated
(EUR million)		
Adjusted revenue from sales and services	**405**	**464**
Adjusted EBITDA [1]	**53**	**78**
Amortisation, depreciation and impairment losses [1]	(31)	(31)
Adjusted EBIT [1]	**22**	**48**
Investments in property, plant and equipment and intangible assets	8	10
Ebitda Margin %	**13%**	**17%**
Total output by thermoelectric plants (GWh)	**2,151**	**2,453**

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

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

In 2018, ERG Power's net electricity generation was 2,151 GWh, down compared to 2017 (2,453 GWh), in relation to the less favourable market context, with decreased net generation margins due to the gradual increase in the prices of CO2 and natural gas in the year still not fully reflected in the sale prices. This trend was in line with the more general one registered in Italy for the entire thermoelectric sector.
The net supply of steam to captive customers of the Priolo Gargallo petrochemical site totalled 737 thousand tonnes, in line with the 2017 figure.

Adjusted EBITDA **in 2018** amounted to EUR 53 million (EUR 78 million in 2017). The decrease in the result is attributable to the lower contribution of Energy Efficiency Certificates pertaining to the CCGT plant insofar as it is qualified as a high efficiency cogenerating plant, which in 2017 benefited in the amount of EUR 11 million from the revaluation of securities matured in the previous year.
These results were also affected by the less profitable performance of the clean spark spread insofar as energy prices have not yet fully incorporated the significant increase in cost of gas and CO2.

Capital expenditure

Investments in 2018 (EUR 8 million) mainly refer to the ERG Power CCGT plant which continued the targeted investment initiatives aimed at preserving the operating efficiency, flexibility and reliability of the plants. Progress was also made on the planned Health, Safety and Environment projects.

Relevant legislative and regulatory updates during the year

- **Energy efficiency certificates**

April 2017 saw the publication of the Italian Ministerial Decree of 11 January 2017 which, in defining the energy savings targets for electricity and gas distribution entities for the years from 2017 to 2020, had an effect on the balance between the supply and demand of energy efficiency certificates (TEE).
On 15 February 2018, the Energy Markets Operator (Gestore dei Mercati Energetici, GME), by order of the Ministry of Economic Development, adopted an urgent amendment to the Rules of Operation of the energy efficiency certificate market, providing that market sessions go from weekly to monthly, with the aim of limiting price volatility. ARERA, with resolution 139/2018/R/EFR of 9 March 2018, approved the amendment put in place by the GME.
The Italian Ministerial Decree of 10 May 2018, containing further modifications to the TEE system, was published in July. The main provisions focused on measures to simplify access to the incentive system, and to introduce, from 1 June 2018, a cap of 250 EUR/TEE on the Tariff Contribution granted to parties obliged to purchase TEEs, and, lastly, the possibility for the GSE to issue virtual TEEs (not associated

with any specific project) to make up for any supply shortfall in the market.
In order to boost market liquidity, on 12 September the GME published an urgent modification to the Regulation for the operation of the Energy Efficiency Certificate market, reintroducing the session weekly expiry. ARERA, by means of resolution 501/2018/R/efr, approved the regulatory changes introduced by the GME.
On 10 October 2018, ARERA published Resolution 501/2018/R/efr approving the Rules of operation of the Energy Efficiency Certificate market (M-TEE) and the Regulation for bilateral transactions prepared by the GME within the meaning of resolution 487/2018/R/efr, providing for its official entry into force from 28 September. In particular the Authority:

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

- **Internal user networks**

For operators that own "closed distribution systems", which include the "internal user network" (RIU) in Priolo, the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) published Resolution 539/2015, which introduces the need to adopt accounting and functional separation of distribution activities from electricity sale activities within the RIU (so-called "unbundling"). With its subsequent resolution 788/2016, the Authority provided for the extension of the new regulations to 1 October 2017. With its resolution 582/2017, ARERA further postponed the entry into force of the new RIU regulations to 1 January 2018, in order to align the aforesaid reform with the entry into force of the reform of the structure of the general system costs.
Lastly, Article 1, paragraph 91, of Law no. 124/2017 (the "2017 Competition Law") provides that functional separation rules do not apply to the operators of closed distribution systems (which includes RIUs); only the accounting separation rules apply to the aforesaid operators.
ARERA, with resolution 15/2018/R/com of 18 January 2018, adapted the sector regulations to the aforesaid legislative provisions.
Article 16 of Resolution 539/2015 determines that the Operator of an SDC (closed distribution system) is responsible for levying the general system charges due from users of the SDC and for their payment to the CSEA. The CSEA published various circulars on the matter in 2018. Specifically: circular No. 4/2018 of 01/03/2018 established the arrangements for declaring and paying general system costs and circular No. 40/2018 of 06/11/2018 established the registration of SDC Operators in the CSEA operators database and the start of the mapping out of the points of at which the public network and the RIUs interconnect.

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

On 25 May 2016, news was published on the Terna website declaring the entry into operation at 00:00 a.m. on 28 May 2016 of the Sorgente-Rizziconi connection and the ancillary works defined by resolution 521/2014. That communication sanctioned the end of the essentiality regime envisaged by Law Decree no. 91 of 24 June 2014 for the electricity production units located in Sicily, as governed by the aforementioned Resolution 521/14.
ARERA then confirmed said situation by way of Resolution 274/2016/R/EEL.
The ERG Power Generation CCGT plant was subject to the essential facilities discipline provided by Law Decree 91/2014 until 27 May 2016.
With reference to the request for compensation of the costs relating to the period 1 January 2016 - 27 May 2016, with its resolution 841 of 5 December 2017 ARERA provided for the recognition an extraordinary advance. Subsequently, with resolution No. 48 of 12 February 2019, ARERA quantified the adjustment amount relative to the compensation of costs for 2016; the value determined is in line with business estimates. The adjustment amount was paid to ERG Power Generation S.p.A. on 28 February 2019.

Incentive framework

• Wind power sector incentives

Italy	• Plants that entered into operation before 2013: feed-in premium (FIP) equal to (180 EUR/MWh $-P^{-1}$) x 0.78 where P^{-1} is the average annual value of the sales price of the electricity of the previous year. Duration of the incentive: 15 years • Plants that entered into operation from 2013: allocation of incentives through participation in Dutch auctions. Duration of the incentive: 20 years
Germany	• Plants that entered into operation by July 2014: feed-in tariff (FIT) and, on an optional basis, FIP plus a management premium (EEG 2012) • Plants that entered into operation from August 2014 to December 2016: FIP (EEG 2014) • Plants authorised by the end of 2016 and in operation by the end of 2018: transitional period provided for during which it is possible to continue to benefit from the tariffs provided for in EEG 2014 of decreasing value in relation to the actual new installed power in the year. • Plants that entered into operation from 2017 onwards: FIP incentives allocated through Dutch auctions (EEG 2017). • From 2018, cooperatives can participate in auctions only if in possession of an authorising licence as for other wind energy producers.
France	• Plants that stipulated the application to purchase electricity generation by December 2015: a feed-in tariff (FIT) for 15 years, defined based on the year the application to purchase electricity generation was made and updated annually according to a formula tied to the index of hourly labour cost and to the index of the generation prices of industrial products. After 10 years of operation, it will be reduced for the subsequent 5 years of the incentive based on the wind farm's actual load factor if the annual number of hours of operation exceed 2,400. • Plants that stipulated the application to purchase electricity generation in 2016: feed-in premium (FIP). The FIP is divided into several components: the incentive component (*complément de rémunération*), calculated as the difference between the current FIT and the average monthly price of energy weighted on the national wind power profile, plus a management premium to cover the costs for managing the sale of energy. • New plants that do not fall into the above categories: recognition of incentives occurs through auction procedures or direct access in the case of plants with a capacity below 18 MW and wind turbines with unit power not exceeding 3 MW.
Bulgaria	• A feed-in tariff (FIT) in brackets based on hours of operation, which is constant in nominal terms. The duration of the incentive varies based on the date of entry into operation, and can be equal to 12 years (Hrabrovo plant) or 15 years (Tcherga plant). In particular, below the first bracket (on average equal to approximately 2200 equivalent hours of operation annually), the FIT recognised amounts to approximately 97 EUR/MWh, while the changes to legislation significantly reduced revenue for higher production levels. From 2019, for existing plants with a capacity of more than 4 MW, the incentive system has switched from a FIT system to a FIP system. The incentive is calculated as the difference between the value of the FIT, as previously recognised, and a reference price calculated on the basis of an estimate of the future price of electricity corrected for wind profile.
Poland	• Plants in operation by July 2016: Certificates of Origin (CO). The Substitution Fee (the penalty applied in the event of non-compliance with the CO purchase obligation) is calculated on the basis of the weighted annual average of the prices of the COs recorded the previous year, plus 25%. For 2018, after the 2017 trading closed, the penalty is set to 48.53 PLN/MWh. • From 2018, a multi-technological wind power-photovoltaic auction system was re-introduced. The auction quotas are defined annually by the Government.
Romania	• Green certificates with a duration of 15 years with delayed assignment with respect to the underlying electricity output. Specifically: a) the recovery period of the Green Certificates (GCs) held from 1 July 2013 to 31 March 2017 (which takes place at constant instalments through the years 2018-2025); b) the period of validity of the GCs, which is 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, set respectively at 35 EUR/MWh (from 57 EUR/MWh) and 29.4 EUR/MWh (from 27 EUR/MWh); • the mandatory quota for the consumers of electricity, which from 2018 onwards is 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 plants are paid through a FIP tariff on energy entered into the network for the duration of 20 years;
- The Conto Energia feed-in tariff scheme was introduced in Italy with the inter-Ministerial Decrees of 28/07/2005 and 06/02/2006 (Conto Energia I) which provide for an incentive payment system for electricity generation;
- The Ministerial Decree of 19/02/2007 (Conto Energia II) introduced several changes such as the application of the feed-in tariff to all the energy produced by the plant and the differentiation of tariffs depending on the type of architectural integration and the size of the plant;
- Conto Energia III came into force in 2010, with the Ministerial Decree of 06/08/2010. It was applicable to plants that entered into operation from 1 January 2011 until 31 May 2011, and introduced specific tariffs for photovoltaic systems integrated with innovative features. Law No. 129/2010 (the "Salva Alcoa Law") then confirmed the Conto Energia II tariffs for 2010 for all plants able to certify the conclusion of works by 31 December 2010 and entry into operation by 30 June 2011;
- The Ministerial Decree of 05/05/2011 (Conto Energia IV) defined the incentive mechanism for plants that entered into operation after 31 May 2011 and introduced an annual cumulative cost limit for incentives, set in EUR 6 billion;
- The Ministerial Decree of 05/07/2012 (Conto Energia V) partly confirmed the provisions provided for by the Ministerial Decree of 05/05/2011 and set the cumulative cost of incentives at EUR 6.7 billion. Conto Energia incentives have ceased to be applied since 6 July 2013 after the ceiling of EUR 6.7 billion was reached;
- The provisions contained in the Ministerial Decree of 17 October 2014 (the "spalma incentivi" [incentive spread] regulation) provided for, by November 2014, the obligation for producers to choose between various methods for remodulation of the incentives:
  a) extension of the incentive period by a further 4 years with simultaneous reduction of the unitary incentive by a value between 17% and 25%, depending on the residual life of the right to incentives;
  b) an initial period of incentive reduction followed by a period of subsequent increase thereof for an equivalent amount;
  c) flat reduction applied for the remaining incentive period, variable between 6% and 8% depending on the size of the plant.

• Hydroelectric

Italy

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

• Thermoelectric (Cogeneration)

Italy

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

Relevant legislative and institutional updates during the year

General

European Union

- **New ETS directive**

  On 19 March 2018, the Official Journal of the European Union published Directive (EU) 2018/410 amending Directive 2003/87/EC (the ETS Directive). Member States must transpose the regulation by 9 October 2019.
  The directive aims to regulate the fourth phase of the Emission Trading System (2021-2030), promoting more effective emission reductions and encouraging measures to decarbonise the economy.
  Some of the main measures introduced in order to achieve this are:
  - increase of the Linear Reduction Factor for total annual allocation amounts available from Member States to 2.2% (compared to the current 1.74%);
  - reinforcement of the Market Stability Reserve (MSR) by doubling the amount of allowances put in the reserve for the first 5 years, and then returning to the current 12% from 2024 to 2030.

- **New measures of the Clean Energy for all Europeans package**
  On 21 December 2018, three measures envisaged by the European Commission's "Clean Energy Package", issued at the end of 2016, were published in the EU Official Journal. These are the new directives on renewables and energy efficiency, and the regulation on Governance.
  The measures were approved by the European Parliament on 13 November and by the EU Council on 4 December 2018.

  New Renewable Energy Directive (RED II)
  RED II, covering the period 2021-2030, envisages the following key elements:
  - a target, binding at EU level, of 32% of energy from renewable sources by 2030;
  - the possibility for Member States to provide support instruments for the further development of electricity generation from renewable sources.
    These instruments, to be delivered only through competitive mechanisms, may include specific competitive auctions for technology, and must be stable and prevent retroactive interventions, to safeguard the profitability of investments;
  - measures to facilitate and simplify the permit-granting process with specific focus on the repowering of existing installations;
  - a new regulatory framework for the issuance and management of Renewable Energy Guarantees of Origin, to maintain the availability of electricity producers.

  New Energy Efficiency Directive (EED II)
  EED II, covering the period 2021-2030, provides for a target, binding at EU level, for the improvement of energy efficiency by at least 32.5% by 2030.
  The Directive obliges Member States to achieve annual savings of 0.8% (0.24% for Cyprus and Malta) of final energy consumption between 2021 and 2030, while granting certain flexibility on this obligation is achieved.
  For the first time, Member States will be obliged to adopt appropriate measures for the benefit of social groups facing energy insecurity.
  Governance Regulation
  This Regulation introduces the obligation for each Member State to draw up their own National Energy and Climate Plan, containing the definition of national energy/environmental targets for 2030, as well as details on the timing and the implementation arrangements in order for these to be achieved.
  In this regard, a unified methodology is provided for the calculation of national contributions, by which all Member States must abide when calculating their contribution.
  Member States shall have the option of determining how to divide the Union-wide 2030 target between the various energy components (heating and cooling, transport, electricity).
  For the purpose of generating renewable electricity, Member States should indicate volumes and implementation times, following an almost linear trajectory.

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

Italy

- **XVIII legislature**

On 4 March 2018, a general election was held to elect the representatives for the XVIII legislature of the Italian Republic.
The first party emerging from the elections was Movimento 5 Stelle, which obtained 32.68% of the votes for the Chamber of Deputies and the 32.22% for the Senate, while the Centre-Right Coalition (CDX) holds the majority of seats in both houses.
The Centre-Right Coalition party that obtained the most votes was Lega (17.37% Chamber of Deputies and 17.63% Senate) followed by Forza Italia (14% Chamber of Deputies and 14.43% Senate) and Fratelli d'Italia (4.35% Chamber of Deputies and 4.26% Senate).
On 24 March, following an agreement between Movimento 5 Stelle, Lega, Forza Italia and Fratelli d'Italia, the new presidents of the Senate and the Chamber of Deputies were elected: respectively, Maria Elisabetta Alberti Casellati of Forza Italia and Roberto Fico of Movimento 5 Stelle.

- **Formation of the new Government**

More than 80 days after the elections, Movimento 5 Stelle and Lega reached an agreement for the formation of the first Government of the 18th Legislature.
On 1 June 2018, the Council of Ministers took the oath before the President of the Republic at the Palazzo del Quirinale, while the vote of confidence of the Parliament was received between 5 and 6 June.
Giuseppe Conte, professor of Private Law at the Law faculty of the University of Florence and lawyer, was appointed Prime Minister.
Matteo Salvini, leader of Lega, and Luigi Di Maio, political leader of Movimento 5 Stelle and deputy of the Prime Minister of the Chamber in the previous legislature, were appointed deputy prime ministers.

- **Renewal of ARERA Board**

On 29 September 2018, the appointment, by means of the Presidential Decree of 9 August 2018, of the new Board of the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) was formalised in Official Gazette No. 227.
The members of the Board, which will remain in office for 7 years, are Stefano Besseghini (Chairman), Gianni Castelli, Andrea Guerrini, Clara Poletti and Stefano Saglia.

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

In early 2019, the Ministry of Economic Development, the Ministry for the Environment and the Protection of Land and Sea, and the Ministry of Infrastructure and Transport submitted Italy's draft integrated National Energy and Climate Plan (NECP), as provided for by the above-mentioned Governance Regulation, to the European Commission.
It will be submitted for public consultation, as provided by the regulations, as well as for thematic discussions between the Ministries and interested parties in order to arrive at the final version by the end of 2019, in good time for submission to the European Commission.
Among the main objectives specified in the draft NECP, based on the five dimensions of decarbonisation, energy efficiency, energy security, energy market, and research, innovation and competitiveness already identified by the Clean Energy for all Europeans Package, the following should be highlighted:

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

The main instruments identified relate to accelerating the development of renewable energy plants, in particular photovoltaic and wind, and phasing out the use of coal in electricity generation by 2025, through the strengthening of infrastructure for the transmission and distribution of energy, assisted by a widespread use of accumulated energy and digital technologies.

In terms of increasing the generation of electricity through renewable sources, priority will be given to own-consumption solutions through photovoltaic distributed generation and interventions that do not involve further consumption of land, such as the repowering of existing wind farms.
In order to facilitate and speed up the decarbonisation process, steps will be taken to begin electrifying energy demand, particularly in the transport and civil sectors.

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

On 31 December, Law No. 145 of 30 December 2018, otherwise known as the "Budget Law 2019" was published.
Among the key points on the matter of energy contained in the law, of note is the provision whereby economic proceeds - already granted and to be granted - paid by operators to Municipalities in whose territory there are plants powered by renewable sources on the basis of agreements signed before 3 October 2010 shall remain in local government budgets and shall contribute towards forming the business income of the owner of the plant. However, it will be necessary to adapt these agreements to the Guidelines contained in the Ministerial Decree of 10 September 2010.
The provision also includes some interpretative clarifications on the subject of registration tax, the freezing of safeguard clauses for VAT and excise duties for 2019 and the increasing of those for the following two-year period, the web tax of 3% for subjects with total revenue equal to or greater than EUR 750 million, of which at least EUR 5.5 million achieved in Italy for the provision of digital services.

On the matter of decarbonisation of transport, a bonus/malus system for vehicles has been introduced, rewarding for low or zero emissions of CO_2 with increases in the incentive in the event of destruction of more polluting cars; also provided are tax deductions on infrastructures for the electrical charging of vehicles.

On the matter of the environment and energy efficiency, a tax credit of 65% has been introduced on donations for the remediation of buildings and public land, as has a programme for the energy requalification of central public authority buildings. A tax credit of 36% has been introduced for companies that purchase products made with materials deriving from the separate collection of plastic packaging, as well as for the purchase of biodegradable and compostable packaging or packaging derived from the separate collection of paper and aluminium.
A facilitated rate is then applied for amortisation, which is variable according to the size of the investment for the benefit of buying software within the scope of the Impresa 4.0 plan.

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

On 18 December 2018, Law No. 136/2018 converting Decree Law No. 119/2018 (Tax Decree) was published in the Official Journal. Among the most significant provisions, the facilitated settlement of various cases of disputes between taxpayers and the tax authorities, the revision of the rates of excise duty on fuels used in cogeneration, simplification measures for the start of electronic invoicing, with the postponement of sanctions for anyone who does not fulfil the obligation, simplifications for the issue and the annotation of invoices.
During conversion, measures were also introduced for incentives to create a single data transmission network in order to facilitate the development of new technologies and infrastructures in ultra-wide band.

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

On 21 September 2018, Law 108/2018, which converted into law Decree Law No. 91 of 25 July 2018, and concerned an extension of terms envisaged by legislative decrees (so-called "Milleproroghe" law decree), was published in OJ No. 220.
This introduces a one-year postponement, from July 2019 to July 2020, on the completion of the liberalisation of the electricity and gas retail markets, which envisages the abolition of the market of 'greater protection' for sale to end customers.

- **"Simplification" Decree**

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

The law converting the Simplification Decree was published on 12 February and introduced significant

changes to the original text, in particular rules on concessions for large-scale diversion of water for hydroelectric use and on the determination of the relevant annual concession fees.
Very briefly, the new legislation provides that:

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

- within one year but not later than 31 March 2020, the Regions shall govern by law the arrangements and procedures for tendering for the reallocation of concessions; such procedures should be initiated within two years from the entry into force of the regional law, under penalty of the application of rules defined by a specific bill by the Ministry of Economic Development and the Ministry for the Environment and the Protection of Land and Sea in the event of non-compliance with the terms;

- new concessions have a duration of between 20 years and 40 years, and can be increased up to 10 years for particularly complex/expensive projects;

- the concession fee, to be determined by regional law, will be composed of two parts:

    - a fixed portion, linked to the average nominal power granted,

    - a variable portion, linked to “normalised revenue” determined on the basis of the energy sold and the zonal price.

- The regions may require from concession holders a free annual supply of electricity equal to 220 kWh for each kW of average nominal power granted;

  for concessions expiring by 2023 or already expired, the regions allow plants to continue operations for such time as is necessary to carry out the reallocation procedures - in any case not later than 31 December 2023 - against the payment, in addition to ordinary fees, of an additional fee and the free annual supply of electricity referred to in the previous point. The Ministry of Economic Development shall issue a decree to determine the minimum value of the fixed component of the fee and the additional fee. In the event of failure to adopt the decree within 180 days, the Regions may set the minimum annual value at no less than EUR 30 for the fixed component and EUR 20 for the additional fee for each kW granted.

United Kingdom

Brexit
On 13 November 2018, the UK and the EU reached a provisional agreement on the text of the UK’s EU

Withdrawal Agreement. The text of the agreement, which was approved by the UK Council of Ministers and by the European Council in November, was rejected by the UK parliament on 15 January 2019 with 432 votes against and 202 votes in favour.

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

Carbon tax to replace ETS in the event of a Hard Brexit
The UK Budget, presented on 29 October 2018, announced that installations currently participating in the EU ETS will pay a CO_2 tax of GBP 16 (EUR 18.11) per tonne in the event of a Hard Brexit. The tax will apply from 1 April 2019, which means that the Carbon Price Support will be the only charge on CO_2 emissions in the UK between January and March of 2019. The tax does not apply to generation plants located in Northern Ireland.

France

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

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

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

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

Romania

Publication of long-term energy strategy
On 19 September 2018, the Romanian Ministry of Energy published the national long-term energy strategy.
The proposals focus on the upgrading of the country's now obsolete electricity generation plant, with a large role for gas and nuclear power, but do not provide new support schemes for renewable energies.
The government plans to achieve its RES goals for 2030 of 37.6% on final gross consumption with the addition of two large hydroelectric projects with total power of 1,810 MW (Tarnita-Lapustesti 1,000 MW and Turnu Magurele-Nicopole 810 MW).

Adjusted income statement

To enhance understandability of the Group's performance, the operating results are shown in this section excluding special items.
As already indicated in the Introduction, the restated comparative data are shown in order to take account of the change in scope linked to TotalErg and Brockaghboy and the application of IFRS 15.
For the definition of indicators, the composition of the financial statements and the reconciliation of the amounts involved, as well as for the restatement of the restated comparative figures, reference is made to that indicated in the section Alternative Performance Indicators below.

		Year	
(EUR million)		**2018**	**2017 restated**
Revenue from sales and services	1	1,026.7	1,047.6
Other revenue and income	2	22.8	10.6
TOTAL REVENUE		**1,049.5**	**1,058.1**
Purchases and change in inventories	3	(327.2)	(355.8)
Services and other operating costs	4	(167.3)	(166.5)
Personnel expense		(64.3)	(63.4)
EBITDA		**490.6**	**472.3**
Amortisation, depreciation and impairment of non-current assets	5	(274.8)	(252.2)
EBIT		**215.8**	**220.1**
Net financial income (expense)	6	(69.7)	(65.6)
Net gains (losses) on equity investments	7	(0.1)	(1.2)
Profit before taxes		**146.1**	**153.4**
Income taxes	8	(39.0)	(36.2)
Profit for the year		**107.1**	**117.2**
Non-controlling interests		(0.1)	0.0
Profit attributable to the owners of the parent		**107.0**	**117.2**

1 - Revenue

Revenue from sales consists mainly of:

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

2018 revenue was EUR 1,027 million, down slightly compared with EUR 1,048 million in 2017. The change is a result of the following factors:

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

2 - Other income

These mainly include insurance reimbursements, compensation and expense repayments, immaterial chargebacks to third parties and grants related to income. The increase in other income compared to 2017 is mainly due to the release of surpluses deriving from the closure of previous items no longer due.

3 - Purchases and change in inventories

Costs for purchases include costs for the purchase of gas and CO_2, utilities and steam intended to fuel the ERG Power S.r.l. CCGT plant and costs for electric power intended for resale on the market within the sphere of the Energy Management activities.

In **2018**, these amounted to EUR 327 million, down by roughly EUR 29 million compared to the same period of 2017 mainly as a result of the lower electricity purchase cost corresponding to lower sales to customers, partially offset by higher costs for purchases of gas and CO_2.
The change in inventories, linked to spare part inventories, was not significant.

4 - Services and other operating costs

Costs for services include maintenance costs, commercial expenses (including energy transport costs), costs for utilities, costs for hydroelectric concessions, for agreements with local authorities, for consulting services, insurance costs, and costs for services rendered by third parties.
The other operating costs mainly relate to rent, provisions for risks and charges and to taxes other than income taxes.

This item is largely in line with the previous year.

5 - Amortisation, depreciation and impairment losses

Amortisation and depreciation refer to wind farms, hydroelectric sector plants and the CCGT plant, and in 2018 also to solar installations.
The significant increase is mainly linked to higher amortisation and depreciation due to the acquisition of solar installations (EUR 24 million) and to the change in scope of the wind power plants acquired in France in 2018 (EUR 2 million).

6 - Net financial expense

Net financial expense **in 2018** totalled EUR 70 million, up slightly compared with EUR 66 million in 2017, mainly due to the increase in medium/long-term debt as a result of the change in the consolidation scope.
The average cost of medium-long term debt in 2018 amounted to 3.0% compared to 3.2% for 2017. The remuneration of invested liquidity, also including the receivable due from api, was lower than that of 2017 due to the trend in interest rates.

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

Finally, it should be noted that the adjusted net financial expense commented on here does not include positive special items of EUR 8 million in 2018 relating to the net financial income recognised, on the basis of IFRS 9, in reference to refinancing operations completed during the period (EUR 11 million), net of the reversal effect related to refinancing operations performed in previous years and in the current period (EUR - 3 million).

7 - Net gains (losses) on equity investments

In 2018, the Group sold its equity investment in Brockaghboy Windfarm Ltd, generating a capital gain of EUR 27 million, net of the related tax effects and other ancillary components. The gain and the other profit or loss components associated with the sale of the equity investment are considered special items and therefore are not reflected in the aforementioned line “Net gains (losses) on equity investments” of the adjusted income statement.
On 10 January 2018, the Group sold its stake in TotalErg: for the purposes of greater clarity, the 2017 comparative figures were amended so as to exclude the adjusted results[17] of the investee previously measured using the equity method. In 2017, this contribution was positive in the amount of EUR 24 million.
Finally, it is noted that in 2017 the item included write-downs (approximately EUR 1 million) of minor shareholdings carried at cost.

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[17] Net of special items and inventory gains (losses)

8 - Income taxes

Income taxes **in 2018** totalled EUR 39 million (EUR 36 million in 2017). The adjusted tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 27% (24% in 2017).
It is noted that the tax rate in 2017 benefited from the positive impact related to deferred taxation (approximately EUR 4 million) resulting from the reduction of Corporate Income Tax in France (28% in 2017 compared to the rate of 33% applied in 2016).

Statement of financial position

The reclassified statement of financial position contains the assets and liabilities of the financial statements, used to prepare 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.

Reclassified statement of financial position	31/12/2018	31/12/2017
(EUR million)		
Non-current assets	3,273.6	3,260.8
Net working capital	179.3	150.0
Post-employment benefits	(5.8)	(6.4)
Other assets	291.7	278.7
Other liabilities	(567.0)	(573.0)
Net invested capital	**3,171.8**	**3,110.1**
Equity att. to the owners of the parent	1,828.8	1,877.5
Non-controlling interests	0.0	0.0
Net financial indebtedness	1,343.0	1,232.7
Equity and financial debt	**3,171.8**	**3,110.1**

1 - Non-current assets

(EUR million)	Intangible assets	Property, plant and equipment	Financial assets	Total
Non-current assets at 31/12/2017	**767.5**	**2,252.2**	**241.1**	**3,260.8**
Capital expenditure	7.5	52.7	0.0	60.2
Change in the consolidation scope	205.7	204.3	(185.6)	224.4
Divestments and other changes	5.7	(1.8)	(1.0)	2.9
Amortisation and depreciation	(55.7)	(219.1)	0.0	(274.8)
Non-current assets at 31/12/2018	**930.8**	**2,288.3**	**54.5**	**3,273.6**

The change in consolidation scope relates primarily to the acquisition of solar installations in Italy and wind farms abroad, and to the sale of the investment in TotalErg and the Brockaghboy wind farm.
The line "Divestments and other changes" comprises disposals of non-current assets, the use of main component spare parts and reclassifications.

2 - Net working capital
This includes spare parts, amounts due for incentives, amounts due for the sale of electricity, and trade payables mainly concerning the purchase of electricity and gas, the maintenance of wind power plants and other trade payables. The change for the year is mainly related to the seasonal dynamics of collections relating to incentives as well as to the effects of the change in the consolidation scope. A EUR 42 million debt in relation to oil purchases in previous years was also settled in 2018.

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

4 - Other liabilities
These mainly concern the deferred tax liabilities calculated on the differences between carrying amounts and the related tax basis (mainly concessions and non-current assets), the estimate of income taxes due for the year, and the provisions for risks and charges.

5 - Net financial indebtedness

Summary of the Group's indebtedness	31/12/2018	31/12/2017
(EUR million)		
Medium/long-term financial indebtedness	1,832.2	1,788.7
Short-term cash and cash equivalents	(489.2)	(556.0)
TOTAL	**1,343.0**	**1,232.7**

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

Medium/long-term financial indebtedness	31/12/2018	31/12/2017
(EUR million)		
Non-current bank borrowings	794.0	670.6
Current portion of loans and borrowings	(162.0)	(58.6)
Non-current loans and borrowings	204.8	205.9
Total	**836.8**	**817.8**
Total Project Financing	1,177.6	1,114.7
Current portion of Project Financing	(146.2)	(143.8)
Non-current Project Financing	**1,031.4**	**970.9**
Long-term loan assets	**(36.1)**	**0.0**
TOTAL	**1,832.2**	**1,788.7**

The "Non-current bank borrowings" at 31 December 2018 total EUR 794 million (EUR 671 million at 31 December 2017), and refer to:

- a corporate acquisition loan of EUR 291 million, subscribed by seven mandated Italian and foreign lead arrangers and bookrunners concerning the acquisition of the entire hydroelectric business belonging to E.ON Produzione, now ERG Hydro S.r.l.;
- three bilateral corporate loans with Mediobanca S.p.A. (EUR 150 million), UBI Banca S.p.A. (EUR 100 million) and Unicredit S.p.a. (EUR 75 million) entered into in the first half of 2016 to refinance the current portion of the corporate acquisition loan entered into for the acquisition of ERG Hydro S.r.l., and the project financing for the wind farm in Corni (Romania).
- a corporate loan with Mediocredito (EUR 70 million) for the early termination of leasing contracts of 5 solar companies acquired at the beginning of the year.
- an *Environmental, Social and Governance senior loan* ("ESG Loans") with BNL (EUR 120 million) signed in the fourth quarter of 2018, aimed at supporting the substantial investment plan of the Group and refinancing certain corporate credit lines, thus allowing a significant extension of the term of the debt and at the same time improving its financial terms.

The payables shown above are recognised net of ancillary costs recognised with the amortised cost method

(EUR 4 million) and the effect of the renegotiation of loans (EUR 4 million) as a result of the application of IFRS 9.

The current portion of loans and borrowings (EUR 162 million) refers to the portion to be repaid within twelve months of the aforementioned Corporate loans.

“Non-current loans and borrowings”, amounting to EUR 205 million, refer mainly to:

- net liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 88 million (EUR 106 million at 31 December 2017).
- liability deriving from the issue of the non-convertible bonds (EUR 99 million[18]) in 2017, aimed at raising additional funds for new capital expenditure in the renewable energies sector and to refinance the capital expenditure made for hydroelectric plants in Italy.
- liabilities related to the deferred component (EUR 12 million) of the price paid to purchase Creag Riabhach Wind Farm Ltd, owner of authorisations for the construction of a wind farm in Scotland, and of the price paid to purchase the Epuron Group (EUR 5 million).

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

- EUR 48 million in loans issued to ERG Power S.r.l. for the construction of the CCGT plant.
- EUR 165 million in loans related to the newly acquired ForVei Group companies (solar) and to the subsidiary ISAB Energy Solare;
- EUR 965 million in loans issued for the construction of wind farms, of which EUR 460 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 48 million. With regard to the ERG Wind acquisition, in accordance with IFRS 3 the financial liability relating to Project Financing is measured, upon purchase price allocation, at fair value. Said fair value was lower than the nominal amount, in consideration of the more advantageous contractual conditions than those proposed by the market at the time of the acquisition. The difference between the positive fair value of the liability and its nominal amount is consequently managed through the amortised cost method throughout the duration of the loan.

IFRS 9 is applied by the Group for annual reporting periods beginning on or after 1 January 2018. As regards the main effects on the Group, application of the standard does not allow for the deferment of the economic effects of the renegotiation of loans on the residual life of the liability by modifying the effective interest rate of the liability at that date: this involves accounting for a profit or an immediate loss at the date of modification of the liability, as an offset to the reduction of the corresponding debt. The application of the standard has resulted in the reduction of liabilities for loans at the transition date (1 January 2018) of EUR 7 million, as an offset to higher opening net assets, net of the related tax effects.
As a result of the refinancing transactions concluded in the year, net of the reversal effect relating to the refinancing transactions performed in previous years, the reduction in total debt at 31 December 2018 came to EUR 10 million.

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

[18] Net of ancillary costs, recognised with the amortised cost method

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

Short-term cash and cash equivalents	31/12/2018	31/12/2017
(EUR million)		
Current bank borrowings	20.1	83.0
Current portion of loans and borrowings	162.0	58.6
Other current loans and borrowings	3.9	1.7
Current financial liabilities	**185.9**	**143.3**
Cash and cash equivalents	(611.4)	(679.2)
Securities and other current loans assets	(47.1)	(28.8)
Current financial assets	**(658.5)**	**(708.0)**
Current Project Financing	146.2	143.8
Cash and cash equivalents	(162.8)	(135.1)
Project Financing	**(16.6)**	**8.7**
TOTAL	**(489.2)**	**(556.0)**

The increase in the current portion of loans and borrowings is linked with the deadlines set by the amortisation schedules of Corporate loans.
Current financial assets also include collateral on operations in futures contracts.
The amount of cash and cash equivalents decreased during 2018 mainly due to the acquisitions of solar companies and wind farms in France and Germany.

Liability Management

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

Specifically, in June, five group companies operating in the solar industry, acquired at the beginning of the year, arranged early settlement of the lease agreements relating to their assets, replacing them with a corporate loan for approximately EUR 70 million, significantly improving the overall financial terms. Also in June, ERG Eolica Adriatica S.r.l. refinanced the project financing agreement with a syndicate of Italian and international banks for approximately EUR 98 million, and in July ERG S.p.A. refinanced a corporate loan achieving, on both cases, better financial terms and duration conditions compared to the previous loan.
The two transactions form part of the broader Liability Management programme implemented during the year, which saw the overall renegotiation of around EUR 500 million of debt, with a decrease in the annual weighted average of the related cost of approximately 1%, the benefits of which were seen from the end of the second quarter of 2018, and an extension of the current term of the Group's financing by around 1 year.

Cash flows

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

	Year 2018	2017
Adjusted EBITDA	490.6	472.3
Change in working capital	(114.0)	19.7
Cash flow from operations	**376.6**	**492.1**
Investments in property, plant and equipment and intangible assets	(60.2)	(54.4)
Acquisitions of companies (business combination)	(449.4)	(39.5)
Capital expenditure in financial non-current assets	-	-
Sale of equity investment in TotalErg	179.5	78.0
Sale of net assets of Brockaghboy	105.7	-
Divestments and other changes	(0.2)	(2.4)
Cash flow from investments/divestments	**(224.5)**	**(18.2)**
Net financial expense	(69.7)	(65.6)
Net gains (losses) on equity investments	(0.1)	-
Cash flow from financial management	**(69.8)**	**(65.6)**
Cash flow from tax management	**(20.5)**	**(23.2)**
Distribution of dividends	(171.1)	(74.4)
Other changes in equity	1.4	13.9
Cash flow from equity	**(169.7)**	**(60.5)**
Change in the consolidation scope	**(2.4)**	**-**
Initial net financial indebtedness	**1,232.7**	**1,557.2**
Net change	*110.3*	*(324.5)*
Final net financial indebtedness	**1,343.0**	**1,232.7**

Cash flow from operations in **2018** was a positive EUR 377 million, a decrease of EUR 116 million compared to the same period of 2017, primarily due to the settlement of a EUR 42 million debt in relation to oil purchases in previous years and working capital dynamics influenced by TotalErg's exit from group VAT consolidation scheme.

Cash flow from investments in 2018 is mainly linked to M&A activities and in particular the acquisition of ForVei (EUR 345 million), Vent d'Est SAS (EUR 14 million), the French companies acquired by Impax New Energy (EUR 67 million) and Creag Riabhach Wind Farm Ltd, owner of authorisations for the construction of a wind farm in Scotland (EUR 23 million), as well as investments in property, plant and equipment and intangible assets (EUR 60 million). A detailed analysis of investments in property, plant and equipment and intangible assets during the year made may be found in the specific section.
The cash flow from divestments is mainly linked to the sale of the investment in TotalErg and of the UK Brockaghboy wind farm.

Cash flow from financial management refers to interest accrued during the year.

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

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

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

ALTERNATIVE PERFORMANCE INDICATORS

Definitions

On 3 December 2015 CONSOB issued Communication no. 92543/15, which transposes the Guidelines regarding the use and presentation of Alternative Performance Indicators in the context of regulated financial information, issued on 5 October 2015 by the European Securities and Markets Authority (ESMA). The Guidelines, which updated the CESR Recommendation on Alternative Performance Indicators (CESR/05 - 178b), aim to promote the usefulness and transparency of alternative performance indicators so as to improve their comparability, reliability and comprehensibility.
Some of the APIs used in this document are different from the financial indicators expressly provided for by the IFRS adopted by the Group.
These alternative indicators are used by the Group in order to facilitate the communication of information on its business performance as well as its net financial indebtedness.
Finally, in order to enhance understanding of the business segments' performance, the operating results are shown excluding special income items: these results are indicated with the term "Adjusted results".
Since the composition of these indicators is not regulated by the applicable accounting reporting standards, the method used by the Group to determine these indicators may not be consistent with the method used by other operators and so these might not be fully comparable.

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

- **Adjusted revenue** is revenue, as indicated in the Financial Statements, with the exclusion of significant special income components (special items);
- **EBITDA** is an indicator of operating performance calculated by adding "Amortisation, depreciation and impairment" to the net operating profit. EBITDA is explicitly indicated as a subtotal in the financial statements;
- **Adjusted EBITDA** is the gross operating margin, as defined above, with the exclusion of significant special income components (special items);
- **Adjusted EBIT** is the net operating profit, explicitly indicated as a subtotal in the Financial Statements, with the exclusion of significant special income components (special items);

- **EBITDA margin** is an indicator of the operating performance calculated by comparing the adjusted EBITDA to the Revenue from sales and services of each individual business segment;
- The **adjusted tax rate** is calculated by comparing the adjusted values of taxes and profit before tax;
- **Adjusted profit attributable to the owners of the parent** is the profit attributable to the owners of the parent, with the exclusion of significant special profit or loss components (special items), net of the related tax effects;
- **Investments** are obtained from the sum of investments in property, plant and equipment and intangible assets. Starting from the Report at 31 March 2018, they also include the carrying amount of the acquisitions of net assets within the scope of M&A transactions;
- **Net working capital** is the sum of inventories, trade receivables and trade payables;
- **Net invested capital** is the algebraic sum of non-current assets, net working capital, liabilities related to post-employment benefits, other assets and other liabilities;
- **Net financial indebtedness** is an indicator of the financial structure and is determined in accordance with CONSOB communication 15519/2006, also including the non-current loan to API S.p.A. (EUR 36 million) as a deferred component of the TotalErg sale price, as well as the non-current portion of assets relating to derivative instruments;
- **Financial leverage** is calculated by comparing total net financial liabilities (including Project Financing) to the net invested capital.
- The **special items** include significant atypical income items. These include:
    - income and expenses connected to events whose occurrence is non-recurring, i.e. those transactions or events that do frequently re-occur over the normal course of business;
    - income and expenses related to events that are not typical of normal business activities, such as restructuring and environmental costs;
    - capital gains and losses linked to the disposal of assets;

- significant write-downs recorded on assets following impairment tests;
- income and the associated reversals recognised in application of IFRS 9, in relation to the restructuring of loans in place.

Reconciliation with adjusted operating results

EBITDA	Note	Year 2018	2017 restated
EBITDA from continuing operations		***479.6***	***457.6***
Contribution of discontinued operations (Brockaghboy)	***1***	*3.3*	*2.3*
EBITDA		***482.9***	***459.9***
Exclusion of special items:			
Corporate			
- Reversal of ancillary charges on non-recurring operations (Special Projects)	***2***	*2.7*	*12.0*
- Reversal of ERG 80 charges	***3***	*5.1*	*0.0*
Thermoelectric			
- Reversal of ancillary charges on non-recurring operations (Special Projects)		*0.0*	*0.3*
Wind			
- Reversal of ancillary charges on non-recurring operations (Special Projects)		*0.0*	*0.1*
Adjusted EBITDA		***490.6***	***472.3***

AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES		Year 2018	2017 restated
Amortisation and depreciation - continuing operations		***(274.1)***	***(252.2)***
Contribution of discontinued operations (Brockaghboy)	***1***	*(0.7)*	*0.0*
Amortisation, depreciation and impairment losses		***(274.8)***	***(252.2)***
Exclusion of special items			
- Special items		*0.0*	*0.0*
Adjusted amortisation and depreciation		***(274.8)***	***(252.2)***

PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT		Year 2018	2017 restated
Profit attributable to the owners of the parent		**132.6**	**107.9**
Exclusion of special items			
Exclusion of ancillary charges on non-recurring operations	***2***	*2.2*	*9.3*
Exclusion of ERG 80 charges	***3***	*4.4*	*0.0*
Exclusion of capital gain from sale of UK equity investment	***4***	*(26.2)*	*0.0*
Exclusion of the net gain on refinancing (IFRS 9)	***5***	*(6.0)*	*0.0*
Adjusted profit attributable to the owners of the parent		***107.0***	***117.2***

1. The results of Brockaghboy, the subsidiary sold on 7 March 2018, are subject to the requirements of IFRS 5. In this Report and in the Directors' Report 2018, to facilitate understanding of the figures, the results achieved in

the period 1 January 2018 to 7 March 2018 by the assets sold are shown and commented on in ordinary operations, in line with the approach already adopted in the Directors' Report in the 2017 Annual Report and with the Interim Financial Report at 30 June 2018.

2. Ancillary charges relating to other operations of a non-recurrent nature and capitalised charges on holdings managed as ancillary charges on Group consolidated.

3. Charges related to the ERG Group's 80th anniversary celebrations.

4. The aforementioned sale of Brockaghboy resulted in the recognition of a capital gain of EUR 26 million, net of the related tax effects and other ancillary components, which for the purposes of this Report and of the Directors' Report 2018 is considered a special item.

5. The Group renegotiated a number of loans during the year. IFRS 9 does not allow for the deferment of the economic effects of the renegotiation of loans on the residual life of the liability: this resulted in a net gain of approximately EUR 6 million being accounted for in 2018. For the purposes of clearer disclosure of the cost of net financial indebtedness, it was considered appropriate to show in the adjusted income statement financial expense related to the debt service payment, deferring the recognition of benefits of the renegotiation over the remaining term of the liability and not recognising them all in one immediate entry at the time of the amendment. The aforementioned adjustment relates primarily to the reversal of the aforementioned benefit net of the effects linked to the reversal of similar income relating to re-financing operations of previous years.

Below is the reconciliation between the financial statements and the adjusted statements shown and commented upon in this Report and in the Directors' Report 2018.

Income Statement (2018)

(EUR million)	Values in Consolidated Financial statements	*Reversal of IFRS 5 reclassifications - Brockaghboy*	*Reversal of special items*	Adjusted income statement
Revenue	1,023.7	*2.9*	-	1,026.7
Other income	21.9	*0.9*	-	22.8
Total revenue	**1,045.6**	***3.8***	**-**	**1,049.5**
Purchases	(328.0)	*(0.0)*	-	(328.0)
Change in inventories	0.7	-	-	0.7
Services and other operating costs	(172.0)	*(0.6)*	*5.3*	(167.3)
Personnel expense	(66.8)	-	*2.5*	(64.3)
EBITDA	**479.6**	***3.3***	***7.8***	**490.6**
Amortisation, depreciation and impairment of non-current assets	(274.1)	*(0.7)*	-	(274.8)
EBIT	**205.5**	***2.6***	***7.8***	**215.8**
Net financial expense	(61.4)	*(0.6)*	*(7.7)*	(69.7)
Net gains (losses) on equity investments	(0.1)	*26.7*	*(26.7)*	(0.1)
Profit before taxes	**144.0**	***28.7***	***(26.6)***	**146.1**
Income taxes	(39.7)	*(0.2)*	*1.0*	(39.0)
Profit from continuing operations	**104.3**	***28.4***	***(25.6)***	**107.1**
Profit from discontinued operations	28.4	*(28.4)*	-	-
Profit for the year	**132.8**	**-**	***(25.6)***	**107.1**
Non-controlling interests	(0.1)	-	-	(0.1)
Profit attributable to the owners of the parent	**132.6**	**-**	***(25.6)***	**107.0**

Restated comparative data for 2017

For the purposes of this Report and of the Directors' Report 2018, it was deemed necessary to amend the comparative data in order to take account of the following:

- the aforementioned **sale of TotalErg** on 10 January 2018, which marked the ERG Group's definitive exit from the OIL industry. Since 2018, its business has therefore been focused exclusively on the market for the generation of energy from renewable sources. The comparison of the 2018 results with those of the same periods of 2017 is therefore affected by this change in scope. As such, in order to enhance understanding of the Group's performance in the two periods and in view of its new strategic and industrial positioning, comparative figures for 2017 were amended so as to exclude the adjusted results[19] of the TotalErg joint venture which had previously been measured using the equity method and reported in the line "Net gains (losses) on equity investments". In 2017, this contribution was positive in the amount of EUR 24 million.
- **IFRS 15 – Revenue from Contracts with Customers** has been applied from 1 January 2018, with no significant

[19] *Net of special items and inventory gains (losses)*

impact on the Group's consolidated financial statements. In particular, for some contracts ERG has been identified as an "agent", requiring the netting of certain operating costs thereby reducing revenue.

The table below presents a summary of the above effects:

	Values in Consolidated Financial Statements	*IFRS 15 Reclass.*	*Reversal of IFRS 5 reclass. - TotalErg*	*Reversal of IFRS 5 impact - Brockaghboy*	*Reversal of special items impact*	*Reversal of IFRS 5 effect - TotalErg*	Adjusted income statement
Revenue	1,053.6	*(8.9)*	-	*2.9*	-	-	1,047.6
Other income	10.6	-	-	-	-	-	10.6
Total revenue	**1,064.1**	***(8.9)***	**-**	***2.9***	**-**	**-**	**1,058.1**
Purchases	(355.8)	-	-	-	-	-	(355.8)
Services and other operating costs	(182.0)	*8.9*	-	*(0.6)*	*7.1*	-	(166.5)
Personnel expense	(68.7)	-	-	-	*5.3*	-	(63.4)
EBITDA	**457.6**	**-**	**-**	***2.3***	***12.4***	**-**	**472.3**
Amortisation, depreciation and impairment of non-current assets	(250.9)	-	-	*(1.3)*	-	-	(252.2)
EBIT	**206.7**	**-**	**-**	***1.1***	***12.4***	**-**	**220.1**
Net financial expense	(65.3)	-	-	*(0.3)*	-	-	(65.6)
Net gains (losses) on equity investments	(1.2)	-	*99.6*	-	-	*(99.6)*	(1.2)
Profit before taxes	**140.2**	**-**	***99.6***	***0.8***	***12.4***	***(99.6)***	**153.4**
Income taxes	(33.0)	-	*(0.6)*	*(0.1)*	*(3.1)*	*0.6*	(36.2)
Profit from continuing operations	**107.2**	**-**	***99.0***	***0.6***	***9.3***	***(99.0)***	**117.2**
Profit from discontinued operations	99.6	-	*(99.0)*	*(0.6)*	-	-	0.0
Profit before non-controlling interests	**206.8**	**-**	**-**	**-**	***9.3***	***(99.0)***	**117.2**
Non-controlling interests	-	-	-		-	-	-
Profit attributable to the owners of the parent	**206.8**	**-**	**-**	**-**	***9.3***	***(99.0)***	**117.2**

Significant events after the balance sheet date

Date	Sector	Significant events	Press release
11 January 2019	Solar	**Acquisition** by Soles Montalto Gmbh of 78.5% **of Perseus S.r.l.,** owner of 100% of Andromeda PV S.r.l. which in turn manages two photovoltaic plants with a total installed capacity of 51.4 MW. It was also agreed that Soles Montalto GmbH will remain minority shareholder, on the basis of shareholders' agreements that will guarantee ERG full industrial control of the asset and its line-by-line consolidation. The transaction's closing date was 12 February 2019.	Press release 11/01/2019
14 January 2019	Corporate	**Finalisation of the free allocation of 80 ERG treasury shares** to each employee of the Italian companies of the ERG Group, whose expenses (including the value of the ERG treasury shares) will be fully repaid by the parent San Quirico S.p.A., a holding of the Garrone and Mondini families. The allocation, announced on 20 October 2018 (*see press release of same date*), concerned a total number of 664 employees and 53,120 shares held in the portfolio by ERG S.p.A., with a total value, including the relative ancillary costs, of EUR 1.1 million.	Press release 14/01/2019
15 January 2019	Wind France	**Completion of the commissioning phase** for Parc Eolien de la Vallée de Torfou (17.6 MW with an estimated average annual output of 47 GWh), a wind farm forming part of the 768 MW of assets under construction and being developed by Epuron, acquired last year (see press release of 6/4/2018), and Parc Eolien Vallée de l'Aa (13.2 MW with an estimated average annual output of 29 GWh), corresponding to an overall total of around 45,000 tonnes of avoided CO_2 emissions per annum.	Press release 15/01/2019
4 February 2019	Corporate	ERG was ranked 16th in the "**Corporate Knights Global 100 Most Sustainable Corporations in the World Index**" published by the Canadian company Corporate Knights. With a score of 75.39%, ERG was the top Italian company, as well as the only Italian company in the Top 50.	Press release 04/02/2019

Business outlook

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

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

- **Solar:** In 2019, ERG increased its presence in the Solar sector with the acquisition of ANDROMEDA (51 MW), further strengthening its strategy of technological diversification. In addition, the considerable size reached (approximately 140 MW), also taking into consideration the acquisition in 2018 of FORVEI (89 MW), will make it possible to extend and optimise the Energy Management portfolio and capitalise on industrial expertise in the operational consolidation of assets.
  EBITDA for the full year 2019 is expected to approximately double compared to 2018 (EUR 32 million).

- **Hydroelectric:** For this asset, results are expected to be lower than those of 2018, which benefited from significantly higher volumes compared to historical averages as well as the lower incentive price benefiting approximately 40% of output; the expected lower volume will be accompanied by steps to optimise Energy Management production on the spot and dispatching services markets.
  EBITDA for hydroelectric power is therefore expected to decrease compared to the historic high values recorded in 2018.

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

FY 2019 EBITDA is therefore forecast within a range of between EUR 495 and 515 million, up compared to 2018 (EUR 491 million) despite a forecast of lower volumes in Hydro, a decreasing incentivised perimeter in the Italian Wind Power sector and the lower incentive price on incentivised volumes as regards both Wind and Hydro. These effects are more than offset by the contribution of the new Solar Power assets and, to a lesser extent, the new overseas wind farms and the actions of operational efficiency and energy management.
FY2019 investments are expected to be in a range of between EUR 340 and 370 million, down compared to 2018, during which a number of investments previously expected in 2019 were brought forward.
ERG's cash generation will keep borrowing largely stable in a range of between EUR 1.36 and 1.44 billion (EUR 1.34 billion in 2018), partially offsetting the investments in the period as well as the ordinary distribution of dividends at EUR 0.75 per share and the payment of financial expenses.