ANNUAL REPORT
AS AT 31 DECEMBER 2018

ERG

EVOLVING ENERGIES

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Director’s Report

INTRODUCTION

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[1] of the TotalErg joint venture which had previously been measured using the equity method and reported in the line "Net gains (losses) on equity investments". In 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".

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

RISKS AND UNCERTAINTIES IN RELATION TO THE BUSINESS OUTLOOK

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

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

CORPORATE BODIES

BOARD OF DIRECTORS [2]

Chairman
EDOARDO GARRONE *(executive)*

Deputy Chairman
ALESSANDRO GARRONE[3] *(executive)*
GIOVANNI MONDINI *(non-executive)*

Chief Executive Officer
LUCA BETTONTE

Directors
MASSIMO BELCREDI *(independent)*[4]
MARA ANNA RITA CAVERNI *(independent)*[5]
BARBARA COMINELLI *(independent)*[5]
MARCO COSTAGUTA *(non-executive)*
PAOLO FRANCESCO LANZONI *(independent)*[4]
SILVIA MERLO *(independent)*[5]
ELISABETTA OLIVERI *(independent)*[5]
MARIO PATERLINI *(independent)*[5]

BOARD OF STATUTORY AUDITORS [6]

Chairman
ELENA SPAGNOL

Standing Auditors
LELIO FORNABAIO
STEFANO REMONDINI

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

PAOLO LUIGI MERLI

INDEPENDENT AUDITORS

KPMG S.p.A.[7]

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

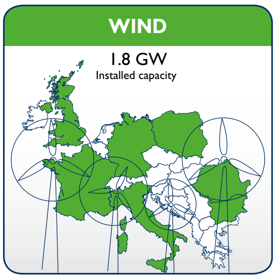
BUSINESS DESCRIPTION

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

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

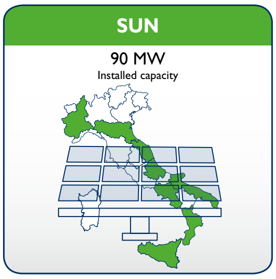
ERG Power Generation S.p.A. also operates, directly or through its subsidiaries, in the following Electric Power generation sectors:



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.

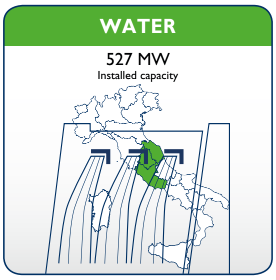
The wind farms are mainly concentrated in Italy (1,093 MW), but with a significant and growing presence abroad (729 MW operational), mainly in France (307 MW), Germany (216 MW), Poland (82 MW), Romania (70 MW) and Bulgaria (54 MW).



Solar

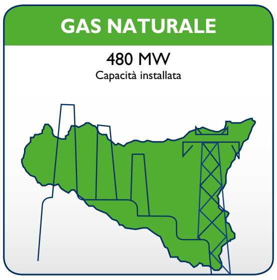
As from January 2018, ERG is active in the generation of electricity from solar sources, with an installed capacity of 90 MW, through 31 photovoltaic plants which became operative between 2010 and 2011 and are located in 8 regions between the North and the South of Italy.

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.

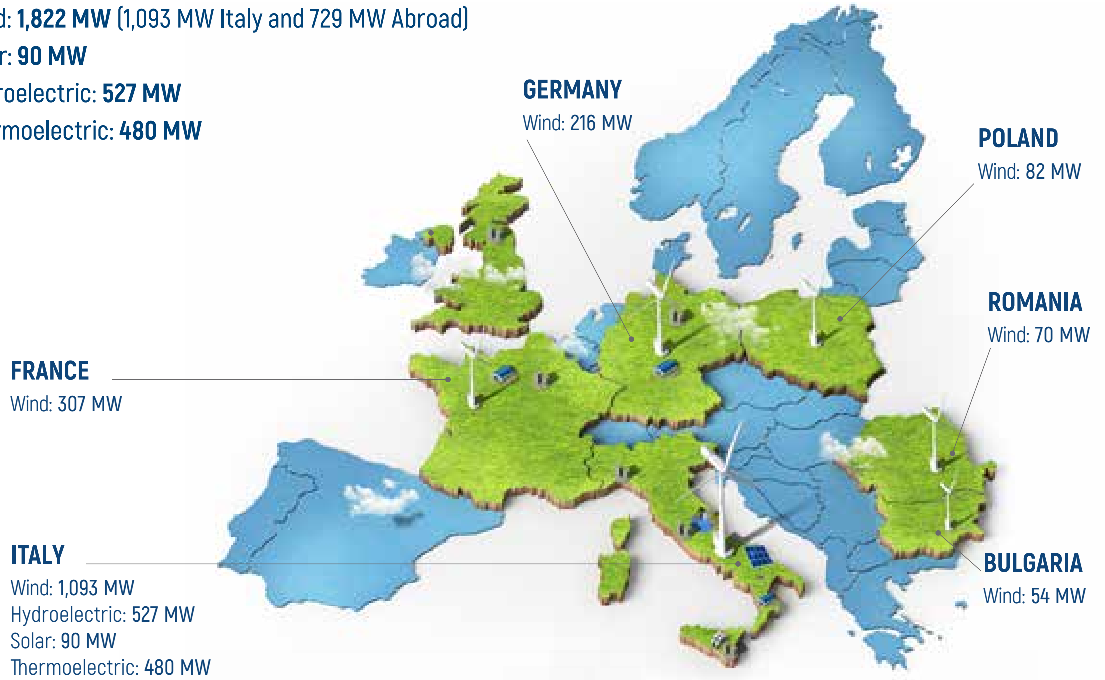


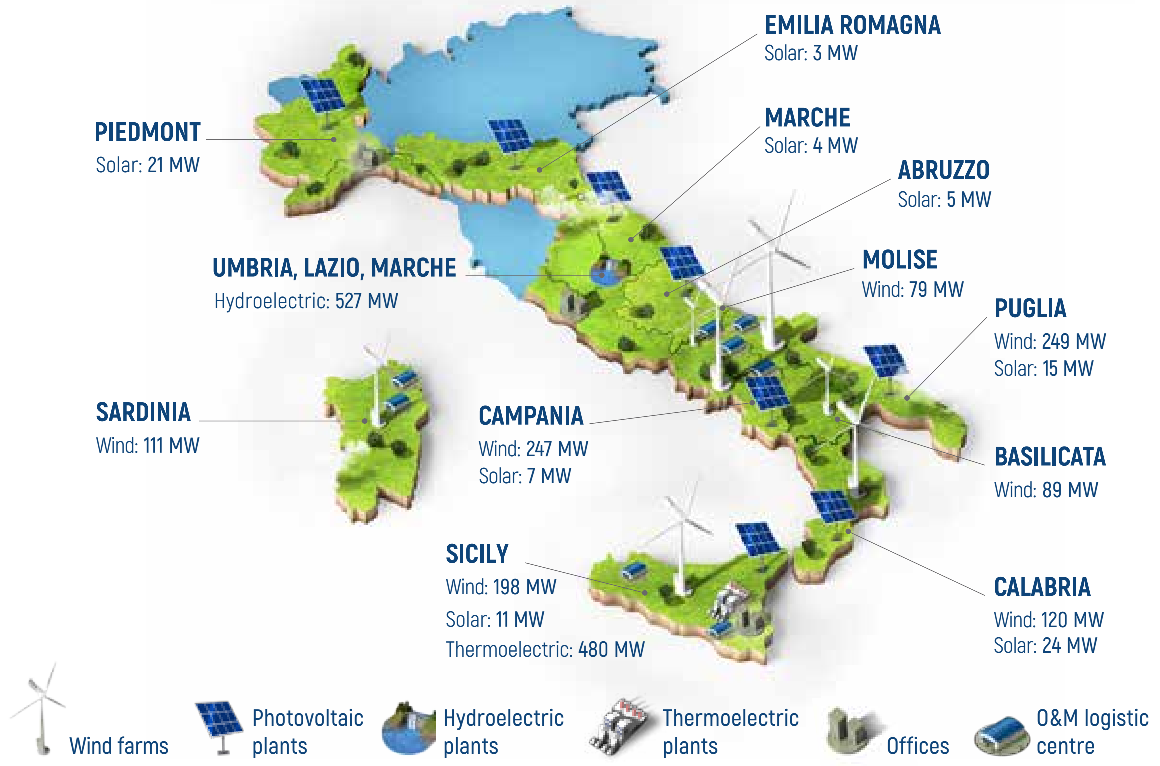
Thermoelectric

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

Wind: **1,822 MW** (1,093 MW Italy and 729 MW Abroad)
Solar: **90 MW**
Hydroelectric: **527 MW**
Thermoelectric: **480 MW**





CONSOLIDATION SCOPE AT 31 DECEMBER 2018


ERG WIND INVESTMENTS Ltd.
ERG WIND MEI 2-14-1 (UK) Ltd.
ERG WIND MEI 2-14-2 (UK) Ltd.
ERG WIND MEG 1 LLP
ERG WIND MEG 2 LLP
ERG WIND MEG 3 LLP
ERG WIND MEG 4 LLP
ERG FRANCE S.a.r.l.
ERG WIND RE BETEILGUNGS GmbH & Co. KG
ERG WIND 105 GmbH
PARC EOLIEN DE ST RIQUIER 3 S.a.s.
PARC EOLIEN DE ST RIQUIER 4 S.a.s.
ERG WIND PARK BETEILIGUNGS GmbH
VOLTWERK ENERGY PARK 8 GmbH & CO. KG
VOLTWERK WINDPARK WÖRBZIG GmbH & CO. KG
VOLTWERK WINDPARK BEESENSTEDT GmbH & CO. KG
WINDPARK COTTBUSER HALDE GmbH & CO. KG
WINDPARK ACHMER VINTE GmbH & CO. KG
ERG WIND 117 GmbH & CO. KG
ERG WIND HOLDINGS (ITALY) S.r.l.
ERG WIND ENERGY S.r.l.
ERG WIND SARDEGNA S.r.l.
ERG WIND SICILIA 2 S.r.l.
ERG WIND SICILIA 4 S.r.l.
ERG WIND SICILIA 5 S.r.l.
ERG WIND 2000 S.r.l.
ERG WIND SICILIA 6 S.r.l.
ERG WIND SICILIA 3 S.r.l.
ERG WIND 6 S.r.l.
ERG WIND 4 S.r.l.
ERG WIND LEASING 4 S.r.l.
ERG WIND DOBBERKAU GmbH & CO. KG
ERG WIND HERMERSBERG GmbH & CO. KG
ERG WIND OBER KOSTENZ GmbH & CO. KG
ERG WIND WB GmbH & CO. KG
ERG WIND WELCHWEILER GmbH & CO. KG
ERG WIND WESELBERG GmbH & CO. KG
WINDPAR K LINDA GmbH & CO. KG
CORNI EOLIAN S.A.
ERG WIND BULGARIA S.p.A.
VG-1 EOOD
VG-2 EOOD
VG-3 EOOD
VG-4 EOOD
VG-5 EOOD
VG-6 EOOD
MARK 1 EOOD
MARK 2 EOOD
K&S ENERGY EOOD
K&S ENERGY 1 EOOD
K&S ENERGY 2 EOOD
WIND PARK KAVARNA EAST EOOD
WIND PARK KAVARNA WEST EOOD
WP BULGARIA 4 EOOD
GLOBO ENERGY EOOD
ISAB ENERGY SOLARE S.r.l.
ERG SOLAR HOLDING 1 S.r.l.
ERG SOLAR PIEMONTE 1 S.r.l.
ERG SOLAR PIEMONTE 2 S.r.l.
ERG SOLAR PIEMONTE 3 S.r.l.
ERG SOLAR PIEMONTE 4 S.r.l.
ERG SOLAR PIEMONTE 5 S.r.l.
ERG SOLAR HOLDING S.r.l.
CALABRIA SOLAR S.r.l.
ERG SOLAR CAMPANIA S.r.l.
ERG SOLAR MARCHE 1 S.r.l.
ERG SOLAR MARCHE 2 S.r.l.
ERG SOLAR PUGLIA 1 S.r.l.
ERG SOLAR PUGLIA 2 S.r.l.
ERG SOLAR PUGLIA 3 S.r.l.
ERG SOLAR SICILIA S.r.l.
HELIOSPOWER 1 S.r.l.
LONGIANO SOLAR S.r.l.
SR05 S.r.l.

ORGANISATIONAL MODEL

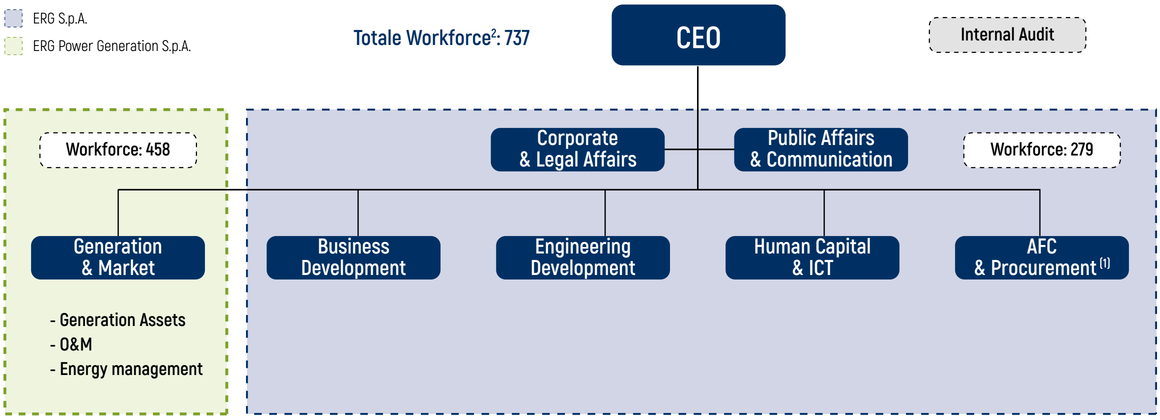
On 1 January 2017, the new organisational structure came fully into force; it is characterised by the definition of two macro-roles:

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

- ERG Power Generation S.p.A., which is assigned responsibility for the Group's industrial and commercial processes, is organised into:
  - Wind, Thermo, Hydro and Solar generation technologies, which in turn are organised into production units on a geographical basis;
  - Energy Management, as the single entry point into organised markets;
  - a commercial structure dedicated to Key Accounts;
  - a centre of technological excellence in 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.

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



(1) It includes Group Administration, Finance, Planning & Control, Investor Relations, M&A, Corporate Finance & Group Risk Management and Procurement
(2) At 2018 year-end

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.

ERG GROUP CURRENT GEOGRAPHICAL PRESENCE

Presence: 7 countries, Installed capacity: 2,8 GW, 4 Technologies

GEOGRAPHICAL PRESENCE

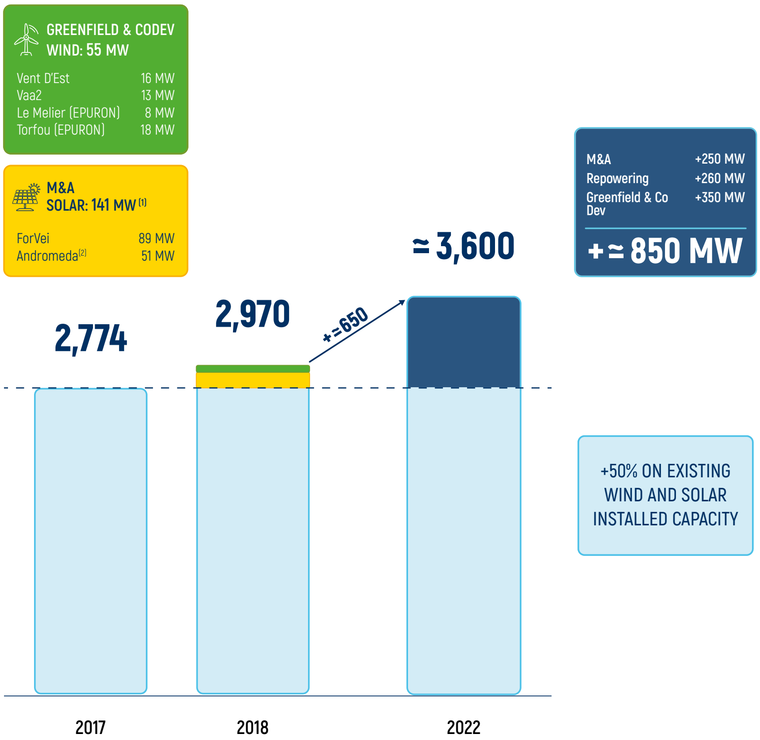
BUSINESS/TECHNOLOGY

COUNTRY/BUSINESS ATTRACTIVENESS FOR ERG

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.

ERG 2018 - 2022 CAPACITY EVOLUTION STRONG EXECUTION IN 2018

Growth in installed capacity (MW)



[1] It includes 1 MW of ISAB Energy Solare
[2] Closing to take place by 1Q 2019

CHANGE IN BUSINESS SCOPE IN 2018

Wind

- In the first quarter of 2018, ERG, via its subsidiary ERG Eolienne France S.a.s., completed the acquisition from **Vent d'Est S.a.s.** of 75% of two companies owning two wind farms with a total capacity of 16.25 MW (Parc Eolienne de la Voie Sacrée S.a.s. with 12.0 MW, which came into operation in 2007, and Parc Eolienne d'Epense S.a.s. with 4.25 MW, which came into operation in 2005). The companies have been consolidated starting from 1 January 2018. Subsequently, on **2 August**, the ERG Group acquired the remaining 25% of the share capital of the two companies from Renvico France S.a.s.
- On **7 March 2018**, following the sale process started at the end of 2017, ERG sold to the Greencoat UK Wind PLC fund, quoted on the London Stock Exchange and specialised in 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, net of the related tax effects and of other ancillary components. The gain and the other income statement components associated with the sale of the equity investment are considered special items and therefore are not reflected in "Adjusted profit attributable to the owners of the parent";

In view of the sale process, it is noted that the results relating to the assets being sold are presented separately 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, the results achieved in the period 1 January 2018 to 7 March 2018 by the assets sold are shown in ordinary operations, in line with the approach already adopted in the Directors' Report in the 2017 Annual Report.

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

- On **6 April 2018**, ERG, through its subsidiary ERG Power Generation S.p.A., entered into an agreement with Impax New Energy Holding Cooperatief W.A., a Dutch company owned by Impax New Energy Investors II, to acquire:
  - Parc Eolien du Melier S.a.s., owner of an 8-MW wind farm with expected output of approximately 23 GWh. The wind farm is entitled to benefit from the 2014 feed-in-tariff (FIT) for a period of 15 years following its coming on stream, which took place in November 2016;
  - Parc Eolien de la Vallée de Torfou S.a.s., owner of an 18-MW wind farm currently under construction with estimated average output of 48 GWh, which came on stream at the end of 2018. The wind farm will benefit from the 2014 FIT for a period of 15 years;
  - Epuron Energies Renouvelables S.a.s., which owns a pipeline of approximately 750 MW, comprising the following:
    - Wave I, which includes 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 S.a.s., the holder of rights, permits and authorisations for a 6.9-MW wind farm project. The project has already obtained all the necessary building authorisations; connection to the network is scheduled during the fourth quarter of 2021 and the coming on stream by December 2021.

  The wind farm will be located in Northern France, in the vicinity of ERG's other wind farms, and will benefit from the incentive tariff (2016 FIP) for a period of 15 years. Output is forecast at approximately 15 GWh 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 reflects the impacts of the consolidation of the companies acquired since 1 January 2018: for more information on the Purchase Price Allocation for solar, reference is made to the section "Financial statements and Alternative Performance Indicators".

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

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[8], 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

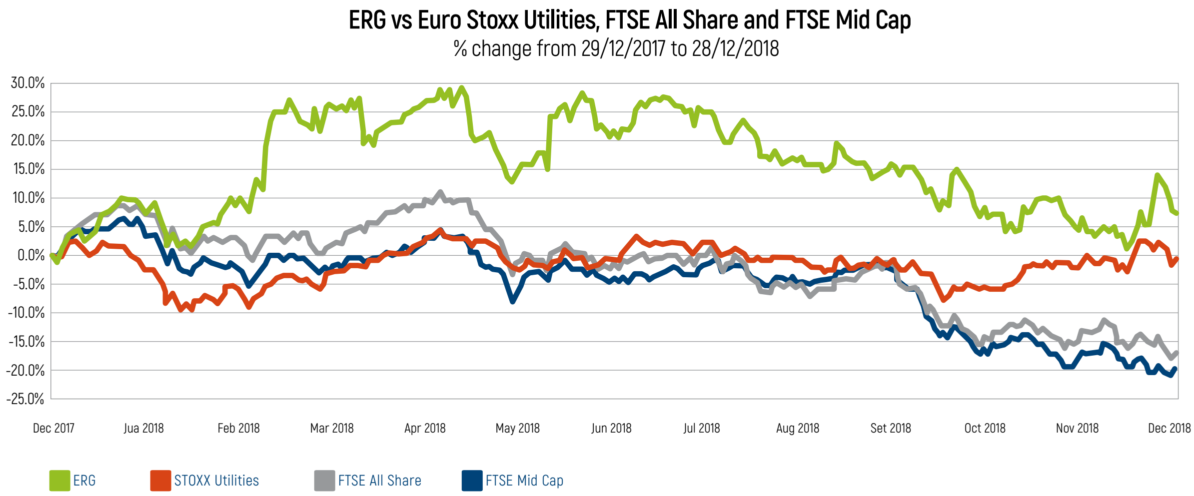
Volumes traded	No. of shares
Maximum volume (11/04/18)	4,438,532
Minimum volume (14/09/18)	61,218
Average volume	304,159

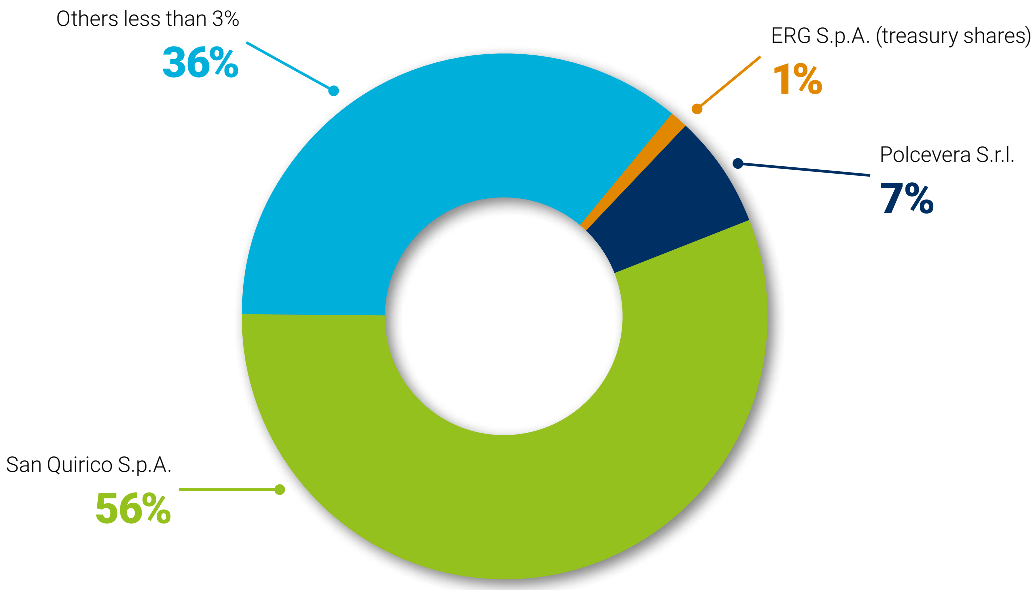
Market capitalisation was approximately EUR 2,480 million at 28 December 2018 (EUR 2,315 million at the end of 2017).

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

8 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 S.a.s.** 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 S.a.s. 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 3 TWh in the 2019-2021 three-year period, which will meet the needs of customers who are increasingly more sensitive to environmental sustainability. Under the agreement, ERG will be able to supply the volumes of electricity required by E.ON to cover the hourly requirements of its customers.	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

CORPORATE

Date	Significant events	Press release
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. 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.	Press release 20.10.2018
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 (5)			
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.

(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 EUR/MWh and is calculated by comparing technology production to revenue captured in the energy markets, including the impacts of hedges, of any incentives payable and variable costs associated with production/sale, including by way of example the costs of fuels and the 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**

(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

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'As 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

	Year 2018	2017
Price scenario (EUR/MWh)		
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

	Year		
	2018	2017	Change %
Italian market [1] (GWh)			
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[9]:

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.

In **2018**, steam sales[10] amounted to 737 thousand tonnes, in line with the previous year.

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

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

WIND

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

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

INSTALLED POWER (MW)	Year			
	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.

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	Year			
	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	Year			
	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

OPERATING RESULTS	Year	
(EUR million)	2018	2017
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:

OPERATING RESULTS	Year	
(EUR million)	**2018**	**2017**
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 3,000 kW and above 3,000 kW.

- **Regional regulations**

  In terms of regional regulations, in October 2015 the Umbria Region published Resolution no. 1067/2015 which determined the increase in the value of state concession fees from 15.6 to approximately 31 EUR/kW, starting on 1 January 2016. ERG Hydro S.r.l. presented an appeal to the Higher Court of the Public Waters (TSAP) against that measure.

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

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

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

THERMOELECTRIC

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

Highlights of adjusted performance items

OPERATING RESULTS	Year	
(EUR million)	2018	2017
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 CO_2 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 CO_2.

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).

RISKS AND UNCERTAINTIES

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

In order to ensure that these risks are properly managed, the Group has implemented an integrated process of Enterprise Risk Management aimed at making a proactive contribution to safeguarding the assets of the ERG Group and efficiently and effectively managing the Group in line with the business strategies defined by the Board of Directors.

In this regard, the Enterprise Risk Management process, implemented according to the reference international ERM standard, is implemented through:

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

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

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

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

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

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

- the technological diversification of renewable energy plants (e.g. Wind, Hydro and Solar) and the geographic diversification of the generating plants, which reduce both the impact and the likelihood of occurrence;
- the scheduling of shut-downs of renewable energy plants during periods of low input from renewable energy sources, which reduces the impact of the risk;
- the use of more accurate meteorological forecasting tools (wind, water and sun) to define generation plans, that

further improve the Volume Risk management strategies in the short term.

In addition, statistical risk analysis models are used, which make it possible to quantify the economic impacts in the medium term (plan horizon).

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

Risk mitigation strategies are implemented in accordance with company policies.

2. Price Risk

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

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

- fluctuation in electricity prices for all generation plants which sell electricity on the market;
- fluctuation in the prices of gas, CO_2 and Energy Efficiency Certificates (TEE) attributable to the generation of the natural gas-fired electricity co-generation plant (CCGT) of ERG Power;

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

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

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

Management strategies for this risk are implemented in accordance with company policies.

3. Regulatory and legislative risks

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

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

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

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

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

Management strategies for this risk are implemented in accordance with company policies.

4. New Capital Expenditure Risk

This risk refers to the set of uncertain events originating from various factors, for example, scenarios (micro/macroeconomic, political, regulatory, business-related), technical, operating, financial or organisational factors which may impact the decision to make New Capital Expenditure and on its success.

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

To minimise risk, the ERG Group has defined specific structured processes for selecting capital expenditure that involve a set of successive levels of examination and approval carried out based on, inter alia, internal and external support studies, benchmark analyses, legal-regulatory analyses, models and financial assessment/planning. The Group minimises possible risks linked to new capital expenditure by assessing all the risks for significant projects, which are associated with:

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

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

Risk management strategies are implemented in accordance with company policies.

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

The ability to access the capital market and other forms of financing and the associated costs depend, inter alia, on the credit rating assigned to the ERG Group.

Any downgrade by rating agencies could limit the Group's ability to access the capital market and increase the cost of raising capital with consequent negative effects on the operating results, financial position and cash flows of the Group.

In 2018, the credit rating assigned to ERG by the rating agency Fitch was "BBB-" with stable outlook. ERG's rating is linked, in addition to strictly endogenous and market variables, to Italy's sovereign rating.

ERG implements a risk mitigation strategy that aims to prevent the occurrence of "crisis" situations (e.g. liquidity; breach of financial covenants). The strategy is structured over various levels and involves the pursuit of: (i) a financial structure that is balanced in terms of duration and composition, (ii) the continuous monitoring of the final and expected results and of the financial balances, (ii) the systematic generation of cash by its own business activities and (iii) the geographical and technological diversification of its plants.

6. Information & Communication Technology Risks

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

- risk of uncontrolled access to networks, systems and data processing centre premises: this is identified as the risk that unauthorised persons may access systems, information or premises where computers are located and compromise their use, harming the integrity and security of systems and the information contained therein;
- risk of vulnerability of the IT systems: this is the possibility that the architecture/Framework of the ICT systems may be vulnerable to internal/external attacks or exposed to accidental events because of defects in their design, implementation, configuration and/or operating management, as well as due to the lack of awareness in the company population of the risks deriving from ICT attacks;

- risk of technological disaster: this is the possibility that the technological infrastructures serving corporate operations may be dramatically compromised by accidental events.

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

- constant protection of the confidentiality, integrity and availability of the information managed on ICT systems;
- adoption of specific models of the correct conduct in using workstations and ICT tools to guarantee suitable levels of information security;
- outsourcing of the management of the main systems to a provider with data centres that have high levels and standards of physical security that are formally certified;
- adoption of instruments to manage logical and physical accesses and to verify and record such accesses, based on reference best practices;
- use of automatic instruments to detect and manage incidents and anomalies;
- implementation of processes for the design, development, operation, maintenance, assistance and disposal of ICT infrastructures, of network services and of applications for mitigating the vulnerability of the ICT systems, in line with reference best practices.

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

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

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

Risk mitigation strategies are implemented in accordance with company policies.

7. Image and Reputation Risk

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

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

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

Risk mitigation strategies are implemented in accordance with company policies.

8. Anti-Corruption Compliance Risk

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

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

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

- a system of rules of conduct adopted by the Group Companies is in place (Code of Ethics, Model 231, and Anti-Corruption Policy), based on their respective characteristics, which all employees must comply with in carrying out their work and which prohibit all types of corruption, whether active or passive, involving not only public officials but also private parties;
- the responsibilities and specific expenditure powers (authorising and signature) are defined and assigned in compliance with the principle of Segregation of Duty, to limit the possibility of a single person completing an entire process with full autonomy;
- specific training programs for employees have been defined and implemented to inform them, on one hand, of the anti-corruption regulatory framework (and the related penalty system) and, on the other hand, of the rules of conduct adopted by the Group (e.g. Code of Ethics, Models 231 and Anti-Corruption Policy);
- a process is in place, under the supervision of the Supervisory Bodies pursuant to Italian Legislative Decree 231/01, for the management of reporting of behaviour contrary to the principles established by the Code of Ethics and Models 231; this process, with reference to possible violations of the Anti-Corruption Policy, is manned by "231 Compliance";
- a "Significant Third Party" verification process is defined, through which the corruption risk related to the establishment of a contractual relationship is assessed in concrete terms, identifying, where necessary, the appropriate risk mitigation and management measures;
- specific third level control activities are carried out by Internal Audit, in compliance with the principles prescribed by the Code of Ethics, by the Models 231 and by the Anti-Corruption Policy.

Risk management strategies are implemented in accordance with company policies.

9. Business Interruption Risk

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

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

- appropriate plant management policies aimed at pursuing high levels of safety and operating excellence, in line with industrial best practices;
- the adoption and ongoing updating, in line with sector best practices, of scheduled maintenance procedures, both ordinary and preventive, to identify and prevent potential critical issues, also based on specific engineering analyses conducted by specialised personnel;
- the periodic overhaul of plants and the use of tools for control and remote control of the technical parameters for monitoring and promptly detecting any anomalies in addition to, where possible, the use of redundancies in the components needed to guarantee the continuity of production processes;
- the continuous provision of specialised training courses for technical personnel that operate on the plants.

In addition, ICT solutions are to be adopted for the detection of technical issues and the calculation of the actual yield, aimed at allowing a predictive approach for scheduling and carrying out maintenance operations to limit plant outages due to accidental failures.

As regards production processes, particular attention is paid to the prevention and control of the related risks, through the implementation of Risk Assessments, Business Impact Analyses and a Business Continuity Management activity, with the aim of ensuring the operational continuity of industrial production plants.

At the Hydroelectric Complex of Terni, specific infrastructure activities still continue with the aim of improving the dams' response to seismic events. These activities are being carried out under the supervision of the Ministry of Infrastructure and Transport - Dam Directorate-General and coordinating with the Civil Defence. The monitoring activities and the controls have confirmed the seismic safety of all dams, infrastructures and production plants. To cover natural and catastrophic risks, to transfer its own industrial risks and third party risk and cover residual risks, the ERG Group uses the insurance market, thereby providing a high level of protection for its structures, even in the event of an interruption of activity. The contract terms and conditions of insurance policies are periodically reviewed. Risk mitigation strategies are implemented in accordance with company policies.

10. Health, Safety and Environment (HSE) Risk

The HSE Risk is mainly tied to the operation of industrial assets having an impact on workers' health and safety and environmental issues.

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

Safety risks are connected with the occurrence of accidents or injuries, or of damages or (more or less severe) physical disablements suffered by the persons assigned to the various work activities. Environmental risks are connected with the possibility that, due to the Group's business activities, an event may occur which triggers an alternation in the physical-chemical parameters of the water, air and soil environmental matrices, with negative impacts on the natural habitat and/or individuals' health, to the extent requiring the adoption of extraordinary emergency measures with negative consequences for the Company, in terms of the income statement, statement of financial position and/or reputation.

The ERG Group, which is strongly committed to mitigating such risks, has adopted specific Health, Safety and Environment guidelines which, in line with reference best practices, require that all the Group's Companies: (i) comply with all current legislation; (ii) pursue specific performance targets; (iii) continuously train personnel; and (iv) certify specific integrated HSE management systems.

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

In particular, Companies that manage industrial assets, which by their nature are more exposed to HSE risk, are all provided with an OHSAS 18001 and ISO 14001 certified Management system, and EMAS certification is obtained on all the main plants. The Companies that do not manage industrial assets are provided with an OHSAS 18001 certified Management system. During 2017 the periodic audits were conducted by the certifying bodies, which issued and/or confirmed the certifications held by the Group Companies. Moreover, the Group pursues the goal of zero injuries, through the structured monitoring of health and safety issues and the development of numerous programmes for prevention and for spreading a "safety culture", targeted both to internal personnel and to suppliers that operate at the plants. Care for people is also expressed through initiatives directed at personal development, performance assessment at all levels and sharing best practices. The adoption of the best available technologies, the application of ever more rigorous and stringent operating practices in terms of pollution prevention and reduction, and the correct management of the waste produced enable the ERG Group to efficiently manage its industrial activities and the related health, safety and environmental issues. The ERG Group publishes its "Consolidated non-financial statement" which provides salient information and data regarding HSE and social issues connected with the Group's business.

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

11. Country Risk

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

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

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

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

The mitigation of risk in those countries also involves the creation, development and maintenance of relations with selected institutions and stakeholders, in order to understand the political, institutional and regulatory scenario of the country of interest for the Group and its possible impacts on the business. These indicators are periodically updated to take into consideration any changes which could impact the correct representation of country risk.

Risk management strategies are implemented in accordance with company policies.

12.Litigation Risk

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

Litigation risk also refers to the possibility that a company of the Group may impugn an act or a measure damaging its interests issued by Institutions or administrative Bodies and/or independent Authorities.

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

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

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

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

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

Management strategies for this risk are implemented in accordance with company policies.

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

13. Default Risk in Loan Agreements

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

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

The ERG Group implements a risk mitigation strategy which involves:

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

Risk management strategies are implemented in accordance with company policies.

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

14. Liquidity Risk

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

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

- enabling the Group to be solvent both under normal conditions of conducting business and under crisis conditions, optimising the related opportunity cost;
- assuring the availability of an adequate level of operating flexibility, optimising the cost of funding in relation to current and future market conditions; the Group uses a prudential approach in estimating incoming and outcoming flow projections, which also takes into account assessments of the impact of different scenarios, including stress scenarios, that make it possible to identify the risk factors that could alter the cash flows forecast in the Financial Plan (e.g. scenario changes, postponements in the execution of disposals) and to define and implement the related mitigating actions;
- maintaining a balance in terms of duration and composition of debt, also through an operating structure that operates within assigned limits that are periodically revised and approved, and a second level control structure, autonomous from the first one that verifies its activities;
- guaranteeing adequate distribution of credit lines, deposits of cash and cash equivalents and related financial assets among the main Italian and international banks.

In order to ensure the efficient management of liquidity, treasury activities are centralised within the Parent, which meets the liquidity requirements of the Group primarily with cash flows generated by ordinary operations and with recourse to debt, where necessary, and ensures an appropriate management of liquidity.
To pursue its risk mitigation objectives, the stock of financial assets of the ERG Group is invested in short-term, high liquidity financial instruments, favouring a very low risk profile. Short selling is not permitted under any circumstances. Risk management strategies are implemented in accordance with company policies.

15. Commercial Credit Risk

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

- the definition of the limits of risk exposure at the Group level and of adequate risk mitigation instruments to ensure that the risk profile is aligned to the Group's requirements;
- an overall Group portfolio strategy that makes it possible to benefit from offsetting the different risk profiles

associated with individual customers and in particular between the riskier and the safer positions in terms of Probability of Default;

- a structured process of "active" credit management, in which specific Organisational Units and a Credit Committee:
  - assess the creditworthiness of each individual commercial counterparty in terms of Rating, Credit Limit and Probability of Default and assign it a specific level of credit in terms of maximum exposure ("facility");
  - analyse the risk profile of the portfolio and the levels of exposure with the counterparties in terms of granted facility and revenues;
  - analyse the ageing, constantly monitor the exposure level, both comprehensively and for each individual counterparty, evaluate the possible definition and implementation of any corrective actions.

Lastly, the Group has defined the types of guarantees that can be accepted in case of a facility granted to counterparties lacking a satisfactory economic/financial rating, and the financial institutions (banks and insurance companies) that are suitable for releasing such guarantees.

Risk management strategies are implemented in accordance with company policies.

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

16. Credit Risk with Financial Counterparties

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

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

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

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

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

Risk management strategies are implemented in accordance with company policies.

17. Risks of Financial Compliance and Compliance in Market Disclosures

These are the risks of being exposed to penalties and/or harm to image in relation to non-compliance with respect to the reference standards with which the ERG Group is obligated to comply, with regard to:

- compliance in market disclosures, connected with the publicly listed status of ERG S.p.A.;
- financial compliance, connected with the use of derivative instruments.

a. Compliance in Market Disclosures

This is defined as the risk of incurring penalties and/or harm to image as a result of the failure to comply with the (financial and non-financial) disclosure regulations with which ERG S.p.A. is obligated to comply, in consideration of its status as a listed company.

Mandatory market disclosures can be distinguished between “periodic disclosure” and “episodic disclosure”. By way of example, the following are included in:

- periodic disclosure: the annual financial report (Separate Financial Statements and Consolidated Financial Statements); the half-yearly financial report; any additional periodic financial information; the report on corporate governance and the ownership structure; the remuneration report;
- episodic disclosure: mergers and demergers; significant acquisitions and sales of equity investments, companies or business units; increases or reductions of share capital; issues of bonds; related party transactions with significant impact on the accounting position of the company; significant facts in general.

ERG implements a risk reduction strategy which involves:

- management of all market disclosures through specialist Organisational Units and a structured process for the release of any information, according to current legal and regulatory provisions and the best practices dictated by the Corporate Governance Code promoted by Borsa Italiana S.p.A.;
- a specific internal control system for governing the process of forming the financial disclosure, defined in accordance with international best practices on the matter (International Control Financial Reporting - ICFR). Specifically, the ICFR system:
  - Consists of a complete set of procedures that regulate the corporate processes that have direct or indirect accounting effects on the financial statements and on communications of a financial nature;
  - Provides a structure of controls on three mutually independent levels that assure the compliance of the financial disclosures presented to the market: the first level is guaranteed by the parties responsible for the processes; the second level is assured by the Compliance structure Under Law No. 262/05; the third level is assured by the Internal Audit O.U.

b. Financial compliance in the use of derivative instruments

This is defined as the risk of incurring penalties, financial losses or reputation damage as a result of the failure to comply with the financial regulation relating to trading in derivative financial instruments. These rules are aimed at assuring integrity and transparency in financial and wholesale electricity markets through disclosure obligations that the ERG Group is obligated to fulfil.

At the date of approval of this document, the main rules with which the Group is obligated to comply in order to assure financial compliance are the European Directives on financial markets (MiFID II, EMIR) and the international regulations on energy markets (REMIT).

ERG implements a risk management strategy aimed at assuring full financial compliance through:

- the study of international and national regulations on financial markets and on wholesale electricity markets and of their evolutions;
- the definition and monitoring of specific levels of significance/tolerance (numerical and otherwise);
- the definition and implementation of the activities that must be carried out within the ERG Group in order to fulfil regulatory obligations and in particular the definition of the processes and of the related procedures, aimed at regulating the activities/operating controls to be implemented and the specific responsibilities attributed to the different organisational units, as well as training activities concerning regulatory evolutions.

Risk mitigation strategies are implemented in accordance with company policies.

18. Risk of losing key professionals

This is defined as the risk that the global rewarding systems present in the Group (formed by fixed and variable components and benefits) may be inconsistent with respect to the persons' motivation or to the market benchmarks, with a resulting economic impact for the Group caused by the loss of key professionals and/or professionals deemed strategic. The Group mitigates this risk by developing remuneration strategies and policies based on weighing and matching positions, aligned with market benchmarks, in order to ensure the effectiveness of the rewarding components (monetary and non-monetary).

In particular, the Group uses differentiated tools for retention based on the degree of strategic importance and seniority of its personnel. In this respect, the fixed component of remuneration ensures retention through continuous benchmarking to the market, while the variable component guarantees the alignment of company objectives and the individual's interests by paying bonuses upon reaching long term (LTI) and short term objectives (MBO).

Risk mitigation strategies are implemented in accordance with company policies.

19. Interest rate risk

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

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

- the search for, and raising of, financial resources in the best possible conditions offered by the market, while complying with the constraints posed by the Risk Committee;

- the regular monitoring of the level of exposure to risk and of compliance with the constraints imposed by the Risk Committee;
- the use of derivative instruments (e.g. IRS, Interest Rate Swaps), authorised exclusively if there is an underlying asset;

pursuing the following objectives:

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

Risk mitigation strategies are implemented in accordance with company policies.

20. Exchange rate risk

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

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

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

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

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

Risk mitigation strategies are implemented in accordance with company policies.

21. Risks related to the loss of key suppliers

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

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

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

22. Industrial Relations Risk

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

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

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

Risk mitigation strategies are implemented in accordance with company policies.

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

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

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

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

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

Risk management strategies are implemented in accordance with company policies.

HEALTH, SAFETY AND THE ENVIRONMENT

Introduction

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

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

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

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

Health and Safety

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

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

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

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

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

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

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

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

Environment

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

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

Management Systems and Certifications

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

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

The Integrated Management System has the following purposes:

- to identify and describe, in detail, the productive processes that were managed while highlighting the various processes, interfaces, relative inputs/outputs and control elements;
- to measure and monitor the processes in order to attain the planned results, in accordance with the principles of efficacy, efficiency and constant improvement;
- to manage processes in agreement with the requirements of regulations;
- involves the adoption of reference procedures and guidelines applicable to all units.

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

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

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

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

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

GOVERNANCE

ERG conducts its business in compliance with the highest standards of Corporate Governance, and is committed to constantly applying the principles of integrity, impartiality and transparency.

With the objective of guaranteeing these principles at all moments of company life, the Group has implemented a Governance System and Internal Control and Risk Management System that not only complies with the current legislative and regulatory provisions in force, but is also aligned with national and international best practices as well as, specifically, with the recommendations of the Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A.

Corporate Governance encompasses **statutory bodies, board committees** and the **corporate governance documents** that regulate their operation[11].

The **Board of Directors**, appointed by the Shareholders' Meeting of 23 April 2018, is composed of 12 members - 7 of which are independent[12] (one appointed by minority shareholders) - in compliance with the criterion of gender balance; the mandate conferred to the Board of Directors will expire on the date of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2020.

In line with the Corporate Governance Code, the **Nominations and Remuneration Committee** is composed of three non-executive directors, a majority of which are independent. It is in charge of, among other things, making recommendations to the Board of Directors for the remuneration of Directors with delegated powers or tasked with particular duties and formulating opinions for the Chief Executive Officer for the definition of remuneration policies and incentive plans for Key Management and Top Management of the Group.

ERG has adopted a **Policy for the remuneration** of members of the Board of Directors and of Key Managers in line with the Corporate Governance Code. The Policy aims to encourage maximum alignment of the beneficiaries' interests with the pursuit of the primary objective of sustainable creation of value for Shareholders over the medium/long-term. The medium/long-term incentive system (**LTI System**) envisaged for the Executive Deputy Chairman, the Chief Executive Officer, Key Managers and other Top Managers of the Group who are of strategic importance for the purposes of the achievement of the 2018-2022 Business Plan, provides for the allocation of a given number of ERG shares, at the end of a three-year vesting period, subject to the achievement of a predefined percentage of the Group EBITDA cumulated over the period 2018-2020. The LTI System also provides that if, in addition to the achievement of

11 For detailed information in this regard, refer to the section "Report on Corporate Governance and Ownership" and the "Consolidated non-financial statement" for the year 2018, available at the Company's website (www.erg.eu).

12 5 Independent Directors pursuant to the Consolidated Finance Act (T.U.F.) and the Corporate Governance Code and 2 Independent Directors pursuant to the T.U.F. but not within the meaning of the Corporate Governance Code purely in view of the long term of office.

the EBITDA percentage, the ERG stock attains a predetermined listing price, the number of ERG shares to be assigned increases up to a predetermined maximum.

In line with the provisions of the Corporate Governance Code, the **Control and Risk Committee** is composed of three non-executive directors, the majority of which are independent, and is tasked with supporting the assessments and decisions of the Board of Directors pertaining, inter alia, to the Internal Control and Risk Management System, as well as those pertaining to the approval of periodic financial reports.

ERG considers it of fundamental importance that **risks** are properly **managed and mitigated** within the Group, and has therefore defined a policy aimed at establishing rules and assigning the related responsibilities.

With particular reference to financial and market risks, the Group has been working to strengthen the **Risk Committee**, the internal committee made up of the Chief Executive Officer, the CFO and Top Management, tasked with managing, inter alia, the risks inherent in Energy Management activities for the Group's entire energy portfolio. To this end, the Company has formalised a multi-annual hedging policy identifying minimum and maximum hedge limits, which are periodically monitored in terms of execution and performance.

ERG has set up a very strict **system to monitor and assess investments** (relating to both M&A and organic development) in order to stay within the profitability parameters established. The following play a central role in this regard:

- the **Investment Committee**, an internal committee composed of the Chief Executive Officer, the CFO and the Top Management, tasked with providing support in assessing investment proposals by the Group and expressing a technical and economic-financial opinion for the Strategic Committee on the investment proposal;
- the **Strategic Committee**, a board committee composed of the Executive Deputy Chairman - Chairman of the Committee - the Non-executive Deputy Chairman, the Chief Executive Officer, 2 Directors (one independent[13] and the other non-executive) and the Chief Financial Officer, tasked with, inter alia, providing support to the Chief Executive Officer and the Board of Directors in defining the strategic guidelines for the business, the portfolio, strategic finance and decisions relating to long-term strategic plans and regarding capital expenditure and significant acquisitions.

13 Pursuant to the Consolidated Finance Act (T.U.F.) and the Corporate Governance Code.

HUMAN CAPITAL

The 2018-2022 Business Plan has set very challenging targets for the ERG Group that require the management of people and processes to be handled very consistently and decisively; with this in mind, ERG's efforts in 2018 were strongly geared towards two main areas:

- the continuous improvement and adaptation of the organisational model, ONE Company, which came into force on 1 January 2017 following the lengthy preparation work carried out in the previous year, with the aim of constantly adjusting it to Group developments brought about by the business plan;
- optimisation of the new model for the development of human and organisational assets, comprising four areas of intervention:
  - continuous optimisation of organisation and processes, to encourage the generation of value;
  - increasing the value of human assets (PEOPLE);
  - development of the reward system;
  - development of a modern and innovative approach to industrial relations.

Organisation & Processes

ONE COMPANY the new organisational structure, which came into force in January 2017, features a strong focus on process logic and the desire to "mould" the entire organisation towards a single, common vision, and specifically provides for 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 5 areas:
  - Business Development;
  - Administration, Finance, Planning and Control, Risk Management, M&A, IR 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, since 2018, Solar generation technologies, which in turn are organised into production units on a geographical basis;
  - Energy Management, as the single entry point into organised markets;
  - a commercial structure dedicated to Key Accounts;

- a centre of technological excellence in charge of the Engineering & Construction processes;
- a hub of specialised skills in regulatory, planning and performance control matters, across all business processes;
- a structure dedicated to managing health, safety and environmental protection issues for the entire Group.

Since one of the cornerstones of building the organisational model was the identification of value creation levers, aimed at definitively assigning specific management and operational responsibilities so as to maximise the relative capacity for action and effectiveness with respect to the plan objectives, analysis and optimisation work continued over the course of 2018 in order to ensure the ongoing adequacy of the model.

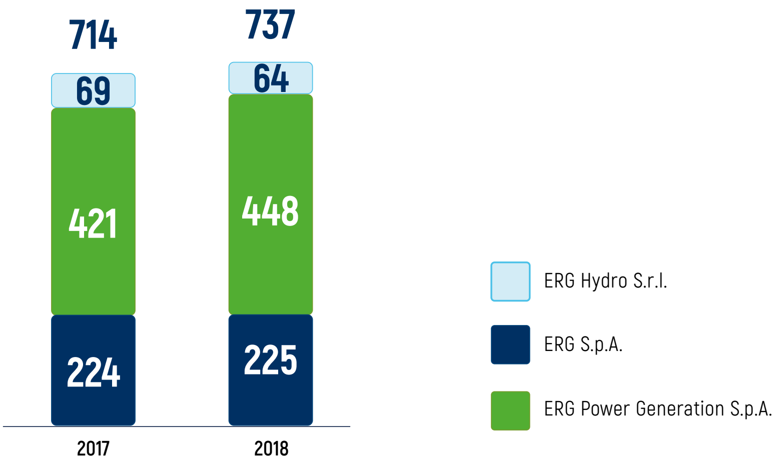
This led, in particular, to the identification, within the Corporate environment, of a new centre of responsibility with regard to the management of the Engineering Development processes, particularly with reference to the key objectives of the business plan:

- linked to the Repowering & Reblading of power plants in Italy, for which a substantial investment of financial and human resources is envisaged for the entire duration of the plan;
- dedicated support to Business Development processes in countries outside of Italy, in which the relevant pipeline at the various stages of development requires maximum focus in terms of skills and management.

Against this background of continuous fine-tuning of the organisation and processes, throughout 2018 the Group continued a major programme of change management with the objective of continuing to optimise operational processes and an ever clearer definition of the organisational positioning of all processes and resources, thus facilitating the achievement of the objectives of operational effectiveness and efficiency previously established during the reorganisation project.

In terms of the Group workforce, at 31 December 2018 ERG had 737 employees (+23 compared to 31 December 2017), broken down as follows:

- the workforce of ERG S.p.A. remained stable compared to 2017, reaching a total number of 225 persons compared to 224 at the end of the previous year;
- ERG Power Generation S.p.A. and its subsidiaries recorded an increase in the workforce, reaching 448 units (+27 units compared to 2017), mainly due to the acquisitions made in France in the course of 2018 and as a consequence of ongoing organisational improvement, rejuvenation and qualitative remix efforts;
- ERG Hydro S.r.l. closed 2018 with a headcount of 64 resources (-5 units compared to 2017), recording a physiological turnover in the year linked in particular to processes to rejuvenate and qualitatively remix resources.



The changes in the workforce were generated on the one hand by physiological but limited turnover in the various Group companies, and on the other hand by the Group's desire to strengthen its organisational structure to ensure the achievement of the key industrial targets developed in the business plan, with particular reference to:

- continuation of the plan for insourcing the Wind generation technology within Operations & Maintenance and the structuring, including in relation to staff areas, of Countries outside of Italy;
- the strengthening of areas of competence that contribute to industrial development, particularly as regards engineering;
- investment in junior resources to be trained internally within the specially set up Wind power technical training centre, with the aim of adequately supporting the maintenance of the significant efficiency results guaranteed by the insourcing of maintenance processes implemented in previous years;
- the acquisition of skills in relation to the management of the new Solar technology, which has become part of the Group's generation fleet from the beginning of 2018 and is characterised by specific technical and managerial requirements that must be fully met, from a business point of view, with adequate resources in terms of quantity and quality of skills.

The average age of the Group's employees is approximately 43.6, down slightly compared to the 2017 figure (43.9), testifying to the effectiveness of the rejuvenation policies implemented by the Group in recent years, and approximately 91% of all employees hold either a secondary school diploma or university degree, in line with the figure at the end of the previous year.

Development of Human Capital

Dispersed leadership is ERG's managerial development model. This means that the management team is closely involved in the development of human resources as a corporate competitiveness multiplier.

For this reason, once again in 2018 the Human Capital Committee continued its fundamental role in defining and monitoring the main programmes and activities for human resources development, supporting the Executive Deputy Chairman and the Chief Executive Officer in major personnel management decisions.

The Committee confirmed its guidance and control role, both with regard to the evolution of the Group's Organisational Model and the sharing of new organisational changes, and as regards disseminating and reinforcing managerial culture and implementing strategies and instruments for their achievement; in particular, in 2018 a great deal of effort was expended in deploying the Group's new managerial competencies model, in order to ensure adoption by the entire corporate workforce with the aim of making it one of the levers for the achievement of the key objectives set by the new business structure and the 2018-2022 Business Plan.

Moreover, in line with its mission, once again in 2018 the Committee pushed forward with development of the following processes:

- job evaluation & succession planning;
- career planning;
- talent management;
- promotion and key people management.

The objective, which is once again firmly confirmed, is to provide the Group with an integrated system for the management of Human Capital, able to assure that its capital of skills and knowledge is continuously adapted to ever-changing business conditions, so that available resources are always capable of rising to the challenges put forward by ever keener competition and by a complex, rapidly changing scenario.

In this context, the Group has further brought on stream its integrated use with other human capital processes of the skills management model developed in previous years. An extremely innovative tool, strictly based on the need to oversee specific skills to cover single organisational roles, and capable of "measuring" the value of the wealth of skills in the Group using a centralised process that is transversal to all Group Organisational Units.

The methodology was further fine-tuned, acting on tools already introduced in the Group in recent years (the Organisational Manual, the new Group organisational model, a centralised skills catalogue) which are the foundation of the tool, as well as on specific aspects of the tool (skills catalogue, profiling method, etc.), enabling the calculation of the Human Capital Coverage (HCC) ratio for 2018, which amounted to 90%, corresponding to EUR 1.6 million in terms of value generated with respect to the previous year. That ratio has thus become the frequent subject of measurements and optimisation actions, capable of expressing the effective level of coverage in relation to the desired level, in relation to the profile of skills needed to effectively carry out a specific organisational role or a certain group of organisational roles.

Measuring the HCC ratio, along with analysing business and organisational developments, further boosts the processes of managing and developing Human Capital, providing more consistent guidance on job rotation and career planning processes and talent development processes and the related investments in training in relation to actual needs.

Once again in 2018, as in previous years, investment in training activities was kept at high levels (approximately 4,294 days involving around 671 participants), but above all stood out for its quality and focus. The system comprises three areas (Managerial, Institutional and technical/specialist) and covers all the needs of the company's personnel with an end-to-end approach (from newly hired personnel to executives); in practice, it is the basic structure of an ERG "corporate university", with a training platform integrated into the human capital management processes and closely aligned with the needs dictated by the evolution of the business.

With regard to training, the launch of the new technical training centre, mentioned previously, is particularly significant. At this centre, for the technical training of Wind technology maintenance technicians, internal and external teachers instruct newly hired personnel (in particular, but also personnel already in service) with the objective of keeping the operational capacity of the O&M teams at the highest level, giving the Group a significant competitive advantage in the internal management of maintenance processes.

Reward Systems

In 2018, **the new 2018-2020 Long-Term Incentive System (performance shares)**, based on the free allocation of ordinary ERG S.p.A. shares upon achievement of a predetermined performance target, **was approved** and implemented alongside the **consolidated monetary short-term incentive system (MBO)** aimed at Group Managers and a selected group of Professionals. The Beneficiaries of the System are the Executive Directors and Managers of the ERG Group that are of strategic importance for the purposes of achieving the 2018-2022 Business Plan.

The 2018-2020 Long-Term Incentive System was approved by the Shareholders' Meeting of 24 April 2018. The aforesaid Shareholders' Meeting also gave the Board of Directors every power necessary to implement the system and authorised the Board to use up to a maximum of 1.052 million own shares for the purpose of the System. On 14 May 2018 the Board of Directors, in implementing the mandate given by the Board, resolved to: (i) approve the rules of allocation; (ii) identify Beneficiaries on the basis of the criteria defined (iii) allocate the incentive to the Chief Executive Officer, the Executive Deputy Chairman and the Beneficiaries identified (iv) define the conditions for implementation. The System is designed to ensure, in line with international best practices, greater alignment of Beneficiaries with the interests of shareholders in the medium-long term through the allocation of a shares incentive, and to improve the operating efficiency of the business through the use of the performance objective consisting of the cumulative Target EBITDA for the Group.

The 2018-2020 Long-Term Incentive System involves the allocation, at the start of the plan, of a predefined number of ordinary ERG shares. This allocation will take place at the end of the three-year vesting period if a predetermined cumulative Target EBITDA for the Group is achieved in the three-year period 2018-2020.

The system also provides that:

- in the event that in addition to the EBITDA Target, Outstanding Listing is also achieved, the number of shares granted increases as a function of the level of value creation for shareholders and up to a predetermined maximum (Cap);
- in the event that the dividends distributed in relation to the 2018-2020 period are different with respect to the assumptions underlying the implementation of the system, the number of shares assignable, with respect to the shares allocated at the start of the plan, will increase or decrease.

The number of shares allocated at the start of the plan was 385,000.

More information is available in the Remuneration Report.

ERG80

In 2018, the ERG Group celebrated reaching 80 years. To mark the celebration, and in recognition of the contribution that the people of ERG have made to the Group's transformation, from petroleum operator to producer of electricity from renewable sources, the Garrone and Mondini families decided to give 80 shares to every employee of the Italian companies in the ERG Group. Foreign branch employees received a Bonus with a value equal to that of the shares given to employees of the Italian companies.

With the same purpose, the Board of Directors of ERG S.p.A. of 18 October 2018 decided to reward all employees of the Group (Italy and abroad) with a Bonus equal to EUR 1,500, allocated on the occasion of the 80th anniversary celebrations.

The allocation, carried out on 14 January 2019, concerned a total number of 664 employees and 53,120 shares held in the portfolio by ERG S.p.A.

ERG INVESTS IN INDUSTRIAL RELATIONS: A YEAR OF INNOVATION AND PARTICIPATION

ERG began 2018 under the new contractual structure of the Electricity CCNL (National Collective Labour Agreement).

The Electricity CCNL became applicable as from 1 January 2018 to all those in the Group in Italy, as defined at the end of 2017 upon the conclusion of a collaborative and constructive negotiation process.

The change of CCNL was not simply the end point of a negotiating process, but rather **the starting point of a process of innovation and participation that, over the last 12 months, has radically renewed the industrial relations framework**.

In this sense, we can say that 2018 was a year in which the **Group chose to invest in industrial relations**. A first fundamental step was the signing, on 15 June 2018, of an **Industrial Relations Protocol** between the Company and national trade unions from the electricity sector, a first for ERG.

The signing of this document involved the definition of principles and methods by which trade union dialogue and discussion between the Company and the different levels of representation should be developed. Specifically, the following were defined within the Protocol:

- **principles and guidelines** of the new industrial relations model;
- **the areas of competence and "scopes"** of the various regional bargaining levels;
- specific **mediation and conciliation procedures** in the event of a dispute between the parties;
- **the establishment of mixed bilateral commissions** (company/trade union) to facilitate the comparison and exchange of information between the parties.

This tool was also found to be particularly useful for governing the new trade union geographical areas born from business changes in recent years and accentuated by the change in contractual structure at the beginning 2018.

However, the investment in Industrial Relations in 2018 did not stop at simply building a new model of reference. In fact, over the year we chose to encourage a participatory approach, which culminated in the **Advanced Union Training Course** for members of the Internal Trade Union. This was something completely new for ERG and, looking at the dynamics of the sector, is a model that is not yet widespread in the national industrial relations scene, which generally focuses on the negotiation and management of conflict.

Building on the recent Plant Agreement - signed by Confindustria and national trade union confederations on 8 March 2018, we designed an Advanced Training Course that helped participants to reflect on the new business processes that characterise the new ERG Electric and on levers of value creation and, finally, to discuss together the role of Industrial Relations in the new ERG.

With this in mind, we designed 3 specific training modules that involve a number of challenging **opportunities for external interaction and discussion**. It is no coincidence that, in addition to business managers, lectureships were entrusted to industrial relations and labour law experts and researchers, to Confindustria and also to the aforementioned national trade unions, so as to emphasise the participatory nature of investment in training.

Participation, balance and innovation. These are the principles of the Industrial Relations model that inspired us in 2018 and in which we will continue to invest in the future. **Only in this way, we believe, will industrial relations continue to generate value in modern-day plants**.

80 years of ERG

On 2 June 2018 ERG turned 80. A long and fascinating history in the energy sector, intertwined with Italy's economic and social development, combining the management of sustainability, growth and value creation with the wider needs expressed by the system.

The 80^{th} anniversary also coincided with the beginning of the Company's new "green" era, which began with the sale of the last oil asset, TotalErg, and the entry into the Solar market. To celebrate this important milestone, a new logo was also introduced: a stylised letter E in dark blue, light blue and green, recalling the company's close connection with the forces of nature. These shape the new logo, clearly expressing the origins of ERG's energy. The expression "Evolving Energies" summarises the Group's past and future, continuously dynamic and open to change.

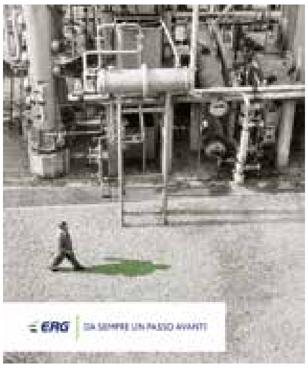
An important year, 2018 was characterised by numerous initiatives, culminating with the 80th anniversary celebration that took place on 19 October in Genoa, between the Ducal Palace and the Teatro Carlo Felice, with more than 1,500 company employees and additional guests invited.

On Saturday 20 and Sunday 21 October, the "Evolving Energies" exhibition was held in the Munizioniere area in the Palazzo Ducale, which was transformed for the occasion into a "Palace of Energy" and open to the public with free entry. The exhibition traced the key milestones in ERG's history from 1938 to 2018, alongside parallel events in Italian and international history that have shaped the socio-economic fabric of the country. An immersive multimedia experience that took visitors on a fascinating journey through time.

Alongside the inauguration of the exhibition, as a tribute to the area that has seen it grow and develop, ERG announced its decision to donate EUR 1 million to the Municipality of Genoa, to help redevelopment and sustainable development projects in lower Val Polcevera, following the collapse of the Morandi Bridge in August 2018.

In the portico of the Palazzo Ducale, the 3D virtual reality "Power of Change" space was set up, inside which specialist "oculus" 3D headsets made it possible to explore some of the most fascinating sites in which ERG plants are located, flying over the magnificent Marmore Falls, connected to our Galleto hydroelectric plant, and the Puglia and Sicily countryside, where some of the wind power and photovoltaic plants are located. The "ERG for Young" area was also set up in the portico of the Palazzo Ducale. Put together with the help of the Edoardo Garrone Foundation, Festival della Scienza and Flying Angels, it was an area dedicated to our younger visitors with workshops and content developed by students from the regions in which ERG is present with its assets.

A plaque dedicated to Riccardo Garrone was inaugurated in the foyer of the Teatro Carlo Felice, in recognition of his enthusiastic support of the theatre, the reconstruction of which, following the damage caused by bombing during the Second World War, was financed by him.



During the event, following the welcome address by the Chairman Edoardo Garrone, the book "ERG. Always one step ahead" was presented. A photographic book dedicated to the history of ERG, it takes you on a journey through the company's most significant events, against the background of events in Italy's history (the book is also available in pdf version on the ERG website).

The hostess for the evening, Antonella Clerici, and the Deputy Editor of Il Sole 24 Ore, Alessandro Plateroti, interviewed Alessandro Garrone and Luca Bettonte on the most important stages of ERG's history.

After a thrilling performance by pianist Elisa Tomellini with the Teatro Carlo Felice orchestra, the showman Rosario Fiorello took the stage, entertaining guests with his "Stasera Fiorello" show.

2018 was also the 80th anniversary of the Gaslini Institute in Genoa, internationally recognised as a centre of excellence for the treatment of paediatric pathologies. To mark this important anniversary, ERG wanted to give its support to the Associazione Cilla Liguria Onlus to set up the Reception Centre for families with children hospitalised at the Institute, within the area of the Convent of the Capuchin Sisters of Quarto dei Mille. The Welcome Centre comprises 16 mini apartments, service spaces and common spaces, placed at the disposal of the family members of the children coming from all across Italy and the world. Work to set up the facility was also financed by Fondazione Carige and Duferco Energia.

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.
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, has been 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.

The 80th anniversary celebrations also involved the opening of the ERGFit area at the headquarters in Genoa. A space of over 400 m^2, set in a fully restructured former warehouse and equipped with a fitness area divided into three different zones: cardio, floor work and equipment. It has changing rooms, bathrooms with showers and 31 latest-generation machines.

CULTURAL AND SOCIAL ACTIVITIES

In 2018, ERG renewed its efforts in the cultural and social arenas, operating, as in previous years, in three main areas: **"environment, health and social development" - "culture and knowledge" - "youth and sport"**.

The initiatives mainly regarded the following:

- support to start-ups, with initiatives referred mainly to technological development projects in the Energy world;
- the new generations, with educational activities on environment, climate change and renewable sources, and support for sporting events;
- cultural activities, promoted with initiatives in support of the local areas where ERG operates.

2018 was ERG's 80th anniversary, and numerous initiatives were organised to celebrate this important milestone (see the dedicated chapter **"ERG80"**).

Environment, Health and Social Development

Support for start-ups

In June 2018, the second edition of the **ERG Re-Generation Challenge** began. This is a business plan competition designed to offer students, start-ups and companies throughout Italy the opportunity to develop business initiatives. The first edition of the ERG Re-Generation Challenge involved Umbria, Lazio and Marche in the scouting phase, with a total of 66 projects presented. The top three continued their business development path through contacts and agreements with leading companies in the energy sector.

The second edition involved almost all regions in Central and Southern Italy in the scouting phase. At the end of January 2019, the three best ideas were awarded an amount of money to use to develop their respective projects.

Collaboration continued with **CDI Labs**, an initiative begun in 2016, promoted by SAFM (advanced management training school) in Turin, with the support of the CDI-Collège des Ingénieurs, to bring together technology start-ups from ten European countries and Israel and large industrial groups, including ERG.

Educational activities

2018 saw the fifth edition of the environmental education project "Go with the wind!" ("Vai col vento!") promoted by ERG and aimed at third-year secondary students from the municipalities in which the Group's wind power plants are present. The initiative, which has received the patronage of the Ministry of the Environment since its first edition and - since 2016 - that of the Carabinieri, has involved around 1,500 students from Sicily, Calabria, Basilicata, Campania, Molise, Puglia and Sardinia. "Go with the wind!" seeks to raise the awareness of students and teachers around the active role the younger generations can play in contributing to safeguarding the environment and developing the culture of sustainability. The project involves classroom lessons focused on renewable energy, particularly wind, environmental issues, climate change, and energy efficiency. These lessons are supplemented by visits to wind farms, during which ERG technicians illustrate the various phases of implementation, management and operation of a farm up to the production of electricity.

"A tutta acqua!", the educational project aimed at higher education students from the regions of Umbria and Lazio, in which ERG is present with hydroelectric plants, is now in its second edition. This project also provides training opportunities and guided visits at the Galleto plant and the protected area of the Marmore Falls.

In 2010, ERG launched the **"School Project"** to support the activities carried out within schools of all levels in the Syracuse province. As part of this, once again in 2018 ERG supported the Progetto Legalità (legality project) organised by the Syracuse Carabinieri unit, by running the **"Helmets save lives"** competition, aimed at middle school students and now in its tenth edition. ERG also supported **"Icaro 2018"**, a road safety education project organised by the Syracuse Provincial Traffic Police unit, which involved around 2,000 secondary school students.

As part of the "School Project", ERG held the **"Giornata dell'Energia Elettrica"** (Electricity Day), an initiative aimed at young students from technical institutes, which ERG has organised for the last 12 years in Sicily and 3 years in Umbria, in the areas in which it operates with its own plants.

Social commitment

On the occasion of the 80th anniversary celebrations, ERG committed to donate **EUR 1 million to the Municipality of Genoa**, as a tribute to the area that has seen it grow and develop, in support of redevelopment and sustainable development projects in lower Val Polcevera, following the collapse of the Morandi bridge in August 2018.

2018 was also the 80th anniversary of the Gaslini Institute in Genoa, internationally recognised for the treatment of paediatric pathologies. To mark this important anniversary, ERG wanted to give its support to the **Associazione Cilla Liguria Onlus** to set up the reception centre for families with children hospitalised at the Institute, in the area of the Convent of the Capuchin Sisters of Quarto dei Mille. The Welcome Centre comprises 16 mini apartments, service spaces and common spaces, placed at the disposal of the family members of the children coming from all across Italy and the world. Work to set up the facility was also financed by Fondazione Carige and Duferco Energia.

ERG also supports the Fondazione **Mus-E ONLUS**, which organises projects specifically aimed at primary schools with an elevated presence of immigrant children or those from difficult socio-familial situations, so as to involve children in common experiences of artistic creation for integration in primary school.

In September, the second **ERG Company Volunteer** day was held in collaboration with Legambiente at Piediluco Lake in Terni, one of the largest natural lakes in Umbria.
The initiative followed the success of the first day held in Genoa (Villa Croce) in November 2017 and is part of "Puliamo il Mondo", the Italian edition of the international "Clean Up the World" initiative, dedicated to looking after and cleaning up urban centres. Coordinated by volunteers from Legambiente, the people of ERG and their family members carried out cleaning and regeneration activities in the park adjacent to lake.

Culture and Knowledge

For ERG, spreading the culture of Sustainability is an important issue: for this reason it supports the **"CSR IS Sustainability and Social Innovation Fair"**, an important initiative not only for the promotion of best practices for Corporate Social Responsibility, but also because it enables some of the key CSR players to "network": companies and non-profit organisations, students, teachers and experts. The theme of the 2018 edition was "Sustainability routes". ERG illustrated its own experiences at the Genoa event in March and the national closing event at the Bocconi University in Milan in October.

In 2018, ERG renewed its commitment to **Fondazione INDA Onlus**, a non-profit foundation that since 1914 has organised classical plays at the Greek Theatre in Syracuse, by supporting theatrical productions and other activities promoting classical culture.

Again in 2018, ERG supported the **Camogli Communication Festival** in Genoa. The central theme of the fifth edition, which took place from 6 to 9 September, was "Visions" and it celebrated - through conferences, dialogues, round tables, interviews, workshops and shows - the ability to perceive the unexpected, to see beyond the material plane, and to imagine possible and achievable solutions.

In November, ERG was a partner of the sixteenth edition of the **"Festival della Scienza"** (Science Festival) held in Genoa from 25 October to 4 November, with eleven days of conferences, workshops, exhibitions, shows and special events dedicated to visitors of every age and level of knowledge. The theme of the 2018 edition was "Changes". At the ERG stand, set up in the portico of Palazzo Ducale, 3D oculus headpieces could be used to virtually visit ERG's wind farms, and hydroelectric and photovoltaic plants.

With a view to promoting significant cultural initiatives in the areas where it operates, this year ERG once again supported the **"Umbria Jazz" Festival**, held in Perugia in July: during the period of the musical kermesse, the city's main square was dubbed "ERG Square". ERG's contribution also promoted the organisation of **Umbria Jazz Spring**, thus making it possible for the Jazz Festival to return to Terni, promoting the Valnerina area, severely affected by the 2016 earthquake.

ERG sponsored **Confindustria's annual Young Entrepreneurs Conference** (Convegno dei Giovani Imprenditori), in Rapallo, Genoa. The 2018 edition "Ora. La sfida all'insostenibile" (Now. Challenging the unsustainable) was a two-day event - the morning of Friday 8 and Saturday 9 - dedicated to sustainability and finding a business model capable of pursuing economic growth while respecting communities and the environment.

For Confindustria Giovani, ERG supported the seventh edition of the **"Bootcamp"**, a training event where theoretical teaching and practice merge to build useful skills for confronting the challenging environment in which Italian companies are currently operating.

The ERG Group is a member of **CIVITA**, an association for promoting and managing Italy's cultural heritage and safeguarding, enhancing and providing access to artistic assets through exhibitions, cinema and European projects.

Young People and Sport

ERG sponsored the **34th Torneo Ravano** (Ravano Tournament) - **25th Coppa Mantovani** (Mantovani Cup), the largest school tournament in Europe. The 2018 edition involved, in April and May, over 6,000 very young athletes coming from schools in Liguria, in Lower Piedmont and in the province of Siena, participating over 10 days in 12 different sports: football (men's and women's), basketball, rugby, volleyball, cycling, fencing, rowing, sailing, athletics, water polo and tennis. In this year's edition, particular focus was given to raising the awareness of the youngsters to "green" behaviours through a series of Edutainment workshops: ERG was present with a corner that was entirely dedicated to the theme of the generation of "sustainable" energy from renewable sources.

ERG was also involved, as a Gold Sponsor, in the 19th edition of **Stelle nello Sport** (Sports Stars), a project that promotes the values of sports to an increasing bracket of the population in Liguria, with specific focus on young people and schools; it also promotes and supports sports in Liguria, with an emphasis on disciplines that get less media coverage, encouraging social projects, promoting initiatives in support of paralympic sports and fundraising for the Associazione Gigi Ghirotti of Genoa and the Fondazione Areo Onlus.

In September, ERG was a sponsor of the fifteenth edition of the **"AON Open Challenger - Giorgio Messina Memorial"**. This tournament, which takes place in Genoa, is the number two tennis event in Italy after the Italian Open at Foro Italico.

In 2018, the 27th edition of the **"Trofeo Archimede e Elettra"** (Archimedes and Electra Trophy), considered a classic sports event at school in the Siracusa Province, was held. The event took place at the ERG "Riccardo Garrone" Sports Centre in Siracusa and involved 1,000 students from 22 primary and middle schools in Siracusa and its province.

Edoardo Garrone Foundation

The Edoardo Garrone Foundation (Fondazione Edoardo Garrone, FEG) was born in 2004 out of the commitment of the ERG Group and of the Garrone and Mondini families in social and cultural matters. It is now chaired by Alessandro Garrone, who has reconfirmed the mission and values previously strongly expressed by his father Riccardo.

The Foundation's activities are shaped by its long-standing experience in education and the desire to keep aligned with developments in the reference socio-economic context: the main objective is to make the new generations active protagonists in regional economic, social and cultural development.

The projects, designed internally and being carried out more and more frequently thanks to strategic alliances with partners engaged in the same areas, are mainly aimed at developing the mountain economy, supporting state schools with high quality learning experiences to supplement the state curriculum, and increasing managerial skills in non-profit organisations. In 2018, the third edition of **ReStartAlp**, a campus dedicated to young people under the age of 35 with business and start-up ideas to be developed in the Alpine region, was launched; at the same time, a special edition of **ReStartApp**, dedicated to young entrepreneurs from the areas of central Italy affected by the earthquake, was launched.

The school projects **AppenninoLab** - a training and mentoring experience dedicated to adult students from schools in Liguria and Piedmont - and **Genova Scoprendo** - an educational course that gets middle school classes involved in the cultural, environmental and economical heritage of Genoa, with the underlying principle of active citizenship and environmental sustainability - were confirmed.

Finally, the second edition of the project **Fundraising Coaching Plus** supports two Ligurian non-profit organisations in setting up a professional fundraiser, teaching them how to start up and develop a fundraising office that is structured and efficient with respect to the mission and objectives of the organisation.

Recognition achieved by the ERG Group

In 2018, ERG received important recognition:

- **Corporate Knights Global 100 Most Sustainable Corporations in the World Index**

  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.

  The selection took into consideration listed companies around the world with at least $1 billion in turnover, which were preliminarily evaluated on the basis of four parameters (sustainability reporting, financial health, type of products sold and financial sanctions received), and then, subsequently, 21 additional parameters, specific to each industry, related to the management of natural resources, personnel, clean revenues and supplier performance.

  ERG obtained the B rating of the Climate Change programme promoted by the **Carbon Disclosure Project (CDP)**, the international NGO born with the aim of collecting and disseminating information and data, both quantitative and qualitative, on strategies that companies adopt in the fight against "climate change". The rating received is higher both with respect to the average in the Utilities sector (C rating), and the average in Europe (B- rating).

ERG has also been confirmed a member of the **ECPI Global Clean Energy Index**, which brings together the top 80 listed companies in developed countries active in the production and sale of renewable energies which meet the ESG (environmental, social and governance) criteria.

1. Confirmed inclusion in the ECPI Global Clean Energy Index
2. Achieved a B rating from the Climate Change programme promoted by the Carbon Disclosure Project (CDP)
3. Ranked 16th (top Italian company) in the Corporate Knights Global 100
4. Obtained ESG rating from Vigeo, IGI, Ethibel and Oekom

FINANCIAL STATEMENTS

ADJUSTED INCOME STATEMENT

To enhance understandability of the Group's performance, the operating results are shown in this section excluding special items. As already indicated in the Introduction, the restated comparative data are shown in order to take account of the change in scope linked to TotalErg and 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	1	1,026.7	1,047.6
Other 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[14] 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.

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).

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

STATEMENT OF FINANCIAL POSITION

The reclassified statement of financial position contains the assets and liabilities of the 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

(EUR million)	31/12/2018	31/12/2017
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

(EUR million)	31/12/2018	31/12/2017
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

(EUR million)	31/12/2018	31/12/2017
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[15]) 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

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

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.

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

SHORT-TERM CASH AND CASH EQUIVALENTS

(EUR million)	31/12/2018	31/12/2017
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 S.a.s. (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	Note	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	Note	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, 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 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, 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[16] 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.

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

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**

FINANCIAL STATEMENTS OF ERG S.P.A.

The financial statements of ERG S.p.A. at and for the year ended 31 December 2018 were prepared in compliance with the International Financial Reporting Standards (IFRS) set forth by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards – IAS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC).

RECLASSIFIED INCOME STATEMENT

The results of the TotalErg equity investment in the Notes to the Separate Financial Statements are measured and posted in accordance with the IFRS 5.

For clearer disclosure, the respective results of ordinary operations are shown and commented on in this Report.

For the reconciliation of these values, reference is made to that indicated at the end of this section. For additional details of the amounts tied to the measurement and recognition of the aforesaid results for IFRS 5 purposes, reference is made to the Notes to the Separate Financial Statements.

RECLASSIFIED INCOME STATEMENT	Year	
(EUR million)	**2018**	**2017**
Revenue	35.7	37.9
Other revenue and income	3.7	2.0
TOTAL REVENUE	**39.4**	**40.0**
Costs for purchases and change in inventories	(0.3)	(0.2)
Services and other operating costs	(56.0)	(66.0)
EBITDA	**(16.8)**	**(26.2)**
Amortisation, depreciation and impairment of non-current assets	(2.9)	(3.0)
Net financial expense	(0.9)	(4.5)
Net gains on equity investments	20.3	50.4
Profit (loss) before taxes	**(0.3)**	**16.6**
Income taxes	4.4	7.4
Profit for the year	**4.1**	**24.0**

Revenue

Revenue in 2018 amounted to EUR 36 million compared to EUR 38 million in 2017 and mainly refers to charges for the provision of services to subsidiaries.

Other income

Other revenue is mainly made up of recoveries from Group companies, relating to sundry consulting services and special projects.

Costs for purchases and change in inventories

Costs for purchases mainly relate to costs for consumables.

Costs for services and other operating costs

Costs for services and other operating costs mainly include labour costs and costs for services from third parties.

Amortisation, depreciation and impairment losses

Amortisation and depreciation are in line with the previous period and relate to depreciation of intangible assets (software) and materials (buildings).

Net financial income (expense)

This item mainly includes net intragroup income (EUR +2.5 million), interest income on liquidity management (EUR +3.6 million) and charges on bank loans (EUR -8.9 million).

In 2018, corporate loans were renegotiated resulting in a positive effect of EUR 5.4 million as a consequence of the application of IFRS 9 and the change in fair value relating to the Project Sponsor Subordinated Loan Agreement with the indirect subsidiary ERG Power S.r.l.

Also included are the effects of the derivatives hedging against the risk of fluctuation in interest rates for approximately EUR 2.9 million and the charges arising from the measurement at amortised cost of loans for an amount equal to EUR 1.9 million.

Net gains (losses) on equity investments

This item includes the dividends distributed by ERG Power Generation S.p.A.

Income taxes

Incomes taxes in 2018 were positive in the amount of EUR 4.4 million (positive in the amount of EUR 7.4 million in 2017).

STATEMENT OF FINANCIAL POSITION

The TotalErg equity investment in the Notes to the Separate Financial Statements is measured and posted in accordance with IFRS 5.

For clearer disclosure, the equity investment was posted under Non-current assets at 31 December 2017.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(EUR million)	31/12/2018	31/12/2017
Non-current assets	1,856.6	2,029.3
Net working capital	(8.2)	(55.2)
Post-employment benefits	(1.5)	(1.6)
Other assets	87.7	98.4
Other liabilities	(155.1)	(194.9)
Net invested capital	**1,779.5**	**1,875.9**
Equity	1,474.4	1,642.8
Net financial indebtedness	305.1	233.1
Equity and financial debt	**1,779.5**	**1,875.9**

At 31 December 2018, net invested capital amounted to approximately EUR 1,780 million, a decrease of EUR 96 million compared to 2017.

Non-current assets

Non-current assets are mainly made up of financial non-current assets. The decrease is linked to the sale of the shareholding in TotalErg S.p.A.

Net working capital

Net working capital consists of trade receivables and payables vis-à-vis Group companies and third parties. The slight change in net working capital is primarily attributable to the payment of a debt position linked to OIL purchases in previous years (EUR 42 million).

Other assets

These consist primarily of receivables due from the tax authorities and other receivables due from companies in the Group. This item also includes deferred tax assets and prepaid expenses.

Other liabilities

These mainly consist of short-term tax payables, payables toward Group companies and other payables. This item also includes other provisions for risks and charges.

Net financial indebtedness

SUMMARY OF NET INDEBTEDNESS (EUR million)	31/12/2018	31/12/2017
Medium/long-term financial indebtedness	738.3	715.5
Short-term financial indebtedness	(433.3)	(482.4)
Total	**305.1**	**233.1**

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

MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS (EUR million)	31/12/2018	31/12/2017
Non-current bank borrowings	632.1	611.9
Other non-current loans and borrowings	106.3	103.5
Total	**738.3**	**715.5**

The increase is mainly attributable to the signing of a corporate loan with Mediocredito (EUR 66 million) for the early termination of leasing contracts of 5 companies in the solar sector acquired at the beginning of the year and 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, partially offset by the reclassification in the short term of repayments on Corporate loans (EUR 162 million).

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

SHORT-TERM CASH AND CASH EQUIVALENTS (EUR million)	31/12/2018	31/12/2017
Current bank borrowings	184.6	141.5
Other current loans and borrowings	(0.1)	0.0
Financial payables to subsidiaries	0.0	49.2
Current financial liabilities	**184.5**	**190.7**
Cash and cash equivalents	(598.5)	(662.0)
Securities and other current loan assets	(3.5)	(2.6)
Financial receivables from subsidiaries	(15.7)	(8.5)
Current financial assets	**(617.8)**	**(673.1)**
TOTAL	**(433.3)**	**(482.4)**

Current bank borrowings include the portion to be paid on Corporate loans (EUR 162 million) in 2019, as well as short-term credit lines (EUR 20 million). Short-term financial payables and receivables vis-à-vis subsidiaries comprise the balances of the financial current and centralised treasury accounts operated with other Group companies as part of centralised management of Group finance. The decrease in cash and cash equivalents in the year was due to the payment of dividends to shareholders for EUR 171 million, and the payment of a debt position linked to OIL purchases in previous years for EUR 42 million, partly offset by the receipt of dividends from ERG Power Generation S.p.A. for EUR 20 million.

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

(EUR million)	31/12/2018	31/12/2017
CASH FLOW FROM OPERATING ACTIVITIES:		
Profit for the year	4,1	24,0
Depreciation	2,9	3,0
Change in working capital and other assets and liabilities [(1)]	(76,2)	44,5
Other	(0,0)	(0,0)
Total	**(69,2)**	**71,4**
CASH FLOW FROM INVESTMENT ACTIVITIES		
Net investment in property, plant and equipment and intangible assets	(3,2)	(3,2)
Net investment in financial non-current assets	(6,7)	(5,0)
Sale of equity investment in TotalErg	179,5	14,1
Total	**169,7**	**5,9**
CASH FLOW FROM EQUITY		
Dividends distributed	(171.1)	(74,4)
Sale of treasury shares	0,0	0,0
Other changes in equity	(1,3)	1,2
Total	**(172,5)**	**(73,3)**
CHANGE IN NET FINANCIAL INDEBTEDNESS	**(72,0)**	**4,0**
INITIAL NET FINANCIAL INDEBTEDNESS	**233,1**	**242,4**
CHANGE FOR THE YEAR	**72,0**	**(4,0)**
CHANGE FROM MERGER OF ERG SERVICES INTO ERG S.P.A.	**0,0**	**(5,3)**
FINAL NET FINANCIAL INDEBTEDNESS	**305,1**	**233,1**

(1) the change in working capital is primarily attributable to the payment of a debt position linked to OIL purchases in previous years (EUR 42 million)

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

In view of the aforementioned entry into the solar business, starting from the first quarter of 2018 ISAB Energy Solare S.r.l. (1 MW), a company already part of the Group and previously measured using the cost method due to it not being of a significant size, is fully consolidated.

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

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

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

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

- ERG Petroleos S.A in liquidation;
- Eolico Troina S.r.l. in liquidation.

DISCLOSURE PURSUANT TO ARTICLE 2.6.2., PARAGRAPH 8, OF BORSA ITALIANA S.P.A. REGULATIONS

ERG Wind Investments Ltd.

In relation to the obligations per Article 2.6.2, paragraph 8, of the Regulations of the Markets organised and managed by Borsa Italiana S.p.A. and taking into account the provisions of Article 36 of the Market Regulations adopted by CONSOB with its Resolution No. 16191 of 29 October 2007 as amended, it is hereby certified that: (i) ERG S.p.A. acquired from ERG Wind Investments Ltd[17] - the Articles of Association, the composition and powers of the related

17 An indirectly controlled foreign company not belonging to the European Union, which has significant relevance according to the provisions of Title VI, Paragraph II of the Issuers’ Regulations.

corporate bodies; (ii) ERG Wind Investments Ltd. provides the Group's auditors with the information necessary to audit the annual and infra-annual accounting statements and reports of ERG S.p.A. and has a suitable administrative-accounting system, capable of regularly delivering to the Group's Head Office and auditors the economic and financial data required for the preparation of the consolidated financial statements.

The accounting situation of ERG Wind Investments Ltd., prepared for the purposes of the preparation of the consolidated financial statements at 31 December 2018, is provided below.

RECLASSIFIED INCOME STATEMENT

(EUR million)	2018	2017
Revenue from sales and services	0.0	0.0
Other revenue and income	0.0	0.0
Total revenue	**0.0**	**0.0**
Purchases	0.0	(0.0)
Change in inventories	0.0	0.0
Services and other operating costs	(0.4)	(0.5)
Personnel expense	0.0	0.0
EBITDA	**(0.4)**	**(0.5)**
Amortisation, depreciation and impairment of non-current assets	0.0	0.0
EBIT	**(0.4)**	**(0.5)**
Net financial expense	(24.2)	(25.2)
Net gains on equity investments	55.4	54.3
Income from ordinary operations	**30.7**	**28.6**
Net extraordinary income (expense)	0.0	0.0
Profit before taxes	**30.7**	**28.6**
Income taxes	8.6	9.6
Profit	**39.3**	**38.3**

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(EUR million)	31/12/2018	31/12/2017
Intangible assets	(0)	(0)
Property, plant and equipment	0	–
Equity investments and other financial non-current assets	741	741
Non-current assets	**741**	**741**
Inventories	0	0
Trade receivables	0	0
Trade payables	(0)	(0)
Excise duties payable to tax authorities	–	0
Net working capital	**(0)**	**(0)**
Post-employment benefits	0	0
Other assets	36	37
Other liabilities	(38)	(41)
Net invested capital	**739**	**737**
Equity att. to the owners of the parent	251	201
Non-controlling interests	–	–
Medium/long-term financial indebtedness	453	534
Short-term cash and cash equivalents	35	2
Equity and financial debt	**739**	**737**

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

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

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

Taking into account the corporate organisational model adopted by the Group from 1 January 2017, the directly and indirectly controlled Italian subsidiaries, in respect of which management and coordination activities as illustrated above were carried out in the course of 2018, within the meaning of Articles 2497 et seq. of the Italian Civil Code, are as follows:

ERG Power Generation S.p.A. and the following companies controlled by it:

- ERG Hydro S.r.l.
- ERG Power S.r.l.
- ERG Eolica Adriatica S.r.l.
- ERG Eolica Amaroni S.r.l.
- ERG Eolica Basilicata S.r.l.
- ERG Eolica Calabria S.r.l.
- ERG Eolica Campania S.p.A.
- ERG Eolica Faeto S.r.l.
- ERG Eolica Fossa del Lupo S.r.l.
- ERG Eolica Ginestra S.r.l.
- ERG Eolica San Cireo S.r.l.
- ERG Eolica San Vincenzo S.r.l.
- ERG Eolica Tirreno S.r.l.
- Green Vicari S.r.l.
- ERG Wind Holdings (Italy) S.r.l.
- ERG Wind Sardegna S.r.l.
- ERG Wind Sicilia 2 S.r.l.
- ERG Wind Sicilia 3 S.r.l.
- ERG Wind Sicilia 4 S.r.l.
- ERG Wind Sicilia 5 S.r.l.
- ERG Wind Sicilia 6 S.r.l.

- ERG Wind 2000 S.r.l.
- ERG Wind 4 S.r.l.
- ERG Wind 6 S.r.l.
- ERG Wind Leasing 4 S.r.l.
- ERG Wind Energy S.r.l.
- ERG Wind Bulgaria S.p.A.
- Eolico Troina S.r.l. in liquidation
- ISAB Energy Solare S.r.l.
- ERG Solar Holding 1 S.r.l.
- ERG Solar Holding S.r.l.
- ERG Solar Piemonte 1 S.r.l.
- ERG Solar Piemonte 2 S.r.l.
- ERG Solar Piemonte 3 S.r.l.
- ERG Solar Piemonte 4 S.r.l.
- ERG Solar Piemonte 5 S.r.l.
- Calabria Solar S.r.l.
- ERG Solar Campania S.r.l.
- ERG Solar Marche 1 S.r.l.
- ERG Solar Marche 2 S.r.l.
- ERG Solar Puglia 1 S.r.l.
- ERG Solar Puglia 2 S.r.l.
- ERG Solar Puglia 3 S.r.l.
- ERG Solar Sicilia S.r.l.
- Heliospower 1 S.r.l.
- Longiano Solar S.r.l.
- SR05 S.r.l.

In 2018, ERG S.p.A. performed its management of the various equity investments, directly and indirectly owned, also via service contracts for staff activities, for a total of EUR 34.5 million.
As the consolidating company, ERG S.p.A. also manages Group VAT and domestic tax consolidation with the Group's main subsidiaries.
All transactions relate to ordinary operations and are settled at market terms and conditions.

PRIVACY

2018 saw radical changes to the regulatory structure of Privacy in Europe.

With the entry into force of Regulation (EU) 2016/679 - GDPR, all Member States had to adapt by the implementation date of 25 May 2018.

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

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

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

Training is carried out over 2 modules:

- Basic Training Module, organised for the entire ERG Group and which deals mainly with the general aspects relating to data protection (the Principles applicable, changes with respect to the Privacy Code pursuant to Legislative Decree No. 196/2003, Roles and Responsibilities, the sanctioning regime, codes of conduct, violations, interested parties and their rights, consent and its management, processing record, etc.);
- Customised classroom Training Module, aimed at certain people within the Group who handle personal data in a more specific and in-depth manner with respect to the recipients of the previous module, and which mainly deals with aspects relating to Definitions, Figures (Roles and Responsibilities), the main actions to be carried out and the operational implications (Information, Collection and management of consent, management violations, Processing record, management of video surveillance, the processing of the personal data of Employees, Relations with Third Party Suppliers, training, management of evidence, interactions with the DPO and/or with the control bodies, etc.).

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

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

TREASURY SHARES

At 31 December 2018, ERG S.p.A. owned 1,503,200 shares equal to 1% of the share capital. In accordance with IAS 32, treasury shares are presented as a reduction in equity, through the use of the share premium.

BRANCH OFFICES

ERG S.p.A. has its registered office and headquarters in Genoa and has offices in Rome, Terni and Priolo Gargallo. The company has no branch offices.

TRANSACTIONS WITH RELATED PARTIES

Information on transactions with related parties, including transactions with unconsolidated investee companies, can be found in Note 32 of the Consolidated Financial Statements.

The Procedure for Transactions with Related Parties adopted by the Company is available to the public on the website www.erg.eu. (This information is given in the Report on Corporate Governance and Ownership, an integral part of the Financial Statements).

RECONCILIATION WITHIN THE MEANING CONSOB COMMUNICATION NO. DEM/6064293 OF 28 JULY 2006

It should be noted that the reconciliation between the profit for the period and the equity attributable to the owners of the parent, with the same values for the parent company, is shown in Note 41 of the Notes to the Consolidated Financial Statements.

RESEARCH AND DEVELOPMENT ACTIVITIES

The company did not carry out any research and development activities during the year.

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 **Perseo S.r.l.**, owner of 100% of Andromeda PV S.r.l. which in turn manages two photovoltaic plants with a total installed capacity of 51.4 MW. It was also agreed that Soles Montalto GmbH will remain minority shareholder, on the basis of shareholders' agreements that will guarantee ERG full industrial control of the asset and its line-by-line consolidation. The transaction's closing date was 12 February 2019.	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.

FY2019 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.

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.

Genoa, 6 March 2019

On behalf of Board of Directors

The Chairman

Edoardo Garrone

Report on Corporate Governance and Ownership

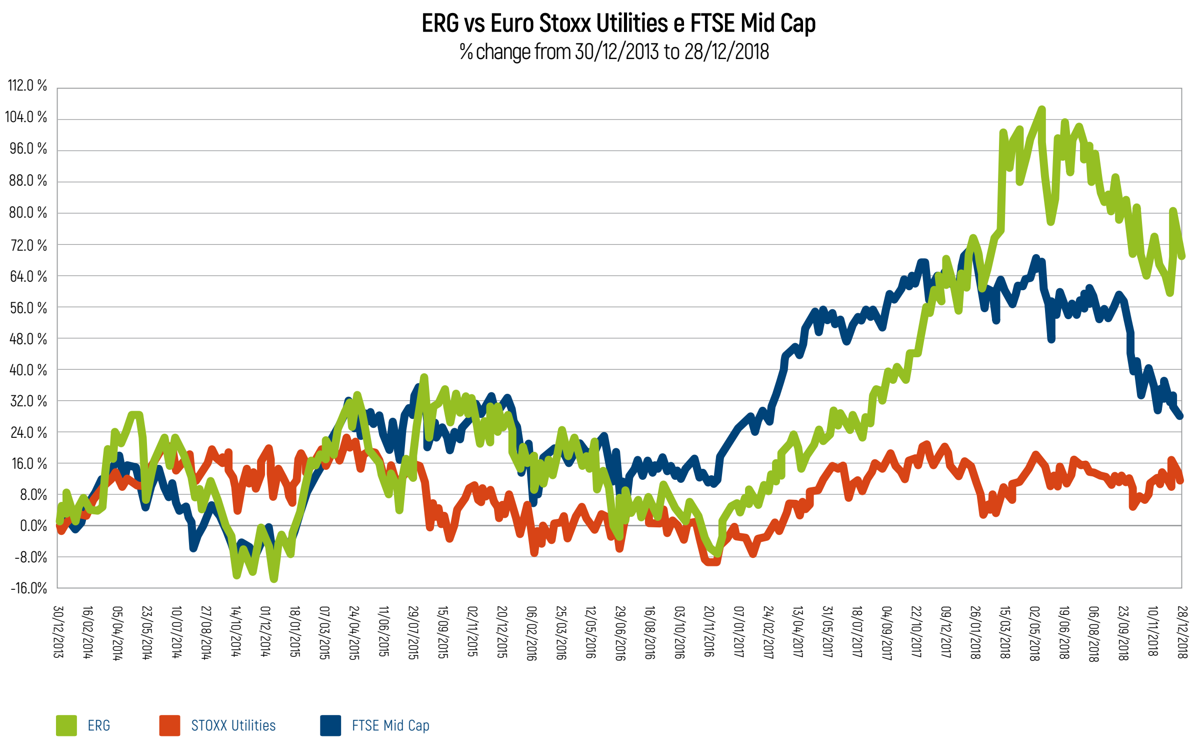
1. EXECUTIVE SUMMARY

1.1. ERG GROUP - MAIN HIGHLIGHTS

Figures in EUR millions	2016	2017	2018	% change 2017-2018
Revenue from sales and services [1]	1,025	1,056	1,027	-2%
EBITDA	455	472	491	4%
EBIT	202	220	216	-2%
Net financial indebtedness	1,557	1,233	1,343	9%
ROI	6.1%	7.1%	6.8%	
ROE	11.7%	11.7%	11.8%	
Capitalisation at 31/12	1,535	2,315	2,480	
Employees	715	714	737	
Sector		Utility		
Shareholders' Equity	1,729	1,877	1,829	
EBIT	202	220	216	

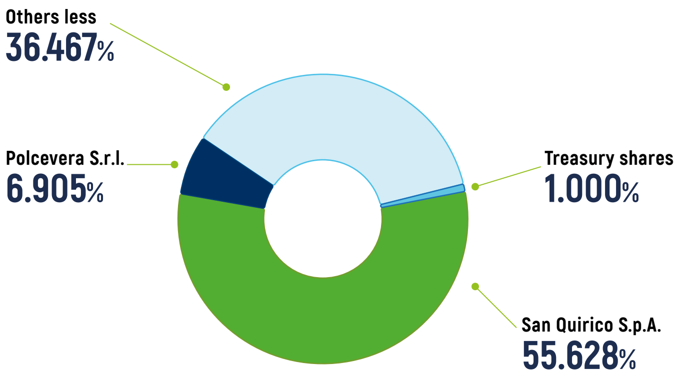
(1) at adjusted replacement cost

SHARE PERFORMANCE, 2014 - 2018



1.2. SHAREHOLDING STRUCTURE

OWNERSHIP STRUCTURE AT 31/12/2018



OTHER CHARACTERISTICS OF THE SHAREHOLDING STRUCTURE

	Yes/No	% of share capital
Shareholders' agreement in force	No	–
Majority vote	No	–
Shareholding by Top Management	Yes	0.05%
Participation threshold for the presentation of lists	Yes	1%

1.3. CORPORATE BODIES AND BOARD COMMITTEES

SHAREHOLDERS' MEETING

Approves the financial statements, appoints the Board of Directors, the Board of Statutory Auditors and the Independent Auditors, and resolves on changes to the Articles of Association and on extraordinary transactions such as mergers, demergers and capital increases.

BOARD OF DIRECTORS

Approves the periodic financial reports, defines the strategic guidelines, the fundamental aspects of the organisational structure and the corporate governance system, resolves on significant transactions, and assesses the company's performance.

Composed of 12 members, 7 of which are independent*. Held 12 meetings in 2018, with an average duration of around 2 hours and 45 minutes.

12 Meetings | 2 h 45' Duration

BOARD OF STATUTORY AUDITORS

Oversees compliance with the law and with the Articles of Association, adherence with correct administration principles, and the adequacy of the ICRM System**, and ensures the independence of the Independent Auditors.

Comprised of a Chairman, 2 Standing Auditors and 3 Alternate Auditors. 13 meetings were held in 2018 with an average duration of around 3 hours.

13 Meetings | 3 h 00' Duration

CONTROL AND RISK COMMITTEE

Assists the Board of Directors in decisions relating to the approval of periodic financial reports, pertaining to Group Governance, the ICRM System**, obligations pursuant to Legislative Decree 231/01 and the Finance Division***.

Comprised of one Chairman and 2 members, all non-executive and all independent as per the Consolidated Finance Act and mostly independent as per the Corporate Governance Code. 11 meetings were held in 2018, with an average duration of around 2 hours and 10 minutes.

11 Meetings | 2 h 10' Duration

NOMINATIONS AND REMUNERATION COMMITTEE

Makes recommendations regarding the remuneration of Directors with powers or specific duties, and the definition of remuneration policies and incentive plans for Group management***.

Comprised of one Chairman and 2 members, all non-executive and all independent as per the Consolidated Finance Act and mostly independent as per the Corporate Governance Code. 6 meetings were held in 2018, with an average duration of around 1 hour and 25 minutes.

6 Meetings | 1 h 25' Duration

STRATEGIC COMMITTEE

Assists the Chief Executive Officer and the Board of Directors in defining strategic business, portfolio and finance guidelines, and in decisions relating to long-term strategic plans, the Group's investment budgets and significant investments.

Comprised of one Chairman and 5 members. 8 meetings were held in 2018 with an average duration of around 4 hours.

8 Meetings | 4 h 00' Duration

* 5 independent as per the Corporate Governance Code and 2 independent as per the Consolidated Finance Act ("T.U.F.").
** Internal Control and Risk Management System.
*** Responsible for formulating opinions for the purposes of the Procedure for Transactions with Related Parties.

1.4. INTERNAL COMMITTEES

CREDIT COMMITTEE

Responsible, for the entire Group excluding Joint Ventures, for the granting of credit facilities, for the analysis of deadlines and collection performance, for assessing and verifying past-due recovery plans, and for the general assessment of credit performance.

HUMAN CAPITAL COMMITTEE

Defines and monitors the main human capital development programmes and activities, provides support in decisions relating to strategies that determine the value of the Human Capital, and monitors the effective implementation of the Human Rights Policy, managing the reports relating to non-compliance thereof.

MANAGEMENT COMMITTEE

Monitors the economic, financial and industrial performance of the Group, monitors changes in the institutional and regulatory framework, analyses development opportunities and monitors relevant projects in the framework of the strategic plan ensuring that the priorities of all Organisational Units are aligned.

SUSTAINABILITY COMMITTEE

Defines the Group's sustainability guidelines and promotes the implementation of consistent practices in the field of corporate social responsibility; approves, monitors and evaluates sustainability objectives and priority areas for action relating to CSR; approves the time-frames and methods for drawing up the Non-Financial Statement and CSR initiatives.

RISK COMMITTEE

Supports the Chief Executive Officer in defining strategies and policies for the management of financial and market risks, provides the information required to authorise financial and market risk management operations, and to monitor the execution of significant transactions and verify their effects.

INVESTMENT COMMITTEE

Provides support to the Chief Executive Officer in assessing investment proposals by the Group, and expresses a technical, economic and financial opinion at various stages in the investment approval process.

1.5. COMPOSITION OF THE BOARD OF DIRECTORS

STRUCTURE OF THE BOARD OF DIRECTORS

Director	Office	Role	Independent	M/m*	CRC**	NRC**
Edoardo Garrone	Chairman	Executive	No	M		
Alessandro Garrone	Deputy Chairman	Executive	No	M		
Giovanni Mondini	Deputy Chairman	Non-executive	No	M		
Luca Bettonte	Chief Executive Officer	Executive	No	M		
Massimo Belcredi	Director***	Non-executive	T.U.F.	M	X	
Mara Anna Rita Caverni	Director	Non-executive	Corporate Governance Code	M	C	X[1]
Barbara Cominelli	Director	Non-executive	Corporate Governance Code	M	X[1]	X[2]
Marco Costaguta	Director	Non-executive	No	M		
Paolo Francesco Lanzoni	Director	Non-executive	T.U.F.	M		X
Silvia Merlo	Director	Non-executive	Corporate Governance Code	M		C
Elisabetta Oliveri	Director	Non-executive	Corporate Governance Code	M	X[2]	
Mario Paterlini	Director	Non-executive	Corporate Governance Code	m		

* Drawn from the list presented by majority shareholders (M) or minority (m).

** CRC: Control and Risk Committee; NRC: Nominations and Remuneration Committee - they provide to the Board of Directors and to the relevant bodies the opinions provided for by the Procedure for Transactions with Related Parties. Appointed on 23 April 2018. The Control and Risk Committee up to 23 April 2018 was composed of Massimo Belcredi (Chairman), Mara Anna Rita Caverni and Barbara Cominelli. The Nominations and Remuneration Committee up to 23 April 2018 was composed of Paolo Francesco Lanzoni (Chairman), Mara Anna Rita Caverni and Silvia Merlo.

*** Responsible for coordinating the requests and contributions of non-executive directors (with particular reference to those who are independent) on matters of interest with respect to the operation of the Board of Directors or the management of the company, as well as working with the Chairman of the Board of Directors to ensure that directors receive full and timely information.

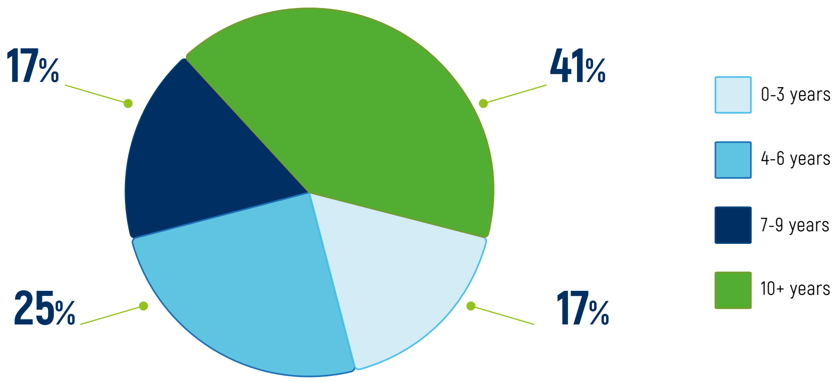
C: Chairman of the relevant Committee.

X: Member of the relevant Committee.

1 Up to 23 April 2018.

2 From 23 April 2018.

SENIORITY OF THE DIRECTORS IN THE BOARD OF DIRECTORS (% OF TOTAL DIRECTORS)



CHANGES COMPARED TO THE PREVIOUS MANDATE

	Previous mandate (2015-2017)	**Current mandate** (2018-2020)	**MID CAP*** (last year available)
Number of Directors	12	12	10.8
Directors elected by minority	1	1	0.9
% of the less represented gender in the BoD	25%	33%	31.1
% Independent Directors as per T.U.F.	58%	58%	51%
% Independent Directors as per T.U.F. and Corporate Governance Code	33%**	42%	47.6%
Average age of Directors	55**	56	57.4
Status of Chairman	Executive	Executive	–
Existence of Lead Independent Director	Yes	No***	48.3%****

* Source Assonime-Emittenti Titoli-Consob 2018.

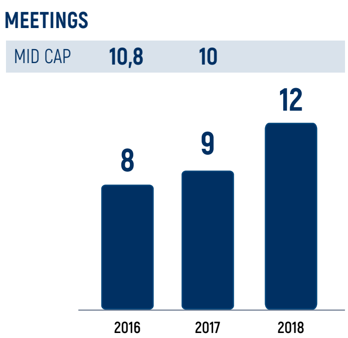
** Change with respect to the years 2015 and 2016 as a result of the resignation on 20 April 2017 of the Director Luigi Ferraris and the subsequent appointment, on 11 May 2017, pursuant to Article 2386 of the Italian Civil Code and Article 15 of the Articles of Association, of Alessandro Careri as new Director of the Company.

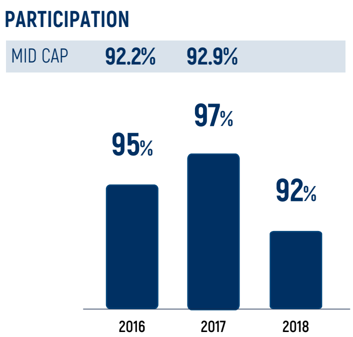
*** Not required under the provisions of the Corporate Governance Code. Note that on 3 August 2018 the Director Massimo Belcredi was made responsible for coordinating the requests and contributions of non-executive directors (with particular reference to those who are independent) on matters of interest with respect to the operation of the Board of Directors or the management of the company, as well as working with the Chairman of the Board of Directors to ensure that directors receive full and timely information.

**** Companies in which Lead Independent Director is active.

1.6. OPERATION OF THE BOARD OF DIRECTORS

NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS AND PARTICIPATION RATE





DIRECTOR OR AUDITOR OFFICES HELD IN OTHER COMPANIES

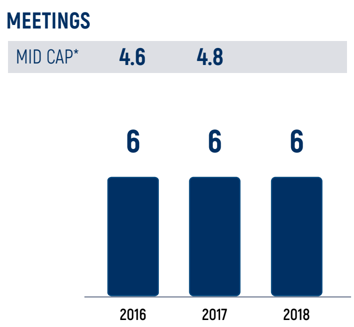
	Other Companies of the Group	**Other listed companies**				**Other unlisted companies of significant size or financial, banking companies**	
		Executive Director	Non-Executive Director	Independent Director	Auditor	Director or Member of the Management Board	Auditor or Member of the Supervisory Board
Edoardo Garrone	–	–	1	–	–	1	1
Alessandro Garrone	–	–	–	–	–	1	–
Giovanni Mondini	–	–	–	–	–	1	–
Luca Bettonte	–	–	–	–	–	–	–
Massimo Belcredi	–	–	–	1	–	–	–
Mara Anna Rita Caverni	–	–	–	2	–	–	–
Barbara Cominelli	–	–	–	–	–	–	–
Marco Costaguta	–	–	1	–	–	7	–
Paolo Francesco Lanzoni	–	–	–	–	–	1	–
Silvia Merlo	–	–	–	2	–	1	–
Elisabetta Oliveri	–	–	–	2	–	–	–
Mario Paterlini	–	–	–	–	–	–	–

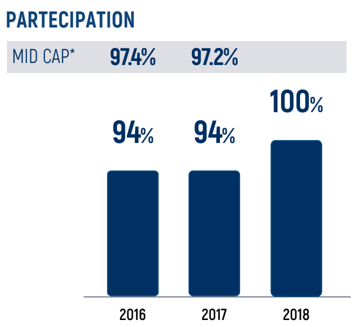
BOARD EVALUATION PROCESS

Board evaluation process carried out	Yes
Evaluating party	The Board of Directors with the support of the Nominations and Remuneration Committee
Self-evaluation procedures	Anonymous questionnaire to the members of the Board of Directors; the Board of Statutory Auditors is also involved in the process

1.7. REMUNERATION

NUMBER OF NOMINATIONS AND REMUNERATION COMMITTEE MEETINGS AND PARTICIPATION RATE





* Data relating to Remuneration Committee

REMUNERATION POLICY

SHORT-TERM INCENTIVE SYSTEMS (MBO)

	No	Yes
Short-term incentive system		x
Bonus cap		x

LONG-TERM INCENTIVE SYSTEMS (LTI)

	No	Yes
Long-term incentive system		x
Bonus cap		x

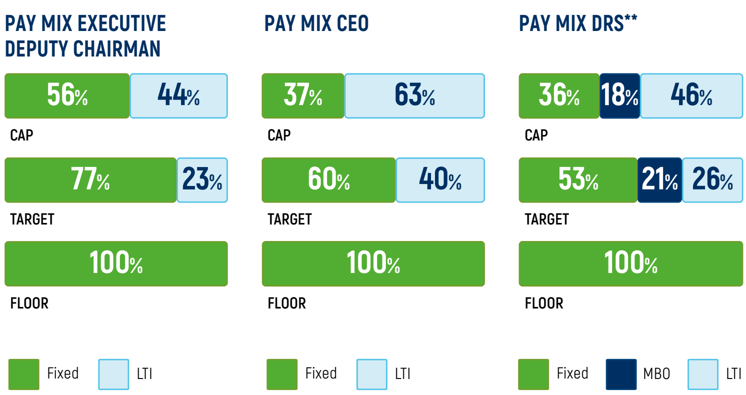
LTI VEHICLES	No	Yes
Cash	x	
Financial Instruments - Performance Shares		x

SHORT-TERM INCENTIVE SYSTEMS (MBO)

MBO parameters	Weight
Group EBT*	30%
INDIVIDUAL OBJECTIVES e.g. EBITDA, NFP, OPEX, ...	70%

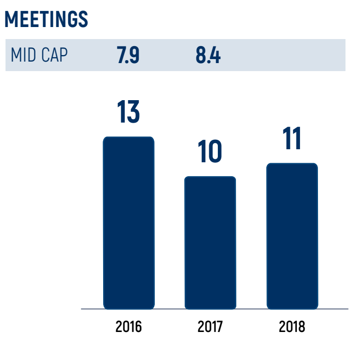
* Profit (loss) before IAS taxes at current values

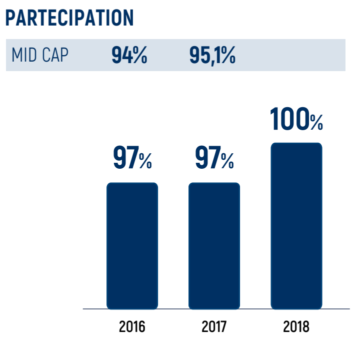
LTI parameters for CEO and Executive Deputy Chairman	Weight
Cumulated Group EBITDA 2018-2020	100%



1.8. CONTROL AND RISK SYSTEM

NUMBER OF CONTROL AND RISK COMMITTEE MEETINGS AND PARTICIPATION RATE

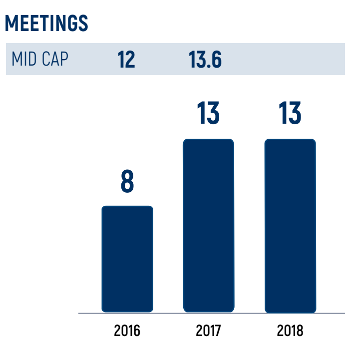


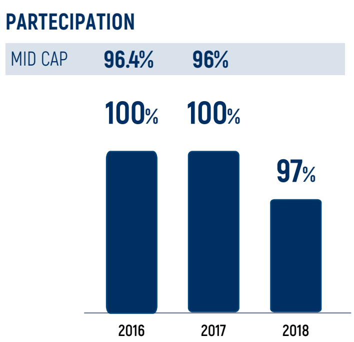


COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

Auditors	Office	Independent	Other listed companies	Other offices in unlisted companies of significant size or financial, banking or insurance companies
Elena Spagnol	Chairman	X	2	–
Lelio Fornabaio	Standing	X	2	3
Stefano Remondini	Standing	X	–	–
Vincenzo Campo Antico	Alternate	X		
Luisella Bergero	Alternate	X		
Paolo Prandi	Alternate	X		

NUMBER OF MEETINGS OF THE BOARD OF STATUTORY AUDITORS AND PARTICIPATION RATE





MAIN ELEMENTS OF THE CONTROL AND RISK SYSTEM

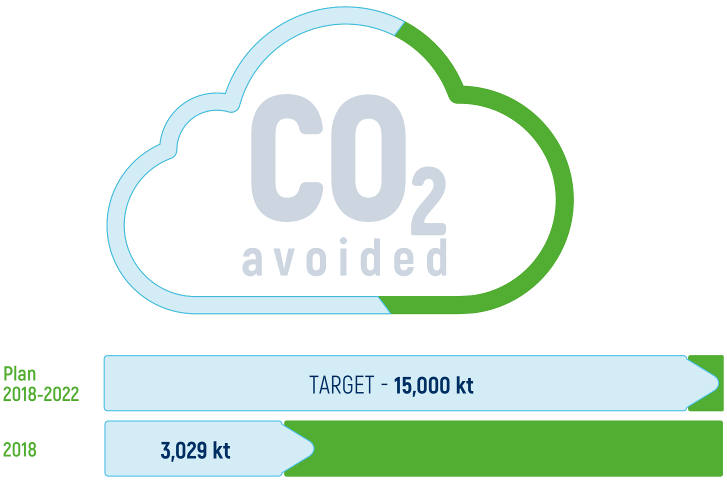
	Yes/No
Risk Management function	Yes
Chief Risk Officer	No
Enterprise Risk Management plan in place	Yes
If yes, has this plan been discussed with the Committee?	Yes

MAIN RISKS

RISK	DESCRIPTION	MANAGEMENT STRATEGY IMPLEMENTED BY THE ERG GROUP
1 - Natural variability of renewable contributions	Production volumes are subject to the natural variability of renewable production sources (water, wind and sun), which may adversely affect the production of renewable plants.	• Diversification of renewable technologies (Wind, Solar and Hydroelectric) and the geographic location of renewable plants (European scale); • Use of as accurate as possible forecasting systems to define the production plan and short-term operating activities; • The scheduling of stoppages at renewable energy plants during periods of low input from renewable energy sources; • Use of industrial control systems (SCADA) for the continuous monitoring of the status of plants which make it possible to intervene promptly in the event of accidental failure and to reduce machinery downtime.
2 - Price Risk	Risk linked to the volatility of prices in the commodities market (in particular EE/Gas), which can significantly affect Group results.	• Definition and regular monitoring of risk exposure limits; • Escalation process in the event that the approved limits are exceeded; • Use of financial instruments to hedge price risk only if there is an underlying asset; • Contractualisation, where possible, of indexed sales formulae that may allow the risk to be transferred to the customer.
3 - Legislative and regulatory changes	Possible worsening of the national and international legislative/regulatory framework in the countries in which the Group operates that may negatively impact the achievement of business targets.	• Legislative and regulatory monitoring through institutional relations, related channels, comparison with operators in the sector, and the specialised press; • Active participation in consultations to protect Group interests; • Possibility of recourse against legislative and regulatory measures by the competent authorities in order to protect the interests of the ERG Group; • Sensitivity Analysis to assess the effect of the main regulatory changes on Group results; • Periodic reporting to Management.
4 - Rating downgrade	Risk linked to potential downgrading by the Rating Agency that could limit the Group's ability to access the capital market and/or increase the cost of funding with negative effects on the Group's operating results, financial position and cash flows, and on its reputation.	The risk mitigation strategy, which is aimed at preventing the occurrence of "crisis" situations (e.g. liquidity; breach of financial covenants) that could lead to a downgrade of the rating, is structured over various levels and involves the pursuit of: • A financial structure that is balanced in terms of duration and composition; • the continuous monitoring of the final and expected results and of the financial balances; • Investment planning consistent with existing financial covenants and the risks associated with them; • The search for a business portfolio that ensures stable cash generation from its business activities, including through the geographical and technological diversification of its plants.
5 - New capital expenditure	Possible uncertain events originating from various factors, for example, scenarios (micro/macroeconomic, political, regulatory, business-related), technical, operating, financial or organisational factors which may impact the decision to make new capital expenditure and/or impact its success.	• Structured processes for selecting capital expenditure that involve a set of successive levels of examination and approval of projects carried out based on, inter alia, internal and external support studies, benchmark analyses, legal-regulatory analyses, sustainability models and financial assessment/planning; • Detailed analysis for the relevant projects of all the risks associated with them: (i) potential impacts and strategy/actions to contain/eliminate the risk; (ii) follow-up items to monitor the mitigation processes; • Periodic updating of the WACC/HR, including through benchmarks, to ensure a suitable return in relation to the expected risk profile.
6 - Cyber attacks on industrial production systems	Potential cyber-attacks that exploit vulnerabilities may bring industrial production systems to a standstill.	• Carrying out of security assessments to identify critical issues in the systems and support infrastructure; • Definition and implementation of a Security Program to adapt processes, systems and infrastructure to best practices aimed at increasing levels of safety; • Development of security awareness and training plans for users; • Use of automated tools (e.g. Intrusion Detection Systems) for the prevention, detection and management of incidents; • Insurance to cover the risks of Cyber Crime.
7 - Failure to protect reputational capital	Internal/external events that may have a negative impact on the ERG Group's reputation (including: financial performance, ethics and integrity, social responsibility, HSE Policies, ICT security, crisis management, etc.).	• Specific information and communication activities aimed at maintaining the Group's strong reputation among stakeholders, including, inter alia, a structured Corporate Social Responsibility process with specific social responsibility initiatives and the dissemination of Non-Financial Information; • Active relations with all major stakeholders and the media, and monitoring of stakeholders' perceptions; • Communication activities through the website/social media; • Structured Reputational Crisis Management process that enables crisis effects to be promptly managed and contained in order to safeguard the reputation of the ERG Group.
8 - Anti-Corruption Compliance	The possibility that one of the Companies in the Group and/or a director, representative or employee of the same, could be involved in proceedings for offences committed in breach of anti-corruption laws that may involve the application of sanctions against the aforementioned persons (both physical and legal persons) and negative repercussions in terms of reputation.	• Adoption of the rules of conduct system (Code of Ethics and Anti-Corruption Policy) valid for the entire Group; • Adoption of an "Integrated Anti-Corruption Model", for all companies, in Italy and abroad, in line with best practices; • Definition of information flows for the monitoring of the Anti-Corruption System; • Regular training on anti-corruption matters and ongoing efforts to raise awareness among management on the culture of ethics and of business integrity; • Adoption of the "Significant Third Party Due Diligence Procedure", provided for by the Anti-corruption System and Policy; • Definition and implementation of Compliance Programmes to verify compliance with the Anti-Corruption Policy.
9 - Industrial risks and HSE	Risks related to malfunctioning systems potentially resulting in critical issues during production processes and/or having a negative impact in terms of HSE	• Implementation of a Business Continuity Management / Asset Integrity Management process that ensures the proper maintenance of production assets, through specific risk assessment activities (e.g. risk assessment, Business Impact Analysis); • Technological development of plants and emergency management plans; specialist HSE audit and monitoring of plants; • Adoption of certified (ISO 14001 and OHSAS 18001) Management Systems and regular training for all staff working within the facilities; • Specific levels of insurance coverage for business interruption, property damage and any accidents involving staff.

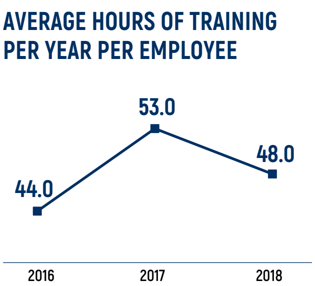
1.9. SUSTAINABILITY

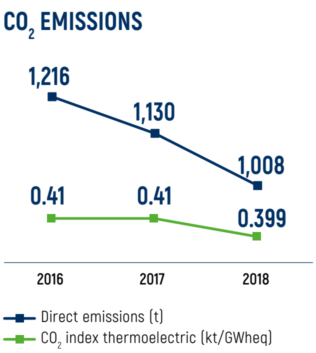
CO_2 AVOIDED: 2018-2022



The conversion factor gCO_2/kWh, published by Terna in its annual reports and referring to thermoelectric power generation of each country, is used to calculate the CO_2 avoided.

SUSTAINABILITY INDICATORS





2. HISTORY

The current governance structure of ERG S.p.A. (hereinafter also “ERG” and the “Company”) has evolved over time by gradually introducing rules of conduct that reflect the most advanced and widely recognised principles of Corporate Governance into the ERG corporate approach.

Even prior to the listing of the Company in October 1997, one of the key aspects of the governance structure was a focus on a proper relationship between management and shareholders and balanced corporate management aimed at creating medium to long-term value.

This corporate policy was implemented through:

- the coordinated delegation of powers within ERG’s Board of Directors (the “Board of Directors”) in such a way as to assure the clarity and completeness of executive powers and accountabilities, and the monitoring of the activities carried out and assessment of the results achieved;
- regular and adequate reporting to the Board of Directors on actions taken in the exercise of managerial powers and responsibilities;
- the adoption of an Anti-Corruption System, in accordance with the best international standards (ISO 37001:2016[1]), which constitutes an integral part of the internal control and risk management system of the ERG Group;
- an integrated system of enterprise risk management aimed at identifying, evaluating and monitoring all risks that may assume importance in terms of sustainability in the medium-long term with regard to ERG Group operations;
- the use of specific procedures to determine remuneration for Directors and management.

Its presence on the stock market has clearly accentuated the Company’s propensity to base its conduct on the criteria of transparency and correctness. It has also accelerated the process of adapting both internal regulations and the organisational structure to meet these criteria.

1 Antibribery Management System: provides guidance on internal control and risk management measures that help to prevent and combat the phenomena of corruption in companies and in groups of undertakings.

This corporate policy was therefore put into effect by means of:

- amendments to the Articles of Association to bring them into line with the regulatory changes introduced by the Italian company law reform, by law provisions on the matter of shareholders' rights, on transactions with related parties and, lastly, on gender balance in the composition of the board of directors and internal control bodies;
- the adoption, in December 2004, of a Group Code of Ethics - subsequently updated on 3 August 2018 - as a tool for defining and communicating ERG's duties and responsibilities towards its stakeholders, as well as being an imperative element of an Organisation and Management Model consistent with the requirements of Legislative Decree 231/01;
- adherence to the Italian Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A. ("Corporate Governance Code")[2] since its first edition in 1999;
- the adoption of a Code of Conduct for the Directors of companies of the ERG Group ("Group"), updated on 14 May 2014;
- the appointment of independent directors and non-executive directors to the Board;
- the adoption of a Remuneration Policy for members of the Board of Directors and Key management personnel as prescribed by the Corporate Governance Code - most recently updated on 6 March 2019 - to align the interests of management with those of shareholders and strengthen the relationship between managers and the Company, both in terms of awareness of the importance of the stock value and its continuity over time;
- the definition of Guidelines for the identification and execution of significant transactions - most recently updated on 1 January 2017 - and of other governance documents designed to ensure transparent and timely management of the Group's relationship with the market;
- the adoption of a Procedure for handling and processing privileged information and for the public dissemination of statements and information, most recently approved by the Board of Directors on 9 August 2017;
- the definition of Guidelines for the Internal Control and Risk Management System, updated on 3 August 2018;
- the adoption of an integrated risk management model, with the objective of identifying, as exhaustively as possible, the risks inherent in the Group's full range of business activities;
- the adoption of a specific Procedure to assure the transparency and the substantial and procedural correctness of transactions with related parties carried out by ERG directly or through its subsidiaries, most recently updated on 1 January 2017;
- the definition of a Code of Conduct for Internal Dealing - updated version approved by the Board of Directors on 11 May 2017 - aimed at regulating disclosure obligations in respect of the market, the Company and CONSOB with

2 On 15 December 2015, the Board of Directors resolved to adhere to the new Corporate Governance Code published in July 2015; consequently, all references to the provisions of the Corporate Governance Code shall be deemed to refer to the aforesaid edition of the Code. With reference to the criteria of gender diversity referred to in principles 2.P.4. and 8.P.2, introduced in the edition of the Corporate Governance Code published in July 2018, the Board of Directors, in its meeting of 6 March 2019, in light of the positive experience gained in this regard, even though the provisions referred to in Article 147-*ter*, paragraph 1-*ter* and Article 148, paragraph 1-*bis* of the T.U.F. shall cease to be effective - based on current regulations - respectively, at the expiry of the mandate given to the Board of Directors for the three-year period 2021-2023 and the expiry of the mandate given to the Board of Statutory Auditors for the three-year period 2022-2024, resolved to carry out every appropriate assessment on adhesion to the aforesaid criteria during the course of the current mandate.

reference to transactions involving ERG shares/debt instruments issued by ERG or derivatives or other related financial instruments carried out, directly or indirectly, by members of the administrative and control bodies of ERG and of significant subsidiaries, by members of top management of the Group and by persons closely connected with them;

- the adoption of Guidelines for compliance with Legislative Decree 231/01 and anti-corruption laws within ERG Group companies, approved, in their latest version, on 9 October 2017;
- the adoption of the Anti-Corruption System and Policy, as well as a Significant Third Party Due Diligence Procedure, with the aim of helping to ensure, together with the Code of Ethics and Models 231, compliance with the national and international anti-corruption regulations of the countries in which the ERG Group operates.

3. INFORMATION ABOUT THE OWNERSHIP STRUCTURE AT 31 DECEMBER 2018 PURSUANT TO ART. 123-*BIS* OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (CONSOLIDATED FINANCE ACT OR "T.U.F.")

Share capital structure at 31/12/2018

	Number of shares	Amount of subscribed and paid-up share capital	% with respect to share capital	Listed (market)/ not listed	Rights and obligations
Ordinary shares	150,320,000	EUR 15,032,000	100	MTA/FTSE Index Italy Mid Cap	–
Shares with limited voting rights	–	–	–	–	–
Shares without voting rights	–	–	–	–	–

Significant equity investments at 31/12/2018

Declarant	Direct shareholder	% of ordinary share capital	% of voting share capital
San Quirico S.p.A.	San Quirico S.p.A.	55.628	55.628
San Quirico S.p.A.	Polcevera S.r.l.	6.905	6.905

Other disclosures at 31/12/2018

	Yes	No	No notable disclosures in this regard
Restrictions on the transfer of securities		X	
Restrictions on the right to vote		X	
Shareholders' agreements		X	
Covenants pursuant to Article 123-*bis*, paragraph 1 (i) of the T.U.F. [1]	X		

1 the information in question is contained in the remuneration report published pursuant to Article 123-*ter* of the T.U.F.

Note that:

- there are no securities conferring special control rights;
- there are no employee stock option plans. It should be noted, however, that with effect from 14 January 2019, as part of the operation communicated to the market on 20 October 2018, to coincide with the celebration of ERG's 80th anniversary, 53,120 ERG shares held in the portfolio by the Company were allocated free of charge to employees of the Italian companies of the Group who joined the initiative. The operation was proposed and supported financially by the parent San Quirico S.p.A., a holding of the Garrone and Mondini families;
- with regard to the provisions of Article 123-*bis*, paragraph 1, subsection h) of the T.U.F., it should be noted that there are in existence financing agreements containing the usual provisions regarding the change of control of the debtor, which could theoretically involve the reimbursement of the loan in question if there is a change in control at ERG S.p.A. and in particular: (i) the pool loan granted by Banca IMI, as an agent bank in a pool of seven banks,

on 30 November 2015, with an amount outstanding, at 31 December 2018, of EUR 291 million and final payment due in August 2020; (ii) bilateral financing granted by UBI on 26 February 2016, with an amount outstanding, at 31 December 2018, of EUR 100 million and final payment due in February 2021; (iii) bilateral financing granted by Mediobanca on 11 March 2016, with an amount outstanding, at 31 December 2018, of EUR 150 million and final payment due in June 2023; (iv) bilateral financing granted by UniCredit on 21 April 2016, with an amount outstanding, at 31 December 2018, of EUR 75 million and final payment due in April 2021; (v) bilateral financing granted by BNL on 20 December 2018, with an amount outstanding at 31 December 2018 of EUR 120 million and final payment due in November 2023;

- for rules applicable to the appointment and replacement of the members of the Board of Directors and of the Board of Statutory Auditors, and to amendments to the Articles of Association, please refer to the relevant sections of this report (hereinafter also the "Report");
- no powers have been granted to Directors in relation to capital contributions pursuant to Article 2443 of the Italian Civil Code;
- the Directors have no powers to issue equity instruments;
- the Shareholders' Meeting held on 23 April 2018 authorised the Board of Directors, pursuant to Article 2357 of the Italian Civil Code, to purchase treasury shares for a period of 12 months from the date of the related resolution, up to a revolving maximum (i.e. the maximum amount of treasury shares held in the portfolio from time to time) of 30,064,000 (thirty million, sixty-four thousand) ordinary ERG shares with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction;
- the Shareholders' Meeting held on 23 April 2018 authorised the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, for a period of 12 months from the date of the related resolution, to sell, all at once or in several steps, treasury shares at a unit price not lower than 10% below the closing price of the stock on the day immediately preceding each individual sale.

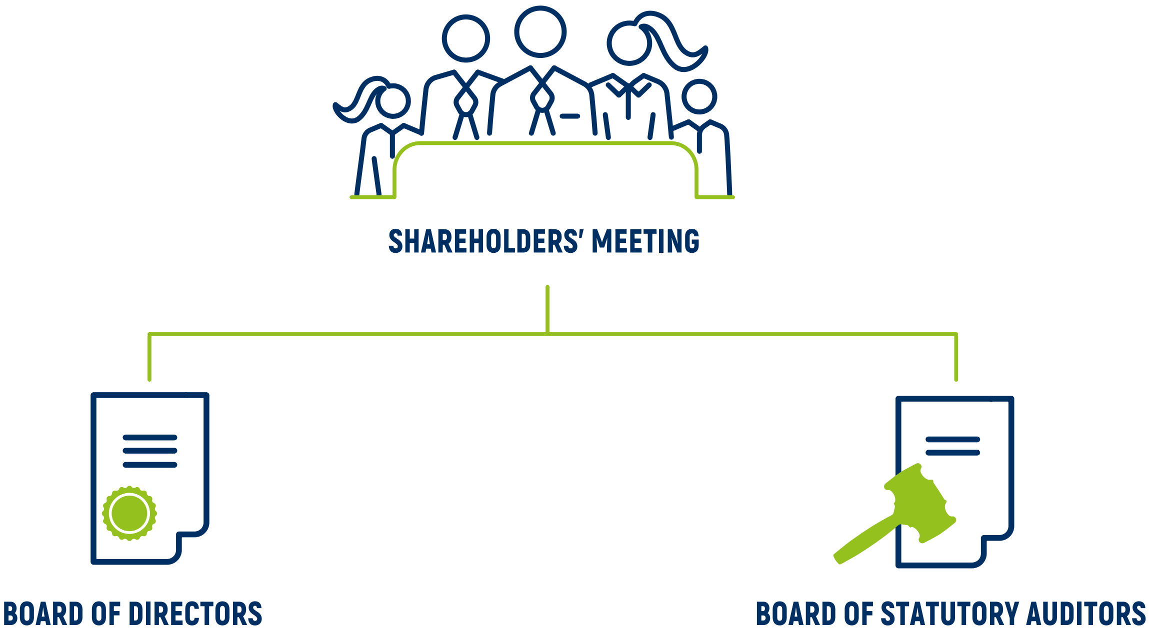
4. CORPORATE GOVERNANCE

ERG's corporate governance complies with the provisions of the Italian Civil Code and other laws and regulations relating to companies, particularly those contained in the T.U.F., and, overall, reflects adherence to the Corporate Governance Code[3]. The edition of the Corporate Governance Code to which the Company adheres is available to the public on the Borsa Italiana S.p.A website (www.borsaitaliana.it).

Corporate governance encompasses **statutory bodies, board committees** and the **corporate governance documents** that regulate their operation.

3 Please refer to the information provided in Note 2.

5. STATUTORY BODIES



Board of Directors


Edoardo Garrone
Chairman


Alessandro Garrone
Deputy Chairman


Giovanni Mondini
Deputy Chairman


Luca Bettonte
Chief Executive Officer


Massimo Belcredi
Director


Mara Anna Rita Caverni
Director


Barbara Cominelli
Director


Marco Costaguta
Director


Paolo Francesco Lanzoni
Director


Silvia Merlo
Director


Elisabetta Oliveri
Director


Mario Paterlini
Director

The current Board of Directors, comprising twelve members, was appointed by the Shareholders' Meeting of 23 April 2018[4]; consequently, the appointment to the Board of Directors shall expire at the date of the Shareholders' Meeting convened to approve the financial statements at 31 December 2020.

4 With reference to the provisions of application criterion 1.C.4. of the Corporate Governance Code, it is noted that the Shareholders' Meeting has not generally and preventively authorised exceptions to the competition prohibition set out in Article 2390 of the Italian Civil Code.

For the appointment of the current Board of Directors, two lists of candidates were presented, one by the shareholder San Quirico S.p.A. and the other by a number of institutional investors as follows[5]:

San Quirico S.p.A. list

1. Edoardo Garrone
2. Alessandro Garrone
3. Giovanni Mondini
4. Luca Bettonte
5. Massimo Belcredi*
6. Marco Costaguta
7. Paolo Francesco Lanzoni*
8. Mara Anna Rita Caverni**
9. Barbara Cominelli**
10. Silvia Merlo**
11. Elisabetta Oliveri**
12. Alessandro Careri

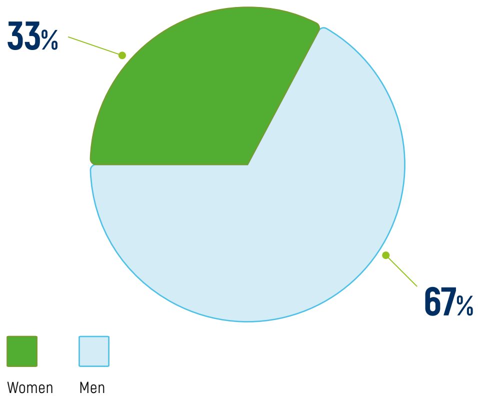
Institutional investors list

1. Mario Paterlini**
2. Saskia Kunst**

* Candidate indicated in the list as fulfilling the independence requirements in accordance with the provisions of the Consolidated Finance Act (T.U.F.).
** Candidate indicated in the list as fulfilling the independence requirements in accordance with the Consolidated Finance Act (T.U.F.) and eligible for qualification as independent in accordance with the Corporate Governance Code.

Pursuant to the Articles of Association, the Company is managed by a Board of Directors which, **in compliance with the gender balance criterion** prescribed by current law and regulatory provisions, consists of no fewer than 5 and no more than 15 members. Directors are appointed on the basis of lists presented by shareholders - in which the candidates shall be listed with a progressive number - which, accompanied by information on the personal and professional characteristics of the candidates and a declaration as to whether they meet the independence requirements prescribed by the T.U.F., must be filed, in compliance with Article 147-*ter*, paragraph 1-*bis* of the T.U.F., at least twenty-five days prior to the date of the Shareholders' Meeting and shall be made available to the public at least twenty-one days prior to said Meeting. The lists may only be presented by shareholders who, either individually or with other shareholders, represent the minimum percentage of share capital (currently 1%) established in accordance with Article 144-*quater* of the Regulations implementing the Consolidated Finance Act (T.U.F.), adopted by CONSOB with resolution No. 11971 of 14 May 1999 ("Issuers' Regulations")[6]. This share capital percentage is the same as that required for the presentation of lists for the appointment of the Board of Directors in office[7].

BOARD OF DIRECTORS COMPOSITION BY GENDER



Each shareholder may present or contribute to presenting only one list and each candidate may be included in only one list, under penalty of ineligibility. Each list shall contain a number of candidates not exceeding the maximum number of directors set out in the first paragraph of Article 15 of the Articles of Association and, with the exception

5 For the percentage of votes obtained by the lists in relation to the voting capital, please refer to the Summary Report of the voting on the items on the agenda of the Shareholders' Meeting of 23 April 2018, available on the Company's website (www.erg.eu) in the section *"Corporate Governance/2018 Shareholders' Meeting"*.
6 Pursuant to CONSOB Resolution No. 13 of 24 January 2019.
7 Pursuant to CONSOB Resolution No. 20273 of 24 January 2018.

of those that present fewer than three candidates, it shall comply with the gender balance criterion prescribed by current laws and regulations.

Within the meaning of Article 147-*ter*, paragraph 1-*ter* of the Consolidated Finance Act, in appointing the Board of Directors the least represented gender must receive a share equal to at least one third of the Directors elected.

The lists indicate which Directors fulfil the independence requirements set by Article 147-*ter*, paragraph 4 of the Consolidated Finance Act. At least one candidate for each list, or two candidates if the Board of Directors has more than seven members, must fulfil the aforesaid independence requirements.

All candidates must fulfil the integrity requirements set out by current regulations for members of the Supervisory Bodies, as well as adequate professionalism requirements for the office to be held. Together with each list, by the deadline indicated above, each candidate must file the statement accepting his/her candidacy and declaring under his/her own responsibility that there are no causes for ineligibility and incompatibility and that the requirements prescribed by applicable regulations are met, and indicating whether (s)he qualifies as independent director.

In terms of the balance of the Directors to be elected, no consideration shall be given to lists that did not obtain a number of votes representing a percentage of share capital equal to at least half of the percentage required for the presentation of the lists.

Each person entitled to vote may vote on only one list.

The election of the Directors takes place as follows:

a) from the list that received the majority of the votes cast are drawn, in the progressive order in which they are listed, a number of Directors equal to the number of members to be elected minus one, subject to the provisions of Article 15, paragraphs 5 and 5-bis of the Articles of Association respectively for the appointment of independent Directors and with respect to compliance with the gender balance criterion in the composition of the Board of Directors;
b) the remaining Director is drawn from the minority list that received the highest number of votes;
c) if a single list is presented, or if the required quorum is not reached by the other lists, all Directors shall be elected from the presented list or from the list that reached the quorum, subject to the provisions of Article 15, paragraph 5-*bis* of the Articles of Association with respect to compliance with the gender balance criterion in the composition of the Board of Directors.

In any case, the election will be won by the candidate or, if the Board has more than seven members, the first two candidates from the list that received the highest number of votes, who fulfil the independence requirements, in the progressive order in which they were entered in the list[8].

In the event that one or more Director posts fall vacant, the procedure pursuant to law shall be followed. If, however, for any reason, the majority of the Directors appointed by the Shareholders' Meeting leaves office before the end of

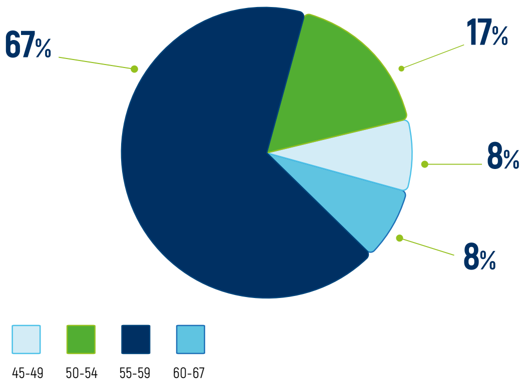
8 For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Directors, please refer to the Articles of Association, available on the Company's website (www.erg.eu) in the section *"Corporate Governance / Governance & Conduct"*.

their term, the entire Board lapses and the Directors remaining in office must convene an emergency Shareholders' Meeting to reappoint the Board. The Board shall, however, remain in office only for the conduct of acts of ordinary administration until the Shareholders' Meeting has resolved upon the new Board of Directors and the majority of the new Directors have accepted their appointment.

The Directors in office at the date of approval of the Report are[9]:

Edoardo Garrone	*Chairman*
Alessandro Garrone	*Deputy Chairman*
Giovanni Mondini	*Deputy Chairman*
Luca Bettonte	*Chief Executive Officer*
Massimo Belcredi	*Director*
Mara Anna Rita Caverni	*Director*
Barbara Cominelli	*Director*
Marco Costaguta	*Director*
Paolo Francesco Lanzoni	*Director*
Silvia Merlo	*Director*
Elisabetta Oliveri	*Director*
Mario Paterlini	*Director*

BOARD OF DIRECTORS COMPOSITION BY AGE



Executive Directors

Edoardo Garrone

Alessandro Garrone[10]

Luca Bettonte

Non-Executive Directors[11]

Giovanni Mondini

Marco Costaguta

Non-executive Directors who are independent pursuant to the T.U.F.

Massimo Belcredi[12]

Paolo Francesco Lanzoni

Directors who are independent pursuant to the T.U.F. and the Corporate Governance Code

Mara Anna Rita Caverni

Barbara Cominelli

Silvia Merlo

Elisabetta Oliveri

Mario Paterlini

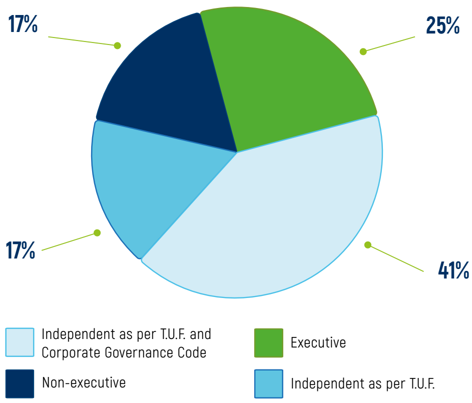
Secretary

Giovanni Marco Scollo

9 For the personal and professional qualifications of current members of the Board of Directors, please refer to the relevant curriculum vitae available on the Company's website (www.erg.eu) in the section *"Corporate Governance / Board of Directors"*.
10 Director in charge of the Internal Control and Risk Management System.
11 Taking into account application criterion 2.C.1 of the Corporate Governance Code.
12 The Board of Directors, in its meeting of 3 August 2018, made the Director Massimo Belcredi responsible for coordinating the requests and contributions of non-executive directors (with particular reference to those who are independent) on matters of interest with respect to the operation of the Board of Directors or the management of the Company, as well as working with the Chairman of the Board of Directors to ensure that directors receive full and timely information.

At the first meeting after the appointment, on 23 April 2018, the Board of Directors confirmed the independence of the Directors Massimo Belcredi and Paolo Francesco Lanzoni with reference to Article 148, third paragraph, of the Consolidated Finance Act (T.U.F.)[13] and the independence of the Directors Mara Anna Rita Caverni, Barbara Cominelli, Silvia Merlo, Elisabetta Oliveri[14] and Mario Paterlini both with reference to Article 148, third paragraph, of the Consolidated Finance Act, and with reference to the information contained in the current Corporate Governance Code.

BOARD OF DIRECTORS COMPOSITION BY STATUS



The Board of Statutory Auditors verified the correct application of the criteria and verification procedures adopted by the Board of Directors to assess the independence of its members.

On 14 November 2018, the independent Directors held their own meeting, but remained in contact and regularly consulted each other in advance on the principal matters examined by the Board of Directors. The Director responsible for coordinating the requests and contributions of non-executive directors (with particular reference to those who are independent) put forward, also on behalf of the latter, proposals and suggestions to the Chairman and the Executive Deputy Chairman as regards issues relating to the governance of the Company. The response was positive with respect to the proposals made. The Director responsible for coordinating the requests and contributions of non-executive directors (with particular reference to those who are independent) and the Executive Deputy Chairman subsequently reported to the Board of Directors regarding the process followed and the implementation status of the individual proposals.

13 The Board of Directors, in line with the assessments made during the previous three years, with emphasis on substance rather than form, a principle advocated by the Corporate Governance Code, has confirmed that the Directors Belcredi and Lanzoni do not have, nor have they recently had, directly or indirectly, relations with the Company or related persons, that would impair their autonomy of judgement, in accordance with Principle 3.P.1. of the current Corporate Governance Code promoted by Borsa Italiana. Moreover, in view of their long tenure, the Board of Directors considered it preferable not to qualify them as independent directors pursuant to the Corporate Governance Code.

14 The Board of Directors, following the resolution adopted on 14 May 2018 at the proposal of the Nominations and Remuneration Committee, having heard the opinion of the Board of Statutory Auditors, in relation to the remuneration to be paid to members of the Strategic Committee, among which the independent Director Elisabetta Oliveri, having noted that the payment of remuneration in favour of members of the Strategic Committee, who are not employees of the Group and who do not hold positions in the Board of Directors, has been an integral part of the Company's Remuneration Policy since 2012 and with reference to the same Shareholders' Meeting, in turn expressed its favourable opinion pursuant to Article 123-ter of the Consolidated Finance Act (T.U.F.), having noted that the same, also in the light of that communicated by the aforesaid Director, would not be significant for the purposes of what is provided for by application criteria 3.C.1(d) of the Corporate Governance Code in relation to the assessment of the independence of Directors, and resolved to confirm the assessment of the independence of the Director Elisabetta Oliveri carried out during the meeting of 23 April 2018 both with reference to what is foreseen by Article 148, paragraph 3, of the T.U.F. and what is provided in this regard by the Corporate Governance Code.

Other appointments as director or statutory auditor held by Directors in other companies listed in regulated markets, including abroad, in finance, banking and insurance companies or companies of significant size at 31 December 2018[15]:

Edoardo Garrone	*Chairman of the Supervisory Board of San Quirico S.p.A.* *Chairman of the Board of Directors of Il Sole 24 Ore S.p.A.* *Director of Invitalia Ventures Sgr S.p.A.*
Alessandro Garrone	*Director of Banca Passadore e C. S.p.A.*
Giovanni Mondini	*Chairman of the Management Board of San Quirico S.p.A.*
Massimo Belcredi	*Director of BPER Banca S.p.A.*
Mara Anna Rita Caverni	*Director of Autostrade Meridionali S.p.A.* *Director of Cerved Group S.p.A.*
Marco Costaguta	*Management Director of San Quirico S.p.A.* *Director of Fine Foods S.p.A.* *Director of OTB S.p.A.* *Director of Goglio S.p.A.* *Director of Rimorchiatori Riuniti S.p.A.* *Director of Officine Maccaferri S.p.A.* *Director of Praesidium Sgr S.p.A.* *Director of Hat Orizzonte Sgr S.p.A.*
Paolo Francesco Lanzoni	*Director of Castello Sgr S.p.A.*
Silvia Merlo	*Director of GEDI Gruppo Editoriale S.p.A.* *Chief Executive Officer of Merlo S.p.A.* *Director of Leonardo S.p.A.*
Elisabetta Oliveri	*Director of SNAM S.p.A.* *Director of GEDI Gruppo Editoriale S.p.A.*

Other attendees of Board of Directors meetings

Meetings of the Board of Directors also involve representatives from Group management to provide certain specific and timely insights on topics discussed on an as needed basis. In financial year 2018, managers took part in 10 of the 12 meetings of the Board of Directors, in several cases in support of the discussion of more topics on the agenda.

Directors' fees and remuneration - Development path of the Remuneration Policy

On 20 December 2011, at the proposal of the Nominations and Remuneration Committee, the Board of Directors approved its Policy for the remuneration of members of the Board of Directors and of Key management personnel, taking into account in particular:

- Article 6 of the Corporate Governance Code;

15 Other than offices held in Group companies.

- the provisions of the Consolidated Finance Act and the Issuers' Regulations on the transparency of the remuneration of the directors of listed companies and of Key management personnel;
- the Procedure for Transactions with Related Parties and the principles expressed in the Group's Code of Ethics.

Revisions to the Remuneration Policy, proposed by the Nominations and Remuneration Committee, were made by the Board of Directors as follows:

- on 18 December 2012, to incorporate the powers delegated by the Board of Directors (appointed by the Shareholders' Meeting of 20 April 2012) and the adoption of the 2012-2014 Medium/Long-Term Incentive System ("LTI System");
- on 11 March 2015, effective as from 2015[16], to incorporate the adhesion of the Company to the current Corporate Governance Code and the general principles of the 2015-2017 LTI System in anticipation of the renewal of the Board of Directors by the Shareholders' Meeting on 24 April 2015[17];
- on 22 March 2016, in order to implement the Resolution of the Board of Directors of 15 December 2015 defining the conditions necessary to implement the 2015-2017 LTI System, in line with the Policy itself and based on the 2015-2018 Business Plan;
- on 9 March 2017, in order to implement (i) the organisational changes occurring following the reorganisation of the risk management, compliance and internal control processes of the ERG Group and the "One Company" Project, (ii) the introduction of a clause to which any deferred payment of non-recurring remuneration is subject, following assessment by the Nominations and Remuneration Committee and resolution by the Board of Directors;
- on 7 March 2018, effective as from 2018, to incorporate the essential elements of the 2018-2020 LTI System approved by the Shareholders' Meeting of 23 April 2018, which, inter alia, appointed a new Board of Directors;
- on 6 March 2019, in order to implement the resolution of the Board of Directors of 14 May 2018 defining the conditions necessary to implement the 2018-2020 LTI System, in line with the Policy itself and based on the 2018-2022 Business Plan.

During 2018, the members of the Nominations and Remuneration Committee submitted to the Board of Directors proposals on the remuneration of Directors (appointed by the Shareholders' Meeting of 23 April 2018) who are executive or vested with particular roles or called to be part of the Strategic Committee[18], based on the provisions of the current Remuneration Policy[19].

16 Since the 2015-2017 LTI System is connected to ERG's share performance, it was submitted for approval to the Shareholders' Meeting held on 24 April 2015, who voted in favour of it.
17 The Shareholders' Meeting held on 3 May 2016 voted in favour of the first section of the Remuneration Report prepared in accordance with Article 123-*ter* of the Consolidated Finance Act
18 Although not Group employees and with no seat on the Board of Directors.
19 For detailed information on this matter, please refer to the Remuneration Report referred to in Article 123-*ter* of the Consolidated Finance Act, to be presented to the Shareholders' Meeting convened in April 2019, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.

Powers

At the meeting held on 23 April 2018, the Board of Directors assigned the following powers for three years and therefore until the date of the Shareholders' Meeting held to approve the Financial Statements at 31 December 2020:

- to the **Chairman, Edoardo Garrone**
  - the authority to manage corporate affairs, through the tasks of supervision, direction and control, taking into account his role as Chairman of the Board of Directors and that stated in this regard in the Corporate Governance Code[20];

- to the **Deputy Chairman, Alessandro Garrone**
  - the authority to oversee preliminary and functional activities to define the strategic objectives of the Company and the Group and the preparation of the Strategic Plan to be submitted to the Board of Directors for consideration and possible approval; additionally, to provide strategic coordination of the subsidiaries;
  - the authority to oversee and control activities for the preparation of draft Budgets to be submitted for review and possible approval by the Board of Directors;
  - the authority to provide guidance and supervision for research, development and negotiation with third parties in mergers and acquisitions transactions and structured finance transactions, which, due to their importance, are subject to the approval of the Board of Directors;
  - the authority to oversee the definition of the Company's organisational structure up to the second level reporting directly to the Chief Executive Officer, contributing with the latter to the taking of decisions regarding the appointment of directors and executives, employee terminations, and remuneration policies and incentives;
  - the authority to oversee internal audit, risk management and compliance activities and processes, through supervision, guidance and control;
  - the office of Director in charge of the internal control and risk management system, with powers and responsibilities as outlined in the current Corporate Governance Code in line with the Guidelines for the Internal Control and Risk Management System approved by the Company;

- to the **CEO, Luca Bettonte** (Chief Executive Officer of the Company)[21]
  - the powers necessary to perform all actions pertaining to the company's business, except for those reserved to the Board of Directors (by law or by the Articles of Association) or delegated to other Board Members;
  - the powers and responsibilities for the protection of health, and maintenance of safety in the workplace and the environment;
  - the authority to protect persons and other subjects with regard to the processing of personal data.

20 Commentary on Article 2, fifth paragraph of the Corporate Governance Code.
21 The interlocking directorate situation, set forth in application criterion 2.C.5. of the Corporate Governance Code, does not apply.

In accordance with the Articles of Association, the Chairman has the power to represent the Company pursuant to Article 2384 of the Italian Civil Code. The Chief Executive Officer(s) also has/have such powers, within the limits of the authority vested in them.

Moreover, the Board of Directors, in accordance with the recommendations of the Corporate Governance Code, has specified that the powers vested in the Executive Deputy Chairman and in the Chief Executive Officer shall be exercised within the scope of the directives and instructions imparted to them by the Board of Directors which shall retain, in addition to the powers that may not be delegated as prescribed by law or by the Articles of Association, the authority to review and approve significant transactions identified on the basis of the criteria set out in the Guidelines for identifying and carrying out significant transactions, approved by the Board of Directors.

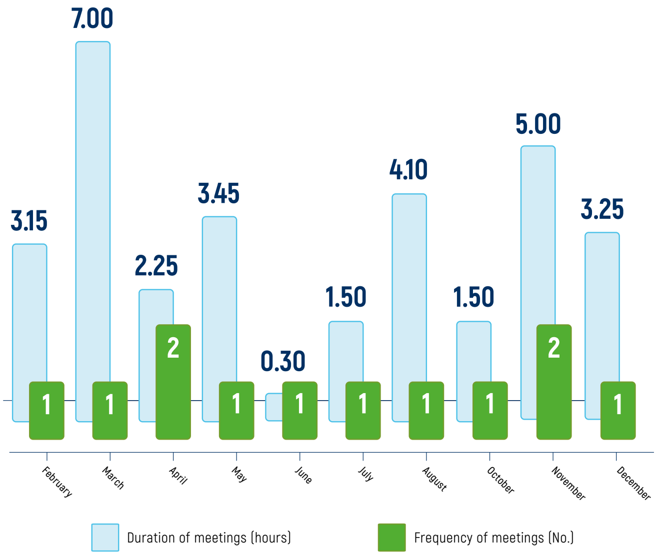
The delegated bodies report to the Board of Directors, on a quarterly basis, on the activities carried out within the scope of the powers vested in them.

Frequency

As prescribed by the Articles of Association, the Board of Directors meets at least once a quarter to inform the Board of Statutory Auditors on the Company's activities and on the most important business, financial and capital transactions undertaken by the Company or its subsidiaries, and particularly those where there may be a potential conflict of interests.

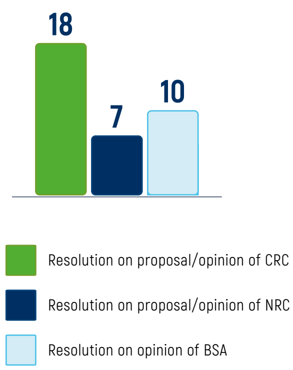
During financial year 2018, the Board of Directors held **12 meetings**, and for 2019 there are expected to be no fewer than **8** meetings

BOARD OF DIRECTORS - FREQUENCY



In the 2018 meetings, the Board of Directors passed **64 resolutions** pertaining to as many issues (**35** of which were adopted on the basis of a proposal or of an opinion provided by the Board Committees or following a prior assessment by them) and for **49** of them the related documentation was sent to Directors and Statutory Auditors beforehand (at least 48 hours before the meeting, barring exceptions), said advance notice being deemed suitable to enable Directors and Auditors to acquire adequate knowledge of the items on the agenda.

BOARD OF DIRECTORS
RESOLUTIONS PASSED



During all Board meetings, with particular reference to those in which, for some of the matters covered, the documentation could not, exceptionally, be sent beforehand, the Chairman ensured that specific and timely insights were guaranteed and, where appropriate, provided by representatives of Group management invited by the Board of Directors to participate.
It is also noted that, of the **15 resolutions** in relation to which Board members and Auditors had not been sent the relevant documentation in advance, **4 resolutions** concerned the immediate approval of the minutes at the end of the relevant meeting (to which said minutes referred), **2 resolutions** were however adopted on the basis of a prior assessment by the Board Committees and **6 resolutions** were adopted by the newly appointed Board of Directors at its plenary meeting held at the end of the Shareholders' Meeting which had appointed the new board.
The average duration of the meetings held by the Board of Directors was around **2 hours and 45 minutes**.
At the date of approval of this document, the Board of Directors had met **twice**.

Activities carried out

Directors made a significant contribution to the work of the Board of Directors and Committees in 2018, in terms of meeting attendance and effective participation in proceedings.
In the course of 2018, the Board of Directors performed the activities and responsibilities referred to in application criterion 1.C.1. of the Corporate Governance Code in accordance with the role that the Code attributes to the Board of a listed company.
The Board of Directors, with respect to the provisions of application criterion 1.C.3. of the Corporate Governance Code, acknowledged that in light of the findings outlined in the document prepared by the Nominations and Remuneration Committee and taking into account the number of directorships and auditorships held by the individual Directors in other listed companies and in financial, banking, or insurance companies or companies of significant size, it does not appear to be necessary to establish a maximum number of directorships and auditorships.
The Chairman of the Board of Directors ensured that during the meetings of the Board of Directors and of the Committees within the Board, in relation to the topics discussed, the Chief Executive Officer and representatives of Group management provided all directors with the information necessary to provide adequate knowledge of the sector in which the Group operates, of corporate dynamics and its trends and of the reference regulatory framework.
At least once a quarter, the Chief Executive Officer reported to the Board of Directors with regard to the exercise of the mandate and the performance of the Company and the Group.

During the year, the Chairman informed of specific initiatives and events, organised by primary stakeholders and intended for Directors and Auditors of listed companies, which some Directors and Auditors subsequently attended.
Induction activities were also organised, lead by top managers of the Company and aimed at explaining Group operations to the newly appointed Directors.

Board Performance Review

With regard in particular to subsection g) of application criterion 1.C.1. of the Corporate Governance Code, the Board of Directors, at its meeting of 20 February 2019, carried out a review, partly on the basis of a document prepared for this purpose by the Nominations and Remuneration Committee, of the size, composition and functioning of the Board of Directors and its Committees during 2018, expressing, in this regard, an overall favourable opinion accompanied by specific indications with respect to the operation of the Board of Directors and of its Committees. This document was prepared using the assessment criteria used in the previous year and the results of a self-assessment questionnaire prepared by Corporate Affairs at the request of the Nominations and Remuneration Committee and sent to members of the Board of Directors and of the Board of Statutory Auditors. This questionnaire allows individual directors and statutory auditors to point out any matters worthy of being looked into further.

Statutory Auditors Performance Review

The Chairman of the Board of Statutory Auditors, in the board meeting held on 20 February 2019, informed the Board of Directors on the results of the self-assessment carried out with regard to the size, composition and functioning of the Board of Statutory Auditors in the course of financial year 2018. This assessment was carried out using, inter alia, the findings of a self-assessment questionnaire drawn up by Corporate Affairs at the request of the Board of Statutory Auditors.

Diversity policy in relation to the composition of the administration, management and control bodies

1.1 Objectives

The Board of Directors considers that the presence, within the Board of Directors itself and the Board of Statutory Auditors, of skills, values and points of view that are different yet complementary to each other may in fact be a strength since it makes it possible to analyse the various matters under discussion from different perspectives, it encourages debate and it serves as a basis for well-thought-out, informed and balanced board decisions.
The presence of varying skills and expertise is also deemed essential and necessary for the purposes of fully understanding and adequately appreciating the different aspects that must be taken into account in the context of the business in which the Company operates.

1.2 Implementation methods

Since the Company's administrative, management and control bodies, in accordance with the provisions of Articles 147-ter and 148 of the Consolidated Finance Act and Articles 15 and 22 of the Articles of Association, are appointed on the basis of lists of candidates submitted by shareholders, the composition of said bodies depends on the decisions made from time to time by the latter during the Shareholders' Meeting, in compliance with the applicable laws and regulations.
Without prejudice to the foregoing, the Board of Directors considers that the Company's policy on diversity in relation to

the composition of its administrative, management and control bodies (the "Policy"), in accordance with the provisions of the Corporate Governance Code, can be expressed through **specific recommendations or guidelines** made by the Board of Directors to the shareholders, from time to time, before the appointment of the Board of Directors and the Board of Statutory Auditors, and explained in the report on matters on the agenda, provided within the meaning of Article 125-ter of the Consolidated Finance Act, and in the report on corporate governance and the ownership structure within the meaning of Article 123-bis of the Consolidated Finance Act.

1.3 Composition of the management body

The Policy proposed by the Board of Directors prescribes, in particular, that each Director, within the scope of the self-assessment process on the functioning of the Board of Directors itself and its Committees, expresses, before the appointment of the new Board, **his/her recommendations**, in the matter of diversity, on the managerial and professional figures that should be included in the Board, also taking into account factors such as training and professional characteristics, experience, including managerial, gender and age.

Since the current Board of Directors, made up of 12 members, was appointed by the Shareholders' Meeting of 23 April 2018 and consequently the mandate given to the same will expire on the date of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2020, it is envisaged that this assessment process will be carried out once again in the first quarter of 2021 in such a way that its outcome will constitute an integral and substantial part of the **recommendations** to the Shareholders' Meeting, convened to appoint the new control body.

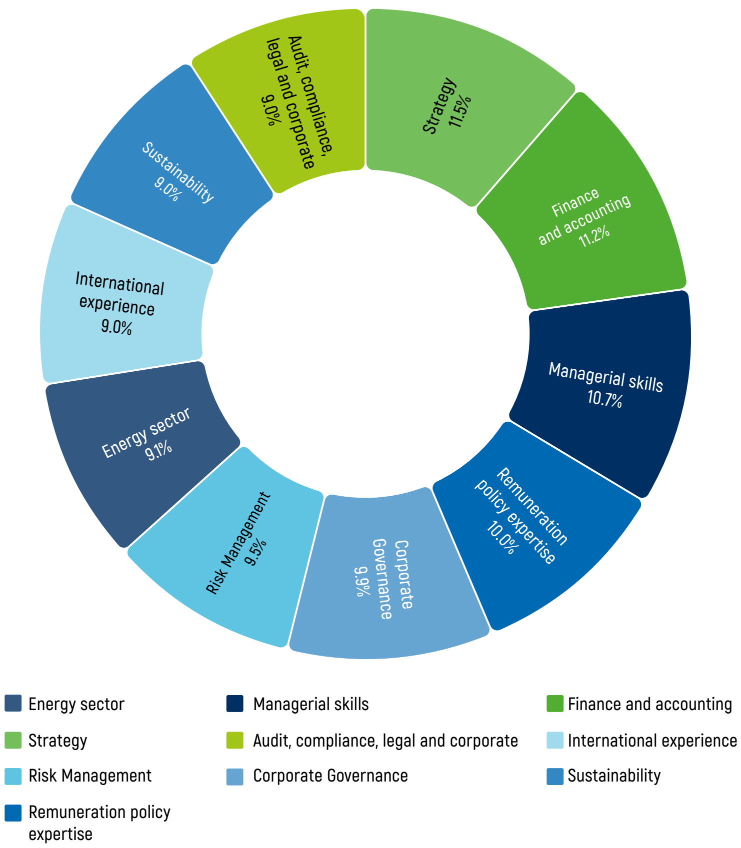
The results of the assessments performed by the current Board of Directors and the **recommendations** of the previous Board of Directors are set out below.

Educational and professional background

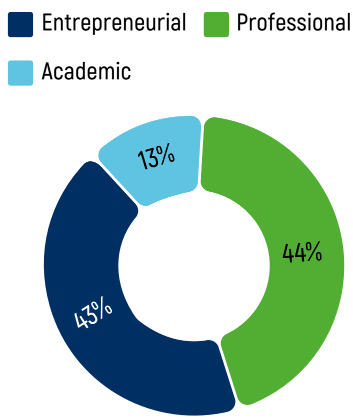
With reference **to the skills within the Board of Directors**, the self-assessment process for financial year 2018 has shown, in line with the results of the self-assessment performed by the previous Board of Directors, a balanced distribution of skills within the Board of Directors, gained mainly through entrepreneurial and professional experiences, and the opportunity to increase, among non-executive directors, the weight of the experience/skills in the field of energy, in a regulatory context and from an international point of view. The self-assessment also revealed also the opportunity for a greater focus, within the Board of Directors, on the activities carried out in the field of sustainability by the relevant Internal Committee.

The skills present within the Board of Directors are largely the same as those recommended by the previous Board of Directors.

SKILLS CURRENTLY PRESENT IN THE BOARD OF DIRECTORS

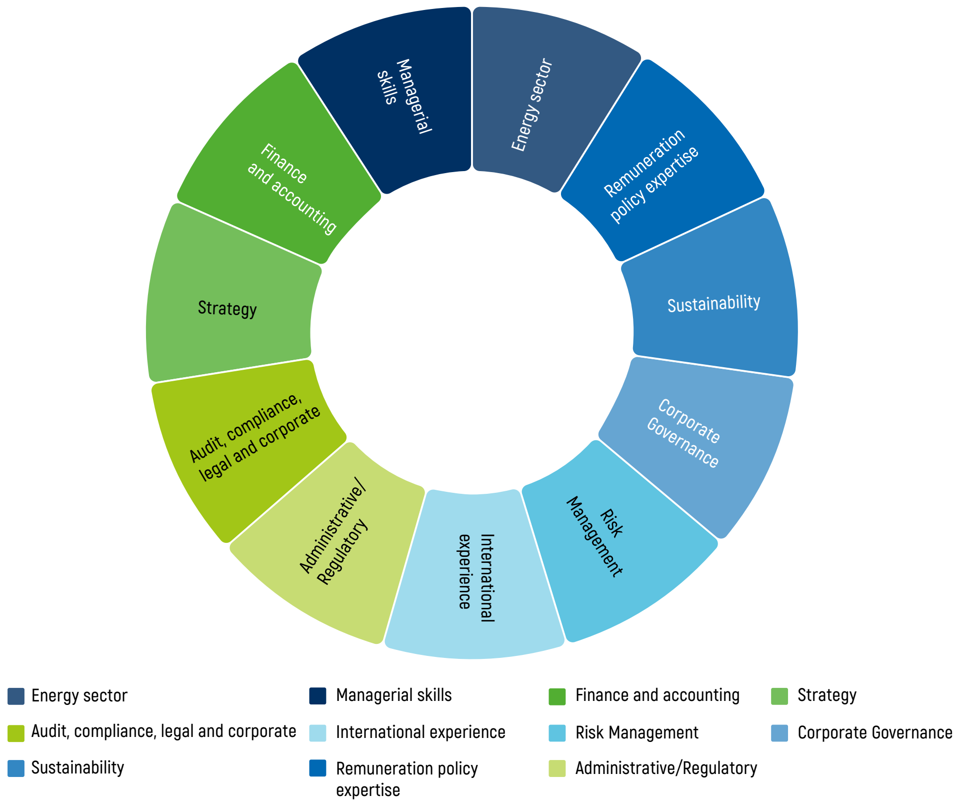


EXPERIENCE GAINED



It is recalled that with reference to the **skills that ought to be present in the Board of Directors**, the previous Board of Directors, following the outcome of the self-assessment process relating to financial year 2017, had recommended that the skills already represented in the Board of Directors be maintained, potentially increasing the weight of international experience in the energy sector and introducing specific skills in the field of administrative and regulatory law, in line with current and future developments in the portfolio of Group operations.

SKILLS THAT OUGHT TO BE PRESENT IN THE BOARD OF DIRECTORS



Gender composition

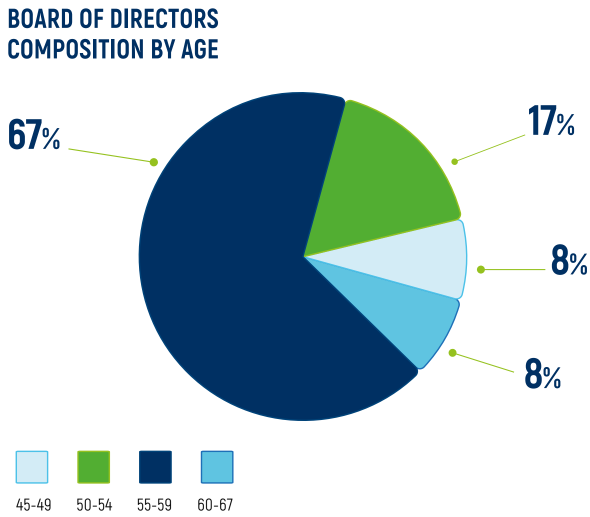
It is recalled that with reference to **gender balance**, the previous Board of Directors, following the self-assessment process relative to financial year 2017, did not consider it necessary to recommend more stringent requirements than those laid down by legislation. Self-assessment did, however, show that the skills and experience necessary for the purposes of the composition of the new Board of Directors are present across both genders.

The self-assessment process relative to financial year 2018 showed that the skills and experience necessary for the purposes of the composition of the new Board of Directors are present across both genders.

Age

It is recalled that with reference to **age**, following the self-assessment process for 2017, it was not considered necessary to make specific recommendations. The composition of the Board of Directors, divided according to age group, was however considered balanced.

The self-assessment process relative to financial year 2018, in the light of the activities carried out by the Board of Directors during the same financial year, shows that the current composition by age is adequate



Results

The composition of the current Board of Directors is considered to be substantially in line with Company Policy.

1.4 Composition of the control body

The Policy proposed by the Board of Directors prescribes, in particular, that the Board of Directors, on the basis of the information provided by the Board of Statutory Auditors in relation to the self-assessment process on the functioning of the Board itself, expresses, before the appointment of the new Board of Statutory Auditors, **its recommendations**, in the matter of diversity, on the professional figures that should be included in the Board, also taking into account factors such as training and professional characteristics, experience, gender and age.

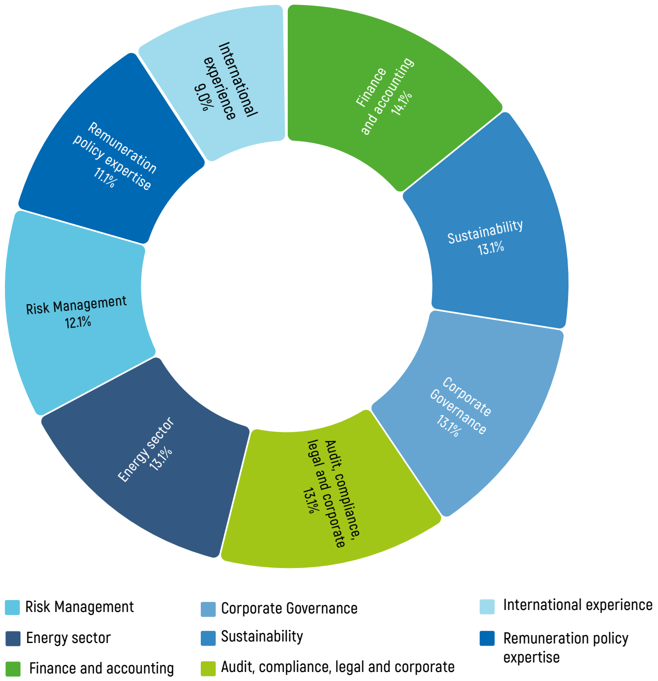
Since the current Board of Statutory Auditors was appointed by the Shareholders' Meeting of 3 May 2016 and consequently the mandate given to the same will expire on the date of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2018, this assessment process was carried out during the first quarter of 2019 in such a way that its outcome will constitute an integral and substantial part of the **recommendations** to the Shareholders' Meeting that will be called to appoint the new control body.

The results of the self-assessment performed by the Board of Statutory Auditors and the **recommendations** of the Board of Directors are set out below.

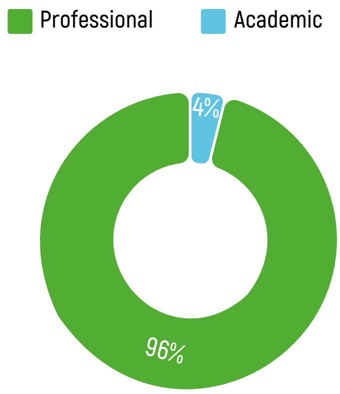
Educational and professional background

With reference to **the skills within the Board of Statutory Auditors**, the Board of Directors acknowledged the findings of the self-assessment of the Board of Statutory Auditors, which, also in the light of the balanced allocation of skills within the Board of Statutory Auditors, gained mainly through professional experience (as shown below),

SKILLS PRESENT IN THE BOARD OF STATUTORY AUDITORS

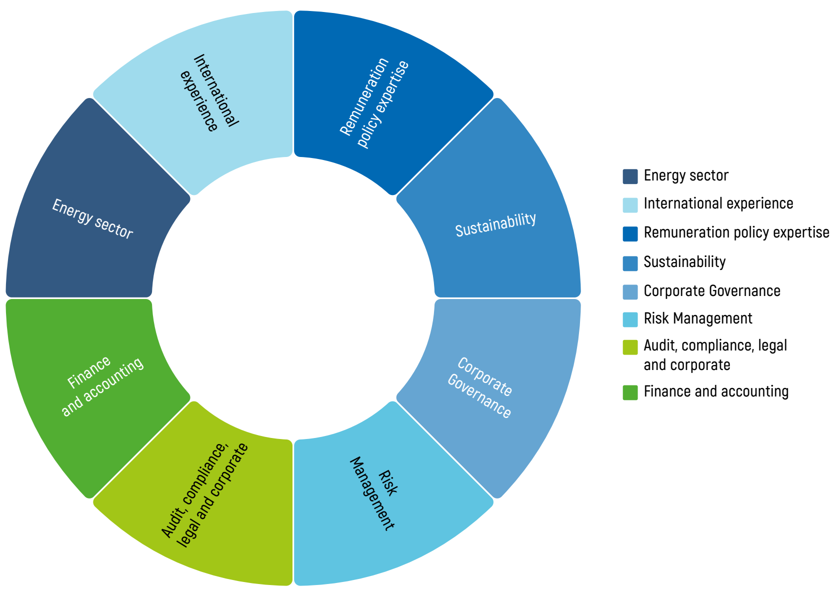


EXPERIENCE GAINED IN THE BOARD OF STATUTORY AUDITORS



considered it necessary to indicate that the skills represented in the current Board of Statutory Auditors should be present in the Board of Statutory Auditors that will be appointed by the Shareholders' Meeting called to approve the Financial Statements at 31 December 2018.

SKILLS THAT OUGHT TO BE PRESENT IN THE BOARD OF STATUTORY AUDITORS



Gender composition

With reference to **gender balance**, the Board of Directors acknowledged the findings of the self-assessment of the Board of Statutory Auditors, which considered it unnecessary to recommend more stringent requirements than those laid down by legislation.

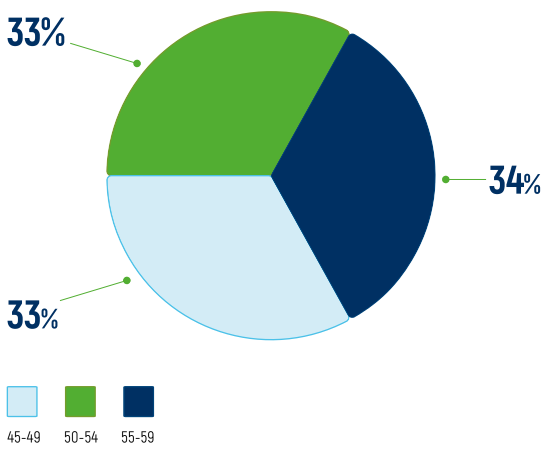
Age

With reference to **age**, the Board of Directors acknowledged the findings of the self-assessment of the Board of Statutory Auditors, which considered it unnecessary to make specific recommendations in this regard.

Results

The results of the Policy will be assessed following the process to appoint the new Board of Directors by the Shareholders' Meeting called, inter alia, to approve the Financial Statements at 31 December 2018.

BOARD OF STATUTORY AUDITORS COMPOSITION BY AGE



Recommendations of the Italian Corporate Governance Committee

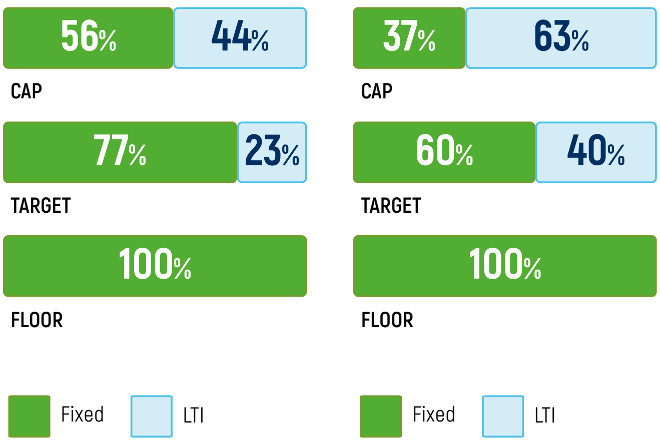
The Board of Directors, in its meeting of 6 March 2019, in the light of the content of the Report on Corporate Governance and Ownership and the Remuneration Policy, unanimously agreed that the Company is in line with the recommendations made in the letter sent by the Italian Corporate Governance Committee to the chairmen of the management and control bodies of all listed companies concerning (i) transparency on the timeliness, completeness and usability of pre-meeting information; (ii) the process to assess the independence of Directors; (iii) transparency about how to conduct the board performance review; and (iv) the adequacy of the remuneration policies in terms of pursuing the objective of sustainability of the company's activities in the medium-long term, strengthening the connection of the variable remuneration to parameters related to long-term objectives and limiting the possibility of granting of bonuses to individual exceptional cases.

Specifically:

- with reference to the **recommendation referred to in subparagraph** (i), following the outcome of the self-assessment, the Directors and Statutory Auditors unanimously found the pre-meeting information supplied in the course of the financial year and the notice with which the relevant documentation was made available to be adequate, even taking into account certain limited exceptional cases (several extraordinary operations) with reference to which the advance notice time was reduced but specific and timely insights were, however, ensured and, where appropriate, carried out including with the support of the representatives of Group Management, invited to participate for that purpose;

- with reference to the **recommendation referred to in subparagraph** (ii), following the outcome of the self-assessment, the Directors[22] and Statutory Auditors unanimously found the process of assessment by the Board of Directors on the independence of non-executive directors to be adequate. The evidence of this process, which is subject to a thorough assessment at individual level, and the explanations of decisions taken in this regard are provided in the section dedicated to the Board of Directors and the relative notes 13 and 14 of this Report;
- with reference to the **recommendation referred to in point** (iii), it should be noted that the Nominations and Remuneration Committee, with the support of Corporate Affairs, oversees the board review process in which the directors and auditors are called to participate actively, inter alia, through the compilation of a specific questionnaire. This questionnaire allows them to point out any matters worthy of being looked into further. The findings of the questionnaire, which are evaluated and discussed both by the Nominations and Remuneration Committee and the Board of Directors, are briefly outlined in this Report;
- with reference to the **recommendation referred to in subparagraph** (iv), it is noted that on the basis of the Company Remuneration Policy the variable component of the remuneration of the Chief Executive Officer and the Executive Deputy Chairman is fully governed by the 2018-2020 LTI System. This new Long-Term Incentive Plan based on financial instruments ("Performance Shares") aims to encourage maximum alignment, in terms of objectives, of the interests of **beneficiaries with the pursuit of the primary objective** of sustainable creation of value for Shareholders over the medium/long-term and allows the Company to take a further step towards fully implementing the "pay for performance" principle and evolve the mechanism for non-recurring remuneration into an instrument better aligned with best market practices.

PAY MIX EXECUTIVE DEPUTY CHAIRMAN | **PAY MIX CEO**



22 With the exclusion of Independent Directors since they are directly concerned.

Board of Statutory Auditors

Elena Spagnol
Chairman

Lelio Fornabaio
Standing auditor

Stefano Remondini
Standing auditor

The current Board of Statutory Auditors, comprising 3 standing auditors and 3 alternate auditors, was appointed by the Shareholders' Meeting of 3 May 2016; consequently, the appointment to the Board of Statutory Auditors shall expire at the date of the Shareholders' Meeting convened to approve the Financial Statements at 31 December 2018. For the appointment of the Board of Statutory Auditors, two lists of candidates were presented, one by the shareholder San Quirico S.p.A. and the other by a number of institutional investors as follows[23]:

San Quirico S.p.A. list

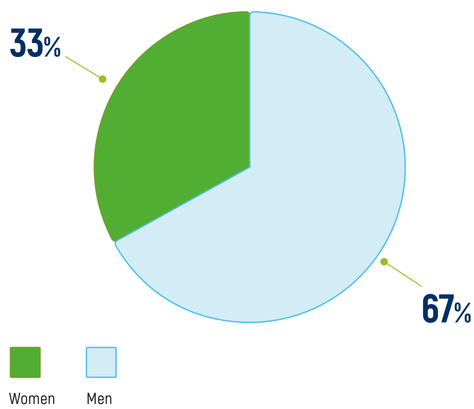
1. Lelio Fornabaio
2. Stefano Remondini
3. Elisabetta Barisone
4. Vincenzo Campo Antico
5. Mario Lamprati
6. Luisella Bergero

Institutional investors list

1. Elena Spagnol
2. Paolo Prandi

In accordance with the Articles of Association, the Board of Statutory Auditors consists of three standing auditors and three alternate auditors **in compliance with the gender balance criterion** prescribed by current laws and regulations. The Board of Statutory Auditors is appointed on the basis of lists presented by shareholders, which, in compliance with Article 147-*ter*, paragraph 1, of the T.U.F. (Consolidated Finance Act) (referenced by the Article 148, paragraph 2 of the T.U.F.), must be filed at least twenty-five days prior to the date of the Shareholders' Meeting and shall be made available to the public at least twenty-one days prior to the Meeting.

BOARD OF STATUTORY AUDITORS COMPOSITION BY GENDER



23 For the percentage of votes obtained by the lists in relation to the voting capital, please refer to the Summary Report of the voting on the items on the agenda of the Shareholders' Meeting of 3 May 2016, available on the Company's website (www.erg.eu) in the section "*Corporate Governance/2016 Shareholders' Meeting*".

Each list is made up of two sections: one for candidates for the office of Standing Auditor and the other for candidates for the office of Alternate Auditor. Each list shall contain a number of candidates, listed with a progressive number, not exceeding the maximum number of auditors to be elected and, with the exception of those presenting fewer than three candidates, it shall comply, for each section, with the gender balance criterion prescribed by current laws and regulations. Lists may only be presented by shareholders who, at the time of presenting the list, are in possession of a shareholding equal to that required for the presentation of lists for the election of Directors, currently equal to 1%[24]. This share capital percentage is the same as that required for the presentation of lists for the appointment of the Board of Statutory Auditors in office[25].

Each shareholder may present or contribute to presenting only one list and each candidate may appear in only one list, under penalty of ineligibility.

The lists contain not only information about the Shareholders who submitted them and the statements made by them pursuant to the applicable regulations, but also exhaustive information about the candidates' personal and professional characteristics and their statements pursuant to the Articles of Association.

Candidates cannot be elected to the office of Statutory Auditor unless they satisfy the requirements of independence, professionalism and integrity as provided by Article 148, section 3 of the Consolidated Finance Act or if they already serve as Standing Auditor in five listed companies[26].

If, at the expiration of the term for the presentation of the lists as indicated above, only one list has been filed, or only lists presented by mutually connected shareholders, according to the definition set out in the applicable regulations, have been filed, then lists may be presented until the third day following that date, within the meaning of Article 144-sexies, paragraph 5, of the Issuers' Regulations. In this case, the thresholds provided for the presentation of lists are halved.

Any list presented without compliance with the required prescriptions[27] shall be considered not to have been presented.

If no list is presented in spite of the completion of the aforesaid procedure, a majority vote shall be taken in such a way as to ensure that the composition of the Board of Statutory Auditors complies with current laws and regulations and with the Articles of Association. The Shareholders' Meeting appoints the Chairman.

If no second list is presented or voted, the entire Board of Statutory Auditors shall comprise, in the order of presentation, the candidates of the single list voted. The first person on the list is elected Chairman.

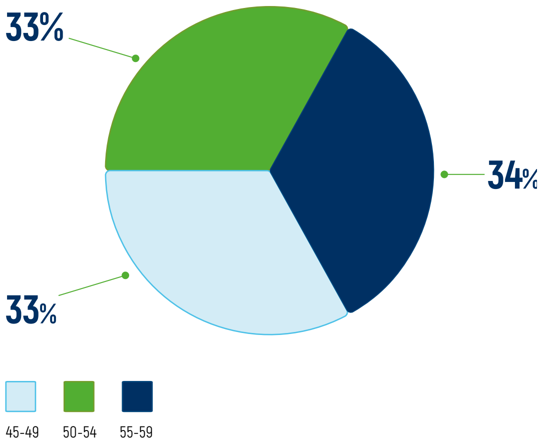
In the event that more lists are presented, election takes place as follows: from the list that received the highest number of votes are drawn, in the progressive order in which they are listed, two standing auditors and two alternate auditors; the third standing auditor and the third alternate auditor are elected choosing the candidates to the respective offices indicated at the top of the list that obtained the second-highest number of votes after the first one, among

24 Pursuant to CONSOB Resolution No. 13 of 24 January 2019.
25 Pursuant to CONSOB Resolution No. 19499 of 28 January 2016.
26 It is noted in this regard that the disclosure obligations as per Article 144-*quaterdecies* of the Issuers' Regulations do not apply to those who serve as members of the control body of a single issuer.
27 For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Statutory Auditors, please refer to the Articles of Association, available on the Company's website (www.erg.eu) in the section *"Corporate Governance / Governance & Conduct"*.

those presented and voted by minority shareholders who are not connected - even indirectly - with the shareholders who presented or voted the list that received the highest number of votes, according to current regulations and subject to the provisions of paragraph 13-bis of the Articles of Association pertaining to compliance with the gender balance criterion in the composition of the Board of Statutory Auditors. The standing auditor drawn from the minority list is appointed Chairman.

If the lists receive equal numbers of votes, the candidate of the list that was presented by the shareholders owning the largest share or, subordinately, by the higher number of shareholders is elected.

BOARD OF STATUTORY AUDITORS COMPOSITION BY AGE



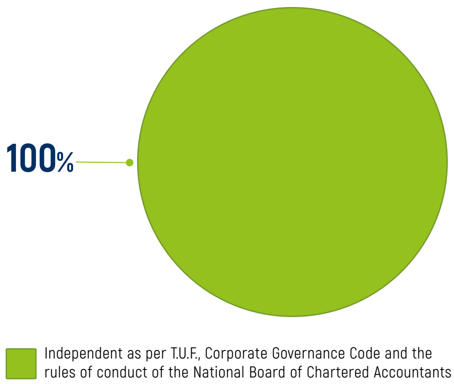
The Statutory Auditors in office at the date of approval of the Report are[28]:

Elena Spagnol	*Chairman*
Lelio Fornabaio	*Standing Auditor*
Stefano Remondini	*Standing Auditor*
Vincenzo Campo Antico	*Alternate Auditor*
Luisella Bergero	*Alternate Auditor*
Paolo Prandi	*Alternate Auditor*

The Board of Statutory Auditors, having examined the personal and professional characteristics of each auditor, has concluded that all its members can be designated as independent, including on the basis of the criteria set forth in the Corporate Governance Code for Directors.

The Board of Directors, in light of the information provided in this regard by the members of the Board of Statutory Auditors and of the statements by the Chairman of the Board of Statutory Auditors, during its meeting of 12 May 2016, positively assessed the independence of the members of the Board of Statutory Auditors, both with

BOARD OF STATUTORY AUDITORS COMPOSITION BY STATUS

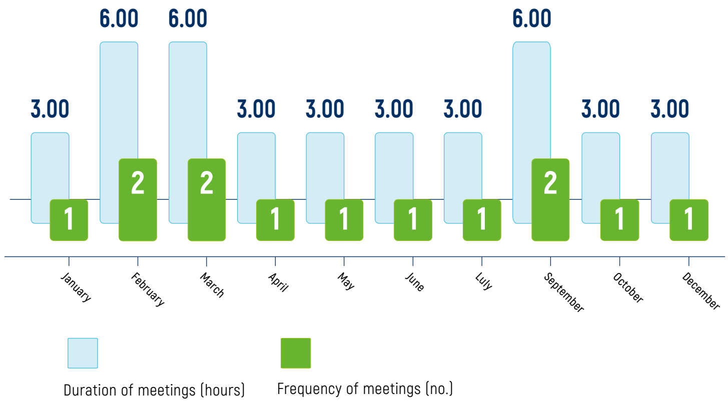


28 PFor the personal and professional qualifications of current members of the Board of Statutory Auditors, please refer to the relevant curriculum vitae available on the Company's website (www.erg.eu) in the section "Corporate Governance / Board of Statutory Auditors".

reference to the provisions of Article 148, third paragraph, of the Consolidated Finance Act and with reference to the rules of conduct of the Board of Statutory Auditors prepared by the National Board of Chartered Accountants and the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A.

During the meetings of the Board of Directors of 9 August 2017 and 3 August 2018, the Chairman of the Board of Statutory Auditors, within the meaning of the provisions of application criterion 8.C.1. of the Corporate Governance Code, notified the Board of Directors that the Board of Statutory Auditors, which met on 9 May 2017 and 18 June 2018, inter alia assessed and confirmed the independence of its members on the basis of the criteria laid down by the Consolidated Finance Act, by the rules of conduct of the Board of Statutory Auditors drawn up by the National Board of Chartered Accountants and by the Corporate Governance Code promoted by Borsa Italiana S.p.A.

BOARD OF STATUTORY AUDITORS - FREQUENCY



The Board of Statutory Auditors verified and monitored the independence of the Independent Auditors verifying both compliance with the regulatory provisions on the matter, and the nature and extent of services, other than auditing, performed for the Company and for its subsidiaries by the Independent Auditors and by entities belonging to its network.

The Board of Statutory Auditors also monitored the process of financial disclosure, checked the effectiveness of the internal control, internal audit and risk management systems and monitored the external auditing of annual accounts and of consolidated accounts.

The Board of Statutory Auditors, in the performance of its activities, was supported by the Internal Audit Division, coordinating with the Control and Risk Committee.

The Board of Statutory Auditors, at its meeting of 14 February 2019, proceeded to carry out, including through the use of a self-assessment questionnaire designed for such purpose by Corporate Affairs, an assessment with regard to the size, composition and functioning of the Board of Statutory Auditors in the course of financial year 2018 expressing, in this regard, an overall positive opinion accompanied by specific guidelines on diversity, and on professional figures who ought to be present within the Board, also taking into account factors such as training and professional characteristics, experience, gender and age. The findings of this process were communicated to the Board of Directors in the meeting of 20 February 2019.

During the 2018 financial year, the Board of Statutory Auditors held **13** meetings, while for financial year 2019 there are expected to be no fewer than **6** meetings before the expiry of the relevant mandate.

The average duration of the meetings held by the Board of Statutory Auditors was around **3 hours**.

At the date of approval of this document, the Board of Statutory Auditors had met **4 times**.

Other appointments as director or statutory auditor held by Auditors in other companies listed in regulated markets, including abroad, in finance, banking and insurance companies or companies of significant size at 31 December 2018 [29]:

Elena Spagnol	*Chairman of the Board of Statutory Auditors of Fineco Bank S.p.A.* *Standing Auditor of F.I.L.A. - Fabbrica Italiana Lapis ed Affini S.p.A.*
Lelio Fornabaio	*Standing Auditor of Astaldi S.p.A.* *Standing Auditor of Atlantia S.p.A.* *Standing Auditor of Telepass S.p.A.* *Director of Aeroporto di Genova S.p.A.* *Chairman of the Board of Statutory Auditors of Italiana Petroli S.p.A.*

Shareholders' Meetings

Article 10 of the Articles of Association states that, in compliance with laws and regulations, holders of voting rights who have obtained a suitable certification issued in accordance with current regulations by the broker and notified to the Company according to the procedures and within the term set by current laws and regulations, are entitled to attend Shareholders' Meetings. Holders of voting rights may be represented by written proxy in the Shareholders' Meeting, within the limits and according to the procedures prescribed by current laws and regulations. The proxy may be notified via certified electronic mail in accordance with the procedures indicated in the convening notice or using a different instrument which may be indicated in the notice.

Article 11 of the Articles of Association states that the Shareholders' Meeting must be convened by the governing body at least once a year, no later than one hundred and twenty days from the closing date of the financial year or, if the Company must prepare Consolidated Financial Statements and if required by specific provisions related to the organisation or the purpose of the Company, no later than one hundred and eighty days.

Article 12 of the Articles of Association states that the Shareholders' Meeting is convened by means of notice to be prepared and published within the terms and according to the procedures prescribed by current laws and regulations.

Article 13 of the Articles of Association states that the provisions of law shall apply for the quorum of both Ordinary and Extraordinary Shareholders' Meetings and for the validity of their resolutions.

Meeting regulations

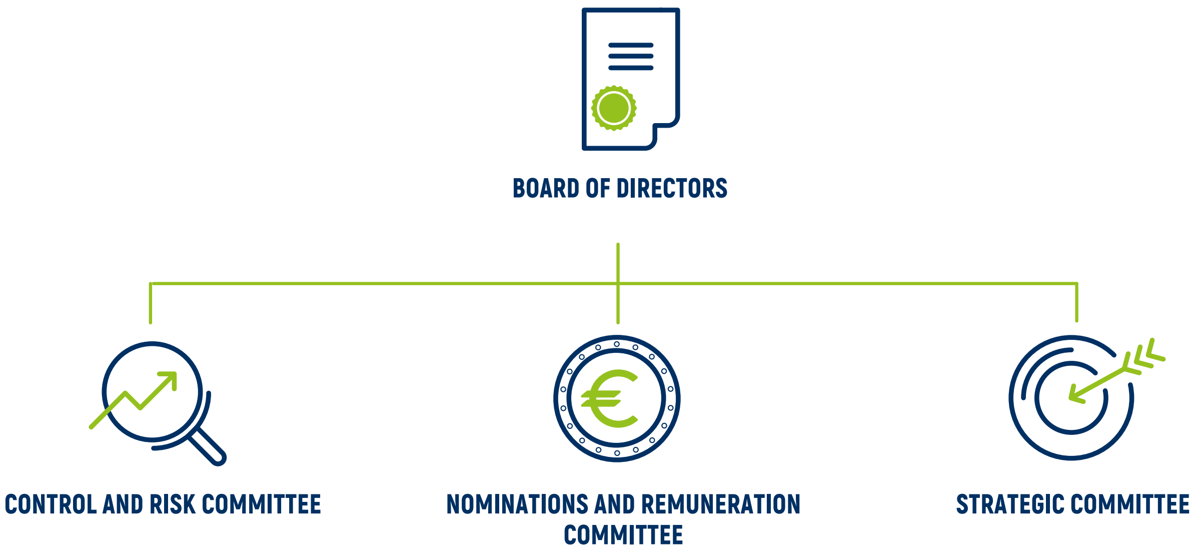
At the Ordinary Shareholders' Meeting, shareholders approved Regulations governing the proceedings of Ordinary and Extraordinary Shareholders' Meetings.

Article 14 of the Articles of Association expressly gives the Ordinary Shareholders' Meeting the possibility of adopting meeting Regulations.

29 Other than offices held in Group companies.

5.1. BOARD COMMITTEES

The Board of Directors has set up the **Control and Risk Committee**, the **Nominations and Remuneration Committee** and the **Strategic Committee** to advise it and issue recommendations.



Control and Risk Committee

Mara Anna Rita Caverni
Chairman

Massimo Belcredi
Member

Elisabetta Oliveri
Member

Composition:

Mara Anna Rita Caverni - *Chairman*

Massimo Belcredi

Elisabetta Oliveri

Giovanni Marco Scollo - *Secretary*

The current Control and Risk Committee is comprised of, in accordance with the provisions of the Corporate Governance Code, three non-executive Directors, all independent as per the Consolidated Finance Act and mostly independent as per the Corporate Governance Code, appointed by the Board of Directors in the meeting of 23 April 2018[30].

With reference to the provisions of Principle 7.P.4. of the Corporate Governance Code[31], it should be noted that in the first meeting of the Committee, held on 9 May 2018, the Director Mara Anna Rita Caverni, taking into account the experience gained by her over the previous three-year period, was appointed Chairman of the Control and Risk Committee

During its meeting on 9 May 2018, the Committee appointed a Secretary from outside of its members. Together with the Secretary, the Chairman coordinates the activities of the Committee and chairs its meetings.

The members of the Committee have adequate accounting, financial and risk management expertise[32].

30 The Control and Risk Committee up to 23 April 2018 was composed of the Directors Massimo Belcredi (Chairman), Mara Anna Rita Caverni and Barbara Cominelli.

31 *The Control and Risk Committee is made up of independent directors. Alternatively, the committee may be made up of non-executive directors, the majority of which being independent; in this case, the chairman of the committee is chosen from among the independent directors."*

32 These characteristics were assessed by the Board of Directors at the meeting of 23 April 2018.

Committee meetings are attended by the Chairman of the Board of Statutory Auditors or another auditor designated by him or, depending on the topics to be discussed, by all members of the Board of Statutory Auditors; meetings may also be attended by the Chairman of the Board of Directors, the Executive Deputy Chairman, the Director in charge of the Internal control and risk management system, and the Chief Executive Officer, who are entitled to participate in the discussion of the agenda items and to identify adequate actions to confront critical or potentially critical situations, as well as (also depending on the topics to be discussed), the Chief Audit Officer, the Manager responsible for preparing the Company's financial reports, the General Counsel, the Head of Group Administration, the Head of Group Risk Management & Corporate Finance and the Head of Corporate Affairs.
Employees of Group companies, representatives of the independent auditors and, in general, persons whose presence is deemed necessary or appropriate for the discussion of the agenda items may be invited to attend Committee meetings.

The Chief Audit Officer is invited to attend the meetings in order to report to the Committee, at least once a quarter, on the activity carried out from time to time.
The Manager responsible for preparing the Company's financial reports is invited to attend the meetings in order to inform the Committee, at least quarterly (in consideration of the approval and publication of interim financial reports), about the accounting standards applied in the preparation of periodic financial statements and, at least semi-annually, about the activity carried out from time to time in accordance with Article 154-bis of the Consolidated Finance Act.
The Head of Group Administration is invited to attend meetings in order to report to the Committee, semi-annually, on the activity carried out from time to time with reference to compliance with Law 262/05.
The Head of Group Risk Management & Corporate Finance is invited to attend the meetings in order to report to the Committee, on a semi-annual basis, on the activity carried out from time to time with reference to Risk Management.
The Head of Corporate Affairs is invited to attend the meetings in order to report to the Committee, on a semi-annual basis, on the activity carried out from time to time with reference to compliance with Legislative Decree 231/01 and anti-corruption laws.
The Committee meets at least quarterly, according to a schedule set with sufficient advance notice.
Committee members are provided, with reasonable advance notice with respect to the meeting date (at least 48 hours before the meeting, subject to exceptions), with the documentation and information required to enable them to express an informed opinion on the matters under consideration. During meetings, where appropriate, specific and timely insights are ensured and obtained with the support of representatives of Group management, invited to participate for that purpose.
The Committee organises its work in such a way as to combine comprehensive information flows and efficiency of operation with maximum independence of its members.
In particular, where deemed appropriate, resolutions are taken without other parties being present.

Tasks

The Control and Risk Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code. As from the date of adherence by the Company to the edition of the Corporate Governance Code published in July 2015[33], the Chairman of the Committee reports to the Board of Directors at the first board meeting on the meetings held by the Committee in the intervening period.

In general, it supports, through adequate investigations, the assessments and decisions of the Board of Directors pertaining to the Internal Control and Risk Management System (also, "ICRM System"), as well as those pertaining to the approval of periodic financial reports.

Specifically:

- it assists the Board of Directors in the following tasks prescribed by the Corporate Governance Code: definition of the guidelines of the ICRM System; periodic verification of the adequacy of the actual operation and efficiency of the ICRM System; verification that the main corporate risks are correctly identified, adequately measured, managed and monitored;
- it expresses opinions on specific aspects pertaining to the identification of the main corporate risks as well as to the design, implementation and management of the ICRM System;
- it supports, with adequate investigations, the evaluations and decisions of the Board of Directors relating to the management of risks arising out of prejudicial acts of which the Board of Directors is aware;
- it expresses its own opinion on the appointment and termination of the Head of Internal Audit and on the proposal for his/her remuneration formulated by the Director in charge of the Internal Control and Risk Management System;
- it monitors the independence, adequacy, effectiveness and efficiency of the Internal Audit function;
- it assesses the annual work plan and the related budget prepared by the Head of Internal Audit and his/her periodic audit reports, requesting, where applicable, audits on specific operating areas;
- it examines the results of the activities of the Manager responsible for preparing the Company's financial reports;
- it assesses, together with the Manager responsible for preparing the Company's financial reports, and having consulted the Independent Auditors and the Board of Statutory Auditors, the correct use of the accounting standards and their consistency for the purposes of drawing up the Consolidated Financial Statements, the draft Financial Statements and the Interim Financial Statements;
- it maintains appropriate relations with the Independent Auditors, the Board of Statutory Auditors, the Director in Charge of the Internal Control and Risk Management System, the Head of Internal Audit, and other departments within the Group's organisational structure that communicate with these parties, in such a way as to encourage them to carry out their respective activities in common areas of intervention in an effective and coordinated manner;
- it informs the Board of Directors, at least once every six months, upon approval of the Annual and Interim Financial Reports, about the work carried out and the adequacy of the ICRM System;

33 As from 15 December 2015.

- it reviews the annual work plan prepared by the Supervisory Body, established pursuant to the provisions of Legislative Decree 231/01, and the interim reports;
- it reviews the annual work plan for compliance with Legislative Decree 231/01 and anti-corruption laws, and the interim reports;
- it reviews the annual work plan for compliance with Law 262/05 and the interim reports;
- it assesses the continuous adequacy over time of the corporate procedures intended to regulate, in operational terms, the external communication of documents and information pertaining to the Company and the Group, with particular reference to "price sensitive" information;
- it provides the Board of Directors, the Chairman, the Executive Deputy Chairman and the Chief Executive Officer with all other advice and proposals deemed by the Committee to be necessary or appropriate for them to better carry out their respective duties in the areas of control, risk management and corporate disclosure;
- it provides to the Board of Directors and to the relevant bodies the opinions required by the Procedure for Transactions with Related Parties, where applicable being specifically comprised of two Independent Directors belonging to the same Committee and the other Independent Director belonging to the Nominations and Remuneration Committee[34]. If a member of the Committee is the counterparty of the transaction to be evaluated, or a related party thereto, the other members of the Committee shall call to participate in the meeting another unrelated independent director or, if there are none, an unrelated standing member of the Board of Statutory Auditors;
- it carries out any other duties assigned by the Board of Directors.

To better carry out its duties, the Committee may employ outside consultants at the Company's expense. Within the scope of the activity performed by the Committee members for the purposes of the Procedure for Transactions with Related Parties, the Board of Directors has not set any expense limit even for transactions of "Minor Relevance".
In the performance of its duties, the Committee was able to access the information and made use of the company functions necessary to carry out its tasks.
In 2018, the Committee held **11 meetings** - all duly recorded in minutes - during which, in addition to approving its calendar and organising its work, it addressed issues relating to the following macro-issues:

- Group governance;
- Internal Control and Risk Management System;
- Obligations as per Legislative Decree 231/01 and the Anti-Corruption System;
- Group administrative and accounting processes;
- Related parties;
- Information flows with the Board of Statutory Auditors.

34 For transactions pertaining to the allocation or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a Key manager of the Company or otherwise to one of the persons who holds the offices indicated in Annex 1 to the Procedure for Transactions with Related Parties, the Committee called upon to issue its opinion on the interest of the Company in the completion of the transaction with the related party and on the advantageousness and substantial correctness of the related conditions is the Nominations and Remuneration Committee, specifically comprised, where applicable, of two Independent Directors belonging to the same Committee and the other Independent Director belonging to the Control and Risk Committee, provided that the aforementioned transactions pursuant to Article 3.2, subsection c) of said Procedure are not excluded from the sphere of application of the same procedure.

The most significant issues covered by the Committee are as follows:

With regard to Group Governance

Guidelines, procedures and standards

- it examined and shared the proposed updates to the Group Code of Ethics and the Guidelines of the Internal Control and Risk Management System.

Specific in-depth examinations carried out

- it took note of the updates to the process for the conferral of statutory audit mandates within the ERG Group;
- it examined the approach followed in the preparation of the Remuneration Report relative to financial year 2018-2019;
- it examined the approach followed in the preparation of the Consolidated Non-Financial Statement at 31 December 2017;
- it verified the sphere of application of Articles 2497 et seq. of the Italian Civil Code with reference to (i) relations between ERG S.p.A. and its parent San Quirico S.p.A.; (ii) the scope of ERG S.p.A.'s management and coordination activities; (iii) the list of companies with which these activities are carried out;
- it examined and shared the process of adaptation to the new legislation in the matter of privacy provided by EU Regulation 2016/679.

With regard to the Internal Control and Risk Management System

Dealings with Director in charge of the Internal Control and Risk Management System

- it expressed a favourable opinion on the proposal to determine the variable remuneration relating to 2018 and to define the fixed and variable remuneration relating to 2019 for the Chief Audit Officer.

Dealings with Internal Audit

- it examined the quarterly update on the activities of Internal Audit, requesting specific insights in this regard;
- it examined and issued a favourable opinion on Internal Audit's 2019 activity plan and budget.

Dealings with Group Risk Management & Corporate Finance

- it examined the half-yearly update on the Enterprise Risk Management process following the activities to assess risk and the main risks that may have an impact on achieving the objectives of the Business Plan, providing some recommendations;
- it examined the Risk Report on the Business Plan.

Obligations in connection with Legislative Decree 231/01 and the Anti-Corruption System

Dealings with the Supervisory Body

- it examined, on a six-monthly basis, the periodic reports on the activity carried out by the Supervisory Body;
- it examined the schedule of activities and budget of the Supervisory Body for 2019.

Dealings with the 231 Compliance department

- it analysed the interim reports on activities in relation to compliance with Legislative Decree 231/01 and anti-corruption laws;
- it examined the plan of activities in relation to compliance with Legislative Decree 231/01 and anti-corruption laws for 2019.

With regard to the Group's administrative and accounting processes

Dealings with the Manager responsible for preparing the Company's financial reports

- it examined the implementation of the impairment test procedure for the Financial Statements at 31 December 2017, and the most relevant general issues resulting from its application;
- it assessed, together with the Manager responsible for preparing the Company's financial reports, and having consulted the Independent Auditors and the Board of Statutory Auditors, the correct use of the accounting standards for the purposes of drawing up the draft Financial Statements at 31 December 2017 and the Interim Financial Report at 30 June 2018, and their uniformity for the purposes of drawing up the relative Consolidated Financial Statements, as well as the fundamental issues arising in the course of the statutory audit;
- it took note, having consulted the Manager responsible for preparing the Company's financial reports, together with the Board of Statutory Auditors, of the highlights of the operating, cash flow and capital figures in the Interim Directors' Reports at 31 March 2018 and 30 September 2018, making no observations or remarks in this regard.

Dealings with 262 Compliance

- it analysed the interim reports on activities in relation to compliance with Legislative Decree 262/05, from which no elements emerged that could impede the issue of the statement by the Manager responsible for preparing the Company's financial reports and the statement by the Chief Executive Officer of ERG S.p.A. pursuant to Article 154-*bis*, paragraph 5, of the Consolidation Finance Act;
- it examined the risk assessment for 2018 pursuant to Law 262/05.

Specific in-depth examinations carried out

- it took note of the main features of the intra-group service agreements for 2018;
- it examined the methods for renewing the Group VAT liquidation procedure for the 2018 tax year;
- it analysed the main aspects relating to the domestic tax consolidation of ERG S.p.A., the indirect subsidiary ERG Wind Investments Ltd. and the companies belonging to ERG Solar Holding 1 S.r.l. (formerly Forvei group).

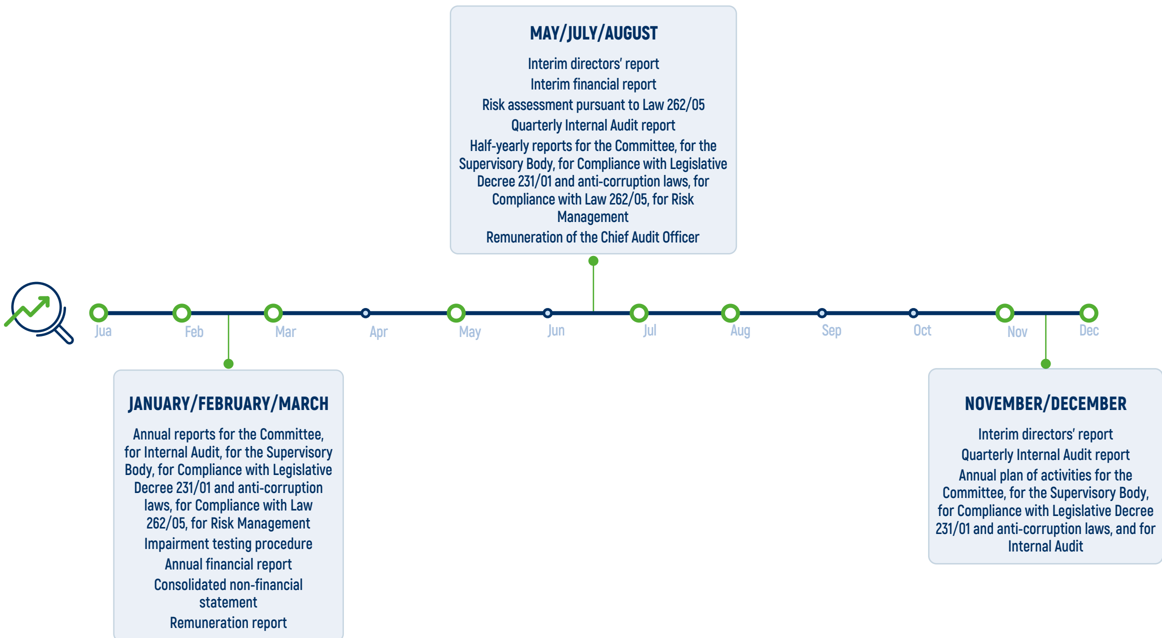
With reference to the provisions of the Procedure for Transactions with Related Parties

- it examined, in accordance with the Procedure for Transactions with Related Parties, a transaction of lesser importance between the parent San Quirico S.p.A. and ERG S.p.A. and issued a non-binding reasoned opinion on the interest of ERG S.p.A. in concluding the transaction, as well as on the advantageousness and substantial correctness of the relative conditions;
- it examined the checks carried out on the thresholds as referred to in the Procedure for Transactions with Related Parties and acknowledged their appropriateness.

As regards the information flows with the Board of Statutory Auditors

- it has been able to constantly interact with the Board of Statutory Auditors, which has participated in all the meetings of the Committee;
- it consulted the Board of Statutory Auditors as part of the process to assess the proper application of accounting principles and their consistency for the purposes of drawing up periodic financial reports.

CONTROL AND RISK COMMITTEE WORKS CALENDAR

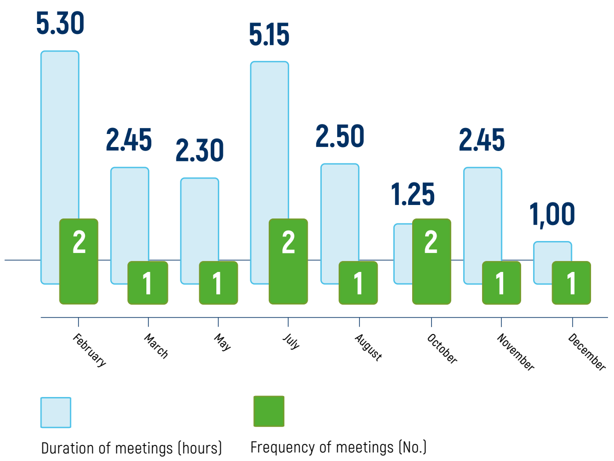


The Committee deemed it possible to confirm, in light of the activities carried out in 2018, its positive assessment with regard to the adequacy of the Internal Control and Risk Management System.

The average duration of the meetings held by the Committee was around **2 hours and 10 minutes**.

At the date of approval of this document, the Control and Risk Committee had met **3 times**.

CONTROL AND RISK COMMITTEE - FREQUENCY



Nominations and Remuneration Committee


Silvia Merlo
Chairman


Barbara Cominelli
Member


Paolo Francesco Lanzoni
Member

Composizione:

Silvia Merlo - *Chairman*

Barbara Cominelli

Paolo Francesco Lanzoni

Giovanni Marco Scollo - *Secretary*

In accordance with the provisions of the Corporate Governance Code, the current Nominations and Remuneration Committee is comprised of three non-executive Directors, all independent as per the Consolidated Finance Act and mostly independent as per the Corporate Governance Code, appointed by the Board of Directors in the meeting of 23 April 2018[35].
With reference to the provisions of Principle 6.P.3. of the Corporate Governance Code[36], it should be noted that in the first meeting of the Committee, held on 8 May 2018, the Director Silvia Merlo, taking into account the experience gained by her over the previous three-year period, was appointed Chairman of the Nominations and Remuneration Committee.
During its meeting on 8 May 2018, the Committee appointed a Secretary from outside of its members. Together with the Secretary, the Chairman coordinates the activities of the Committee and chairs its meetings.
The members of the Committee have adequate financial and remuneration policy expertise[37].
Committee meetings are attended by the Chairman of the Board of Statutory Auditors or another auditor designated by him/her or, depending on the topics to be discussed, by all members of the Board of Statutory Auditors; meetings may also be attended, upon invitation, by the Chairman of the Board of Directors, the Executive Deputy Chairman and the Chief Executive Officer, who are entitled to participate in the discussion of the agenda items and to identify adequate actions to confront critical or potentially critical situations.

35 The Nominations and Remuneration Committee up to 23 April 2018 was composed of the Directors Paolo Francesco Lanzoni (Chairman), Mara Anna Rita Caverni and Silvia Merlo.
36 *"The Board of Directors shall establish among its members a Remuneration Committee, made up of independent directors. Alternatively, the Committee may be made up of non-executive directors, the majority of which being independent; in this case, the chairman of the Committee is chosen from among the independent directors."*
37 These characteristics were assessed by the Board of Directors at the meeting of 23 April 2018.

Employees of Group Companies, representatives of the independent auditors and, in general, persons whose presence is deemed necessary or appropriate for the discussion of the agenda items may be invited to attend Committee meetings.

The Committee meets at least quarterly, according to a schedule set with sufficient advance notice.

Committee members are provided, with reasonable advance notice with respect to the meeting date (at least 48 hours before the meeting, subject to exceptions), with the documentation and information required to enable the Committee to express an informed opinion on the matters under consideration. During meetings, where appropriate, specific and timely insights are ensured and obtained with the support of representatives of Group management, invited to participate for that purpose.

Tasks

The Nominations and Remuneration Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code for the Nominations Committee and the Remuneration Committee[38]. As from the date of adherence by the Company to the edition of the Corporate Governance Code published in July 2015[39], the Chairman of the Committee reports to the Board of Directors at the first board meeting on the meetings held by the Committee in the intervening period.

Specifically:

<u>With reference to the activities of the **Remuneration Committee**</u>:

- it makes recommendations to the Board of Directors regarding the remuneration of the Chairman, Deputy Chairmen, Chief Executive Officer and, more generally, Directors with powers or specific duties and the Directors called to serve on the Strategic Committee who do not hold positions on the Board of Directors and, upon indication by the Chief Executive Officer, regarding the determination of criteria for the remuneration of the Company's top management and for the definition of incentive plans for the Group management;
- it periodically assesses the adequacy, overall consistency and concrete application of the Remuneration Policy for members of the Board of Directors and Key management personnel;
- it provides to the Board of Directors and to the relevant bodies the opinions required by the Procedure for Transactions with Related Parties, being, where applicable, specifically comprised of two Independent Directors belonging to the same Committee and the other Independent Director belonging to the Control and Risk Committee, (i) on the Company's interest in carrying out transactions involving the assignment or the increase in remuneration and benefits, in any form, to a member of an administrative or control body of the Company or to a Key Manager thereof or otherwise to one of the persons holding the offices indicated in Annex 1 to the Procedure for Transactions

38 In compliance with the conditions outlined for both Committees in the Corporate Governance Code, without prejudice to what is stated in relation to Principle 6.P.3. of the Corporate Governance Code.

39 As from 15 December 2015.

with Related Parties, and (ii) on the advantageousness and substantial correctness of the relative conditions, and shall comprise members of the Nominations and Remuneration Committee, provided that the said transactions pursuant to Article 3.2, subsection c), of said Procedure, are not excluded from the scope of the procedure itself[40]. If a member of the Committee is the counterparty of the transaction to be evaluated, or a related party thereto, the other members of the Committee shall call to participate in the meeting another unrelated independent director or, if there are none, an unrelated standing member of the Board of Statutory Auditors.

With reference to the activities of the **Nominations Committee**:

- it proposes to the Board of Directors the candidates for the office of Director in the case provided by Article 2386, first paragraph, of the Italian Civil Code, if it is necessary to replace an Independent Director;
- it assesses, at the specific request of the shareholders who intend to present lists, the independence of candidates for the office of director to be submitted to the Shareholders' Meeting;
- it provides the Board of Directors, on an annual basis, with an evaluation of the size, composition and functioning of the Board itself, and it may express recommendations on the professional profiles that should be included in the Board;
- it expresses recommendations regarding the maximum number of directorships or auditorships in other companies listed on regulated markets in Italy and abroad, in financial, banking, or insurance companies or companies of significant size that may be considered to be compatible with an effective performance of the duties of a directorship in the Company.

To better carry out its duties, the Committee may employ outside consultants at the Company's expense. Within the scope of the activity performed by the Committee members for the purposes of the Procedure for Transactions with Related Parties, the Board of Directors has not set any expense limit even for transactions of "Minor Relevance".
Whenever the Committee discusses the formulation of proposals for the remuneration of the Chairman, the Executive Deputy Chairman and the Chief Executive Officer, such individuals must leave the meeting.
In the performance of its duties, the Committee was able to access the information and company functions necessary to carry out its tasks.
In financial year 2018, the Committee held **6 meetings** - all duly recorded in minutes - during which, in addition to approving its calendar and organising its work, it

40 If the conditions per Article 3.2 subsection c) of the Procedure for Transactions with Related Parties are met, i.e. (i) that the Company has adopted a remuneration policy; (ii) that the Nominations and Remuneration Committee was involved in defining the remuneration policy; (iii) that a report illustrating the remuneration policy has been submitted for the Shareholders' Meeting consultative vote; (iv) that the remuneration assigned is consistent with said policy - subject to the disclosure obligations per Article 154-ter of the Consolidated Finance Act, the Procedure shall not apply to transactions pertaining to the assignment or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a Key manager thereof or otherwise to one of the persons who hold the offices indicated in Annex 1 to the Procedure for Transactions with Related Parties.

with reference to the activities of the **Remuneration Committee**:

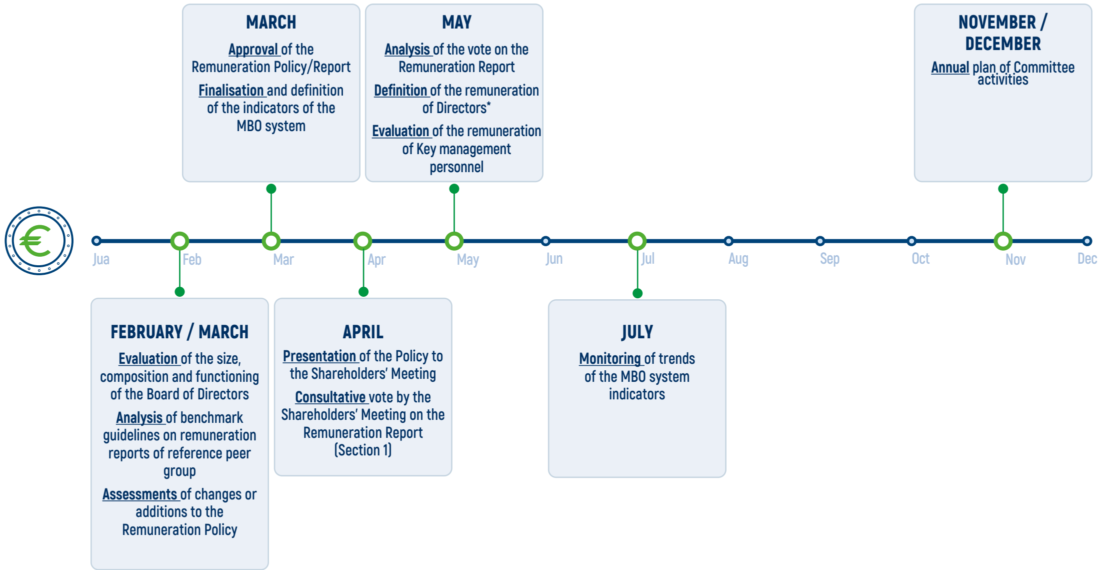
- formulated proposals for setting the remuneration of the Chairman, Deputy Chairmen, Chief Executive Officer and, more generally, Directors with powers or specific duties and the Directors called to serve on the Strategic Committee who do not hold positions in the Board of Directors;
- issued its opinion on assessing/determining the remuneration of certain Key managers[41] and the Chairman of a company belonging to the ERG Group, a related party of ERG S.p.A.;
- issued opinions - and where appropriate proposals - on the recognition and relevant determination of non-recurring remuneration to the Chief Executive Officer, Deputy Chairman and certain managers of the Company. The members of the Nominations and Remuneration Committee formulated the aforementioned proposals or assessments also taking into account the provisions of the Procedure for Transactions with Related Parties;
- made decisions, with reference to the MBO system, regarding (i) the definition of the corporate objective (reference target value) for financial year 2018, (ii) the profit achieved in 2017 with respect to the business objective assigned (reference target value);
- made decisions with reference to the results related to the indicators of the 2015-2017 LTI System, noting the achievement of the objectives assigned by the LTI System during the three-year period 2015-2017;
- actively participated in the process to define the new 2018-2020 LTI System and to update the Company's Remuneration Policy, in order to incorporate the conditions necessary to implement the System in the light of the 2018-2022 Business Plan;
- analysed the consultative vote of the Shareholders' Meeting on the first section of the Company's Remuneration Report, concerning financial year 2018;
- assessed the adequacy, overall consistency and practical application of the Company's Remuneration Policy, using the information provided by the Chief Executive Officer and the Executive Deputy Chairman;

with reference to the activities of the **Nominations Committee**:

- prepared a support document for the assessment of the Board of Directors in relation to the size, composition and functioning of the Board and its Committees during financial year 2018 using the valuation criteria used in the previous year and the findings of a self-assessment questionnaire sent to the members of the Board of Directors and the Board of Statutory Auditors;
- analysed and shared the suitability of the succession plan in place within the ERG Group as regards both Key management personnel and middle management.

41 The remuneration of the Chief Audit Officer is determined by the Board of Directors at the proposal of the Manager responsible for the Internal Control and Risk Management System, with the favourable opinion of the Control and Risk Committee following consultation with the Board of Statutory Auditors.

WORKS CALENDAR, NOMINATIONS AND REMUNERATION AND SIGNIFICANT EVENTS IN RELATION TO THE REMUNERATION POLICY

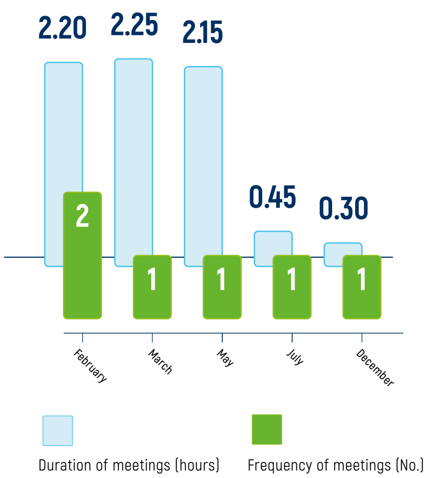


* Executive or entrusted with special powers

The average duration of the meetings held by the Committee was around **1 hour and 25 minutes**.

At the date of approval of this document, the Nominations and Remuneration Committee had met **twice**.

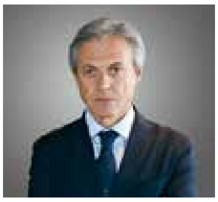
NOMINATIONS AND REMUNERATION COMMITTEE FREQUENCY



Strategic Committee


Alessandro Garrone
Chairman


Giovanni Mondini
Member


Luca Bettonte
Member


Marco Costaguta
Member


Elisabetta Oliveri
Member


Paolo Luigi Merli
Member

Composition:

Alessandro Garrone - *Chairman*

Giovanni Mondini

Luca Bettonte

Marco Costaguta

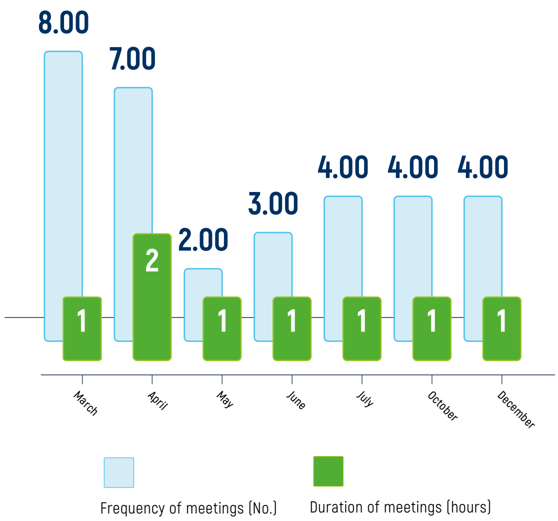
Elisabetta Oliveri

Paolo Luigi Merli

Paolo Luigi Merli - *Secretary*

The Committee advises and issues recommendations to the Chief Executive Officer and to the Board of Directors of ERG and to the Boards of Directors of the Group's operating companies.

STRATEGIC COMMITTEE – FREQUENCY



In accordance with the strategies and policies approved by the Board of Directors, the Committee's activities include the definition of strategic business and portfolio guidelines, guidelines and policies on strategic finance and for individual extraordinary financial transactions, and the monitoring of the progress of their implementation over time.

The Committee also examines the long-term strategic plans and capital expenditures budgets of the Group and of the operating companies, as well as the strategic benefits of significant capital expenditures effected at the Group level.

In 2018, the Committee held **8 meetings**.

The average duration of the meetings held by the Committee was around **4 hours**.

At the date of approval of this document, the Strategic Committee had met **2 times**.

5.2. INTERNAL COMMITTEES

CREDIT COMMITTEE

Responsible, for the entire Group excluding Joint Ventures, for the granting of credit facilities, for the analysis of deadlines and collection performance, for assessing and verifying past-due recovery plans, and for the general assessment of credit performance.

HUMAN CAPITAL COMMITTEE

Defines and monitors the main human capital development programmes and activities, provides support in decisions relating to strategies that determine the value of the Human Capital, and monitors the effective implementation of the Human Rights Policy, managing the reports relating to non-compliance thereof.

MANAGEMENT COMMITTEE

Monitors the economic, financial and industrial performance of the Group, monitors changes in the institutional and regulatory framework, analyses development opportunities and monitors relevant projects in the framework of the strategic plan ensuring that the priorities of all Organisational Units are aligned.

ERG

EVOLVING ENERGIES

SUSTAINABILITY COMMITTEE

Defines the Group's sustainability guidelines and promotes the implementation of consistent practices in the field of corporate social responsibility; approves, monitors and evaluates sustainability objectives and priority areas for action relating to CSR; approves the time-frames and methods for drawing up the Non-Financial Statement and CSR initiatives.

RISK COMMITTEE

Supports the Chief Executive Officer in defining strategies and policies for the management of financial and market risks, provides the information required to authorise financial and market risk management operations, and to monitor the execution of significant transactions and verify their effects.

INVESTMENT COMMITTEE

Provides support to the Chief Executive Officer in assessing investment proposals by the Group, and expresses a technical, economic and financial opinion at various stages in the investment approval process.

The composition of the Internal Committees (non-board committees, composed of Group managers) is aligned with the working model of the Group's organisational structure.

Management Committee

Committee tasked with advising and consulting with respect to the Chief Executive Officer. In particular it:

- monitors the economic, financial and industrial results of the Group;
- follows development in the institutional and regulatory framework;
- analyses development opportunities and monitors relevant projects within the strategic plan ensuring all organisational units are aligned in terms of priorities.

Investment Committee

Committee tasked with advising and consulting with respect to the Chief Executive Officer. In particular it:

- provides support to the Chief Executive Officer in assessing investment proposals;
- expresses a technical, economic and financial opinion for the Strategic Committee at various stages in the investment approval process.

Human Capital Committee

Committee tasked with advising and consulting with respect to the Executive Deputy Chairman and the Chief Executive Officer. In particular it:

- defines and monitors the main human capital development programmes and activities;
- provides support to the Executive Deputy Chairman and the Chief Executive Officer in decisions relating to strategies that determine the value of the human capital of ERG;
- monitors the effective implementation of the Human Rights Policy and manages reports relating to non-compliance thereof.

Risk Committee

Committee tasked with advising and consulting with respect to the Chief Executive Officer. In particular it:

- supports the Chief Executive Officer in defining strategies and policies for the management of financial and market risks;
- provides the Chief Executive Officer with information required to authorise financial and market risk management operations, and to monitor the execution of significant transactions and verify their effects.

Sustainability Committee

Committee tasked with advising and consulting with respect to the Chairman of the Board of Directors. In particular it:

- defines the Group's sustainability guidelines and promotes the implementation of consistent practices in the field of corporate social responsibility;
- approves, monitors and evaluates sustainability objectives and priority areas for action relating to CSR;
- approves the time-frames and communication methods of the None-Financial Statement and CSR initiatives.

Credit Committee

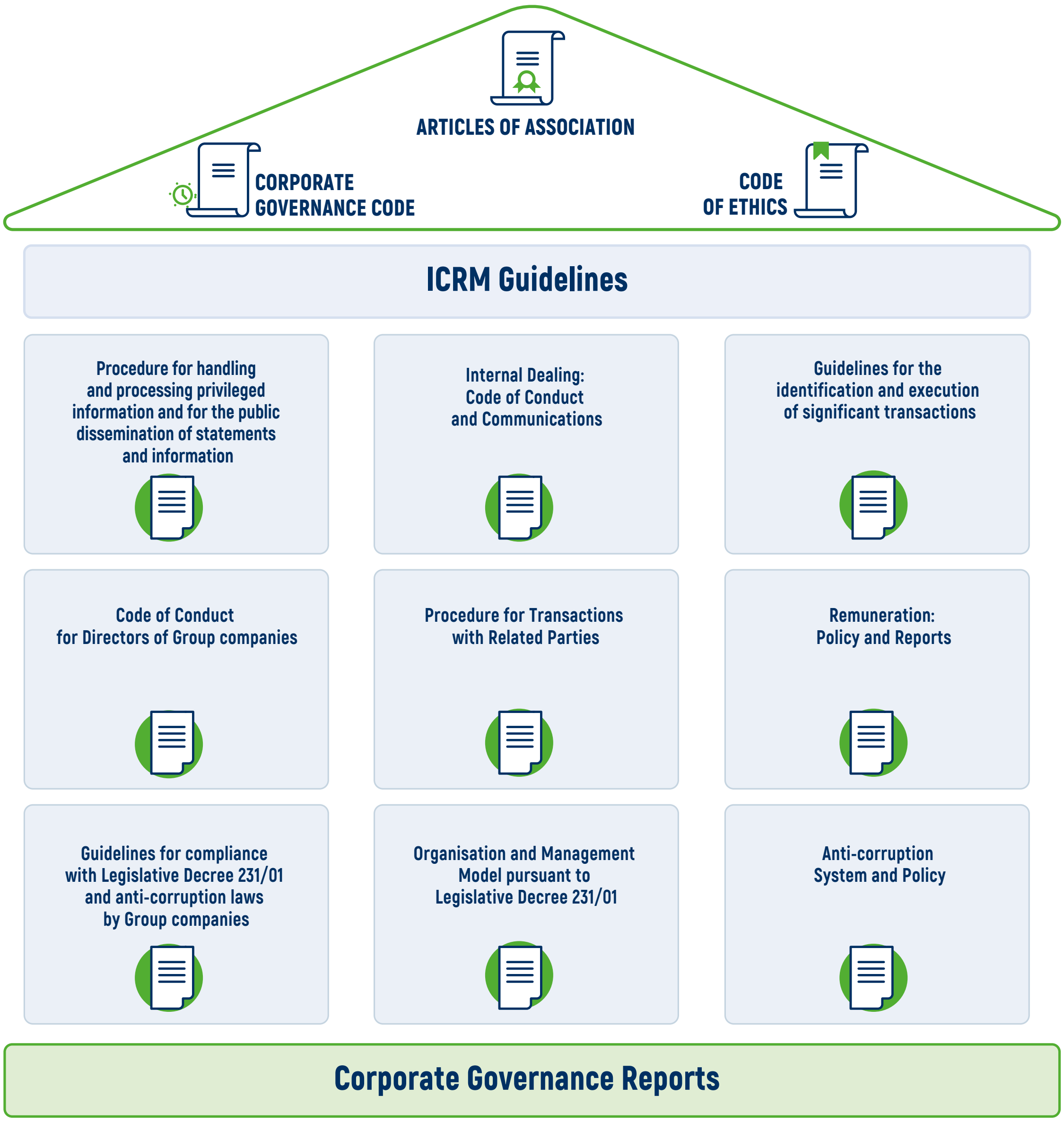
Committee tasked with advising and consulting with respect to the Chief Executive Officer. It is responsible in particular for:

- the granting of credit facilities;
- analysis of deadlines and collection performance;
- assessment and verification of past-due recovery plans;
- general assessment of credit performance.

5.3. CORPORATE GOVERNANCE DOCUMENTS

Governance & Conduct

ERG has adopted a Corporate Governance system that complies with the provisions of the Corporate Governance Code and is strongly focused on business ethics, i.e. the set of values that inspires all of the company's activities, at all levels, in order to guarantee a business management process designed to create value for shareholders while ensuring the legality, transparency and honesty of relations and business activities.



Articles of Association

The Articles of Association, as illustrated in detail in the Report, contain the main rules governing the operation of ERG's corporate bodies and has been recently amended to comply with the changes in laws and regulations on the matter of gender balance in the composition of the administrative and control bodies.

Code of Ethics

The Code of Ethics is an instrument for raising the awareness of all employees and associates and all other stakeholders so that, when carrying out their activities, they adopt correct and accountable conduct in line with the ethical and social values to which ERG aspires. The Code of Ethics is therefore an essential part of the Organisation and Management Model pursuant to Legislative Decree 231/01.

The Code of Ethics was revised in 2018 to take into account changes made to the business, with particular reference to the exit from the downstream sector, the increasingly international scope of the ERG Group, certain regulatory changes, in particular as regards the handling of privileged information and ensuring confidentiality relative to the identity of those who, in good faith, report possible violations of ethical principles related to corporate sustainability, such as the fight against corruption, respect for human rights and the protection of working conditions, with reference to which certain rules of conduct have been specified further, and lastly the Anti-Corruption System and Policy have been adopted. The latest revision to the Code of Ethics was approved by ERG's Board of Directors on 3 August 2018.

The Code of Ethics is adopted by all companies in the Group, both Italian and foreign, and it is available in English, French and German.

The Code of Ethics is communicated to associates of the Group not only through its publication on the Group's website, but also through reference in the contractual clauses.

Group employees are provided with both classroom training and an e-learning course, use of which is tracked in the system.

Corporate Governance Code

The Company has adhered to the Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A. since its first edition in 1999. On 15 December 2015, the Board of Directors, following the Control and Risk Committee's preliminary assessment of the main amendments made, decided to adopt the new edition of the Corporate Governance Code published in July 2015. It is noted that with reference to the criteria of gender diversity referred to in principles 2.P.4. and 8.P.2, introduced in the edition of the Corporate Governance Code published in July 2018, the Board of Directors, in its meeting of 6 March 2019, in light of the positive experience gained in this regard, even though the provisions referred to in Article 147-*ter*, paragraph 1-*ter* and Article 148, paragraph 1-*bis* of the T.U.F. shall cease to be effective - based on current regulations - respectively, at the expiry of the mandate given to the Board of Directors for the three-year period 2021-2023 and the expiry of the mandate given to the Board of Statutory Auditors for the three-year period 2022-2024, resolved to carry out every appropriate assessment on adhesion to the aforesaid criteria in the course of the current mandate.

Procedure for handling and processing privileged information and for the public dissemination of statements and information

The Board of Directors, based on a recommendation made by the Control and Risk Committee, has adopted a procedure for handling and processing privileged information and for the public dissemination of statements and information. The aim is to ensure that all statements and information intended for the market, for CONSOB and for Borsa Italiana S.p.A. are the outcome of a process that guarantees both timeliness and accuracy.

The procedure, most recently approved by the Board of Directors on 9 August 2017, defines the tasks and responsibilities of the functions involved, identifies the criteria, methods and timing of the various procedural stages, and establishes the appropriate decision-making levels for the dissemination of statements and information. For this purpose, it contains prescriptions aimed at assuring an exhaustive and timely flow of information within the companies of the Group and between them and the listed Parent Company for the purposes of compliance with information obligations pertaining to "price sensitive" events, vis-à-vis the market and the organisations tasked with its supervision.

Code of Conduct for Internal Dealing

The Board of Directors has adopted a Code of Conduct - most recently approved by the Board of Directors on 11 May 2017 - in order to give transparency to financial transactions carried out by Relevant Persons, namely those persons who, by virtue of their roles within the Group, have significant decision-making powers or considerable knowledge of corporate strategies which would help them in making investment decisions regarding the financial instruments issued by the Company.

The list of recipients of this Code is published on the Company's website.

Guidelines for the identification and execution of significant transactions

The Board of Directors has defined the guidelines for the identification and execution of significant transactions, the examination and approval of which - as recommended by the Corporate Governance Code - remain the exclusive responsibility of the Board of Directors.

The guidelines - most recently approved by the Board of Directors on 1 January 2017 - set out the criteria to be used to identify significant transactions, in accordance with Article 1 of the Corporate Governance Code, consisting of quantitative and qualitative criteria and criteria deriving from the specific requirements of the parties involved (related-party transactions and intra-group transactions). The document also indicates the standards of conduct to be followed in carrying out the aforesaid transactions, with particular reference to the transactions carried out by the subsidiaries in respect of which ERG performs management and coordination activities in accordance with Article 2497 et seq. of the Italian Civil Code which must be previously examined and approved by the Board of Directors.

Code of Conduct for Directors of Group companies

The Board of Directors has adopted a Code of Conduct - most recently approved by the Board of Directors on 14 May 2014 - for Directors appointed in Group companies, in order to provide them with uniform rules of conduct for performing their duties within a systematic framework of reference and in compliance with Corporate Governance principles.

Procedure for Transactions with Related Parties

The Board of Directors, with its resolution of 11 November 2010, following favourable opinion from the Control and Risk Committee and with the input of the Board of Statutory Auditors, approved and adopted a specific internal resolution - effective from 1 January 2011 - aimed at ensuring the transparency and substantial and procedural correctness of the transactions with related parties carried out by ERG directly or through its subsidiaries. The Procedure was most recently updated on 1 January 2017 in order to take account of organisational changes.

Policy for the remuneration of members of the Board of Directors and of Key management personnel

With its resolution of 20 December 2011, at the proposal of the Nominations and Remuneration Committee, the Board of Directors adopted a Remuneration Policy for the members of the Board of Directors and for Key management personnel, in line with the provisions of the Corporate Governance Code. At the proposal of the Nominations and Remuneration Committee, this policy has been revised as follows:

- on 18 December 2012, to take into account the powers delegated by the Board of Directors (appointed by the Shareholders' Meeting of 20 April 2012) and the adoption of the 2012-2014 LTI System;
- on 11 March 2015, to take into account, with effect from 2015, the Company's adherence to the current Corporate Governance Code and the general principles of the 2015-2017 LTI System[42];
- on 22 March 2016, in order to implement the resolution of the Board of Directors of 15 December 2015 defining the conditions necessary to implement the 2015-2017 LTI System, in line with the Policy itself and based on the 2015-2018 Business Plan;
- on 9 March 2017, in order to implement (i) the organisational changes occurring following the reorganisation of the risk management, compliance and internal control processes of the ERG Group and the "One Company" Project, (ii) the introduction of a clause to which any deferred payment of non-recurring remuneration is subject, following assessment by the Nominations and Remuneration Committee and resolution by the Board of Directors;
- on 7 March 2018, to take into account, with effect from 2018, the essential elements of the general principles of the 2018-2020 LTI System.

Guidelines for compliance with Legislative Decree 231/01 and Anti-Corruption Laws within ERG Group companies

ERG, with particular reference to the definition of the corporate governance system and within the scope of the

42 For any additional information on this matter, please refer to the Remuneration Report referred to in Article 123-ter of the Consolidated Finance Act, to be presented to the Shareholders' Meeting convened in April 2018, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.

management and coordination activities carried out in respect of directly or indirectly controlled Italian and foreign subsidiaries within the meaning of Article 93[43] of the Consolidated Finance Act (the "Subsidiaries" and, together with ERG, the "ERG Group companies" or the "ERG Group") - respecting the managerial and operating independence of said companies, which benefit from the advantages, the synergies and the economies of scale deriving from their inclusion in the ERG Group -, decided to summarise in the Guidelines the general reference principles and rules that Subsidiaries are asked to take into consideration.

In particular, the Guidelines have a general control function over:

- the adoption of the Code of Ethics and the Anti-Corruption Policy by all the Subsidiaries;
- the assessment, by each Italian Subsidiary, of activities within which there is the potential risk of offences being committed and the consequent implementation of instruments to achieve compliance with Legislative Decree 231/01.

The latest version of the Guidelines was approved by ERG's Board of Directors on 9 October 2017.

Organisation and Management Model pursuant to Legislative Decree 231/01 and Supervisory Body

The purpose of Model 231 is to ensure conditions of correctness and transparency in the performance of company activities. It is therefore intended to serve as a valid instrument aimed at preventing the risk of committing the offences sanctioned by Legislative Decree 231/01.

On 21 December 2004, the ERG Board of Directors resolved to adopt for the first time an organisation, management and control model pursuant to Legislative Decree 231/01 and appointed the Supervisory Body.

Since initial approval, Model 231 has been revised and improved to reflect regulatory and legislative changes, industry best practices as well as organisational changes that have taken place within the Group.

Model 231 was designed and is periodically updated according to Confindustria Guidelines as well as Position Papers issued by the AODV (Italian association of supervisory bodies). In accordance with laws and regulations, Model 231 includes a disciplinary system aimed at sanctioning any violations of the Model or the Code of Ethics, and the failure to comply with company safeguard procedures.

The version of Model 231 currently in force was approved by the Board of Directors of 12 July 2017. An extract of the document is published in the "Corporate Governance" section of the website www.erg.eu. An English version is also provided.

43 "(...) In addition to those laid down in Article 2359, first paragraph, numbers 1 and 2, of the Italian Civil Code, the following are also considered subsidiaries: a) Italian or foreign companies over which a person is entitled, by virtue of a contract or of a statutory provision, to exercise a dominant influence when the applicable law allows such contracts or provisions; b) Italian or foreign companies over which a partner, on the basis of agreements with other shareholders, has alone sufficient votes to exercise a dominant influence in the ordinary shareholders' meeting. (...) the rights pertaining to subsidiaries or exercised through trustees or other parties are also taken into consideration; those exercised on behalf of third parties are not taken into consideration."

Model 231 was developed taking into consideration the main positions expressed with respect to the following characteristics that it must possess:

- **effectiveness**: the adequacy of the set of controls established to prevent the committing of offences;
- **specificity**: the Model takes into account the characteristics and size of the Company and the type of activities carried out, as well as the history of the Company;
- **being up to date**: namely, the ability to reduce the risks of offences in reference to the structural and business characteristics of the company, in cooperation with the Supervisory Body which keeps it up to date and current over time.

The structure of Model 231 adopted by ERG includes the following significant components:

- **Code of Ethics**, which expresses the reference principles that must guide the activity of all those who contribute, with their work, to the performance of corporate activities;
- **general part**, which defines the overall structure of the Model, in relation to the provisions of Legislative Decree 231/01 and to the specific decisions made by the Company in its preparation referring to the disciplinary system, to be enforced in the event of violation of the prescribed rules and procedures;
- **specific part**, which defines the rules to be followed in the performance of sensitive activities.

In 2018, a risk assessment was carried out on the main regulatory changes introduced, including, in particular, the reform of Article 6 of Legislative Decree 231/01 in the matter of the protection of whistleblowers, the findings of which will be taken into account when updating Model 231, as scheduled for 2019.
At Group level, following the acquisition of 18 companies operating in the sector of the generation of energy from solar sources, a risk assessment was carried out which ended with the adoption by the aforesaid companies of the ERG Group Code of Ethics, the updating of Model 231 and the appointment of a new Supervisory Body.
Together with the adoption of Model 231, the decision to comply with Legislative Decree 231/01 led to the appointment of the Supervisory Body, tasked with overseeing the observance of the Code of Ethics and assuring the adequacy and actual implementation of the Model, and evaluating whether it is necessary to subsequently update it.

The Supervisory Body, appointed by the Board of Directors on 23 April 2018 is comprised of:

- an external member, identified as a Statutory Auditor of the Company, acting as Chairman (Lelio Fornabaio);
- one internal member, identified as the Head of Corporate Affairs, responsible for the “231 Compliance” department (Giovanni Marco Scollo);
- the Chief Audit Officer (Gabriello Maggini).

This composition, in its collegiality, guarantees the independence, autonomy, professionalism and continuity of action required by regulations.

The members of the Supervisory Body shall remain in office for a period preferably no longer than three years and may be reappointed. In the case of expiry of the Board of Directors which appointed them, they will remain in office until the appointment of new members, or the confirmation of the previous members by the new Board of Directors. In order to regulate its internal operations, the Supervisory Body approves its own internal regulations.
In 2018, the Supervisory Body met 5 times, where necessary meeting with department heads to obtain insights on specific matters. It also met, on 3 occasions, with the Control and Risk Committee to explain the activities carried out and the Plan of activities for 2019.

The Supervisory Body carries out its activities with respect to the Parent Company ERG, while the Subsidiaries, which have their own Model, have appointed their own Supervisory Body.
The synergies between the Code of Ethics and Model 231 are highlighted by the assignment of the ERG Supervisory Body as Guarantor of the Code of Ethics. Similarly, each subsidiary, having its own Supervisory Body, assigns the task of Guarantor of the Code of Ethics to its own Supervisory Body.

In preparing proposals for the updating of Model 231, the Supervisory Bodies of ERG and of its subsidiaries rely on ERG's "231 Compliance" department, which also handles the activities of technical secretariat of the corporate boards and committees; verification of the adequacy of Model 231 and compliance with the controls contained therein, as well as with the Code of Ethics, are instead entrusted to the Internal Audit function of ERG which, in addition to audit activities with 231 impacts, carries out on behalf of the Supervisory Bodies periodic "231 test" activities on sensitive activities that, following risk assessment, were found to be at "high" and "medium" risk ("low" risk activities are monitored, except in specific cases, through the review of information flows).

To increase the effectiveness of the governance and internal control of the Company, information flows are provided to the Supervisory Body. The primary function of the information flows is to enable the Supervisory Body to continuously oversee the functionality of Model 231 and to identify possible steps to amend the Internal Control and Risk Management System. To this end, the Supervisory Body has adopted a special procedure that identifies the relevant information flows, the timing for transmission, and the individuals responsible. In order to manage communications to the Supervisory Body, a dedicated e-mail address has been set up in addition to a traditional mail address. With reference to the provisions of the Commentary on Article 7 of the Corporate Governance Code[44], it is specified that the information flows to the Supervisory Body are made through specific channels and guarantee the anonymity of the whistleblower.

In the course of 2018, the Supervisory Bodies of the Group Companies approved the "Procedure for the regulation

44 *""The Committee believes that, at least in the issuer companies belonging to the FTSE-MIB index, an adequate internal control and risk management system shall provide for an internal system allowing company employees to report any irregularity or breach of the applicable laws and internal procedures (so called whistleblowing systems), in accordance with domestic and international best practices, that ensures a specific and confidential communication channel as well as the anonymity of the reporting person."*

of information flows between the Supervisory Bodies of the ERG Group companies", with the objective of facilitating the movement of relevant information between the Supervisory Bodies of the companies themselves. Specifically, the procedure stipulates that each Supervisory Body, in examining the information flows and the reports received and, more generally, in fulfilling their duties of supervision, transmit, including with the operational support of the "231 Compliance" organisational unit, to other Supervisory Bodies where concerned, information flows from which clear information can be deduced, which could be relevant for supervisory activities and/or for the correct application of Models 231 in relation to other Group companies.

The Supervisory Body prepares an annual supervisory activity plan which is presented to the Control and Risk Committee and to the Board of Directors of ERG, and reports regularly to the Control and Risk Committee and to the Board of Directors on the implementation of the Code of Ethics and Model 231.

The Supervisory Body provides training by means of:
- classroom training to all employees (including managers and executives) on issues pertaining to Legislative Decree 231/01, Model 231 adopted by the Company, the Supervisory Body and the activities it performs, the information flows to the Supervisory Body;
- an e-learning course dedicated to the Code of Ethics, expected to be attended by employees and newly hired personnel;
- an e-learning course dedicated to issues relating to Legislative Decree 231/01, intended for newly hired personnel.

In 2018, a project was launched to redesign the e-learning course dedicated to 231 matters, built mainly around instructional videos, which, in addition to an introductory section on the general content of Legislative Decree 231/01, will include individual sections dedicated to sensitive activities deemed to be of average and high risk (e.g. relations with the Public Administration and the Authorities, management of privileged information) with reference to which concrete situations in which offence risks could occur will be provided (by way of example) and any conduct to be maintained will be described. There are questionnaires to verify learning (intermediate and final).

In addition, information on specific issues relating to the legislation referred to in Legislative Decree 231/01 is regularly provided to the members of the Board of Directors of ERG and its subsidiaries, as well as to members of the Board of Statutory Auditors.

Anti-Corruption System and Policy

ERG carries out its activities in accordance with the highest national and international standards of good Corporate Governance. In this context, the Group is firmly committed to respecting and applying the principles of integrity, impartiality and transparency.

These principles increase in importance when addressing corruption, a global phenomenon that irreparably destroys the integrity of both public and private enterprises.

In order to further stress that it conducts all aspects of its activity in strict compliance with applicable domestic and international laws and regulations, with respect, inter alia, to anti-corruption, and to further demonstrate its adoption of the values described above, ERG has decided to adopt, in addition to the Code of Ethics, the Anti-Corruption System and Policy. The aim is to prohibit and prevent corrupt behaviour of any kind, in accordance with the "zero tolerance" principle for corruption. In order to achieve this objective, organisational responsibilities, principles and rules of conduct to be followed have been established so as to ensure compliance with the applicable Anti-Corruption Laws.

The Anti-Corruption System and Policy apply to ERG and to all companies of the ERG Group and are addressed to all those who work in Italy and abroad, in the name of or on behalf of the ERG Group.

The Anti-Corruption System and Policy were approved by the Board of Directors of ERG on 9 October 2017. The Anti-Corruption Policy has been adopted by all other companies of the ERG Group, in Italy and abroad, and has been translated into English, French and German.

In 2018, the "Significant Third Party Due Diligence Procedure", provided for by the Anti-corruption System and Policy, was approved. The procedure was approved by the Chief Executive Officer of ERG S.p.A. on 9 January 2019.

The objective is to enable the companies of the Group, both Italian and foreign, to:

- have adequate knowledge of the Significant Third Parties (identified within the procedure itself);
- manage corruption risk in business activities, mitigating any concretely identified risks and supporting any decision as to whether or not to establish a contractual relationship with a given Significant Third Party;
- conduct business activities in a conscious and responsible way, including through the information acquired;
- avoid, as far as possible, economic damage (linked to the imposition of penalties) and reputational damage, as well as the launch of any sanction procedures in respect of persons and Companies of the Group by the competent authorities.

The procedure establishes the principles and rules, and allocates the responsibilities, for the carrying out of activities to: (a) identify Significant Third Parties; (b) carry out Due Diligence; (c) manage the outcomes of Due Diligence and the methods for establishing and monitoring relationships with the Significant Third Parties.

The "Significant Third Party Due Diligence Procedure" integrates, for companies under Italian law, the control procedures prescribed by Models 231 (and the Anti-Corruption Policy), with particular reference to sensitive activities: i) purchases of goods and services, consultancy and professional services, ii) transactions aimed at developing the business and selecting counterparties, iii) personnel recruitment and management, iv) management of the designation of company and control bodies in the subsidiaries, v) management of purchases and sales of commodities and credit. With reference to these sensitive activities, for foreign companies, the procedure integrates the controls prescribed by the Anti-Corruption Policy.

6. MANAGEMENT AND COORDINATION

ERG is a subsidiary of San Quirico S.p.A. which does not however exercise any management and coordination activity over its subsidiary, within the meaning of Articles 2497 et seq. of the Italian Civil Code, also in view of the fact that a provision of its Articles of Association expressly prohibits the company from carrying out management and coordination activities with regard to its subsidiaries.

This circumstance is periodically evaluated by the Board of Directors, also on the basis of a preliminary review carried out by the Control and Risk Committee. ERG in turn performs management and coordination in respect of direct or indirect subsidiaries.

The scope of the companies concerned and the content of any activity carried out on each of them are periodically reviewed by the Board of Directors, also on the basis of a preliminary review carried out by the Control and Risk Committee.

In particular, the Board of Directors, during the meeting held on 12 July 2018, acknowledged that ERG carries out management and coordination activities in respect of direct and indirect subsidiaries - respecting the managerial and operating independence of said companies, which benefit from the advantages, the synergies and the economies of scale deriving from their inclusion in the Group - including the definition of business strategies, the corporate governance system and the corporate structures, as well as the determination of shared general policies pertaining to human resources, information & communication technology, accounting, financial statements, taxation, procurement, finance, investments, risk management, legal and corporate affairs, communication, institutional relations, corporate social responsibility and business development.

7. THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP

The "Guidelines for the Internal Control and Risk Management System", adopted on 11 March 2014 by the Board of Directors of ERG, were subsequently updated in order to take into account organisational changes and changes resulting from the Company's adherence to the Corporate Governance Code. The version currently in force was approved on 3 August 2018.

THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP: GENERAL GUIDELINES

The Internal Control and Risk Management System of the ERG Group (hereinafter also "ICRM System") is the combination of measures, organisational structures, regulations and rules whose purpose is, by means of an appropriate process of identification, measurement, management and monitoring of the main risks, and the creation of adequate information flows to ensure the proper flow of information, to allow the company to be managed on a sound and proper basis, consistent with the company targets defined by the Board of Directors.

It complies with the principles contained in the current edition of the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A. (hereinafter the "Corporate Governance Code") and, more generally, current national and international best practices.

It is defined on the basis of leading national and international practices, and in particular "CoSO Internal Control - Integrated Framework 2013" which identifies a direct relationship between company targets (efficiency and effectiveness of operations, reporting and compliance), the components of the ICRM System and the organisational structure adopted by the Group.

This System, which is an integral part of the company's business, involves, and therefore applies to, the entire organisational structure of the ERG Group: from the Board of Directors of ERG and its subsidiaries, to Group Management and the company staff.

The ICRM System Guidelines, approved by the Board of Directors of ERG, lay down the general principles by which the Group's main risks are managed, in line with the strategic objectives identified, and the coordination arrangements between the parties involved in order to maximise the effectiveness and efficiency of the ICRM System.

Below is a summary of those involved in the ICRM System and their respective responsibilities.

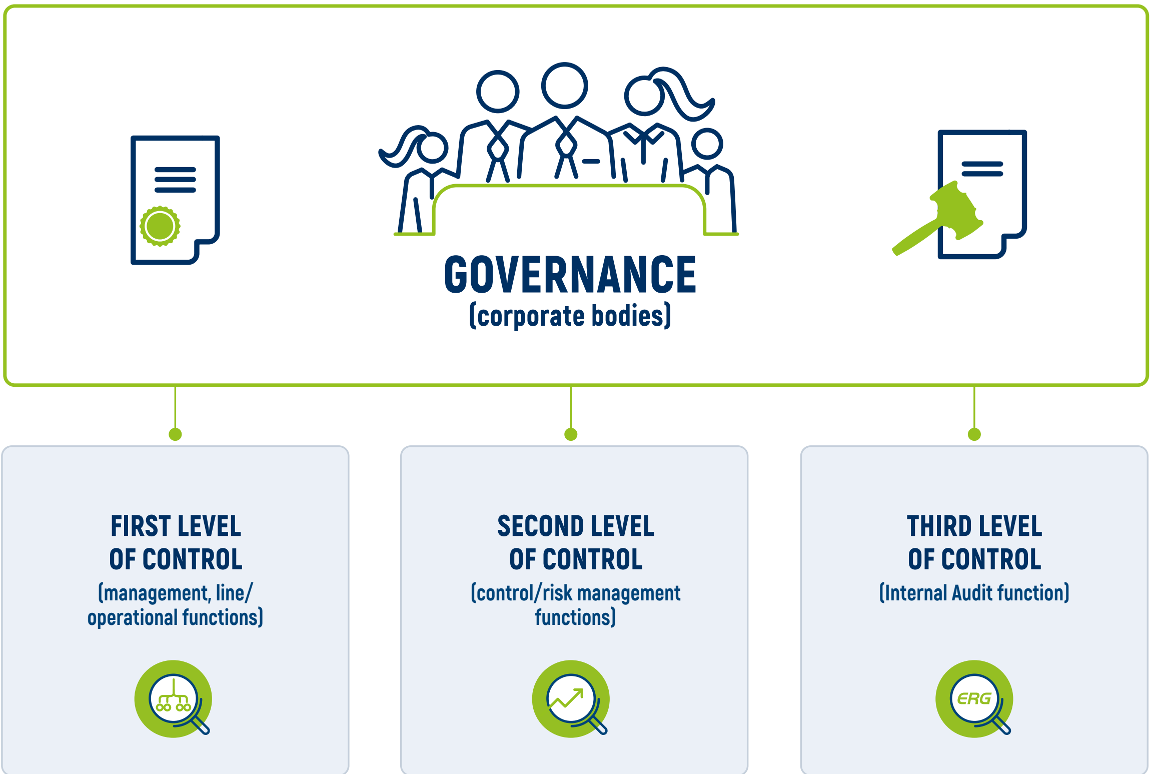
- **Board of Directors**: guides and assesses the adequacy of the ICRM System;
- **Chairman of the Board of Directors**: supervises, directs and controls corporate affairs activities;
- **Executive Deputy Chairman**: supervises, in particular, the Group's strategic decisions and the definition of the organisational macro-structure;
- **Chief Executive Officer**: has the powers necessary to carry out all actions pertaining to corporate activities and is responsible for identifying the main business risks, taking into account the characteristics of the activities carried out by the issuer and its subsidiaries and, after consulting with the Director in charge of the Internal Control and Risk Management System, submitting them periodically to the review of the Board of Directors;
- **Director in charge of the Internal Control and Risk Management System**: delegated by the Board of Directors to oversee - through supervision, guidance and control - internal audit, risk management and compliance activities and processes, and ensures that the functionality and overall adequacy of the ICRM System is maintained;
- **Control and Risk Committee**: advises and makes proposals to the Board of Directors, with the aim of supporting it, through appropriate proceedings, in evaluations and decisions relating to the ICRM System, as well as in relation to the approval of periodic financial reports;
- **Board of Statutory Auditors**: oversees compliance with the law and with the Articles of Association, adherence with correct administration principles, the adequacy of the organisational structure (for those aspects under its responsibility), of the ICRM System and the administrative and accounting system, and its reliability in correctly representing operations, and the adequacy of the provisions imparted to the Subsidiaries for the proper fulfilment of the prescribed disclosure obligations;
- **Supervisory Body pursuant to Legislative Decree 231/01**: supervises the observance of the Code of Ethics and verifies the effectiveness and the adequacy of the Organisation and Management Model pursuant to Legislative Decree 231/01;
- **Internal Audit**: responsible for third level control activities and has a significant position in the ICRM System being entrusted with the task of providing an independent assurance on the ICRM System with the aim of improving the efficiency and effectiveness of the organisation. Internal Audit is tasked with verifying that the ICRM System is functional and adequate in relation to the size and operation of the ERG Group, verifying, in particular, that Management has identified the main risks, that the risks were assessed with consistent procedures and that the mitigating actions have been defined and carried out. It also verifies whether the risks are managed in accordance with the decisions of the Board of Directors, with external rules and with rules within the Group.

The following relevant parties also play a role: (i) Group Management, which bears prime responsibility for internal control and risk management activities (first control level); and (ii) second level control functions with specific control tasks and responsibilities over different areas/types of risk. These functions are autonomous and distinct from operational ones; they are involved in defining risk governance policies and the risk management process, including: (i) the Manager responsible for preparing the Company's financial reports, (ii) the Group Risk Management & Corporate

Finance function, (iii) the Compliance departments, assigned to oversee compliance issues, with particular reference to legal risk and non-compliance, including the risk of committing criminal offences to the detriment or in the interest of the ERG Group, (iv) committees, composed of corporate management, acting in an advisory capacity and making proposals regarding specific risk issues.

In line with regulations and reference best practices, the ICRM System is structured over the following levels:

INTERNAL CONTROL SYSTEM



- **First level**: entrusted to individual operating lines, it encompasses the checks carried out by those involved in certain activities and those with supervisory responsibilities; it also makes it possible to ensure operational activities are carried out correctly;
- **Second level**: entrusted to structures other than line, it is involved with defining risk measurement methods, identifying, assessing and checking them (Risk Management); it also makes it possible to verify compliance with regulatory obligations (Compliance);
- **Third level**: entrusted to Internal Audit, it serves to assess the functionality of the overall internal control and risk management system and to detect irregularities and violations of procedures and rules.

7.1 STRUCTURE AND OPERATION OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP

The Group is aware that an effective Internal Control and Risk Management System allows the company to be managed on a sound and proper basis, consistent with the company targets defined by the Board of Directors, by promoting well-informed decisions and contributing to wealth preservation, the efficiency and effectiveness of processes, the reliability of financial reporting, and compliance with standards, the Articles of Association and internal procedures.
To promote and maintain an adequate ICRM System, the ERG Group uses organisational, informational and regulatory instruments, which allow the identification, measurement, management and monitoring of the main risks.
This system is integrated in the organisational, administrative and accounting structure and, more generally, in the corporate governance structure. It is based on the recommendations of the Corporate Governance Code, which the Group has adopted, taking as references national and international models and best practices, aimed at consolidating overall effectiveness and efficiency.

The System of Rules and Procedures

The definition of the Internal Control and Risk Management System structure and its governing rules takes place through the definition of appropriate internal business standards (Policies, Guidelines, Procedures and Operating Notes) which regulate the processes and activities carried out by ERG and its subsidiaries.
The beneficiaries of each standard are defined below:

- Policies: these are intended for all stakeholders and, based on the values expressed in the Code of Ethics, define the fundamental management principles involved in the performance of corporate activities;
- Guidelines: these are intended mainly for those who must set up operations and manage them, and define the principles for the execution of such activities;
- Procedures: these are intended for the parties involved in the operating processes regulated by them;
- Operating Notes: these are intended for the parties who, at operational level, carry out the activity or stages of activity regulated by the document.

Moreover, a specific procedure was formalised in the Group with the goal of defining a method for the uniform, integrated, effective and efficient management of the corporate rules and for regulating the activities performed by the involved parties, in terms of:

- responsibilities of the parties involved in the process;
- (electronic and hard copy) communication flows among the various parties involved in the process;
- control activities connected with the operations reported in the process.

The System for Assigning Powers

A correct and effective Corporate Governance system requires a formal assignment of powers consistent with the company's own organisational system.

A correct assignment of powers entails assessing whether the validity requirements exist, determining its limits and identifying matters that can be delegated.

The system adopted in the Group provides for:

- the assignment of powers by the Board of Directors to the Group's various Companies, through Board resolutions, to the Chief Executive Officers for the ordinary management of the Companies;
- the assignment, normally to first-level executives reporting to Chief Executive Officers, of powers of signature, representation and external negotiation;
- the assignment of special powers for the performance of specific, well-defined actions, upon completion of which the validity of the power is voided;
- the assignment to the heads of organisational positions of internal powers related to actions that have no external enforceability.

The system of delegated powers and mandates in place within the Group is structured so as to achieve consistency between the organisational structures, pursuant to the powers granted, and the company's regulatory system (Policies, Guidelines, Procedures, Operating Notes and Job Descriptions), in compliance with the Segregation of Duties ("SoD").

8. INFORMATION ON THE MAIN FEATURES OF THE EXISTING INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS OF FINANCIAL DISCLOSURE, INCLUDING AT CONSOLIDATED LEVEL

The ways in which the ERG Group has defined its Internal Control and Risk Management System in relation to the process of financial disclosure (henceforth referred to as "the System") at the consolidated level are illustrated below. The purpose of the System is to significantly mitigate risks in terms of the trustworthiness, reliability, accuracy and timeliness of financial disclosures.

In particular, the Board of Directors of ERG, in the meeting of 11 March 2014, appointed Paolo Luigi Merli, Chief Financial Officer, as Manager responsible for preparing the Company's financial reports, thereby attributing to him the responsibilities of:

- preparing adequate administrative and accounting procedures for the preparation of financial disclosure documents;
- monitoring the application of the procedures;
- issuing to the market the certification of the adequacy and effective application of the administrative and accounting procedures for the purposes of the Group's financial disclosure.

The Manager responsible for preparing the Company's financial reports shall rely on the support of the 262 Compliance Organisational Unit in verifying the operation of the administrative and accounting procedures by testing the controls. This organisational structure ensures complete segregation between the activities of preparing the administrative and accounting procedures and the activities of verifying their adequacy and effective application.
In such a context, all personnel of the Group are obliged to cooperate, in particular personnel in administrative functions that are more directly involved in the preparation of corporate accounting records, but also those in other functions that, directly or indirectly, contribute to the process through the preparation of documents and information, the inputting or updating of data in the company's information systems, and normal operations.
The activity of Compliance pursuant to Law 262/05 has been submitted to the Control and Risk Committee and applies to the companies of the Group, from a logical point of view, in terms of methodology and as regards the principles of control and accuracy of the process.

Role, Appointment and Requirements of the Manager responsible for preparing the Company's financial reports

Role of the Manager responsible for preparing the Company's financial reports

As already noted previously, the main responsibility of the Manager responsible for preparing the Company's financial reports of ERG is to implement the administrative and accounting procedures by which periodic corporate financial reporting should be produced, to monitor their application and, together with the Chief Executive Officer, to certify to the market that the above principles were followed and that the financial documentation circulated is reliable.

The figure of Manager responsible for preparing the Company's financial reports fits into the wider framework of Corporate Governance, structured according to the traditional model with the presence of corporate bodies with diverse functions of control.

Appointment and Requirements of the Manager responsible for preparing the Company's financial reports

The Board of Directors, with the mandatory opinion of the Board of Statutory Auditors, shall appoint the Manager responsible for preparing the Company's financial reports, setting his/her compensation and assigning him/her adequate powers and means. The Manager will be someone who has at least three years of experience in positions of adequate responsibility in the administrative, financial or accounting area of public and private companies or entities, or someone who has adequate knowledge and experience in legal, economic, administrative, accounting or financial matters.

Elements of the System

Methodological approach

The Group has adopted a working methodology that envisages the following logical steps:

a. identification and evaluation of the risks applicable to financial reporting;
b. identification of controls for risks identified both at Company/Group level (entity level) and at process level;
c. evaluation of controls and management of the monitoring process both in terms of design, and in terms of operation and effectiveness, with the aim of reducing risks to a level considered to be "acceptable" (information flows, gap management, plan for remedial action, reporting system, etc.).

The activity is performed by the 262 Compliance Organisational Unit and is periodically shared with the Manager responsible for preparing the Company's financial reports.

Risk identification and assessment

Risk Assessment is conducted annually with the aim of identifying, on the basis of a quantitative analysis and following evaluations and parameters of a qualitative nature:

1. the companies within the Group consolidation to include in the analysis;
2. the risks at the level of the selected operating Company/Group (Company/Entity Level Controls) relating to the general corporate context of the Internal Control System, with reference to the five components of the CoSO model developed by the Committee of Sponsoring Organizations of the Treadway Commission, leading practice

at the international level and recognised within Italy as a reference model by the Corporate Governance Code (control environment, risk assessment, information and communication, control activities, monitoring);
3. the general risks for the Company's information systems supporting related processes (IT General Controls);
4. the processes that generate, with inherent risk, the accounts of the Consolidated Financial Statements for each company selected;
5. for each relevant process, the specific risks for financial reporting, with particular reference to so-called financial statement assertions (existence and occurrence, completeness, rights and obligations, valuation and allocation, presentation and disclosure).

The Risk Assessment process carried out at the level of Consolidated Group Financial Statements in order to determine the appropriate scope of analysis, is based on the combined application of two analytical parameters, one quantitative and the other qualitative. As regards the purely quantitative part of the analysis, the following elements are determined:
- large portion (coverage of the Consolidated Financial Statements): this dimension is used to measure the extent of the area within which controls are to be analysed and evaluated, defined on the basis of the weight the dimensions have on the main items in the financial statements;
- significant account: this refers to the quantitative size that items in the financial statements must have in order to be considered significant after the application of a materiality threshold;
- significant process: by means of account-process matching, processes are identified for which controls should be assessed, given that all processes associated with accounts that have balances greater than the materiality threshold form part of the activity.

Following the quantitative analysis described above, the Risk Assessment process then requires an analysis to be performed based on qualitative elements, with a dual purpose:
- to integrate the exclusively quantitative part of the analysis, so as to include or exclude accounts processes from the activity's scope on the basis of knowledge the management has, from a historical point of view and also considering the expected evolution of the business, of companies making up the Group, and on the basis of the professional judgement by management concerning risk levels relating to financial disclosures;
- to define the "level of depth" to which the analysed accounts processes must be taken into consideration within the scope of the activity and at what level the related controls must be mapped, documented and monitored.

The final result of the Risk Assessment process consists of a document that is circulated to the various functions involved, validated by the Manager Responsible and presented to the Control and Risk Committee.

Identification of controls

Once the main risks at the process level are identified, the actions to be taken in order to monitor the associated control objective are identified.

In particular, the mapping of accounts-processes and related controls constitutes a tool through which:

- significant processes and their main associated risks are represented as defined within the scope of the Risk Assessment, as are the controls that are envisaged for the management of such risks;
- the chart of mapped controls is evaluated to ascertain the capacity of each control to manage and mitigate an identified risk and, in particular, the underlying financial statements assertion;
- the operation and representation of a process is shared with its owners, as are the risks and control activities;
- monitoring activities, required to support the representations that must be made by the Manager Responsible, are carried out.

The identification of risks and the associated controls is carried out both with regard to controls relating to financial statement assertions and to other control objectives within the scope of financial disclosure, including:

- the observance of authorised limits;
- the segregation of duties and responsibilities for operations and control;
- the physical security and existence of the company's assets;
- activities of fraud prevention that have an impact on financial disclosure;
- the security of company information systems and the protection of personal data.

The mapping generated from time to time for a specific process is also used as the basis for periodic testing activities whose goal is to evaluate and monitor both the design and the effectiveness of controls in place.

Assessment of controls and monitoring processes

In accordance with the provisions of the law regarding formal compliance and in line with the best practices previously referred to, the adopted methodology prescribes constant monitoring of the relevant processes and effective execution of the mapped controls.

The objective of such monitoring is to evaluate the operating effectiveness of the controls - in other words the effective functioning during the period of the controls mapped for the purpose of analysis.

To this end, an annual monitoring (and refining and optimising, where necessary) activity plan is drawn up. The plan is formalised in a document that is presented to the Control and Risk Committee and in which strategies and timing are defined for carrying out monitoring tests.

As part of the activities carried out, the mapping of processes, risks and controls is regularly updated in accordance with Law No. 262/05.

Periodic reports are produced on the results of the activities, providing support on the basis of which the Manager responsible for preparing the Company's financial reports releases legal declarations, and the Control and Risk Committee, as regards the most important deadlines for interim and annual financial reports, evaluates and participates in the work of the Manager Responsible and the functions through which he/she operates.

9. THE INDEPENDENT AUDITORS

Auditing is carried out in accordance with the law by a company enrolled in the Register of Statutory Auditors maintained by the Italian Ministry of Economy and Finance.

KPMG S.p.A. was appointed as independent auditor for the years 2018-2026 by the Shareholders' Meeting held on 23 April 2018; consequently, its mandate shall expire at the date of the Shareholders' Meeting convened to approve the financial statements at 31 December 2026.

During the course of the financial year, the Independent Auditors have the duty to verify:

- that the company accounts are properly maintained and all operations are properly accounted for in the accounting records;
- that the Separate Financial Statements and the Consolidated Financial Statements match the results of the accounting records and of the inspections carried out and comply with the rules that govern them.

KPMG S.p.A. is also tasked with performing a limited audit of the interim condensed consolidated financial statements.

While carrying out its activities, the Independent Auditors have access to all documentary and electronic information and data, as well as the archives and the assets of the Company and of the Companies of the Group.

10. INVESTOR RELATIONS

The Company manages relations with its Shareholders, institutional investors and the market through the Investor Relations function, which operates within the Division run by the Chief Financial Officer.

As part of investor relations activities, meetings are regularly arranged both in Italy and abroad with representatives of the financial community. ERG's policy is to provide the most detailed information possible on its activities and strategies, including by regularly renewing and updating its website. The person in charge of managing investor relations is Emanuela Delucchi.

11. COMMITMENTS

The Company intends to confirm its commitment:

- to pursue as its primary objective, in its formal acts and conduct, the creation of shareholder value;
- to model its business on total compliance with the Group's ethical principles, which are based on a combination of values including personal integrity, correctness of relationships inside and outside the Company, and transparency vis-à-vis Shareholders, related stakeholders, and the market – as outlined and explained in the Code of Ethics, adopted in December 2004, the most recent update of which was approved by the Board of Directors of ERG on 3 August 2018, to reflect not only the organisational and corporate changes that have taken place in the Group, but also the regulatory changes that have taken place and the changes to reference best practices;
- to ensure, by focusing on constantly developing the Corporate Governance principles, that such principles are observed by the organisation in order to ensure that it operates with transparency and efficiency over time.

The main documents concerning Corporate Governance, to which reference is made in the Report, are available in the Corporate Governance section of the website www.erg.eu.

TABLE 1: Structure of the Board of Directors and its Committees

Board of Directors							
Office	**Members**	**Year of birth**	**In office since**	**In office until**	**List (M/m)***	**Executive**	**Non-executive**
Chairman	Edoardo Garrone	1961	23/04/2018	Appr. Financial statements at 31/12/2020	M	Yes	
Deputy Chairman	Alessandro Garrone	1963	23/04/2018	Appr. Financial statements at 31/12/2020	M	Yes	
Deputy Chairman	Giovanni Mondini	1966	23/04/2018	Appr. Financial statements at 31/12/2020	M		Yes
Chief Executive Officer	Luca Bettonte	1963	23/04/2018	Appr. Financial statements at 31/12/2020	M	Yes	
Director	Massimo Belcredi	1962	23/04/2018	Appr. Financial statements at 31/12/2020	M		Yes
Director	Mara Anna Rita Caverni	1962	23/04/2018	Appr. Financial statements at 31/12/2020	M		Yes
Director	Barbara Cominelli	1970	23/04/2018	Appr. Financial statements at 31/12/2020	M		Yes
Director	Marco Costaguta	1959	23/04/2018	Appr. Financial statements at 31/12/2020	M		Yes
Director	Paolo Francesco Lanzoni	1953	23/04/2018	Appr. Financial statements at 31/12/2020	M		Yes
Director	Silvia Merlo	1968	23/04/2018	Appr. Financial statements at 31/12/2020	M		Yes
Director	Elisabetta Oliveri	1963	23/04/2018	Appr. Financial statements at 31/12/2020	M		
Director	Mario Paterlini	1963	23/04/2018	Appr. Financial statements at 31/12/2020	m		Yes
Directors who left office during the reference year: 2							
Director	Alessandro Careri	1950	11/05/2017	Appr. Financial statements at 31/12/2017	M		Yes
Director	Alessandro Chieffi	1964	24/04/2015	Appr. Financial statements at 31/12/2017	m		Yes

Quorum required for list presentation at the time of last appointment: 1%

Number of meetings held during the reference year: BoD: 12 - CRC: 11 - NRC: 6

Notes

* In this column, M/m is indicated depending on whether the member was elected from the list voted by the majority (M) or by a minority (m).
** This column shows the percentage of Directors' attendance at the meetings, respectively, of the Board of Directors and of the Committees (no. of presences/no. of meetings held during the person's actual period in office).
*** This column shows the number of appointments as Director or Statutory Auditor held by the interested party in other companies listed on regulated markets, including abroad, in financial, banking, insurance companies or in companies of significant size other than those held in ERG Group companies.
**** This column shows whether the member of the Board of Directors is also member of the Committee.
***** This column shows the date of first appointment of the directors since 16 October 1997, the date of the Company's initial listing.
1 Until 23 April 2018.
2 Since 23 April 2018.

					Control and Risk Committee		Nominations and Remuneration Committee	
Independent as per Code	Independent as per T.U.F.	% attendance (**)	Number of other offices (***)	Length of office as from first appointment (****)	(****)	(**)	(****)	(**)
		92%	3	16/10/1997				
		83%	1	16/10/1997				
		100%	1	16/10/1997				
		100%	–	15/12/2009				
	Yes	100%	1	29/04/2003	Yes	100%		
Yes	Yes	100%	2	24/04/2015	Yes	100%	[1]Yes	100%
Yes	Yes	67%	–	24/04/2015	[1]Yes	100%	[2]Yes	100%
		83%	8	20/04/2012				
	Yes	100%	1	29/04/2003			Yes	100%
Yes	Yes	83%	3	24/04/2015			Yes	100%
		100%	2	23/04/2018	[2]Yes	100%		
Yes	Yes	100%	–	23/04/2018				
		100%		11/05/2017				
Yes	Yes	100%		24/04/2015				

TABLE 2: Structure of the Board of Statutory Auditors

Board of Statutory Auditors					
Office	**Members**	**Year of birth**	**In office since**	**in office until**	**List (M/m)***
Chairman	Elena Spagnol	1968	03/05/2016	Appr. Financial Statements 31/12/2018	m
Standing auditor	Lelio Fornabaio	1970	03/05/2016	Appr. Financial Statements 31/12/2018	M
Standing auditor	Stefano Remondini	1963	03/05/2016	Appr. Financial Statements 31/12/2018	M
Alternate auditor	Vincenzo Campo Antico	1966	03/05/2016	Appr. Financial Statements 31/12/2018	M
Alternate auditor	Luisella Bergero	1971	03/05/2016	Appr. Financial Statements 31/12/2018	M
Alternate auditor	Paolo Prandi	1961	03/05/2016	Appr. Financial Statements 31/12/2018	m

Auditors who left office during the reference year: none

Quorum required for list presentation at the time of last appointment: 1%

Number of meetings held during the reference year: 13

Notes

* In this column, M/m is indicated depending on whether the member was elected from the list voted by the majority (M) or by a minority (m).

** This column shows the percentage of Auditors' attendance at the meetings of the Board of Statutory Auditors (no. of presences/no. of meetings held during the person's actual period in office).

*** This column shows the number of appointments as Director or Statutory Auditor held by the person in other companies listed on regulated markets, including abroad, in financial, banking, insurance companies or in companies of significant size other than those held in ERG Group companies. The complete list of the appointments is attached, as per Article 144-*quinquiesdecies* of the CONSOB Issuers' Regulations, to the report on the supervisory activities, drawn up by the auditors as per Article 153, paragraph 1, of the Consolidated Finance Act.

**** This column shows the date of first appointment of the Auditors.

Independent as per Code	% attendance (**)	Number of other offices (***)	Length of office as from first appointment (****)
Yes	100%	2	03/05/2016
Yes	100%	5	15/04/2010
Yes	92%	–	03/05/2016
Yes	–	–	15/04/2010
Yes	–	–	23/04/2013
Yes	–	–	03/05/2016

Proposal
of the Board of Directors

PROPOSAL OF THE BOARD OF DIRECTORS

Dear Shareholders, with regard to the results achieved, we invite you to resolve as follows:

- to approve the financial statements of your company at 31 December 2018 which close with a profit of EUR 4,083,589.08;
- to release the residual part of the unavailable portion of the "IAS transition reserve and retained earnings" for an amount equal to EUR 96,737,127.28 following the sale of the shareholding in TotalErg S.p.A. finalised in January 2018. Indeed, it is recalled that upon approval of the Financial Statements for Financial Year 2010, a portion of the profit equal to EUR 346,403,569.83, corresponding to the unrealised portion of the capital gain, net of the related tax expense, resulting from the establishment of the TotalErg Joint Venture, had been allocated to an unavailable reserve pursuant to Article 6, paragraph 1(a) of Legislative Decree No. 38/2005, and that part of the unavailable portion of the Reserve, for an amount equal to EUR 249,666,442.55, had already been released upon approval of the Financial Statements for 2012, the Financial Statements for 2013 and the Financial Statements for 2017 following the write-downs of the equity investment, carried out in the corresponding financial years;
- to resolve on the payment to the Shareholders of a dividend of EUR 0.75 per share. The dividend will be paid for each share with dividend rights in circulation on the ex-dividend date, with the exclusion therefore, pursuant to Article 2357-*ter* of the Italian Civil Code, of own shares, through use of the profit for the year and, for the remaining part, through use of retained profits;
- to resolve on the payment of the dividend from 22 May 2019, with ex-dividend date from 20 May 2019 and record date on 21 May 2019.

Genoa, 6 March 2019

On behalf of the Board of Directors
The Chairman
Edoardo Garrone

2

Consolidated Financial Statements

STATEMENT OF FINANCIAL POSITION(1)(2)(3)

(EUR thousand)	Notes	31/12/2018		31/12/2017	
Intangible assets	1		782,511		634,569
Goodwill	2		148,269		125,932
Property, plant and equipment	3		2,288,316		2,181,860
Equity investments:	4		14,000		21,173
- carried at equity	4	*12,918*		*12,787*	
- other equity investments	4	*1,080*		*8,385*	
Other non-current financial assets	5		76,604		40,369
Deferred tax assets	6		128,028		132,861
Other non-current assets	7		42,890		47,308
Non-current assets			**3,480,619**		**3,184,073**
Inventories	8		21,623		20,597
Trade receivables	9		251,001		255,534
Other current assets	10		120,785		97,573
Current financial assets	16		49,690		29,407
Cash and cash equivalents	16		774,193		812,992
Current assets			**1,217,292**		**1,216,103**
Asset held for sale	21		–		**261,069**
TOTAL ASSETS			**4,697,911**		**4,661,245**
- Share Capital	11		15,032		15,032
- Other reserves	11		915,746		740,750
- Retained earnings	11		765,426		914,869
- Profit for the year	11		132,628		206,814
Equity attributable to the owners of the parent	11		**1,828,832**		**1,877,466**
Non-controlling interests			–		–
Equity			**1,828,832**		**1,877,466**
Employee benefits	12		5,820		6,403
Deferred tax liabilities	6		288,637		265,257
Provisions for risks and charges - non current portion	13, 20		143,894		127,801
Non-current financial liabilities	16		1,868,211		1,788,714
Other non-current liabilities	14		34,417		40,950
Non-current liabilities			**2,340,979**		**2,229,124**
Provisions for risk and charges - current portion	13, 20		45,580		53,242
Trade payables	15		92,294		126,796
Current financial liabilities	16		334,726		287,651
Other current liabilities	17		55,501		84,808
Current liabilities			**528,100**		**552,497**
Liabilities associated with assets held for sale	21		–		**2,156**
TOTAL EQUITY AND LIABILITIES			**4,697,911**		**4,661,245**

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

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

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

INCOME STATEMENT (1)(2)(3)

(EUR thousand)	Notes	2018	2017
Revenue	22	1,023,736	1,053,552
Other income	23	21,903	10,581
Purchases	24	(327,239)	(355,820)
Services and other operating costs [4]	25	(172,025)	(182,020)
Personnel expense	26	(66,800)	(68,698)
Gross Operating Income (EBITDA)		**479,575**	**457,595**
Amortisation, depreciation and impairment of non-current assets	27	**(274,069)**	**(250,937)**
Net Operating Income (EBIT)		**205,507**	**206,658**
Financial expense	28	(98,652)	(89,794)
Financial income	28	37,236	24,496
Net financial income (expense)	28	**(61,416)**	**(65,297)**
Net gains on equity-accounted investments	29	143	119
Other net gains (losses) on equity investments	29	(221)	(1,291)
Gains (losses) on equity investments	29	**(78)**	**(1,171)**
PROFIT BEFORE TAXES		**144,012**	**140,189**
Income taxes	6	(39,683)	(32,958)
PROFIT FROM CONTINUING OPERATIONS		**104,329**	**107,232**
Profit from discontinued operations	31	28,432	99,583
PROFIT FOR THE YEAR		**132,761**	**206,815**
Non-controlling interests		(133)	–
PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT		**132,628**	**206,815**

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

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

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

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

(EUR)		2018	2017
Basic earnings per share from continuing operations	34	0.701	0.721
Diluted earnings per share from continuing operations	34	0.701	0.721
Basic earnings per share att. to the owners of the parent	34	0.891	1.390
Diluted earnings per share att. to the owners of the parent	34	0.891	1.390

STATEMENT OF COMPREHENSIVE INCOME (1)(2)

(EUR thousand)	Notes	2018	2017
Profit for the year		**132,761**	**206,815**
Changes that will not be reclassified to profit or loss			
Remeasurements of defined benefit liability	12	(68)	(41)
Income taxes referred to the actuarial change in provisions for employee benefits	12	20	9
		(48)	**(32)**
Changes that will be reclassified to profit or loss			
Cash flow Hedge - effective portion of the fair value change	11	(19,785)	22,323
Tax effect of - cash flow hedging - effective portion of the fair value change	11	4,749	(5,358)
		(15,036)	**16,966**
Foreign operations - Exchange differences from translation	11	(2,788)	(1,597)
Income taxes - Foreign operations - Exchange differences from translation	11	530	564
		(2,258)	**(1,033)**
Other comprehensive income (expense) net of the tax effect		**(17,342)**	**15,901**
Comprehensive income for the year		**115,419**	**222,716**
Non-controlling interests		(133)	–
Comprehensive income attributable to the owners of the parent		**115,286**	**222,716**

(1) the notes commenting individual items are an integral part of the present financial statements
(2) the Group adopted IFRS 15 and IFRS 9 for the first time on 1 January 2018. Based on the first application methods chosen, the comparative information was not restated

STATEMENT OF CASH FLOWS (1)(2)(3)

(EUR thousand)	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES (A)			
Profit for the year		132,761	206,815
- Amortisation, depreciation and impairment of non-current assets	27	274,069	252,227
- Increase in other provisions for risks and charges	13, 20	17,337	12,059
- Decrease in other for risks and charges	13, 20	(18,050)	(4,603)
- Net change in deferred tax assets and liabilities	6	(9,618)	8,408
- Impairment of current assets	9	25	1,641
- Losses on equity investments	28	(26,635)	(98,396)
- Changes to post-employment benefits	12	(583)	(330)
		369,306	**377,819**
- Change in other current assets and liabilities:			
- Change in inventories	8	(985)	(233)
- Change in trade receivables	9	22,280	34,730
- Change in trade payables	15	(46,289)	(26,066)
- Net change in other assets/liabilities	7, 10, 14, 17	(47,522)	14,141
		(72,516)	**22,572**
CASH FLOWS FROM OPERATING ACTIVITIES (A)		296,791	400,391
CASH FLOWS FROM INVESTMENT ACTIVITIES (B)			
Acquisition of intangible assets and goodwill	1, 2	(7,546)	(3,606)
Acquisition of property, plant and equipment	3	(52,702)	(50,819)
Net change in other increases/decreases in non-current assets	4, 5	(6,098)	(5,204)
TotalERG Vendor Loan		(36,054)	-
Dividends received from TotalErg	1, 3	(3,593)	(6,025)
Net change equity investment consolidation method	4	6,915	70,983
Brockaghboy Windfarm Ltd. Sale (2)		105,740	–
TotalErg sale		179,538	–
Disposals of intangible assets and goodwill	1, 2	–	243
Disposals of property, plant and equipment and related capital gains/losses	3	–	1,275
Disposals of equity investments and other non-current financial assets	4, 5	26	349
CASH FLOWS FROM INVESTMENT ACTIVITIES (B)		186,226	7,197
CASH FLOW FROM (USED IN) INVESTMENT ACTIVITIES (C)			
Increase in non-current loans	16	331,493	222,723
Decrease in non-current loans	16	(405,257)	(350,788)
Net change in current bank loans and borrowings	16	(78,371)	79,737
Net change in other current financial assets/liabilities	16	(42,333)	3,977
Collection of credit linked notes		–	80,000
Collection of advance payment from api Group		–	14,231
Dividends paid to shareholders	11	(171,139)	(74,408)
Change in the hedging reserve		(15,036)	16,966
Share-based payments, equity settled		3,384	–
Other changes in equity		2,066	(1,005)
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES (C)		(375,193)	(8,567)
CHANGE IN THE CONSOLIDATION SCOPE (D) (4)		**(146,623)**	**(11,930)**
NET CASH FLOWS OF THE YEAR (A+B+C+D)		**(38,800)**	**387,091**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	16	**812,992**	**427,195**
NET CASH FLOWS OF THE YEAR		(38,800)	387,091
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**774,193**	**814,285**
Cash and cash equivalents at the end of year of Brockaghboy Windfarm Ltd.		–	(1,293)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	16	**774,193**	**812,992**

(1) the notes commenting individual items are an integral part of the present financial statements
2) the statement of cash flows also includes the overall flows of assets held for sale and associated liabilities, details of which are provided in **Note 21 - Discontinued operations**
3) the Group adopted IFRS 15 and IFRS 9 for the first time on 1 January 2018. Based on the first application methods chosen, the comparative information was not restated.
4) more information is available in the section **Change in the consolidation scope**

	Notes	2018	2017
Additional statement of cash flows information			
Income taxes paid	6	20,537	23,161
Interest paid	28	30,845	28,720

STATEMENT OF CHANGES IN EQUITY [1]

(EUR thousand)	Notes	Share capital	Reserves	Profit (loss) for the year	Equity attributable to the owners of the parent	Non-controlling interests [1]	Equity
BALANCE AT 31/12/2016		15,032	1,538,846	175,222	1,729,099	–	1,729,099
Allocation of 2016 profit		–	175,222	(175,222)	–	–	–
Distribution of dividends		–	(74,408)	–	(74,408)	–	(74,408)
Other changes		–	59	–	59	–	59
Profit for 2017		–	–	206,815	206,815	–	206,815
Remeasurements of defined benefit liability		–	(32)	–	(32)	–	(32)
Changes in the cash flow hedge reserve		–	16,966	–	16,966	–	16,966
Change in the translation reserve		–	(1,033)	–	(1,033)	–	(1,033)
Comprehensive income		–	15,901	206,815	222,716	–	222,716
BALANCE AT 31/12/2017		15,032	1,655,619	206,815	1,877,466	–	1,877,466
IFRS 9 Adjustment [2]		–	3,136	–	3,136	–	3,136
Allocation of 2017 profit		–	206,815	(206,815)	–	–	–
Share-based payments equity settled		–	3,384	–	3,384	–	3,384
Distribution of dividends	11	–	(171,139)	–	(171,139)	–	(171,139)
Increase in capital reserves	11	–	898	–	898	–	898
Other changes		–	(332)	–	(332)	–	(332)
Profit for 2018		–	–	132,628	132,628	133	132,761
Non controlling interests 2018 profit		–	–	133	133	(133)	–
Reemeasurements of defined benefit liability	12	–	(48)	–	(48)	–	(48)
Changes in the cash flow hedge reserve	11	–	(15,036)	–	(15,036)	–	(15,036)
Change in the translation reserve	11	–	(2,258)	–	(2,258)	–	(2,258)
Comprehensive income		–	(17,342)	132,761	115,419	–	115,419
BALANCE AT 31/12/2018		15,032	1,681,039	132,761	1,828,833	–	1,828,833

(1) the notes commenting individual items are an integral part of the present financial statements
(2) please refer to the section **Standards, amendments and interpretations applied starting on 1 January 2018**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

THE GROUP

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

PUBLICATION DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS

Publication of consolidated financial statements was authorised by the Board of Directors on 6 March 2019.

The Shareholders' Meeting called for approval of the consolidated financial statements is entitled to require changes to the financial statements.

BASIS OF PREPARATION

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

- without any departures, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Financial Reporting Standards - IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC). The set of all reference standards and interpretations indicated above shall hereafter be defined as "IFRS - EU";
- on a going concern basis and therefore assuming that the Group will be able to meet the mandatory repayment conditions of the credit facilities granded by the banks as indicated in **Note 37 - Financial instruments**.

The present financial statements were prepared in accordance with Paragraph 3 of Article 9.3 of Legislative Decree no. 38 of 28 February 2005.

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

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

BASIS OF PRESENTATION

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

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

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

Furthermore, as required by CONSOB resolution 15519 dated 27 July 2006 in **Note 32 - Non-recurring items**, significant income and expense arising from non-recurring transactions or events that do not occur frequently in the ordinary course of business are presented separately in the income statement. Also pursuant to the aforementioned CONSOB resolution, the amounts related to the positions and transactions with related parties are indicated separately in **Note 33 - Related parties**.

MAIN ACCOUNTING POLICIES

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

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

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

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

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

Intangible assets

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

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

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

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

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

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

In particular, the new regulations provide that:

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

- for "dry" works, if deemed reusable by the assignee of the new concession, compensation is paid according to the rules set by Article 25.2 et seq., of Italian Royal Decree 1775 of 1933, net of the depreciated assets. Specifically:
  - in the case of moveable assets planned for use in the concession project, a price is paid, in terms of residual value, determined on the basis of the data available from "accounting documents or a professional appraisal";
  - movable assets not used in the concession project should be removed and disposed of by, and at the expense of, the incoming concession holder;
  - in the case of immoveable assets reused in the concession project, a price is paid, determined on the basis of the data available from "accounting documents or a professional appraisal";
  - immovable assets not planned for use in the project remain the property of the entitled party.

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

Business combinations

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

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

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

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

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

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

Goodwill

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

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

If the recoverable amount of the groups of units to which the goodwill is allocated is less than its carrying amount, an impairment loss is allocated in the following order: first, to reduce the carrying amount of the goodwill, and then to the other assets of the group of units pro rata on the basis of the carrying amount of each asset in the group of units.

If the goodwill has been allocated to a group of cash-generating units and the unit is disposed of or transferred, goodwill is included in the carrying amount of the asset when determining the profit or loss on disposal.

Property, plant and equipment

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

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

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

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

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

The cost of the item of property, plant and equipment, where the group has a present obligation to do so, includes the costs of its dismantling and removal and site restoration to be incurred when the facilities are abandoned, which are provided for in a specific provision. These costs are recognised starting on the date when they can be reliably estimated for those assets whose future disposal, and the time when this will happen, is foreseeable.

Capitalised costs are allocated to the income statement via depreciation.

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

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

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

The depreciation rates applied are as follows:

	%
Wind-power generators	5
Industrial and commercial buildings	2.5 - 7.34
Fixed hydraulic works	1
Pressurised pipelines	2,5
Hydraulic and electrical machinery	3,3
Automation and control systems	10
Equipment and machinery	5
Digital control-remote transmission facilities	10
Transport lines	5
Lightweight constructions	10
General plant	8.45 - 10.0
CCGT plant *	6.1
Digital control and remote transmission facilities	10
Motor vehicles, furniture and furnishings	8.38 - 25.0
Surface rights and other civil works	3.5
Photovoltaic modules	5
Other assets / miscellaneous equipment	from 10 to 20

* average rates

Impairment of non-financial assets (impairment test)

At least once a year, the Group measures the recoverable amount of intangible assets other than goodwill and property, plant and equipment, to determine whether there are indications that they may be impaired (examination of triggering events). If such an indication exists, the group estimates the recoverable amount of the asset to determine the amount of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable value of the cash-generating unit to which the asset belongs.

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

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

Equity investments carried at equity

Joint venture

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

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

Associates

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

Financial Instruments

I. Recognition and measurement

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

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

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

II. Subsequent classification and measurement

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

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

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

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

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Financial assets: assessment of the business model

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

This information includes:

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

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

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

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

Financial assets: test to establish whether the cash flows are solely payments of principal and interest

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

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

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

The prepayment element is in line with the criterion of the "cash flows that are solely payments of principal and interest" when the prepaymenta mount substantially represents the unpaid amounts of the principal and the interest on the t principal amount outstanding, which can include reasonable additional compensation for the early termination of the contract. Moreover, in the case of a financial asset acquired with a premium or a significant discount to the contractual pay amount, an element that allows or requires an pre payment equal to an amount that substantially represents the contractual pay amount contractual interest (which may include reasonable additional compensation for the early termination of thecontract) is recognised in accordance with said criterion if the fair value of the prepayment element is insignificant at of initial recognition.

Financial assets: subsequent measurement and gains and losses

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

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

Subsequent classification and measurement

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

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

Subsequent measurement and gains and losses

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

Impairment of financial assets

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

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

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

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

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

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

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

For the Group, a breach referred to a financial assets occurs when:

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

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

Measurement of the expected credit losses

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

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

Impaired financial assets

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

Evidence that the financial asset is credit impaired includes the observable data have taken place the following events:

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

Presentation of the loss allowance in the statement of financial position

The loss allowance for the financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is allocated to profit or loss for the year and recognised in other comprehensive income.

Write-off

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

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

Non-derivative financial instruments

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

The objective evidence that a financial asset was impaired included:

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

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

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

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

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

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

Cash and cash equivalents

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

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

Financial liabilities

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

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

Derecognition of financial assets and liabilities

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

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

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

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

Derivative financial instruments and hedging transactions

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

The Group uses derivative financial instruments to hedge its own exposure to interest rate risks and the price risk.

Embedded derivatives are separated from the host contract and recognised separately when the host contract does not constitute a financial asset and when determined criteria are met.
Derivative financial instruments are initially recognised at their fair value. After initial recognition, derivatives are measured at fair value and the related changes are usually reported in the profit or loss for the year.
The Group designates some derivative financial instruments as hedging instruments to hedge the variability of the cash flows relating to highly probable expected transactions deriving from the fluctuation of interest rates and of the price risk.
At the start of the designated hedging relationship, the Group documents the risk management objectives and the strategy in implementing the hedge, as well as the economic relationship between the hedged item and the hedging instrument and it is expected that changes in cash on hand of the hedged element and in the hedging instrument will mutually offset.

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

If the hedge ceases to meet the criteria or the hedging instrument is sold, terminated or is exercised, the hedge. When the cash flow hedge cease being reported, the cumulative gain or loss in the hedging reserve remains in equity until, in the case of hedge of a transaction that entails the recognition of a non-financial asset or liability, it is included in the cost of the non-financial asset or liability at initial recognition or, in the case of the other cash flow hedges, it is reclassified in the profit or loss for the year in the same year or in the same years in which the expected hedged future cash flows have an effect on the profit or loss for the year.
If several hedges cash flow are not expected, the amount must be reclassified immediately from the hedging reserve and from the reserve for the hedging costs in profit or loss for the year.

When a derivative instrument or a non-derivative financial liability is designated as a hedging instrument within a hedge of a net investment in a foreign operation, the effective portion, in the case of derivatives, of the fair value gain or loss on a derivative instrument or, in the case of a non-derivative item, foreign exchange gains or losses, are recognised in the Statement of comprehensive income and presented in equity within the translation reserve. The ineffective portion is recognised immediately in profit or loss of the year. The amount recognised in the Statement of comprehensive income is reclassified in profit or loss for the year as a reclassification adjustment on the disposal of the foreign operation.

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

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

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

In accordance with IFRS 9, lastly, the Group carries out the basis adjustment, reclassifying the effective result of the hedge to adjust the value at initial recognition of the hedged items, in case of cash flow hedges of nonfinancial elements.

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

Contracts to buy or sell a non-financial item

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

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

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

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

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

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

Ordinary shares

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

Treasury shares

Treasury shares are presented as a reduction in equity.

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

Share-based payments transactions

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

On **23 April 2018**, the Shareholders' of ERG S.p.A. approved the **2018-2020 long-term incentive plan**, in compliance with the terms and conditions set forth in the related Information Document.

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

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

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

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

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

The assessment exercise was carried out formulating the following assumptions:

- Volatility (22%): average of the 90 days preceding the valuation date of the 180-day historical volatility of the ERG share.
- Dividend Yield: estimated on the basis of the dividends forecast in the plan for the 2018-2022 three-year time interval, i.e. EUR 0.75 per share, as a percentage of share price.
- Time to maturity: in accordance with the provisions of the regulation of the financial instrument, the derivative was assumed to have a duration of three years.

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

On **20 October 2018**, on the occasion of 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 company of the Garrone and Mondini families.

The allocation was finalised on 14 January 2019 and concerned a total number of 664 employees and 53,120 shares held in the portfolio by ERG S.p.A., for approximately EUR 0.9 million.

The Board of Directors of ERG approved the transaction with San Quirico (related party of the Company) within the scope of the authorisation granted by the Shareholders' Meeting of ERG on 23 April 2018, after receiving the favourable opinion of the members of the Control and Risk Committee, issued for the purposes of related party transactions of lesser importance.

In particular, the value of the ERG treasury shares that was repaid by San Quirico S.p.A. is EUR 16.904 per share, equal to the overall average closing price recorded on the Screen-based Stock Market (MTA) for ordinary ERG shares in the stock market sessions of the 30 (thirty) days preceding the assignment date. This value is higher than the minimum threshold prescribed by the authorisation granted by the Shareholders' of ERG S.p.A. on 23 April 2018.

ERG S.p.A., as a result of the transaction, holds 1,450,080 ordinary ERG treasury shares, equal to 0.965% of the related share capital.

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, was increased by an amount corresponding to the value of the shares allocated to each employee of the Italian companies. The total value of this payment was approximately EUR 1.6 million.

Briefly, in the 2018 Separate Financial Statements, adoption of the standard entailed the recognition in the income statement, under "Personnel expense", of the fair value of the assigned Shares with a balancing entry under equity .

For the fair value measurement on the date of allocation (14 January 2019) the following data were used:

Date of Allocation		14-Jan-19
Number of benefiting employees		664
Number of allocated shares		53,120
Fair value on date of allocation (14 January 2019)	Euro	16.90
Total value of allocation	EUR thousand	898

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.

Inventories

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

Foreign currency transactions

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

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

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

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

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

Other Provisions

ERG recognises Other provisions when:

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

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

When the effect of the time value of money is material and the dates of settlement of the obligations can be estimated, the provision is discounted, using a discount rate that reflects the current market assessments of the time value of money. The increase in the provision due to the passage of time is recognised in profit or loss under "Financial income (expense)". When the obligation relates to property, plant and equipment (for example, dismantling and restoration of sites), the provision is recognised as a balancing entry to the asset to which it refers, and recognition in the income statement takes place through the depreciation process.

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

- possible (but not probable) obligations arising from past events, the existence of which will be confirmed only upon occurrence of one or more uncertain future events not wholly within the group's control;
- present obligations arising from past events the amount of which cannot be reliably estimated, or for which it is probable that settlement will not be onerous.

Provisions for employee benefits

Short-term benefits for employees

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

Defined contribution plans

Contributions to be paid to defined contribution plans are recognised as a cost in the profit or /(loss) along the period in which the employees provide their services perform their work; contributions paid in advance are recognised asmong assets to the extent to which the advancesd payment will bad todetermine a reduction in future payments or a reimbursement thereof.

Defined benefit plans

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

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

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

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

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

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

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

Termination benefits

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

Public funding

Grants related to assets are initially recognised at fair value as deferred income if there is a reasonable certainty that they will be received and that the Group will comply with the conditions attaching to them and they are then recognised in profit or loss for the year as other income on a systematic the useful life of the asset to which they refer.
Funding that offsets costs incurred by the Group are recognised in profit or loss for the year, on a systematic basis,over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compesate.

Leases

Determining whether an agreement contains a lease

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

Leased assets

Leased property, plant and equipment that transfer to the Group substantially all risks and benefits deriving from ownership of the asset are classified as financial leases. The assets acquired through leases are initially recognised at the fair value of the leased asset or, if lower, at the present value of the minimum payments due for the lease. After the initial recognition, the asset is measured in accordance with the standard applicable to said asset.
The other leased assets are included among operating leases and they are not recognised in the statement of financial position.

Lease payments

Payments relating to operating leases are recognised as a cost on a straight-line basis over the the lease term. The incentives granted to the lessee are recognised as an integral part of the total cost of the lease over the lease term.
The minimum payments due for financial leases are divided between interest expense and reduction of the residual debt. The interest expense is allocated over the the lease t in order to obtain a constant interest rate on the residual liability.

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

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

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

Revenue recognition

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

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

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

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

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

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

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

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

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

Dividends

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

Financial income and expense

The financial income and expenses of the Group comprise:

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

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

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

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

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

Income taxes

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

The Group determined that the interest and the penalties relating to income taxes, including the accounting treatments to be applied to income taxes of an uncertain nature, are recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets because they do not match the definition of income taxes.

Current taxes

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

The amount of the taxes due or to be received, determined on the basis of tax rate in force or substantially in force at the reporting date, also includes the best estimate of any portion to be paid or to be received that is subject to uncertainty factors. Current tax assets and liabilities are offset only when determined criteria are met.

Deferred taxes

Furthermore, pursuant to the accrual basis of accounting, the consolidated financial statements include deferred tax assets and liabilities arising from temporary differences deriving from adjustments made to consolidated companies' financial statements to comply with the Group's accounting policies, as well as from temporary differences between the carrying amounts and related tax bases, and on unused tax losses. Provisions for taxes that may arise from the transfer of undistributed profits of subsidiaries are made only when there is a real intention to transfer such profits.

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

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

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

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

Discontinued operations

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

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

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

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

Available-for-sale assets

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

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

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

Earnings per share

Basic earnings per share are calculated by dividing profit for the year attributable to the parent's ordinary shareholders by the weighted average number of the ordinary shares outstanding during the year.
To calculate diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted by assuming the conversion of all dilutive potential ordinary shares.

"Emissions rights"

In relation to the regulatory obligations deriving from CO2 emissions, the Group procures mainly emissions rights to address its own requirements during the year ("own-use"). For the purposes of the recognition of the expense deriving from these regulatory obligations, the Group applies the "net liability approach". According to this accounting treatment, certificates received free of charge are recognised at cost (zero if they are free of charge) and a liability is recorded only if the actual emissions exceed the freely assigned certificates. Purchased certificates are recognised at the specific cost according to the accrualsbasis. If the purchased certificates, net of those assigned free of charge, exceed those necessary to address regulatory obligations, this excess is recognised among current assets.

Related parties

Related parties are mainly those that share the same parent with ERG S.p.A., the companies that directly or indirectly, through one or more intermediaries, control, are controlled by, or are subjected to joint control by ERG S.p.A. and those in which ERG S.p.A. has an investiment.
The definition of related parties also includes key management personnel and their close relatives, of ERG S.p.A. and of its subsidiaries. Key managers are those who have the power and the direct or indirect responsibility for planning, managing, and controlling the activities of the Company and they include its Directors.

Operating segments

Criteria for determining the segments

The Group has the following four operating segments subject to disclosure in the directors' report and in **Note 35 - Disclosure by operating segment and geographic area**, as described in detail below, which correspond to the strategic business segments. These segments provide different products and services and they are managed separately because they need different technologies and strategies.
The activities of each segment of the Group disclosed herein are summarised below:

Wind

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

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

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

USE OF ESTIMATES - RISKS AND UNCERTAINTIES

Preparation of financial statements and notes pursuant to IFRS requires ERG to make estimates and assumptions that affect the carrying amounts of the assets and liabilities, of the costs and revenue recognised in the consolidated financial statements and disclosures relating to contingent assets and liabilities. Making these estimates involves using information available and subjective assumptions. By their very nature, the estimates and assumptions used may vary from year to year, and therefore, it cannot be excluded that, in subsequent years, the current carrying amounts may differ as a result of the change in the subjective assessments used.

The main estimates for which subjective assessments are more heavily required, in addition to those relating to fair value measurements, described in the specific section, were formulated, inter alia, for:

- the goodwill impairment test, intangible assets and property, plant and equipment: main assumptions for the determination of recoverable amounts(Impairment test section) with particular reference to the expected prices of energy and gas, to the available of renewable resources, to the evolution of the regulatory framework, to the estimate of the recoverable value in particular of "dry" and "wet" works at the end of the concessions for large-scale diversion of water for hydroelectric use and to macroeconomic variables such as inflation and discount rates;
- the determination of the amortisable value of concessions for large-scale diversion of water for hydroelectric use;
- the definition of the useful life of non-current assets and the related amortisation and depreciation (in the section **Property, Plant and Equipment** and at the section **Intangible assets**);
- deferred tax assets, recognised on the basis of the Group's future taxability of profits as forecast by business plans as well as of the expected settlement and renewal of tax consolidation schemes (**Note 6 - Taxes**);
- the estimates for provisions for environmental risks and for liabilities related to legal and fiscal disputes; in particular, the valuation processes are based on complex elements that by their nature imply reliance on the Directors' judgement, also taking into account the elements acquired by external consultants, and involve both determining the degree of likelihood of the occurrence of conditions that may entail a financial outlay and hence classification among liabilities or among contingent liabilities, and quantifying the related amount (**Note 13 - Other provisions**). In particular, with reference to the Provision for disposed Businesses the most complex elements are connected with the measurement process and with the measurement procedures related to the risks tied mainly to events dating back in time and pertaining to environmental, legal and tax matters tied to the divested "Oil" Coastal Refining and of integrated Downstream businesses;
- the estimate of the revenue which referred to the thermoelectric business in relation to the determination of the fair value of energy efficiency certificates (**Revenue** section)
- loss allowances, allowances for inventory write-down and impairment of assets (**Note 8 - Inventories, Note 9 - Trade receivables, Note 13 - Other provisions**).

Fair value measurements

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

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

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

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

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

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

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

The Group recognises the transfers between the various levels of the given fair value hierarchy of the event or of the change in the circumstances that determined the transfer in which the transfer took place.
Additional information on the assumptions to determine fair value is provided in the following notes:

- **Note 25 - Services and other operating costs** and **Note 26 - Personnel expense**;
- **Note 31 - Discontinued operations**;
- **Note 37 - Financial Instruments**;
- **Business combinations** section.

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

STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED STARTING ON 1 JANUARY 2018

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 - Revenue from Contracts with Customers has been applied from 1 January 2018, with limited impacts on the Group's consolidated financial statements. In particular, for some contracts ERG has been identified as an "agent", requiring the netting of certain operating costs thereby reducing revenue.

IFRS 15 is applied by the Group on a retroactive basis but with the cumulative effect at the date of first application (1 January 2018). As such, 2017 information has not been restated, i.e. has been presented according to IAS 18, IAS 11 or the relative interpretations.
The following table summarises the effects of the application of IFRS 15 on the individual items affected in the income statement of the Group for the consolidated financial statements at 31 December 2018.

(EUR thousand)	2018	Reclassifications	2018 without considering the effect of the adoption of IFRS 15
Revenue	1,023,736	15,090	1,038,826
Other income	21,903	–	21,903
Total revenue	**1,045,638**	**15,090**	**1,060,728**
Purchases	(327,239)	–	(327,239)
Services and other operating costs	(172,025)	(15,090)	(187,115)
Personnel expense	(66,800)	–	(66,800)
Gross Operating Income (EBITDA)	**479,575**	**–**	**479,575**
Amortisation, depreciation and impairment of non-current assets	(274,069)	–	(274,069)
Net Operating Income (EBIT)	**205,507**	**–**	**205,507**
Net financial income (expense)	(61,416)	–	(61,416)
Net (losses) on equity investments	(78)	–	(78)
Profit before taxes	**144,012**	**–**	**144,012**
Income taxes	(39,683)	–	(39,683)
Profit from continuing operations	**104,329**	**–**	**104,329**
Profit from discontinued operations	28,432	–	28,432
Profit for the year	**132,761**	**–**	**132,761**
Non-controlling interests	(133)	–	(133)
Profit attributable to the owners of the parent	**132,628**	**–**	**132,628**
Total comprehensive income for the year	**115,419**	**–**	**115,419**

Application of the standard has had no significant effects on the statement of financial position at 31 December 2018 and had no impact on retained earnings and non-controlling interests at 1 January 2018.

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

ERG Power Generation S.p.A. supplies electricity to a limited number of customers. Revenue for the supply of electricity largely reflects the component for the sale of the raw material, the component for the transport of electricity and the component for the dispatching electricity.

For charge-backs to customers for transport and dispatching charges billed by Terna, ERG Power Generation S.p.A. assumes the role of Agent since there are different requirements, e.g. primary responsibility for execution of the agreement falls on the third party, and the entity (ERG Power Generation S.p.A.) does not have any margin in fixing the prices of the goods or services of the third party. This change resulted in a decrease in the item "Revenue" of EUR 15 million in 2018 and a decrease in the related expenditure classified under services (EUR 15 million). Application of the standard has no effect on the Gross operating profit (EBITDA)..

IFRS 9 - Financial Instruments

IFRS 9 - Financial Instruments has been applied from 1 January 2018. Application of this standard introduced inter alia new criteria for the classification and measurement of financial assets and liabilities (together with the assessment of non-substantial modifications of financial liabilities), a new hedge accounting model and, with reference to the impairment model, the new standard provides that credit losses be estimated by applying the expected credit losses model. IFRS 9 is applied by the Group on a retroactive basis but with the cumulative effect at the date of first application (1 January 2018). As such, 2017 information has not been restated, i.e. has been presented according to IAS 39.

With the adoption of IFRS 9, the Group has also adopted the changes consequent to IAS 1 Presentation of Financial Statements according to which the impairment losses of financial assets have to be presented in a distinct item of the income statement account and of the Statement of comprehensive income. Moreover, the Group adopted the changes consequent to IFRS 7 Financial Instruments: disclosures supplementary information that will be applied only to the disclosures for supplementary information about 2018, without affecting the impacts on comparative information.

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

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

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

The adoption of IFRS 9 has no significant effects on the measurement criteria applied by the Group to financial liabilities and financial derivatives. The effects of IFRS 9 on the classification and measurement of financial assets have already been described in the section on the Main accounting policies .

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

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

IFRS 9 - Impairment losses on financial assets

IFRS 9 also replaces the ‘incurred loss’ model under IAS 39 with an ‘expected credit loss’ model (‘ECL’). The new impairment model applies to financial assets measured at amortised cost, contract assets and debt instruments at FVOCI, except for equity instruments. In accordance with IFRS 9, credit losses are recognised earlier than with IAS 39. For additional details, please refer to the section “Main accounting policies ”.

IFRS 9 - Non-substantial modifications of financial liabilities

On the subject of modifications of financial liabilities that do not lead to the derecognition, IAS 39 did not provide for the recognition of any effects in profit or loss, since these are not a substantial modification of the financial liabilities. IFRS 9, instead, does not allow redetermination of the effective interest rate in relation to renegotiation modification that do not determine the derecognition (and the consequent recognition of a new liability at fair value) of the financial liability: the entity has to recalculate the gross carrying amount of the financial asset/liability and recognise a modification gain or a loss in the profit or loss. The gross carrying amount of the financial asset/liability must be recalculated as the present value of the renegotiated or modificated cash flows that are discounted at the original effective interest rate of the financial assets (or at the effective interest rate original credit-djusted for purchase or originated credit-impaired financial assets).
With the application of IFRS 9, this involves the recognition of a gain or an immediate loss at the date of the modification of the financial liability, instead of incorporating the changes in future cash flows by modifying the effective interest rate of the financial liability and therefore in interest expense accounted for over the remaining useful life of the financial liability, as required by IAS 39.
During first-time adoption, the effects of the adoption of the new standard in relation to modifications of financial liabilities that do not lead to the extinguishment of the original financial liability are quantified in a positive amount equal to EUR 5,651 thousand (reduction of the financial liability for project financing by EUR 7,435 thousand and related tax effect of EUR 1,784 thousand) for 2015, 2016 and 2017 recognised in equity at 1 January 2018.
There have been no other changes due to the first time adoption of IFRS 9 in relation to the classification and measurement of financial liabilities.

IFRS 9 - Recognition of hedging transactions (hedge accounting)

The Group decided to adopt the new general provisions for hedge accounting prescribed by IFRS 9 on the basis of which the Group must ensure that the hedge accounting relationships are in line with the objectives and its own risk management strategy and that it applies a more qualitative and forward-looking method to the measurement.
The Group uses forward agreements to hedge the variability of the cash flows deriving from the fluctuation of commodity prices (mainly electricity and natural gas). The effective part of the fair value measurement of hedging instruments is accumulated in the hedging reserve as a separate component of equity.
In accordance with IAS 39, for all cash flow hedges, the amounts accumulated in the hedging reserve were reclassified in profit or loss for the year as reclassification adjustments in the same period in which the hedged expected cash

flows were recognised in the profit or loss. Conversely, according to IFRS 9, for the currency hedges associated with the programmed acquisitions of inventories, the amounts accumulated in the hedging reserve are instead included directly in the initial cost of the inventories at the time of its recognition. IFRS 9 applies the same methods to the accumulated amounts in the reserve for the costs of the hedge

For an explanation of the hedge accounting procedures applied by the Group in accordance with IFRS 9, please refer to **Note 37 - Financial instruments**.

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

IFRS 9 - Summary of transitional provisions

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

- The Group opted for the exemption that allows it not to redetermine the comparative information of the previous years pertaining to the provisions on classification and measurement (including impairment losses). The differences between the carrying amounts of financial assets and liabilities deriving from adoption of IFRS 9 are recognised among the retained earnings and reserves at 1 January 2018. Thus, in general, the information presented for 2017 does not reflect the provisions of IFRS 9, but rather those of IAS 39.
- The following measurements were made on the basis of the facts and the circumstances in place at the date of first time adoption:
  - Definition of the business model in which a financial asset is included.
  - Designation of some equity instruments not held for trading in the FVOCI category.
- When a debt security has low credit risk at the date of initial application of IFRS 9, the Group considered that the credit risk of the asset has not increased significantly after the initial recognition.
- Changes to hedge accounting provisions were applied prospectively, because the Group has no existing instruments for which the hedge cost method in relation to the forward points that should have been applied retroactively to the hedges existing on or after 1 January 2017 is applicable.
- All hedges designated in accordance with IAS 39 at 31 December 2017 met the hedge accounting provisions of IFRS 9 at 1 January 2018 and, therefore, they represent continuous hedges.

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

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

The afore-mentioned amendments and interpretations do not have significant effects for the Group.

STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, NOT YET MANDATORILY APPLICABLE AND NOT ADOPTED EARLY BY THE GROUP AT 31 DECEMBER 2018

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

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

IFRS 16 Leases

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

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

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

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

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

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

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

On the basis of currently available information, the Group expects to recognise a new liability for leases and higher Right of use assets amounting to approximately EUR 64 million at 1 January 2019 related mainly to the Wind business.

The Group does not expect that the adoption of IFRS 16 will influence its ability to comply with the debt covenants provided in the loan agreements described in Note 19. In addition, no significant impacts are expected in relation to the impairment losses of non-financial assets as a result of the application of the new standard.

The Group intends to apply IFRS 16 from the date of first adoption (i.e. 1 January 2019) using the modified retrospective approach . Therefore, the cumulative effect of the adoption of IFRS 16 will be recognised to adjust the opening balance at 1 January 2019, without stating the comparative information.

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

- **IFRS 9**: Prepayment Features with Negative Compensation, endorsed in March 2018 and applicable to annual reporting period beginning on or after 1 January 2019.
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (applicable since1 January 2019;
- Amendment to **IAS 28 Long-term interests in Associates and Joint Ventures** (applicable since1 January 2019).

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

- Amendment to **IAS 19 Plan Amendments, Curtailment or Settlement** applicable since1 January 2019);
- Improvements to **IFRS 2015-2017** cycle - amendments to **IFRS 3**, **IFRS 11**, **IAS 12** and **IAS 23** (applicable since 1 January 2019);
- **IFRS 17 Insurance Contracts** (applicable since1 January 2021);
- Amendment to **References to the Conceptual Framework** in IFRS Standards;
- Definition of business (amendments to IFRS 3 - applicable since1 January 2020)
- Definition of material (amendments to IAS 1 and IAS 8 - applicable since1 January 2020)

Any impacts of the aforesaid amendments are currently being assessed.

BASIS OF CONSOLIDATION

Consolidation scope

Subsidiaries

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

Non-controlling (i.e. minority) interests

Non-controlling interests, if there are any, are measured in proportion to the related share of identifiable net assets of the acquired company at the acquisition date.

Changes to the equity investment of the Group in an investee that do not entail loss of control are recognised as owner transactions.

Equity investments carried at equity - Associates and joint ventures

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

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

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

Investments in consolidated companies

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

When preparing the consolidated financial statements, the financial statements of the parent and its subsidiaries are combined line by line by adding together like items of assets, liabilities, income and expenses, attributing to non-controlling interests, under separate items of the statement of financial position and income statement, their portion of equity and profit or loss for the year. The portion of equity attributable to non-controlling interests is calculated on the basis of the fair values attributed to assets and liabilities at the date control was acquired, excluding any goodwill allocable to them. The carrying amount of investments is eliminated against the corresponding portion of equity of the investees, attributing to individual assets and liabilities their fair values at the date control was acquired. Any residual difference, if positive, is recognised as "Goodwill"; if negative, it is recognised in profit or loss as prescribed by IFRS 3 (Business Combinations).

Intragroup transactions

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

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

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

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

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

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

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

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

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

		Exchange rate: foreign currency / EUR	
	Currency	Statement of Financial Position (1)	Income Statement (2)
Poland	PLN - Zloty	4,301	4,262
Romania	RON - Romanian Leu	4,664	4,654
UK	GBP - British Pound	0,895	0,885
Bulgaria	BGN - Bulgarian LEV	1,960	1,960

(1) exchange rate at 31 December 2018
(2) average 2018 rate

List of group companies

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

List of **Companies consolidated on a line-by-line basis**:

	Registered office	Direct investment	Group's investment	Share capital (1) (2)	Equity (1) (2)
ERG S.p.A.					
ERG Power Generation S.p.A.	Genoa	100%	100%	100,000	1,867,026
ERG Power Generation S.p.A.					
ERG Hydro S.r.l.	Genoa	100%	100%	50,000	778,750
ERG Power S.r.l.	Genoa	100%	100%	5,000	186,503
Corni Eolian S.A.	Constanta (Romania)	100%	100%	152,000	47,212
Creag Riabhach Wind Farm Ltd. (3)	Edinburgh (UK)	100%	100%	4	4
ERG Eolica Adriatica S.r.l.	Genoa	100%	100%	10	29,895
ERG Eolica Amaroni S.r.l.	Catanzaro	100%	100%	10	4,770
ERG Eolica Basilicata S.r.l.	Genoa	100%	100%	38	6,198
ERG Eolica Calabria S.r.l.	Catanzaro	100%	100%	10	117
ERG Eolica Campania S.p.A.	Genoa	100%	100%	120	66,989
ERG Eolica Faeto S.r.l.	Genoa	100%	100%	10	7,460
ERG Eolica Fossa del Lupo S.r.l.	Catanzaro	100%	100%	50	31,386
ERG Eolica Ginestra S.r.l.	Genoa	100%	100%	10	(522)
ERG Eolica San Cireo S.r.l.	Genoa	100%	100%	3,500	20,918
ERG Eolica San Vincenzo S.r.l.	Genoa	100%	100%	3,500	16,429
ERG France S.a.r.l. (4)	Paris (France)	100%	100%	1,415	1,749
ERG Germany GmbH (5) (6)	Hamburg (Germany)	100%	100%	210	598
ERG Solar Holding 1 S.r.l.	Genoa	100%	100%	20	20,707
ERG Eolica Tirreno S.r.l.	Camporeale	100%	100%	10	30
ERG Eolienne France S.a.s. (7)	Paris (France)	100%	100%	21,625	25,998
ERG Wind 105 GmbH	Leisnig (Germany)	100%	100%	1	(527)
ERG Wind Bulgaria S.p.A.	Genoa	100%	100%	50	26,441
ERG Wind France 1 S.a.s.	Paris (France)	100%	100%	1,097	1,698
ERG Wind French Holdings S.a.s.	Paris (France)	100%	100%	1,410	(504)
ERG Wind Investments Ltd.	Gibraltar	100%	100%	112,993	114,155
ERG Wind Neunte GmbH (6)	Hamburg (Germany)	100%	100%	25	94
ERG Wind Park Beteiligungs GmbH (6)	Hamburg (Germany)	100%	100%	25	545
ERG Wind RE Beteiligungs GmbH (6)	Hamburg (Germany)	100%	100%	25	18
Evishagaran Windfarm Ltd. (8)	Belfast (UK)	100%	100%	–	24
EW Orneta 2 Z.O.O.	Warsaw (Poland)	100%	100%	164,698	136,150
Green Vicari S.r.l.	Camporeale	100%	100%	119	21,734
ISAB Energy Solare S.r.l.	Genoa	100%	100%	100	(118)
Sandy Knowe Wind Farm Ltd.	Seebeck House (UK)	100%	100%	–	(64)
WP France 6 S.a.s.	Puteaux (France)	100%	100%	6	(42)

(1) data referring to the latest approved financial statements
(2) data expressed in thousands of euros with the exception of the companies Corni Eolian SA, expressed in thousands of RON, and EW Orneta 2 SP. ZOO in thousands of Zloty and Creag Riabhach Wind Farm Ltd. in thousands of pounds.
(3) ERG Power Generation S.p.A., holding 100% of the shares of Creag Riabhach Wind Farm Ltd., opted not to audit the financial statements at 31 December 2018 of the aforesaid company in accordance with Section 479A of the UK Companies Act 2006.
(4) CSO Energy S.a.r.l. changed its name to ERG France S.ar.l.
(5) CSO Energy GmbH changed its name to ERG Germany GmbH
(6) In December 2018, the company transferred its registered office from Leisnig to Hamburg
(7) Starting from 30 November 2018, the share capital of ERG Eolienne France S.a.s. was increased from EUR 21,625 thousand to EUR 61,143 thousand
(8) On 25 October 2018, ERG UK Holding Ltd. changed its name to Evishagaran Wind Farm Ltd.

	Registered office	Direct investment	Group's investment	Share capital (1) (2)	Equity (1) (2)
ERG Solar Holding S.r.l. 1					
ERG Solar Holding S.r.l.	Genoa	100%	100%	20	29,157
ERG Solar Piemonte 1 S.r.l.	Genoa	100%	100%	10	2,029
ERG Solar Piemonte 2 S.r.l.	Genoa	100%	100%	10	811
ERG Solar Piemonte 3 S.r.l.	Genoa	100%	100%	10	2,486
ERG Solar Piemonte 4 S.r.l.	Genoa	100%	100%	10	412
ERG Solar Piemonte 5 S.r.l.	Genoa	100%	100%	10	2,161
ERG Solar Holding S.r.l.					
Calabria Solar S.r.l.	Milan	100%	100%	10	9
ERG Solar Campania S.r.l.	Genoa	100%	100%	100	2,322
ERG Solar Marche 1 S.r.l.	Genoa	100%	100%	10	532
ERG Solar Marche 2 S.r.l.	Genoa	100%	100%	10	301
ERG Solar Puglia 1 S.r.l.	Genoa	100%	100%	50	1,788
ERG Solar Puglia 2 S.r.l.	Genoa	100%	100%	100	0
ERG Solar Puglia 3 S.r.l.	Genoa	100%	100%	110	784
ERG Solar Sicilia S.r.l.	Genoa	100%	100%	1,000	1,737
Heliospower S.r.l.	Palermo	100%	100%	59	3,529
Longiano Solar S.r.l.	Milan	100%	100%	708	1,351
SR05 S.r.l.	Milan	100%	100%	25	628
ERG Eolienne France S.a.s.					
Eoliennes du Vent Solaire S.a.s.	Paris (France)	100%	100%	37	(4,498)
Parc Eolien de Lihus S.a.s.	Paris (France)	100%	100%	1,114	(96)
Parc Eolien de Hetomesnil S.a.s.	Paris (France)	100%	100%	1,114	397
Parc Eolien de la Bruyère S.a.s.	Paris (France)	100%	100%	1,060	838
Parc Eolien du Carreau S.a.s.	Paris (France)	100%	100%	861	2,970
Parc Eolien les Mardeaux S.a.s.	Paris (France)	100%	100%	1,097	(716)
Epuron Energies Renouvelables S.a.s.	Vincennes (France)	100%	100%	500	3,262
Parc Eolien de la valleè de Torfou S.a.r.l.	Vincennes (France)	100%	100%	8	(94)
Parc Eolien du Melier S.a.r.l	Vincennes (France)	100%	100%	8	(883)
Parc Eolienne de la Voie Sacree S.a.s.	Epinal (France)	100%	100%	74	3,320
Parc Eolienne d'Epense S.a.s.	Epinal (France)	100%	100%	802	1,090
WP France 10 S.a.s.	Paris (France)	100%	100%	6	(10)
Epuron Energies Renouvelables S.a.s.					
Epuron S.a.s.	Vincennes (France)	100%	100%	100	(280)
Caen Renewables Eenergy S.a.s.	Vincennes (France)	100%	100%	37	(634)
Parc Eolien de la Charente Limousine S.a.r.l.	Vincennes (France)	100%	100%	8	(7)
Parc Eolien de la Boeme S.a.r.l.	Vincennes (France)	100%	100%	8	(3)
Parc Eolien du Moulin du Bois S.a.r.l.	Vincennes (France)	100%	100%	8	(4)
Parc Eolien des Bouchats S.a.r.l.	Vincennes (France)	100%	100%	8	4
Parc Eolien de Saint Maurice la Clouere S.a.r.l.	Vincennes (France)	100%	100%	8	3
Parc Eolien du Pays a Part S.a.r.l.	Vincennes (France)	100%	100%	8	3
Parc Eolien de Saint Sulpice S.a.r.l.	Vincennes (France)	100%	100%	8	6
Parc Eolien du Plateaux de l'Ajoux S.a.r.l.	Vincennes (France)	100%	100%	8	6
Parc Eolien des Terres et Vents de Ravieres S.a.r.l.	Vincennes (France)	100%	100%	8	6
Parc Eolien de Porspoder S.a.r.l.	Vincennes (France)	100%	100%	8	6

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

	Registered office	Direct investment	Group's investment	Share capital (1) (2)	Equity (1) (2)
ERG Wind 105 GmbH					
Parc Eolien de St Riquier 3 S.a.S.	Paris (France)	100%	100%	37	(798)
Parc Eolien de St Riquier 4 S.a.S.	Paris (France)	100%	100%	37	(882)
ERG Wind Bulgaria S.p.A.					
Globo Energy EOOD	Sofia (Bulgaria)	100%	100%	4,379	5,965
K&S Energy EOOD	Sofia (Bulgaria)	100%	100%	3,179	3,465
K&S Energy 1 EOOD	Sofia (Bulgaria)	100%	100%	3,023	4,437
K&S Energy 2 EOOD	Sofia (Bulgaria)	100%	100%	3,051	4,410
Mark 1 EOOD	Sofia (Bulgaria)	100%	100%	4,113	5,883
Mark 2 EOOD	Sofia (Bulgaria)	100%	100%	4,113	5,478
VG-1 EOOD	Sofia (Bulgaria)	100%	100%	1,520	2,237
VG-2 EOOD	Sofia (Bulgaria)	100%	100%	3,034	4,286
VG-3 EOOD	Sofia (Bulgaria)	100%	100%	3,057	4,224
VG-4 EOOD	Sofia (Bulgaria)	100%	100%	2,955	5,220
VG-5 EOOD	Sofia (Bulgaria)	100%	100%	3,059	4,013
VG-6 EOOD	Sofia (Bulgaria)	100%	100%	3,023	3,964
Wind Park Kavana East EOOD	Sofia (Bulgaria)	100%	100%	505	3,578
Wind Park Kavana West EOOD	Sofia (Bulgaria)	100%	100%	175	3,719
WP Bulgaria 4 EOOD	Sofia (Bulgaria)	100%	100%	2,157	3,029
ERG Wind France 1 S.a.s.					
ERG Wind France 2 S.a.r.l.	Paris (France)	100%	100%	1	(41)
Cepe Pays De Montbeliard S.n.c.	Paris (France)	100%	100%	365	(3,024)
Cepe de Murat S.n.c.	Paris (France)	100%	100%	444	5,110
Cepe de Saint Florentin S.n.c.	Paris (France)	100%	100%	251	(4,172)
Ferme Eolienne de Teterchen S.a.s.	Paris (France)	100%	100%	100	2,739
Parc Eolien du Bois de l'Arche S.a.s.	Paris (France)	100%	100%	100	4,357
Parc Eolien du Bois de Bigot S.a.s.	Paris (France)	100%	100%	80	2,351
ERG Wind French Holdings S.a.s.					
Parc Eolien de la Chaude Vallee S.a.r.l.	Paris (France)	100%	100%	8	(790)
Parc Eolien de Morvilers S.a.r.l.	Paris (France)	100%	100%	8	(639)
Parc Eolien de Garcelles-Sacqueville S.a.s.	Paris (France)	100%	100%	37	(925)
Parc Eolien du Patis S.a.s.	Paris (France)	100%	100%	1,164	1,283
Parc Eolien Hauts Moulins	Paris (France)	100%	100%	15	(2,266)
Parc Eolien Moulins des Camps	Paris (France)	100%	100%	15	(2,013)
Parc Eolien de St Riquier 1 S.a.s.	Paris (France)	100%	100%	37	(1,724)
S.a.s. Société d'Exploitation du Parc Eolien de la Souterraine	Paris (France)	100%	100%	505	(13)
Parc Eolien de Oyre Saint Sauveur	Paris (France)	100%	100%	37	(1,153)
Société d'Exploitation du Parc Eolien le Nouvion S.a.s.	Paris (France)	100%	100%	37	(1,218)
ERG Wind Investments LTD					
ERG Wind Holdings (Italy) S.r.l.	Genoa	100%	100%	212	487,341
ERG Wind MEI 2-14-1 Ltd.	London (UK)	100%	100%	–	(4,042)
ERG Wind MEI 2-14-2 Ltd.	London (UK)	100%	100%	–	(531)

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

	Registered office	Direct investment	Group's investment	Share capital (1) (2)	Equity (1) (2)
ERG Wind Holdings (Italy) S,r,l,					
ERG Wind 4 S,r,l,	Genoa	100%	100%	6,633	52,744
ERG Wind Energy S,r,l,	Genoa	100%	100%	1,000	44,084
ERG Wind Leasing 4 S,r,l,	Genoa	100%	100%	10	295
ERG Wind Sardegna S,r,l,	Genoa	100%	100%	77	45,076
ERG Wind Sicilia 6 S,r,l,	Genoa	100%	100%	77	40,793
ERG Wind Sardegna S,r,l,					
ERG Wind Sicilia 2 S,r,l,	Genoa	100%	100%	77	36,403
ERG Wind Sicilia 4 S,r,l,	Genoa	100%	100%	77	11,023
ERG Wind Sicilia 5 S,r,l,	Genoa	100%	100%	77	16,543
ERG Wind 2000 S,r,l,	Genoa	100%	100%	77	22,515
ERG Wind Sicilia 6 S,r,l,					
ERG Wind 6 S,r,l,	Genoa	100%	100%	77	40,815
ERG Wind Sicilia 3 S,r,l,	Genoa	100%	100%	77	29,299
ERG Wind MEI 2-14-1 Ltd.,					
ERG Wind MEG 1 LLP (3)	London (UK)	80%	100%	33,168	42,769
ERG Wind MEG 2 LLP (3)	London (UK)	80%	100%	28,010	33,260
ERG Wind MEG 3 LLP (3)	London (UK)	80%	100%	33,585	39,068
ERG Wind MEG 4 LLP (3)	London (UK)	80%	100%	29,721	35,648
ERG Wind Park Beteiligungs GmbH					
ERG Wind 117 GmbH & Co, KG	Leisnig (Germany)	100%	100%	1	(585)
Voltwerk Energy Park 8 GmbH & Co, KG	Leisnig (Germany)	100%	100%	1	(1,966)
Voltwerk Windpark Worbzig GmbH & Co, KG	Leisnig (Germany)	100%	100%	–	889
Voltwerk Windpark Beesenstedt GmbH & Co, KG	Leisnig (Germany)	100%	100%	–	1,873
Windpark Cottbuser Halde GmbH & Co, KG	Leisnig (Germany)	100%	100%	5	(6,034)
Windpark Achmer Vinte GmbH & Co, KG	Leisnig (Germany)	100%	100%	7,500	(2,247)
ERG Wind Dobberkau GmbH & Co, KG	Leisnig (Germany)	100%	100%	5	(2,111)
ERG Wind Hermersberg GmbH & Co, KG	Leisnig (Germany)	100%	100%	1	(664)
ERG Wind Ober Kostenz GmbH & Co, KG	Leisnig (Germany)	100%	100%	1	(1,573)
ERG Wind WB GmbH & Co, KG	Leisnig (Germany)	100%	100%	–	(1,209)
ERG Wind Welchweiler GmbH & Co, KG	Leisnig (Germany)	100%	100%	5	(1,479)
ERG Wind Weselberg GmbH & Co, KG	Leisnig (Germany)	100%	100%	–	1,076
Windpark Linda GmbH & Co, KG	Kassel (Germany)	100%	100%	0	(8)
EW Orneta 2 Z,O,O,					
Blachy Pruszynsky-Energy SP,Z,O,O,	Warsaw (Poland)	100%	100%	53,001	40,400
Hydro Inwestycje SP,Z,O,O,	Warsaw (Poland)	100%	100%	40,004	32,412

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

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

Company	Registered office	Direct investment	Group's investment	Share capital (1) (2)	Equity (1) (2)	Carrying amount 31/12/2018
ERG Power S.r.l.						
Priolo Servizi S.c.p.A. (3)	Melilli	23.7%	23.7%	28,100	54,064	12,918
Associates						**12,918**

(1) data referred to the accounting records at 31 December 2018 prepared for the purposes of measurement using the equity method
(2) data expressed in thousands of euros
(3) the consortium company is subject to joint control with ISAB S.r.l. and the other shareholders of the Versalis S.p.A. Group and Syndial

List of companies **recognised at cost**:

Company	Registered office	Direct investment	Group's investment	Share capital (1) (2)	Equity (1) (2)	Carrying amount 31/12/2018
ERG S.p.A.						
ERG Petroleos S.A. (3)	Madrid (Spain)	100%	100%	3.050	(5.910)	–
Subsidiaries						**–**
ERG Power Generation S.p.A.						
Creggan Wind Farm Limited (5)	Seebeck House (UK)	100%	100%	–	–	–
Eolico Troina S.r.l. in liquidazione	Palermo	99%	99%	20	232	25
ERG UK Holding Ltd. (4) (5)	Edinburgh (UK)	100%	100%	n.d.	n.d.	–
Longburn Wind Farm Ltd. (5)	Seebeck House (UK)	100%	100%	0	–	313
Subsidiaries						**338**
ERG Eolienne France S.a.s.						
Parc Eolien de Saint-Loup sur Cher S.a.r.l.	Vincennes (France)	100%	100%	n.d.	n.d.	8
Parc Eolien du Puits Gergil S.a.r.l.	Vincennes (France)	100%	100%	n.d.	n.d.	8
Parc Eolien du Plateau de la Perche S.a.r.l.	Vincennes (France)	100%	100%	n.d.	n.d.	8
Parc Eolien des Boules S.a.r.l.	Vincennes (France)	100%	100%	n.d.	n.d.	8
ERG Development France S.a.s.	Paris	100%	100%	n.d.	n.d.	10
Subsidiaries						**40**
ERG Power Generation S.p.A.						
Rigghill Wind Farm Limited (5)	Seebeck House (UK)	50%	50%	–	–	236
Joint venture						**236**
ERG S.p.A.						
CAF Interreg. Dipendenti S.r.l.	Vicenza	0.04%	0.06%	276	1,052	–
Meroil S.A.	Barcelona (Spain)	0.87%	0.87%	19,077	68,723	310
R.U.P.E. S.p.A.	Genoa	4.86%	4.86%	3,058	3,053	155
Other companies						**465**
TOTAL						**1,080**

(1) data referring to the latest approved financial statements
(2) data expressed in thousands of euros
(3) considering the deficit of ERG Petroleos, a provision for risks on equity investments of approximately EUR 6 million has been accrued
(4) british company established on 10 December 2018
(5) ERG Power Generation S.p.A., holding 100% of the shares of ERG UK Holding Ltd. opted not to audit the financial statements at 31 December 2018 of the aforesaid company in accordance with Section 479A of the UK Companies Act 2006

The subsidiaries recognised at cost are not consolidated line-by-line because their size is not significant or they are not yet operating.

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

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

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

The consideration for the sale of the assets is EUR 194 million, of which EUR 14 million 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, executed 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 under Non-current financial assets. In the Directors' Report, this loan is a reduction to net financial indebtedness as a deferred component of the sale price, as commented in the related Chapter "Alternative performance indicators"

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

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

For more details, please refer to the comments provided in the **Change to the consolidation scope**.

On **12 January 2018**, ERG, through its subsidiary ERG Windpark Beteiligungs GmbH, signed an agreement with the Vortex Energy group for the acquisition of 100% of **Windpark Linda GmbH & Co. KG**, a company that holds the permits for the construction of a wind farm in Germany with 21.6 MW of power and an estimated production speed of approximately 50 GWh per annum, equal to approximately 39 kt of avoided CO_2 emissions. For more details, please refer to the comments provided in the **Change to the consolidation scope**.

On **7 March 2018**, following the sale process started at the end of 2017, ERG, through its subsidiary ERG Power Generation S.p.A., sold to the Greencoat UK Wind PLC fund, quoted on the London Stock Exchange and specialised in investment in renewables, 100% of its subsidiary **Brockaghboy Windfarm Ltd.** ("BWF"), a UK company which owns the 47.5 MW wind farm built in County Londonderry, Northern Ireland, by ERG and TCI Renewables Ltd. For more details, please refer to the comments provided in the **Change to the consolidation scope**.

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

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

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

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

- **Parc Eolien du Melier S.a.s.**, owner of an 8-MW wind farm with expected output of approximately 23 GWh. The wind farm is entitled to benefit from the 2014 feed-in-tariff (FIT) for a period of 15 years following its coming on stream, which took place in November 2016;
- **Parc Eolien de la Vallée de Torfou S.a.s.**, owner of an 18-MW wind farm currently under construction with estimated average output of 48 GWh, scheduled to come on stream by the end of 2018. The wind farm will benefit from the 2014 FIT for a period of 15 years;
- **Epuron Energies Renouvelables S.a.s.**, which owns a pipeline of approximately 750 MW.

For more details, please refer to the comments provided in the **Change to the consolidation scope**.

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.

For more details, please refer to the comments provided in the **Change to the consolidation scope**.

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

Through its subsidiary ERG Eolienne France S.a.s., on **3 August 2018** ERG purchased the residual 25% of the share capital of Parc Eolienne de la Voie Sacrée S.a.s. and Parc Eolienne d'Epense S.a.s. from Renvico France S.a.s.
For more details, please refer to the comments provided in the **Change to the consolidation scope**.
On **3 August 2018**, ERG and Quercus Assets Selection S.ar.l., a European fund focusing on renewable source investments with over EUR 350 million in assets under management, signed an agreement for the setup of a public limited company ERG Q Solar1, with registered office in Genoa, in which ERG has a 60% interest and the Quercus Italian Solar Fund segment 40%, with the aim of consolidating the Italian photovoltaic market.
On **10 December 2018** the British company ERG UK Holding Ltd. was established.
On **31 December 2018**, the following French companies were established: Parc Eolien de Saint-Loup sur Cher S.ar.l., Parc Eolien du Puits Gergil S.ar.l., Parc Eolien du Plateau de la Perche S.ar.l., Parc Eolien des Boules S.ar.l.
In consideration of the new acquisition of assets in the UK market, as from the Interim Directors' Report at 30 September 2018, ERG UK Holding Ltd. (renamed Evishagaran Wind Farm Ltd. in October 2018) and Sandy Knowe Wind Farm Ltd. are also consolidated line by line. These companies own two already authorised development projects of 35 MW and 49 MW, respectively, in the United Kingdom and were previously measured using the cost method since their size is not significant dimensions and they are not yet operational.

The following transactions **under common control** also took place.
With effect from **1 January 2018**:

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

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

With regard to the existence of restrictions and guarantees on the equity investments held by the Group, please refer to **Note 19 - Covenants and negative pledges**.

CONSOLIDATION SCOPE AT 31 DECEMBER 2018

100 ERG WIND INVESTMENTS Ltd.
100 ERG WIND MEI 2-14-1 (UK) Ltd.
100 ERG WIND MEI 2-14-2 (UK) Ltd.
80 ERG WIND MEG 1 LLP 20
80 ERG WIND MEG 2 LLP 20
80 ERG WIND MEG 3 LLP 20
80 ERG WIND MEG 4 LLP 20
100 ERG FRANCE S.a.r.l.
100 ERG WIND RE BETEILGUNGS GmbH & Co. KG
100 ERG WIND 105 GmbH
PARC EOLIEN DE ST RIQUIER 3 S.a.s. 100
PARC EOLIEN DE ST RIQUIER 4 S.a.s. 100
100 ERG WIND PARK BETEILIGUNGS GmbH
VOLTWERK ENERGY PARK 8 GmbH & CO. KG 100
VOLTWERK WINDPARK WÖRBZIG GmbH & CO. KG 100
VOLTWERK WINDPARK BEESENSTEDT GmbH & CO. KG 100
WINDPARK COTTBUSER HALDE GmbH & CO. KG 100
WINDPARK ACHMER VINTE GmbH & CO. KG 100
ERG WIND 117 GmbH & CO. KG 100
100 ERG WIND HOLDINGS (ITALY) S.r.l.
ERG WIND ENERGY S.r.l. 100
ERG WIND SARDEGNA S.r.l. 100
ERG WIND SICILIA 2 S.r.l. 100
ERG WIND SICILIA 4 S.r.l. 100
ERG WIND SICILIA 5 S.r.l. 100
ERG WIND 2000 S.r.l. 100
100 ERG WIND SICILIA 6 S.r.l.
ERG WIND SICILIA 3 S.r.l. 100
ERG WIND 6 S.r.l. 100
100 ERG WIND 4 S.r.l.
100 ERG WIND LEASING 4 S.r.l.
100 ERG WIND DOBBERKAU GmbH & CO. KG
100 ERG WIND HERMERSBERG GmbH & CO. KG
100 ERG WIND OBER KOSTENZ GmbH & CO. KG
100 ERG WIND WB GmbH & CO. KG
100 ERG WIND WELCHWEILER GmbH & CO. KG
100 ERG WIND WESELBERG GmbH & CO. KG
100 WINDPAR K LINDA GmbH & CO. KG
100 CORNI EOLIAN S.A.
100 ERG WIND BULGARIA S.pA.
100 VG-1 EOOD
100 VG-2 EOOD
100 VG-3 EOOD
100 VG-4 EOOD
100 VG-5 EOOD
100 VG-6 EOOD
100 MARK 1 EOOD
100 MARK 2 EOOD
100 K&S ENERGY EOOD
100 K&S ENERGY 1 EOOD
100 K&S ENERGY 2 EOOD
100 WIND PARK KAVARNA EAST EOOD
100 WIND PARK KAVARNA WEST EOOD
100 WP BULGARIA 4 EOOD
100 GLOBO ENERGY EOOD
100 ISAB ENERGY SOLARE S.r.l.
100 ERG SOLAR HOLDING 1 S.r.l.
ERG SOLAR PIEMONTE 1 S.r.l. 100
ERG SOLAR PIEMONTE 2 S.r.l. 100
ERG SOLAR PIEMONTE 3 S.r.l. 100
ERG SOLAR PIEMONTE 4 S.r.l. 100
ERG SOLAR PIEMONTE 5 S.r.l. 100
100 ERG SOLAR HOLDING S.r.l.
CALABRIA SOLAR S.r.l. 100
ERG SOLAR CAMPANIA S.r.l. 100
ERG SOLAR MARCHE 1 S.r.l. 100
ERG SOLAR MARCHE 2 S.r.l. 100
ERG SOLAR PUGLIA 1 S.r.l. 100
ERG SOLAR PUGLIA 2 S.r.l. 100
ERG SOLAR PUGLIA 3 S.r.l. 100
ERG SOLAR SICILIA S.r.l. 100
HELIOSPOWER 1 S.r.l. 100
LONGIANO SOLAR S.r.l. 100
SR05 S.r.l. 100

CHANGE IN THE CONSOLIDATION SCOPE

(EUR thousand)	Forvei [1]	Epuron [2]	Vent d'Est [3]	Creag Riabhach Wind Farm Ltd. [4]	WP France 6 S.a.s. [5]
Intangible assets	122,599	30,664	3,945	22,468	3,915
Goodwill	–	22,336	–	–	–
Property, plant and equipment	235,156	24,726	9,132	–	2,075
Equity investments	–	–	–	–	–
Other financial assets	4,948	131	699	–	[7] (6,466)
Deferred tax assets	4,214	–	116	–	–
Other non-current assets	–	–	–	–	–
Non-current assets	**366,917**	**77,857**	**13,892**	**22,468**	**(476)**
Inventories	–	–	–	–	–
Trade receivables	16,595	340	742	–	–
Other current assets	12,346	2,964	47	63	419
Current financial assets*	–	–	–	–	–
Cash and cash equivalents*	(92,556)	(37,161)	(7,066)	(9,910)	101
Current assets	**(63,616)**	**(33,856)**	**(6,277)**	**(9,847)**	**520**
Asset held for sale	**–**	**–**	**–**	**–**	**–**
TOTAL ASSETS	**303,301**	**44,000**	**7,615**	**12,621**	**44**
Equity	–	–	(549)	(0)	0
Employee benefits	–	–	–	–	–
Deferred tax liabilities	34,442	7,029	690	–	–
Provisions for risks and charges - non current portion	8,132	200	661	–	–
Non-current financial liabilities*	240,571	29,549	5,653	11,934	24
Other non-current liabilities	5,356	–	–	–	–
Non-current liabilities	**288,501**	**36,778**	**7,004**	**11,934**	**24**
Provisions for risks and charges - current portion	–	150	–	–	–
Trade payables	3,638	6,108	353	–	20
Current financial liabilities*	9,576	601	806	684	–
Other current liabilities	1,586	363	–	3	–
Current liabilities	**14,800**	**7,222**	**1,159**	**687**	**20**
Liabilities associated with assets held for sale					
TOTAL EQUITY AND LIABILITIES	**303,301**	**44,000**	**7,615**	**12,621**	**44**
***Impact on Net Financial Position**	**(342,703)**	**(67,312)**	**(13,526)**	**(22,528)**	**78**
Brockaghboy Windfarm Ltd. Sale					
Impact on Net Financial Position Directors' Report					

1) 18 Italian companies from VEI Green S.r.l. - "**ForVei**" business combination
2) 15 French companies from Impax New Energy Holding Cooperatief W.A. - "**EPURON**" business combination
3) 2 French companies from Vent d'Est - "**Vent d'Est**" business combination
4) 1 Scottish company - business combination "**Creag Riabhach**"
5) the effects of the line-by-line consolidation of equity investments previously measured using the cost method since they were not of a significant size (**ISAB Energy Solare**) or not yet operational (**WP France 6, Evishagaran Windfarm Ltd., Sandy Knowe Wind Farm Ltd., WP France 10 S.a.s.**)
6) 1 German company from Vortex Energy, not significant
7) impact of intercompany entries following the line-by-line consolidation of the Companies as from 1 January 2018. It is noted that the Company was acquired on 22 December 2016.

ISAB Energy Solare [5]	Evishagaran Windfarm Ltd. [5]	Sandy Knowe Wind Farm Ltd. [5]	WP France 10 S.a.s. [5]	Linda [6]	TOTAL
22	4,169	796	1,786	13	190,378
–	–	–	–	–	22,336
2,570	194	94	119	182	274,247
(394)	–	–	–	–	(394)
–	[7] (4,332)	[7] (865)	–	–	(5,886)
–	–	–	–	–	4,330
–	–	–	–	–	–
2,198	**30**	**24**	**1,905**	**195**	**485,011**
41	–	–	–	–	41
93	–	–	–	–	17,770
375	77	–	387	7	16,685
–	–	–	–	–	–
180	58	189	(456)	(1)	(146,623)
689	**135**	**189**	**(69)**	**6**	**(112,126)**
–	**–**	**–**	**–**	**–**	**–**
2,887	**165**	**213**	**1,837**	**200**	**372,885**
(122)	–	–	0	–	(670)
–	–	–	–	–	–
–	–	–	–	–	42,161
–	–	–	–	–	8,993
2,590	–	–	219	–	290,541
–	–	–	–	–	5,356
2,590	**–**	**–**	**219**	**–**	**347,051**
–	–	–	–	–	150
58	31	22	1,409	148	11,787
361	135	(23)	208	52	12,401
–	–	215	–	–	2,167
419	**165**	**213**	**1,617**	**200**	**26,504**
			–		**–**
2,887	**165**	**213**	**1,837**	**200**	**372,885**
			–		
(2,771)	**(77)**	**212**	**(883)**	**(54)**	**(449,565)**
					105,740
					(343,825)

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

"FORVEI" BUSINESS COMBINATION

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

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

The enterprise value of the transaction amounted to approximately EUR 345 million. The assets are financed through non-recourse project financing for an amount of approximately EUR 180 million and lease contracts repaid in advance in 2018 for an amount of approximately EUR 60 million.

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

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

Determination of the total acquisition price

The acquisition price was EUR 107.5 million of which EUR 69.5 million for acquisition of 100% of the share capital of the target companies and EUR 38 million for the repayment of outstanding loans at the date of the acquisition of control of the target company.

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

The accounting treatment for the acquisition represented below has been confirmed:

(EUR thousand)	Acquisition situation	Adjustment to the acquisition situation	Impact of consolidation
Intangible assets	1,716	120,883	122,599
Goodwill	–	–	–
Property, plant and equipment	235,156	–	235,156
Equity investments	–	–	–
Other financial assets	4,948	–	4,948
Deferred tax assets	4,214	–	4,214
Other non-current assets	–	–	–
Non-current assets	**246,034**	**120,883**	**366,917**
Inventories	–		–
Trade receivables	16,595	–	16,595
Other current assets	12,346	–	12,346
Current financial assets*	–	–	–
Cash and cash equivalents*	14,943	(107,499)	(92,556)
Current assets	**43,883**	**(107,499)**	**(63,616)**
TOTAL ASSETS	**289,917**	**13,384**	**303,301**
Equity attributable to the owners of the parent	**(17,689)**	**17,689**	**–**
Employee benefits	–	–	–
Deferred tax liabilities	716	33,726	34,442
Provisions for risks and charges - non current portion	8,132	–	8,132
Non-current financial liabilities*	240,571	–	240,571
Other non-current liabilities	5,356	–	5,356
Non-current liabilities	**254,775**	**33,726**	**288,501**
Provisions for risks and charges - current portion	–	–	–
Trade payables	3,638	–	3,638
Current financial liabilities*	47,608	(38,032)	9,576
Other current liabilities	1,586	–	1,586
Current liabilities	**52,832**	**(38,032)**	**14,800**
TOTAL EQUITY AND LIABILITIES	**289,917**	**13,384**	**303,301**
***Impact on Net Financial Position**	**(273,236)**	**(69,467)**	**(342,703)**

Cash and cash equivalents used	107,499
Deferred payments	–
Repayment of acquired company loans	(38,032)
Acquisition price	69,467
Fair value of net assets acquired	(69,467)
Goodwill	**–**

The **Acquisition figures** column shows the opening balances determined on the basis of the accounting records at the date of first consolidation (1 January 2018) of the acquirees:

- property, plant and equipment: photovoltaic plants recognised at the cost of acquisition including ancillary costs and costs directly attributable to the asset and adjusted by the related accumulated depreciation;
- other financial assets: assets arising during the drafting of the acquisition situation in view of which a liability of equal amount has been allocated to provisions for non-current risks and charges;
- deferred tax assets: relating to non-deductible interest expense;
- trade receivables: relative to the sale of electricity and the feed-in premium;
- other current assets: mainly VAT assets;
- cash and cash equivalents: cash on hand held in current accounts;
- deferred tax liabilities related to dismantling expenses;
- provisions for non-current risks and charges related to dismantling expenses and to special indemnities arisen upon preparing the acquisition report;
- non-current financial liabilities: medium-long term portion of bank borrowings for project financing;
- other non-current liabilities: mainly in relation to landowners for surface rights;
- trade payables: mainly relative to payables to third-party suppliers for O&M;
- current financial liabilities: mainly the short-term portion of bank borrowings for project financing and dividends to the previous parent VEI Green S.p.A.

in the **Adjustments to the acquisition situation** column:

- intangible assets: capital gain allocated upon recognition of the acquisition; this capital gain was allocated to the concessions and is determined using valuation methodologies that are based on discounting the operating cash flows that are expected over the duration of the concessions;
- cash and cash equivalents: amount paid for acquisition
- deferred tax liabilities related to the allocations to intangible assets described above;
- current financial liabilities: referred to the repayment of outstanding loans at the date of the acquisition of control of the target company.

FORVEI contribution in 2018

In the period between the date of first consolidation (1 January 2018) and the reporting date of this Annual Financial Report, the acquirees contributed to the Group’s income statement with revenue of EUR 38.4 million and an operating profit of EUR 8.5 million.

"EPURON" BUSINESS COMBINATION

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

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

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

Determination of the total acquisition price

The acquisition price was EUR 41.9 million of which EUR 36.8 million for the acquisition of 100% of the acquirees and EUR 5.1 million for the takeover of the shareholders' loan.
The agreement, insofar as concerns the pipeline, also provides for an "earn-out" mechanism in favour of the Seller for a total of approximately EUR 5 million.
The acquisition-related costs incurred to finalise the transaction of EUR 0.5 million were excluded from the consideration transferred and recognised both in the 2017 income statement for the amount of EUR 0.2 million and in the 2018 income statement under services and other costs for the amount of EUR 0.3 million.

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

The acquisition was recognised on a provisional basis; the current values[1] of the acquired assets were determined on the basis of the best estimate available at the preparation date of this Annual Financial Report and are shown in the table below:

(EUR thousand)	Acquisition situation	Provisional adjustment to the acquisition situation	Impact of consolidation
Intangible assets	5.772	24.892	30.664
Goodwill	–	22.336	22.336
Property, plant and equipment	24.726	–	24.726
Equity investments	–	–	–
Other financial assets	131	–	131
Deferred tax assets	–	–	–
Other non-current assets	–	–	–
Non-current assets	**30.629**	**47.228**	**77.857**
Inventories	–	–	–
Trade receivables	340	–	340
Other current assets	2.964	–	2.964
Current financial assets*	–	–	–
Cash and cash equivalents*	4.719	(41.880)	(37.161)
Current assets	**8.024**	**(41.880)**	**(33.856)**
TOTAL ASSETS	**38.653**	**5.348**	**44.001**
Equity attributable to the owners of the parent	**(3.439)**	**3.439**	**–**
Employee benefits	–	–	–
Deferred tax liabilities	59	6.970	7.029
Provisions for risks and charges - non current portion	200	–	200
Non-current financial liabilities*	29.549	–	29.549
Other non-current liabilities	–	–	–
Non-current liabilities	**29.809**	**6.970**	**36.778**
Provisions for risks and charges - current portion	150	–	150
Trade payables	6.108	–	6.108
Current financial liabilities*	5.662	(5.061)	601
Other current liabilities	363	–	363
Current liabilities	**12.283**	**(5.061)**	**7.222**
TOTAL EQUITY AND LIABILITIES	**38.653**	**5.348**	**44.000**
***Impact on Net Financial Position**	**(30.493)**	**(36.819)**	**(67.312)**
Cash and cash equivalents used			41.880
Deferred payments			–
Repayment of acquired company loans			(5.061)
Acquisition price			36.819
Fair value of net assets acquired			(14.483)
Goodwill			**22.336**

1 Current values were identified as the value in use calculated with the discounted cash flow method.

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

- intangible assets: the item comprises the value of the concessions recorded in the statutory financial statements and the costs for the development of new wind power projects:
- property, plant and equipment: wind farms recognised at the cost of acquisition including ancillary costs and costs directly attributable to the asset and adjusted by the related accumulated depreciation;
- other financial assets: relative to third party instruments;
- trade receivables: relative to the sale of electricity;
- other current assets: mainly VAT assets;
- cash and cash equivalents: cash on hand held in current accounts;
- provisions for non-current risks and charges related to dismantling expenses;
- non-current financial liabilities: medium-long term portion of bank borrowings for project financing and the contractually agreed Earn Out resulting from the acquisition of the companies within the scope;
- provisions for current risks and charges relating to employees;
- trade payables: mainly related to the investments made for the construction of plants in progress at the date of this document;
- current financial liabilities: mainly the short-term portion of bank borrowings for project financing and financial payables to the previous parent;
- other current liabilities: related to payables due to employees.

in the **Provisional adjustments to the acquisition figures** column:

- intangible assets: capital gain allocated upon recognition of the acquisition; this capital gain was allocated to the concessions;
- cash and cash equivalents: amount paid for acquisition;
- deferred tax liabilities related to the allocations referred to above.
- current financial liabilities: amount related to the "earn-out" mechanism in the Seller's favour for a maximum amount of approximately EUR 5 million.

Temporary determination of residual goodwill

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

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

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

EPURON contribution in 2018

In the period between the date of first consolidation (30 June 2018) and the reporting date of this Annual Financial Report, the acquirees contributed to the Group's income statement with revenue of EUR 1 million and an operating loss of EUR 0.9 million.

"VENT D'EST" BUSINESS COMBINATION

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

Through its subsidiary ERG Eolienne France S.a.s., on **3 August 2018** ERG purchased the residual 25% of the share capital of Parc Eolienne de la Voie Sacrée S.a.s. and Parc Eolienne d'Epense S.a.s. from Renvico France S.a.s.

Determination of the total acquisition price

The acquisition price was EUR 7.7 million of which EUR 6.4 million for acquisition of 100% of the acquirees and EUR 1.2 million for the repayment of outstanding loans at the date of the acquisition of control of the acquirees.

The transaction costs of EUR 0.2 million were excluded from the consideration transferred and recognised in the 2018 income statement in the amount of EUR 0.2 million under services and other costs.

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

The acquisition was recognised on a definitive basis; the current values[2] of the acquired assets were determined on the basis of the best estimate available at the preparation date of this Annual Financial Report and are shown in the table below:

(EUR thousand)	Acquisition situation	Adjustment to the acquisition situation	Impact of consolidation
Intangible assets	1,618	2,328	3,945
Goodwill	–	–	–
Property, plant and equipment	9,132	–	9,132
Equity investments	–	–	–
Other financial assets	699	–	699
Deferred tax assets	116	–	116
Other non-current assets	–	–	–
Non-current assets	**11,564**	**2,328**	**13,892**
Inventories			–
Trade receivables	742	–	742
Other current assets	47	–	47
Current financial assets*	–	–	–
Cash and cash equivalents*	587	(7,654)	(7,066)
Current assets	**1,377**	**(7,654)**	**(6,277)**
TOTAL ASSETS	**12,941**	**(5,326)**	**7,615**
Equity attributable to the owners of the parent	**4,209**	**(4,758)**	**(549)**
Employee benefits	–	–	–
Deferred tax liabilities	38	652	690
Provisions for risks and charges - non current portion	661	–	661
Non-current financial liabilities*	5,653	–	5,653
Other non-current liabilities	–	–	–
Non-current liabilities	**6,352**	**652**	**7,004**
Provisions for risks and charges - current portion	–	–	–
Trade payables	353	–	353
Current financial liabilities*	2,026	(1,220)	806
Other current liabilities	–	–	–
Current liabilities	**2,379**	**(1,220)**	**1,159**
TOTAL EQUITY AND LIABILITIES	**12,941**	**(5,326)**	**7,615**
***Impact on Net Financial Position**	**(7,092)**	**(6,434)**	**(13,526)**
Cash and cash equivalents used			7,654
Deferred payments			–
Repayment of acquired company loans			(1,220)
Acquisition price			6,434
Fair value of net assets acquired			(6,434)
Goodwill			**–**

2 Current values were identified as the value in use calculated with the discounted cash flow method.

The **Acquisition figures** column shows the opening balances determined on the basis of the accounting records at the date of first consolidation (1 January 2018) of the acquirees:

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

In the **Adjustments to the acquisition situation** column:

- intangible assets: capital gain allocated upon recognition of the acquisition; this capital gain was allocated to the concessions and is determined using valuation methodologies that are based on discounting the operating cash flows that are expected over the duration of the concessions;
- cash and cash equivalents: amount paid for acquisition;
- deferred tax liabilities related to the allocations referred to above;
- current financial liabilities: referred to the repayment of outstanding loans at the date of the acquisition of control of the target company.

Vent d'Est contribution in 2018

In the period between the date of first consolidation (1 January 2018) and the reporting date of this Annual Financial Report, the acquirees contributed to the Group's income statement with revenue of EUR 2.9 million and an operating profit of EUR 0.8 million.

BUSINESS COMBINATION "CREAG RIABHACH"

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 at the current exchange rate), 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.

Determination of the total acquisition price

The acquisition price was EUR 21.9 million of which EUR 20.9 million for acquisition of 100% of the share capital of the target companies and EUR 0.9 million for the repayment of outstanding loans at the date of the acquisition of control of the target company.

The price already paid at the date of the present consolidated financial statements amounts to EUR 9.9 million and the deferred component of EUR 11.9 million is recorded among non-current financial liabilities.

The transaction costs of EUR 0.5 million were excluded from the consideration transferred and recognised in the 2018 income statement in the amount of EUR 0.5 million under services and other costs.

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

The acquisition was recognised on a provisional basis; the current values[3] of the acquired assets were determined on the basis of the best estimate available at the preparation date of this Annual Financial Report and are shown in the table below:

(EUR thousand)	Acquisition situation	Provisional adjustment to the acquisition situation	Impact of consolidation
Intangible assets	1,490	20,978	22,468
Goodwill	–	–	–
Property, plant and equipment	–	–	–
Equity investments	–	–	–
Other financial assets	–	–	–
Deferred tax assets	–	–	–
Other non-current assets	–	–	–
Non-current assets	**1,490**	**20,978**	**22,468**
Inventories	–	–	–
Trade receivables	–	–	–
Other current assets	63	–	63
Current financial assets*	–	–	–
Cash and cash equivalents*	12	(9,922)	(9,910)
Current assets	**75**	**(9,922)**	**(9,847)**
TOTAL ASSETS	**1,565**	**11,056**	**12,621**
Equity attributable to the owners of the parent	**(39)**	**39**	**(0)**
Employee benefits	–	–	–
Deferred tax liabilities	–	–	–
Provisions for risks and charges - non current portion	–	–	–
Non-current financial liabilities*	–	11,934	11,934
Other non-current liabilities	–	–	–
Non-current liabilities	**–**	**11,934**	**11,934**
Provisions for risks and charges - current portion	–	–	–
Trade payables	–	–	–
Current financial liabilities*	1,601	(917)	684
Other current liabilities	3	–	3
Current liabilities	**1,604**	**(917)**	**687**
TOTAL EQUITY AND LIABILITIES	**1,565**	**11,056**	**12,621**
***Impact on Net Financial Position**	**(1,589)**	**(20,939)**	**(22,528)**
Cash and cash equivalents used			9,922
Deferred payments			11,934
Repayment of acquired company loans			(917)
Acquisition price			20,939
Fair value of net assets acquired			(20,939)
Goodwill			**–**

3 Current values were identified as the value in use calculated with the discounted cash flow method.

The **Acquisition figures** column shows the opening balances determined on the basis of the accounting records at the date of first consolidation (30 September 2018) of the acquirees:

- intangible assets: development costs of the farm;
- current financial liabilities: these refer to payables to the previous shareholder;

In the **Provisional adjustments to the acquisition figures** column:

- intangible assets: capital gain allocated upon recognition of the acquisition; this capital gain was allocated to the concessions and is determined using valuation methodologies that are based on discounting the operating cash flows that are expected over the duration of the concessions;
- cash and cash equivalents: amount paid for acquisition
- non-current financial liabilities include the deferred component for the acquisition, amounting to EUR 11.9 million.
- deferred tax liabilities related to the allocations referred to above.
- current financial liabilities: referred to the repayment of outstanding loans at the date of the acquisition of control of the target company.

Creag Riabhach Contribution in 2018

In the period between the date of first consolidation (30 September 2018) and the reporting date of this Annual Financial Report, the acquiree did not provide a significant contribution to the Group's income statement, as the wind farm was under construction.

SALE OF BROCKAGHBOY

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

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

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

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

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

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

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

Brockaghboy Windfarm Ltd. contribution in 2018

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

IFRS 12

The new IFRS 12 "Disclosure of Interests in Other Entities" includes all disclosure provisions previously included in IAS 27 pertaining to consolidated financial statements, as well as all disclosure requirements of IAS 31 and of IAS 28 pertaining to the investments of an entity in subsidiaries, joint ventures, associates and structured entities and it also provides new disclosure cases.

The objective of the standard is to require an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

Measurements and significant assumptions

The companies designated as subsidiaries in the section **List of Group companies** are entities in which the ERG Group has the majority of the votes that can be cast and exercises a dominant influence in the ordinary shareholders' meeting.

The companies designated as jointly controlled subsidiaries in the paragraph List of group companies are entities over whose activity the Group has joint control as defined in IAS 28 - Investments in Associates and Joint Ventures.

The companies designated as associates in the paragraph List of Group companies are entities over whose activity the Group has joint control as defined in IAS 28 - Investments in Associates and Joint Ventures.

Investments in subsidiaries

For information about the Group's composition, please refer to the **Consolidation scope**.

With regard to the nature and extent of restrictions to the Group's capability to access or use assets and to settle liabilities, please refer to **Note 19 - Covenants and negative pledges**.

The consequences of the changes in the investments in subsidiaries that took place in 2018 are described in the section **Changes in the consolidation scope**.

With regard to provisions that can limit the distribution of dividends or other distributions of capital, the project financing agreements provide that the distribution of the available portions of equity to the shareholders is subject to compliance with the conditions prescribed by such agreements, which impose the attainment of determined financial coverage ratios and the absence of default situations. Details of the constraints and of the carrying amounts of the assets and liabilities to which such restrictions apply by individual company are given in **Note 19 - Covenants and negative pledges**.

Investments in associates

For the purposes of the disclosure of the nature, extent and financial effects of the Group's interests in associates, please refer to the **List of Group companies section**.

Summary of the main income statement and financial data

(EUR thousand)	Priolo Servizi 31/12/2018	Priolo Servizi 31/12/2017
Property, plant and equipment	70,897	74,291
Intangible assets and Goodwill	–	5
Equity investments and Other non-current financial assets	37	38
Non-current assets	**70,934**	**74,335**
Inventories	1,539	1,350
Trade receivables	9,164	5,182
Trade payables	13,811	10,196
Excise duties payable to tax authorities	–	–
Net working capital	**3,109**	**3,664**
Post-employment benefits	366	457
Other assets	2,207	1,859
Other liabilities	2,646	2,284
Net invested capital	**67,020**	**69,789**
Equity	54,621	54,069
Financial indebtedness	12,399	15,720
Equity and financial debt	**67,020**	**69,789**

	2018	2017
Revenue	51,842	23,864
Other income	3,810	1,442
Purchases	(1,582)	(552)
- Change in inventories	188	–
Services and other operating costs	(35,544)	(15,348)
Personnel expense	(8,845)	(4,435)
Gross Operating Income (EBITDA)	**9,869**	**4,972**
Amortisation, depreciation and impairment of non-current assets	(8,116)	(3,908)
Net Operating Income (EBIT)	**1,754**	**1,064**
Net financial income	(406)	(304)
Gains (losses) on equity investments	–	–
Profit before taxes	**1,348**	**760**
Income taxes	(743)	(467)
Profit	**605**	**293**

Reconciliation with the carrying amount of the equity investment

(EUR thousand)	Priolo Servizi 31/12/2018	Priolo Servizi 31/12/2017
ERG Group investment	24%	24%
Equity attributable to the owners of the parent	12,918	12,787
Other adjustments	–	–
Carrying amount of the equity investment	**12,918**	**12,787**

IMPAIRMENT TEST

This section provides a description of the impairment tests on the Group's main assets, as required by IAS 36.

In particular, it is specified that for the test:

- of the Goodwill, a test was conducted on the recoverable amount determined at the Group of CGU level Groups, as commented on in more detail in the previous pages, and identified in the value in use calculated on the estimated cash flows over the useful life of the assets allocated to the aforesaid Groups;
- of property, plant and equipment and intangible assets, with finite useful lives allocated to individual CGU, in accordance with IAS 36, indicators were identified that can provide evidence that an asset may have undergone an impairment. If the comprehensive analysis of the indicators shows that there was a potential impairment loss for a CGU, then the related recoverable amount is determined.

With regard to equity investments, which by their nature have indefinite useful lives, their specific features were taken into account; please therefore refer to the respective paragraphs for an explanation of the approach used.

The above tests were carried out in accordance with the Impairment Test Procedure approved by the Board of Directors of ERG S.p.A. on 20 February 2019.

Test of Goodwill

In consideration of the goodwill values recognised in the consolidated financial statements, for the present Financial Statements its recoverable value was tested at the Groups of CGU level.

According to IAS 36, the recoverable amount of an asset or of a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Goodwill values were allocated to the Wind Italy and Wind France CGU Groups, as better commented in the following section.

Identification of groups of cash flow generating units (CGU)

Following the thorough process of transformation of the organisational structure of the Group completed in 2017 (One Company) and the acquisitions completed in 2018 in the solar power field in Italy and in wind power in France, the operating segments currently identified by the Group, which coincide with the fourth different technologies used for energy generation, are listed below:

- Wind;
- Solar;
- Hydroelectric;
- Thermoelectric.

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

Starting from the 2018 Financial Statements, in light of the previously commented changes to the organisation and scope of consolidation, the management decided to reassess the allocation of the Goodwill in particular with reference to the provisions of point a) of paragraph 80 of IAS 36.

More specifically, in the aforementioned paragraph , the IAS specifies that goodwill has at be allocated at the lowest level at which goodwill is monitored for internal management purposes and in the case of ERG the lowest level at which goodwill is monitored coincides with the group of CGUs whose profitability is measured.

In particular, also taking into account the indications of Paragraph 87 of IAS 36, the management reconsidered the allocation of the Goodwill to CGU Groups of CGU consistent with the purposes of the integrated reporting of the Group, i.e. according to the technology/Country matrix, for a total number of 10 groups of CGUs, as illustrated below.

	Wind	Solar	Hydro	Thermo
Italy	✔	✔	✔	✔
France	✔			
Germany	✔			
Poland	✔			
Romania	✔			
Bulgaria	✔			
UK	✔			

The Groups of CGU were then identified, consistently with the Group's organisational and business structure, as assets that generate independent cash inflows deriving from their continuous use and they follow a dual dimension pertaining, on one hand, to generating technology and, on the other hand, to the current reference market, identified in the country where the facilities are located.

In previous years, Goodwill was allocated to the individual CGUs represented by the legal entities or by the business combinations that generated it.

The following table shows the details of the goodwill generated in the previous years and in 2018 and the comparison between the previous allocation and the one applied starting from the present consolidated financial statements.

Business combination	Year	Sector / technology	Country	Goodwill (EUR million)	CGU Allocation in the previous financial statements	Groups of CGU Allocation from the 2018 Financial Statements
ERG Eolica Adriatica	2010	Wind	Italy	8	Legal entity ERG Eolica Adriatica	Wind Italy (EUR 126 million)
ERG Eolica Campania	2011	Wind	Italy	11	Legal entity ERG Eolica Campania	
ERG Wind	2013	Wind	Italy	96	Business Combination "ERG Wind"	
ERG Renew Operations & Maintenance	2013	Wind	Italy	10	Wind farms in Italy	
Epuron	2018	Wind	France	22	Not applicable	Wind France (EUR 22 million)

The recoverable value of the Groups of CGU is tested by determining the value in use by discounting operating cash flows on the basis of the following assumption:

- the Groups of CGU coincide with the set of wind farms respectively situated in Italy and in France;
- to determine the value in use, the present value of cash flows from operating activities associated with the Groups of CGU for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated;
- an estimated terminal value was considered as an additional ten-year flow subsequent to the end of the useful life of the assets;
- expected changes in sale prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- a discount rate equal to the industry WACC was used to compute the present value of expected cash flows (5.0% in Italy and 3.5% in France).

  The Group adopted a post-tax discount rate that reflects current market measurements of the time value of money and of the risks specific to the CGUs. In determining the discount rate, the financial parameters considered were the Beta and Debt/Equity ratios derived from panels of comparable companies, in order to consider both the market risk of companies operating in the same industry and a market-based financial structure. With regard, instead, to the cost of equity (ke), this includes the rate of return of risk-free assets and it is identified as the rate of return of German ten-year government bonds.

The main assumptions used to calculate value in use pertain to the growth rate and the expected changes in the sale prices of energy and of direct costs during the period selected for the calculation.

The growth rates used are based on growth forecasts for the Group's industry, taking into account the Group's market share. Changes in sale prices and in direct costs are determined on the basis of past experience and on future market expectations.

In particular, the following were taken into account for the determination of the cash flows:

- the data contained in the Revision of the financial plan entitled "2018-2022 Plan", reviewed by the Board of Directors of ERG S.p.A. on 6 March 2019, excluding the Repowering, Business Development and Merger & Acquisition initiatives as impact scenarios, however favourable,
- for the subsequent years, the data processed on the basis of models simulating the macroeconomic and energy scenario and assuming a steady production trend.

Group Management deems the assumptions used to identify the recoverable amount of the goodwill connected with the Groups of CGU (Wind Italy and Wind France) to be reasonable and, on the basis of the aforementioned assumptions, no impairment has emerged.

In particular, the difference between the recoverable value and the carrying amount of the Groups of CGU amounts to approximately EUR 505 million for Wind Italy and approximately EUR 38 million for Wind France.

The Group also calculated the impairment of goodwill on the basis of the allocation adopted in the previous Financial Statements, i.e. with reference to the individual CGU, and no impairment emerged.

Sensitivity analysis

The result of the impairment test is based on information available to date and reasonable estimates about future changes in the following variables: wind strength, energy price and interest rates.

The Group took into account the aforesaid variables in processing and defining the basic assumptions used to determine the recoverable amount of the carrying amounts allocated to the Wind segment, and it also carried out a sensitivity analysis on the recoverable amount of the Groups of CGU. This analysis assumed that total revenue from energy sales (i.e., energy remuneration and generation) could undergo upward or downward fluctuations of an estimated 5% compared to the values estimated for the Plan.

A 5% reduction in revenue, continuing throughout the plan period, would entail a decrease in the recoverable amount by approximately EUR 96 million for Wind Italy and EUR 29 million for Wind France, which would not require any impairment of the carrying amounts.

Lastly, an increase by 1% in the discount rate would result in a decrease in the recoverable amount of around EUR 88 million for Wind Italy and EUR 32 million for Wind France, without requiring any impairment of the carrying amounts.

The recoverable amount would be equal to the reference carrying amount in the case of a 26% reduction in revenue for Wind Italy and by 6% for Wind France.

Equally, the same effect would occur in case of a WACC increase of 8% for Wind Italy and of 1.2% for Wind France.

The above analyses confirm the sensitivity of the assessments of the recoverability of non-current assets to changes in the aforesaid variables; in this context, the Directors will systematically monitor changes in the aforesaid external, uncontrollable variables in order to make any necessary adjustments to the estimates of the recoverability of the carrying amounts of goodwill in the consolidated financial statements.

Test of (property, plant and equipment and intangible) assets with finite useful lives

For the purposes of the 2018 consolidated Financial Statements, the Group verified whether there are any indications that both Property, plant and equipment and intangible assets with finite useful lives may have become impaired.

For this purpose, it is specified that for the ERG Group:

- Property, plant and equipment are represented by the electricity generation plants of different technologies (wind farms in Italy and abroad, solar plants in Italy, hydroelectric plants in Italy and the CCGT thermoelectric plant located in Sicily);
- intangible assets are mainly represented by the residual value of the higher values[4] allocated in the purchase price allocation and recorded as increases to the value of the authorisations and the concessions for operating plants.

4 Values relating to business combinations from previous years.

In line with the previous years, these values are allocated to the individual reference CGU represented by the individual legal entities and/or business combinations that generated them.

In accordance with IAS 36, a list of indicators that can indicate that an asset may have become impaired ("triggering events):

For this purpose, both internal and external sources of information have been considered.

- concerning the internal sources, the following were examined: (i) the obsolescence or the physical deterioration of the asset, (ii) any significant changes in the use of the assets and (iii) the financial performance of the asset with respect to the forecast.
- concerning the external sources, instead, the following are considered: the performance of the market prices of the assets, any technological, market or regulatory discontinuities and trends in market interest rates,To verify this information, a synthetic indicator was also identified ("profitability Indicator) calculated discounting the sum of the operating cash flows (for the residual observation period, determined on the basis of the same procedures and assumptions already commented in the previous paragraph for Goodwill testing. To include the related tax effects, the indicator is net of notional taxes on EBITDA.

  The indicator thus calculated is compared with that of the previous year in order to verify the potential impairment loss, in accordance with Paragraph 15 of IAS 36.

  Lastly, the Group verifies that the carrying amount of the net assets of the Group is no higher than stock market capitalisation.

If the comprehensive analysis of the indicators shows that both tangible and intangible assets with finite useful lives may have become impaired, the recoverable amountwill be determined and compared with the carrying amount.

The recoverable value for the individual CGUs is calculated as the value in use with the same procedures and assumptions already commented in the previous section for Goodwill testing.

If this value is lower, the carrying amount of the assets is reduced to the related recoverable value with the exception of the cases in which fair value net of cost to sell was higher.

Group management deems the assumptions used to identify and verify the indicators to be reasonable and, on the basis of the aforementioned assumptions, no need to determine the recoverable value has emerged.

Recoverable amount of Groups of CGU

Lastly, although it is not expressly required by IAS 36, the Group Management determines on an annual basis the recoverable value, i.e. the value in use, of the Groups of CGU to which no goodwill is allocated, comparing it with the related carrying amount. No impairment emerged as a result of this test.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

NOTE 1 - INTANGIBLE ASSETS

	Concessions	Other intangible assets	Assets in progress	Total
Historical cost	821,984	54,941	1,402	878,327
Amortisation and impairment losses	(194,275)	(49,483)	–	(243,758)
BALANCE AT 31/12/2017	**627,709**	**5,458**	**1,402**	**634,569**
Assets held for sale	**–**	**–**	**–**	**–**
Changes for the year:				
Change in the consolidation scope	181,592	1,089	7,697	**190,378**
Capital expenditure	4,006	2,811	728	**7,546**
Capitalisations and reclassifications from/to intangible assets	3,586	2,821	(4,761)	**1,645**
Reclassifications from other items	–	–	5,770	**5,770**
Disposals and divestments	–	–	–	**–**
Amortisation	(51,931)	(3,764)	–	**(55,695)**
Impairment	–	–	–	**–**
Other changes	(189)	(1,500)	(12)	**(1,701)**
Historical cost	1,012,171	59,613	10,823	1,082,608
Amortisation and impairment losses	(247,398)	(52,699)	–	(300,097)
BALANCE AT 31/12/2018	**764,773**	**6,914**	**10,823**	**782,511**

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

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

Other intangible assets are comprised of software licences.

Assets in progress relate mainly to development costs capitalised on projects under construction.

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

The **capital expenditure** refers mainly to capitalised costs relating to the construction of the German wind farm Windpark Linda and to licences and software. For a more detailed analysis, please refer to the **Capital expenditure** chapter in the **Directors' Report**.

NOTE 2 - GOODWILL

"Goodwill", equal to EUR 148,269 thousand (EUR 125,932 thousand at 31 December 2017), represents the excess acquisition cost of acquired companies over the carrying amount of their equity, measured at fair value at the acquisition date in accordance with the acquisition-price allocation method prescribed by IFRS 3.

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

The goodwill acquired through business combinations was allocated to the following two Groups of CGU, as is better described in the Accounting Standards and Policies:

- Wind Italy: EUR 126 million;
- Wind France: EUR 22 million.

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

For the purposes of these financial statements, the test required by Paragraph 12 of IAS 36 was performed and no elements emerged that required an adjustment to the carrying amount of goodwill.

For additional details, reference is made to the **Impairment test section**.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Other assets	Assets under construction	Total
Historical cost	238,210	4,041,428	25,320	28,879	**4,333,837**
Depreciation and impairment losses	(117,181)	(2,017,243)	(17,553)	–	**(2,151,977)**
BALANCE AT 31/12/2017	**121,029**	**2,024,185**	**7,767**	**28,879**	**2,181,860**
Assets held for sale	**–**	**–**	**–**	**–**	**–**
Changes for the year:					
Change in the consolidation scope	4,904	252,920	117	16,307	**274,247**
Capital expenditure	1,081	17,371	1,600	32,650	**52,702**
Capitalisations and reclassifications from/to property, plant and equipment	9,567	21,182	343	(32,737)	**(1,645)**
Disposals and divestments	–	–	–	–	**–**
Depreciation	(7,861)	(208,974)	(1,538)	–	**(218,373)**
Impairment	–	–	-	–	**–**
Other changes	(753)	27	(0)	250	**(476)**
Historical cost	253,962	4,394,047	26,723	45,348	**4,720,081**
Depreciation and impairment losses	(125,996)	(2,287,335)	(18,434)	–	**(2,431,765)**
BALANCE AT 31/12/2018	**127,966**	**2,106,713**	**8,289**	**45,348**	**2,288,316**

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

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

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

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

EUR 243 thousand of interest in relation to the ongoing construction of the wind farms in Germany (Windpark Linda GmbH & Co KG), United Kingdom (Creag Riabhach Wind Farm Ltd.) and Evishagaran Windfarm Ltd.

With regard to the existence of restrictions on the assets held by the Group, please refer to **Note 19 - Covenants and negative pledges**.

NOTE 4 – EQUITY INVESTMENTS

	Equity investments				
	Subsidiaries not consolidated line by line	Joint ventures	Associates	Other companies	Total
BALANCE AT 31/12/2017	**7,658**	**236**	**12,787**	**491**	**21,173**
Assets held for sale	**–**	**–**	**–**	**–**	**–**
Changes for the year:					
Acquisitions/capital increases/ increases	30	–	–	–	**30**
Consolidation method change	(7,310)	–	–	–	**(7,310)**
Reclassifications	–	–	–	–	**–**
Impairment losses/utilisation of loss provisions	–	–	–	–	**–**
Disposals and divestments	–	–	–	(26)	**(26)**
Measurement of company with equity method	–	–	131	–	**131**
BALANCE AT 31/12/2018	**378**	**236**	**12,918**	**465**	**14,000**

Acquisitions refer to the French companies Parc Eolien de Saint-Loup sur Cher S.ar.l., Parc Eolien du Puits Gergil S.ar.l., Parc Eolien du Plateau de la Perche S.ar.l., Parc Eolien des Boules S.ar.l. established on 31 December 2018.

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

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

Disposals and divestments refer to the equity investment in Emittenti Titoli S.p.A.

The investments held at 31 December 2018 are summarised as follows:

	Measured at Equity	Measured at cost	Total
Equity investments:			
- in subsidiaries not consolidated line by line	–	379	**379**
- in joint ventures	–	236	**236**
- in associates	12,918	–	**12,918**
- in other companies	–	465	**465**
Total	**12,918**	**1,080**	**14,000**

NOTE 5 - OTHER NON-CURRENT FINANCIAL ASSETS

"Other non-current financial assets", equal to EUR 76,604 thousand (EUR 40,369 thousand at 31 December 2017), comprise mainly:

- grants due pursuant to Law 488/92 pertaining to wind farms acquired as part of the ERG Wind transaction, which are tied-up in the dedicated Escrow Account established by Article 61, paragraph 23, of Italian Law Decree no. 112/2008 (converted by Law no. 133/2008) and awaiting the decision of the Court of Avellino, amounting to EUR 32 million. Pending the ruling, the Ministry of Economic Development revoked the contributions pursuant to Law no. 488/92 which had been assigned to the beneficiary companies, with decrees notified respectively on 29 October and 3 November 2014. An extraordinary appeal was promptly filed against the cancellation decrees, with an application for prudential suspension of the effectiveness of the challenged measures; currently, a decision is pending on both the suspension application and on the merits of the appeal. Pending this appeal, on 27 July 2015, the payment orders were served to the companies which the ERG Wind companies have appealed before the Court of Genoa, submitting a further application for precautionary suspension. The appeal was accepted, therefore suspending the effectiveness of the payment orders, subject to submission of appropriate bank sureties by the appellants. With respect to the aforesaid receivables, a liability of an equal amount has been allocated and it was recognised in the 2013 consolidated financial statements as part of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (**Note 14 - Other non-current liabilities**);
- the recognition in 2018 of the receivable (EUR 36 million) due from api corresponding to the deferred portion of the sale amount of the assets regulated by a vendor loan agreement as part of the **TotalErg** transaction commented above.

NOTE 6 - TAXATION

Deferred tax assets

	31/12/2018		31/12/2017	
(EUR thousand)	**Temporary differences**	**Tax effect**	**Temporary differences**	**Tax effect**
Provisions for risks and charges	111,521	28,777	121,483	32,063
Tax losses	72,254	16,557	74,656	18,614
Derivative Instruments	113,996	29,038	106,750	26,341
Amortisation, Depreciation and Impairment of non-current assets	106,515	24,513	140,948	27,003
Other Write-downs	14,816	3,714	14,550	3,504
Other	150,955	25,428	132,001	25,336
Total	**570,056**	**128,028**	**590,387**	**132,861**

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

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

The rates for foreign companies consolidated line by line are as follows:

- France 25% - 28%;
- Germany 29%;
- UK 17% -19%;
- Romania 16%;
- Poland 19%;
- Bulgaria 10%.

Deferred tax assets amounting to 128,028 thousand Euro (EUR 132,861 thousand at 31 December 2017), are mainly recognised in view of derivative instruments and allocations to provisions for risks and charges.

In addition, it is pointed out that:

- deferred tax assets amounting to EUR 3.4 million relating to non-deductible interest expense pertaining to the solar business were recorded in the financial statements;
- deferred tax assets relating to excess interest expense that can be carried forward, amounting to approximately EUR 37.8 million, referred to the ERG Wind Group, acquired in 2013, were not recognised in the financial statements. In 2018 the amount of the tax benefit not recognised previously and used to reduce the tax charge for the period amounts to EUR 3 million.

  The reasons for not recognising these deferred tax assets are connected with the expiries of the tax consolidation options of the ERG Wind Group, the absence of a related specific tax plan and the liability management expectations that could determine a change to the financial structure in 2019.

The Group deems it likely that the deferred tax assets recognised at 31 December 2018 will be recovered.

Deferred tax liabilities

	31/12/2018		31/12/2017	
(EUR thousand)	Temporary differences	Tax effect	Temporary differences	Tax effect
Purchase Price Allocation	822,136	249,900	715,000	223,043
Amortisation and Depreciation of Non-Current Assets	121,619	26,380	112,316	27,632
IFRS 9 tax effects	6,021	1,445	–	–
Other	147,112	10,912	357,270	14,582
Total	**1,096,888**	**288,637**	**1,184,586**	**265,257**

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

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

Deferred tax liabilities at 31 December 2018 of EUR 288,637 thousand (EUR 265,257 thousand at 31 December 2017), were allocated mainly on the capital gains from the business combinations and fiscally-driven depreciation and amortisation.

NOTE 7 - OTHER NON-CURRENT ASSETS

Other non-current assets, equal to EUR 42,890 thousand (EUR 47,308 thousand at 31 December 2017) relate mainly to:

- the portion still to be collected, i.e. EUR 22 million, of the receivables for grants per Italian Law 488/92 relating to wind farms acquired with the ERG Wind transaction. With respect to the aforesaid receivables, a liability of an equal amount has been allocated and it was recognised in the 2013 consolidated financial statements as part of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (**Note 14 - Other non-current liabilities**);
- amounts of EUR 10 million due as compensation for the liability tied to interest and revaluations on the contributions under Italian Law 488/1992 relating to wind farms acquired with the ERG Wind transaction and revoked by the Ministry of Economic Development as discussed more thoroughly in **Note 13 - Other Provisions**.
- tax receivables amounting to EUR 4.9 million.

NOTE 8 - INVENTORIES

Inventories, equal to EUR 21,623 thousand (EUR 20,597 thousand at 31 December 2017) relating mainly to spare parts which are used mainly in the ordinary maintenance of wind farm installations and the CCGT plant, are recognised net of the related accumulated write-downs of EUR 3,173 thousand and they are recognised at the lower amount between the cost determined with the weighted average cost method and the net realisable value (replacement cost and/or estimated realisable value).

NOTE 9 - TRADE RECEIVABLES

Receivables can be summarised as follows:

	31/12/2018	31/12/2017
Receivables from customers	123,989	144,350
Receivables for incentives	131,560	115,646
Receivables from Group companies that are not consolidated line by line	3,105	2,631
Loss allowance	(7,654)	(7,093)
Total	**251,001**	**255,534**

The item mainly includes receivables for the supply of electricity to third parties, sale of utilities to customers operating at the Priolo site and environmental certificates (feed-in tariff, green certificates and white certificates). Receivables from customers include receivables for green certificates in Romania for EUR 16 million that are not expected to be collected within the 12 months following the end of the year. The value of trade receivables is substantially in line with the previous year. For information concerning trade receivables to Group companies not consolidated line-by-line, reference is made to **Note 33 - Related parties**.

The Accumulated impairment loss changed as follows:

	31/12/2018	Increases	Decreases	IFRS 9 Adoption	31/12/2017
Accumulated impairment loss	(7,654)	(24)	338	(875)	(7,093)
Total	**(7,654)**	**(24)**	**338**	**(875)**	**(7,093)**

The Group assesses the existence of objective evidence of impairment on individual basis. The impairment tests are checked at individual company level by the Credit Committee which meets periodically to analyse the situation of past due trade receivables and any critical issues related to their collection.

The **increases** refer in particular to allocations on doubtful trade receivables relating to the wind business.

The **decreases** relate mainly to utilisations pertaining to the thermoelectric business.

The Accumulated impairment loss is deemed to be sufficient to address the risk of potential non-collectability of past due trade receivables.

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

The analysis of the trade receivables existing at year end follows.

The accounts receivable aging is presented net of the related accumulated impairment loss.

	31/12/2018	31/12/2017
Receivables not past due	**237,852**	**240,459**
Receivables past due:		
within 30 days	3,030	9,383
within 60 days	3,234	1,569
within 90 days	249	480
after 90 days	6,635	3,643
Total	**251,001**	**255,534**

NOTE 10 - OTHER CURRENT ASSETS

	31/12/2018	31/12/2017
Tax receivables	83,726	61,611
Prepaid expenses	27,982	27,475
Other receivables	9,077	6,892
Total	**120,785**	**97,573**

Tax receivables relate to VAT and withholding tax receivables and other income tax receivables.

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

The prepaid expenses liabilities relate to costs that will manifest themselves in following years pertaining mainly to insurance premiums, state concession fees, purchase of CO_2 and utilities.

Other receivables include amounts due as compensation for the liability tied to interest and revaluations on the contributions under Italian Law 488/1992 relating to wind farms acquired with the ERG Wind transaction and revoked by the Ministry of Economic Development as discussed more thoroughly in **Note 13 Other provisions**.

NOTE 11 - EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT

Share capital

Fully paid-in share capital at 31 December 2018 consisted of 150,320,000 shares with a par value of EUR 0.10 each for a total of EUR 15,032,000 (unchanged since 31 December 2017).

At 31 December 2018, the Company's Shareholders Register, relative to holders of significant investments, showed the following:

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

At 31 December 2018, San Quirico S.p.A. and Polcevera S.r.l. were controlled by the Garrone and Mondini families, heirs of the founder of the ERG Group, Edoardo Garrone.

Treasury shares

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

On 23 April 2018, pursuant to Article 2357 of the Italian Civil Code, the Shareholders of ERG S.p.A. authorised the Board of Directors to purchase treasury shares for a period of 12 months from 23 April 2018, up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 30,064,000 (thirty million, sixty-four thousand) ordinary ERG shares with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.

The Shareholders also authorised the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, for 12 months as from 23 April 2018, to sell, all at once or in several steps, and with any procedures deemed appropriate, in relation to the purposes which the disposal is attempting to achieve, treasury shares at a unit price no lower than 10% below the closing price of the stock on the day immediately preceding each individual sale.

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

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

Other Reserves

The composition of equity is shown in the following table:

	31/12/2018	31/12/2017
Share capital	15,032	15,032
Share premium reserve	64,207	64,207
Revaluation reserves	66,946	66,946
Legal reserve	3,236	3,236
Merger reserve	251,120	251,120
Retained earnings	765,426	914,869
Other Reserves	530,238	355,242
Profit for the year	132,628	206,814
Equity attributable to the owners of the parent	**1,828,832**	**1,877,466**
Non-controlling interests	–	–
Equity	**1,828,832**	**1,877,466**

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

Dividends

The dividends paid by ERG S.p.A. in 2018 (EUR 171.1 million) and in 2017 (EUR 74.4 million), as resolved upon approval of the financial statements for the previous years, amounted respectively to EUR 1.15 (of which EUR 0.40 is the non-recurring component) and EUR 0.50 for each of the shares with dividend rights as of the coupon date.

On 6 March 2019, the Board of Directors proposed the payment to shareholders of a dividend of EUR 0.75 per share. The dividend will be paid starting from 22 May 2019, with coupon date starting on 20 May 2019 and record date on 21 May 2019.

Capital Management

The objectives identified by the Group for capital management are to safeguard corporate viability, to create stakeholder value and to support Group development. In particular, the Group pursues the maintenance of an adequate level of capitalisation that allows to produce a satisfactory economic return for shareholder and to assure access to external financing sources, also through the achievement of an adequate rating.

In this context, the Group manages its own capital structure and makes adjustments to it, if changes in the economic conditions require it. There were no substantial changes to the objectives, to the policies or to the processes in 2018. For this purpose, the Group constantly monitors the evolution of the debt to equity ratio, whose data are indicated in **Note 36 - Alternative performance indicators**.

NOTE 12 - EMPLOYEE BENEFITS

The item, amounting to EUR 5,820 thousand (EUR 6,403 thousand at 31 December 2017), includes the estimated liability relating to the benefits payable to employees when they terminate their employment.

The main assumptions used in determining the actuarial value of the liability relating to post-employment benefits and their changes during the year are shown below. The discounting rate was determined on the basis of a panel of corporate securities with maturity of 10 years or more with AAA rating.

Discount rate	1.6%
Inflation rate	1.5%
Average turnover rate	3.0%
Average rate of increase of remuneration	1.5%
Average age	45

	31/12/2018	31/12/2017
OPENING BALANCE	**6,403**	**6,733**
Change in the consolidation scope	0	0
Revaluation for the year	176	187
Decreases in the year	(758)	(517)
CLOSING BALANCE	**5,820**	**6,403**

The decreases are due to departures of employees and advances to personnel.

The following table shows the impact on the liability as a result of a +/-0.5% change in the discounting rate:

	2018
+0.5% change in discounting rate: lower liability	(256)
-0.5% change in discounting rate: higher liability	280

There are no particular risks (either unforeseen or specific) to which the plan exposes the entity, or any other significant risk concentration.

There are no significant contributions to the Plan because they relate almost exclusively to the revaluation of the residual value of the post-employment benefits allocated until 31 December 2006 (the defined benefit plans relate almost exclusively to the post-employment benefits provided by Article 2120 of the Italian Civil Code).

NOTE 13 - PROVISION FOR RISKS AND CHARGES

Provisions for risks and charges - non current portions

	31/12/2018	Increases	Decreases	Reclassi-fications	Change in the consolidation scope	31/12/2017
Decomissioning Provision	42,244	1,947	–	–	3,843	36,454
Priolo Site Provision			(1,061)	(79,822)		80,883
Provision for disposed businesses	89,161	–	–	89,161	–	-
Provisions for non-current tax risks	12,026	–	(3,166)	–	5,150	10,042
Provisions for non-current institutional risks	325	62	–	–	–	263
Other provisions for non-current risks and charges	139	9,930	(2,378)	(7,572)	–	159
Total	**143,894**	**11,939**	**(6,605)**	**1,767**	**8,993**	**127,801**

Other non-current provisions, amounting to EUR 143,894 thousand (EUR 127,801 thousand at 31 December 2017) comprise mainly liabilities tied to:

- costs for the restoration of the site on which the wind farms operate for the larger number of assets recognised as property, plant and equipment;
- the provision of the disposed Businesses for which please refer to **Note 20 - Contingent liabilities and disputes**.

The **increases** of the year refer mainly to contingent liabilities tied to risks connected with guarantees provided within sales of equity investments and, residually, to the financial revaluation of the costs for the restoration of wind farms and solar plants.

With reference to the provisions for dismantlement costs, the increase refers mainly to the reversal of the discounting effect. The discounting rates used, according to the reference Countries, are within the range 1%-3.5%.

For the other provisions, no discounting was applied because of the uncertainty on utilisation times.

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

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

Other current provisions for risks and charges - current portion

	31/12/2018	Increases	Decreases	Reclassi-fications	Change in the consolidation scope	31/12/2017
Provision to cover losses of investee companies	6,627	739	(124)	–	–	6,011
Provisions for current tax risks	5,810	1,664	(2,245)	–	–	6,392
Provisions for current institutional risks	24,329	113	–	–	–	24,216
Provision for current legal risks	4,732	1,731	(7,229)	(1,026)	–	11,256
Other provisions for current risks and charges	4,081	1,150	(1,846)	(741)	150	5,368
Total	**45,580**	**5,397**	**(11,444)**	**(1,767)**	**150**	**53,242**

Provisions for current risks and charges amounted, at 31 December 2018, to EUR 45,580 thousand (EUR 53,242 thousand at 31 December 2017) and are composed as follows.

The "**Provision for charges for coverage of investees' losses**" relates to the subsidiary ERG Petroleos, not fully consolidated, no longer operational, which is being wound up.

The **provision for current institutional risks** includes:

- the provision for charges tied to interest and revaluations on the contributions under Italian Law no. 488/1992 (EUR 15.2 million), relating to wind farms acquired with the ERG Wind transaction and revoked by the Ministry of Economic Development as discussed more thoroughly in Note 5. To the risks connected to the revocation of the aforementioned contributions are covered in the ERG Wind acquisition agreements by specific indemnification obligations issued by the seller and therefore the relative amount receivable has been recognised in "Other current assets";
- the provision for contingent risks of foreign companies (EUR 9 million) refers to contingent risk concerning Romania.

The **increases** relate mainly to:

- charges to cover losses of investee companies (EUR 0.7 million);
- tax litigation (EUR 1.7 million);
- charges related to the outcome of projects connected with the wind business (EUR 1.1 million);
- items relating to investees in the wind business (EUR 0.5 million);
- items relating to the ERG80 event (EUR 1 million).

The **decreases** relate mainly to:

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

For the other current provisions, discounting was not applied by virtue of their classification as current liabilities.

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

NOTE 14 - OTHER NON-CURRENT LIABILITIES

	31/12/2018	31/12/2017
Price of Wind Group acquisition	9,821	9,821
Payables for prior year taxes from merger of foreign companies	18,594	18,594
Portions of income deferred in subsequent years	1,971	2,141
Payables to employees	–	2,134
Other minor items	4,030	8,260
Total	**34,417**	**40,950**

NOTE 15 - TRADE PAYABLES

	31/12/2018	31/12/2017
Payables to suppliers	92,258	126,716
Payables to Group companies not consolidated line by line	36	80
Total	**92,294**	**126,796**

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

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

NOTE 16 - NET FINANCIAL POSITION

	31/12/2018	31/12/2017
Non-current loans / borrowings	795,670	669,558
- current portion of loans and borrowings	(163,618)	(58,625)
Non-current Project Financing	1,177,550	1,114,706
- Current portion of Project Financing	(146,164)	(143,815)
Non-current bond	100,559	100,462
- current portion of Bond	(897)	(997)
Fair value of hedging derivatives on interest rates	88,225	106,428
Non-current financial liabilities for the purchase of equity investments	16,884	–
Non-current financial liabilities	**1,868,211**	**1,788,714**
NET NON-CURRENT FINANCIAL POSITION	**1,868,211**	**1,788,714**
Current loans / borrowings	163,618	58,625
Current Project Financing	146,164	143,815
Current bond	897	997
Short-term banking liabilities	20,074	81,962
Other current financial liabilities	3,973	2,253
Current financial liabilities	**334,726**	**287,651**
Financial receivables from investees	(8,490)	(8,613)
Other current financial receivables	(41,200)	(20,793)
Current financial assets	**(49,690)**	**(29,407)**
Bank deposits	(611,389)	(675,200)
Cash in hand and cash equivalent	(7)	(4)
Bank deposits related to Project Financing	(162,797)	(137,789)
Cash and cash equivalents	**(774,193)**	**(812,992)**
NET NON-CURRENT FINANCIAL POSITION	**(489,158)**	**(554,748)**
NET FINANCIAL POSITION	**1,379,053**	**1,233,966**

Net financial indebtedness totalled EUR 1,379 million, up by EUR 145 million compared to 31 December 2017 mainly due to the following impacts and the cash flow during the period net of the investments and changes in operating capital:

- EUR +450 million overall impact of the transactions described in the section **Change in the consolidation scope**;
- EUR -106 million overall impact of the sale of Brockaghboy Windfarm Ltd. mentioned in the section **Change in the consolidation scope**;
- EUR -144 million from the sale of TotalErg;
- EUR +171 million distribution of dividends to Shareholders;
- EUR -269 million collections of incentives (Italy feed-in premium);
- EUR -18 million change in fair value of derivatives on interest rates.

Net non-current financial position

For a comparison between the carrying amounts and the related fair value, please refer **Note 37 - Financial Instruments**.

Non-current loans and borrowings

Loans and borrowings at 31 December 2018 total EUR 795.7 million (EUR 669.6 million at 31 December 2017) and refer to:

- a corporate acquisition loan of EUR **291** million, agreed with a syndicate of seven mandated Italian and foreign lead arrangers and bookrunners for the acquisition of the entire hydroelectric business belonging to E.ON Produzione, now ERG Hydro S.r.l.;
- three bilateral corporate loans with Mediobanca S.p.A. (EUR **150** million) and UBI Banca S.p.A. (EUR **100** million) entered into in the first half of 2016 to refinance the current portion of the corporate acquisition loan entered into for the acquisition of ERG Hydro S.r.l., and with UniCredit S.p.A. (EUR **75** million) for the project financing for the wind farm in Corni (Romania);
- a corporate loan with Mediocredito (EUR **66** million) for the early termination of leasing contracts of 5 solar companies acquired at the beginning of the year;
- an Environmental, Social and Governance loan ("ESG Loan") of EUR **120** million with Banca Nazionale del Lavoro to support the investment plan of the group and to refinance some corporate credit facilities.

The loans are presented net of commissions and other borrowings costs and of the effect of the renegotiation of the loans (EUR 4 million at 31 December 2018) in accordance with IFRS 9 referred to the positive income component generated within non-substantial changes to financial liabilities, with a total opening amount of EUR 3.9 million at 31 December 2018.

The conditions and repayment plans of non-current loans and borrowings are as follows:

Company	Type	Carrying amount of financial liability	Nominal amount of financial liability	Currency of the loan	Disbursement	Maturity	Hedge
ERG S.p.A.	Bilateral corporate loan	144,366	150,000	EUR	2016	2023	IRS: fixed rate 0.2125%
ERG S.p.A.	Corporate acquisition loan	291,696	291,375	EUR	2015	2019	IRS: fixed rate from 2.65% to 0.29%
ERG S.p.A.	Bilateral corporate loan	100,086	100,000	EUR	2016	2021	IRS: fixed rate -0.045%
ERG S.p.A.	Bilateral corporate loan	74,805	75,000	EUR	2016	2021	IRS: fixed rate -0.092%
ERG S.p.A.	Corporate loan	65,194	65,625	EUR	2018	2026	-
ERG S.p.A.	Environmental, Social and Governance Loan	119,523	120,000	EUR	2018	2023	IRS: fixed rate 0.34%
TOTAL LOANS / BORROWINGS		**795,670**	**802,000**				

Please refer to **Note 19** for a comment on Covenants and negative pledges pertaining to bank payables.

Non-current Project Financing

The following table summarises the main characteristics of the project financing existing at 31 December 2018:

(EUR thousand)			ASSOCIATED FINANCIAL DEBT					
Company	Type	Net carrying amount of asset	Carrying amount of financial liability	Nominal amount of financial liability	Currency of the loan	Disbursement	Maturity	Hedge
ERG Wind Investments	Secured project financing	327,126	406,138	460,007	EUR	2008	2022	IRS: average fixed rate 4.46%
ERG Eolica Adriatica	Secured project financing	110,141	89,555	93,470	EUR	2009	2025	IRS: fixed rate 4.176%
ERG Eolica Fossa del Lupo	Secured project financing	95,761	69,308	71,152	EUR	2017	2027	IRS: fixed rate 2.26%
ERG Eolica Campania	Secured project financing	72,123	22,980	23,152	EUR	2009	2020	IRS: fixed rate 4.37%
ERG Eolica Ginestra	Secured project financing	53,257	25,008	25,807	EUR	2010	2025	IRS: fixed rate 3.27%
ERG Eolica Amaroni	Secured project financing	27,907	19,386	20,101	EUR	2017	2027	IRS: fixed rate 1.68%
Green Vicari	Secured project financing	15,080	3,122	3,390	EUR	2008	2019	Loan with variable rate and in part fixed rate
ERG Eolica Faeto	Secured project financing	9,109	10,636	10,733	EUR	2007	2021	IRS: fixed rate 2.13%
Eoliennes du Vent Solaire	Secured project financing	2,825	2,886	2,886	EUR	2011	2025	fixed rate loan
Parc Eolien les Mardeaux	Secured project financing	1,842	1,296	1,306	EUR	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de Hetomesnil	Secured project financing	1,811	771	777	EUR	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de Lihus	Secured project financing	1,939	536	549	EUR	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de la Bruyere	Secured project financing	1,939	180	187	EUR	2005	2019	IRS: average fixed rate 5.77%
Parc Eolien du Carreau	Secured project financing	1,442	711	717	EUR	2005	2019	Floating rate loan
ERG Eolica Basilicata	Secured project financing	34,139	30,337	31,469	EUR	2017	2027	IRS: fixed rate 1.456%
EW Orneta 2 SP Z.O.O.	Secured project financing	45,225	35,601	36,361	Zloty	2015	2029	IRS: fixed rate 2.47% (wibor)
K & S Energy Eood	Secured project financing	42,722	14,914	15,221	EUR	2012/13	2022	IRS: fixed rate 1.16% IRS: fixed rate 1.56%
ERG Wind France 1	Secured project financing	42,722	21,723	22,407	EUR	2016	2025	IRS: fixed rate -0.065%
ERG Power	Secured project financing	281,131	48,780	49,292	EUR	2010	2021	IRS: fixed rate 2.77%
Parc Eolien du Patis S.a.s.	Secured project financing	6,230	6,231	6,231	EUR	2013	2027	IRS: fixed rate 2.025%
Parc Eolien de Garcelles Sacqueville S.a.s.	Secured project financing	5,191	5,050	5,050	EUR	2007	2023	IRS: fixed rate 3.75%
S.a.s. Societè de exploitation du P.E. de la Souterraine	Secured project financing	5,713	6,181	6,181	EUR	2013	2028	IRS: fixed rate 2.01%
Parc Eolien de Oyre Saint Sauveur S.a.s.	Secured project financing	10,093	9,135	9,135	EUR	2014	2029	Loan for 40% at fixed rate
Parc Eolien St Riquier 1 S.a.s.	Secured project financing	7,242	9,267	9,267	EUR	2009	2027	Fixed rate loan
ERG Wind 117 GmbH & Co. KG	Secured project financing	14,340	11,392	11,604	EUR	2013	2030	Fixed rate loan
Windpark Achmer Vinte GmbH & Co. KG	Secured project financing	1,988	4,103	4,103	EUR	2006	2021	Fixed rate loan
Windpark Cottbuser Halde GmbH & Co. KG	Secured project financing	18,927	17,567	18,577	EUR	2007	2025	Fixed rate loan
Parc Eolien Chaude Vallée S.ar.l.	Secured project financing	9,884	10,685	10,685	EUR	2011	2027	Loan for 85% at fixed rate
Parc Eolien Hauts Moulins S.ar.l.	Secured project financing	10,665	10,710	10,710	EUR	2012	2028	Loan for 86% at fixed rate
Parc Eolien de Morvillers S.ar.l.	Secured project financing	10,716	11,240	11,240	EUR	2012	2027	Fixed rate loan
Parc Eolien Moulins des Champs S.ar.l.	Secured project financing	10,716	10,576	10,576	EUR	2012	2028	Loan for 85% at fixed rate
Parc Eolien de St Riquier 3 S.a.s.	Secured project financing	11,470	12,000	12,000	EUR	2014	2028	Fixed rate loan
Parc Eolien de St Riquier 4 S.a.s.	Secured project financing	9,858	10,214	10,214	EUR	2014	2028	Fixed rate loan
ERG Wind Dobberkau GmbH & Co. KG	Secured project financing	8,436	12,285	13,102	EUR	2014	2025	IRS: fixed rate 0.949%
ERG Wind Hermersberg GmbH & Co. KG	Secured project financing	208	593	593	EUR	2016	2024	Fixed rate loan
ERG Wind Ober Kostenz GmbH & Co. KG	Secured project financing	680	2,205	2,205	EUR	2016	2024	Fixed rate loan
ERG Wind WB GmbH & Co. KG	Secured project financing	4,292	2,674	2,674	EUR	2016	2024	Fixed rate loan
ERG Wind Welchweiler GmbH & Co. KG	Secured project financing	343	953	953	EUR	2016	2024	Fixed rate loan
ERG Wind Weselberg GmbH & Co. KG	Secured project financing	2,612	2,100	2,100	EUR	2016	2024	Fixed rate loan
ERG Solar Holding S.r.l.	Secured project financing	–	162,598	172,130	EUR	2016	2030	IRS: fixed rate 1.48%
ISAB Energy Solare (S.r.l.)	Secured project financing	2,379	2,332	2,332	EUR	2011	2029	IRS: fixed rate 2.81%
Parc Eolien de la valleè de Torfou S.a.r.l.	Secured project financing	19,476	18,980	19,981	EUR	2017	2034	Fixed rate loan
Parc Eolien du Melier S.a.r.l	Secured project financing	9,728	10,805	10,805	EUR	2015	2031	Fixed rate loan
Windpark Linda GmbH & Co. KG	Secured project financing	12,131	23,808	24,000	EUR	2018	2038	Fixed rate loan
TOTAL PROJECT FINANCING			**1,177,550**	**1,255,432**				

For further details on project financing, please see **Note 19 - Covenants and negative pledges**.

At 31 December 2018, the weighted average interest rate on loans, borrowings and project financing was 1.34% (1.48% at 31 December 2017). The rate indicated does not take into account interest rate hedges.

Bond

The item, amounting to EUR 100.6 million at 31 December 2018 (EUR 100.5 million at 31 December 2017) includes the liability deriving from the issue of the non-convertible bond issued in July 2017, aimed at raising additional funds for new capital expenditure in the renewable energies sector and to refinance the capital expenditure made for hydroelectric plants in Italy.

The bond is presented net of commissions and other borrowing costs with an opening amount of EUR 0.5 million. These costs were recognised in the financial expenses of 2018 using the amortised cost method for EUR 0.1 million.

The conditions and repayment plans of the bond are as follows:

Company	Type	Carrying amount of financial liability	Nominal amount of financial liability	Currency of the loan	Disbursement	Maturity	Hedge
ERG S.p.A.	Bond	100,559	100,000	EUR	2017	2023	Fixed rate loan
TOTAL BOND		**100,559**	**100,000**				

The carrying amount of the financial liability includes approximately EUR 1 million of interest accrued in the period.

Fair value of hedging derivatives on interest rates

Other non-current loans and borrowings include liabilities deriving from the fair value measurement of the derivatives hedging interest rates of EUR 88 million (EUR 106 million at 31 December 2017), the details of which are provided below:

	Issuing bank	Agreement	Maturity	Payable for Fair Value	
(EUR thousand)				**31/12/2018**	**31/12/2017**
ERG Wind Investments Ltd.	IntesaSanpaolo	IRS	31/12/22	(29,310)	(37,618)
ERG Wind Investments Ltd.	IntesaSanpaolo	IRS	31/12/22	(21,945)	(28,163)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	15/06/22	(4,438)	(5,870)
ERG Eolica Adriatica S.r.l.	ING	IRS	15/06/22	(4,483)	(5,870)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	15/06/22	(4,438)	(5,870)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	30/06/25	(82)	–
ERG Eolica Adriatica S.r.l.	UBI Banca	IRS	30/06/25	(32)	–
ERG Eolica Adriatica S.r.l.	Unicredit	IRS	30/06/25	(82)	–
ERG Eolica Fossa del Lupo S.r.l.	ING	IRS	31/12/25	(1,678)	(1,968)
ERG Eolica Fossa del Lupo S.r.l.	Crédit Agricole	IRS	31/12/25	(1,443)	(1,692)
ERG Eolica Fossa del Lupo S.r.l.	Centrobanca	IRS	31/12/25	(1,107)	(1,299)
ERG Eolica Fossa del Lupo S.r.l.	Credit Agricole	IRS	31/12/27	(120)	(51)
ERG Eolica Campania S.p.A.	Unicredit	IRS	31/05/20	(350)	(684)
ERG Eolica Ginestra S.r.l.	Unicredit	IRS	30/06/25	(769)	(977)
ERG Eolica Ginestra S.r.l.	Centrobanca	IRS	30/06/25	(769)	(977)
ERG Eolica Ginestra S.r.l.	Unicredit	IRS	30/06/25	(769)	(977)
ERG Eolica Amaroni S.r.l.	ING	IRS	31/12/26	(479)	(518)

	Issuing bank	Agreement	Maturity	Payable for Fair Value	
(EUR thousand)				31/12/2018	31/12/2017
ERG Eolica Amaroni S.r.l.	Credit Agricole	IRS	31/12/26	(479)	(518)
ERG Eolica Amaroni S.r.l.	Credit Agricole	IRS	31/12/27	(9)	(5)
ERG Eolica Faeto S.r.l.	Banco popolare	IRS	31/12/21	(180)	(289)
ERG Eolica Faeto S.r.l.	UniCredit	IRS	31/12/21	(180)	(289)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30/12/19	(16)	(53)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30/12/19	(17)	(55)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30/12/19	(15)	(50)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30/12/19	(16)	(52)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30/12/19	(15)	(51)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30/12/19	(16)	(53)
Parc Eolien de la Bruyere S.a.s.	HSH	IRS	30/12/19	(16)	(54)
Parc Eolien de la Bruyere S.a.s.	HSH	IRS	30/12/19	(17)	(56)
ERG Eolica Basilicata S.r.l.	BNP Paribas BNL	IRS	30/06/31	(710)	(713)
ERG Eolica Basilicata S.r.l.	Credit Agricole	IRS	30/06/31	(710)	(713)
EW Orneta 2 SP Z.O.O. (1)	ING	IRS	31/12/29	(120)	–
EW Orneta 2 SP Z.O.O. (1)	Pekao Bank	IRS	31/12/29	(120)	–
K & S Energy Eood	Raiffeisen Bank	IRS	31/12/18	–	(169)
K & S Energy Eood	Raiffeisen Bank	IRS	31/12/18	–	(43)
ERG Power S.r.L.	BNP Paribas BNL	IRS	31/12/21	(646)	(1,125)
ERG Power S.r.L.	IntesaSanpaolo	IRS	31/12/21	(646)	(1,125)
ERG Power S.r.L.	Credit Agricole	IRS	31/12/21	(518)	(902)
ERG Power S.r.L.	Santander	IRS	31/12/21	(103)	(179)
ERG Power S.r.L.	Centrobanca	IRS	31/12/21	(103)	(179)
ERG Power S.r.L.	ING	IRS	31/12/21	(103)	(179)
ERG S.p.A.	ING	IRS	06/08/20	(263)	(395)
ERG S.p.A.	BNP Paribas BNL	IRS	06/08/20	(256)	(381)
ERG S.p.A.	Unicredit	IRS	06/08/20	(265)	(398)
ERG S.p.A.	Barclays	IRS	06/08/20	(253)	(376)
ERG S.p.A.	IntesaSanpaolo	IRS	06/08/20	(264)	(396)
ERG S.p.A.	Credit Agricole	IRS	06/08/20	(268)	(403)
ERG S.p.A.	Natixis	IRS	06/08/20	(265)	(398)
ERG S.p.A.	UBI Banca	IRS	26/02/21	(284)	(101)
ERG S.p.A.	Mediobanca	IRS	15/03/21	(1,185)	(1,218)
ERG S.p.A.	Mediobanca	IRS	30/06/23	(1,290)	–
ERG S.p.A. (1)	Unicredit	IRS	21/04/21	(199)	–
ERG S.p.A.	CACIB	IRS	19/11/23	(914)	–
ERG S.p.A.	BNL	IRS	19/11/23	(914)	–
Parc Eolien Du Patis S.a.s.	Credit Cooperatif	IRS	02/08/27	(206)	(231)
Parc Eolien Du Patis S.a.s.	Credit Cooperatif	IRS	30/07/27	(209)	(236)
Parc Eolien de Garcelles Secqueville S.a.s.	Nord LB	IRS	30/06/23	(394)	(555)
S.a.s. Societè de exploitation du P.E. de la Souterraine	Credit Cooperatif	IRS	29/12/28	(530)	(580)
Parc Eolien de Oyre Saint Sauveur S.a.s.	Natixis	IRS	01/07/29	(350)	(375)
Parc Eolien St Riquier 1 S.a.s.	Saar	IRS	31/12/24	(205)	(165)
ERG Wind 117 GmbH & Co. KG	Commerzbank	IRS	31/12/29	(328)	(301)
ERG Wind 117 GmbH & Co. KG	Commerzbank	IRS	31/12/30	(111)	(98)
ERG Wind Dobberkau GmbH & Co. KG	Nord LB	IRS	31/12/25	(407)	(429)
ERG Solar Holding S.r.l.	IntesaSanpaolo	IRS	30/06/30	(319)	–
ERG Solar Holding S.r.l.	UBI Banca	IRS	30/06/30	(320)	–
ERG Solar Holding S.r.l.	UniCredit	IRS	30/06/30	(378)	–
ERG Solar Holding S.r.l.	IntesaSanpaolo	IRS	30/06/30	(148)	–
ERG Solar Holding S.r.l.	UBI Banca	IRS	30/06/30	(148)	–
ERG Solar Holding S.r.l.	UniCredit	IRS	30/06/30	(175)	–
ISAB Energy Solare S.r.l.	IntesaSanpaolo	IRS	30/06/29	(319)	–
TOTAL				**(88,225)**	**(106,428)**

(1) the balance at 31 December 2017 of the derivative in question is positive and classified under financial assets

Non-current financial liabilities for the purchase of equity investments

The item includes non current financial liabilities for foreign acquisitions of companies operating in the wind business.

Net short-term financial position

Short-term banking liabilities

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

- at 31 December 2018, short-term borrowings amounted to 14% of total credit lines granted (16% at 31 December 2017);
- the average drawn on the short-term credit lines during the year was 15% of the total amounts granted (12% at 31 December 2017).

These lines are revocable and unsecured.

Other current financial liabilities

The other current financial liabilities refer:

- to foreign acquisitions of companies operating in the wind business (EUR 2 million);
- to the fair value of financial instruments hedging the price of electricity (EUR 1.7 million);
- to the fair value of financial instruments hedging the price of electricity (EUR 0.3 million).

Financial receivables from investees

They refer to the financial receivable from the subsidiary ERG Petroleos S.A., not consolidated line by line.

Other current financial receivables

They mainly include amounts due from ECC - European Commodity Clearing, relating to the margin of futures contracts stipulated (EUR 37 million) as well as accrued financial income on deposit accounts (EUR 3 million).

Cash and cash equivalents

The item consists of cash generated by group activities and transactions for the sale of assets in previous years, deposited on a short-term basis at the banks with which the Group works.

The item includes the balance in the accounts of ERG Power S.r.l. and the wind and solar investees of ERG Power Generation S.p.A. according to the restrictions on use set forth in the relative project financing agreements.

With regard to restricted liquidity, please refer to **Note 19 - Covenants and negative pledges**.

It is not necessary to provide a reconciliation with the cash and cash equivalents presented in the statement of cash flows, because the value is the same.

Reconciliation between Net Financial Position and Net Financial Indebtedness

The table below shows the reconciliation between net financial position and the net financial indebtedness reported in **Directors' Report**:

	31/12/2018	31/12/2017
Net Financial Position continuing operations	**1,379,053**	**1,233,966**
Cash and cash equivalents Brockaghboy Windfarm	–	(1,293)
NET FINANCIAL POSITION	**1,379,053**	**1,232,673**
Receivable from api	(36,054)	–
Net Financial Indebtedness Directors' Report	**1,342,999**	**1,232,673**

NOTE 17 - OTHER CURRENT LIABILITIES

	31/12/2018	31/12/2017
Payables to tax authorities	25,505	32,201
Payables to employees	7,222	11,193
Payables to pension and social security institutions	5,013	6,028
Payables for Tax Consolidation to TotalErg S.p.A.	6,244	5,951
Portions of income deferred in subsequent years	257	50
Advance from api for TotalErg transaction	–	14,232
Payables to Directors	187	5,047
Other current liabilities	11,072	10,106
Total	**55,501**	**84,808**

During 2018, taxes of approximately EUR 20.5 million were paid, net of offsetting, settling 2018 and as an advance for 2019.

NOTE 18 - GUARANTEES, COMMITMENTS AND RISKS AND FUTURE MINIMUM PAYMENTS OF THE OPERATING LEASES

Sureties given (EUR 62,293 thousand)

These are mainly guarantees provided in favour of third parties, guarantees by the direct parent company ERG S.p.A. These are mainly counterparties with which commercial dealings were carried out, as well as a guarantee in favour of the Italian electricity market operator (GME) directed at allowing operations on said market.

Other Guarantees and commitments made (EUR 17,785 thousand)

The other guarantees and commitments made refer mainly to commitments related to the Group's information systems.

Future minimum payments - leases as lessee

The Group employs properties, warehouses, land, substations and vehicle pool held through operating leases. The average term of the operating leases depends on the type of agreement (approximately 5 years for properties and warehouses, 3 years for the vehicle pool, 20 years for the substations and an average of 15 years for the land) with the possibility of renewing the lease after these dates. Some leases provide for additional payments that depend on the changes of the local price index.

At the reporting date, the future minimum payments[5] for irrevocable operating leases were the following:

(EUR thousand)	2018
Future Minimum Payments	
Within the year	7,107
Between one and five years	23,620
Beyond five years	51,207
Total Future Minimum Payments	**81,934**

The amounts recognised in the profit for the year 2018 in relation to the above agreements are in line with the future minimum payments that will be incurred within the next year (EUR 7 million).

NOTE 19 - COVENANTS AND NEGATIVE PLEDGES

The characteristics of existing loans / project financing and of the related covenants.

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

ERG S.p.A. corporate acquisition loan

ERG S.p.A. has the following outstanding corporate loans:

- syndicated acquisition corporate loan stipulated on 7 August 2015 with a pool of seven banks coordinated by the agent bank Banca IMI S.p.A. (UniCredit, IntesaSanpaolo, Bnp Paribas, Credit Agricole, Ing, Natixis, Barclays);
- bilateral corporate loan with UBI Banca S.p.A., stipulated on 26 February 2016;
- bilateral corporate loan with Mediobanca S.p.A., stipulated on 11 March 2016;
- bilateral corporate loan with UniCredit S.p.A., stipulated on 21 April 2016.

The above loan agreements provide for the following financial Covenant; failure to comply with the Covenant constitutes an "event of default" in accordance with the related loan agreements.

The Ratio of Net Debt/EBITDA referred to the Consolidated Financial Statements of the ERG Group must be no higher than 4.00 at 31 December 2018, with values progressively decreasing to 3.75, according to the following scale on the respective calculation dates:

- 4.00 at 30 June 2019;
- 3.75 at 31 December 2019; 30 June 2020; 31 December 2020.

5 Agreements with less than 12 months duration and of non-significant amount were excluded from the computation of future minimum payments, along with any renewals of the agreements existing at the date of the present document.

If the covenants are not fulfilled, the agreements provide the possibility for the borrower to apply an "Equity Cure" that will be taken into consideration as a reduction of net financial indebtedness.

The agreements also provide a standard Negative pledge for similar loan agreements, with the prohibition to pledge assets securing any other third party lenders.

ERG Power S.r.l. Project Financing

In December 2009, the Company stipulated with a Group of international banks (Banca IMI, BNP Paribas, Banco Santander, Crédit Agricole Corporate and Investment Bank, Centrobanca, ING Bank, MPS Capital Services, UniCredit Mediocredito Centrale, WestLB) a limited recourse Project Financing agreement for an amount of EUR 330 million.

The Agent of the project is UniCredit Mediocredito Centrale.

The loan was issued in April 2010 following fulfilment of all the conditions precedent prescribed by the agreement itself.

The agreement, directed at issuing a loan for the repowering of a CCGT plant, required the following guarantees for payment of amounts and fulfilment of all obligations deriving from the loan agreement:

- the establishment of a first mortgage in favour of the credit institutions disbursing, on the property owned by the Company and on the real estate on which a surface right thereof stands;
- the establishment of a special lien on the plant, machinery, capital equipment, raw materials, work in progress; finished goods, inventories and receivables deriving from sales of such assets above certain value thresholds;
- the establishment of a pledge on receivables deriving from the main project contracts and on the project current accounts of ERG Power;
- the monitoring of the incoming and outgoing flows from financial management by the lending banks.

The guarantees issued also include, inter alia, the pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 10.6 million at 31 December 2018).

Lastly, the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Therefore, in principle, ERG Power may not provide additional guarantees, with the standard exceptions for this type of operations. The duration of the guarantees is tied to the repayment of the loan agreement. The loan is also subject to the following covenants:

- Historical and Prospective Annual Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Power S.r.l. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.05 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.

- The Loan Life Cover Ratio (LLCR) is calculated
  as the ratio between the net present value - discounted at the weighted average cost of capital - of operating cash flows expected by the company between the date of calculation and the liability's maturity year and the amount of the liability existing as of the calculation date. If it is less than 1.20, ERG Power S.r.l. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
  In relation to the Project Financing of ERG Power S.r.l., starting from 30 June 2011, compliance with the following covenants is required, to be calculated every six months on the consolidated data of the ERG Group:
- Ratio between Consolidated Adjusted Net Financial Position and Consolidated Adjusted EBITDA (Adjusted NFP/ Adjusted EBITDA): if it is higher than 4.0, the company may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions.
- Ratio between Consolidated Adjusted EBITDA and Consolidated Adjusted Financial Income: if it is lower than 3.0, the company may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions.
  Failure to comply with the aforesaid covenants for three consecutive times entails the partial early repayment of the loan for an amount equal to the excess cash flow defined contractually and kept in restricted bank accounts in the three previous periods.

Loan entered into in June 2007 by the company ERG Eolica Faeto S.r.l. (formerly Eos 4 Faeto S.r.l.)

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 6.4 million at 31 December 2018) of the company in addition to a letter of comfort of ERG Renew S.p.A. The loan is also subject to the following covenants and negative pledges:

- Historical Debt Service Coverage Ratio (DSCR): calculated as the ratio between the project's cash flow after the VAT flows for repayment of the principal amount of the VAT line, for the current half-year and the preceding one and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If it is less than 1.10, ERG Eolica Faeto S.r.l. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.05 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as

guarantee for loan repayment. Consequently, ERG Eolica Faeto S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan entered into by Green Vicari S.r.l. in August 2007

The guarantees issued entail the mortgage on surface rights, a special lien on properties, a pledge on 100% of share capital, on the receivables and on the company's restricted bank accounts (EUR 6.8 million at 31 December 2018). The loan is also subject to the following covenants and negative pledges:

- Average Debt Service Coverage Ratio (ADSCR): it is determined on 30 June and 31 December of each year and it is calculated as the ratio between the project's cash flow after the VAT flows for the two previous half years and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the preferential loan, the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts.
  If it is less than 1.10, Green Vicari S.r.l. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.05 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, Green Vicari S.r.l. may not issue further guarantees on its assets.

Financing pertaining to the construction of the five wind farms situated in France: Parc Eolien de Lihus, Hetomesnil, Bruyère, Carreau, Mardeaux

The guarantees issued entail the mortgage of real estate and a pledge on 100% of the company's share capital and restricted bank accounts (EUR 1.4 million at 31 December 2018). The loan is subject to the following financial covenant with regard to dividend distribution.

- Historical Debt Service Coverage Ratio (DSCR): calculated as the ratio between the project's cash flow after the VAT flows for repayment of the principal amount of the VAT line, for the current half-year and the preceding one and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If it is less than 1.10, the French companies may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions.
- The Contract also provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, the French companies may not issue further guarantees on the assets.

Loan entered into by the company Eoliennes Du Vent Solaire S.a.s. for the construction of a wind farm situated in France.

The guarantees issued entail the mortgage of real estate and a pledge on 100% of the company's share capital and restricted bank accounts (EUR 0.9 million at 31 December 2018). The loan is also subject to the following covenants and negative pledges:

- Debt Service Coverage Ratio (DSCR): calculated as the ratio between the project's cash flow after the VAT flows for repayment of the principal amount of the VAT line, for the current half-year and the preceding one and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines. If it is less than 1.15, Eoliennes du Vent Solaire S.a.s. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Therefore, Eoliennes du Vent Solaire S.a.s. may not issue further guarantees on its assets.

Loan entered into in January 2010 by the company ERG Eolica Ginestra S.r.l.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 5.0 million at 31 December 2018). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Eolica Ginestra S.r.l. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.05 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- The Loan Life Cover Ratio (LLCR) is calculated as the ratio between the net present value - discounted at the weighted average cost of capital - of operating cash flows expected by the company between the date of calculation and the liability's maturity year and the amount of the liability existing as of the calculation date. If it is less than 1.20, ERG Eolica Ginestra S.r.l. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10 and the company does not take any

contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.

- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Ginestra S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan entered into in October 2009 by ERG Eolica Adriatica S.r.l. (formerly IVPC POWER 5 S.p.A.)

The loan was restructured on 29 June 2018.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 9.0 million at 31 December 2018).

The baseline of the loan is subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Eolica Adriatica S.r.l. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical and/or Prospective DSCR are less than 1.05 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Adriatica S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan entered into in October 2007 by the company ERG Eolica Campania (formerly IVPC POWER 3 S.p.A.)

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 10.8 million at 31 December 2018). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Eolica Campania S.p.A. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical and/or Prospective DSCR are less than 1.05 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.

- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Campania S.p.A. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan issued in March 2012 to the company ERG Eolica Fossa del Lupo S.r.l., in April 2013 to the company ERG Eolica Amaroni S.r.l. and in 2014 to the company ERG Eolica Basilicata S.r.l.

(hereafter, the "Companies") were jointly renegotiated as from 30 June 2017.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and restricted bank accounts (EUR 10.7 million at 31 December 2018). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the projects' cash flow after the VAT flows and the total amount of debt repayment (base line) prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the Companies to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, the Companies may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.05 and the Companies do not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- The Loan Life Cover Ratio (LLCR) is calculated as the ratio between the net present value - discounted at the weighted average cost of capital - of operating cash flows expected by the Company between the date of calculation and the liability's maturity year and the amount of the liability existing as of the calculation date. If the value is less than 1.05 and the Companies does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, the Companies may not issue further guarantees on their assets except in the event of guarantees required by law.

Loan issued in 2008 to the company ERG Wind Investments Ltd.

The loan is subject to the following covenants and negative pledges:

- Covenants

  The main financial covenant is the HDSCR (Historical Debt Service Cover Ratio), which is calculated with half-yearly periodicity, with reference to the cash flows generated in the last 12 preceding months, with respect to the payment of the financial debt (principal, interest, fees and swaps) of that period.

  A DSCR lower than 1.05 would constitute an event of default of the Project Finance. For dividend distribution, a DSCR above 1.15 is required.

- Security Package

  To guarantee the commitments made in accordance with the loan agreement, the execution of guarantee agreements governed by regulations pertaining to different jurisdictions is required.

  The guarantee documents indicated in the loan agreement include, inter alia, pledges on shares, pledges on stock, assignment of credits (also relating to insurance credits), pledges on current accounts (EUR 30 million at 31 December 2018).

Loan issued in November 2015 to the company EW Orneta 2 SP. Z.O.O.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the share capital of EW Orneta 2 SP. Z.O.O. and on 100% of the share capital of Blachy Pruszyński - Energia SP. Z.O.O. and Hydro Inwestycje sp. z o.o. acquired by EW Orneta 2 SP. Z.O.O. on 24 May 2017 and on the restricted current accounts of EW Orneta 2 SP. Z.O.O. (EUR 6.4 million at 31 December 2018). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts.

  If the Historical and/or Prospective Debt Service Coverage Ratio (DSCR) are less than 1.20, EW Orneta 2 SP. Z.O.O. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions.

  If the Historical DSCR is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.

- The Loan Life Cover Ratio (LLCR) is calculated as the ratio between the net present value - discounted at the weighted average cost of capital - of operating cash flows expected by the company between the date of calculation and the liability's maturity year and the amount of the liability existing as of the calculation date. If less than 1.15, EW

Orneta 2 SP. Z.O.O. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.

Loan (multiborrower project) issued in April 2012 and September 2013 to the Bulgarian companies

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 2.2 million at 31 December 2018). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.20, ERG Wind Bulgaria may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Wind Bulgaria may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan issued in August 2016 to ERG Wind France 1

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 8.4 million at 31 December 2018). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and Prospective DSCR are less than 1.20, ERG Wind France 1 may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.

- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Wind France 1 may not issue further guarantees on its assets except in the event of guarantees required by law.

Loans acquired through the Impax Asset Management Group business combination

Loan taken out by Parc Eolien de Garcelles-Secqueville S.a.s. with Norddeutsche Landesbank on 19 March 2007 and expiring on 30 June 2023

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, the sole condition to proceed with distribution is that the DSRA - Debt Service Reserve Account - must be fully funded.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.1 million at 31 December 2018).

Loan taken out by Parc Eolien de La Vallee De Torfou with Natixis and Bpfrance on 7 October 2011 and expiring on 30 September 2027

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05. Failure to comply with the minimum value of DSCR is an event of default of the loan.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- The main condition for distribution is that the DSCR must be higher than 1.15.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.3 million at 31 December 2018).

Loan taken out by Parc Eolien Hauts Moulins S.ar.l. with Landesbank Baden-Württemberg on 13 June 2012 and expiring on 30 November 2028

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must be 1.05. Failure to comply with the minimum value of DSCR is an event of default of the loan. • The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.15; fully funded DSRA account - Debt Service Reserve Account.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.2 million at 31 December 2018).

Loan taken out by Parc Eolien du Pâtis S.a.s. with Le Crédit Coopératif on 14 June 2013 and expiring on 31 July 2027

- The main financial covenant are:
  - the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05;
  - the Outstanding debt/Equity ratio (with the denominator being equal to shareholders' equity + shareholder loans) higher than or equal to 4.

  Failure to comply with one of the two covenants is an event of default of the loan.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.

  The main conditions for distribution are: DSCR higher than 1.15; fully funded DSRA account - Debt Service Reserve Account.

  The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.6 million at 31 December 2018).

Loan taken out by S.a.s. Societe d'Exploitation du Parc Eolien de La Souterraine with BP France on 11 October 2013 and expiring on 31 December 2028.

- The main financial covenants are:
  - the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05;
  - the Outstanding debt/Equity ratio (with the denominator being equal to shareholders' equity + shareholder loans) higher than or equal to 82.35/17.65.

Failure to comply with one of the two covenants is an event of default of the loan.

- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.15; fully funded DSRA account - Debt Service Reserve Account.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.3 million at 31 December 2018).

Loan taken out by Parc Eolien de Morvillers S.ar.l. with Natixis and Bpfrance on 23 October 2012 and expiring on 30 November 2027

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05. Failure to comply with the minimum value of DSCR is an event of default of the loan.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- The main condition for distribution is that the DSCR must be higher than 1.15.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.2 million at 31 December 2018).

Loan taken out by Parc Eolien Moulins des Champs S.ar.l. with Landesbank Baden-Württemberg on 13 June 2012 and expiring on 30 November 2028.

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05. Failure to comply with the minimum value of DSCR is an event of default of the loan.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.15; fully funded DSRA account - Debt Service Reserve Account.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.2 million at 31 December 2018).

Loan taken out by Parc Eolien de Oyré Saint Sauveur S.a.s. con Natixis on 24 April 2014 and expiring on 30 June 2029

- The main financial covenants are:
  - the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05;
  - the Outstanding debt/Equity ratio (where the denominator is equal to shareholders' equity + shareholder loan) which may not exceed 85/15 until 1 June 2019; 90/10 between 1 June 2019 and 1 June 2024; 95/5 between 1 June 2024 and 1 June 2029.

Failure to comply with one of the two covenants is an event of default of the loan.

- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- The main condition for distribution is that the DSCR must be higher than 1.15.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.9 million at 31 December 2018).

Loan taken out by Parc Eolien de Saint Riquier 1 con Landesbank Saar on 31 March 2009 and expiring on 30 December 2027

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.40 for distribution to take place. Distributions are in no case allowed in the years from 2014 to 2018 and from 2024 to 2026.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.7 million at 31 December 2018).

Loan taken out by Parc Eolien de Saint Riquier 3 S.a.s. with HSH Nordbank AG on 31 March 2014 and expiring on 30 December 2028.

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.10; fully funded DSRA - Debt Service Reserve Account.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.1 million at 31 December 2018).

Loan taken out by Parc Eolien de Saint Riquier 4 S.a.s. with HSH Nordbank AG on 31 March 2014 and expiring on 30 December 2028

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.10; fully funded DSRA - Debt Service Reserve Account.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.1 million at 31 December 2018).

Loans taken out by Windpark Achmer Vinte GmbH & Co.KG with DKB Deutsche Kreditbank on 14 February 2006 and 23 February 2006, expiring on 31 December 2021

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, the sole condition to proceed with distribution is that the DSRA - Debt Service Reserve Account - must be fully funded. In addition, the lending bank has to expressly approved the distribution request.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 2.3 million at 31 December 2018).

Loans taken out by Windpark Cottbuser Halde GmbH & Co. KG with DKB Deutsche Kreditbank on 27 October 2007 and 9 November 2006, expiring on 31 December 2025

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.

- Since no calculation of a specific financial covenant is provided, the sole condition to proceed with distribution is that the DSRA - Debt Service Reserve Account - must be fully funded.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 3.8 million at 31 December 2018).

Loan taken out by ERG Wind 117 GmbH & Co.KG with Commerzbank on 6 August 2013 and expiring on 30 December 2030

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which must exceed 1.05 historically and 1.10 prospectively. Failure to comply with the minimum values of DSCR is an event of default of the loan.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- The main conditions for distribution are: Historical DSCR higher than 1.05; prospective DSCR higher than 1.10; fully funded DSRA - Debt Service Reserve Account.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.3 million at 31 December 2018).

Loans acquired through the FORVEI business combination

Loan granted in August 2016 to ERG Solar Holding S.r.l. (formerly FVH1 S.r.l.)

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 11.2 million at 31 December 2018). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts.
- The Loan Life Cover Ratio (LLCR) is calculated as the ratio between the net present value - discounted at the weighted average cost of capital - of operating cash flows expected by the company between the date of calculation and the liability's maturity year and the amount of the liability existing as of the calculation date.
- The Debt to Equity ratio (equity + shareholder loan), which may not exceed 80/20

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

- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Solar Holding S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

  The DSCR is calculated twice a year on the calculation dates of 31 December and 30 June, based on the previous 12 months.

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

Finance lease agreements of the photovoltaic plants with Mediocredito Italiano at a rate of 6.5%. On 22 June 2018, the early repayment of all leases was renegotiated with said bank and, at the same time, a corporate loan agreement for EUR 70 million at the 6-month Euribor rate + a spread of 1.30% was stipulated. The agreement does not impose any specific covenants. The only provision is the commitment, as from 2020, to maintain the financial covenants (Net Debt / Ebitda or similar) that the Group will agree when renegotiating the outstanding corporate loans.

The positive impact from early settlement of the loans and the negative impact of early settlement of the lease contracts were recognised in the income statement for 2018.

Loans acquired through the Vend'est business combination

Loan taken out by Parc Eolien de Voie Sacrèe S.a.s. with Banco de Sabadell SA, Banco Santander Central Hispano, Caixa d'Estalvis de Catalunya on 31 December 2016 and expiring on 2 August 2021 of EUR 4.6 million at the 30 June 2018.

The subject loan was repaid early in 2018.

Loans acquired through the Epuron business combination

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

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.15; fully constituted DSRA account - Debt Service Reserve Account; Financial Leverage ratio less than or equal to 90/10 in event of repayment of the shareholder loan.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.4 million at 31 December 2018).

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

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.15; fully constituted DSRA account - Debt Service Reserve Account; Financial Leverage ratio less than or equal to 85/15 in event that the shareholder loan is repaid within 4 years of the Consolidation Date, otherwise less than or equal to 90/10.

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

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.3 million at 31 December 2018).

Loans acquired through the Linda business combination

Loan taken out by Windpark Linda GmbH con HSH Nordbank AG on 18 December 2018 and expiring on 30 December 2038 of EUR 24 million at 31 December 2018

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- The main conditions for distribution are: DSCR and FDSCR higher than 1.10; fully funded DSRA - Debt Service Reserve Account - equal to the required Debt Service Reserve Amount; fully constituted Compensation Obligation Savings Account in accordance with contractual clauses no. 7 and 13.

The DSCR is calculated twice a year on the calculation date of 30 June and of 30 December.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 18.9 million at 31 December 2018).

Loans acquired through the DIF business combination

Loan taken out by ERG Wind Dobberkau GmbH with Norddeutsche Landesbank on 12 July 2006 and expiring on 31 December 2025

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.

- Since no calculation of a specific financial covenant is provided, the conditions to proceed with distribution are that the operating/insurance/tax expenses be paid; payment of the Debt Service; DSRA funded.

Loan taken out by ERG Wind Ober Kostenz GmbH with Sparkasse Bremen on 10 November 2016 and expiring on 31 December 2024

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, distribution can be carried out after the payment of all operating costs and the debt.

Loan taken out by ERG Wind Welchweiler GmbH with Sparkasse Bremen on 10 November 2016 and expiring on 31 December 2024

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, distribution can be carried out after the payment of all operating costs and the debt.

Loan taken out by ERG Wind Hermersberg GmbH with Sparkasse Bremen on 10 November 2016 and expiring on 31 December 2024

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, distribution can be carried out after the payment of all operating costs and the debt.

Loan taken out by ERG Wind Waldfischbach-Burgalben GmbH with Sparkasse Bremen on 10 November 2016 and expiring on 31 December 2024

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, distribution can be carried out after the payment of all operating costs and the debt.

Loan taken out by ERG Wind Weselberg GmbH with Sparkasse Bremen on 10 November 2016 and expiring on 31 December 2024

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, distribution can be carried out after the payment of all operating costs and the debt.

Loans acquired through the ISAB Energy Solare business combination

Loan taken out by ISAB Energy Solare con Mediocredito Italiano on 5 August 2011 and expiring on 30 June 2029

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the Company, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, distribution can be carried out after the payment of all operating costs and the debt.

NOTE 20 - CONTINGENT LIABILITIES AND DISPUTES

ERG is a party in civil, administrative and tax proceedings and legal actions connected with the normal course of its operations.

Provision for disposed businesses

In early 2018, the Group completed its path of industrial transformation, started in the previous years, which determined its definitive exit from the **OIL** business.

This path comprised two fundamental steps:

- the sale of the last shareholding held in ISAB S.r.l., on 30 December 2013, which marked the exit from the **Coastal refining** business;
- the sale of the Group's shareholding in TotalErg S.p.A., on 10 January 2018, which determined the exit from the **Integrated downstream** business.

Although the ERG Group is no longer an active operator in the oil industry, there are still remaining liabilities tied to the previous industrial activity and not yet fully defined.

For this purpose it should be recalled that upon drafting the 2013 consolidated financial statements, in view of the uncertainty inherent in disputes, including tax disputes, of the complexity of the Priolo site transactions and in general of the conclusion of the activities connected with the Coastal Refining business, the Group carried out a comprehensive assessment of the risk connected with the issues commented above and set up a “Priolo Site Provision” estimating the allocation of a “Priolo Site Provision” of EUR 91 million (EUR 80 million at 31 December 2018).

In line with the considerations formulated for the sale of the last shareholding of ISAB S.r.l., also for the more recent sale of the shares within the TotalErg transaction, in 2018 the Group allocated a provision to cover the guarantees provided in favour of the buyer.

To date, various liabilities are recorded in the Financial Statements, in connection with obligations tied to the previous OIL operations, for a total value of approximately EUR 2 million.

On the occasion of the present Financial Statements, for the purposes of a clearer and more consistent representation of the above issues, the Management aggregated the commented liabilities in a single provision called “Provision for disposed businesses” considering that while these allocations originate from different contexts (tax, environmental and legal) and at different times, in fact have the same nature because they are all tied to discontinued operations and outside ordinary operations.

The provision, thus determined, amounted to approximately EUR 89 million at 31 December 2018 and it is indicated among non-current liabilities.

The main issues underlying the allocation are summarised below:

- regarding the ongoing dispute between ERG Raffinerie Mediterranee (now ERG S.p.A.) and the Italian Tax Authorities over the application of **harbour duties** for embarkation and disembarkation rights at the Santa Panagia jetty, it should be recalled that on 6 April 2011 the Syracuse Provincial Tax Commission partially allowed the Company’s appeal and ruled that harbour duties through 2006 are not due, finding them to be due from 2007 onwards. The first instance ruling was challenged within the deadline by the Italian Revenue Agency and by ERG with appeal relative to the period subsequent to 2006.

  During the hearing of 11 February 2013, the Attorney General’s Office and the Company’s legal counsel presented to the Court their respective arguments to the Court.

  The appeal decision, issued by the Regional Tax Commission and filed on 27 May 2013, amended the first decree decision unfavourably for ERG.

  Following a thorough evaluation of the reasons for the appeal decision, the Company decided to appeal before the Court of Cassation, deeming its own arguments to be well grounded (in particular with regard to the notion of “harbour” in accordance with Italian Law no. 84/94 and to the alleged novating or retroactive validity of Article 1, Paragraph 986 of the 2007 Italian Budget Law). On 4 November 2013, the Syracuse Regional Tax Commission allowed the request to suspend the effectiveness of the appeal decision, requiring the release of a first demand insurance guarantee in favour of the Customs Agency. The hearing for the arguments on the merit of the appeal was held on 21 November 2018 and the decision of the Court of Cassation is pending. Starting from 2007, the related taxes had already been recognised in the income statement under the accrual basis, while no provision had been made for the years from 2001 to 2006;

- with reference to **environmental risk**, with regard to the South Site the likelihood of exposure to contingent liabilities is deemed remote, as the risk has already been limited by the settlement reached with the Ministry of the Environment in August 2011 and registered by the Court of Auditors on 20 December 2011, and by the Settlement Agreement stipulated on 30 December 2013 between ERG S.p.A. and LUKOIL. With regard to the North Site, depending on the double guarantee scheme deriving both from the agreement executed with ENI (previous owner of the site), and by the agreement executed with LUKOIL (new owner), the risk is as follows:
  (i) for potential environmental damages preceding 1 October 2002, ENI shall be liable without limitation; (ii) with reference to the potential damages relating to the 1 October 2002 -1 December 2008 time frame, deriving from a violation of the environmental guarantees issued by ERG, the latter shall be liable.
  The following limitations apply to ERG's contractual liability to LUKOIL: (a) upper applicable maximum limit equal to the sale price of the equity investment in ISAB S.r.l.; (b) environmental guarantees have a duration of 10 years and expired in December 2018 and (c) in case of uncertain identification of the period to which the potential damage is referred, a time shift that expired at the end of 2018 was applied. The agreement with LUKOIL prescribes, for ERG, a liability without time limitations for potential damages connected with events known at the time of execution of the agreement (Known Environmental Matters). The costs shall be divided between ERG and LUKOIL (51% and 49%) up to the ceiling of EUR 33.4 million, while above this amount ERG will pay in full for any additional expenses.
  On 9 September 2017, the Ministry for the Environment warned some of the companies of the Priolo site, including ERG Power S.r.l., and ERG Power Generation S.p.A., to clean up the Augusta Roadstead. The request is unlawful and has therefore been contested before the administrative courts. ERG S.p.A. is not party to the proceedings, but the environmental issues relating to the Augusta Roadstead arise in the context of the environmental guarantees present in the various contracts with ENI and LUKOIL;
- with reference to the sale of **TotalErg** and in particular to the guarantees connected to the buyer on previous years' contingent liabilities (retained matters), the best estimate of the expense was computed on the basis of the information available to the management and taking into account the breadth of the number of underlying elements and all possible outcomes of the related issues.

Lastly, the provision includes allocations relating to minor issues of non-significant amount tied mainly to as yet undefined commercial dealings.
At the time of preparation of these condensed interim consolidated financial statements, group management, assisted by the competent corporate departments and with the advice of its legal and tax counsels, carried out a comprehensive review of the issues described above, confirming the appropriateness of the measurements made previously.

TotalErg

On 3 December 2013, at the offices of TotalErg S.p.A. in Rome and Milan and of ERG S.p.A. in Genoa, the Tax Police – Rome Unit executed the search warrant issued by the Prosecutor's Office at the Court of Rome within the scope of a criminal lawsuit against certain representatives of ERG S.p.A. and of TotalErg S.p.A. (a company arising from the merger by absorption of Total Italia S.p.A. in ERG Petroli S.p.A.).

The investigation - according to the charge formulated in the aforementioned warrant - pertained to alleged tax irregularities referred to the year 2010, allegedly carried out by recording, in the accounts of TotalErg S.p.A., invoices for alleged non-existing crude oil purchase transactions, issued for a total amount of EUR 904 million by Bermuda-based companies belonging to the Total Group, whose costs were included in the tax returns of TotalErg S.p.A. and reported by the consolidator ERG S.p.A. in the National Tax Consolidation return of the ERG Group.

As soon as it was informed of the ongoing investigation, the Company started an intense audit activity, aimed at thoroughly reconstructing the facts and the transactions in question, and at carefully analysing the internal control system.

With regard to tax matters, on 6 August 2014, as a result of the same investigation, ERG S.p.A. received, in its role as tax consolidator, a preliminary assessment report by the Tax Police of Rome, prepared with respect to TotalErg, whose contents substantially refer to the aforesaid allegations.

Moreover, on the same date TotalErg received preliminary assessment report for alleged tax irregularities pertaining to Total Italia for the years 2007, 2008, 2009, of a substantially similar nature and amount, for each year, to those referenced above, hence referred to periods prior to the establishment of the TotalErg joint venture.

In view of the aforementioned preliminary assessment report, ERG S.p.A. and TotalErg S.p.A., to further confirm the correctness of their actions, submitted their own observations and notes providing further information to the tax authorities.

On 26 June 2015, ERG S.p.A., in its role as the tax consolidator, and TotalErg S.p.A., in its role as the consolidated entity (formerly ERG Petroli S.p.A.), were served an assessment notice for IRES for tax year 2007. TotalErg S.p.A. was served an assessment notice for additional IRES, IRAP and VAT for the same year.

Compared to the specific findings regarding the alleged non-deductibility of the acquisition and service costs for 2007 set forth in the aforementioned assessment notice dated 6 August 2014 of approximately EUR 68 million, the assessment notice reduces the amount considerably to EUR 125 thousand.

On 6 July 2015, assessment notices for IRES, IRAP and VAT referring to 2007, 2008 and 2009 were served to TotalErg S.p.A., in its capacity as the merging entity of Total Italia S.p.A.

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

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

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

On 25 June 2018, the Milan Regional Tax Commission submitted its ruling, confirming the first instance ruling, in favour of TotalErg S.p.A.
The Italian Revenue Agency did not appeal before the Court of Cassation, therefore the favourable decision became definitive.

On 13 March 2017, the Milan Provincial Tax Commission rejected the appeal in relation to IRES, Robin Tax and VAT for the years 2007 to 2009 (dispute relating to TotalErg S.p.A. as the merging entity of Total Italia S.p.A.).
TotalErg S.p.A. appealed to the competent Regional Tax Commission within the terms established by law.
On 22 November 2018 the Milan Regional Tax Commission allowed the appeal filed by the company.
The Italian Revenue Agency may file appeal with the Court of Cassation in accordance with the law.

On 25 May 2017, the Rome Provincial Tax Commission rejected the appeal in relation to IRES, IRAP and VAT for tax year 2007 (dispute relating to TotalErg S.p.A. as the incorporating entity of ERG Petroli S.p.A.).
TotalErg S.p.A. appealed to the competent Regional Tax Commission on 27 December 2017 and the merit hearing is set to take place on 20 September 2018.
On 20 November 2018 the Rome Regional Tax Commission rejected the appeal filed by the company (with the exception of IRAP).
Appeal before the Court of Cassation will be filed in accordance with the law.

On 17 May 2018, the merit hearing was held before the Rome Provincial Tax Commission for IRES, Robin Tax, IRAP and VAT for the tax year 2010 (dispute relating to TotalErg S.p.A.). We are awaiting the decision.
In relation to the issues described above, the joint venture agreement with Total provide for adequate mutual system of guarantees that have remained valid even after the sale to api - anonima petroli italiana S.p.A. of the equity investment in TotalErg (the disputes in question have remained the responsibility of the sellers ERG and Total Marketing Services SA, as the so-called Retained Matters, included in the measurement of the **Provision for disposed businesses**).

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

With regard to the sale of the business unit consisting mainly of the "IGCC" thermoelectric power plant which took place pursuant to the deed dated 30 June 2014 by ISAB Energy S.r.l. to ISAB S.r.l., on 6 July 2016, the provincial division of the Italian Revenue Agency at Siracusa - Noto office (hereinafter the "Agency") served to ERG S.p.A. as the merging entity on December 2015 of the seller ISAB Energy S.r.l., a notice amending the amounts declared for settlement of the registration tax.
This same notice was served on 28 June 2016 to ISAB S.r.l. in its capacity as the jointly and severally liable seller company.
Essentially, the Agency demanded the rectification of the amount declared by the parties in terms of the registration

tax in relation to each of the components of the business unit that was sold and proceeded to redetermine the value of (just) the real estate component consisting of the IGCC plant, measured at approximately EUR 7 million (net of accompanying liabilities of approximately EUR 7 million), and the carrying amount thereof at 30 June 2014 at approximately EUR 432 million, without considering that the future results of the business unit that was sold could justify the aforementioned value.

The Agency therefore assessed the overall market value of the business unit that was sold at approximately EUR 442 million, instead of the consideration of approximately EUR 25 million declared by the parties, a consideration that is nevertheless higher than the overall market value for the business unit of approximately EUR 13 million, pursuant to a sworn appraisal by a third party appraiser appointed by ISAB Energy.

Based on these assumptions, the Agency assessed a higher registration tax of approximately EUR 37 million, imposing a fine equal to the higher registration tax that was assessed plus interest (total amount EUR 76 million).

Regarding the analysis of this case, we note that with the above the Agency simply expressed a different estimate of “only” the property, plant and equipment component (IGCC plant) of the business unit, and not the business unit overall, in manifest violation of the regulations contained in the Consolidated Registration Tax Law.

In particular, based on the adjustment, the Agency identified only the carrying amount of the IGCC plant, completely disregarding its profitability (whether positive or negative) as part of the business unit in which the plant is expected to be used.

Therefore, the Agency disregarded the assumption and appraisal criteria that led the appraiser to determine the purchase price at approximately EUR 13 million, and particularly the lack of cash flows following the termination of the CIP 6 Agreement, and did not consider at all the ascertained negative future profitability of the sold business unit, or the relative badwill (as fully described in the appraisal compiled by Mr. Pozza, which is already in the hands of the Agency).

As the company believes that it is able to formulate valid arguments in its defence, with the assistance of its own tax consultants, it has submitted an appeal to the competent Provincial Tax Commission and applications for both administrative and judicial suspension of the provisional tax demanded in the course of the proceedings (the amount of the provisional tax is equal to approximately EUR 13 million).

On 10 August 2016, the Syracuse Provincial Tax Commission ordered the judicial suspension of the provisional tax demanded.

The relevant hearing was held on 15 November 2016 before the Syracuse Provincial Tax Commission.

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

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

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

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

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

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

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

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

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

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

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

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

The President of the Syracuse Regional Tax Commission set the date for the hearing for the judicial suspension of the tax collection for 17 July 2018; given that the deadline for the payment of the requested amounts with the aforementioned payment order was 15 June 2018 (therefore prior to the hearing for the judicial suspension of the tax collection), ERG S.p.A. was forced to pay approximately EUR 4.5 million (provisional tax demanded in the course of the proceedings).

This amount must be repaid by the Italian Revenue Agency in the event that it loses the first level proceeding and it was recorded among the receivables claimed by the company from the Revenue Agency.

On 7 December 2018, the meeting was held between the Court-appointed Expert Witness Mr. Truglio and the parties in the dispute for the conclusion of the expert witness activities.

The Court-appointed Expert Witness confirmed that he will transmit the appraisal of the transferred business units to the parties as soon as possible.

The parties will have 30 days to propose observations to the report by the expert witness.

The merit hearing is set to take place on 17 June 2019.

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

ERG Eolica Ginestra

In 2014 ERG Eolica Ginestra S.r.l. was subjected to a tax audit for fiscal year 2010 for IRES, IRAP and VAT purposes by the Genoa Provincial Division of the Italian Revenue Agency, which ended with the issuing of a preliminary assessment report served to the Company on 13 November 2014. The Agency has assessed only one alleged unlawful usage of the tax benefit provided under Art. 5 of Law Decree no. 78/2009, converted with amendments into Law no. 102/2009 ("Tax exemptions for investments in machinery"), the so-called Tremonti-*ter*, proposing that IRES taxation be applied again for 2010 on 50% of the investments on which the company had received a tax benefit.

On 30 March 2015, ERG Renew S.p.A. (now ERG Power Generation S.p.A.) in its role as the tax consolidator and ERG Eolica Ginestra S.r.l. as the consolidated company were served an assessment notice for IRES, 2010 tax year, confirming the findings made during the audit regarding a tax loss that is lower by approximately EUR 26 million.

On 5 June 2015, the company appealed to suspend collection which was accepted on 16 July 2015.

With its ruling filed on 14 January 2016, the Provincial Tax Commission of Genoa accepted the appeal submitted by ERG Eolica Ginestra S.r.l.

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

The hearing was held on 19 June 2018 at the Liguria Regional Tax Commission.

With its decision filed on 26 October 2018, the Liguria Regional Tax Commission rejected the appeal filed by the Genoa Provincial Office of the Italian Revenue Agency and confirmed the decision of the Genoa Provincial Tax Commission, favourable to ERG Eolica Ginestra S.r.l.

The Genoa Provincial Office of the Italian Revenue Agency may file appeal with the Court of Cassation.

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

Law no. 488/92 contributions by ERG Wind

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

In relation to the allocation of these grants in the first half of 2007, an investigation was initiated by the Public Prosecutor at the Court of Avellino in relation to alleged falseness of certain of the documents provided upon request.

During 2007, the attachment of the Law no. 488/1992 incentives still to be provided was ordered (EUR 21.9 million) and on 30 September 2008 the Public Prosecutor ordered the precautionary attachment of seven wind farms. Following the deposit of an amount equal to EUR 31.6 million by the involved companies, in January 2010, the wind farms which had been under precautionary attachment were released, upon attachment of the aforementioned amounts.

These amounts were then transferred to the Single Guarantee Fund.

The preliminary investigation for the criminal proceedings at the Court of Avellino is underway and, at the hearing of 30 November 2018, the Court informed the parties that the expert witness will start work on his report on 1 February 2019.

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

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

On 27 July 2015, the beneficiary companies were issued with payment orders relating to the return of the incentives. Said orders were challenged with the submission of opposition proceedings before the Court of Genoa.

As part of said proceedings, the Civil Judge ruled the tax assessments be suspended against the submission of bank guarantees for the entire value of the latter (EUR 49 million). At the hearing of 23 October 2018, the Civil Judge, noting the prejudicial nature of the proceeding initiated with the extraordinary appeal before the President of the Republic of Italy, ordered the suspension of the civil proceedings while the administrative case is pending.

The proceedings subsequent to the filing of the extraordinary appeals to the Head of State are also still pending and, despite the reminders filed by the applicants, the decision on the appeal and on the merits was not delivered during 2018. Ideally the appeals will be decided upon in 2019.

In consideration of: (i) the guarantees issued by the seller of the companies of the International Power Group to ERG in the contract of transfer of the investments in these companies, (ii) the settlement agreement concluded between said seller and ERG dated 19 December 2016, in which these guarantees were confirmed and further detailed, and (iii) taking into account that in the 2013 consolidated financial statements a liability for an amount corresponding to the nominal value of the incentives for which the Ministry of Economic Development is requesting the return (see definition of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (**Note 14 - Other non-current liabilities**) had already been allocated, further provisions are not required in the consolidated financial statements.

ERG Wind Investments Tax Audit

On 21 October 2015, the Tax Police - Special Income Unit - Investigation Group of Rome served to ERG Wind Investments Limited the final assessment report on findings (hereinafter the "PVC") upon completion of the audit work which had begun on 17 June 2015.

From the above mentioned audit, except for certain findings regarding an insignificant amount, the following issues arose (i) failure to withhold an amount on the differences connected to Interest Rate Swaps during the 2010-2013 tax period paid to foreign counterparts, as they were qualified as interest, amounting to EUR 8.7 million, (ii) inappropriate deduction during the 2010-2013 tax period of interest expense on an upstream loan from foreign subsidiaries to ERG Wind Investments Limited as it was not supported by valid economic reasons (abuse of the right provided under article 10-bis of Law no. 212/2000) with consequent higher taxes of EUR 8.8 million (iii) failure to apply, in the 2010-2013 tax period, withholding taxes on interest paid to non-resident individuals as part of the existing project financing of EUR 14 million.

Regarding the aforementioned PVC of 28 December 2015, the Company has received (i) an assessment notice only for the 2010 tax period for alleged failure to apply withholding on IRS differentials paid to foreign counterparties of EUR 2.5 million, plus a penalty of EUR 3 million and interest at 22 December 2015 of EUR 0.4 million, (ii) an additional assessment of penalties for the reason under (i) with separate quantification of the penalties due to failure to pay a withholding amount of EUR 0.8 million and (iii) a question regarding the alleged inappropriate deduction of the interest expense on an upstream loan from foreign subsidiaries to ERG Wind Investments Limited as it was not supported by a valid economic reasons (abuse of the right afforded under article 10-bis of Law no. 212/2000) for the 2010-2013 tax period.

Following the proceedings initiated against Provincial Division I of Rome and the documentation produced, the finding made within the PVC regarding failure to apply, during the 2010-2013 tax periods, withholding tax on interest paid to non-resident individuals as part of the existing project financing of EUR for 14 million was removed.

On 29 January 2016, the Italian Revenue Agency - Provincial Division I of Rome was presented with a mutually-agreed assessment settlement procedure, and defence briefs against the tax assessment.

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

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

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

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

The merit hearing was held on 19 December 2018 at the Lazio Regional Tax Commission and we are awaiting the decision.

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

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

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

On 11 September 2018, the Rome Provincial Tax Commission accepted the appeal brought by the company.

On 18 September 2018, the company filed a petition for disenrollment from the register and repayment of the amounts paid while the decision was pending (14 monthly installments were paid, amounting to EUR 0.2 million). On 11 November 2018, the company was informed of the allowance issued by the Revenue Agency for the amounts due.

On 7 January 2019, the Italian tax collection agency reimbursed the amounts paid while the decision was pending.

On 29 October 2018, the Italian Revenue Agency appealed to the competent Regional Tax Commission and we are awaiting for the hearing to be set.

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

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

On 7 May 2018, the merit hearing was held before the competent Tax Commission and on 21 August 2018 the Rome Provincial Tax Commission accepted the appeal filed by the company.

On 29 October 2018, the Italian Revenue Agency appealed to the competent Regional Tax Commission and we are awaiting for the hearing to be set.

Withholdings taxes on the IRS differentials, tax period 2013: on 1 October 2018, ERG Wind Investments Limited received an assessment notice for the 2013 tax period for alleged failure to apply withholding on IRS differentials paid to foreign counterparties for EUR 2.4 million, plus a penalty of EUR 2.7 million and interest of EUR 0.4 million at 1 October 2018.

On 15 November 2018, an appeal and an application were filed for judicial suspension of the tax collection; the merit hearing is set for 21 March 2019.

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

In addition, in view of the charge in question, ERG Renew S.p.A. (now ERG Power Generation S.p.A.) has activated the guarantees under the Share and Purchase Agreement stipulated with Engie (formerly Gaz de France Suez) concurrently with the acquisition of the ERG Wind Group against the tax assessment in question. Engie declared that the assessment can be considered as a "Seller Driven Matter"[6] only for the 2010 and 2011 tax periods.

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

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

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

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

On 3 December 2015, the Tax Police - Rome Unit served to ERG Wind Holdings (Italy) S.r.l. the final assessment report on findings (hereinafter the "PVC") upon completion of the audit work which had begun on 6 August 2014.

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

From the aforementioned investigation, except for certain findings of an insignificant amount, only one finding emerged regarding registration tax referring to a reorganisation transaction that took place in 2012 relative to the transfer of business units consisting of electricity production plants (held on the basis of business leases) from 16 UK LLPs to ERG Wind Energy S.r.l. and subsequent assignment to the two shareholders (two UK Ltd. companies) of the equity investment in ERG Wind Energy S.r.l.

The abovementioned finding, based on the qualification of the company sale, would result in a higher registration tax of approximately EUR 9.5 million plus fines.

ERG Wind Holdings (Italy) S.r.l. would be jointly and severally liable to pay the aforementioned registration tax as an merging entity during 2013 of the two UK shareholders of 16 UK LLPs (that is, the two UK LTD companies).

Regarding the aforementioned PVC, on 14 December 2015, the Italian Revenue Agency Provincial Division 3 of Rome served to ERG Wind Holdings (Italy) S.r.l. a notice for payment order for the registration tax and fines.

The higher taxes requested total EUR 9.5 million plus interest (EUR 0.9 million) and fines (EUR 11.4 million), for a total of EUR 21.8 million.

On 10 February 2016 ERG Wind Holdings (Italy) S.r.l. appealed the aforementioned payment orders, in its belief that the company is able to put forth valid arguments in its defence.

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

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

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

The merit hearing was held on 18 October 2018 at the Rome Regional Tax Commission.

On 6 December 2018 the Rome Regional Tax Commission (CTR) rejected the appeal filed by the company.

On 4 September 2018The Revenue Agency-Collection served the company with the Payment Notice bearing the enrollment in the register of 2/3 of the registration fee, penalties and interest - totalling EUR 14.6 million - as a result of the unfavourable first degree decision.

The company, deeming the document to be formally defective, filed appeal and petition for judicial suspension of the tax collection.

On 12 October 2018, the Genoa Provincial Tax Commission ordered the judicial suspension of the collection, subject to the issuance of a bank guarantee. At the hearing of 4 December 2018, the judicial suspension of the collection was confirmed until the date of publication of the first degree decision. The merit hearing was held on 5 February 2019 and we are awaiting the decision.

In this regard, it is pointed out that the 2019 Budget Law (Italian Law no. 145 of 30 December 2018) clarified that Article 1.87.a) of Law no. 205 of 27 December 2017 (2018 Budget Law), it the authentic interpretation (hence with retroactive effect) of Article 20.1 of the consolidated law per Presidential Decree no. 131 of 26 April 1986. Therefore, the requalification of the extraordinary company sale for the purposes of the registration fee, confirmed in the first and in the second degree of the proceedings - albeit not applicable, in the opinion of the company, to the case at hand - will have to be disallowed by the appeal court.

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

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

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

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

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

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

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

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

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

The merit hearing was held on 14 March 2018.

On 7 November 2018, the decision no. 1256/6/18 of 14 March 2018 was filed; with it, the Genoa Provincial Tax Commission rejected the appeal filed by ERG Power Generation S.p.A.

On 15 January 2019, the company appealed and applied for judicial suspension of the tax collection.

On 26 February 2019, ERG Power Generation S.p.A. received - following the first decree decision - a payment notice bearing the enrollment in the register of approximately EUR 41.8 million (amount including tax, penalties, interest and collection premiums). The Company filed a petition to obtain the previously requested judicial suspension of the collection.

In this regard, it is pointed out that the 2019 Budget Law (Italian Law no. 145 of 30 December 2018) clarified that Article 1.87.a) of Law no. 205 of 27 December 2017 (2018 Budget Law), it the authentic interpretation (hence with retroactive effect) of Article 20.1 of the consolidated law per Presidential Decree no. 131 of 26 April 1986. Therefore, the requalification of the extraordinary company sale for the purposes of the registration fee, confirmed in the first degree of the proceedings - albeit not applicable, in the opinion of the company, to the case at hand - will have to be disallowed by the second degree court.

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

NOTE 21 - DISCONTINUED OPERATIONS

The comparative Statement of Financial Position as at 31 December 2017 is presented in accordance with IFRS 5, with the exception of the Interest in the TotalErg S.p.A. joint venture and the assets and liabilities of the subsidiary Brockaghboy Windfarm Ltd. The impacts of the aforementioned exception are indicated separately under the item "Assets held for sale" and "Liabilities held for sale".

	31/12/2017			
(EUR thousand)	Brockaghboy Windfarm Ltd.	TotalErg S.p.A.	Total Italia S.r.l.	Assets and Liabilities held for sale
Intangible assets	6,998	–	–	6,998
Goodwill	–	–	–	–
Property, plant and equipment	70,329	–	–	70,329
Equity investments	–	179,538	5	179,543
Other non-current financial assets	–	–	–	–
Deferred tax assets	67	–	–	67
Other non-current assets	–	–	–	–
Non-current assets	**77,394**	**179,538**	**5**	**256,936**
Inventories	–	–	–	–
Trade receivables	1,940	–	–	1,940
Other current assets	899	–	–	899
Current financial assets	–	–	–	–
Cash and cash equivalents	1,293	–	–	1,293
Current assets	**4,132**	**–**	**–**	**4,132**
TOTAL ASSETS HELD FOR SALE	**81,526**	**179,538**	**5**	**261,069**
Equity	–	–	–	–
Non-controlling interests	–	–	–	–
Equity	**–**	**–**	**–**	**–**
Post-employment benefits	–	–	–	–
Deferred tax liabilities	(67)	–	–	(67)
Provisions for risks and charges - non-current portion	1,381	–	–	1,381
Non-current financial liabilities	–	–	–	–
Other non-current liabilities	–	–	–	–
Non-current liabilities	**1,314**	**–**	**–**	**1,314**
Provisions for risks and charges – current portion	–	–	–	–
Trade payables	703	–	–	703
Current financial liabilities	–	–	–	–
Other current liabilities	139	–	–	139
Current liabilities	**842**	**–**	**–**	**842**
TOTAL LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	**2,156**	**–**	**–**	**2,156**

INCOME STATEMENT ANALYSIS

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

For the representation of comparison data for 2017, restated in accordance with IFRS 15, please see the description in the **Directors' Report**.

NOTE 22 - REVENUE

	2018	2017
Revenue from sales	1,015,613	1,040,560
Revenue from services	8,122	12,992
Total	**1,023,736**	**1,053,552**

The breakdown of revenue by operating segment and geographic area in accordance with IFRS 8 is provided under **Note 35 - Disclosure by operating segment and geographic area**.

Revenue from sales consists mainly of:

- sales of **electricity** produced by wind farms, thermoelectric installations and hydroelectric plants, and, from January 2018, by solar installations, as well as by sales on organised markets and through physical bilateral agreements. The electricity is sold on wholesale channels to industrial operators of the Priolo Site and to customers via bilateral agreements. Specifically, electricity sold wholesale includes sales on the IPEX electricity exchange, both on the "day before market" (MGP) and on the "intraday market" (MI), as well as the "dispatching services market" (MSD), in addition to sales to the main operators of the sector on the "over the counter" (OTC) platform.

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

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

The breakdown of revenue from sales to third parties and to Group companies not consolidated line by line is as follows:

	2018	2017
Sales to third parties	1,004,072	1,029,142
Sales to Group companies not consolidated line by line	11,542	11,418
Total	**1,015,613**	**1,040,560**

Sales to third parties includes EUR 188 million (EUR 170 million in 2017) of prices by way of feed-in tariff collected by the companies operating in Italy in the wind, solar and hydroelectric segments.

A single customer has revenues exceeding 10% of the total revenue of the Group.

The breakdown of revenue by type and operating segment is presented below:

(EUR million)	Wind	Thermoelectric	Hydroelectric	Solar	Corporate	Total
Sales revenue						
Energy to the market	122	213	114	8	–	458
Energy end customers	–	85	–	–	–	85
Third party transport and dispatching	–	6	–	–	–	6
Steam - Gas and other utilities	–	67	–	-	–	67
Feed in Tariff - GO	254	–	80	30	–	364
White Certificates	–	25	–	–	–	25
Green Certificates abroad	10	–		–	–	10
Total sales revenue	**386**	**398**	**194**	**38**	**–**	**1.016**
Revenue from services						
Other services	–	7	–	–	–	8
Total revenue from services	**–**	**7**	**–**	**–**	**–**	**8**
TOTAL REVENUE	**386**	**405**	**194**	**38**	**–**	**1.024**

The details of revenue by operating segment and by geographic area are presented below:

(EUR million)	2018	2017
Wind	386	442
Thermoelectric	405	473
Hydroelectric	194	137
Solar	38	–
Corporate	0	1
Total	**1,024**	**1,054**

(EUR million)	2018	2017
Italy	903	926
France	49	46
Germany	33	38
Poland	14	12
Bulgaria	13	13
Romania	12	19
UK	–	–
Total	**1,024**	**1,054**

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

Collection of the receivables correlated to feed-in tariff revenue takes place on average no later than six months from the accrual date of the price, while white certificates are generally collected within the following year.

NOTE 23 - OTHER INCOME

	2018	2017
Indemnities	2,483	3,052
Reimbursement of expenses	956	296
Capital gains on disposals	34	1
Prior year income	11,293	316
Income for hydroelectric water supply compensation	2,241	2,233
Income for resale of electricity transmission capacity	3,946	1,901
Charge-backs to TotalErg	–	783
Other income	951	2,000
Total	**21,903**	**10,581**

The item mainly includes smaller charge backs to third parties and grants related to income and the charge backs to Group companies not consolidated line by line.

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

NOTE 24 - PURCHASES

The 2018 amount is equal to EUR 327 million (EUR 356 million in 2017) and refers mainly to the purchase of electricity from GME and gas from Edison and Gazprom S.p.A. The decrease relates mainly to lower electricity costs.

Purchase costs include the net negative impact of EUR 7.3 million (EUR 7.7 million in 2017) of commodity hedging derivatives, described in detail below.

Income of cash flow hedge derivatives hedging Power sales	1,896
Expense of cash flow hedge derivatives hedging Power sales	(24,300)
Income of cash flow hedge derivatives hedging Power purchases	3,443
Expense of cash flow hedge derivatives hedging Power purchases	(258)
Income of cash flow hedge derivatives hedging Gas sales	23
Expense of cash flow hedge derivatives hedging Gas sales	(112)
Income of cash flow hedge derivatives hedging Gas purchases	12,114
Expense of cash flow hedge derivatives hedging Gas purchases	(60)
Total	**(7,255)**
Income from derivatives realised at Fair Value to Profit or Loss	8,326
Loss from derivatives realised at Fair Value to Profit or Loss	(8,337)
Total	**(11)**
TOTAL	**(7,266)**

NOTE 25 - SERVICES AND OTHER OPERATING COSTS

	2018	2017
Services	120,901	124,555
Rental, lease and hire expenses	31,199	30,201
Impairment of receivables	25	1,641
Allocations for risks and charges	4,672	10,033
Taxes and duties	10,719	10,742
Other operating expenses	4,509	4,848
Total	**172,025**	**182,020**

	2018	2017
Commercial, distribution and transport costs	9,950	14,193
Maintenance and repairs	32,063	25,996
Utilities and consumption	4,586	4,399
Insurance	8,888	8,841
Consultancy services	16,614	14,990
Advertising and promotions	1,048	1,124
Directors' Remuneration	7,365	12,901
Statutory Auditors' Remuneration	696	550
Audit costs	1,302	1,708
Services from network operator	1,775	2,065
Costs for services from Priolo Servizi S.c.p.A.	8,099	10,072
Other services	28,515	27,813
Total	**120,901**	**124,555**

Costs for services are broken down as follows:

- **Commercial, distribution and transportation costs** refer to ancillary costs relative to the distribution of electricity.
- **Repairs and maintenance** mainly consist of the costs for routine maintenance of electricity generation plants.
- **Other services** comprise banking charges, overhead costs and personnel transaction costs.

The 2018 remuneration to Directors includes the related contributions, expenses and the portion of the cost pertaining to the 2018-2020 Long-term incentive plan.

The 2017 remuneration to Directors included the related contributions, expenses and the portion of the cost pertaining to the 2015-2017 Long-term incentive plan and payments for business combinations and sales of shareholdings.

In accordance with IFRS 2 - **Share-Based Payment**, following the implementation of the 2018–2020 long-term incentive Plan, with reference to the Directors, the portion of the cost accrued in 2018 was recognised under costs for services. For additional details, please refer to the section "Main accounting standards and measurement criteria".

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

NOTE 26 - PERSONNEL EXPENSE

	2018	2017
Wages and salaries	46,219	48,159
Social security expenses	12,829	14,135
Post-employment benefits	2,784	2,803
Other personnel costs	4,968	3,601
Total	**66,800**	**68,698**

Note that, in accordance with **IFRS 2 - Share-Based Payment Transactions**, following implementation of the 2018-2020 long-term incentive plan, with reference to employees the portion of the cost accrued in 2018 and representing the fair value of the instruments was recognised under "Personnel expense".

The cost for post-employment benefits pertains mainly to the portion of benefit relating to definite contribution Plans. The cost also includes the contributions paid to defined contribution plans in favour of key managers, for the details of which please see the Related Parties section.

The other costs include additional post-employment benefits.

The item is in line with the period of comparison.

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

	2018	2017
Executives	36	39
Managers	183	162
White-collar staff	333	342
Blue collar staff - Intermediate	178	173
Total	**731**	**716**

At 31 December 2018, the total number of employees was 737.

NOTE 27 - AMORTISATION, DEPRECIATION AND IMPAIRMENT OF NON-CURRENT ASSETS

	2018	2017
Amortisation of intangible non-current assets	55,695	49,353
Depreciation of property, plant and equipment	218,373	201,582
Impairment of non-current assets	–	–
Total	**274,069**	**250,937**

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

NOTE 28 - NET FINANCIAL INCOME (EXPENSE)

	2018	2017
Income		
Positive foreign exchange differences	1,497	653
Effect of loan renegotiations (IFRS 9 gain)	9,811	–
Bank interest receivable	3,648	4,615
Derivative financial instruments on rates	19,352	18,667
Other financial income	2,928	561
	37,236	**24,496**
Expense		
Negative foreign exchange differences	(1,376)	(980)
Effect of loan renegotiations (IFRS 9 loss)	(2,888)	–
Bank interest payable	(30,845)	(28,720)
Derivative financial instruments on rates	(38,809)	(37,281)
Amortised cost on mortgages, loans and project financing	(21,641)	(22,043)
Other financial expense	(3,093)	(769)
	(98,652)	**(89,794)**
Total	**(61,416)**	**(65,297)**

The total effect of the renegotiation of loans, equal to EUR 6.9 million, relates to the positive net income component generated as a result of the application of IFRS 9 during non-substantial modifications of financial liabilities, partially offset by the portion of cost of the year.

NOTE 29 - NET GAINS (LOSSES) ON EQUITY INVESTMENTS

Net loss on equity investments of EUR -78 thousand (net losses of EUR -1,171 thousand in the first half of 2017) refers:

- to the Group's portion of the result of Priolo Servizi S.C.p.A. (EUR 143 thousand);
- to the capital gain resulting from the disposal of the equity investment in the company Emittenti Titoli (EUR 518 thousand);
- to allocations to provisions for risks on equity investments (EUR -739 thousand) pertaining to companies not consolidated line by line.

NOTE 30 - INCOME TAXES

	2018	2017
Current income taxes	45,504	43,686
Previous years taxes	405	712
Deferred tax assets and liabilities	(6,226)	(11,440)
Total	**39,683**	**32,958**

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

"Deferred tax assets and liabilities" originate from the temporary differences deriving from adjustments made to the consolidated companies' separate financial statements to comply with the Group's uniform accounting policies, from the temporary differences between the carrying amount of recognised assets and liabilities and their tax base and from tax losses that can be carried forward. Additionally, deferred tax liabilities amounting to EUR 18 million (EUR 11.8 million in 2017), calculated on the fair value of the derivatives that qualified for hedge accounting, were recognised directly in equity. The rate used for the calculation of the deferred tax assets is the same as the nominal IRES rate of 24%, increased, where applicable, by the IRAP rate.

Reconciliation between effective and theoretical tax expense

IRES		
IRES (Corporate Income Tax)	**144,012**	
Profit before taxes	**34,563**	
Theoretical IRES 24%		81
Impact of consolidation adjustments that are not relevant for tax calculation purposes		(8,027)
Impact of ACE (Aid to Economic Growth)		(741)
Current, deferred and advance IRES (Corporate Income Tax)		**25,875**
IRAP		
EBIT	205,507	
Impairment of receivables	(275)	
Total	**205,782**	
Theoretical IRAP 5%	**10,289**	
Effect of higher IRAP rate for some companies		(2,098)
Impact of permanent tax changes and consolidation adjustments that are not relevant for tax calculation purposes		5,139
Current, deferred and advance IRAP		**13,330**
Total theoretical taxes	**44,852**	
Total IRES and IRAP in the financial statements		**39,205**
Previous year taxes		**405**
Substitute taxes		**73**
Total taxes in financial statements		**39,683**
Brockaghboy Windfarm Ltd. taxes		248
TOTAL TAXES (INCLUDING IFRS 5 EFFECT)		**39,931**

NOTE 31 - PROFIT FROM DISCONTINUED OPERATIONS

The income statement for 2018 is represented in accordance with IFRS 5, with the exclusion of the results of the company Brockaghboy Windfarm Ltd.: for additional details, please refer to the section **Sale of Brockaghboy**.

The income statement for 2017 is presented in accordance with IFRS 5, with the exclusion of the results of the TotalErg S.p.A. joint venture and the subsidiary Brockaghboy Windfarm Ltd., which is consolidated on a line-by-line basis.

	2018	
(EUR thousand)	**Brockaghboy Windfarm Ltd.**	**Profit from discontinued operations**
Revenue	2,937	2,937
Other income	889	889
Purchases	(0)	(0)
Services and other costs	(551)	(551)
Personnel expense	–	–
Gross Operating Income (EBITDA)	**3,275**	**3,275**
Depreciation, amortisation and write-downs	(704)	(704)
Net financial income	(605)	(605)
Net gains on equity investments	26,714	26,714
PROFIT BEFORE TAXES	**28,680**	**28,680**
Income taxes	(248)	(248)
Profit from discontinued operations	**28,432**	**28,432**

	2017		
(EUR thousand)	**Brockaghboy Windfarm Ltd.**	**TotalErg S.p.A.**	**Profit from discontinued operations**
Revenue	2,910	–	2,910
Other income	–	–	–
Purchases	–	–	–
Services and other costs	(579)	–	(579)
Personnel expense	–	–	–
Gross Operating Income (EBITDA)	**2,331**	**–**	**2,331**
Depreciation, amortisation and impairment losses	(1,261)	–	(1,261)
Net financial income (expense)	(317)	–	(317)
Net gains (losses) on equity investments	–	99,568	99,568
PROFIT BEFORE TAXES	**753**	**99,568**	**100,321**
Income taxes	(129)	(610)	(738)
Profit from discontinued operations	**625**	**98,958**	**99,583**

NOTE 32 - NON-RECURRING ITEMS

As required by CONSOB resolution 15519 dated 27 July 2006, significant income and expense arising from non-recurring transactions or events that do not occur frequently in the ordinary course of business are presented below. Also pursuant to the aforementioned CONSOB resolution, the amounts related to the positions and transactions with related parties are indicated separately in **Note 33 - Related parties**.

(EUR thousand)		2018		2017
Revenue		–		–
Other income		–		–
Purchases		–		–
Change in inventories		–		–
Services and other costs	1)	(5.287)	1)	(7.146)
Personnel expense	2)	(2.470)	2)	(5.274)
Amortisation, depreciation and impairment of non-current assets		–		–
Net financial income	3)	7.877		–
Net gains (losses) on equity investments		–		–
Income taxes	4)	(650)	3)	3.108
Profit (loss) on non-recurring items continuing operations		**(531)**		**(9.311)**
Profit (loss) on non-recurring items discontinued operations	5)	**26.170**	4)	**74.506**
Profit non-recurring items		**25.640**		**65.194**
Non-controlling interests		**–**		**–**
Profit on non-recurring items of the Group		**25.640**		**65.194**

In 2018:

1) services and other costs refer to ancillary costs relating to non-recurring transactions and to ancillary costs related to the ERG Group's 80th anniversary celebrations;
2) personnel expenses relate to bonuses to employees related to the ERG Group's 80th anniversary celebrations;
3) net financial income 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);
4) income taxes refer to the tax effect of the items commented above;
5) the net profit or loss of discontinued operations refers to the sale of Brockaghboy Windfarm Ltd.

In 2017:

1) services and other costs refer to payments to Directors and to other ancillary costs for business combinations and sales of shareholdings;
2) personnel expenses relate to payments of bonuses to employees for business combinations and sales of shareholdings;
3) income taxes refer to the tax effect of the items commented above;
4) for additional details on the non-recurring items of TotalErg, please refer to the section "Alternative Performance Indicators" in the Directors' Report.

NOTE 33 - RELATED PARTIES

As required by CONSOB resolution 15519 dated 27 July 2006, the amounts of related party positions and transactions are indicated below.

The transactions carried out by ERG with related parties pertain mainly to:

- the exchange of goods, the performance of services, the provision and use of financing;
- contributions to non-corporate parties, referred to ERG, that pursue humanitarian, cultural and scientific initiatives. In particular, Edoardo Garrone Foundation, established as a natural evolution of the engagement of the Garrone and Mondini families in the social and cultural fields, dedicated to the memory of Edoardo Garrone who, in 1938, launched the industrial activity of the ERG Group.

Most of these transactions are exempted from the application of the internal ERG regulation **Related party transactions policy and procedures**, issued to implement the Consob regulation, because they are ordinary transactions concluded at market of standard conditions, or because they are below the threshold of exiguity prescribed by the procedure itself. All transactions were carried out in the interest of the Company and, with the exception of the transactions with entities pursuing humanitarian, cultural and scientific initiatives, are included under ordinary

operations. The joint ventures, associates and subsidiaries excluded from the consolidation scope are indicated in the section "**List of Group companies**" in the section dedicated to the list of companies recognised at cost. It is also noted that ERG S.p.A. renewed the option for the 2017-2019 domestic tax consolidation scheme, with tacit renewal at the end of every three years for a further three years, with the subsidiaries (including indirect) ERG Eolica Adriatica S.r.l., ERG Eolica Basilicata S.r.l., ERG Eolica Calabria S.r.l., ERG Eolica San Cireo S.r.l. and ERG Eolica Ginestra S.r.l.
Concerning the terms of the contractual arrangements that could provide for the parent company or its subsidiaries to provide financial support to a consolidated structured entity, please refer to **Note 18 - Guarantees, commitments and risks**.

Impact of transactions or positions with related parties on the statement of financial position

The most significant dealings with the joint ventures, associated and subsidiary companies excluded from the consolidation area pertain to:

- trade receivables from Priolo Servizi S.c.p.A., a consortium company under the joint control of ERG Power S.r.l. (23.65%), ISAB S.r.l. (38.63%), part of the other shareholders of Gruppo Versalis S.p.A. (33.11%) and Syndial S.p.A. (4.61%), relating to utilities delivery services (in particular seawater, electricity and others) and to services rendered within the scope of the Operation & Maintenance contract;
- other current receivables and assets from San Quirico S.p.A. relating to tax receivables that will be reimbursed by the finance administration to San Quirico and transferred to ERG S.p.A.;
- receivables emerged as a result of the celebration of ERG's 80th anniversary, for which please refer to the section **Transactions with Shared Based Payment**;
- financial receivables from ERG Petroleos S.A. within the scope of the related loan agreement.

The impact of transactions or positions with related parties on the statement of financial position is indicated in the following summary table:

31/12/2018	Priolo Servizi S.C.p..A.	San Quirico S.p.A.	Edoardo Garrone Foundation	ERG Petroleos	TotalErg	Key Managers	Other	Total	% of total item
Other non-current financial assets								0	0%
Trade receivables	3,073							3,073	1%
Other current assets		2,329						2,329	2%
Trade payables	30							30	0%
Other current liabilities						779		779	0%
Current financial assets				8,490				8,490	17%
Current financial liabilities	–							–	0%

31/12/2017	Priolo Servizi S.C.p..A.	San Quirico S.p.A.	Edoardo Garrone Foundation	ERG Petroleos	TotalErg	Key Managers	Other	Total	% of total item
Other non-current financial assets							2,630	2,630	7%
Trade receivables	2,148				242		241	2,631	1%
Other current assets		1,409			23,111		25	24,546	25%
Trade payables	18				19		73	110	0%
Other current liabilities					5,951	3,066		9,017	7%
Current financial assets				8,613				8,613	29%
Current financial liabilities	–						171	171	0%

Impact of transactions or positions with related parties on the income statement

The most significant dealings with the joint ventures, associated and subsidiary companies excluded from the consolidation area pertain to:

- revenues from Priolo Servizi S.C.p.A. for sale of energy and steam within the scope of the related supply contract;
- costs for services to Priolo Servizi S.C.p.A. consisting of the remuneration components provided by the Operation & Maintenance service agreement;
- other costs to Edoardo Garrone Foundation relating to the contribution for the year 2018;
- costs for services related to remuneration for the position of Chairman held in a Group company by a related party of ERG S.p.A.

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

The impact of related party transactions on income statement items is indicated in the following summary table:

31/12/2018	Priolo Servizi S.C.p..A.	San Quirico S.p.A.	Edoardo Garrone Foundation	ERG Petroleos	TotalErg	Key Managers	Other	Total	% of total item
Revenues	11,932							11,932	1%
Other income								–	0%
Purchases								–	0%
Services and other costs	(8,099)		(108)				(404)	(8,611)	5%
Personnel expense						(1,619)		(1,619)	2%
Financial income								–	0%
Financial expense								–	0%

31/12/2017	Priolo Servizi S,C,p,,A,	San Quirico S,p,A,	Edoardo Garrone Foundation	ERG Petroleos	TotalErg	Key Managers	Other	Total	% of total item
Revenues	11,787				1,025			12,812	1%
Other incomes					783			783	8%
Purchases					(250)			(250)	0%
Services and other costs	(10,072)	(30)	(100)		(21)		(411)	(10,634)	6%
Personnel expense						(3,877)		(3,877)	6%
Financial income					44			44	0%
Financial expense								–	0%

Impact of transactions or positions with related parties on cash flows

The impact of related party cash flows is indicated in the following summary table:

	2018		
(EUR thousand)	Total	Related entities	Incidence %
Cash flow deriving from operating activities	296,791	31,795	11%
Cash flows from investment activities	186,226	–	0%
Cash flows from financing activities	(375,193)	2,924	-1%
Cash flow from change in scope of consolidation	(146,623)	–	0%
Cash flows for the year	**(38,799)**	**34,719**	

	2017		
(EUR thousand)	Total	Related entities	Incidence %
Cash flow deriving from operating activities	400,391	(2,057)	-1%
Cash flows from investment activities	7,197	–	0%
Cash flows from financing activities	(8,567)	(250)	3%
Cash flow from change in scope of consolidation	(11,930)	–	0%
Cash flows for the year	**387,091**	**(2,307)**	

The cash flow from operating activities with related entities of 2018 refers mainly to the collection of tax receivables from TotalErg, sold in January 2018.

NOTE 34 - EARNINGS PER SHARE

Calculation of earnings per share is based on the following data:

	2018	2017
Profit attributable to the owners of the parent (1)	132.628	206.815
Average number of shares outstanding (2)	148.816.800	148.816.800
Basic earnings per share from continuing operations (2) (3)	0,701	0,721
Diluted earnings per share from continuing operations (2) (3)	0,701	0,721

(1) EUR thousand
(2) units
(3) Euro

There are no potentially dilutive securities that impact the Group's share of net profit.

Reconciliation with the equity and the result of ERG S.p.A.

	Equity		Profit (loss) for the year	
	31/12/2018	31/12/2017	2018	2017
Equity and profit (loss) for the year of ERG S.p.A.	**1,474,419**	**1,642,817**	**4,084**	**23,970**
Derecognition of the effects of transactions carried out between consolidated companies:				
Derecognition of intercompany profits on inventories and non-current assets	(1,587)	(3,961)	–	–
Derecognition of intercompany dividends	–	–	(20,000)	(20,177)
	(1,587)	**(3,961)**	**(20,000)**	**(20,177)**
Deferred tax liabilities:				
Deferred tax liabilities on the consolidation adjustments	–	–	768	–
Derecognition of the carrying amount of the equity investments:				
Difference between carrying amount and pro rata value of Equity	334,221	215,489	–	–
Adjusted pro rata results achieved by the investees			147,910	203,021
Recognition of Assets and Liabilities from business combinations	21,779	23,121	–	–
	356,000	**238,610**	**147,910**	**203,021**
Equity and profit (loss) for the year	**1,828,832**	**1,877,466**	**132,761**	**206,815**
Equity and profit (loss) for the year - minority interests	**–**	**–**	**(133)**	**–**
Equity and profit (loss) for the year consolidated ERG Group	**1,828,832**	**1,877,466**	**132,628**	**206,815**

NOTE 35 - DISCLOSURE BY OPERATING SEGMENT AND GEOGRAPHIC AREA

Reporting by business and geographical segment is presented in accordance with IFRS 8 - Operating segments.

The results at market value are indicators that are not defined in the IFRS. Management considers that these indicators are significant parameters for the presentation of the performance of the ERG Group.

To enhance understandability of the individual business segments' performance, the operating results are shown adjusted, net of non-recurring items.

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

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

Reporting by business segment

(EUR million)	Wind	Thermo-electric	Hydro-electric	Solar	Corporate	TOTAL adjusted	Non-recurring items	TOTAL reported	Discontinued operations	TOTAL continuing operations
2018										
Total revenue	389.4	404.8	194.1	38.4	35.7	1.062.3				
Intra-segment revenue	–	–	–	–	(35.7)	(35.7)				
Revenue	**389.4**	**404.8**	**194.1**	**38.4**	**0.0**	**1.026.7**		**1.026.7**	**(2.9)**	**1.023.7**
Gross Operating Income (EBITDA)	**273.9**	**52.9**	**146.2**	**32.3**	**(14.6)**	**490.6**	**(7.8)**	**482.8**	**(3.3)**	**479.6**
Amortisation, depreciation and impairment losses	(159.3)	(30.7)	(58.1)	(23.8)	(2.9)	(274.8)		(274.8)	0.7	(274.1)
Net Operating Income (EBIT)	**114.5**	**22.2**	**88.2**	**8.5**	**(17.6)**	**215.8**	**(7.8)**	**208.1**	**(2.6)**	**205.5**
Net gains on equity-accounted investments		0.1			–	0.1	–	0.1	–	0.1
Investments in associates and joint ventures		**12.9**				**12.9**		**12.9**		**12.9**
Capital expenditure in non-current assets	**146.4**	**8.1**	**6.7**	**345.2**	**3.2**	**509.6**		**509.6**		**509.6**

(EUR million)	Wind	Thermo-electric	Hydro-electric	Solar	Corporate	TOTAL adjusted	Non-recurring items	TOTAL reported	Discontinued operations	TOTAL continuing operations
2017										
Total revenue	445.4	473.3	136.6	–	37.9	1.093.2			–	
Intra-segment revenue	–	–	–	–	(36.7)	(36.7)			–	
Revenue	**445.4**	**473.3**	**136.6**	**–**	**1.2**	**1.056.5**		**1.056.5**	**(2.9)**	**1.053.6**
Gross Operating Income (EBITDA)	**316.2**	**78.4**	**93.6**	**–**	**(15.9)**	**472.3**	**(12.4)**	**459.9**	**(2.3)**	**457.6**
Amortisation. depreciation and impairment losses	(160.0)	(30.8)	(58.4)	–	(3.0)	(252.2)		(252.2)	1.3	(250.9)
Net Operating Income (EBIT)	**156.3**	**47.6**	**35.1**	**–**	**(18.9)**	**220.1**	**(12.4)**	**207.7**	**(1.1)**	**206.7**
Net gains on equity-accounted investments	–	0.1	–	–	–	0.1	–	0.1	–	0.1
Investments in associates and joint ventures		**12.8**				**12.8**		**12.8**		**12.8**
Capital expenditure in non-current assets	**74.8**	**9.9**	**6.3**	**–**	**2.9**	**93.8**		**93.8**		**93.8**

Reporting by geographical segment

(EUR million)	Italy	France	Germany	Poland	Bulgaria	Romania	UK	TOTAL adjusted	Non-recurring items	TOTAL reported	Discontinued operations	TOTAL continuing operations
2018												
Revenue	903.2	48.9	32.7	13.9	12.6	12.5	2.9	1.026.7		1.027	(2.9)	1.023.7
Gross Operating Income (EBITDA)	**411.7**	**30.1**	**21.6**	**9.8**	**7.9**	**6.6**	**2.9**	**490.6**	**(7.8)**	**482.8**	**(3.3)**	**479.6**
Amortisation, depreciation and impairment losses	(216.7)	(23.3)	(19.0)	(6.0)	(4.1)	(5.2)	(0.4)	(274.8)		(274.8)	0.7	(274.1)
Net Operating Income (EBIT)	**195.0**	**6.8**	**2.7**	**3.8**	**3.8**	**1.3**	**2.5**	**215.8**	**(7.8)**	**208.1**	**(2.6)**	**205.5**
Net gains on equity-accounted investments	0.1	–	–	–	–	–	–	0.1	0	0	–	0.1
Investments in associates and joint ventures	**12.9**							**12.9**		**12.9**	**–**	**12.9**
Capital expenditure in non-current assets	**370.9**	**98.7**	**17.1**	**0.0**	**0.0**	**0.3**	**22.6**	**509.6**		**509.6**	**–**	**509.6**

(EUR million)	Italy	France	Germany	Poland	Bulgaria	Romania	UK	TOTAL adjusted	Non-recurring items	TOTAL reported	Discontinued operations	TOTAL continuing operations
2017												
Revenue	925.6	46.2	37.6	11.8	12.9	19.4	2.9	1.056.5		1.056	(2.9)	1.053.6
Gross Operating Income (EBITDA)	**396.6**	**29.6**	**24.8**	**4.7**	**6.0**	**8.3**	**2.3**	**472.3**	**(12.4)**	**459.9**	**(2.3)**	**457.6**
Amortisation. depreciation and impairment losses	(195.1)	(21.3)	(18.9)	(6.1)	(4.2)	(5.3)	(1.3)	(252.2)		(252.2)	1.3	(250.9)
Net Operating Income (EBIT)	**201.6**	**8.3**	**5.9**	**(1.4)**	**1.7**	**2.9**	**1.1**	**220.1**	**(12.4)**	**207.7**	**(1.1)**	**206.7**
Net gains on equity-accounted investments	0.1							0.1	0	0	–	0.1
Investments in associates and joint ventures	**12.8**							**12.8**		**12.8**		**12.8**
Capital expenditure in non-current assets	**22.0**	**2.4**	**39.5**	**1.1**	**0.0**	**0.2**	**28.7**	**93.8**		**93.8**		**93.8**

Revenue from foreign countries relate to the revenue of the individual foreign Group companies present in the specific countries.

A single customer has revenues exceeding 10% of the total revenue of the Group.

For the details on non-recurring items, please refer to **Note 32 - Non-recurring items**.

NOTE 36 - ALTERNATIVE PERFORMANCE INDICATORS

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 the Directors' Report are different from the financial indicators expressly provided for by the IFRS adopted by the Group.

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

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

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

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

- **Adjusted revenue** is revenue, as indicated in the Financial Statements, with the exclusion of significant special income components (special items);
- **EBITDA** is an indicator of operating performance calculated by adding "Amortisation, depreciation and impairment" to the net operating profit. EBITDA is explicitly indicated as a subtotal in the financial statements;
- **Adjusted EBITDA** is the gross operating margin, as defined above, with the exclusion of significant special income components (special items);
- **Adjusted EBIT** is the net operating profit, explicitly indicated as a subtotal in the Financial Statements, with the exclusion of significant special income components (special items);
- **EBITDA Margin** is an indicator of the operating performance calculated by comparing the adjusted EBITDA to the Revenue from sales and services of each individual business segment;
- The **Adjusted tax rate** is calculated by comparing the adjusted values of taxes and profit before tax;
- **Adjusted profit attributable to the owners of the parent** is the profit attributable to the owners of the parent, with the exclusion of significant special profit or loss components (special items), net of the related tax effects;
- **Investments** are obtained from the sum of investments in property, plant and equipment and intangible assets. Starting from the interim Report at 31 March 2018, they also include the carrying amount of the acquisitions of net assets within the scope of M&A transactions;
- **Net working capital** is the sum of Inventories, Trade Receivables and Trade Payables;
- **Net invested capital** is the algebraic sum of Non-current Assets, Net Working Capital, Liabilities related to Post-employment Benefits, Other Assets and Other Liabilities;
- **Net financial indebtedness** is an indicator of 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 related to events that are not typical of normal business activities, such as restructuring and environmental costs, and certain effects resulting from business combinations;
  - 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.

Year 2018

Economic indicators

(EUR thousand)	Income Statement	Contribution of discontinued operations (Brockaghboy) 1	Exclusion of ancillary charges on non-recurring operations 2	Exclusion of ERG 80 charges 3	Exclusion of capital gain from sale of UK equity investment 4	Exclusion of the net gain on refinancing (IFRS 9) 5	Adjusted Income Statement
Revenue	1.023.736	2.937	–	–	–	–	1.026.672
Other income	21.903	889	–	–	–	–	22.792
Purchases	(327.239)	(0)	–	–	–	–	(327.239)
Services and other operating costs	(172.025)	(551)	2.679	2.608	–	–	(167.289)
Personnel expense	(66.800)	–	–	2.470	–	–	(64.330)
Gross Operating Income (EBITDA)	**479.575**	**3.275**	**2.679**	**5.078**	**–**	**–**	**490.607**
Amortisation, depreciation and impairment of non-current assets	**(274.069)**	**(704)**	**–**	**–**	**–**	**–**	**(274.772)**
Net Operating Income (EBIT)	**205.507**	**2.571**	**2.679**	**5.078**	**–**	**–**	**215.835**
Financial expense	(98.652)	(1.802)	–	–	–	–	(100.454)
Financial income	37.236	1.198	–	–	226	(7.877)	30.783
Net financial income (expense)	**(61.416)**	**(605)**	**–**	**–**	**226**	**(7.877)**	**(69.671)**
Net gains on equity-accounted investments	143	–	–	–	–	–	143
Other net gains (losses) on equity investments	(221)	26.713	–	–	(26.714)	–	(222)
Gains (losses) on equity investments	**(78)**	**26.713**	**–**	**–**	**(26.714)**	**–**	**(79)**
PROFIT (LOSS) BEFORE TAXES	**144.012**	**28.680**	**2.679**	**5.078**	**(26.488)**	**(7.877)**	**146.084**
Income taxes	(39.683)	(248)	(481)	(716)	317	1.847	(38.963)
PROFIT (LOSS) FROM CONTINUING OPERATIONS	**104.329**	**28.432**	**2.198**	**4.362**	**(26.170)**	**(6.029)**	**107.121**
Profit from discontinued operations	28.432	(28.432)	–	–	–	–	–
PROFIT (LOSS) FOR THE YEAR	**132.761**	**–**	**2.198**	**4.362**	**(26.170)**	**(6.029)**	**107.121**
Non-controlling interests	(133)	–	–	–	–	–	(133)
PROFIT (LOSS) ATTRIBUTABLE TO THE OWNERS OF THE PARENT	**132.628**	**–**	**2.198**	**4.362**	**(26.170)**	**(6.029)**	**106.988**
EBITDA Margin *(EBITDA/Revenue)*							*48%*
Tax rate adjusted *(Taxes/Profit before taxes)*							*27%*

1 The results of Brockaghboy, the subsidiary sold on 7 March 2018, are subject to the requirements of IFRS 5. In Report on Operations, 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 for business combinations and sales of shareholdings 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 adjustment commented herein relates primarily to the reversal of the aforementioned benefit net of the effects linked to the reversal of similar income relating to re-financing operations of previous years.

Financial indicators

(EUR thousand)	Notes	31/12/2018	Non-current assets	Net working capital	Post-employment benefits	Other assets	Other liabilities	NET INVESTED CAPITAL	Net financial indebtedness
Intangible assets	1	782,511	782,511					**782,511**	
Goodwill	2	148,269	148,269					**148,269**	
Property, plant and equipment	3	2,288,316	2,288,316					**2,288,316**	
Equity investments:	4	14,000	13,997					**13,997**	
Other non-current financial assets	5	76,604	40,546					**40,546**	(36,058)
Deferred tax assets	6	128,028				128,028		**128,028**	
Other non-current assets	7	42,890				42,890		**42,890**	
Non-current assets		**3,480,619**							
Inventories	8	21,623		21,623				**21,623**	
Trade receivables	9	251,001		251,001				**251,001**	
Other current assets	10	120,785				120,785		**120,785**	
Current financial assets	16	49,690							(49,690)
Cash and cash equivalents	16	774,193							(774,193)
Current assets		**1,217,292**							
Asset Held for Sale	21	–							
TOTAL ASSETS		**4,697,911**							
Equity attributable to the owners of the parent	11	1,828,832							
Non-controlling interests		–							
Equity		**1,828,832**							
Provisions for employee benefits	12	5,820			(5,820)			**(5,820)**	
Deferred tax liabilities	6	288,637					(288,637)	**(288,637)**	
Provision for risks and charges - non current portion	13, 20	143,894					(143,894)	**(143,894)**	
Non-current financial liabilities	16	1,868,211							1,868,211
Other non-current liabilities	14	34,417					(34,417)	**(34,417)**	
Non-current liabilities		**2,340,979**							
Provision for risks and charges - current portion	13, 20	45,580					(45,580)	**(45,580)**	
Trade payables	15	92,294		(92,294)				**(92,294)**	
Current financial liabilities	16	334,726							334,726
Other current liabilities	17	55,501		(1,052)			(54,448)	**(55,501)**	
Current liabilities		**528,100**							
Liabilities associated with assets held for sale	21	–							
TOTAL EQUITY AND LIABILITIES		**4,697,911**							
Alternative performance indicators			**3,273,640**	**179,277**	**(5,820)**	**291,704**	**(566,976)**	**3,171,825**	**1,342,996**
Financial leverage (Net financial indebtedness/net invested capital)									42%

Year 2017

Economic indicators

(EUR thousand)	Income Statement	Contribution of discontinued operations (Brockaghboy)	Exclusion of ancillary charges on non-recurring operations	IFRS 15 impact	Contribution of discontinued operations (TotalErg)	Adjusted Income Statement
Revenue	1,053,552	2,910	–	(8,907)	–	1,047,555
Other income	10,581	–	–	–	–	10,581
Purchases	(355,820)	–	–		–	(355,820)
Services and other operating costs	(182,020)	(579)	7,146	8,907	–	(166,547)
Personnel expense	(68,698)	–	5,274		–	(63,424)
Gross Operating Income (EBITDA)	**457,595**	**2,331**	**12,419**	**–**	**–**	**472,345**
Amortisation, depreciation and impairment of non-current assets	**(250,937)**	**(1,261)**	**–**	**–**	**–**	**(252,197)**
Net Operating Income (EBIT)	**206,658**	**1,070**	**12,419**	**–**	**–**	**220,148**
Financial expense	(89,794)	(546)	–	–	–	(90,340)
Financial income	24,496	229	–	–	–	24,726
Net financial income	**(65,297)**	**(317)**	**–**	**–**	**–**	**(65,614)**
Net gains on equity-accounted investments	119	–	–	–	–	119
Other net gains (losses) on equity investments	(1,290)	–	–	–	–	(1,290)
Gains (losses) on equity investments	**(1,171)**	**–**	**–**	**–**	**–**	**(1,171)**
PROFIT (LOSS) BEFORE TAXES	**140,190**	**753**	**12,419**	**–**	**–**	**153,362**
Income taxes	(32,958)	(738)	(3,108)		610	(36,194)
PROFIT FROM CONTINUING OPERATIONS	**107,232**	**15**	**9,311**	**–**	**610**	**117,168**
Profit from discontinued operations	99,583		–		(99,583)	–
PROFIT FOR THE YEAR	**206,815**	**15**	**9,311**	**–**	**(99,973)**	**117,168**
Non-controlling interests	–	–	–	–	–	–
PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT	**206,815**	**15**	**9,311**	**–**	**(98,973)**	**117,168**
EBITDA Margin *(EBITDA/Revenue)*						*45%*
Tax rate adjusted *(Taxes/Profit before taxes)*						*24%*

Financial indicators

(EUR thousand)	31/12/2017	Non-current assets	Net working capital	Post-employment benefits	Other assets	Other liabilities	NET INVESTED CAPITAL	Net financial indebtedness
Intangible assets	634,569	634,569					**634,569**	
Goodwill	125,932	125,932					**125,932**	
Property, plant and equipment	2,181,860	2,181,860					**2,181,860**	
Equity investments:	21,173	21,173					**21,173**	
Other non-current financial assets	40,369	40,369					**40,369**	-
Deferred tax assets	132,861				132,861		**132,861**	
Other non-current assets	47,308				47,309		**47,309**	
Non-current assets	**3,184,073**							
Inventories	20,597		20,597				**20,597**	
Trade receivables	255,534		255,534				**255,534**	
Other current assets	97,573				97,573		**97,573**	
Current financial assets	29,407							(29,407)
Cash and cash equivalents	812,992							(812,992)
Current assets	**1,216,103**							
Asset Held for Sale	**261,069**							
TOTAL ASSETS	**4,661,245**							
Equity attributable to the owners of the parent	1,877,466							
Non-controlling interests	–							
Equity	**1,877,466**							
Provisions for employee benefits	6,403			(6,403)			**(6,403)**	
Deferred tax liabilities	265,257					(265,257)	**(265,257)**	
Provisions for risk and charges - non current portion	127,801					(127,801)	**(127,801)**	
Non-current financial liabilities	1,788,714							1,788,714
Other non-current liabilities	40,950					(40,950)	**(40,950)**	
Non-current liabilities	**2,229,124**							
Provision for risks and charges - current portion	53,242					(53,242)	**(53,242)**	
Trade payables	126,796		(126,796)				**(126,796)**	
Current financial liabilities	287,651							287,651
Other current liabilities	84,808		(1,052)			(83,756)	**(84,808)**	
Current liabilities	**552,497**							
Liabilities associated with assets held for sale	**2,156**							
TOTAL EQUITY AND LIABILITIES	**4,661,245**							
Alternative performance indicators		**3,003,904**	**148,283**	**(6,403)**	**277,743**	**(571,006)**	**2,852,521**	**1,233,966**
Financial leverage (Net financial indebtedness/net invested capital)								43%

NOTE 37 - FINANCIAL INSTRUMENTS

For information on the effects deriving from the first application of IFRS 9 to financial instruments, please refer to the section **Accounting standards, amendments and IFRS interpretations applied starting on 1 January 2018**. In accordance with the selected method of first application of IFRS 9, the comparative information was not restated to reflect the new provisions.

31/12/2018

The following table shows, for each financial asset and liability, the carrying amount and the fair value. Information on the fair value of financial assets and liabilities not measured at fair value are excluded, when the carrying amount represents a reasonable approximation of fair value.

31/12/2018	Fair value - Hedging instruments	FVTPL instruments	FVOCI instruments	Financial assets measured at amortised cost	Other financial liabilities	Total Carrying Amount	Fair value
Equity investments	–	465	–	–	–	465	465
Other non-current financial receivables	–	–	–	76.604	–	76.604	76.604
Derivative instruments	–	–	–	–	–	–	–
Other current financial receivables (1)	–	–	–	49.243	–	49.243	49.243
Trade receivables	–	–	–	251.001	–	251.001	n/a
Financial instruments in working capital	–	–	446	–	–	446	n/a
Other receivables	–	–	–	291.356	–	291.356	n/a
Cash and cash equivalents	–		–	774.193	–	774.193	n/a
Total assets	**–**	**465**	**446**	**1.442.399**	**–**	**1.443.310**	
Loans and borrowings	–	–	–	–	893.605	893.605	943.044
No recourse project financing	–	–	–	–	1.177.552	1.177.552	1.367.848
Current bank borrowings	–	–	–	–	22.698	22.698	22.698
Financial payables	–	–	–	–	18.895	18.895	18.895
Derivative instruments	90.188	–	–	–		90.188	90.188
Trade payables	–	–	–	–	92.294	92.294	n/a
Other payables	–	–	–	–	89.917	89.917	n/a
Total liabilities	**90.188**	**–**	**–**	**–**	**2.294.960**	**2.385.148**	

(1) the column "Financial assets measured at amortised cost" includes EUR 34,670 thousand of the guarantee margins related to the futures derivatives hedging the electricity price risk. This amount is reported net of the fair values of these contracts at 31 December 2018, negative by a total amount of EUR 24,014 thousand

Instruments measured at Fair value to profit or loss (FVTPL) relate exclusively to instruments which must be measured at FVTPL in accordance with IFRS 9.

With the exception of derivative instruments, the other financial liabilities are measured at amortised cost.

The most important items to be considered parts of the net financial position relate to:

- Derivative instruments;
- Financial receivables;
- Cash and cash equivalents;
- Loans and borrowings;
- No recourse project financing;
- Current bank borrowings;
- Financial payables.

With regard to the most important items for the purposes of the income statement, the following are pointed out:

- Derivative instruments;
- Loans and borrowings;
- No recourse project financing.

It is also noted that the Group adopted IFRS 9 as from 1 January 2018. Based on the first application methods chosen, the comparative information was not restated.

The following table provides an analysis of the fair value measurement of financial instruments, grouped as levels 1 to 3 based on the degree to which their fair value can be observed:

- level 1, the fair value is determined from prices quoted on active markets;
- level 2, the fair value is determined using valuation techniques based on variables which are directly (or indirectly) observable on the market;
- level 3, the fair value is determined using valuation techniques based on significant variables that cannot be observed on the market.

	Level 1	Level 2	Level 3
Financial assets			
- Fair value - Hedging instruments	–	–	–
- FVTPL instruments	–	465	–
- FVOCI instruments	446	–	–
- Financial assets measured at amortised cost	–	125,848	–
Total	**446**	**126,313**	**–**
Financial liabilities			
- Fair value - hedging instruments (1)	24,014	90,188	–
- Other financial liabilities	–	2,352,484	–
Total	**24,014**	**2,442,671**	**–**

(1) "Fair value - Hedging instruments" includes the positive fair values of the futures contracts hedging the commodity price risk, amounting to EUR 24,014 thousand. Said amount is reported in the present Report as a direct deduction of the value of Financial assets measured at amortised cost

The financial instruments classified in level 1 relate to the fair value of future derivative contracts on commodities for an amount equal to EUR 24,014 thousand and bonds for an amount equal to EUR 446 thousand.

Corporate loans, project financing and financial instruments on interest rates and commodities are mainly classified in level 2.

31/12/2017	FVTPL (1)	L&R (2)	AFS (3)	HTM	Hedging derivatives	Other liabilities	Total	*of which non-current*	Fair value
Equity investments	–	501	–	–	–	–	501	–	–
Financial receivables	–	40,369	–	–	–	–	40,369	*40,369*	–
Derivative instruments	–	–	–	–	19,688	–	19,688	–	19,688
Trade receivables	–	255,534	–	–	–	–	255,534	–	–
Financial instruments in working capital	–	–	137	–	–	–	137	–	–
Other receivables	–	277,742	–	–	–	–	277,742	*180,169*	–
Cash and cash equivalents	–	812,992	–	–	–	–	812,992	–	812,992
Total assets	**–**	**1,387,138**	**137**	**–**	**19,688**	**–**	**1,406,963**	***220,538***	**832,680**
Loans and borrowings	–	–	–	99,465	–	670,555	770,020	*711,395*	–
No recourse project financing	–	–	–	–	–	1,114,706	1,114,706	*970,891*	–
Current bank borrowings	–	–	–	–	–	82,958	82,958	–	–
Financial payables	–	–	–	–	–	2,111	2,111	–	–
Derivative instruments	–	–	–	–	106,570	–	106,570	*106,428*	106,570
Trade payables	–	–	–	–	–	126,796	126,796	–	–
Other payables	–	–	–	–	–	123,962	123,962	*40,905*	123,962
Total liabilities	**–**	**–**	**–**	**99,465**	**106,570**	**2,121,089**	**2,327,124**	***1,829,619***	**230,532**

(1) FVTPL: fair value through profit or loss
(2) L&R: Loans and receivables
(3) AFS: Available for sale financial investments

It is also noted that the Group adopted IFRS 9 as from 1 January 2018. Based on the first application methods chosen, the comparative information was not restated.

The following table provides an analysis of the financial instruments measured at fair value, grouped as levels 1 to 3 based on the degree to which their fair value can be observed:

- level 1, the fair value is determined from prices quoted on active markets;
- level 2, the fair value is determined using valuation techniques based on variables which are directly (or indirectly) observable on the market;
- level 3, the fair value is determined using valuation techniques based on significant variables that cannot be observed on the market.

	Level 1	Level 2	Level 3
Financial assets			
- Fair value - Hedging instruments	–	–	–
- FVTPL instruments	–	465	–
- FVOCI instruments	446	–	–
Total	**446**	**465**	**–**
Financial liabilities			
- Fair value - hedging instruments	24,014	90,188	–
- Other financial liabilities	–	2,352,484	–
Total	**24,014**	**2,442,671**	**–**

The Group had no financial instruments classifiable under level 3.

Financial instruments classified in level 1 relate to commodities (electricity and gas), whose value is quoted daily.

Financial instruments on interest rates and commodities are classified in level 2

To determine the market value of the financial instruments, ERG uses various models for measuring and valuation, as summarised below:

Type	Instrument	Pricing model	Market data used	Data provider	IFRS 7 Hierarchy
Interest rate derivatives	Interest Rate Swap	Discounted Cash Flow	- Deposit rates (Euribor) - Swap rates	- Reuters	Level 2
	Interest Rate Option (Cap, Floor)	Black & Scholes	- Deposit rates (Euribor) - Swap rates - Implied volatility of rates	- Reuters - Reuters	Level 2
Foreign exchange derivatives	FX Forward	Discounted Cash Flow	- Zero coupon curves of the reference currencies - ECB spot exchange rates	- Reuters	Level 2
	FX Option	Black & Scholes	- Zero coupon curves of the reference currencies	- Reuters	Level 2
		Edgeworth Expansion	- ECB spot exchange rates		
		Monte Carlo Simulation	- Implicit exchange rate volatility		
Derivatives on commodities	Commodity Swap	Discounted Cash Flow	- Official spot prices of reference commodities	- Platt's	Level 2
	Gas formulas		- ECB spot exchange rates		
	Commodity Future	Listed instrument	- Official settlement prices - Source:EEX	- EEX via Reuters	Level 1
	Contract for Difference (CfD)	Discounted Cash Flow	- Forward PUN quoted on the OTC market	- EEX via Reuters	Level 2
			- Zero coupon curve on the Euro	- Reuters	

NOTE 38 - DISCLOSURE ON RISKS

The main risks identified and actively managed by the ERG Group are the following:

- the credit risk, which highlights the possibility of default of a counterparty or any impairment of the assigned credit rating;
- the market risk, deriving from exposure to exchange rate fluctuations, mainly between Euro and US Dollar, to interest rate fluctuations, and to the change in the prices of the products sold and of the purchases of raw materials (commodity price volatility risk);
- the liquidity risk, which expresses the risk that available financial resources are insufficient to maintain payment commitments.

The ERG Group attributes a great deal of importance to the identification and measurement of the risks and to the connected control systems, in order to assure an efficient management of the assumed risks. Consistently with this objective, an advanced Risk Management system was adopted that assures, in compliance with the existing policies on the matter, the identification, measurement and central level control for the entire Group of the degree of exposure to individual risks.

The Group Risk Management & Corporate Finance function ensures consistency with the assigned risk limits and provides adequate support with its own analyses, both to individual subsidiaries and to the Risk Committee and Top Management of the Parent Company, for strategic decisions.

Credit risk

Exposure to credit risk, inherent in the probability that a determined counterparty will not be able to meet its contractual obligations, is managed through appropriate analyses and assessments also supported by primary providers on the analysis of the credit risk, attributing to each counterparty an internal rating (Internal Rating Based, summary indicator of creditworthiness assessment). The rating class provides an estimate of the probability of default of a determined counterparty from which the assigned degree of credit facility, which is monitored punctually and which must never be exceeded. The choice of the counterparties in relation both to the industrial business and to financial trades depends on the decisions of the Credit Committee whose choices are supported by the credit rating analyses. The concentration risk, both by customer and by sector, is monitored continuously but without ever presenting alert situations.

At 31 December 2018, maximum exposure to credit risk on trade receivables, broken down by geographic region, is as follows:

(EUR thousand)	31/12/2018	31/12/2017
Italy	208,282	208,341
France	7,352	9,793
Germany	4,235	8,422
Bulgaria	5,574	3,891
Poland	3,484	2,084
Romania	22,073	21,062
UK	–	1,940
Total	**251,001**	**255,534**

The carrying amount of the receivables includes an amount of EUR 156 million relating to the two main customers of the Group, operators of the market and of electrical services in Italy.

The underlying table provides information about the exposure of the ERG Group to credit risk at year end, by classification in receivables not past due (see **Note 9 - Trade Receivables**) according to the credit rating corresponding to the ratings assigned by the information provider and assigned internally.

(EUR thousand)	2018	2017
AAA Rating	–	–
AA+/AA- Rating	20,201	5,402
A+/A- Rating	19,469	–
BBB+/BBB- Rating	188,013	151,590
BB+/BB- Rating	2,511	21,840
B+/B- Rating	2,374	–
CCC Rating	448	–
Receivables from Group companies that are not consolidated line by line	3,073	2,631
Unassigned	1,766	58,995
Total	**237,852**	**240,458**

In relation to the receivables that were not impaired, the Group assigns to each exposure a credit rating that provides a forecast of the risk of loss and considers proven experience in rating credit quality. Credit ratings are defined using qualitative and quantitative factors indicating the risk of breach.

The following table shows credit risk exposure and expected losses on trade receivables not past due at 31 December 2018 (with respect to the above table, the carrying amount is recorded net of items included under liabilities to adjust receivables and of receivables already collected on the date of the present document).

(EUR thousand)	Carrying amounts	Weighted average loss percentage	Loss allowance
AAA Rating	4.482	0.01%	–
AA+/AA- Rating	14.157	0.04%	(6)
A+/A- Rating	18.156	0.02%	(4)
BBB+/BBB- Rating	181.431	0.28%	(514)
BB+/BB- Rating	1.824	0.60%	(11)
B+/B- Rating	1.436	2.79%	(40)
CCC Rating	235	5.03%	(12)
Total	**221.721**	**0.26%**	**(587)**

Liquidity Risk

It is identified with the risk that the financial resources may not be sufficient to cover all maturing obligations. To date, the ERG Group guarantees with the generation of cash flows and with the availability of credit facilities, made available by different counterparties, the adequate coverage of its financial requirements.

The following tables summarise the time profile of the financial liabilities of the Group at 31 December 2018 and at 31 December 2017 on the basis of non-discounted contractual payments.

31/12/2018	Maturity of payables				
(EUR thousand)	On request	less than 3 months	from 3 to 12 months	from 1 to 5 years	over 5 years
Loans and borrowings	–	61,736	112,631	746,031	22,646
No recourse project financing	–	7,425	172,598	827,741	360,084
Current bank borrowings	20,000	–	–	–	–
Derivative instruments	–	1,471	48,882	63,975	724
Trade payables	27,447	64,817	–	–	–
Total liabilities	**47,447**	**135,449**	**334,111**	**1,637,747**	**382,006**

31/12/2017	Maturity of payables				
(EUR thousand)	On request	less than 3 months	from 3 to 12 months	from 1 to 5 years	over 5 years
Loans and borrowings	–	2,953	67,055	646,354	102,223
No recourse project financing	–	5,651	159,318	910,388	222,629
Current bank borrowings	80,039	–	–	–	–
Derivative instruments	–	1,230	31,733	72,476	840
Trade payables	90,556	36,241			
Total liabilities	**170,595**	**46,074**	**258,106**	**1,629,218**	**325,692**

EMTN Euro Medium Term Notes Programme

On **19 December 2018** ERG S.p.A. completed 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, as a result of the approval granted last 13 December 2018 by the Board of Directors.

The programme, with a duration of one year, renewable on expiration, provides for the possibility of issuing non-convertible bonds that will be listed on the Luxembourg Exchange, to be placed with institutional investors operating in Europe.

The Fitch Ratings agency ("Fitch") assigned to ERG S.p.A. an Issuer Default Rating of BBB- with stable outlook and to the EMTN programme a "BBB-" rating.

This transaction will enable ERG to optimise the capability to exploit the financing opportunities offered by institutional investors on the Debt Capital Market (DCM), through a timely future issue of bonds.

The Board of Directors postponed to subsequent resolutions the approval of the individual bonds issues within the EMTN Programme, as well as the definition of terms, duration and conditions.

Market risk

It comprises exchange rate risk, interest rate risk and commodity price risk. The management of these risks is regulated by the guidelines provided in the Group Policy and by internal procedures in the Finance area.

Moreover, specific risk management policies and procedures have been developed, based on the best practices of the industry, for the continuous measurement of exposure levels with respect to a Risk Capital value allocated by the parent company.

Interest Rate Risk

It identifies the change the future trends of interest rates that could determine higher costs for the Group. Containment of the interest rate risk is pursued by using derivative contracts such as Interest Rate Swaps and Interest Rate Options (plain vanilla).

The following table represents the impact on profit before taxes (because of changes to the fair value of financial assets and liabilities) and on the equity of the Group (due to changes to the fair value of the derivative instruments in cash flow hedges) of the +/-1% change of the interest rate, maintaining all other variables fixed.

Impact on Income Statement

(EUR million)	2018	2017
Shock-up (+1% change in interest rate)	9.0	3.0
Shock-down (-1% change in interest rate)	(4.2)	(0.7)

Impact on Equity

(EUR million)	2018	2017
Shock-up (+1% change in interest rate)	31.2	39.1
Shock-down (-1% change in interest rate)	(35.7)	(33.9)

Commodity risk

The commodity price risk consists of the unexpected change in commodity prices, in the procurement of services, finished goods and services marketed for sale.

The Group implements all risk management strategies necessary to avoid the economic damages deriving from the volatility of the price for the sale and purchase of Electricity and from fluctuations in the Clean Spark Spread.

The following table considers the derivative financial instruments tied to different types of commodities and represents a source of reasonable price changes, maintaining all other variables fixed, the impact on the changes of profit before tax (because of changes in the fair value of the financial assets and liabilities) and of Group equity (due to changes of the fair value of cash flow hedge derivative instruments) of a +/-25% change in the price of the commodities.

Impact on Income Statement

(EUR million)	2018	2017
Shock-up (change in price of commodities +25%)	–	2.0
Shock-down (change in price of commodities -25%)	–	(2.0)

Impact on Equity

(EUR million)	2018	2017
Shock-up (change in price of commodities +25%)	(19.8)	(8.0)
Shock-down (change in price of commodities -25%)	19.8	8.1

Derivative instruments used

The main types of derivative instruments adopted in the management of financial risks, with the sole purpose of hedging, are the following:

Options: contract whereby one of the parties, paying a price (premium) to the other, acquires the right to purchase (call option) or sell (put option), at a future date, a certain quantity of financial instruments (underlying assets) at a set price (exercise price);

Forward contracts: they provide for the purchase or sale between two parties of a given asset (underlying asset) at a future date and at a price pre-set at the time of execution of the contract; this category also includes future contracts, which unlike forward contracts, are standardised, traded in lots and for predetermined maturity dates within regulated markets.

Swap: contract that determines between two parties the exchange of payment flows on certain dates. Payments can be expressed in the same currency or in different currencies and their amount is determined in relation to an underlying asset.

The derivatives entered into by ERG and designed to hedge the exposure to financial risks existing at 31 December 2018 are:

Interest rate derivatives

- Interest Rate Option instruments that allow to set upper limits (cap) and lower limits (floor) to interest rate fluctuations relating to indexed loans at a variable rate;
- Interest Rate Swap instruments to bring bank loans with fixed and variable rate to the risk profile deemed most appropriate. IRS contracts provide that the counterparties, with reference to a defined notional value and to pre-set maturities, mutually exchange interest flows calculated in relation to fixed rates or to variable rate parameters agreed previously.

Derivatives on commodities

- CfD (Contract for Difference) instruments, used to manage the risk of volatility of the price of electricity; this instrument allows to purchase or to sell quantities of electricity synthetically, liquidating upon expiration the differential between the agreed price and the market price recorded in the reference period.

Summary of derivatives used

The derivatives entered into by ERG, designed to hedge its exposure to commodities price, exchange rate and interest rate risks, were as follows at 31 December 2018:

	Type	Hedged risk	31/12/2018 Reference notional	31/12/2018 Fair Value	31/12/2017 Reference notional	31/12/2017 Fair Value
				(EUR thousand)		(EUR thousand)
	Cash Flow Hedge instruments					
A	Interest Rate Swap and Interest Rate Cap	Economic interest rate risk	1,783 EUR million	(88,534)	1,521 EUR million	(105,643)
B	Swap Hedging Gas Price Risk	Transaction commodity risk	2,014 thousands of MWh	(1,654)	1,065 thousands of MWh	509
C	Future Hedging Electricity Price Risk	Transaction commodity risk	5,597 thousands of MWh	(23,808)	809 thousands of MWh	(1,474)
	Future Hedging Electricity Price Risk	Transaction commodity risk	– thousands of MWh	–	119 thousands of MWh	(142)
	Total Cash Flow Hedge instruments			**(113,996)**		**(106,750)**
	Non Hedge Accounting Instruments					
	Swap Hedging Gas Price Risk	Transaction commodity risk	– thousands of MWh	–	53 thousands of MWh	17
	Future Hedging Electricity Price Risk	Transaction commodity risk	– thousands of MWh	–	164 thousands of MWh	38
C	Future Hedging Electricity Price Risk	Transaction commodity risk	687 thousands of MWh	(206)	852 thousands of MWh	753
	Total non Hedge Accounting instruments			**(206)**		**808**
	TOTAL DERIVATIVE INSTRUMENTS			**(114,202)**		**(105,942)**

A Interest rate swaps and interest rate caps and floors.

Transactions for hedging the "interest rate" economic risk tied to fluctuations in interest rates on loans.

The reference notional values of the hedges refer to the following companies:

- ERG S.p.A.;
- ERG Power S.r.l.;
- Wind and solar power business companies

At 31 December 2018, there was a negative total fair value of EUR 88.5 million. The change is recognised in the Cash Flow Hedge reserve.

B Swap Hedging Gas Price Risk

Swaps used to hedge the risk of price fluctuations in gas formulas for provision and supply agreements. In these contracts, the parties undertake to pay or collect at an agreed future date the difference between the established price and the price observed during the period multiplied by the quantities indicated in the contract.

At 31 December 2018, there was a negative total fair value of EUR 1.7 million.

C Future Hedging Electricity Price Risk

Forward contract in which two parties agree to exchange at a future date a certain asset at a price fixed at the time of concluding the contract.

At 31 December 2018, there was a negative total fair value of EUR 24 million.

With reference to the impact of hedging derivatives on the statement of comprehensive income, please refer to **Other comprehensive income**.

NOTE 39 - SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Date	Sector	Significant events	Press release
11 January 2019	Corporate	**Acquisition** by Soles Montalto GmbH of 78.5% of Perseo S.r.l., owner of 100% of Andromeda PV S.r.l. which in turn manages two photovoltaic plants with a total installed capacity of 51.4 MW. It was also agreed that Soles Montalto GmbH will remain minority shareholder, on the basis of shareholders' agreements that will guarantee ERG full industrial control of the asset and its line-by-line consolidation. The transaction's closing date was 12 February 2019.	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	**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 2 (13.2 MW with an estimated average annual output of 29 GWh), corresponding to an overall total of around 45,000 tonnes of avoided CO_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. The selection examined listed companies worldwide with revenue of at least $1 billion that were assessed preliminarily on the basis of four parameters (sustainability reporting, financial health, type of products sold and financial penalties received) and, subsequently, on 21 additional parameters, specific for each industry, relating to the management of natural resources, of personnel, clean revenue and supplier performance.	Press release 04/02/2019

NOTE 40 - AUDIT FEES

Based on Article 149-*duodecies* of the Issuers Regulation, the 2018 costs relating to the services performed by the independent auditor KPMG S.p.A., main auditor of the ERG Group, and by the companies belonging to its related network.

The preparation of the prospectus is in line with the "Procedure for audit engagements in the companies of the ERG Group and monitoring on additional services".

Audit services comprise the complete audit of the separate and Consolidated financial statements and the audit of the reporting package of the company for the purposes of the preparation of the consolidated financial statements of the parent company.

Services other than auditing refer mainly to:

- assurance services for EUR 60 thousand relating to the prospectus on the EMTM;
- other services for EUR 90 thousand relating to the voluntarily agreed upon procedures on the quarterly data of the subsidiaries for EUR 60 thousand and relating to the Review of "non financial information" and of the sustainability report for EUR 30 thousand.

Type of the service	Party that performed the service	Recipient	2018 compensation (EUR thousand)
Audit Services	Auditor of the parent company	Parent company	266
	Auditor of the parent company	Subsidiaries	790
	Network of the parent company auditor	Subsidiaries	96
Total Audit Services			**1,152**
Non audit services	Tax advisory services	Subsidiaries	–
	Auditor of the parent company	Parent company	150
	Network of the parent company auditor	Parent company	–
	Network of the parent company auditor	Subsidiaries	–
	Auditor of the parent company	Subsidiaries	–
Total non Audit Services			**150**
Total			**1,302**

NOTE 41 - OTHER INFORMATION

During the year, no atypical and/or unusual transactions took place. Atypical and/or unusual transactions are those transactions that by significance/relevance, nature of the counterparties, subject of the transaction, procedures for determining the transfer price and timeframe of the event (proximity to the end of the year) can give rise to doubts with regard to: the correctness/completeness of the information in the financial statements, conflict of interest, wealth preservation, the protection of minority shareholders.

No advances were provided and there are no receivables from directors and statutory auditors of the parent company for the performance of these functions also in other companies included in the consolidation scope.

Disclosure obligations pertaining to Law no. 124/2017 of 4 August 2017

Article 1, paragraph 125, of Law No. 124 of 4 August 2017 introduced the obligation for businesses that receive economic contributions from public administrations to publish the amounts received in the notes to the financial statements and in any consolidated financial statements. This arrangement has raised some issues as regards interpretation, with reference - inter alia - to which type of grants should be subject to publication. In this regard, the company has taken note of the position assumed by Assonime with Circular No. 5 of 22 February 2019, according to which, by adopting a systematic interpretation of Article 1, paragraph 125, the publication requirement would relate only to grants of an "individual" nature. While considering this position by Assonime to be widely endorsed, pending a more general interpretation of the provision in question and given the significance of the possible consequences of the failure to fulfil the obligation of publication, the Group has decided to also indicate in these financial statements the economic contributions received from public authorities usable by all companies and that fall within the general structure of the reference system defined by the State (including Conto Energia incentives, energy efficiency certificates, etc.) except those belonging to the following categories:

- tax benefits;
- contributions for training received from inter-professional funds (for example, Fondimpresa), since they are membership-based funds of a legal nature from entities governed by private law, which are financed by contributions paid by the businesses themselves.

(EUR million)	2018 Revenue	of which Feed-In Premium (1)	of which White Certificates (1) (2)	of which Guarantees of Origin (1) (2)	of which RID (1)	of which FER (1)
Wind Italy	159	158	–	1	–	–
Hydroelectric Italy	86	78	–	2	5	1
Thermoelectric Italy	25	–	25	–	–	–
Solar Italy	30	30	–	–	–	–
Total	**301**	**267**	**25**	**2**	**5**	**1**

(EUR million)	2018 Collections	of which Feed-In Premium (1)	of which White Certificates (1) (2)	of which Guarantees of Origin (1) (2)	of which RID (1)	of which FER (1)
Wind Italy	176	176	–	1	–	–
Hydroelectric Italy	65	58	–	1	5	0
Thermoelectric Italy	27	–	27	–	–	–
Solar Italy	34	34	–	–	–	–
Total	**303**	**268**	**27**	**2**	**5**	**0**

(1) contributing entity: Energy Services Operator (GSE)
(2) white certificates are sold to private third parties

The reference amounts indicated in the tables above are also stated in the Financial Statements of the Group companies concerned.

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

2018 Consolidated Non-Financial Statement

In accordance with the provisions of Article 5, paragraph 3b) of Legislative Decree 254/2016, ERG S.p.A. has prepared its Consolidated non-Financial Statement, which constitutes a separate report.

The 2018 Consolidated non-Financial Statement, prepared in accordance with the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards) defined in 2016 by the Global Reporting Initiative (GRI), subjected to limited review by KPMG S.p.A., is available on the Group's website.

Recommendations with regard to information to be provided in the financial reports and in the press releases of the listed companies operating in the field of renewable energies

In accordance with CONSOB Recommendation no. DIE/0061493 of 18 July 2013 with regard to information to be provided in the financial reports and in the press releases of the listed companies operating in the field of renewable energies, the related tables are presented below.

Reconciliation with value of Property, Plant and Equipment of the Statement of Financial Position

(EUR thousand)	Net carrying amount at 31.12.2018
Operational plants	2,275,666
Not yet operational plants	480
Other property, plant and equipment	12,170
Total	**2,288,316**
Other assets held for sale (Brockaghboy Windfarm Ltd.)	–
TOTAL AFTER IFRS 5	**2,288,316**

Information about the power plants plant in operation at 31 December 2018

Company	Plant	Associated financial debt: Carrying amount of financial liability	Type	Disbursement / Maturity		Hedge
ERG Power S.r.l.	C.C.G.T (Combined Cycle Gas Turbine)	48,780	Project financing	2010	2021	IRS: fixed rate 2.77%
Thermoelectric		**48,780**				
ERG Hydro S.r.l.	Hydroelectric Plant	n.a.	n.a.	n.a.	n.a.	n.a.
Hydroelectric						
ERG Eolica S. Vincenzo S.r.l.	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
ERG Eolica S. Cireo S.r.l.						
ERG Eolica Faeto S.r.l.		10,636	Project financing	2007	2021	IRS: fixed rate 2.13%
ERG Eolica Ginestra S.r.l.		25,008		2010	2025	IRS: fixed rate 3.27%
Green Vicari S.r.l.		3,122		2008	2019	Loan with floating rate and in part fixed rate
ERG Eolica Basilicata S.r.l.		30,337		2017	2027	IRS: fixed rate 1.46%
ERG Eolica Fossa del Lupo S.r.l.		69,308		2017	2027	IRS: fixed rate 2.26%
ERG Eolica Amaroni S.r.l.		19,386		2017	2027	IRS: fixed rate 1.68%
ERG Eolica Adriatica		89,555		2009	2022	IRS: fixed rate 4.85%
ERG Eolica Campania		22,980		2009	2020	IRS: fixed rate 4.37%
ERG Wind Investments	Wind Farm	406,138	Project financing	2008	2022	IRS: average fixed rate 4.46%
ERG Wind Sardegna		n.a.	n.a.	n.a.	n.a.	n.a.
ERG Wind Sicilia 6						
ERG Wind 4						
ERG Wind 6						
ERG Wind Sicilia 2						
ERG Wind Sicilia 3						
ERG Wind Sicilia 4						
ERG Wind Sicilia 5						
ERG Wind 2000						
ERG Wind MEG 1 LLP						
ERG Wind MEG 2 LLP						
ERG Wind MEG 3 LLP						
ERG Wind MEG 4 LLP						
Parc Eolien du Carreau S.a.s.	Wind Farm	711	Project Financing	2005	2019	Floating rate loan
Parc Eolien de la Bruyère S.a.s.		180		2005	2019	IRS: average fixed rate 5.77%
Parc Eolien les Mardeaux S.a.s.		1,296		2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de Lihus S.a.s.		536		2005	2019	IRS: average fixed rate 5.77%
Parc Eolien de Hetomesnil S.a.s.		771		2005	2019	IRS: average fixed rate 5.77%
Eoliennes du Vent Solaire		2,886		2011	2025	fixed rate loan
ERG Wind France 1	Wind Farm	21,723	Project Financing	2016	2025	IRS: fixed rate -0.065%
Ferme Eolienne de Teterchen S.a.s.		n.a.	n.a.	n.a.	n.a.	n.a.
Parc Eolien du Bois de l'Arche S.a.s.						
Parc Eolien du Bois de Bigot S.a.s.						
Cepe Pays De Montbeliard S.n.c.						
Cepe de Saint Florentin S.n.c.						
Cepe de Murat S.n.c.						
Parc Eolien de St Riquier 3 S.a.s.	Wind Farm	12,000	Project financing	2014	2028	Fixed rate loan
Parc Eolien de St Riquier 4 S.a.s.		10,214	Project financing	2014	2028	Fixed rate loan
Parc Eolien de la Chaude Vallee S.ar.l.		10,685	Project financing	2011	2027	Loan for 85% at fixed rate
Parc Eolien de Morvilers S.ar.l.		11,240	Project financing	2012	2027	Fixed rate loan
SEPE Du Nouvion S.a.s.		n,a,	n.a.	n.a.	n.a.	n.a.
Parc Eolien de Garcelles-Sacqueville S.a.s.		5,050	Project financing	2007	2023	IRS: fixed rate 3.75%
Parc Eolien du Patis S.a.s.		6,231	Project financing	2013	2027	IRS: fixed rate 2.025%
Parc Eolien Hauts Moulins		10,710	Project financing	2012	2028	Loan for 86% at fixed rate
Parc Eolien Moulins des Camps (La Chapelle)		10,576	Project financing	2012	2028	Loan for 85% at fixed rate
Parc Eolien de St Riquier 1 S.a.s.		9,267	Project financing	2009	2027	Fixed rate loan
Parc Eolien de la Souterraine		6,181	Project financing	2013	2028	IRS: fixed rate 2.01%
Parc Eolien de Oyre Saint Sauveur		9,135	Project financing	2014	2029	Loan for 40% at fixed rate

Geographic Location	% of possession	Installed capacity MW	Energy generated by the plant in the year (GWh)	Net carrying amount at 31.12.2018 (EUR thousand)
Italy	100%	480	2,151	233,188
	100%	480	2,151	233,188
Italy	100%	527	1,740	632,101
	100%	527	1,740	632,101
Italy	100%	541	1,046	432,148
Italy	100%	636	1,115	225,374
Germany	100%			
France	100%	64	114	11,602
France	100%	64	135	40,122
France	100%	125	259	118,591

a)

Company	Plant	Associated financial debt				
		Carrying amount of financial liability	Type	Disbursement / Maturity		Hedge
Parc Eolienne de la Voie Sacree S.a.s. Parc Eolienne d'Epense S.a.s.	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
WP France 6 S.a.s.	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
Parc Eolien de la valleè de Torfou S.a.r.l.	Wind Farm	10,805	Project financing	2017	2034	Fixed rate loan
Parc Eolien du Melier S.a.r.l		108,980		2015	2031	
Globo Energy EOOD Mark 1 EOOD Mark 2 EOOD WP Bulgaria 4 EOOD K&S Energy EOOD K&S Energy 1 EOOD K&S Energy 2 EOOD VG-1 EOOD VG-2 EOOD VG-3 EOOD VG-4 EOOD VG-5 EOOD VG-6 EOOD Wind Park Kavana East EOOD Wind Park Kavana West EOOD	Wind Farm	14.914	Project financing	2012/ 2013	2018	IRS: fixed rate 1.16% IRS: fixed rate 1.56%
Corni Eolian S.A.	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
EW Orneta 2 Z.O.O.	Wind Farm	35,601	Project financing	2015	2029	IRS: fixed rate 2.47% (wibor)
Hydro Inwestycje SP.Z.O.O. Blachy Pruszynsky-Energy SP.Z.O.O.		n.a.	n.a.	n.a.	n.a.	n.a.
Brockaghboy Windfarm Ltd. (1)	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
Voltwerk Energy Park 8 GmbH Voltwerk Windpark Worbzig GmbH Voltwerk Windpark Beesenstedt GmbH	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
Windpark Cottbuser Halde GmbH		17,567	Project financing	2007	2025	Fixed rate loan
WP Achmer Vinte GmbH		4,103		2.006	2.021	
Epuron Energy Park 117 (Frehne) GmbH		11,392		2.013	2030	
ERG Wind Dobberkau GmbH & Co. KG		12,285		2014	2025	IRS: fixed rate 0.949%
ERG Wind Hermersberg GmbH & Co. KG		593		2016	2024	Fixed rate loan
ERG Wind Ober Kostenz GmbH & Co. KG		2,205		2016	2024	
ERG Wind WB GmbH & Co. KG		2,674		2016	2024	
ERG Wind Welchweiler GmbH & Co. KG		953		2016	2024	
ERG Wind Weselberg GmbH & Co. KG		2,100		2016	2024	
Windpark Linda GmbH & Co. KG (2)	Wind Farm	23,808	Project financing	2018	2038	Fixed rate loan
Wind		**963,840**				
Secured project financing	Photovoltaic plant	162,598	Project financing	2016	2030	Fixed rate loan
Secured project financing	Photovoltaic plant	2,332	Project financing	2011	2029	Fixed rate loan
Solar		**164,930**				
TOTAL		**1,177,550**				

(1) wind farm sold on 7 March 2018, see paragraph **Brockaghboy Sale**
(2) wind farm under construction; authorised 21.6 MW

Geographic Location	% of possession	Installed capacity MW	Energy generated by the plant in the year (GWh)	Net carrying amount at 31.12.2018 (EUR thousand)
France	100%	16	31	8,081
France	100%	13	2	13,910
France	100%	26	11	29,491
Bulgaria	100%	54	138	42,722
Romania	100%	70	176	74,419
Poland	100%	82	219	91,750
UK	100%	– (1)	29	–
Germany	100%	130	188	89,309
Germany	100%	– (2)	–	12,131
	100%	**1,822**	**3,465**	**1,189,650**
Italy	100%	89	128	218,349
Italy	100&	1	1	2,379
	100%	**90**	**129**	**220,727**
	100%	**2,919**	**7,485**	**2,275,666**

b)

Information about the energy generating plant not yet in operation at 31 December 2018

Name of Plant / Groups of Plants	Geographic Location	Owner company	Group	% of possession	Maximum installed capacity provided (MW)	Progress of the project	Net carrying amount at 31.12.2018 (EUR thousand)
Evishagaran	UK	Evishagaran Windfarm Ltd.	Evishagaran	100%	35.0	Authorised but not yet under construction	260
Rigghill		Rigghill Wind Farm Limited		50%	24.0	Not yet authorised and not under construction	–
Longburn	UK	Longburn Wind Farm Ltd.	Burcote	100%	23.0		–
Sandy Knowe		Sandy Knowe Wind Farm Ltd.		100%	49.2	Authorised but not yet under construction	94
Creag Riahbach Winf Farm Ltd.	UK	Creag Riahbach Winf Farm Ltd.	Creag Riahbach	100%	79.2	Authorised but not yet under construction	7
Vallée de l'Aa extension	France	WP France 10 S.a.s.	WP France 10	100%	6.9	Authorised but not yet under construction	119
Wind					**217**		**480**
NOT YET OPERATIONAL PLANTS					**217**		**480**

With regard to the commitments and guarantees provided to the lenders of the plants per the above tables, please refer to the details provided in **Note 19 Covenants and negative pledge**.

NOTE 42 - PUBLICATION DATE OF THE FINANCIAL STATEMENTS

On 6 March 2019, the Board of Directors of ERG S.p.A. authorised the publication of the Financial Statements together with the reports by the Supervisory Bodies in compliance with the deadlines prescribed by current laws and regulations.

Genoa, 6 March 2019

On behalf of the Board of Directors

The Chairman

Edoardo Garrone

REPRESENTATIONS OF THE FINANCIAL STATEMENTS

IN ACCORDANCE WITH ART. 81-TER OF CONSOB REGULATION NO. 11971 DATED 14 MAY 1999, AS AMENDED

1. The undersigned Luca Bettonte, Chief Executive Officer of ERG S.p.A., and Paolo Luigi Merli, Manager responsible for preparing the financial reports of ERG S.p.A., taking into account the provisions set out in Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998, represent as to:
   - • suitability in relation to the characteristics of the ERG Group and
   - the actual application of the administrative and accounting procedures for the preparation of the Consolidated Financial Statements in the course of the period between 1 January 2018 and 31 December 2018.
2. In this regard, the following is pointed out:
   - the suitability of the administrative and accounting procedures for the preparation of the Consolidated Financial Statements of ERG S.p.A. at 31 December 2018 was verified by the assessment of the system of internal control over Financial Reporting. This assessment was carried out with reference to the criteria established in the model "Internal Controls - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
   - the assessment of the System of Internal Control over Financial Reporting did not uncover any significant aspects.
3. It is furthermore represented that:
   - the Consolidated Financial Statements of the ERG Group:
     - was prepared in accordance with the applicable International Accounting Standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 by the European Parliament and Council, dated 19 July 2002;
     - matches the underlying accounting books and records;
     - is suitable to provide a true and fair view of the consolidated financial position and results of operations of the issuer and of the group of companies included in its consolidation;
   - the Directors' Report comprises a reliable analysis of the performance and of the result of operations, as well as of the situation of the issuer and of the set of companies included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Genoa, 6 March 2019

The Chief Executive Officer

Luca Bettonte

The Manager responsible for preparing the financial reports

Paolo Luigi Merli

BOARD OF STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

Dear Shareholders,

The Consolidated Financial Statements of ERG S.p.A. for the year 2018 were delivered to us within the terms prescribed by law, together with the Directors' Report, and were prepared in accordance with the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB) and adopted by the European Union.

Pursuant to Legislative Decree No. 39 of 27 January 2010, in the reformulated version following the reform of statutory audit implemented through Legislative Decree 135/2016 and Article 41 paragraph 2 of Legislative Decree No. 127 of 9 April 1991, the task of verifying compliance of the Consolidated Financial Statements with the law and their correspondence with the accounting records and consolidation entries rests with the Independent Auditors. Our supervisory activity was carried out in compliance with the principles of conduct of the Board of Statutory Auditors issued by the Italian National Accounting Board and concerned, in particular:

- verification of the adequacy of the organisational structure of ERG S.p.A., for the management of relations with subsidiaries and affiliates;
- examination of the Group's composition and equity interests, in order to assess the scope of consolidation and its change compared to the previous financial statements;
- obtaining information on the activity carried out by the subsidiaries and on the most significant transactions in financial and economic terms within the Group, through the information received from ERG S.p.A. Directors, from the Independent Auditors and from the Statutory Auditors of the subsidiaries.

Following the supervisory activity on the Consolidated Financial Statements, we state that:

- the determination of the scope of consolidation and the selection of the principles whereby investee companies are consolidated are in accordance with IFRS;
- the laws regulating the preparation and arrangement of the Financial Statements and of the Directors' Report were complied with;
- we verified the adequacy of the instructions given by the relevant function of ERG S.p.A. for obtaining the flow of data necessary for consolidation, viewing the information provided by the subsidiaries, subject to regulatory verification by their respective Boards of Statutory Auditors;
- the Financial Statements agree with the facts and information of which we became aware in the performance of our supervisory duties and in the exercise of our oversight and inspection powers;

- the Notes to the Consolidated Financial Statements include the information required by IAS 36 - Impairment of assets, the application of which was referred to in Document No. 4 of 3 March 2010 issued by the Bank of Italy/CONSOB/Isvap. The Board of Statutory Auditors acknowledges having examined the documents containing the analyses carried out and the results obtained in the impairment test activity. The Board of Statutory Auditors deemed the procedure correct and the main assessment hypotheses reasonable, and therefore approved the results thereof;
- the Group's Directors' Report is consistent with the data and figures of the Consolidated Financial Statements and it provides extensive information on the Group's economic-financial performance and on the risks to which the Group is exposed, as well as on significant events occurred in the year and after the financial year end, and on the Group's outlook;
- the Chief Executive Officer and the Manager responsible for preparing the financial reports issued the certification, in accordance with Article 81-*ter* of CONSOB Regulation No. 11971/1999 and subsequent amendments and additions and with Article 154-bis of Legislative Decree 58/1998 (T.U.F.).

***

On 25 March 2019, the Independent Auditors issued their Audit Report in accordance with Articles 14 and 16 of Legislative Decree 39/2010 and Article 10 of EU Regulation 537/2014 which states that the Consolidated Financial Statements at 31 December 2018 are in accordance with IFRS, and with the regulations promulgated to implement Article 9 of Legislative Decree No. 38/2005, and they are prepared clearly and give a true and fair view of the equity and financial situation, the economic result and the cash flows of the ERG Group for the financial year ended on that date.
On 25 March 2019, the Independent Auditors presented the Board of Statutory Auditors with the Additional Report required by Article 11 of EU Regulation No. 537/2014, which reveals that there are no significant deficiencies in the internal control system in relation to the financial disclosure process deserving to be brought to the attention of the managers in charge of governance activities.

Genoa, 25 March 2019

The Board of Statutory Auditors

(Ms Elena Spagnol)

(Mr Lelio Fornabaio)

(Mr Stefano Remondini)

INDEPENDENT AUDITORS' REPORT

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Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

*To the shareholders of
ERG S.p.A.*

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the ERG Group (the "Group"), which comprise the statement of financial position as at 31 December 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the ERG Group as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of ERG S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

ERG Group
Independent auditors' report
31 December 2018

Recoverability of non-current assets

Notes to the consolidated financial statements: Use of estimates – Risks and uncertainties and Impairment testing

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2018 include goodwill of €148 million, intangible assets with a finite useful life of €783 million, of which €765 million relating to concessions, and property, plant and equipment of €2,288 million. During the year, following the changes made to its organisation and consolidation scope, the Group revised the allocation of goodwill to the various groups of cash-generating units ("CGU") in line with its integrated reporting, i.e., according to the technology/country matrix. As a result, the goodwill allocated to the individual CGU that were legal entities or business combinations in previous years is now allocated to the Wind Italy and Wind France groups of CGU (€126 million and €22 million, respectively). In line with the procedure approved by the parent's board of directors on 20 February 2019, intangible assets with a finite useful life and property, plant and equipment are tested for impairment if there is any indicator of impairment (a triggering event), by calculating their recoverable amount. After having analysed any triggering events, Group management concluded that it was unnecessary to determine the recoverable amount of intangible assets with a finite useful life and property, plant and equipment. Moreover, based on the above procedure, the Group tests goodwill for impairment annually and, in any case, whenever there are triggering events, by comparing the carrying amounts of the groups of CGU, including goodwill, to the related recoverable amounts. On an annual basis, the Group also estimates the recoverable amount of those groups of CGU to which no goodwill is allocated. The recoverable amount is estimated based on the asset's value in use, calculated using the discounted cash flow model by discounting the groups of CGU's expected cash flows. The expected operating cash flows were estimated on the basis of the forecasts set out in the update to the 2018-2022 plan that the directors examined on 6 March 2019 and, for the subsequent period, the	Our audit procedures, which also involved our own specialists, included: — understanding the process adopted to prepare the impairment tests and the forecasts set out in the update to the 2018-2022 plan; — checking any discrepancies between the previous year forecast and actual figures, in order to understand the accuracy of the estimation process; — analysing the reasonableness of i) the key assumptions used by the directors to identify the CGU, the groups of CGU, the criteria for the allocation of goodwill to the groups of CGU and to determine the related operating cash flows and ii) the valuation models adopted; — checking the sensitivity analysis presented in the notes to the consolidated financial statements in relation to the key assumptions used for impairment testing; — assessing the appropriateness of the disclosures provided in the notes to the consolidated financial statements about the impairment test.

Key audit matter	Audit procedures addressing the key audit matter
projections prepared on the basis of macroeconomic and energy scenario simulations assuming a steady production trend. Impairment testing is complex and entails a high level of judgement, especially in relation to: — the expected operating cash flows, calculated by taking into account the general economic performance and that of the Group's sector, the actual cash flows for recent years and the projected growth rates. In this context, the key assumptions are those about the assets' useful lives and estimated recoverable amount, the expected energy and gas prices, the availability of renewable resources and the evolution of the regulatory framework; — the financial parameters used to calculate the discount rate. For the above reasons and due to the materiality of the relevant captions, we believe that the recoverability of the carrying amounts of goodwill, intangible assets with a finite useful life and property, plant and equipment is a key audit matter.	

Measurement of other current and non-current provisions

Notes to the consolidated financial statements: Use of estimates – Risks and uncertainties, 13) Other provisions and 20) Contingent liabilities and disputes

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2018 include other current and non-current provisions of €46 million and €144 million, respectively. These comprise the Provision for disposed businesses of €89 million, which the directors estimated with the support of the relevant corporate departments and their legal and tax advisors. It shows the estimated environmental, legal and tax liabilities relating to the "Oil" coastal refining and integrated downstream businesses whose disposal was completed on 10 January 2018 with the sale of the investment in TotalErg S.p.A.. Measuring these provisions is a complex activity, with a high degree of subjectivity, and entails directors' estimates about the	Our audit procedures, which also involved our own tax specialists, included: — understanding the process for the measurement of the effect of legal disputes and assessing the design and implementation of relevant controls and procedures to assess the operating effectiveness of material controls; — analysing the discrepancies between past years' estimates of the effect of legal disputes and actual figures resulting from their subsequent settlement, in order to understand the accuracy of the estimation process; — sending written requests for information to the advisors assisting the Group and

Key audit matter	Audit procedures addressing the key audit matter
outcome of the disputes and litigation of an environmental, legal and tax nature, in some cases dating back in time, the risk of losing, the timing for their settlement and the related effects on the consolidated financial statements. For the above reasons, we believe that the measurement of other provisions is a key audit matter.	discussing with the internal legal department about the assessment of the risk of losing pending disputes and the quantification of the related liability; — for the main disputes subject to estimate, analysing the assumptions used to determine their effect through discussions with the relevant internal departments and analysis of the supporting documentation; — discussing assumptions or scenarios alternative to those used to calculate the effect of legal disputes and the reasons for their rejection with the relevant internal departments; — analysing the events after the reporting date that provide information useful for an assessment of the provisions; — assessing the appropriateness of the disclosures provided in the notes to the consolidated financial statements about the other provisions and significant contingent liabilities.

Other matters - Comparative figures

The Group's 2017 consolidated financial statements were audited by other auditors, who expressed their unqualified opinion thereon on 27 March 2018.

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

— obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 23 April 2018, the shareholders of ERG S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2018 to 31 December 2026.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of ERG S.p.A. are responsible for the preparation of the directors' report and the report on corporate governance and ownership at 31 December 2018 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership indicated by article 123-bis.4 of Legislative decree no. 58/98 with the Group's consolidated financial statements at 31 December 2018 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership referred to above are consistent with the Group's consolidated financial statements at 31 December 2018 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of ERG S.p.A. are responsible for the preparation of a consolidated non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such consolidated non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the consolidated non-financial statement separately.

Genoa, 25 March 2019

KPMG S.p.A.

(signed on the original)

Luisa Polignano
Director of Audit

Separate Financial Statements

STATEMENT OF FINANCIAL POSITION (1)(2)(3)

(EUR)	Note	31/12/2018	of which with related parties	31/12/2017	of which with related parties
Intangible assets	1	2,658,234		3,233,885	
Goodwill		–		–	
Property, plant and equipment	2	11,362,930		10,554,196	
Equity investments	3	1,736,072,022		1,736,097,938	
Other non-current financial assets	4	106,147,514	*70,093,519*	98,760,411	*98,688,900*
Deferred tax assets	5	13,157,002		16,099,870	
Other non-current assets	6	2,311,631		*2,977,459*	
Non-current assets		**1,871,709,331**		**1,867,723,759**	
Inventories		–		–	
Trade receivables	7	3,506,308	*1,684,458*	3,306,295	*433,091*
Other current assets	8	72,606,295	*42,677,005*	80,427,777	*52,342,008*
Current financial assets	9	19,267,147	*15,726,762*	11,103,879	*8,489,730*
Cash and cash equivalents	9	598,539,725		661,970,401	
Current assets		**693,919,475**		**756,808,352**	
Asset held for Sale	16	**–**		**179,543,276**	
TOTAL ASSETS		**2,565,628,807**		**2,804,075,387**	
Share capital	10	15,032,000		15,032,000	
Other reserves	10	954,644,681		952,670,542	
Retained earnings/losses carried forward	10	500,658,371		651,144,671	
Profit for the year	10	4,083,589		23,969,999	
Equity		**1,474,418,640**		**1,642,817,211**	
Provisions for employee benefits	11	1,455,406		1,628,466	
Deferred tax liabilities	5	27,515		1,464,921	
Provision for risks and charges - non current portion	12	89,394,774		81,493,010	
Non-current financial liabilities	9	739,177,477		715,461,338	
Other non-current liabilities	13	2,300,000		10,243,482	
Non-current liabilities		**832,355,172**		**810,291,217**	
Provision for risks and charges - current portion	12	8,134,780		8,036,877	
Trade payables	14	11,779,987	*1,226,287*	58,585,322	*2,833,877*
Current financial liabilities	9	183,680,116	*2,875*	190,698,056	*49,181,525*
Other current liabilities	15	55,260,112	*28,383,023*	93,646,704	*34,804,364*
Current liabilities		**258,854,994**		**350,966,959**	
Liabilities associated with assets for sale	16	**–**		**–**	
TOTAL EQUITY AND LIABILITIES		**2,565,628,807**		**2,804,075,387**	

(1) in the Statement of Financial Position at 31 December 2017, in accordance with IFRS 5, the equity investment in the TotalErg S.p.A. joint venture is posted under "Asset held for sale and liabilities associated with assets held for sale" as better described under Note 16 - Assets held for sale and profit or loss

(2) the notes commenting individual items are an integral part of the present Separate Financial Statements

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

INCOME STATEMENT (1)(2)(3)

(EUR)	Notes	2018	of which with related parties	2017	of which with related parties
Revenue	20	35,696,966	*35,692,553*	37,938,503	*37,779,731*
Other income	21	3,727,501	*175,512*	2,043,261	*1,098,994*
Purchases	22	(253,332)		(230,675)	*(77,821)*
Services and other costs	23	(30,163,601)	*(191,109)*	(33,931,758)	*(154,730)*
Personnel expense	24	(25,790,579)	*(1,619,108)*	(32,058,423)	–
Gross Operating Income (EBITDA)		**(16,783,046)**		**(26,239,091)**	
Amortisation, depreciation and impairment of non-current assets	25	**(2,945,702)**		**(2,980,495)**	
Net Operating Income (EBIT)		**(19,728,748)**		**(29,219,586)**	
Financial income		14,759,329	*2,427,486*	8,316,004	*2,649,038*
Financial expense		(15,669,897)	*(8,543)*	(12,865,220)	*(19,772)*
NET FINANCIAL INCOME (EXPENSE)	26	**(910,568)**		**(4,549,216)**	
Net gains (losses) on equity investments		20,328,971		(166,574)	
NET GAINS (LOSSES) ON EQUITY INVESTMENTS	27	**20,328,971**		**(166,574)**	
PROFIT (LOSS) BEFORE TAXES		**(310,344)**		**(33,935,376)**	
Income taxes	28	1,642,384		8,235,811	
PROFIT (LOSS) FROM CONTINUING OPERATIONS		**1,332,040**		**(25,699,564)**	
Profit from discontinued operations	16	2,751,549		49,669,563	
PROFIT FOR THE YEAR		**4,083,589**		**23,969,999**	

(1) in the 2018 and 2017 income statement in accordance with IFRS 5, the income and expenses tied to the operation and sale of the TotalErg S.p.A. joint venture were posted in the profit (loss) from discontinued operations. Please refer to Note 16 - Profit (loss) from assets held for sale

(2) the notes commenting individual items are an integral part of the present Separate Financial Statements

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

STATEMENT OF COMPREHENSIVE INCOME (1)(2)

(EUR)	2018	2017
PROFIT FOR THE YEAR	**4,083,589**	**23,969,999**
Changes that will not be reclassified to profit or loss		
Remeasurements of defined benefit liability	(9,459)	(35,319)
Income taxes referred to remeasurements of defined benefit liability	2,270	8,477
Total	**(7,189)**	**(26,843)**
Changes that will be reclassified to profit or loss		
Cash flow Hedge - effective portion of the fair value change	(3,027,039)	1,121,136
Tax effect of cash flow hedging effective portion of the fair value change	726,489	(269,073)
Total	**(2,300,550)**	**852,063**
Other comprehensive income (expense) net of the tax effect	**(2,307,738)**	**825,220**
Comprehensive income for the year	1,775,851	24,795,218

(1) the notes commenting individual items are an integral part of the present Separate Financial Statements
(2) the Group adopted IFRS 15 and IFRS 9 for the first time on 1 January 2018. Based on the first application methods chosen, the comparative information was not restated

STATEMENT OF CASH FLOWS (1)(2)(3)(4)

(EUR)	Notes	31/12/2018	31/12/2017
CASH FLOWS FROM OPERATING ACTIVITIES (A)			
Profit for the year		4,083,589	23,969,999
- Amortisation, depreciation and impairment of non-current assets	25	2,945,701	2,979,705
- Net change in provision for risks and charges	13	7,999,667	(115,231)
- Net change in deferred tax assets and liabilities	5	1,505,461	(3,937,315)
- Impairment of current assets		–	–
- Capital gains/losses from realisation of non-current assets		–	–
- Net impairment of financial non-current assets		–	20,462,182
- Net revaluation of financial non-current assets		–	–
- Change in post-employment benefits	11	(173,060)	609,627
Cash flow from current operations		**16,361,358**	**43,968,966**
- Change in other current assets and liabilities:			
- Change in inventories		–	–
- Change in trade receivables	7	(200,013)	11,879,509
- Change in trade payables	14	(46,805,335)	2,171,517
- Net change in other assets/liabilities	6,8,13,15	(37,844,244)	29,726,251
		(84,849,591)	**43,777,277**
CASH FLOWS FROM OPERATING ACTIVITIES (A)		**(68,488,234)**	**87,746,243**
CASH FLOWS FROM INVESTING ACTIVITIES (B)			
Acquisition of intangible assets and goodwill	1	(1,328,336)	(2,300,759)
Acquisition of property, plant and equipment	2	(1,850,537)	(544,711)
Acquisition of equity investments	3	–	(5,100)
Disposals of intangible assets	1	–	–
Disposals of property, plant and equipment	2	89	–
Disposal of equity investment in TotalErg	3	179,543,276	–
Disposals of equity investments	3	25,917	–
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B)		**176,390,409**	**(2,850,570)**
CASH FLOWS FROM FINANCING ACTIVITIES (C)			
Increase in non-current loans		(190,000,000)	(99,465,000)
Decrease in non-current loans		154,750,000	–
Net change in non-current financial assets/liabilities	9	51,580,516	134,891,719
Net change in current bank loans and borrowings	9	(7,017,940)	133,067,135
Net change in other current financial assets	9	(8,163,268)	234,759,802
Increases/decreases in share capital		–	–
Dividends		(171,139,320)	(74,407,640)
Other changes in equity	10	(1,342,840)	579,039
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)		**(171,332,852)**	**329,425,055**
NET CASH FLOWS FOR THE YEAR (A+B+C)		**(63,430,677)**	**414,321,728**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	9	**661,970,401**	**247,648,672**
NET CASH FLOWS FOR THE YEAR		(63,430,677)	414,321,728
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	9	**598,539,725**	**661,970,401**
RECLASSIFICATION OF ASSETS/LIABILITIES HELD FOR SALE		**–**	**–**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	9	**598,539,725**	**661,970,401**

(1) the changes of 2017 were computed on the basis of the proforma balances at 31 December 2016 including the contribution from the merger of ERG Services S.p.A.
(2) the notes commenting individual items are an integral part of the present financial statements
(3) the statement of cash flows also includes the flows of Assets and Liabilities held for sale and associated liabilities, details of which are provided in Note 16 Profit (loss) from discontinued operations
(4) the Group adopted IFRS 15 and IFRS 9 for the first time on 1 January 2018. Based on the first application methods chosen, the comparative information was not restated

STATEMENT OF CHANGES IN EQUITY [1]

(EUR)	Notes	Share capital	Reserves	Profit (loss) for the year	Total Equity
BALANCE AT 31/12/2016		15,032,000	1,665,584,834	11,472,640	1,692,088,874
Allocation of 2016 profit		–	11,472,640	(11,472,640)	–
Distribution of dividends		–	(74,407,640)	–	(74,407,640)
Merger surplus		–	586,582	–	586,582
Profit for 2017		–	–	23,969,999	23,969,999
Remeasurements of defined benefit liability		–	(272,669)	–	(272,669)
Change in the cash flow hedge		–	852,066	–	852,066
Comprehensive income		–	579,396	23,969,999	24,549,395
BALANCE AT 31/12/2017		15,032,000	1,603,815,213	23,969,999	1,642,817,211

	Notes	Share capital	Reserves	Profit (loss) for the year	Total Equity
BALANCE AT 31/12/2017		15,032,000	1,603,815,213	23,969,999	1,642,817,211
IFRS 9 Adjustment [2]		–	(3,316,979)	–	(3,316,979)
Allocation of 2017 profit		–	23,969,999	(23,969,999)	–
Share-based payments with instruments representative of the capital	10	–	3,383,937	–	3,383,937
Distribution of dividends	10	–	(171,139,320)	–	(171,139,320)
Increase of capital reserve	10	–	897,940	–	897,940
Other changes					
Profit for 2018	10	–	–	4,083,589	4,083,589
Remeasurements of defined benefit liability	11	–	(7,189)	–	(7,189)
Change in the cash flow hedge	10	–	(2,300,550)	–	(2,300,550)
Comprehensive income		–	(2,307,739)	4,083,589	1,775,850
BALANCE AT 31/12/2018		15,032,000	1,455,303,051	4,083,589	1,474,418,640

(1) the notes commenting individual items are an integral part of the present Separate Financial Statements
(2) please refer to the section Standards, amendments and interpretations applied starting on 1 January 2018

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

ERG S.p.A. is the entity that prepares the Separate Financial Statements.

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

NATURE OF THE COMPANY

ERG S.p.A., a company listed on the Stock Market since 1997, operates, also through its investee, as a major independent operator in the production of electricity from renewable sources, differentiated between non-programmable sources (wind and sun) and programmable sources (thermoelectric and hydroelectric), and diversified in terms of its geographic at presence, increasing its share of foreign wind market, mainly in France and Germany.

PUBLICATION DATE OF THE SEPARATE FINANCIAL STATEMENTS

On 6 March 2019, the Board of Directors of ERG S.p.A. authorised the publication of the Separate Financial Statements together with the reports by the Supervisory Bodies in compliance with the deadlines prescribed by current laws and regulations. ERG S.p.A. provides strategic guidance to the Group, is directly responsible for business development processes and ensures the management of all business support processes.

SALE OF THE EQUITY INVESTMENT IN TOTALERG S.P.A.

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 is EUR 273 million which includes, in addition to the consideration indicated above, the non-recurring dividends distributed 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 remainder on 26 October 2017), the interest that will accrue on the vendor loan and the related tax effects.
The sale of the equity investment in TotalErg S.p.A., in accordance with the International Standards adopted for the preparation of the Separate Financial Statements of ERG S.p.A. at 31 December 2018, and specifically with IFRS 5, is a transaction involving "current assets held for sale". Therefore, according to this standard, the following actions were taken:

- transaction costs correlated to the transaction were reclassified from "Services and other costs" to "profit from discontinued operations";
- the capital gain deriving from the sale of the equity investment was reclassified to"profit from discontinued operations";
- the related tax effect was reclassified to"profit from discontinued operations".

The equity investment had been measured in accordance with the requirements of IFRS 5 in the 2017 Separate Financial Statements, thus recognising the effect of the transactions already in Profit or Loss 2017.
For the details of the reclassified amounts, please refer to **Note 16 - Profit from discontinued operations**.

BASIS OF PREPARATION

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

- without any departures, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Financial Reporting Standards – IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC). The set of all reference standards and interpretations indicated above shall hereafter be defined as "IFRS - EU";
- on a going concern basis and therefore assuming that the Company will be able to meet the mandatory repayment conditions of the credit facilities granted by the bank as indicated in **Note 32 - Financial instruments**.

These separated financial statements were prepared in accordance with Article 3 of Legislative Decree no. 38 of 28 February 2005.
The Separate Financial Statements as at and for the year ended 31 December 2018 were audited by the independent auditors KPMG S.p.A. in accordance with current Italian regulations.

These are the first Separate Financial Statements in which the Company has adopted IFRS 9 - Financial Instruments. The significant changes involved by standard are described in the section **Standards, amendments and interpretations applied starting on 1 January 2018**.

The values shown in the accompanying notes to the Separate Financial Statements, unless otherwise specified, are expressed in thousands of Euro.

BASIS OF PRESENTATION

The Separate Financial Statements consist of the Statement of financial position, of the Income Statement, of the Statement of Comprehensive Income, of the Statement of Cash Flows, the Statement of Changes in Equity and these Notes

The company presents its income statement captions by nature, which is deemed more representative than presenting them by function, with separate presentation of the profit or loss of discontinued operations. The form chosen is in fact consistent with internal and management reporting procedures.

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

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

Furthermore, as required by CONSOB resolutioning 15519 dated 27 July 2006 in **Note 29 - Non-recurring items**, significant income and expense arising from non-recurring transactions or events that do not occur frequently in the ordinary course of business are presented separately in the income statement. Also pursuant to the aforementioned CONSOB resolution, the amounts related to the positions and transactions with related parties are indicated separately in **Note 30 - Related parties**.

ACCOUNTING POLICIES

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

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

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

Item	Measurement criterion
Derivative financial instruments	Fair value
Non-derivative financial instruments at FVTPL	Fair value
Discontinued operations	Lower value between carrying amount and fair value less costs to sell
Equity instruments at FVOCI (2017: available-for-sale financial assets)	Fair value
Liabilities with cash-settled share-based agreements	Fair value

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

INTANGIBLE ASSETS

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

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

In general, intangible assets are amortised over a maximum period of 5 years.

There are no intangible assets with an indefinite useful life or development expenditure.

Research expenditure is expensed directly in the income statement in the period in which it is incurred.

Other intangible assets recognised as part of a business combination are presented separately from goodwill if their fair value can be measured reliably.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised at the acquisition or production cost less accumulated depreciation and impairment losses.

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

The profit or loss generated by the sale of an item of property, plant and equipment is recognised in the profit of loss for the year. Expansion, modernisation and transformation costs and maintenance costs are capitalised only if they increase the future economic benefits of the asset to which they refer.

Capitalised costs are allocated to the income statement via depreciation.

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

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

The depreciation rates applied are as follows:

	%
Industrial buildings	2.75 – 5.5
General plant	10,0
Office furniture and furnishings	12
Electronic machines	20
Equipment	25
Incremental expenses	8- 25

IMPAIRMENT OF NON-FINANCIAL ASSETS (IMPAIRMENT TEST)

At least once a year, the Company measures the recoverable amount of non-financial assets, including equity investments, to determine whether there are indications that they may be impaired (examination of triggering events). If such an indication exists, the company estimates the recoverable value of the asset to determine the amount of the impairment loss.

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

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

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

EQUITY INVESTMENTS - INITIAL RECOGNITION CRITERIA AND SUBSEQUENT MEASUREMENTS

"Subsidiaries" are all the companies over which ERG S.p.A. has control. Control is obtained when the company is exposed or is entitled to the variable returns deriving from its relationship with the investee and has the capability, by exercising its power over the investee, to influence its returns. Such power is defined as the current capability to direct the significant activities of the investee by virtue of existing substantive rights.

"Associates" are the companies over which ERG S.p.A. exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but without having control or joint control.

"Joint ventures" are the companies over which ERG S.p.A. has joint control and over whose net assets ERG S.p.A. has rights. "Joint control" means the contractually agreed sharing of control, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Equity investments in subsidiaries, associates and joint ventures are initially measured at acquisition cost. The cost is subsequently adjusted for any impairments losses, which are subsequently reversed if the assumptions that caused them no longer hold true; the reversed may not exceed the original cost. Additional information on the impairment test is provided in the section **Impairment test on equity investments**.

If the portion of the loss pertaining to ERG S.p.A. exceeds the carrying amount of the equity investments and the investor company is obligated to fulfill legal or constructive obligations of the investee or otherwise to cover its losses, any amount above the carrying amount is recognised in a dedicated liability provision within the provisions for risks and charges. In case of transfer, without economic substance, of an equity investment in a company under joint control, any difference between the price received and the carrying amount of the equity investment is recognised under equity.

Dividends from equity investments are recognised in profit and loss when the right of the shareholders to receive the payment is established. Dividends and interim dividends payable to non-controlling interests are represented as a change in equity on the date they are approved, respectively, by the Shareholders' Meeting and by the Board of Directors.

FINANCIAL INSTRUMENTS

i. Recognition and measurement

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

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

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

ii. Subsequent classification and measurement

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

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

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

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

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Financial assets: assessment of the business model

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

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

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

Transfers of financial assets to third parties within transactions that do not entail derecognition are not considered sales for the purposes of the assessment of the business model, in line with the Group's maintaining these assets in its financial statements.
Financial assets that meet the definition of financial assets held for trading or whose performance is based on fair value are measured at FVTPL.

Financial assets: tests to establish whether the cash flows are solely payments of principal and interest

For the purposes of the test, the 'principal' is the fair value of the financial asset at initial recognition, while the 'interest' is the consideration for the time value of money, for the credit risk associated with the principal amount outstanding to repay during a particular period of time and for the other basic landing risks and costs (for example, liquidity risk and administrative costs), as well as for a profit margin.

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

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

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

Financial assets: subsequent measurement and profits and losses

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

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

Subsequent classification and measurement

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

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

Subsequent measurement and profits and losses.

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

Impairment of financial assets

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

The Company recognises loss allowance for the losses expected credit losses relating to:

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

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

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

The loss allowance for trade receivables and contract assets are always measured at an amount equal to the expected credit losses financial asset's lifetime

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

For the Company, a breach referred to a financial assets occurs when:

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

The maximum period to take into consideration in the assessment of expected credit losses is the maximum contractual period during which the Company is exposed to credit risk.

Measurement of the expected credit losses

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

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

Impaired financial assets

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

Evidence that the financial asset is impaired comprises the observable data about to the following events:

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

Presentation of the loss allowance in the statement of financial position

The loss allowance for of the financial assets measured at amortised cost is deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is allocated in the profit or loss for the year and recognised in the Statement of comprehensive income.

Write-off

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

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

Non-derivative financial instruments

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

The objective evidence that a financial asset was impaired included:

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

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

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

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

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

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

Cash and cash equivalents

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

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

Financial liabilities

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

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

Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows deriving from them expire, when the contractual rights to receive the cash flows within a transaction in which substantially all risks and benefits deriving from ownership of the financial asset are transferred or when the Company does not transfer or retain substantially all the risks and benefits of ownership of the financial assets and does not maintain control of the financial assets. The Company is involved in transactions that entail the transfer of assets recognised in its own statement of financial position, but retains all or substantially all risks and benefits deriving from the transferred assets. In these cases, the transferred assets are not derecognised.

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

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

Derivative financial instruments and hedging transactions

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

The Company uses derivative financial instruments to hedge its host exposure to interest rate risks and to the price risk. Embedded derivatives are separated from the primary contract and recognised separately when the host contract does not constitute a financial asset and when determined criteria are met.
Derivative financial instruments are initially recognised at their fair value. After initial recognition, derivatives are measured at fair value and the related changes are usually reported in profit or loss for the year.
The Company designates some derivative financial instruments as hedging instruments to hedge the variability of the cash flows relating to highly probable expected transactions deriving from the fluctuation of interest rates and of the price risk.

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

When a derivative financial instrument is designated as an instrument to hedge the exposure to the variability of cash flows, the effective portion of the fair value gain or loss on the derivative financial instrument was recognised in the among other comprehensive income and presented in the cash flow hedging reserve. The effective part of the fair value gain or loss on the derivative financial instrument that is recognised in other comprehensive income is limited to the cumulative change in the fair value of the hedged instrument (at the present value) from the start of the hedge. The ineffective part of the fair value gain or loss on the derivative financial instrument is recognised immediately in the profit or loss for the year.
In a hedging relationship, the Company designates as hedging instrument only the fair value change of the spot element of the forward contract as a hedging instrument in a cash flow hedging relationship.

If the hedge ceases to the eligibility criteria or the hedging instrument is sold, expires or is exercised, the hedge accounting discontinued prospectively . When the cash flow hedge transactions cease being reported, the cumulative gain or loss in the cash flow hedging provision remains in equity until, in the case of hedging of a transaction that entails the recognition of a non-financial asset or liability, it is included in the cost of the non-financial asset or liability at the time of the initial recognition or, in the case of the other cash flow hedges, it is reclassified in profit or loss for the year in the same period or in the same periods in which the expected hedged future cash flows have an effect in profit or loss for the year.

If several hedged cash flows are not expected, the amount must be reclassified immediately from the cash flow hedge reserve and from the reserve for the hedging costs in profit or loss for the year.

When a derivative instrument or a non-derivative financial liability is designated as a hedging instrument within a hedge of a net investment in a foreign operation, the effective part, in the case of derivatives, of the fair value change of a derivative instrument or, in the case of a non-derivative item, foreign exchange gains or losses, are recognised in other comprehensive income and presented in equity within the translation reserve. The ineffective part is recognised immediately in the profit or loss of the year. The amount recognised in the other comprehensive income is reclassified in the profit or loss for the year as an adjustment from reclassification to the disposal of the foreign operation.

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

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

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

TREASURY SHARES

Treasury shares are presented as a reduction in equity.
The original cost of treasury shares, impairment losses, and gains and losses deriving from any subsequent sales are presented as changes in equity. The shares thus bought back are classified as treasury shares and recognised in the reserve for treasury shares. The consideration received from the subsequent sale or re-issue of treasury shares is recognised as an increase in equity. Any positive or negative difference deriving from the transaction is recognised in the share premium reserve.

Share-Based Payment Transactions

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

On 23 April 2018, the Shareholders' of ERG S.p.A. has approved the 2018-2020 long-term incentive plan, in compliance with the terms and conditions set forth in the related Information Document.

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

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

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

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

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

The assessment exercise was carried out formulating the following assumptions:

- Volatility (22%): average of the 90 days preceding the valuation date of the 180-day historical volatility of the ERG share;
- Dividend Yield: estimated on the basis of the dividends forecast in the plan for the 2018-2022 three-year time interval, i.e. EUR 0.75 per share, as a percentage of share price.
- Time to maturity: in accordance with the provisions of the regulation of the financial instrument, the derivative was assumed to have a duration of three years.

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

On 20 October 2018, on the occasion of 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, the cost of which(including the value of the ERG treasury shares) will be fully repaid by said San Quirico S.p.A., a holding company of the Garrone and Mondini families.
The allocation was finalised on 14 January 2019 and concerned a total number of 664 employees and 53,120 shares held in the portfolio by ERG S.p.A., for a total value of EUR 0.9 million.

The Board of Directors of ERG approved the transaction with San Quirico S.p.A. (related party of the Company) within the scope of the authorisation granted by the Shareholders' Meeting of ERG on 23 April 2018, after receiving the favourable opinion of the members of the Control and Risk Committee, issued for the purposes of related party transactions of lesser importance.
In particular, the value of the ERG treasury shares that was repaid by San Quirico S.p.A. is EUR 16.904 per share, equal to the overall average closing price recorded on the Screen-based Share Market (MTA) for ordinary ERG shares in the stock market sessions of the 30 (thirty) days preceding the assignment date. This value is higher than the minimum threshold prescribed by the authorisation granted by the Shareholders' Meeting of ERG S.p.A. on 23 April 2018.
ERG S.p.A., as a result of the transaction, holds 1,450,080 ordinary ERG treasury shares, equal to 0.965% of the related share capital.

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, was increased by an amount corresponding to the value of the shares allocated to each employee of the Italian companies. The total value of this payment was approximately EUR 1.6 million.
The accounting treatment of bonus issues to employees is regulated by IFRS 2 - Share-Based Payment Transactions. Briefly, in the 2018 Separate Financial Statements, adoption of the standard entailed the recognition in the income statement, under "Personnel expense", of the fair value of the assigned Shares with a balancing entry in equity reserve.

For the fair value measurement on the date of allocation (14 January 2019) the following data were used:

Date of Allocation	14-Jan-19
Number of benefiting employees	664
Number of allocated shares	53,120
Fair value on date of allocation (14 January 2019)	16.90
Total value of allocation (EUR thousand)	898
Of which recognised in the income statement of ERG S.p.A. (EUR thousand)	303

As part of the celebration of ERG's 80^{th} anniversary, the Company 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.

FOREIGN CURRENCY TRANSACTIONS

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

Other provisions

ERG S.p.A. records provisions for risks and charges when:

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

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

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

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

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

- possible (but not probable) obligations arising from past events, the existence of which will be confirmed only upon occurrence of one or more uncertain future events not wholly within the group's control;
- present obligations arising from past events the amount of which cannot be reliably estimated, or for which it is probable that settlement will not be onerous.

PROVISIONS FOR EMPLOYEE BENEFITS

Short-term benefits for employees

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

Defined contribution plans

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

Defined benefit plans

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

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

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

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

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

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

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

Termination of benefits

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

LEASES

Determining whether an agreement contains a lease

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

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

Leased assets

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

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

Lease payments

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

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

GROSS OPERATING PROFIT (LOSS) - EBITDA AND OPERATING PROFIT (LOSS) EBIT

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

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

REVENUE RECOGNITION

The Company adopted IFRS 15 as from 1 January 2018. The note **Standards, amendments and interpretations applied starting on 1 January 2018** describes the effect deriving from the first adoption of IFRS 15.

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

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

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

1. identifying the contract with the customer: in general, a contract exists when the agreement reached with a customer are such as to generate obligations that must be fulfilled mandatorily by the parties;
2. identifying the contractual obligation to which reference is to be made: an entity shall recognise revenue individually for each good or service as a separate obligation if these assets or services are distinct from each other. The criteria to define whether a good or service can be considered distinct are i) the customer can benefit from the good or service both individually and in combination with other resources and the goods are available and ii) the good or service can be separated from other obligations or promises that are not dependent or connected to other contractual elements;
3. estimating the price of the transaction: understood as the amount which the entity expects to receive as a result of the sale of the goods or of the services rendered to customers;
4. allocating the price of the transaction to the contractual obligation(s): it is necessary to allocate the price to each individual component of good or services. This allocation has to be based on the price the entity would apply to each individual good or service if it were sold separately;

5. recognising the revenue only when the contractual obligation is fulfilled.

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

DIVIDENDS

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

FINANCIAL INCOME AND EXPENSE

The financial income and expenses of the company comprise:

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

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

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

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

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

INCOME TAXES

The tax expense for the year comprises the current and deferred tax assets and liabilities recognised in profit or loss for the year, with the exception of items recognised directly in equity or in other comprehensive income.

The Company determined that the interest and the penalties relating to income taxes, including the accounting treatments to be applied to income taxes of an uncertain nature, are recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets because they do not match the definition of income taxes.

Current taxes

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

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

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

Deferred taxes

Furthermore, pursuant to the accruals basis of accounting, the Separate Financial Statements include deferred tax assets and liabilities arising from temporary differences between the carrying amounts and related tax bases, and on unused tax losses.

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

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

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

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

Discontinued operations

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

- represents a separate major line of business or geographical area of operations;
- is a part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or geographic area of activity;
- is a subsidiary acquired solely with a view to resale.

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

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

Available-for-sale assets

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

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

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

RELATED PARTIES

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

The definition of related parties also includes key management personnel and their close relatives, of ERG S.p.A. and of its subsidiaries. Key management personnel are those who have the power and the direct or indirect responsibility for planning, managing, and controlling the activities of the Company and they include its Directors.

USE OF ESTIMATES - RISKS AND UNCERTAINTIES

Preparation of financial statements and notes pursuant to IFRS requires ERG to make estimates and assumptions that affect the carrying amounts of the assets and liabilities recognised in the separated financial statements and disclosures relating to contingent assets and liabilities. Making these estimates involves using information available and subjective assumptions.

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

The main estimates for which subjective assessments are more heavily required, in addition to those relating to fair value measurements, described in the specific section, were used, inter alia, for:

- the impairment test of non-financial assets with particular reference to the process of identifying and monitoring the triggering events and to the main assumptions for the determination of recoverable amounts ("Impairment tests on equity investments");
- deferred tax assets, recognised on the basis of the Group's future taxability of profits as forecast by business plans as well as of the expected settlement and renewal of tax consolidation schemes (Note 5 - Taxes);
- the estimates for provisions for environmental risks and for liabilities related to legal and fiscal disputes; in particular, the valuation processes are based on complex elements that by their nature imply reliance on the Directors' judgement, also taking into account the elements acquired by external consultants, and involve both determining the degree of likelihood of the occurrence of conditions that may entail a cash outlay and hence classification among liabilities or among contingent liabilities, and quantifying the related amount (Note 12 - Other provisions). In particular, with reference to the Provision for disposed Businesses the most complex elements are connected with the measurement process and procedures related to the risks tied mainly to events dating back in time and pertaining to environmental, legal and tax matters tied to the divested "Oil" of Coastal Refining and of integrated Downstream businesses;
- loss allowances and impairment of assets (**Note 7 - Trade receivables, Note 12 Other provisions**).

Fair value measurements

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

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

Non-observable input data and valuation adjustments are regularly subjected to reappraisal.

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

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

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

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

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

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

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

- **Note 23 - Services and other operating costs** and **Note 24 - Personnel expense**;
- **Note 16 - Profit from discontinued operations**;
- **Note 32 - Financial Instruments**.

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

STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED STARTING ON 1 JANUARY 2018

IFRS 9 - Financial Instruments

IFRS 9 - Financial Instruments has been applied from 1 January 2018.

Application of this standard introduced inter alia new criteria for the classification and measurement of financial assets and liabilities (together with the assessment of non-substantial modifications of financial liabilities), a new hedge accounting model and, with reference to the impairment model, the new standard provides that credit losses be estimated by applying the expected credit losses model.

IFRS 9 is applied by the Group on a retroactive basis but with the cumulative effect at the date of first application (1 January 2018). As such, 2017 information has not been restated, i.e. it been presented according to IAS 39.

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

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

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

(EUR thousand)	Effects of the adoption of IFRS 9 on the opening balance
Retained earnings	
Recognition of the expected losses on iintragroup guarantees	906
Fair Value Measurement of financial Assets whose contractual cash flows are not represented solely by principal and interest payments	3,459
Income taxes	(1,048)
Effects at 1 January 2018	**3,317**

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

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

The effects of IFRS 9 on the classification and measurement of financial assets have already been described in Accounting policies section.

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

(EUR thousand)	Original classification in accordance with IAS 39	New classification in accordance with IFRS 9	Original carrying amount in accordance with IAS 39	New carrying amount in accordance with IFRS 9
Financial Assets				
Financial instruments in working capital	Available-for-sale	FVOCI	136	136
Other receivables	Loans and receivables	Amortised cost	100,918	100,918
Cash and cash equivalents	Loans and receivables	Amortised cost	661,970	661,970
Trade receivables	Loans and receivables	Amortised cost	3,306	3,306
Loan assets (*)	Loans and receivables	FVTPL (*)	98,689	95,230
Loan assets	Loans and receivables	Amortised cost	1,136	1,136
Equity investments	Fair value	FVTPL	491	491
Total financial assets			**866,646**	**863,187**

(*) as financial Assets whose contractual cash flows are not represented solely by principal and interest payments (i.e. they have not exceeded the "SPPI" - Solely Payment of Principal and Interest - test prescribed by IFRS 9)

As a result of the introduction of IFRS 9, the Company reclassified the receivable deriving from the loan agreement entitled Project Sponsor Subordinated Loan Agreement to ERG Power S.r.l. in the category FVTPL. The change in measurement entailed the redetermination of the carrying amount of the receivable at the date of transition to the new standard (1 January 2018) with consequent reduction of retained earnings by an amount of EUR 2,629 thousand (EUR 3,459 thousand net of the tax effect of EUR 830 thousand).

IFRS 9 - Impairment losses on financial guarantees

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

Impairment losses on assets included in the scope of the impairment model prescribed by IFRS 9 usually tend to increase and to become more volatile. The application of the provisions of IFRS 9 in relation to impairment at 1 January 2018 generated the recognition of a guarantee provision towards direct and indirect subsidiaries of ERG S.p.A. in the amount of EUR 906 thousand.

IFRS 9 - Recognition of hedging transactions (hedge accounting)

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

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

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

For an explanation of the hedge accounting procedures applied by the Group in accordance with IFRS 9, please refer to **Note 3 - Financial instruments**.

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

IFRS 9 - Summary of transitional provisions

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

- he Company opted for the exemption that allows not to redetermine the comparative information of the previous years pertaining to the provisions on classification and measurement (including impairment losses). The differences between the carrying amounts of financial assets and liabilities deriving from adoption of IFRS 9 are recognised among the retained earnings and reserves at 1 January 2018. Thus, in general, the information presented for 2017 does not reflect the provisions of IFRS 9, but rather those of IAS 39;
- the following measurements were made on the basis of the facts and of the circumstances in place at the date of first-time adoption:
  - definition of the business model in which a financial asset is included;
  - designation of some equity instruments not held for trading in the FVOCI category.
- when a debt security has low credit risk at the date of initial application of IFRS 9, the Company considered that the credit risk of the asset has not increased significantly after the initial recognition.
- changes to hedge accounting provisions were applied prospectively, because the Company has no existing instruments for which the hedge cost method in relation to the forward points that should have been applied retroactively to the hedges existing on or after 1 January 2017 is applicable.
- all hedges designated in accordance with IAS 39 at 31 December 2017 met the hedge accounting provisions of IFRS 9 at 1 January 2018 and, therefore, they represent continuous hedges.

IFRS 15 - Revenue from Contracts with Customers has been applied from 1 January 2018. Adoption of the aforesaid standard had no effect on the Separate Financial Statements of ERG S.p.A.

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

- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions";
- Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts";
- Amendments to IAS 40 "Transfers of Investment Property";

- Amendments to IFRS 1 and IAS 28 "Annual Improvements to IFRSs 2014-2016 Cycle";
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;

The afore-mentioned amendments and interpretation do not have significant effects for the Group.

STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, NOT YET MANDATORILY APPLICABLE AND NOT ADOPTED EARLY BY THE COMPANY AT 31 DECEMBER 2018

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

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

IFRS 16 Leases

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

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

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

IFRS 16 replaces the current provisions on leases, including IAS 17-Leases, IFRIC-4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Company will recognise new liabilities for operating leases of properties, equipment and car pool. The nature of the costs relating to the above-mentioned leases will change because the Company will depreciate right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised costs for operating leases on a straight-line basis overout the lease terms.

There are no impacts in relation to the financial leases of the Company.

On the basis of currently available information, the Company expects to recognise additional liabilities for leases amounting to EUR 2.6 million at 1 January 2019. The Company does not expect that the adoption of IFRS 16 will influence its ability to comply with the debt covenants provided in the loan agreements described in **Note 18**.

The Company intends to apply IFRS 16 from the date of first adoption (i.e. 1 January 2019) using the modified retrospective approach method. Therefore, the cumulative effect of the adoption of IFRS 16 will be recognised to adjust the opening balance at 1 January 2019, without restating the comparative information

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

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

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

- Amendment to **IAS 19 Plan Amendments, Curtailment or Settlement** (applicable since 1 January 2019);
- Improvements to **IFRS 2015-2017 cycle** – amendments to **IFRS 3, IFRS 11**, **IAS 12** and **IAS 23** (applicable since 1 January 2019);
- **IFRS 17 Insurance Contracts** (applicable since force 1 January 2021);
- Amendment to References to the Conceptual Framework in IFRS Standards.
- Definition of business (amendments to IFRS 3 - applicable since force 1 January 2020)
- Definition of material (amendments to IAS 1 and IAS 8 - applicable since force 1 January 2020)

Any impacts of the aforesaid amendments are currently being assessed.

IMPAIRMENT TESTS ON EQUITY INVESTMENTS

ERG Power Generation S.p.A.

In these separate Financial Statements, the carrying amount of the equity investment in ERG Power Generation S.p.A. is equal to EUR 1,736 million, unchanged from the previous year.
For the purposes of the 2017 Separate Financial Statements the Company had checked the carrying amount of the equity investment that showed that its recoverable amount was significantly higher than its carrying amount.For the purposes of the 2018 Separate Financial Statements, the Company verified the presence of impairment indicators.

In particular, the following were examined:

- Changes in the enterprise value of the groups of CGU, as better commented in the Notes to the 2018 consolidated Financial Statements and belonging, directly and indirectly, to ERG Power Generation S.p.A.;
- the distribution of dividends during 2018, amounting to EUR 20 million, by ERG Power Generation S.p.A. to ERG S.p.A.,
- the stock market capitalization of ERG S.p.A. at 31 December 2018 amounting to EUR 2.5 billion. For this purpose, it is specified that the fair market value of ERG Power Generation S.p.A. can be derived from that of ERG S.p.A. net of the costs of the corporate structure and of the net financial position of the holding company.

Group management deems the assumptions used to identify and verify the indicators to be reasonable and, on the basis of the aforementioned assumptions, no need to determine the recoverable amount has emerged.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

NOTE 1 - INTANGIBLE ASSETS

	Other intangible assets	Assets in progress	Total
BALANCE AT 31/12/2017	2,209	1,025	3,233
Changes in the year:			
Acquisitions	664	664	**1,328**
Capitalisations/reclassifications	965	(967)	**(2)**
Disposals and divestments	–	–	**–**
Amortisation	(1,901)	–	**(1,901)**
Other changes	–	–	**–**
BALANCE AT 31/12/2018	1,937	722	2,658

To enhance understandability, changes for the year relating to reclassifications, disposals and divestments are shown net of the related accumulated depreciation and impairment provisions. "Other intangible assets" consists mainly of software applications and by advisory services provided in the implementation phase thereof.

The increase is due mainly to the investments of the year related to new software and improvements on existing ones.

NOTE 2 - PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Other assets	Assets under construction	Total
Historical cost	**16,475**	**818**	**10,711**	**165**	**28,170**
Depreciation and impairment losses	(8,990)	(589)	(8,036)	–	**(17,615)**
BALANCE AT 31/12/2017	7,485	229	2,675	165	10,554
Changes in the year					
Acquisitions	654	305	852	39	**1,851**
Capitalisations	–	2	12	(12)	**2**
Reclassifications	28	(2)	80	(106)	**(0)**
Disposals and divestments	–	–	(0)	–	**(0)**
Other changes	–	–	–	–	**–**
Depreciation	(497)	(51)	(495)	–	**(1,044)**
Historical cost	**17,242**	**1,040**	**11,655**	**85**	**30,021**
Depreciation and impairment losses	(9,571)	(557)	(8,531)	–	**(18,658)**
BALANCE AT 31/12/2018	7,670	483	3,124	85	11,363

To enhance understandability, changes for the year relating to reclassifications, disposals and divestments are shown net of the related accumulated depreciation and impairment provisions. “Land and buildings” include land on the Priolo Gargallo site. “Other assets” consist mainly of equipment, furniture and furnishings and works of art.

The increase is due mainly to investments relating to the recreational area and improvements on the infrastructures of the company.

NOTE 3 - EQUITY INVESTMENTS

	Equity investments				
	Subsidiaries	Joint ventures	Associates	Other companies	Total
Historical cost	**1,855,770**	**–**	**–**	**491**	**1,856,261**
Impairment	(120,163)		–	–	**(120,163)**
BALANCE AT 31/12/2017	**1,735,607**	**–**	**–**	**491**	**1,736,098**
Changes in the year:					
Acquisitions / share capital increases / revaluations	–	–	–	–	**–**
Disposals and divestments	–	–	–	(26)	**(26)**
Other changes	–		–	–	**–**
Historical cost	**1,855,770**	**–**	**–**	**465**	**1,856,235**
Impairment	(120,163)		–	–	**(120,163)**
BALANCE AT 31/12/2018	**1,735,607**	**–**	**–**	**465**	**1,736,072**

There were no significant **acquisitions/capital increases**.

On **12 September 2017** the company Emittenti Titoli, in which ERG S.p.A. holds shares amounting to EUR 26 thousand, was placed in liquidation. In 2018, the liquidation of company was completed and the value of the equity investment was disposed of.

In the 2017 Separate Financial Statements the equity investment in TotalErg had been classified in “Assets held for sale”. The equity investment was sold in January 2018.

The list of equity investments is provided below with the data provided in compliance with Article 126 of the CONSOB Resolution no. 11971 as amended.

(EUR thousand)	Registered office	Share capital	%	Equity (1)	Our portion of Equity (1)	Carrying amount
Subsidiaries						
ERG Power Generation S.p.A.	Genoa	100,000	100%	1,867,026	1,867,026	1,735,607
ERG Petroleos S.A.	Madrid (Spain)	3,050	100%	(6,099)	(6,099)	–
Total subsidiaries						**1,735,607**
Other companies						
CAF Interregionale Dipendenti S.r.l.	Vicenza	276	0%	1,052	–	–
Meroil S.A.	Barcelona (Spain)	19,077	1%	68,722	598	310
R.U.P.E. S.p.A.	Genoa	3,058	5%	3,053	149	155
Total other companies						**465**
TOTAL EQUITY INVESTMENTS						**1,736,072**

(1) data referred to the last financial statements approved at the date of the Board of Directors' meeting for the other companies and associates.

It should also be recalled that in view of the negative equity of ERG Petroleos S.A. in liquidation, a provision for risks on equity investments of approximately EUR 6.1 million has been set up, of which EUR 189 thousand accrued in 2018.
For the measurement of the equity investment in ERG Power Generation S.p.A., please refer to the section **Impairment test on equity investments**.
For a complete list of the equity investments of the Group, please refer to the Notes to the Consolidated Financial Statements.

NOTE 4 - OTHER NON-CURRENT FINANCIAL ASSETS

	31/12/2018	31/12/2017
OPENING BALANCE	**98,760**	**93,005**
Changes in the year:		
IFRS 9 transition effect	(3,459)	–
Disbursements and interest	38,861	31,684
Repayments	(29,029)	(26,000)
Reclassifications	–	–
Fair Value Adjustment	1,086	–
Other changes	(72)	72
CLOSING BALANCE	**106,148**	**98,760**

The balance of "Other non-current financial assets" at 31 December 2018 amounts to EUR 106 million and it consists of the receivable from the indirect subsidiary ERG Power S.r.l. in relation to the Project Sponsor Subordinated Loan Agreement and of the receivable (EUR 36 million), posted in 2018, claimed from api corresponding to the deferred component of the price for the sale of the assets regulated by a vendor loan agreement within the TotalErg transaction.

The Disbursements and interest include the vendor loan to api, inclusive of the interest for the period and the interest on the Project Sponsor Subordinated Loan Agreement to ERG Power S.r.l.

Repayments include mainly a partial redemption of the loan to ERG Power S.r.l. (EUR 26 million) and of the receivable to api (EUR 1 million).

Following the adoption of IFRS 9, the receivable relating to the Project Sponsor Subordinated Loan Agreement from the subsidiary ERG Power S.r.l. was measured at fair value.

Application of the FVTPL method at the transition date led to a reduction of the receivable by EUR 3.5 million. In 2018, as a result of the adjustment of the fair value of the aforesaid receivable, financial income amounting to EUR 1.1 million was recognised.

The value of the receivable at 31 December 2018 therefore amounts to EUR 70.1 million.

The other changes refer to the change in the fair value of the derivatives to hedge interest rates of EUR 72 thousand.

NOTE 5 - TAXATION

Deferred tax assets

	31/12/2018		31/12/2017	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Provisions for risk and charges	34,213	9,996	36,700	10,615
Loss allowance	1,702	408	1,750	420
Derivatives	5,033	1,208	3,126	481
Other temporary differences	6,442	1,545	27,011	4,584
Total		**13,157**		**16,100**

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

The rate used for the calculation of the deferred tax assets is the same as the nominal IRES rate of 24%, increased, where applicable, by the IRAP rate (5.57%).

Deferred tax assets at 31 December 2018, amounting to EUR 13.2 million (EUR 16.1 million at 31 December 2017) are mainly allocated to the provisions for risks and charges.

Deferred tax liabilities

	31/12/2018		31/12/2017	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Actuarial valuation of post-employment benefits	–	–	704	88
Unrealised foreign exchange gains	111	27	797	35
Other deferred tax liabilities	4	1	6,210	1,342
Total		**28**		**1,465**

"Deferred tax liabilities" are recognised on taxable temporary differences between the carrying amount of recognised assets and liabilities and their corresponding tax base. The rate used to calculate deferred taxes is the same as the nominal IRES (corporate income tax) rate (24%), and as the nominal IRAP rate (5.57%).

Deferred tax liabilities at 31 June 2018 amount to EUR 28 thousand (EUR 1,465 at 31 December 2017). The decrease is mostly due to the reversal of the deferred tax liabilities allocated on the higher fair value of the equity investment in TotalErg S.p.A., recorded at the time of the merger of ERG Petroli with Total Italia in 2010, and sold in 2018.

NOTE 6 - OTHER NON-CURRENT ASSETS

	31/12/2018	31/12/2017
Non-current receivables from Tax Authorities	1,913	1,913
Other non-current receivables	399	1,065
Total	**2,312**	**2,977**

Non-current receivables from Tax Authorities amount to EUR 1,913 thousand and refer mainly to VAT receivables. Other non-current receivables amounting to EUR 399 thousand include mainly security deposits on lease agreements. The decrease from 31 December 2017 is due to the reclassification in "Other current assets" of the receivable from ERG Oil Sicilia S.r.l., amounting to EUR 654 thousand and relating to a deferred portion of the price for the sale that took place in December 2014.

NOTE 7 - TRADE RECEIVABLES

Receivables can be summarised as follows:

	31/12/2018	31/12/2017
Receivables from customers	3,363	4,463
Receivables from Group companies	1,684	433
Accumulated Impairment Loss	(1,541)	(1,590)
Total	**3,506**	**3,306**

"Receivables from customers" substantially include trade receivables amounting to EUR 3,027 thousand and invoices to be issued amounting to EUR 336 thousand.

The item includes in particular prior trade receivables that derive mainly from dealings with customers in the energy, thermoelectric and petroleum sectors originally due to the companies merged in ERG S.p.A. in 2015 and in previous years. The receivables pertaining to the assets of ERG Supply & Trading S.p.A. (EUR 470 thousand) receivables tied to prior year items of Refining (EUR 704 thousand) and receivables relating to the retail electricity selling business sold in 2012 (EUR 1,757 thousand), covered by the loss allowance. The decrease of the item amounts to approximately EUR 1.1 million relates to the collection of prior year items of which EUR 0.9 million pertain to the electricity business and EUR 0.2 million to the Oil business.

"Receivables from Group companies" include mainly receivables from subsidiaries amounting to EUR 1,590 thousand and receivables from associated companies of EUR 94 thousand. In detail, receivables from subsidiaries include mainly the charge-backs to the subsidiary ERG Power Generation relating to the costs for the acquisition of the special projects completed in 2018.

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

The accumulated impairment loss changed as follows:

	31/12/2018	Allocations	Utilizzi	Other changes	31/12/2017
Accumulated impairment loss	1,541	–	(48)	–	1,590
Total	**1,541**	**–**	**(48)**	**–**	**1,590**

Utilisations in 2018 refer to the removal of receivables deemed uncollectable, from parties that are bankrupt or subjected to other insolvency proceedings pertaining to the electricity retail selling business of the former ERG Power & Gas S.p.A., transferred to ERG S.p.A. after the merger of 2010.

	31/12/2018	31/12/2017
Receivables from third parties not past due and intercompany receivables	**1,684**	**543**
Past due receivables from third parties:		
within 30 days	–	–
within 60 days	–	–
within 90 days	–	–
after 90 days	1,822	2,763
Total	**3,506**	**3,306**

NOTE 8 - OTHER CURRENT ASSETS

	31/12/2018	31/12/2017
Tax receivables	25,440	20,107
Other receivables from Group companies	42,993	52,342
Other receivables	4,173	7,978
Total	**72,606**	**80,428**

Tax receivables relate mainly to receivables from tax authorities for consolidated IRES (EUR 6,736 thousand), advances on electricity and gas excise duties (EUR 223 thousand), IRAP (EUR 266 thousand), group VAT receivable (EUR 8,381 thousand) and other receivables from tax authorities (EUR 9,279 thousand) referred to requests for IRES and IRAP reimbursement and payments of taxes made provisionally, pending final adjudication.

For further details, see **Note 19 Contingent liabilities and disputes**.

"Other receivables from Group companies" refer mainly to IRES receivables from subsidiaries for tax consolidation, amounting to EUR 35,016 thousand, and for Group VAT, amounting to EUR 5,634 thousand. The item also includes the receivable from the parent company San Quirico S.p.A. relating to the repayment by contribution of the value of the shares assigned to employees for the celebration of the 80 years of ERG, inclusive of ancillary costs, i.e. EUR 920 thousand.

"Other receivables" includes mainly the deferrals pertaining to costs for extraordinary transactions not yet completed at the reporting date and the deferred portion of the sale price of ERG Oil Sicilia S.r.l.

NOTE 9 - NET FINANCIAL POSITION

	31/12/2018	31/12/2017
Non-current loans / borrowings	795,670	670,555
- current portion of loans and borrowings	(162,776)	(58,625)
Non-current bond	100,559	100,462
- current portion of Bond	(897)	(997)
Fair value of hedging derivatives on interest rates	6,621	4,066
Other non-current financial liabilities	–	–
Non-current financial liabilities	**739,177**	**715,461**
NET NON-CURRENT FINANCIAL POSITION	**739,177**	**715,461**
Current loans/borrowings	162,776	58,625
Current bond	897	997
Short-term banking liabilities	20,000	82,852
Other current financial liabilities	7	48,224
Current financial liabilities	**183,680**	**190,698**
Financial receivables from investees	(15,727)	(8,490)
Other current financial receivables	(3,540)	(2,614)
Current financial assets	**(19,267)**	**(11,104)**
Bank deposits	(598,540)	(661,970)
Cash in hand and cash equivalent	–	–
Cash and cash equivalents	**(598,540)**	**(661,970)**
NET NON-CURRENT FINANCIAL POSITION	**(434,127)**	**(482,376)**
NET FINANCIAL POSITION	**305,051**	**233,085**

The net financial position totalled EUR 305 million, increased by EUR 72 million compared to 31 December 2017 mainly due to the cash flows generated during the period net of the investments and changes in working capital.

Among the most significant changes of the period, the following are pointed out:

- - EUR 180 million from the sale of TotalErg S.p.A.;
- + EUR 171 million from distribution of dividends to Shareholders;
- - EUR 56 million from change in centralised treasury with the subsidiary ERG Power Generation S.p.A.

Net non-current financial position

Non-current financial liabilities

Non-current loans and borrowings

Loans and borrowings at 31 December 2018 total EUR 795,670 million and refer to:

- a corporate acquisition loan of EUR 291 million, agreed with a syndicate of seven mandated Italian and foreign lead arrangers and bookrunners for the acquisition of the entire hydroelectric business belonging to E.ON Produzione, now ERG Hydro S.r.l.;
- three bilateral corporate loans with Mediobanca S.p.A. (EUR 150 million) and UBI Banca S.p.A. (EUR 100 million) entered into in the first half of 2016 to refinance the current portion of the corporate acquisition loan entered into for the acquisition of ERG Hydro S.r.l., and with Unicredit S.p.A. (EUR 75 million) for the project financing for the wind farm in Corni (Romania);
- a corporate loan with Mediocredito (EUR 66 million) for the early termination of leasing contracts of 5 solar companies acquired at the beginning of the year;
- an Environmental, Social and Governance loan ("ESG Loan") of EUR 120 million with Banca Nazionale del Lavoro to support the investment plan of the group and to refinance some corporate credit facilities.

The loans are presented net of commissions and other borrowing costs and of the effect of the renegotiation of the loans in accordance with IFRS 9 referred to the positive income component generated within non-substantial changes to financial liabilities, with a total opening amount of EUR 5.6 million. These costs were recognised using the amortised cost method for EUR 1.8 million.

At 31 December 2018, the weighted average interest rate on loans, borrowings amounted to 1.0% (1.1% at 31 December 2017). The rate indicated does not take into account interest rate hedges.

The conditions and repayment plans of non-current loans and borrowings are as follows:

Type	Carrying amount of financial liability	Carrying amount of financial liability	Currency of the loan	Disbursement	Maturity	Hedge
Bilateral corporate loan	144,366	150,000	EUR	2016	2023	IRS: fixed rate 0.2125%
Corporate acquisition loan	291,696	291,375	EUR	2015	2019	IRS: fixed rate from 2.65% to 0.29%
Bilateral corporate loan	100,086	100,000	EUR	2016	2021	IRS: fixed rate -0.045%
Bilateral corporate loan	74,805	75,000	EUR	2016	2021	IRS: fixed rate -0.092%
Corporate loan	65,194	65,625	EUR	2018	2026	–
Environmental, Social and Governance Loan	119,523	120,000	EUR	2018	2023	IRS: fixed rate 0.34%
TOTAL LOANS / BORROWINGS	**795,670**	**802,000**				

The above loan agreements provide for compliance with a Financial covenant. For additional details, please refer to **Note 18 - Covenants**.

Bond

The item, amounting to EUR 100.6 million at 31 December 2018 (EUR 100.5 million at 31 December 2017) includes the liability deriving from the issue of the non-convertible bond issued in July 2017, aimed at raising additional funds for new capital expenditure in the renewable energies sector and to refinance the capital expenditure made for hydroelectric plants in Italy.

The bond is presented net of commissions and other borrowing costs with an opening amount of EUR 0.5 million. These costs were recognised in the financial expenses of 2018 using the amortised cost method for EUR 0.1 million.

The conditions and repayment plans of the bond are as follows:

Type	Carrying amount of financial liability	Carrying amount of financial liability	Currency of the loan	Disbursement	Maturity	Hedge
Bond	100,559	100,000	Euro	2017	2023	Fixed rate loan
TOTAL BOND	**100,559**	**100,000**				

The carrying amount of the financial liability includes approximately EUR 1 million of interest accrued in the period.

Fair value of hedging derivatives on interest rates

The Fair Value of hedging derivatives, amounting to EUR 6,621 thousand, includes the liabilities deriving from fair value measurement of the derivatives hedging interest rates, the details of which are provided below.

Issuing bank	Agreement	Maturity	FAIR VALUE (EUR thousand)	
			31/12/2018	**31/12/2017**
ING	IRS	06/08/20	(263)	(395)
BNP Paribas BNL	IRS	06/08/20	(256)	(381)
UniCredit	IRS	06/08/20	(265)	(398)
Barclays	IRS	06/08/20	(253)	(376)
IntesaSanpaolo	IRS	06/08/20	(264)	(396)
Credit Agricole	IRS	06/08/20	(268)	(403)
Natixis	IRS	06/08/20	(265)	(398)
UBI Banca	IRS	26/02/21	(284)	(101)
Mediobanca	IRS	15/03/21	(1,185)	(1,218)
Mediobanca	IRS	30/06/23	(1,290)	–
UniCredit	IRS	21/04/21	(199)	–
CACIB	IRS	19/11/23	(914)	–
BNL	IRS	19/11/23	(914)	–
			(6,621)	**(4,066)**

Net short-term financial position

Current financial liabilities

"Short-term mortgages and loans" amounts to EUR 162,776 thousand and includes the short-term portion of the loans net of the short-term portion of the amortised cost and of IFRS 9 gain on loans.

"Short-term banking liabilities" include short-term loans on request amounting to EUR 20 million.

"Other financial payables" include the payable for interest of the period on the bond and the short-term portion of the related amortised cost.

Current financial assets

Financial receivables from investee companies amount to EUR 15,727 and they consist of the receivables deriving from the financial management of ERG Power Generation S.p.A. (EUR 7,237 thousand) and from the financial receivable from ERG Petroleos S.A. (EUR 8,490 thousand).

"Other short-term financial receivables" consist solely of Accrued financial income and include the accrued portion of interest income on liquidity.

Cash and cash equivalents

The item consists of the cash generated by the activities of the Company and by the extraordinary transactions of the previous years and it is deposited on a short-term basis at the banks with which the Company works.

For an analysis of the increase in cash in hand, please refer to the **Statement of Cash Flows**.

NOTE 10 - EQUITY

Share capital

Fully paid-in share capital at 31 December 2018 consisted of 150,320,000 shares with a par value of EUR 0.10 each for a total of EUR 15,032,000 (unchanged since 31 December 2017).

At 31 December 2018, the Company's Shareholders Register, relative to holders of significant investments, showed the following:

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

At 31 December 2018, San Quirico S.p.A. and Polcevera S.r.l. were controlled by the Garrone and Mondini families, heirs of the founder of the ERG Group, Edoardo Garrone.

Treasury shares

On 24 April 2015, pursuant to Article 2357 of the Italian Civil Code, the Shareholders of ERG S.p.A. authorised the Board of Directors to purchase treasury shares for a period of 12 months from 24 April 2015, up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 30,064,000 (thirty million, sixty-four thousand) ordinary ERG shares with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.

The Shareholders also authorised the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, for

12 months as from 24 April 2015, to sell, all at once or in several steps, and with any procedures deemed appropriate, in relation to the purposes which the disposal is attempting to achieve, treasury shares at a unit price no lower than 10% below the closing price of the stock on the day immediately preceding each individual sale and in any case no lower than the unit value per share of the equity of the Company as it results from time to time from the last approved financial statements.

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

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

On 12 October 2016 ERG S.p.A. executed an agreement with UniCredit that provided for the exchange of all shares already held by UniCredit in ERG Renew S.p.A., equal to 7,692,308 and corresponding to 7.14% of the related share capital with 6,012,800 of ordinary ERG treasury shares corresponding to 4.00% of all shares representing the share capital of ERG. The exchange ratio at which the exchange was agreed amounted to approximately 0.78 ordinary ERG shares for every ERG Renew S.p.A. share, based on a value of EUR 12.8 attributed to each ordinary ERG share.

ERG, as a result of the transaction, holds 1,503,200 ordinary ERG treasury shares at 31 December 2016, equal to 1% of the related share capital.

At 31 December 2018, there was no change.

On 20 October 2018, on the occasion of 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) were fully repaid by said San Quirico S.p.A., a holding company of the Garrone and Mondini families.

The allocation was finalised on 14 January 2019 and concerned a total number of 664 employees and 53,120 shares held in the portfolio by the Company, for a total value of EUR 898 million.

Reserves

	31/12/2018	31/12/2017
Share premium reserve	64,207	64,207
Legal reserve	3,236	3,236
IAS transition reserve and retained earnings	500,658	651,145
Cash flow hedge reserve	(3,825)	(1,524)
2010 merger surplus	250,563	250,563
2015 ISAB Energy merger surplus	361,755	361,755
Other Reserves	278,710	274,434
Total	**1,455,304**	**1,603,815**

- the **"Share premium reserve"** consists of the share premium paid by the shareholders for the subscription of the shares relating to the share capital increases carried out on 14 October 1997, 2 July and 5 August 2002. This reserve was used for:

- purchase of treasury shares in 2006 for EUR 11,210 thousand;
- purchase of treasury shares in 2008 for EUR 14,779 thousand;
- purchase of treasury shares in 2012 for EUR 25,672 thousand;
- sale of treasury shares in 2016 for EUR 41,343 thousand within an exchange of ERG Renew S.p.A. held by the minority shareholder into ordinary ERG S.p.A. shares,

• the **"IAS transition reserve and retained earnings"** consists of the adjustments made to the ERG S.p.A. Separate Financial Statements at the time of conversion (mainly because of the reversal of dividends ascertained for accrued at the end of the year) and of retained earnings. In 2018, the effects deriving from transition to IFRS 9 were recorded for a total amount of EUR 3,317 thousand, net of the tax effect, as already described in detail in "Accounting Standards, amendments and IFRS interpretations applied since 1 January 2018";
• the **"Cash flow hedge reserve"** at 31 December 2018 is negative by EUR 3,825 thousand and reflects the effect of the derivatives hedging ongoing loans;
• the **"ISAB Energy merger surplus"** includes the surplus generated by the merger by absorption of ISAB Energy S.r.l., which took place in 2015, amounting to EUR 361,755 thousand.

"Other reserves" comprise mainly monetary revaluation reserves; in 2015, they increased by effect of the reconstitution of the former ISAB Energy S.r.l. from the monetary realignment reserve per Law 266/05 for an amount of EUR 28,709 thousand. This reserve may be distributed to the Shareholders, in which case it will contribute to form the taxable amount of the Company, or it may used to cover losses, in which case the Company may not distribute dividends, without first having reconstituted its amount. The Company did not allocate deferred tax liabilities on these reserves because it does not expect any utilisations that may generate taxation. In addition, the surplus generated by the 2010 merger by acquisition of ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. in ERG S.p.A., equal to EUR 446 million, had been partly allocated in the "2010 merger surplus" reserve (EUR 251 million) and partly to reconstitute the specific equity reserves (EUR 195 million) subject to tax on distribution.

The changes to "Other Reserves" in the period are listed below:

• posting of the reserve related to the 2018-2020 long term incentive plan in accordance with **IFRS 2 - Share-Based Payment Transactions** as described more in detail in **Note 23 Services and other costs** for a total amount of EUR 2,486 thousand;
• posting of the reserve related to the assignment of shares to employees for the celebration of the 80 years of ERG in accordance with **IFRS 2 - Share-Based Payment Transactions** as described more in detail in the section "**ERG celebrates 80 years of energy history**" for a total amount of EUR 898 thousand;
• posting of the reserve relating to the repayment by contribution by the parent company San Quirico S.p.A. of the value of the shares assigned to the employees for the celebration of the 80 years of ERG, for a total amount of EUR 898 thousand;
• change in the discounting reserve for post-employment benefits by a negative amount of EUR 7 thousand.

The following table lists the balance sheet items and indicates for each the possible destination and any tax constraints.

	Amount	Possible utilisation	Portion available and distributable	Portion subject to tax on distribution
Share capital	15,032	–	–	15,032
Share premium reserve	64,207	A B C	64,207	–
Legal reserve	3,236	B	–	–
IAS transition reserve and retained earnings	500,658	A B C	403,921	–
Cash flow hedge reserve	(3,825)	–	–	–
Other reserves and merger surpluses	891,027	A B C	891,027	255,070
Profit for the year	4,084	A B C	4,084	–
Total	**1,474,419**		**1,363,239**	**270,102**

Key
A - for share capital increase
B - for loss coverage
C - for distribution to shareholders

As a result of the off-balance sheet deductions already made in accordance with the previously applicable Article 109.4.b) of the Italian Consolidated Income Tax Act, subject to transitional application (including those carried out by the absorbed companies) in case of distribution of earnings for the year and/or reserves, the amount of equity reserves and of the retained earnings for the year must not decrease below the total residual amount of the negative components deducted off the balance sheet which, net of the provisions for deferred tax liabilities, is estimated at EUR 10.4 million. In this case, the amount of the reserves and/or distributed earnings for the year that impacts on the minimum level will contribute to form the taxable income of the Company.

The unavailable portion, i.e. EUR 96,737 thousand, of the “IAS transition reserve and retained earnings” refers to the residual amount of the unavailable reserve[1] earmarked by the Shareholders’ Meeting of 14 April 2011 to receive part of the profit for the year 2010, initially amounting to EUR 346,404 thousand, corresponding to the unrealised portion, net of the related tax charge, of the capital gain deriving from the establishment of the TotalErg S.p.A. joint venture.

As a result of the approval of the 2012 Financial Statements and of the 2013 Financial Statements, a part of the unavailable portion of the “IAS transition reserve and retained earnings” had been released for an amount of EUR 229,450,161 corresponding to the write-downs, net of the related tax effects, carried out in the corresponding years of the equity investment in the TotalErg S.p.A. joint venture.

As a result of the approval of the 2017 Financial Statements, a part of the unavailable portion of the “IAS transition reserve and retained earnings” had been released for an amount of EUR 20,216,282 corresponding to the change in the value of the TotalErg S.p.A. equity investment for the purposes of the application of IFRS 5, net of the related tax effects.

The remaining unavailable portion is released in 2018 as a result of the sale of the equity investment.

1 In accordance with Article 6.1.a) of Italian Legislative Decree no. 38/2005.

In addition, as a result of the 2016 Financial Statements, the unavailable reserve recorded in 2015 was recorded in accordance with Article 6.1.a) of Legislative Decree no. 38/2005 for an amount of EUR 11,181,413 and corresponding to the unrealised expense deriving from the zeroing of the value of the option on the minority shares of ERG Renew S.p.A. This release was posted as an increase in the "IAS transition reserve and retained earnings".

Dividends

The dividends paid by ERG S.p.A. in 2018 (EUR 171.1 million) and in 2017 (EUR 74.4 million), as resolved upon approval of the Separate Financial Statements for the previous years, amounted respectively to EUR 1.15 (of which EUR 0.40 is the non-recurring component) and EUR 0.50 for each of the shares with dividend rights as of the coupon date.

On 6 March 2019, the Board of Directors proposed the payment to shareholders of a dividend of EUR 0.75 per share. The dividend will be paid starting from 22 May 2019, with coupon date starting on 20 May 2019 and record date on 21 May 2019.

Capital Management

The objectives identified by the Company for capital management are to safeguard corporate viability, to create stakeholder value and to support Company development. In particular, the Company pursues the maintenance of an adequate level of capitalisation that allows to produce a satisfactory economic return for shareholder and to assure access to external financing sources,

also through the achievement of an adequate rating. In this context, the Company manages its own capital structure and makes adjustments to it, if changes in the economic conditions require it. There were no substantial changes to the objectives, to the policies or to the processes in 2018.

NOTE 11 - EMPLOYEE BENEFITS

	31/12/2018	31/12/2017
OPENING BALANCE	**1,629**	**574**
Increases	64	50
Decreases	(177)	(508)
Other changes	(60)	1,513
CLOSING BALANCE	**1,455**	**1.629**

The item includes the estimate of the liabilities, determined on the basis of actuarial techniques, relating to the post-employment benefits to be paid to employees upon termination of their employment.

The change shown in the table does not include the portion of post-employment benefits and transferred to the INPS Treasury fund.

The main assumptions used in determining the actuarial value of the liability relating to post-employment benefits are shown below. The discounting rate was determined on the basis of a panel of corporate securities with maturity of 10 years or more with AAA rating.

	2018
Discount rate	1.6%
Inflation rate	1.5%
Average turnover rate	3.0%
Average rate of increase of remuneration	1.5%
Average age	46

The following table shows the impact on the liability as a result of a +/-0.5% change in the discounting rate.

(EUR thousand)	2018
+0.5% change in discounting rate: lower liability	(47)
-0.5% change in discounting rate: higher liability	51

There are no particular risks (either unforeseen or specific) to which the plan exposes the entity, or any other significant risk concentration.

There are no significant contributions to the Plan because they relate almost exclusively to the revaluation of the residual value of the post-employment benefits allocated until 31 December 2006 (the defined benefit plans relate almost exclusively to the post-employment benefits provided by Article 2120 of the Italian Civil Code).

NOTE 12 - OTHER PROVISIONS

Other non-current provisions

	31/12/2018	Increase	Decreases	Reclassifications	31/12/2017
Priolo Site Provision	(0)	–	(1,061)	(79,822)	80,883
Provision for disposed businesses	89,161	–	–	89,161	–
Other provisions	234	9,930	(2,507)	(7,800)	611
Total	**89,395**	**9,930**	**(3,568)**	**1,539**	**81,493**

The value of the provisions for non-current risks and charges is equal to EUR 89,395 thousand (EUR 81,493 at 31 December 2017). The item refers mainly to the provision for disposed businesses as better commented in the following section. The increases of the year refer mainly to contingent liabilities tied to risks connected with guarantees provided within sales of equity investments.

With regard to the Provision for disposed businesses, please refer to **Note 19 - Contingent liabilities and disputes**.

Other current provisions

	31/12/2018	IFRS 9 transition	Increases	Decreases	Reclassifications	31/12/2017
Provision to cover losses of investee companies	6,099	–	189	–	–	5,910
Provision for legal risks	44	–	–	(187)	–	231
Other provisions	1,991	906	975	(245)	(1,540)	1,896
Total	**8,135**	**906**	**1,164**	**(432)**	**(1,540)**	**8,037**

The value of the provision for risks and charges at 31 December 2018 is deemed sufficient to address any future risks and charges.

The "provision to cover losses of investee companies" refers to the provision for the equity investment in ERG Petroleos S.A. and it was increased at the end of 2018 for EUR 189 thousand to cover the presumed losses for negative equity of that company.

The "IFRS 9 Transition" includes the effects deriving from the transition to IFRS 9 relative to the commitment made by the Company with respect to the subsidiaries of the Group for an amount of EUR 906 thousand. For additional details, please refer to the section "Standards, amendments and interpretations applied starting on 1 January 2018".

The increase in Other provisions refers mainly to:

- allocation of the charges in support of Valpolcevera: On the occasion of the celebration of its 80th anniversary, ERG committed 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 in August 2018;
- adjustment of the provision for guarantees arisen as a result of the transition to IFRS 9 relating to the commitments made to the subsidiaries of the Group. For additional details, please refer to the section "Standards, amendments and interpretations applied starting on 1 January 2018".

The decrease by EUR 432 thousand is mainly due to the utilisation of the restructuring provision originating from the merger of ERG Services in ERG S.p.A.

NOTE 13 - OTHER NON-CURRENT LIABILITIES

The value at 31 December 2018, equal to EUR 2,300 thousand (EUR 10,243 thousand at 31 December 2017) is represented mainly by payables to employees and Directors. The significant decrease is due to the conclusion of the previous long-term incentive plan for the three years from 2015 to 2017.

NOTE 14 - TRADE PAYABLES

	31/12/2018	31/12/2017
Payables to suppliers	10,554	55,751
Payables to Group companies	1,226	2,834
Total	**11,780**	**58,585**

Payables to suppliers derive from commercial dealings with national and foreign suppliers payable within the next year.

Trade payables mainly include payables pertaining to OIL supplies from previous years and to other payables for third party services and consultancy work.

Payables to Group companies include mainly payables for services and consultancy work.

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

NOTE 15 - OTHER CURRENT LIABILITIES

	31/12/2018	31/12/2017
Tax payables	14,536	26,343
Payables to employees	4,240	8,889
Payables to pension and social security institutions	2,236	3,441
Advances for TotalErg transaction	–	14,232
Tax payables to TotalErg	6,244	5,951
Other current liabilities	28,004	34,791
Total	**55,260**	**93,647**

"Tax payables" pertain mainly to the Group IRES payable amounting to EUR 13,493 thousand. The decrease is due to the payment of the IRES balance for tax year 2017.

"Payables to employees" refer to the accruals for the year not yet paid and they include holidays, unused time off "in lieu", productivity bonus and bonuses tied to the Management Compensation Plan. The decrease is mainly due to the payment of the bonuses for 2017.

"Payables to pension and social security institutions" pertain to accrued contributions on wages and salaries of the month of December 2018.

The "Other current liabilities" include mainly the other short-term payables to subsidiaries (EUR 27,604 thousand) mainly referred to the "Tax Consolidation" and to Group VAT.

Lastly, 2017 included the advance collected for the sale of the equity investment in TotalErg S.p.A. for an amount equal to EUR 14,232 thousand.

NOTE 16 - PROFIT FROM DISCONTINUED OPERATIONS

With reference to the comments in the Introduction, in the paragraph **Sale of the equity investment in TotalErg S.p.A.**, the Income Statement data reclassified for the purposes of IFRS 5 are presented in detail below.

The sale of the equity investment in TotalErg S.p.A., in accordance with the International Accounting Standards adopted for the preparation of the Separate Financial Statements of ERG S.p.A. at 31 December 2018, and specifically with IFRS 5, is "current assets held for disposal". Therefore, according to this standard, the following actions were taken:

- reclassifying in the 2018 income statement from "Services and other operating costs" to "Profit (loss) from discontinued operations" the income statement items relating to the equity investment in TotalERG S.p.A. and in particular the ancillary costs related to the sale of the Company and the allocation to the cost provision;
- reclassifying in the 2018 income statement from "Income from equity investments" to "Profit (loss) from discontinued operations" the capital gain relating to the sale of the equity investment in TotalERG S.p.A.

(EUR thousand)	2018
Revenue	–
Other income	–
Purchases	–
Services and other costs	(12,068,198)
Personnel expense	–
GROSS OPERATING INCOME (EBITDA)	**(12,068,198)**
Net gains (losses) on equity investments	12,068,198
NET GAINS ON EQUITY INVESTMENTS	**12,068,198**
PROFIT (LOSS) BEFORE TAXES	**–**
Income taxes	2,751,549
PROFIT (LOSS) FROM ASSETS HELD FOR SALE	**2,751,549**

With regard to the values at 31 December 2017, please refer to the comments in **Note 22 - assets held for sale and net** profit or loss of the 2017 Separate Financial Statements.

NOTE 17 - GUARANTEE, COMMITMENTS AND RISKS AND FUTURE MINIMUM PAYMENTS OF THE OPERATING LEASES

	31/12/2018	31/12/2017
Sureties in favour of Group companies	329,657	328,407
Sureties provided in favour of third parties	2	27
Our commitment to third parties	10,376	9,910
Total	**340,035**	**338,344**

Sureties in favour of Group companies refer mainly to the guarantees provided to subsidiaries with reference to loan agreements. Commitments to third parties consist mainly of commitments for the information systems management, in particular pertaining to the finance department.

Lastly, ERG S.p.A. issued Parent Company Guarantees provided in favour of Group Companies relating mainly to the wind business for approximately EUR 114 million.

Future minimum payments - leases as lessee

The Company makes use of properties and vehicle pool, held through operational lease agreements. The average term of the operating leases depends on the type of agreement (approximately 5 years for properties and vehicle pool) with the possibility of renewing the lease after these dates. Some leases provide for additional payments that depend on the changes of the local price index.

At the reporting date, the future[2] minimum payments for irrevocable operating leases were the following:

(EUR thousand)	2018
Future minimum payments	
Within the year	853
Between one and five years	1,779
Beyond five years	–
Total Future Minimum Payments	**2,632**

The amounts recognised in the profit for the year 2018 in relation to the above agreements are in line with the future minimum payments that will be incurred within the next year (EUR 0.9 million).

NOTE 18 - COVENANTS AND NEGATIVE PLEDGES

ERG S.p.A. has the following outstanding corporate loans:

- syndicated acquisition corporate loan stipulated on 7 August 2015 with a pool of seven banks coordinated by the agent bank Banca IMI S.p.A. (UniCredit, IntesaSanpaolo, Bnp Paribas, Credit Agricole, Ing, Natixis, Barclays);
- bilateral corporate loan with UBI Banca S.p.A., stipulated on 26 February 2016;
- bilateral corporate loan with Mediobanca S.p.A., stipulated on 11 March 2016;
- bilateral corporate loan with UniCredit S.p.A., stipulated on 21 April 2016.

The above loan agreements provide for the following financial Covenant; failure to comply with the Covenant constitutes an “event of default” in accordance with the related loan agreements.

The Ratio of Net Debt/EBITDA) referred to the Consolidated Financial Statements of the ERG Group must be no higher than 4.00 at 31 December 2017, with values progressively decreasing to 3.75, according to the following scale on the respective calculation dates:

- 4.00 at 30 June 2019;
- 3.75 at 31 December 2019; 30 June 2020; 31 December 2020.

If the covenants are not fulfilled, the agreements provide the possibility for the borrower to apply an “Equity Cure” that will be taken into consideration as a reduction of net financial indebtedness.

2 Agreements with less than 12 months duration and of non-significant amount were excluded from the computation of future minimum payments, along with any renewals of the agreements existing at the date of the present document.

The agreements also provide a standard Negative pledge for similar loan agreements, with the prohibition to pledge assets securing any other third party lenders.

On the reporting date, the covenants of the Company were fulfilled.

NOTE 19 - CONTINGENT LIABILITIES AND DISPUTES

ERG is a party in civil, administrative and tax proceedings and legal actions connected with the normal course of its operations.

Provision for disposed businesses

In early 2018, the Group completed its path of industrial transformation, started in the previous years, which determined its definitive exit from the **OIL** business.

This path comprised two fundamental steps:

- the sale of the last shareholding held in ISAB S.r.l., on 30 December 2013, which marked the exit from the **Coastal refining** business,
- the sale of the Group's shareholding in TotalErg S.p.A., on 10 January 2018, which determined the exit from the **Integrated downstream** business.

Although the ERG Group is no longer an active operator in the oil industry, there are still remaining liabilities tied to the previous industrial activity and not yet fully defined.

For this purpose it should be recalled that upon drafting the 2013 consolidated financial statements, in view of the uncertainty inherent in disputes, including tax disputes, of the complexity of the Priolo site transactions and in general of the conclusion of the activities connected with the Coastal Refining business, the Group carried out a comprehensive assessment of the risk connected with the issues commented above and set up a "Priolo Site Provision" estimating the allocation of a "Priolo Site Provision" of EUR 91 million (EUR 80 million at 31 December 2018).

In line with the considerations formulated for the sale of the last shareholding of ISAB S.r.l., also for the more recent sale of the shares within the TotalErg transaction, in 2018 the Group allocated a provision to cover the guarantees provided in favour of the buyer.

To date, various liabilities are recorded in the Separate Financial Statements, in connection with obligations tied to the previous OIL operations, for a total value of approximately EUR 2 million.

On the occasion of the present Separate Financial Statements, for the purposes of a clearer and more consistent representation of the above issues, the management aggregated the commented liabilities in a single provision called "Provision for disposed businesses" considering that while these allocations originate from different contexts (tax, environmental and legal) and at different times, in fact have the same nature because they are all tied to discontinued operations and outside ordinary operations.

The provision, thus determined, amounted to approximately EUR 89 million at 31 December 2018 and it is indicated among non-current liabilities.

The main issues underlying the allocation are summarised below:

- regarding the ongoing dispute between ERG Raffinerie Mediterranee (now ERG S.p.A.) and the Italian Tax Authorities over the application of **harbour duties** for embarkation and disembarkation rights at the Santa Panagia jetty, it should be recalled that on 6 April 2011 the Syracuse Provincial Tax Commission partially allowed the Company's appeal and ruled that harbour duties through 2006 are not due, finding them to be due from 2007 onwards. The first instance ruling was challenged within the deadline by the Italian Revenue Agency and by ERG with appeal relative to the period subsequent to 2006.

  During the hearing of 11 February 2013, the Attorney General's Office and the Company's legal counsel presented to the Court their respective arguments to the Court.

  The appeal decision, issued by the Regional Tax Commission and filed on 27 May 2013, amended the first decree decision unfavourably for ERG.

  Following a thorough evaluation of the reasons for the appeal decision, the Company decided to appeal before the Court of Cassation, deeming its own arguments to be well grounded (in particular with regard to the notion of "harbour" in accordance with Italian Law no. 84/94 and to the alleged novating or retroactive validity of Article 1, Paragraph 986 of the 2007 Italian Budget Law). On 4 November 2013, the Syracuse Regional Tax Commission allowed the request to suspend the effectiveness of the appeal decision, requiring the release of a first demand insurance guarantee in favour of the Customs Agency. The hearing for the arguments on the merit of the appeal was held on 21 November 2018 and the decision of the Court of Cassation is pending. Starting from 2007, the related taxes had already been recognised in the income statement under the accrual basis, while no provision had been made for the years from 2001 to 2006;

- with reference to **environmental risk**, with regard to the South Site the likelihood of exposure to contingent liabilities is deemed remote, as the risk has already been limited by the settlement reached with the Ministry of the Environment in August 2011 and registered by the Court of Auditors on 20 December 2011, and by the Settlement Agreement stipulated on 30 December 2013 between ERG S.p.A. and LUKOIL. With regard to the North Site, depending on the double guarantee scheme deriving both from the agreement executed with ENI (previous owner of the site), and by the agreement executed with LUKOIL (new owner), the risk is as follows:

  (i) for potential environmental damages preceding 1 October 2002, ENI shall be liable without limitation; (ii) with reference to the potential damages relating to the 1 October 2002 – 1 December 2008 time frame, deriving from a violation of the environmental guarantees issued by ERG, the latter shall be liable.

  The following limitations apply to ERG's contractual liability to LUKOIL: (a) upper applicable maximum limit equal to the sale price of the equity investment in ISAB S.r.l.; (b) environmental guarantees have a duration of 10 years and expired in December 2018 and (c) in case of uncertain identification of the period to which the potential damage is referred, a time shift that expired at the end of 2018 was applied. The agreement with LUKOIL prescribes, for ERG, a liability without time limitations for potential damages connected with events known at the time of execution of the agreement (Known Environmental Matters). The costs shall be divided between ERG and LUKOIL (51% and 49%) up

to the ceiling of EUR 33.4 million, while above this amount ERG will pay in full for any additional expenses.
On 9 September 2017, the Ministry for the Environment warned some of the companies of the Priolo site, including ERG Power S.r.l., and ERG Power Generation S.p.A., to clean up the Augusta Roadstead. The request is unlawful and has therefore been contested before the administrative courts. ERG S.p.A. is not party to the proceedings, but the environmental issues relating to the Augusta Roadstead arise in the context of the environmental guarantees present in the various contracts with ENI and LUKOIL;

- with reference to the sale of **TotalErg** and in particular to the guarantees connected to the buyer on previous years' contingent liabilities (retained matters), the best estimate of the expense was computed on the basis of the information available to the management and taking into account the breadth of the number of underlying elements and all possible outcomes of the related issues.

Lastly, the provision includes allocations relating to minor issues of non-significant amount tied mainly to as yet undefined commercial dealings.
At the time of preparation of these Separate Financial Statements, group management, assisted by the competent corporate departments and with the advice of its legal and tax counsels, carried out a comprehensive review of the issues described above, confirming the appropriateness of the measurements made previously.

TotalErg

On **3 December 2013**, at the offices of TotalErg S.p.A. in Rome and Milan and of ERG S.p.A. in Genoa, the Tax Police - Rome Unit executed the search warrant issued by the Prosecutor's Office at the Court of Rome within the scope of a criminal lawsuit against certain representatives of ERG S.p.A. and of TotalErg S.p.A. (a company arising from the merger by absorption of Total Italia S.p.A. in ERG Petroli S.p.A.).
The investigation - according to the charge formulated in the aforementioned warrant - pertained to alleged tax irregularities referred to the year 2010, allegedly carried out by recording, in the accounts of TotalErg S.p.A., invoices for alleged non-existing crude oil purchase transactions, issued for a total amount of EUR 904 million by Bermuda-based companies belonging to the Total Group, whose costs were included in the tax returns of TotalErg S.p.A. and reported by the consolidator ERG S.p.A. in the National Tax Consolidation return of the ERG Group.
As soon as it was informed of the ongoing investigation, the Company started an intense audit activity, aimed at thoroughly reconstructing the facts and the transactions in question, and at carefully analysing the internal control system.
With regard to tax matters, on **6 August 2014**, as a result of the same investigation, ERG S.p.A. received, in its role as tax consolidator, a preliminary assessment report by the Tax Police of Rome, prepared with respect to TotalErg, whose contents substantially refer to the aforesaid allegations.
Moreover, on the same date TotalErg received preliminary assessment report for alleged tax irregularities pertaining to Total Italia for the years 2007, 2008, 2009, of a substantially similar nature and amount, for each year, to those referenced above, hence referred to periods prior to the establishment of the TotalErg S.p.A. joint venture.

In view of the aforementioned preliminary assessment report, ERG S.p.A. and TotalErg S.p.A., to further confirm the correctness of their actions, submitted their own observations and notes providing further information to the tax authorities.

On **26 June 2015**, ERG S.p.A., in its role as the tax consolidator, and TotalErg S.p.A., in its role as the consolidated entity (formerly ERG Petroli S.p.A.), were served an assessment notice for IRES for tax year 2007. TotalErg S.p.A. was served an assessment notice for additional IRES, IRAP and VAT for the same year.

Compared to the specific findings regarding the alleged non-deductibility of the acquisition and service costs for 2007 set forth in the aforementioned assessment notice dated 6 August 2014 of approximately EUR 68 million, the assessment notice reduces the amount considerably to EUR 125 thousand.

On 6 July 2015, assessment notices for IRES, IRAP and VAT referring to 2007, 2008 and 2009 were served to TotalErg S.p.A., in its capacity as the merging entity of Total Italia S.p.A.

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

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

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

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

The Italian Revenue Agency did not appeal before the Court of Cassation, therefore the favourable decision became definitive.

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

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

On **22 November 2018** the Milan Regional Tax Commission allowed the appeal filed by the company.

The Italian Revenue Agency may file appeal with the Court of Cassation in accordance with the law.

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

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

On **20 November 2018** the Rome Regional Tax Commission rejected the appeal filed by the company (with the exception of IRAP).

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

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

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

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

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

Essentially, the Agency demanded the rectification of the amount declared by the parties in terms of the registration tax in relation to each of the components of the business unit that was sold and proceeded to redetermine the value of (just) the real estate component consisting of the IGCC plant, measured at approximately EUR 7 million (net of accompanying liabilities of approximately EUR 7 million), and the carrying amount thereof at 30 June 2014 at approximately EUR 432 million, without considering that the future results of the business unit that was sold could justify the aforementioned value.

The Agency therefore assessed the overall market value of the business unit that was sold at approximately EUR 442 million, instead of the consideration of approximately EUR 25 million declared by the parties, a consideration that is nevertheless higher than the overall market value for the business unit of approximately EUR 13 million, pursuant to a sworn appraisal by a third party appraiser appointed by ISAB Energy S.r.l.

Based on these assumptions, the Agency assessed a higher registration tax of approximately EUR 37 million, imposing a fine equal to the higher registration tax that was assessed plus interest (total amount EUR 76 million).

Regarding the analysis of this case, we note that with the above the Agency simply expressed a different estimate of "only" the property, plant and equipment component (IGCC plant) of the business unit, and not the business unit overall, in manifest violation of the regulations contained in the Consolidated Registration Tax Law.

In particular, based on the adjustment, the Agency identified only the carrying amount of the IGCC plant, completely disregarding its profitability (whether positive or negative) as part of the business unit in which the plant is expected to be used.

Therefore, the Agency disregarded the assumption and appraisal criteria that led the appraiser to determine the purchase price at approximately EUR 13 million, and particularly the lack of cash flows following the termination of the CIP 6 Agreement, and did not consider at all the ascertained negative future profitability of the sold business unit,

or the relative badwill (as fully described in the appraisal compiled by Mr. Pozza, which is already in the hands of the Agency).
As the company believes that it is able to formulate valid argument in its defence, with the assistance of its own tax consultants, it has submitted an appeal to the competent Provincial Tax Commission and applications for both administrative and judicial suspension of the provisional tax demanded in the course of the proceedings (the amount of the provisional tax is equal to approximately EUR 13 million).
On 10 August 2016, the Syracuse Provincial Tax Commission ordered the judicial suspension of the provisional tax demanded.
The relevant hearing was held on 15 November 2016 before the Syracuse Provincial Tax Commission.
On 16 May 2017, the Siracusa Provincial Tax Commission annulled the contested act, but re-determined the value of the divested business for the purposes of registration tax to be approximately EUR 71 million (compared to the approximately EUR 25 million declared for the purposes of registration tax).
The legal firm following the litigation confirmed the invalidity of the alleged tax as reformulated by the Siracusa Provincial Tax Commission and the subsequent existence of reasonable expectations of its complete rebuttal at the higher court levels.
On 17 July 2017, ERG S.p.A. appealed to the competent Regional Tax Commission, requesting the suspension of the effects of the first instance ruling.
On 9 September 2017, the Regional Tax Commission rejected the application for suspension referred to above.

On 13 October 2017, the Provincial Division of the Revenue Agency at Syracuse issued a specific payment order for higher registration tax of EUR 5.1 million, sanctions of EUR 5.1 million and interest at 10 October 2017 of EUR 0.6 million.
This same order was served on 11 November 2017 to ISAB S.r.l. in its capacity as the jointly and severally liable seller company.
On 27 October 2017, an appeal was filed against the aforementioned payment order and, at the same time, an application was made for judicial suspension of the tax collection.
On 23 November 2017, the Syracuse Provincial Tax Commission ordered the judicial suspension of the tax collection and fixed the relevant hearing for 17 January 2018.

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

On 7 March 2018, with decision 1168/04/2018, the Syracuse Provincial Tax Commission repaid approximately EUR 2 million in tax due with sanctions and interest totalling approximately EUR 4.5 million. Following the decision, a new order was issued by the Italian Revenue Agency.
On 11 May 2018, the Company appealed against this decision and applied for judicial suspension of the tax collection.

The President of the Syracuse Regional Tax Commission set the date for the hearing for the judicial suspension of the tax collection for 17 July 2018; given that the deadline for the payment of the requested amounts with the aforementioned payment order was 15 June 2018 (therefore prior to the hearing for the judicial suspension of the tax collection), ERG S.p.A. was forced to pay approximately EUR 4.5 million (provisional tax demanded in the course of the proceedings).
This amount must be repaid by the Italian Revenue Agency in the event that it loses the first level proceeding and it was recorded among the receivables claimed by the company from the Revenue Agency.

On 7 December 2018, the meeting was held between the Court-appointed Expert Witness Mr. Truglio and the parties in the dispute for the conclusion of the expert witness activities. The Court-appointed Expert Witness confirmed that it will transmit the appraisal of the transferred business units to the parties as soon as possible. The parties will have 30 days to propose observations to the report by the expert witness. The merit hearing is set to take place on 17 June 2019.

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

INCOME STATEMENT ANALYSIS

NOTE 20 - REVENUE

Revenue from the provision of services amounting to EUR 35.7 million (EUR 37.9 million at 31 December 2017) refer mainly to charges for services provided to subsidiaries.

The structure of the service agreements is based on the allocation of a part of the costs incurred by the Company and on the application of a single weighted driver for the allocation of the totality of the costs identified. The margin of the company is assured by the application of a mark-up deemed suitable to assure adequate profitability.

NOTE 21 - OTHER INCOME

	2018	2017
Other revenue from Group companies	176	1,099
Reimbursement of expenses	176	170
Other revenue	3,376	775
Total	**3,728**	**2,043**

The Other revenue from Group companies pertain essentially to other reimbursements and charges to Group companies, tied to various consultancy services and special projects.

The other revenue include mainly the positive effect deriving from the removal of prior entries pertaining to the previous businesses for an amount of approximately EUR 2.8 million.

NOTE 22 - PURCHASES

	2018	2017
Purchases	253	231
Total	**253**	**231**

NOTE 23 - SERVICES AND OTHER COSTS

	2018	2017
Utilities and consumption	22,236	26,173
Insurance	3,581	3,427
Consultancy services	–	161
Advertising and promotions	1,000	1,118
Directors’ and Statutory Auditors’ remuneration	1,014	816
Other services	2,332	2,237
Total	**30,164**	**33,932**

Costs for services are broken down as follows:

	2018	2017
Utilities and consumption	1,002	802
Insurance	930	822
Consultancy services	4,690	4,161
Advertising and promotions	950	1,053
Directors' and Statutory Auditors' remuneration	7,072	12,613
Other services	7,592	6,722
Total	**22,236**	**26,173**

The item includes mainly costs for consultancy services, remuneration to Directors and Statutory Auditors.

Other services include the services performed by other Group companies, EDP services from third parties, services for personnel, other services performed.

The 2018 remuneration to Directors includes the related contributions, expenses and the portion of the cost pertaining to the 2018 - 2020 long term incentive Plan.

The 2017 remuneration to Directors included the related contributions, expenses and the portion of the cost pertaining to the 2015 - 2017 long term incentive Plan and payments for extraordinary transactions.

The charges tied to the sale of TotalErg, already commented, were reclassified in accordance with IFRS 5 under "Profit (loss) from discontinued operations".

NOTE 24 - PERSONNEL EXPENSE

	2018	2017
Wages and salaries	18,408	22,735
Social security expenses	4,546	6,370
Post-employment benefits	1,180	1,298
Other expenses	1,657	1,656
Total	**25,791**	**32,058**

The decrease in wages and salaries is mainly due to the fact that the figure for 2017 included the bonuses relating to the positive completion of extraordinary transactions.

Note that, in accordance with **IFRS 2 - Share-Based Payment Transactions**, following implementation of the 2018-2020 long-term incentive plan, with reference to employees the portion of the cost accrued in 2018 and representing the fair value of the instruments was recognised under "Personnel expense".

Moreover, in accordance with **IFRS 2 - Share-Based Payment Transactions** the personnel expense also includes the fair value of the shares assigned to employees on the occasion of the celebration of ERG's 80th anniversary.

The other costs include additional post-employment benefits.

The following table shows the breakdown of the ERG S.p.A. personnel (average headcount during the year):

	2018	2017
Executives	22	23
Managers	103	101
White-collar staff	101	100
Total	**226**	**224**

At 31 June 2018, the total number of employees of the company was 225.

NOTE 25 - AMORTISATION, DEPRECIATION AND IMPAIRMENT OF NON-CURRENT ASSETS

	2018	2017
Amortisation of intangible non-current assets	1,901	1,980
Depreciation of tangible non-current assets	1,044	1,000
Impairment of non-current assets	–	–
Total	**2,946**	**2,980**

Amortisation and depreciation is in line with the previous year.

NOTE 26 - NET FINANCIAL INCOME (EXPENSE)

	2018	2017
Income:		
Positive foreign exchange differences	(5)	66
Bank interest receivable	3,582	4,562
Effect of loan renegotiations	4,285	–
Change in fair value	1,111	–
Other financial income	5,787	3,688
	14,759	**8,316**
Expense:		
Negative foreign exchange differences	(21)	(31)
From subsidiaries	(9)	(20)
Short-term interest on bank borrowings	(6)	(4)
Medium/long term interest on bank borrowings	(8,849)	(7,819)
Reversal of effect of loan renegotiation	(418)	–
Other financial expense	(6,367)	(4,992)
	(15,670)	**(12,865)**
Total	**(911)**	**(4,549)**

Income

The amount of bank interest receivable pertains use of liquidity available in deposit and current accounts. The decrease is due to the fact that the higher liquidity managed during the year was more than offset by lower remuneration.

The effect of the renegotiation of loans, equal to EUR 4.3 million, relates to the positive net income component generated as a result of the application of IFRS 9 during non-substantial modifications of financial liabilities and to the change in the fair value of the Project Sponsor Subordinated Loan Agreement with the indirect subsidiary ERG Power S.r.l.

The change in fair value refers to the fair value adjustment of the financial loan to the subsidiary ERG Power S.r.l.
"Other financial income" includes mainly the interest income from the subsidiaries ERG Power Generation S.p.A. and ERG Power S.r.l. and interest income on the deferred component of the price for the sale of TotalErg S.p.A.

Expense

The higher interest on bank borrowings compared to 2017 is mainly due to the increase in non-current residual liability.
"Other financial expenses" include mainly the effects of the differentials on the derivatives hedging interest rate fluctuations of approximately EUR 2.9 million and the expenses deriving from measurement at amortised cost of the loans and of the bond, amounting to EUR 1.9 million.

NOTE 27 - NET GAINS (LOSSES) ON EQUITY INVESTMENTS

	2018	2017
Dividends and other income from subsidiaries	20,000	(0)
Dividends and other income from other companies	518	36
Impairment and capital losses from equity investments	(189)	(203)
Total	**20,329**	**(167)**

The items relating to the equity investment in TotalErg S.p.A. were reclassified in the "Profit (loss) from assets held for sale".
Dividends and other income from other companies refer to the dividends distributed by ERG Power Generation S.p.A. and Meroil and they also include an advance on the liquidation of the company Emittenti Titoli.

Impairments include the adjustment of the provisions for charges on equity investment for EUR 189 thousand relating to ERG Petroleos S.A., in view of the negative equity, as is better commented in the chapter on Equity Investments.

NOTE 28 - INCOME TAXES

	2018	2017
IRES for the year	(4,510)	3,990
Previous year taxes	(122)	(41)
Benefit from tax consolidation and deferred tax assets	6,274	4,287
Total	**1,642**	**8,236**

The taxes for the year, positive by EUR 1,642 thousand, include the effect deriving from participation in the tax consolidation.

The balance sheet entries deriving from the tax consolidation are summarised below:

	31/12/2018	31/12/2017
Receivables from Group companies (to tax payables)	35,016	48,272
Payables to other Group companies (to tax receivables)	(14,550)	(19,302)
Debt position of ERG S.p.A.	(13,496)	(24,625)
Total	**6,970**	**4,344**

Reconciliation between effective and theoretical tax expense [3]

The reconciliation between effective and theoretical tax expense before adoption of IFRS 5 is provided below.

	Taxable amount	Tax
IRES		
Profit before taxes	(310)	
Theoretical tax charge (24%)		(74)
Permanent tax changes	**(17,915)**	
Taxable amount	**(18,225)**	
IRES rate (24%)		(4,374)
Removal of deferred IRES tax assets/other changes		
Previous year taxes IRES		
IRAP		
Difference between product costs and revenue	(31,798)	
Costs and revenue without relevance for IRAP purposes	25,791	
Theoretical basis of taxation for IRAP purposes	(6,007)	
Theoretical tax charge (5.57% rate)		(335)
Permanent tax changes	(9,711)	
Theoretical IRAP taxable amount	**(15,718)**	
Theoretical IRAP in the financial statements		(875)
Negative IRAP		875
Consolidated income from transferred interest payable		(156)
Change in IRAP advanced taxes with negative basis of taxation		16
Previous years taxes		122
Total taxes in financial statements		**(4,393)**
IFRS 5 reclassification		2,752
TOTAL TAXES IN FINANCIAL STATEMENTS		**(1,642)**

3 Permanent tax changes consist mainly of dividends from subsidiaries and of write-downs of equity investments.

NOTE 29 - NON-RECURRING ITEMS

As required by CONSOB resolution 15519 dated 27 July 2006, significant income and expense arising from non-recurring transactions or events that do not occur frequently in the ordinary course of business are presented below.

Also pursuant to the aforementioned CONSOB resolution, the amounts related to the positions and transactions with related parties are indicated separately in **Note 30 - Related parties**.

(Migliaia di Euro)		2018		2017
Revenue from sales and services		–		–
Other revenue		–		–
Purchases		–		–
Change in inventories		–		–
Services and other costs	1)	(2,777)	1)	(5,044)
Personnel expense	2)	(738)	2)	(5,274)
Amortisation, depreciation and impairment of non-current assets		–		–
Net financial income	3)	3,867		–
Net gains (losses) on equity investments		–		–
Income taxes	4)	(710)	3)	3,051
Special items profit (loss) from continuing operations		**(359)**		**(7,267)**
Special items profit (loss) from discontinued operations		**–**		**–**
Special items profit (loss)		**(359)**		**(7,267)**
Non-controlling interests		**–**		**–**
Special items profit (loss) attributable to the owners of the parent		**(359)**		**(7,267)**

In **2018**:

1) services and other costs refer to ancillary costs relating to non-recurring transactions and to ancillary costs related to the ERG Group's 80th anniversary celebrations;
2) personnel expense relates to bonuses to employees related to the ERG Group's 80th anniversary celebrations;
3) net financial income recognised, on the basis of IFRS 9, in reference to refinancing operations completed during the period, net of the reversal effect related to the current period;
4) income taxes refer to the tax effect of the items commented above.

In **2017**:

1) services and other costs refer to payments to Directors for extraordinary transactions and to other ancillary costs for extraordinary transactions;
2) personnel expense relates to payments of bonuses to employees for extraordinary transactions;
3) income taxes refer to the tax effect of the items commented above.

NOTE 30 - RELATED PARTIES

The transactions carried out by ERG S.p.A. with related parties pertain mainly to:

- the performance of services, the provision and use of financing.
- contributions to non-corporate parties, referred to ERG, that pursue humanitarian, cultural and scientific initiatives. In particular, Edoardo Garrone Foundation, established as a natural evolution of the engagement of the Garrone and Mondini families in the social and cultural fields, dedicated to the memory of Edoardo Garrone who, in 1938, launched the industrial activity of the ERG Group.

Most of these transactions are exempted from the application of the internal ERG regulation **Related party transactions policy and procedures**, issued to implement the CONSOB regulation, because they are ordinary transactions concluded at market of standard conditions, or because they are below the threshold of exiguity prescribed by the procedure itself.

All transactions were carried out in the interest of the Company and, with the exception of the transactions with entities pursuing humanitarian, cultural and scientific initiatives, are included under ordinary operations. The amount paid to **Edoardo Garrone Foundation** as a contribution for the year 2018 amounted to EUR 108 thousand. Also of note is the receivable from the parent company San Quirico S.p.A. relating to the repayment by contribution of the value of the shares assigned to employees for the celebration of the 80 years of ERG, inclusive of ancillary costs, i.e. EUR 920 thousand.

Lastly, it is noted that ERG S.p.A. renewed the option for the 2017-2019 domestic tax consolidation scheme, with tacit renewal at the end of every three years for a further three years, with the subsidiaries (including indirect) ERG Eolica Adriatica S.r.l., ERG Eolica Basilicata S.r.l., ERG Eolica Calabria S.r.l., ERG Eolica San Cireo S.r.l. and ERG Eolica Ginestra S.r.l.

Concerning the terms of the contractual arrangements that could provide for the parent company or its subsidiaries to provide financial support to a consolidated structured entity, please refer to **Note 18 - Guarantees, commitments and risks**.

Impact of transactions or positions with related parties on the statement of financial position

The most significant dealings with the joint ventures, associated and subsidiary companies excluded from the consolidation area pertain to:

- other current receivables and assets from San Quirico S.p.A. relating to tax receivables that will be reimbursed by the finance administration to San Quirico and transferred to ERG S.p.A.
- receivables emerged as a result of the celebration of ERG's 80th anniversary, for which please refer to the section ERG celebrates 80 years of energy history;
- financial receivables from ERG Petroleos S.A. within the scope of the related loan agreement.

The impact of transactions or positions with related parties on the statement of financial position is indicated in the following summary table:

YEAR 2018 - STATEMENT OF FINANCIAL POSITION - ASSETS

	Other financial assets	Trade receivables	Other current assets	Current financial assets
ERG Power Generation S.p.A.		920	(316)	7,237
Priolo Servizi S.c.a.r.l.		94		
San Quirico S.p.A.		–	2,329	
ERG Eolica San Cireo S.r.l.			1,016	
ERG Eolica Faeto S.r.l.			333	
ERG Eolica Ginestra S.r.l.			102	
Green Vicari S.r.l.			1,031	
ERG Eolica Basilicata S.r.l.			1,042	
ERG Eolica Fossa del Lupo S.r.l.			1,684	
ERG Power S.r.l.	70,094		5,281	0
ERG Eolica Adriatica S.r.l.			1,712	
ERG Eolica Campania S.p.A.			3,430	
ERG Eolica Amaroni S.r.l.			317	
ERG Wind Investments Limited			3	
ERG Wind Holdings (Italy) S.r.l.		8		
ERG Wind Sardegna S.r.l.			1,404	
ERG Wind 4 S.r.l.			1,304	
ERG Wind Sicilia 2 S.r.l.			195	
ERG Wind Sicilia 4 S.r.l.			88	
ERG Wind Sicilia 5 S.r.l.			179	
ERG Wind 2000 S.r.l.			159	
ERG Wind Energy S.r.l.		1		
Evishagaran WF Ltd.		24		
ERG Germany GmbH		2	7	
ERG France S.ar.l.		2	7	
ERG Hydro		90	21,370	
ERG Petroleos				8,490
ERG Eolienne France (NEW)		539		
ERG Solar Holding S.r.l.		1		
ERG Solar Holding 1 S.r.l.		3		
IE Solare (New)			0	
Total	**70,094**	**1,684**	**42,677**	**15,727**
% of total item	*66.03%*	*48.04%*	*58.78%*	*81.62%*
Total	106,148	3,506	72,606	19,267

YEAR 2018 - STATEMENT OF FINANCIAL POSITION - LIABILITIES

	Other non-current liabilities	Trade payables	Current financial liabilities	Other current liabilities
ERG Power Generation S.p.A.		1,226	3	15,659
ERG Eolica San Vincenzo S.r.l.				233
ERG Eolica San Cireo S.r.l.				127
ERG Eolica Faeto S.r.l.				119
ERG Eolica Ginestra S.r.l.				116
ERG Eolica Tirreno S.r.l.				8
Green Vicari S.r.l.				173
ERG Eolica Basilicata S.r.l.				124
ERG Eolica Fossa del Lupo S.r.l.				488
ERG Eolica Calabria S.r.l.				7
ERG Power S.r.l.				24
ERG Eolica Adriatica S.r.l.				443
ERG Eolica Campania S.p.A.				391
ERG Eolica Amaroni S.r.l.				171
ERG Wind Holdings (Italy) S.r.l.				229
ERG Wind Sicilia 6 S.r.l.				138
ERG Wind 4 S.r.l.				271
ERG Wind Leasing 4 S.r.l.				2
ERG Wind 6 S.r.l.				99
ERG Wind Sicilia 2 S.r.l.				3
ERG Wind Sicilia 3 S.r.l.				142
ERG Wind Sicilia 4 S.r.l.				0
ERG Wind Sicilia 5 S.r.l.				8
ERG Wind 2000 S.r.l.				2
ERG Wind Energy S.r.l.				6,671
ERG Hydro S.r.l.				1,934
ERG Wind Bulgaria S.p.A.				20
IE Solare (New)				2
Key Management				779
Total	**–**	**1,226**	**3**	**28,383**
% of total item	0.00%	10.41%	0.00%	49.95%
Total	2,300	11,780	183,680	55,260

Impact of transactions or positions with related parties on the income statement

The most significant dealings with the joint ventures, associated and subsidiary companies excluded from the consolidation area pertain to:

- revenues from the subsidiary ERG Power Generation S.p.A. for the performance of services;
- financial income related to intercompany loans;
- costs to Edoardo Garrone Foundation relating to the contribution for the year 2018.

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

The impact of related party transactions on income statement items is indicated in the following summary table:

YEAR 2018 - INCOME STATEMENT - INCOME

	Revenue from sales and services	Other revenue	Financial income
ERG Power Generation S.p.A.	35,636	80	650
San Quirico S.p.A.	22		
ERG Power S.r.l.	27	3	1,778
ERG Wind 4 S.r.l.		3	
ERG Wind Leasing 4 S.r.l.		3	
ERG Germany GmbH		26	
ERG France S.ar.l.		26	
ERG Hydro S.r.l.	4	2	
ERG Solar Holding S.r.l.	1		
ERG Solar Holding 1 S.r.l.	3		
IE Solare (New)		32	
Total	**35,693**	**176**	**2,427**
% of total item	99.99%	4.71%	16.45%
Total	35,697	3,728	14,759

YEAR 2018 - INCOME STATEMENT - EXPENSES

	Purchases	Services and other costs	Personnel expense	Financial expense
ERG Power Generation S.p.A.		83		9
ERG Hydro S.r.l.		0		
Edoardo Garrone Foundation		108		
Key Management			1,619	
Total	**–**	**191**	**1,619**	**9**
% of total item	0.00%	0.63%	6.28%%	0.05%
Total	253	30,164	25,791	15,670

It is specified that, starting from the present Separate Financial Statements, the data provided on the related parties also include Key Managers.

Impact of transactions or positions with related parties on cash flows

	2018		
(EUR thousand)	**Total**	**Related entities**	**Incidence %**
Cash flows from operating activities	(68,489)	16,287	-24%
Cash flows from investment activities	176,390	–	0%
Cash flows from financing activities	(171,333)	(27,775)	16%
Cash flows for the year	**(63,432)**	**(11,488)**	

	2017		
(EUR thousand)	Total	Related entities	Incidence %
Cash flows from operating activities	87,746	46,466	53%
Cash flows from investment activities	(2,850)	–	0%
Cash flows from financing activities	323,711	143,309	44%
Cash flows for the year	**408,607**	**189,776**	

NOTE 31 - AUDIT FEES

Based on Article 149-*duodecies* of the Issuers Regulation, the 2018 costs relating to the services performed by the independent auditor KPMG S.p.A., auditor of the ERG Group, and by the companies belonging to its related network.

	2018
Audit services	
Services other than auditing	150
Total	**416**

Services other than auditing refer to:

- certification services for EUR 60 thousand relating to the prospectus on the EMTM;
- other services for EUR 90 thousand relating to the voluntarily agreed upon procedures on the quarterly data of the subsidiaries for EUR 60 thousand and relating to the Review of "non-financial information" and of the sustainability report for EUR 30 thousand.

NOTE 32 - FINANCIAL INSTRUMENTS

For information on the effects deriving from the first application of IFRS 9 to financial instruments, please refer to the section **Accounting standards, amendments and IFRS interpretations applied starting on 1 January 2018**.
In accordance with the selected method of first application of IFRS 9, the comparative information was not restated to reflect the new provisions.
The following table shows, for each financial asset and liability, the carrying amount and the fair value. Information on the fair value of financial assets and liabilities not measured at fair value are excluded, when the carrying amount represents a reasonable approximation of fair value.

31/12/2018	Fair value - Hedging instruments	FVTPL instruments	FVOCI instruments	Financial assets measured at amortised cost	Other financial liabilities	Total Carrying Amount	Fair Value
Equity investments	–	465	–	–	–	465	465
Financial receivables	–	70,094	–	–	–	70,094	70,094
Financial receivables	–	–	–	36,054	–	36,054	n.a.
Trade receivables	–	–	–	3,506	–	3,506	n.a.
Financial instruments in working capital	–	–	136	–	–	136	136
Other receivables	–	–	–	88,075	–	88,075	n.a.
Cash and cash equivalents	–	–	–	598,540	–	598,540	n.a.
Total assets	**–**	**70,559**	**136**	**726,175**	**–**	**796,870**	
Loans and borrowings	–	–	–	–	795,670	795,670	943,043
Current bank borrowings	–	–	–	–	20,000	20,000	20,000
Bond	–	–	–	–	100,559	100,559	100,559
Financial payables	–	–	–	–	901	901	901
Derivative instruments	6,621	–	–	–	0	6,621	6,621
Trade payables	–	–	–	–	11,780	11,780	n.a.
Other payables	–	–	–	–	57,560	57,560	n.a.
Total liabilities	**6,621**	**–**	**–**	**–**	**986,471**	**993,092**	

The following table provides an analysis of the derivative financial instruments measured at fair value, grouped as levels 1 to 3 based on the degree to which their fair value can be observed:

- level 1, the fair value is determined from prices quoted on active markets;
- level 2, the fair value is determined using valuation techniques based on variables which are directly (or indirectly) observable on the market;
- level 3, the fair value is determined using valuation techniques based on significant variables that cannot be observed on the market.

	Level 1	Level 2	Level 3
Financial assets			
- FVTPL instruments	–	465	–
- FVOCI instruments	–	136	–
- Financial assets measured at fair value	–	70,094	–
Total	**–**	**70,695**	**–**
Financial liabilities			
- Fair value - hedging instruments	–	6,621	–
- Other financial liabilities	–	1,064,504	–
Total	**–**	**1,071,125**	**–**

NOTE 33 - DISCLOSURE ON RISKS

The main risks identified and actively managed by ERG S.p.A. are the following:

- the credit risk, which highlights the possibility of default of a counterparty or any impairment of the assigned credit rating;

- the liquidity risk, which expresses the risk that available financial resources are insufficient to maintain payment commitments.

ERG S.p.A. attributes a great deal of importance to the identification and measurement of the risks and to the connected control systems, in order to assure an efficient management of the assumed risks. Consistently with this objective, an advanced Risk Management system was adopted that assures, in compliance with the existing policies on the matter, the identification, measurement and central level control for the entire Group of the degree of exposure to individual risks.

The Group Risk Management & Corporate Finance function ensures consistency with the assigned limits and provides adequate support with its own analyses, both to individual subsidiaries and to the Risk Committee and Top Management of the Parent Company, for strategic decisions.

Credit risk

Exposure to credit risk, inherent in the probability that a determined counterparty will not be able to meet its contractual obligations, is managed through appropriate analyses and assessments attributing to each counterparty an internal rating (Internal Rating Based, summary indicator of creditworthiness assessment). The rating class provides an estimate of the probability of default of a determined counterparty from which the assigned degree of credit facility, which is monitored punctually and which must never be exceeded. The choice of the counterparties in relation both to the industrial business and to financial trades depends on the decisions of the Credit Committee whose choices are supported by the credit rating analyses.

The concentration risk, both by customer and by sector, is monitored continuously but without ever presenting alert situations.

The underlying table provides information about the exposure of ERG S.p.A. to credit risk at year end by classification in receivables not past due (see Note 7 - Trade receivables) according to the credit rating corresponding to the assigned internal ratings.

(EUR thousand)	2018
AAA Rating	–
AA+/AA- Rating	–
A+/A- Rating	–
BBB+/BBB- Rating	–
BB+/BB- Rating	–
B+/B- Rating	–
CCC- Rating	–
Receivables from Group companies	1,684
Unassigned	–
Total	**1,684**

The risk position at 31 December 2018 is very small because it is represented by exclusively intercompany positions.

Liquidity risk

The liquidity risk is identified with the risk that the financial resources may not be sufficient to cover all maturing obligations. To date, ERG guarantees with the generation of flows and availability of credit facilities, provided by different counterparties, the adequate coverage of its financial requirements.

The following tables summarise the time profile of the financial liabilities of ERG S.p.A. at 31 December 2018 and at 31 December 2017 on the basis of non-discounted contractual payments.

31/12/2018	Maturity of payables				
(EUR thousand)	On request	less than 3 months	from 3 to 12 months	from 1 to 5 years	over 5 years
Loans and borrowings	–	61,736	112,631	746,031	22,646
Current bank borrowings	20,000	1,621	–	–	–
Derivative instruments	–	1,057	2,144	3,479	–
Trade payables	6,507	5,250	22	–	–
Total liabilities	**26,507**	**69,665**	**114,797**	**749,511**	**22,646**

31/12/2017	Maturity of payables				
(EUR thousand)	On request	less than 3 months	from 3 to 12 months	from 1 to 5 years	over 5 years
Loans and borrowings	–	2,953	67,055	646,354	102,223
Current bank borrowings	2,852	80,000	58,625	–	–
Derivative instruments	–	1,088	1,582	1,707	–
Trade payables	50,784	7,782	–	–	–
Total liabilities	**53,636**	**91,823**	**127,262**	**648,061**	**102,223**

EURO MEDIUM TERM NOTES UP TO 1 BILLION

On 19 December 2018 ERG S.p.A. completed 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, as a result of the approval granted last 13 December 2018 by the Board of Directors.

The programme, with a duration of one year, renewable on expiration, provides for the possibility of issuing non-convertible bonds that will be listed on the Luxembourg Exchange, to be placed with institutional investors operating in Europe.

The Fitch Ratings agency ("Fitch") assigned to ERG S.p.A. an Issuer Default Rating of BBB- with stable outlook and to the EMTN programme a "BBB-" rating.

This transaction will enable ERG to optimise the capability to exploit the financing opportunities offered by institutional investors on the Debt Capital Market (DCM), through a timely future issue of bonds.

The Board of Directors postponed to subsequent resolutions the approval of the individual bonds issues within the EMTN Programme, as well as the definition of terms, duration and conditions.

BNP Paribas, Crédit Agricole CIB and Mediobanca served as Arrangers of the EMTN programme.

There are no impacts on the present Separate Financial Statements.

ERG ENTERED INTO TWO ENVIRONMENTAL SOCIAL GOVERNANCE LOANS AMOUNTING TO EUR 240 MILLION

On 20 November 2018 ERG S.p.A. ("ERG") signed two senior unsecured medium/long-term Environmental Social Governance loan agreements ("ESG Loans") respectively with Credit Agricole Corporate and Investment Banking ("CACIB") and with BNL BNP Paribas Group, each for EUR 120 million, totalling EUR 240 million.

The two loans have a duration of 5 years, they provide for a single repayment at maturity and they have no financial covenants. The purpose of the loans is to support the substantial investment plan of the Group and to refinance certain corporate credit lines, thus allowing a significant extension of the duration of the debt while improving its financial terms. The new "ESG Loans" credit facilities provide for measuring factors for verifying the sustainability and the ethical impact of an investment and, in the specific case, they introduce a mechanism of rewards tied to the attainment of a target in terms of avoided CO_2 emissions, calculated on the basis of energy generated from renewable sources during the Plan. ERG is engaged in achieving important decarbonisation targets: the latest Sustainability Report of the Group points out that in 2017, avoided CO_2 emissions amounted to approximately 3 million tonnes during the year, a value expected to grow by approximately 15% in the period of the 2018-2022 Business Plan for a total of approximately 16 million tonnes.

Deloitte was appointed to verify the consistency of the ESG elements present in the Loans with the strategy of the ERG Group and with market practices.

On 20 December 2018, the loan with BNL Gruppo BNP Paribas for an amount of EUR 120 million. Lastly, the loan with Credit Agricole Corporate and Investment Banking was disbursed on 4 February 2019.

Interest Rate Risk

Identifies the change the future trends of interest rates that could determine higher costs for ERG S.p.A. Containment of the interest rate risk is pursued by using derivative contracts such as Interest Rate Swaps and Interest Rate Options (plain vanilla).

The following table represents the impact on profit before taxes (because of changes to the fair value of financial assets and liabilities) and on the equity of ERG S.p.A. (due to changes to the fair value of the derivative instruments in cash flow hedges) of the +/-1% change of the interest rate, maintaining all other variables fixed.

Impact on Income Statement

(EUR million)	2018
Shock-up (+1% change in interest rate)	1
Shock-down (-1% change in interest rate)	(3)

Impact on equity

(EUR million)	2018
Shock-up (+1% change in interest rate)	20
Shock-down (-1% change in interest rate)	(18)

Derivative instruments used

The main types of derivative instruments adopted in the management of financial risks, with the sole purpose of hedging, are the following:

Options: contract whereby one of the parties, paying a price (premium) to the other, acquires the right to purchase (call option) or sell (put option), at a future date, a certain quantity of financial instruments (underlying assets) at a set price (exercise price);

Forward contracts: they provide for the purchase or sale between two parties of a given asset (underlying asset) at a future date and at a price pre-set at the time of execution of the contract; this category also includes future contracts, which unlike forward contracts, are standardised, traded in lots and for predetermined maturity dates within regulated markets.

Swap: contract that determines between two parties the exchange of payment flows on certain dates. Payments can be expressed in the same currency or in different currencies and their amount is determined in relation to an underlying asset.

The underlying asset can be of various kinds and significantly influences the characteristics of the contract that can assume various forms in practice.

The derivatives entered into by ERG S.p.A. and designed to hedge the exposure to financial risks existing at 31 December 2018 are:

Interest rate derivatives

- Interest Rate Option instruments that allow to set upper limits (cap) and lower limits (floor) to interest rate fluctuations relating to indexed loans at a variable rate;
- Interest Rate Swap instruments to bring bank loans with fixed and variable rate to the risk profile deemed most appropriate. IRS contracts provide that the counterparties, with reference to a defined notional value and to pre-set maturities, mutually exchange interest flows calculated in relation to fixed rates or to variable rate parameters agreed previously;

Summary of derivatives used

The derivative instruments executed by ERG, directed at addressing exposure to interest rate risk at 31 December 2018, are the following:

Type	Hedged risk	Reference notional	Fair value at 31.12.2018
			(EUR thousand)
Cash Flow Hedge instruments			
Interest Rate Swap and Interest Rate Cap	Economic interest rate risk	881,375 EUR million	(6,621)
Total Cash Flow Hedge instruments			**(6,621)**

Cash Flow Hedge instruments

A. Interest Rate Swaps and Interest Rate Caps and Collars.

Transactions for hedging the "interest rate" economic risk tied to fluctuations in interest rates on loans.

At 31 December 2018, there was a negative total fair value of EUR 6,621 thousand. The change is recognised in the hedging reserve.

NOTE 34 - SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Date	Sector	Significant events	Press release
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
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

NOTE 35 - OTHER INFORMATION

Article 1, paragraph 125, of Law No. 124 of 4 August 2017 introduced the obligation for businesses that receive economic contributions from public administrations to publish the amounts received in the notes to the financial statements and in any consolidated financial statements. This arrangement has raised some issues as regards interpretation, with reference - inter alia - to which type of grants should be subject to publication. In this regard, the company has taken note of the position assumed by Assonime with Circular No. 5 of 22 February 2019, according to which, by adopting a systematic interpretation of Article 1, paragraph 125, the publication requirement would relate only to grants of an "individual" nature. While considering this position by Assonime to be widely endorsed, pending a more general interpretation of the provision in question and given the significance of the possible consequences of the failure to fulfil the obligation of publication, the Group has decided to also indicate in its financial statements the economic contributions received from public authorities usable by all companies and that fall within the general structure of the reference system defined by the State (including Conto Energia incentives, energy efficiency certificates, etc.) except those belonging to the following categories:

- tax benefits;
- contributions for training received from inter-professional funds (for example, Fondimpresa), since they are

membership-based funds of a legal nature from entities governed by private law, which are financed by contributions paid by the businesses themselves.

No contributions for 2018 relating to ERG S.p.A. are reported. As regards the Group, please refer to the comments in the Consolidated Financial Statements.

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

During the year, no atypical and/or unusual transactions took place. Atypical and/or unusual transactions are those transactions that by significance/relevance, nature of the counter parties, subject of the transaction, procedures for determining the transfer price and time frame of the event (proximity to the end of the year) can give rise to doubts with regard to: the correctness/completeness of the information in the financial statements, conflict of interest, wealth preservation, the protection of minority shareholders.

No advances were provided and there are no receivables from directors and statutory auditors of Erg S.p.A. for the performance of these functions.

NOTE 36 - PUBLICATION DATE OF THE SEPARATE FINANCIAL STATEMENTS

On 6 March 2019, the Board of Directors of ERG S.p.A. authorised the publication of the Separate Financial Statements together with the reports by the Supervisory Bodies in compliance with the deadlines prescribed by current laws and regulations.

Genoa, 6 March 2019

On behalf of the Board of Directors

The Chairman

Edoardo Garrone

REPRESENTATIONS OF SEPARATE FINANCIAL STATEMENTS

IN ACCORDANCE WITH ART. 81-TER OF CONSOB REGULATION NO. 11971 DATED 14 MAY 1999, AS AMENDED

1. The undersigned Luca Bettonte, Chief Executive Officer of ERG S.p.A, and Paolo Luigi Merli, Manager responsible for preparing the financial reports of ERG S.p.A, taking into account the provisions set out in Article 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998, represent as to:
   - suitability in relation to the characteristics of the undertaking and
   - the actual application of the administrative and accounting procedures for the preparation of the Separate Financial Statements in the course of the period between 1 January 2018 and 31 December 2018.
2. In this regard, the following is pointed out:
   - the suitability of the administrative and accounting procedures for the preparation of the Separate Financial Statements of ERG S.p.A. at 31 December 2018 was verified by the assessment of the system of internal control over Financial Reporting. This assessment was carried out with reference to the criteria established in the model "Internal Controls - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
   - the assessment of the System of Internal Control over Financial Reporting did not uncover any significant aspects.
3. It is furthermore represented that:
   - the Separate Financial Statements of ERG S.p.A.:
     - was prepared in accordance with the applicable International Accounting Standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 by the European Parliament and Council, dated 19 July 2002;
     - matches the underlying accounting books and records;
     - is suitable to provide a true and fair view of the consolidated financial position and results of operations of the issuer and of the group of companies included in its consolidation;
   - the Directors' Report comprises a reliable analysis of the performance and of the result of operations, as well as of the situation of the issuer and of the set of companies included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Genoa, 6 March 2019

The Chief Executive Officer

Luca Bettonte

The Manager responsible
for preparing the financial reports

Paolo Luigi Merli

BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING, PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/98

To the Shareholders' Meeting of ERG S.p.A.

The Board of Statutory Auditors of ERG S.p.A. (hereafter also referred to as "ERG" or "the Company"), pursuant to Article 153 of Legislative Decree no. 58/98 (hereafter also referred to as T.U.F.) , is called to report, to the Shareholders' Meeting convened to approve the Financial Statements, on the supervisory activity performed during the financial year to fulfil its duties, any omissions and objectionable facts detected and the results for the year, as well as to formulate proposals on the Financial Statements, the related approval and any matters falling under its scope of responsibility.

During the financial year ended on 31 December 2018 and up to today's date, the Board of Statutory Auditors carried out supervisory activities in accordance with the Law, taking account of the standards of behaviour recommended by the Italian National Accounting Board, CONSOB Regulations on corporate supervision, and the provisions set out in the new version of Article 19 of Legislative Decree no. 39/2010, reformulated following the statutory audit reform implemented through Legislative Decree no. 135/2016.

The Financial Statements of ERG have been prepared in accordance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Financial Reporting Standards - IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC), as well as in compliance with the measures issued by CONSOB to implement Article 9, para. 3 of Legislative Decree no. 38/2005.

The Company's Financial Statements have been prepared in accordance with legal regulations and are presented together with the documents prescribed by the Italian Civil Code and the T.U.F. (Consolidated Finance Act).

Management Body - Appointment, term of office and operation

The Board of Directors in office on the date of this Report was appointed by the Shareholders' Meeting of ERG of 23 April 2018 and the term of office will expire on the date of the Meeting convened to approve the Financial Statements at 31 December 2020.

The appointment of the current Board of Directors was made on the basis of two lists presented respectively by the shareholder San Quirico S.p.A. and by some investors.

At the first meeting following the appointment, held on 23 April 2018, the Board of Directors verified the existence of the independence requisite of the majority of the Directors, the outcome of which was communicated to the market and indicated in the Report on Corporate Governance and Ownership.

The Board of Statutory Auditors verified the correct application of the criteria and verification procedures adopted by the Board of Directors to assess the independence of its members.

The Board of Statutory Auditors has agreed with the positive assessment expressed by the Nominations and Remuneration Committee, endorsed by the Board of Directors as required by application standard no. 1, para. 1, letter g) of the Corporate Governance Code, on the size and composition of the board of directors and its operation as well as on the size, composition and operation of the board committees.

Board of Statutory Auditors - Appointment, term of office and operation

The Board of Statutory Auditors in office at the date of this Report was appointed by the Shareholders' Meeting of 3 May 2016 and is comprised of Elena Spagnol (Chairperson), Lelio Fornabaio (Standing Auditor), Stefano Remondini (Standing Auditor); Vincenzo Campo Antico, Luisella Bergero and Paolo Prandi were appointed Alternate Auditors.

It will remain in office for three financial years and its mandate will expire on the date of the Shareholders' Meeting convened to approve the Financial Statements at 31 December 2018.

The appointment was made on the basis of two lists presented respectively by the majority shareholder and by some institutional investors, minority shareholders, in accordance with applicable legal regulations, rules and Articles of Association as well as in accordance with a transparent process that guarantees, inter alia, prompt and adequate information on the personal and professional characteristics of the candidates for the office.

The Chairman of the Board of Statutory Auditors and an alternate auditor were appointed from the minority list.

The composition of the Board of Statutory Auditors is in accordance with the gender balance criterion laid down in Article 148 of the T.U.F.

At the time of its appointment and subsequently every year, the Board of Statutory Auditors verifies the existence of the independence requisite; the verification was made on the basis of the criteria provided in the T.U.F., the Code of Conduct of listed companies and the Corporate Governance Code promoted by Borsa Italiana S.p.A.

The outcome of the verification was communicated to the Board of Directors for all the necessary requirements, pursuant to Article 8, para.1 of the Corporate Governance Code, and, in particular, to enable it to note - within the report on corporate governance - the possession by the members of the supervisory body of the independence requisites provided for in Article 148 of the T.U.F.

The Board of Statutory Auditors has, in addition, carried out the self-assessment on its composition and on its operation according to the assessment criteria already used in previous years and the findings of a self-assessment questionnaire, expressing, also in view of the appointment of the new Board of Statutory Auditors, its guidelines in the matter of diversity, and on professional figures whose presence within the Board is deemed to be appropriate, also taking into account factors such as training and professional experience, gender and age.

With reference to the skills present, the Board of Statutory Auditors, in view of the balanced distribution of skills acquired mainly through professional experience, considered it necessary to indicate that the skills represented in the

current Board of Statutory Auditors have been confirmed as being present in the Board of Statutory Auditors that will be appointed by the Shareholders' Meeting called to approve the Financial Statements at 31 December 2018.
With reference to gender balance, the Board of Statutory Auditors considered it unnecessary to recommend modifications with respect to those laid down by legislation.
With reference to age, the Board of Statutory Auditors considered it unnecessary to make specific recommendations in this regard.
The findings of the self-assessment were communicated by the Board of Statutory Auditors to the Board of Directors, which has taken them on board in such a way that, pursuant to Article 123-*bis*, paragraph 2d-*bis*) of the T.U.F., they constitute an integral and essential part of the Company's policies.

Adoption by the Company of the Corporate Governance Code

The Company has adopted the Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A. since its first edition in 1999. On 15 December 2015, the Board of Directors, following the Control and Risk Committee's preliminary assessment of the main amendments made, resolved to adopt the Corporate Governance Code (hereinafter the "Corporate Governance Code").

Management and coordination activity

ERG is a subsidiary of San Quirico S.p.A. which does not carry out any management and coordination activity with regard to its subsidiary pursuant to Article 2497 et seq. of the Italian Civil Code, also considering that a provision of its Articles of Association expressly prohibits the Company from carrying out management and coordination activities with regard to its subsidiaries.
This circumstance is periodically evaluated by the Board of Directors, also on the basis of a preliminary review carried out by the Control and Risk Committee.
On the contrary, ERG carries out management and coordination activities over its direct and indirect subsidiaries, without interfering with their managerial and operational autonomy.

Supervisory and control activity by the Board of Statutory Auditors

The Board of Statutory Auditors has carried out its activity in accordance with the rules set out in Articles 149 and 151 of the T.U.F., as well as Article 19 of Legislative Decree no. 39/2010 as shown further on.

Supervisory activity and information requested by CONSOB

In the performance of its duties, the Board carried out the supervisory activity prescribed by the Articles of the T.U.F., CONSOB recommendations on corporate controls and activities of the Board of Statutory Auditors (in particular, Communication no. DAC/RM 97001574 of 20 February 1997), complying with the indications contained in the Corporate Governance Code, Standards of Behaviour of the Board of Statutory Auditors of listed companies issued by the Italian National Accounting Board.

In preparing this Report, due consideration was given to CONSOB communications no. 1025564 of 6 April 2001, no. 3021582 of 4 April 2003 and no. 6031329 of 7 April 2006, pertaining to the content of the reports of the Boards of Statutory Auditors of companies with shares listed on the stock market to the Shareholders' Meetings.

As part of its duties, therefore, the Board of Statutory Auditors:

- attended the Shareholders' Meetings and the Board of Directors' meetings, supervising compliance with the Articles of Association, laws and regulations that govern the operation of the Company's bodies and the enforcement of proper administration standards;
- more specifically, attended the 12 meetings held by the Board of Directors, the 11 meetings held by the Control and Risk Committee and the 6 meetings held by the Nominations and Remuneration Committee;
- during the financial year carried out 13 verifications of approximately 3 hours each;
- monitored, as far as under the scope of its responsibility, the adequacy of the Company's organisational structure and its correct operation through meetings with top management and with the heads of the various functions;
  Activities to implement the One Company project, which we reported on in the previous report, continued.
  In July 2018, the Engineering Development Organisational Unit was established, reporting directly to the 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.
  In 2018, as a result of the modification of the Privacy Policy, the ERG Group adopted all the necessary measures to ensure compliance with the new regulation, making use of appropriately trained internal resources and skills and certifying one of its members of staff as Privacy Manager at the DNV-GL training agency, who, to date, follows all of the Group's Privacy matters.
- assessed and supervised the adequacy of the Internal Control System as well as the administrative and accounting system, but also the reliability of the latter in correctly representing all management events, through information obtained from the officers in charge of the respective functions, the examination of corporate documentation and the analysis of the results of the work performed by the Independent Auditors.
  On 3 August 2018, the "Guidelines for the Internal Control and Risk Management System" were updated;
- supervised the adequacy of the mutual flow of information between ERG and its subsidiaries pursuant to Article no. 114, paragraph 2 of the T.U.F., safeguarded by the instructions issued by the Company's management to the Group;
- supervised compliance with information disclosures regarding mandatory and privileged information or information requested by the supervisory authorities;
- oversaw compliance with the "Market abuse" and "Protection of savings" regulations as well as "Internal Dealing", with particular reference to the processing of privileged information and the procedure for disseminating notices and information to the public;
- obtained from the Directors, at least quarterly, adequate information on the activities carried out and the most significant economic, financial and asset-related transactions carried out by the Company and its subsidiaries pursuant to Article 150, paragraph 1 of the T.U.F. In this regard, both collegially and individually, the Board placed particular attention on checking that the transactions resolved and carried out were compliant with the law, the

Company's Articles of Association and were not imprudent or risky, at odds with the resolutions passed by the Shareholders' Meeting, in potential conflict of interests or such as to compromise the integrity of the company's net worth.

The Board of Statutory Auditors also supervised compliance with the Guidelines, Principles of Conduct and the procedures in force at the Group, as well as on compliance with the processes, the outcome of which is brought to the attention of the directors to pass the related resolutions;

- held meetings with the representatives of the Independent Auditors pursuant to Article 150, paragraph 3 of the T.U.F., and no relevant data and/or information emerged that required to be highlighted in this Report;
- exchanged information with the Boards of Statutory Auditors of the companies that are directly and indirectly controlled by ERG on the most significant events that concerned the companies of the Group as well as on the internal control and risk management systems pursuant to Article 151, paragraphs 1 and 2 of the T.U.F. In view of the increasingly international scope of the Group, the Board requested from the Auditors, from the 262 Compliance Organisational Unit and from Internal Audit information regarding the most significant events that have affected foreign subsidiaries;
- supervised the methods for the implementation of the corporate governance rules set out in the Corporate Governance Code adopted by the Company as adequately stated in the Report on Corporate Governance and Ownership, in accordance with Article 124-*ter* of the T.U.F. and Article 89-*bis* of the Issuers' Regulations.

Supervisory activity and information requested by the Consolidated Audit Act

Pursuant to Article 19 of Legislative Decree no. 39/2010 (Consolidated Audit Act), as modified by Legislative Decree no. 135/2016, the Board of Statutory Auditors, in its function as Internal Control and Audit Committee, is responsible for:

a) informing the administrative body of the entity subject to audit of the results of the statutory audit performed and transmitting to that body the additional report pursuant to Article 11 of the EU Regulation, along with remarks, if any;
b) monitoring the financial information disclosure process and presenting the recommendations or proposals aimed at guaranteeing the integrity thereof;
c) controlling the effectiveness of the company systems for internal quality control and risk management and, if applicable, of internal audit, as regards the financial information disclosure by the entity subject to audit, without violating its independence;
d) monitoring the statutory audit of the separate and consolidated financial statements, also taking account of any results and conclusions of the quality controls carried out by Consob pursuant to Article 26, paragraph 6, of the EU Regulation, if available;
e) verifying and monitoring the independence of the independent auditors or of the auditing companies in accordance with Articles 10, 10-*bis*, 10-*ter*, 10-*quater* and 17 of Legislative Decree no. 39/2010 and Article 6 of the EU Regulation, especially as regards the adequacy of the provision of services other than audit to the audited entity, in compliance with Article 5 of that regulation;

f) being responsible for the procedure aimed at selecting the independent auditors or the auditing company and recommending the independent auditors or auditing companies to be engaged pursuant to Article 16 of the EU Regulation.

   In this last respect, the Board has adopted the procedure aimed at the selection of the independent auditing company and the recommendation of the auditing companies to be engaged pursuant to Article 16 of the EU Regulation.

The Board of Statutory Auditors has performed it activity with the help of the Control and Risk Committee in order to coordinate their respective duties and avoid overlapping activities.

Financial information disclosure process

The Board of Statutory Auditors has supervised the existence of regulations and procedures concerning the process for compiling and disclosing financial information. In this regard we highlight that the Report on Corporate Governance and Ownership illustrates the method adopted by the Group to define its own Internal Control and Risk Management System in relation to the financial information disclosure process at consolidated level with the objective of significantly mitigating risks and the extent of the reliability of financial information.

The Manager responsible for preparing the financial reports is Paolo Luigi Merli whom the Board of Directors has entrusted with the responsibility of:

- arranging adequate administrative and accounting procedures for the preparation of financial disclosure documents;
- monitoring the application of procedures;
- issuing to the market, together with the Chief Executive Officer, the certification of the adequacy and effective application of the administrative and accounting procedures for the purposes of the Group's financial disclosure.

The Manager responsible for preparing the financial reports relies on the support of the 262 Compliance Organisational Unit to verify the operation of the administrative and accounting procedures by testing controls.

The Board of Statutory Auditors acknowledges that it has received adequate information on the monitoring activity performed on corporate processes with administrative-accounting impact within the Internal Control and Risk Management System, carried out both during the year in relation to the periodic management reports and when closing the accounts for the preparation of the Financial Statements, in accordance with the monitoring and certification obligations to which ERG is subject pursuant to Law no. 262/05.

In particular, the Board of Statutory Auditors has acknowledged the Risk Assessment for 2018, carried out by 262 Compliance, as well as the half-yearly update of the testing activity pursuant to Law no. 262/05.

The adequacy of the administrative-accounting system was also assessed through the acquisition of information from the heads of the respective functions and the analysis of the results of the work carried out by the Independent Auditors.

Since no particular critical issues and elements were found that would prevent them from doing so, the Chief Executive Officer and the Manager responsible for preparing the financial reports issued the certification, in accordance with Article 81-*ter* of the Issuers' Regulations and subsequent amendments and additions and with Article 154-*bis* of the T.U.F.

The Board of Statutory Auditors oversaw compliance with regulations on the preparation and publication of the Half-Yearly Financial Report and Interim Directors' Reports, as well as their manner of drafting and the correct application of accounting standards, using also the information obtained from the Independent Auditors.
Within the meaning of Document no. 4 of 3 March 2010, jointly issued by the Bank of Italy/CONSOB/Isvap, it is noted that on 20 February 2019 the Board of Directors of ERG approved the setting up of the impairment test procedure in accordance with the requirements of international accounting standard IAS 36, autonomously and ahead of the approval of the financial reports.
The Board of Statutory Auditors analysed and discussed the supporting documentation at a joint meeting with the Control and Risk Committee and, having verified the consistency with the previously adopted settings, deemed the procedure to be correct.
The results of the impairments tests are adequately detailed in the Notes to the Financial Statements.

Effectiveness of Internal Control and Risk Management System

The Board of Statutory Auditors has assessed and overseen the adequacy of the internal control and the effectiveness of the Internal Control and Risk Management System.
In performing its supervisory activity, the Board of Statutory Auditors has maintained an ever open channel of communication with the Control Functions.
The Board of Statutory Auditors acknowledges that it has verified the most relevant activities carried out by the overall internal control and risk management system by attending the meetings of the Control and Risk Committee and the Nominations and Remuneration Committee and meetings:

- with the Director responsible for the Internal Control and Risk Management System;
- with the Internal Audit function;
- with Group Risk Management & Corporate Finance;
- with the Independent Auditors;
- with the Supervisory Body and 231 Compliance (through the presence of a member of the Board of Statutory Auditors within the Body).

The Internal Control and Risk Management System of the ERG Group complies with the principles set out in the Corporate Governance Code in force and, on a more general note, is consistent with domestic and international best practices.
Within the scope of this activity, in particular, the Board of Statutory Auditors received and examined:

- the periodic reports on activities prepared by the Internal Control and Risk Committee and by the Internal Audit Division;
- the reports prepared by the Internal Audit Division, after completing the verification and monitoring activities, with the related findings and recommended actions as well as the controls over the implementation of said corrective actions;

- the periodical updates on the development of the risk management process, the outcome of the monitoring and assessment activities carried out by the Internal Audit Division and Group Risk Management & Corporate Finance as well as the objectives achieved.

On 21 December 2004, the ERG Board of Directors resolved to adopt for the first time an organisational, management and control model pursuant to Legislative Decree no. 231/01 and appointed the related Supervisory Body.
The current Supervisory Body, appointed, in its current composition, by the Board of Directors on 23 April 2018 is comprised of (i) an external member represented by the Company's Standing Auditor (Lelio Fornabaio), as the Chairman and by (ii) two internal members, represented by the Head of Corporate Affairs (Giovanni Marco Scollo) and the Chief Audit Officer (Gabriello Maggini).
The Board of Statutory Auditors has examined the periodical reports on the activity performed by the Supervisory Body every six months and has examined the related activity plan and budget for 2018.
Similarly, the Board took note of the Compliance activity pursuant to Legislative Decree no. 231/2001 and the anti-corruption activity as well as the related 2019 activity plan.
In 2018, the "Significant Third Party Due Diligence" procedure, provided for by the Anti-Corruption System and Policy, was approved.
On 3 August 2018, the Code of Ethics, an essential part of the Organisation and Management Model pursuant to Legislative Decree no. 231/2001, was updated.
The Directors' Report lists the main risks identified, monitored and managed.
Following the activity carried out in the period, as detailed above, the Board of Statutory Auditors shared the positive assessment expressed by the Control and Risk Committee with regard to the adequacy of the internal control and risk management system.
Moreover, it is noted that the Independent Auditor KPMG S.p.A, engaged to carry out the Company's statutory audit for the 2018-2026 period, has carried out the verifications prescribed by the legal regulations and, at the periodic meetings with the Board of Statutory Auditors, did not highlight any exceptions.

Supervisory activity on the statutory audit and independence of the Independent Auditors, fees and non-audit services
In accordance with Article 19 of Legislative Decree no. 39/2010, the Board of Statutory Auditors, identified in said article as the "Internal Control and Audit Committee", has performed the prescribed supervision on the activity carried out by the Independent Auditors.
It is noted that the Meeting of 23 April 2018 appointed KPMG S.p.A. as Independent Auditor for the period 2018-2026 following the regular selection process for which the Board of Statutory Auditors is responsible, pursuant to Article 19 paragraph 1 of Legislative Decree no. 39/2010 and Article 16 paragraph 3 of EU Regulations no. 537/2014.
The Board of Statutory Auditors monitored the audit of the annual and consolidated accounts by exchanging information and opinions with the Independent Auditors, examining the 2018 audit work plan, verifying its adequacy and promptly exchanging data and information relevant to the performance of the respective tasks without highlighting

particular findings to be communicated or facts deemed to be reprehensible that required the drafting of specific reports pursuant to Article 155 paragraph 2 of the T.U.F.

On 25 March 2019, the Independent Auditors, KPMG S.p.A., issued, pursuant to Article 14 of Legislative Decree no. 39/2010 and Article 10 of the EU Regulation, the Audit Report on the Financial Statements at 31 December 2018.

As regards the opinions and representations, in their Report the Independent Auditors have:

- expressed an opinion which states that the Financial Statements of ERG provide a true and fair view of the equity and financial position of ERG at 31 December 2018, of the economic result and cash flows for the financial year ended on that date in accordance with the International Financial Reporting Standards adopted by the European Union, as well as with the provisions issued to implement Article 9 of Legislative Decree no. 38/05;
- issued an opinion of consistency and compliance which states that the Directors' Report and some specific information contained in the "Report on Corporate Governance and Ownership" indicated in Article 123-*bis*, paragraph 4, of the T.U.F., whose responsibility falls onto the directors of the Company, are consistent with the financial statements at 31 December 2018 and drafted in compliance with the law;
- declared that they had nothing to report with regard to possible significant errors in the Directors' Report, based on the knowledge and understanding of the company and the related context obtained during the audit.

On 25 March 2019, the Independent Auditors also presented the Board of Statutory Auditors with the Additional Report required by Article 11 of the EU Regulation, which reveals that no fundamental issues have emerged during the audit nor are there significant deficiencies in the Internal Control and Risk Management System in relation to the financial disclosure process deserving to be brought to the attention of the managers in charge of governance activities. Pursuant to Article 19 paragraph 1 of Legislative Decree no. 39/2010, this report will be transmitted to the Board of Directors, through its Chairman, by the Board of Statutory Auditors, which has made no specific observations.

The Independent Auditors submitted to the Board of Statutory Auditors the declaration on their independence, as required by Article 6 of the EU Regulation, which does not highlight situations that may jeopardise their independence.

Finally, the Board took note of the Transparency Report prepared by the Independent Auditors, published on its website pursuant to Article 18 of Legislative Decree no.39/2010.

The Board of Statutory Auditors ensured the independence of the Independent Auditors KPMG S.p.A., appointed on 23 April 2018, verifying the nature and extent of non-audit services as regards ERG and its subsidiaries.

The audit fees paid by the ERG Group to the Independent Auditors and the companies that are part of the network of the Independent Auditors are as follows:

Activity	Amount €/000
Statutory audit	1,152
Services associated with the statutory audit (certification services)	60
	339
Other services	**90**
TOTAL	**1,302**

"Other services" mainly refer to the activity performed with regard to the Sustainability Report and related to the DNF pursuant to Legislative Decree no. 254/2016 for EUR 30,000, and the AUP for EUR 60,000.
In light of the above, the Board of Statutory Auditors believes that the Independent Auditors, KPMG S.p.A., have the independence requisite.

Consolidated declaration of non-financial nature pursuant to Legislative Decree no. 254/2016 ("DNF")
Pursuant to Article 2 of Legislative Decree no. 254/2016, ERG must prepare the DNF for each financial year as it has exceeded the parameters required for its presentation.
The DNF must represent information to the extent necessary to ensure the understanding of the business activity, its performance, its results and the impact produced by it, and covers environmental, social and personnel issues, respect for human rights, the fight against active and passive corruption, diversities that are relevant taking into account the activities and characteristics of the company.
This Declaration was prepared by ERG as a separate Report from the Directors' Report and was approved by the Board of Directors on 6 March 2019 and made available to the Board of Statutory Auditors within the deadline set by the law.
The Board of Statutory Auditors is in charge of control in line with the rules governing the consolidated financial statements as regards the adequacy of the organisational, administrative, reporting and control system.
The Independent Auditors (in charge of the audit of the Consolidated Financial Statements) are responsible for verifying the issuance of the DNF as well as verifying the correctness of the information reported and attesting that the requested information complies with the requirements of Legislative Decree no. 254/2016 and with the principles, methodologies and methods provided for in Article 3 paragraph 3. This certification was issued on 25 March 2019 without exceptions.
The Board of Statutory Auditors, through periodic meetings with the internal function of ERG that deals with the management of the reporting process, during which it received updates on the progress of the process and on the implementation of the data collection and indicators (KPI) system, and meetings with the Internal Audit function, which the Board has requested monitors the processes that feed the DNF and the related KPIs, has monitored the process of non-financial reporting and therefore compliance with the provisions of the law on the methods and timing of publication of the DNF, the subjective and objective scope of application, compliance with the comply or explain principle in terms of policies implemented, and on the adequacy of the organisational, administrative, and reporting and control system prepared by ERG in order to guarantee a correct and complete representation in the DNF of the business activity, its results and its impacts with regard to non-financial topics.

Significant transactions and events

On the basis of the information acquired, the analyses carried out as part of the supervisory activity showed that the most significant financial and asset-related transactions carried out by the Company, including through directly owned companies, are those described below and more fully illustrated in the Directors' Report, in the Notes to the Financial Statements and in the DNF:

- on 10 January 2018, following approval by the Antitrust Authority, and subsequent to the binding agreement of 3 November 2017 with the api Group, the sale of 51% of the shares of TotalErg S.p.A. was completed. This sale marked the Group's definitive exit from the Oil sector;
- on 7 and 8 March 2018, a year ahead of schedule, the 2018-2022 business plan was approved and presented to the Financial Community. The plan objective is to increase installed capacity by 850 MW through three channels: (i) greenfield and co-Development, (ii) Repowering and Reblading in Italy and (iii) M&A. In the course of 2018, ERG took several steps forward in the growth outlined by the aforesaid Business Plan, adding nearly 200 MW both through M&A, and through greenfield development, 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;
- on 7 March 2018, 100% of Brockaghboy Windfarm Ltd was sold to the Greencoat UK Wind PLC fund. The sale resulted in a EUR 106 million reduction in net financial indebtedness in relation to the sale price and to the recognition of the realised capital gain equal to EUR 26 million net of the related tax effects;
- the Group's wind acquisition operations continued in France, Germany and the UK;
- on 12 January 2018, the Group is entered the solar sector with the acquisition of 100% of Forvei S.r.l., the ninth largest photovoltaic operator in Italy with an installed capacity of 89 MW;
- in the thermoelectric sector, on 25 October 2018 ERG S.p.A., through its subsidiary ERG Power Generation S.p.A., signed an agreement with E.ON Energia S.p.A. for the three-yearly supply of electricity intended for the Italian market, which can be renewed for an additional year;
- at Corporate level: (i) on 12 July 2018, conclusion of Liability Management operations for a total of EUR 500 million, which contribute to improving the economic conditions and term of Group debt, (ii) 20 November 2018, subscription of two senior unsecured medium/long-term Environmental, Social and Governance loan agreements (ESG Loans) each for an amount of up to EUR 120 million, (iii) on 19 December 2018, conclusion of a programme for non-convertible medium/long-term bond issues (Euro Medium Term Notes Programme - EMTN) for a maximum total amount of EUR 1,000 million, (i) assignment by the rating agency Fitch Ratings of an Issuer Default Rating of BBB- with stable outlook and for the EMT programme a rating of BBB-.

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 are fully repaid by said San Quirico S.p.A., a holding of the Garrone and Mondini families. In addition, ERG decided to allocate to the employees of all Group companies, an extraordinary payment of EUR 1,500 which, with reference to the employees of foreign companies, is increased by an amount corresponding to the value of the shares allocated to each employee of the Italian companies. 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.

Furthermore, it is worth noting that at the meetings of the Board of Directors, the Board of Statutory Auditors was provided information on:

- pending tax and legal disputes;
- the evolution of the complex reference legal framework.

All the transactions indicated above have been adequately illustrated at the meetings of the Board of Directors to pass the resolutions required and fully disclosed in the Notes to the Financial Statements as well as in the Directors' Report for financial year 2018, which also provides a complete update of the evolution of the complex regulatory framework.

Atypical and/or unusual transactions and reports pursuant to Article 2408 of the Italian Civil Code

As a result of the supervision and control activity carried out during the year, the Board of Statutory Auditors can certify and note that:

- in the performance of the activity, no such omissions, irregularities or objectionable or otherwise significant facts emerged, that would require to be reported to the supervisory bodies or mentioned herein;
- the Board of Statutory Auditors did not receive any reports in accordance with Article 2408 of the Italian Civil Code or complaints by third parties;
- no transactions were identified, either with third parties or intragroup and/or with related parties, that appeared atypical or unusual by their contents, nature, dimensions and timing.

Opinions and proposals

The Board of Statutory Auditors also acknowledged that it:

- has issued its opinion pursuant to Article 2389 of the Italian Civil Code also in light of the assessments made by the Nominations and Remuneration Committee with regard to the fees proposed for the directors vested with special offices and to the updating of the Remuneration Policy;
- expressed itself in view of the resolutions to be passed by the Board of Directors, as expressly required by the Corporate Governance Code - Article 7, criterion 7.C.1, in relation to (i) the remuneration due to the person in charge of the Internal Audit, (ii) the 2019 Internal Audit activity plan and the adequacy of the resources allocated, (iii) the correct use of accounting principles and their uniformity for the purposes of the Report on the separate and consolidated financial statements and half-yearly report, (iv) interim directors' reports.

Infra-group or related-party transactions

The Board of Statutory Auditors verified infra-group and/or related-party transactions that mostly relate to transactions carried out with rationalisation and economic objectives; they are part of ordinary transactions, are governed by market conditions and are illustrated in the Directors' Report and in the Notes to the Financial Statements.

In particular, the Board of Statutory Auditors examined and shared the document containing the main income data of the infragroup service agreements for the 2018 financial year, considering as adequate the analysis carried out to identify the criteria for allocating costs to the individual companies based on the services used.

Treasury shares

At 31 December 2018, ERG holds 1,503,200 ordinary treasury shares equal to 1% of its share capital.

Remuneration Policy

On 6 March 2019, the Company updated the Remuneration Policy for the members of the Board of Directors and Key Management Personnel in line with the provisions of the Corporate Governance Code.
The Board of Statutory Auditors has verified the adequacy and the compliance with the regulatory framework of the remuneration policies and practices adopted by ERG.

Proposal to the Shareholders' Meeting

On the basis of the supervisory activity performed, the Board of Statutory Auditors has not identified any specific critical issues, omissions, objectionable facts or irregularities, and does not consider it necessary to exercise the right to formulate proposals to the Shareholders' Meeting within the meaning of Article 153, paragraph 2, of the T.U.F.
Having acknowledged, therefore, the results expressed by the financial statements and the content of the Directors' Report, the content of the representations of the financial statements signed by the Chief Executive Officer and the Manager for preparing the financial reports, as well as the Report prepared by the Statutory Auditor, the Board of Statutory Auditors expresses its favourable opinion on the approval of the Financial Statements at 31 December 2018 and has no objections regarding the proposed resolution submitted by the Board of Directors, as formulated in the Directors' Report.

Genoa, 25 March 2019

The Board of Statutory Auditors

(Ms Elena Spagnol)

Elena Spagnol

(Mr Lelio Fornabaio)

Lelio Fornabaio

(Mr Stefano Remondini)

INDEPENDENT AUDITORS' REPORT

KPMG S.p.A.
Revisione e organizzazione contabile
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Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
ERG S.p.A.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of ERG S.p.A. (the "Company"), which comprise the statement of financial position as at 31 December 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of ERG S.p.A. as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of ERG S.p.A. in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of other current and non-current provisions

Notes to the separate financial statements: Use of estimates – Risks and uncertainties, 12) Other provisions and 19) Contingent liabilities and disputes

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2018 include other current and non-current provisions of €8 million and €89 million, respectively. The other non-current provisions mainly comprise the Provision for disposed businesses of €89 million, which the directors estimated with the support of the relevant corporate departments and their legal and tax advisors. It shows the estimated environmental, legal and tax liabilities relating to the "Oil" coastal refining and integrated downstream businesses whose disposal was completed on 10 January 2018 with the sale of the investment in TotalErg S.p.A.. Measuring these provisions is a complex activity, with a high degree of subjectivity, and entails directors' estimates about the outcome of the disputes and litigation of an environmental, legal and tax nature, in some cases dating back in time, the risk of losing, the timing for their settlement and the related effects on the separate financial statements. For the above reasons, we believe that the measurement of other provisions is a key audit matter.	Our audit procedures, which also involved our own tax specialists, included: — understanding the process for the measurement of the effect of legal disputes and assessing the design and implementation of relevant controls and procedures to assess the operating effectiveness of material controls; — analysing the discrepancies between past years' estimates of the effect of legal disputes and actual figures resulting from their subsequent settlement, in order to understand the accuracy of the estimation process; — sending written requests for information to the advisors assisting the Company and discussing with the internal legal department about the assessment of the risk of losing pending disputes and the quantification of the related liability; — for the main disputes subject to estimate, analysing the assumptions used to determine their effect through discussions with the relevant internal departments and analysis of the supporting documentation; — discussing assumptions or scenarios alternative to those used to calculate the effect of legal disputes and the reasons for their rejection with the relevant internal departments; — analysing the events after the reporting date that provide information useful for an assessment of the provisions; — assessing the appropriateness of the disclosures provided in the notes to the separate financial statements about the other provisions and significant contingent liabilities.

Other matters - Comparative figures

The Company's 2017 separate financial statements were audited by other auditors, who expressed their unqualified opinion thereon on 27 March 2018.

Responsibilities of the Company's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Company's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report

to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 23 April 2018, the shareholders of ERG S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2018 to 31 December 2026.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of ERG S.p.A. are responsible for the preparation of the directors' report and the report on corporate governance and ownership at 31 December 2018 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership indicated by article 123-bis.4 of Legislative decree no. 58/98 with the Company's separate financial statements at 31 December 2018 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership referred to above are consistent with the Company's separate financial statements at 31 December 2018 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Genoa, 25 March 2019

KPMG S.p.A.

(signed on the original)

Luisa Polignano
Director of Audit

FINANCIAL STATEMENTS OF THE MAIN SUBSIDIARIES

INCOME STATEMENT

(EUR Thousand)	ERG Power Generation S.p.A.	ERG Power S.r.l.	ERG Hydro S.r.l.	Gruppo ERG Power Generation
Revenues	698,253	97,791	190,950	1,023,792
Other incomes	8,577	1,232	5,305	18,349
Costs for purchases	(540,568)	(2,673)	(1,149)	(326,985)
Costs for services and other operating costs	(180,151)	(35,366)	(33,862)	(177,353)
Personnel Costs	(29,547)	-	(6,389)	(41,009)
EBITDA	**(43,435)**	**60,983**	**154,855**	**496,794**
Amortisation, depreciation and write-downs of fixed assets	(1,763)	(36,492)	(54,187)	(269,232)
EBIT	**(45,198)**	**24,491**	**100,668**	**227,562**
Financial expenses	14,860	95	324	26,024
Financial charges	**(5,317)**	**(4,723)**	**(2)**	**(85,418)**
Net financial income (expeses)	**9,543**	**(4,628)**	**322**	**(59,394)**
Net income (loss) from investments carried at equity	–	–	–	143
Other net income (loss) from equity investment	**82,714**	**–**	**–**	**(551)**
Income (loss) from equity investments	**82,714**	**–**	**–**	**(408)**
Profit (loss) before taxes	**47,059**	**19,863**	**100,990**	**167,759**
Income taxes	13,628	(5,315)	(29,581)	(45,212)
Net profit (loss) from continuing operations	**60,687**	**14,548**	**71,409**	**122,548**
Net profit (loss) from discontinued operations	–	–	–	28,432
Net profit (loss) for the period	**60,687**	**14,548**	**71,409**	**150,980**
Minority interests	–	–	–	(133)
GROUP'S NET PROFIT (LOSS)	**60,687**	**14,548**	**71,409**	**150,847**

STATEMENT OF FINANCIAL POSITION

(EUR Thousand)	ERG Power Generation S.p.A.	ERG Power S.r.l.	ERG Hydro S.r.l.	Gruppo ERG Power Generation
Intangible fixed assets	2,390	3,688	1,038	748,231
Goodwill	3,003	–	61,295	148,266
Property, plant and equipment	2,859	272,848	451,311	2,276,953
Equity investments	1,659,739	10,866	–	13,535
Other non-current financial assets	438,119	34	22	40,152
Deferred tax assets	11,421	5,874	3,734	115,521
Other non-current assets	11,816	113	0	40,989
Non-current assets	**2,129,347**	**293,423**	**517,401**	**3,383,647**
Inventories	11,795	5,505	–	21,622
Trade receivables	112,500	19,173	43,864	251,192
Other receivables and current assets	48,481	2,061	7,861	117,957
Current financial assets	42,116	–	254,156	37,663
Cash and cash equivalents	1,015	10,594	177	175,654
Current assets	**215,907**	**37,333**	**306,058**	**604,087**
TOTAL ASSETS	**2,345,254**	**330,756**	**823,459**	**3,987,734**
Group Shareholders' equity	1,867,026	186,503	778,751	2,069,831
Shareholders' Equity	**1,867,026**	**186,503**	**778,751**	**2,069,831**
Employees' severance indemnities	3,003	–	967	4,748
Deferred tax liabilities	0	0	4,356	276,318
Provisions for non-current liabilities and charges	66	–	330	54,521
Non current financial liabilities	–	103,797	–	1,202,343
Other non current liabilities	–	–	–	32,117
Non-current liabilities	**3,069**	**103,797**	**5,653**	**1,570,047**
Provisions for current liabilities and charges	4,662	2,862	422	38,304
Trade payables	95,414	12,204	11,982	83,926
Current financial liabilities	367,727	20,080	0	157,444
Other current liabilities	7,356	5,308	26,650	68,182
Current liabilities	**475,159**	**40,455**	**39,054**	**347,856**
Liabilities held for sale	**–**	**–**	**–**	**–**
TOTAL LIABILITIES AND EQUITY	**2,345,254**	**330,756**	**823,459**	**3,987,734**

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Share Capital EUR 15.032.000,00 fully paid

R.E.A. Genoa n. 354265

Company Register Genoa

and Fiscal Code 94040720107

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