Press Release

The Board of Directors approves the consolidated financial statements and the draft financial statements as at 31 December 2019

Installed power has surpassed 3,000 MW, EBITDA at over 500 million Euro and sustainability commitment rewarded with an MSCI ESG 'AA' Rating. Proposed dividend per share of Euro 0.75.

FY 2019

Consolidated adjusted[1] EBITDA: €504 million, €491 million in 2018
Adjusted Group net result: €104 million, €107 million in 2018

Fourth quarter of 2019

Consolidated adjusted EBITDA: €124 million, €109 million in 4Q 2018
Adjusted Group net result: €29 million, €15 million in 4Q 2018

Genoa, 11 March 2020 – The Board of Directors of ERG S.p.A., which met yesterday, approved the consolidated financial statements, the draft financial statements as at 31 December 2019, the report on corporate governance and ownership, the consolidated non-financial statement and the report on remuneration policy and compensation paid.

Consolidated adjusted financial results

4th Quarter			Performance highlights (million Euro)	Year		
2019	2018	Var. %		2019	2018	Var. %
124	109	13%	EBITDA	504	491	3%
48	38	26%	EBIT	205	216	-5%
29	15	96%	Group net result	104	107	-3%

	31.12.19	31.12.18	Variation
Net financial debt (million Euro)	1,476	1,343	+133
Leverage[2]	45%	42%	

Luca Bettonte, ERG's Chief Executive Officer, commented: **"EBITDA, at over 504 million Euro, shows an upturn compared to 491 million Euro in 2018 and is at the top end of our mid-year guidance. This excellent result was achieved despite a much poorer performance by the hydroelectric power sector, due to the particularly dry year, and the weak trend in energy prices both in Italy and abroad. The good wind conditions in our countries of operation, the important result achieved in the thermoelectric power sector reflecting the trend in the price of gas, but above all the full contribution from the additional 198 MW of operating capacity developed are the factors that have enabled us to continue growing and to exceed 500 million Euro in EBITDA.**
During 2019 we also completed the authorisation processes outside of Italy, allowing us in 2020 to launch new construction sites for around 285 MW divided between the United Kingdom, France and Poland, while in Italy we are proceeding with the permitting process for our portfolio of Repowering projects, as envisaged in the Business Plan. Generally speaking, we confirm our objective to achieve, by 2022, an increase of around 850 MW in installed capacity with respect to 2017, of which 350MW have already been implemented.
For 2020 we forecast EBITDA between 500 and 520 million Euro, with an upturn compared to a year ago, and a downward trend in net debt to between 1,360 and 1,440 million Euro, including investments amounting to between 185 and 215 million Euro, almost entirely destined for construction of the greenfield projects pertaining to our pipelines in Great Britain, Poland and France.
Lastly, we are pleased to report that this year we obtained additional major recognitions in the ESG sphere, constantly at the centre of our strategies, including the 'AA' rating assigned by MSCI."

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

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

The Board of Directors proposes to the Ordinary Shareholders' Meeting, to be convened on 21 April 2020 in first call and, if required, on 22 April 2020 in second call, the distribution of a dividend per share of 0.75 Euro, which will be available for payment starting from 20 May 2020 (payment date), with an ex-dividend date as of 18 May 2020 (ex-date) and record date of 19 May 2020.

The Board of Directors has considered the request made by shareholder San Quirico S.p.A. (see PR dated 28 February 2020) to be in compliance with applicable legislation and has, therefore, pursuant to Article 2367 of the Italian Civil Code, resolved to call an Extraordinary Meeting of the Company's Shareholders for the same date on which the Ordinary Shareholders' Meeting is to be convened, in order to submit to the same the proposed amendment of Article 10 of the Company's articles of association, designed to introduce a mechanism to increase voting rights, as set forth and permitted by Article 127-*quinquies* of the Consolidated Finance Act, according to the description given in the explanatory report prepared by shareholder San Quirico S.p.A., in accordance with Article 125-*ter*, paragraph 3 of the Consolidated Finance Act, to which reference is made and which will be made fully available to the public as per the terms and procedures laid down by current regulations. The Board of Directors has made no further observations with regard to the call request and proposal on the part of San Quirico S.p.A..

In view of the Italian and global emergency regarding Covid-19 and the consequent restrictions put in place throughout Italy, on 9 March 2020 ERG proactively extended the possibility to operate in Smart Working to all working days during the weeks until 3 April 2020. This solution was offered to all employees of the Group's Italian branches insofar as such a procedure is compatible with the effective performance of duties respectively assigned, ensuring maximum care in guaranteeing business continuity and the security of the company's production sites.

Preliminary remarks

ERG has radically changed its business portfolio, anticipating the long-term energy scenarios and reaching a position of leadership in renewables, as regards not only the Italian but also the European market.
Consistent with the 2018-2022 Business Plan, ERG has also approved for the same period the Sustainability objectives reflected in the UN SDGs, particularly as regards the development of electricity generation using renewable sources (UN SDG 7), attention to the environment (UN SDGs 6 and 15), work conditions (UN SDG 8) and welfare (UN SDG 4).

Change in business perimeter during 2019

Wind power - UK

On 2 May 2019 ERG, through its subsidiary ERG UK Holding Ltd., finalised the acquisition from RES, a global renewable energy company, of a 100% equity stake in **Craiggore Energy Ltd**, a business incorporated under Northern Irish law, holder of authorisations for the construction of a wind farm in Northern Ireland, in the county of Londonderry.
The wind farm will comprise 10 turbines giving an authorised capacity of 25 MW and estimated electricity output – when fully operational – of around 87 GWh per year, corresponding to over 3,500 equivalent hours and approximately 43 Kt of avoided CO2 emissions, as well as an estimated energy requirement of about 21,500 households.
Preliminary construction activities were carried out during the fourth quarter of 2019 and construction is scheduled to commence in the first quarter of 2020, with start-up, following completion of the connection to the national grid, by April 2021. The project will participate in the Integrated Single Electricity Market (I-SEM).
The total investment estimated for construction of the wind farm is approximately 37 million GBP (around 41 million Euro), which already includes the acquisition price paid.

Wind power - France

On 6 May 2019 ERG, through its subsidiary ERG Eolienne France SAS, finalised an agreement with the Zurich-based investment fund Profond Finanzgesellschaft AG regarding the acquisition of a 100% equity stake in "Les Moulins de Frouges SAS", a company incorporated under French law, owner of **six wind farms** located in the Northern France region of Hauts-de-France, with an overall installed capacity of 52 MW.
The wind farms, which came on stream between 2007 and 2009, recorded 2018 EBITDA of 6.2 million Euro and have an overall expected output of 99 GWh, corresponding to more than 1,800 equivalent hours and approximately 50 kt of avoided CO2 emissions; the facilities are entitled to benefit from an incentive tariff (FIT),

which in 2018 averaged 93 Euro/MWh, for a period of 15 years.
The acquisition's Enterprise Value amounts to 52 million Euro. The company has a nil net financial position. The transaction closing took place following the approval obtained from the French Ministry for the Economy and Finance. The 2019 financial statements reflect the impact of consolidating the acquired companies starting from 1 January 2019.

Wind power - Germany
On 27 June 2019 ERG, through its subsidiary ERG Power Generation, finalised with Windwärts Energie GmbH the acquisition of a pipeline of wind power projects in Germany with a total capacity of 224 MW. The experienced project development company Windwärts, a pioneer in the German renewable energy sector, is wholly owned by the utility company MVV Energie AG. The early-medium stage pipeline with an overall capacity of about 224 MW is composed of 13 projects at various stages of development, 4 of which at a more advanced stage are covered by the Regional Plan. The projects are located in the Northern German states of Lower Saxony and Schleswig-Holstein, in particularly windy areas, and have an estimated average output of over 3,000 equivalent hours.
The total price agreed in terms of Enterprise Value is approximately 4 million Euro, split between an upfront payment upon closing and subsequent amounts linked to development of the projects.

Wind power - Germany
On 19 August 2019 ERG, through its subsidiary ERG Windpark Beteiligungs GmbH finalised an agreement with a company controlled by the German investment firm Aquila Capital regarding the acquisition of a 100% equity stake in three German companies, owners of a corresponding number of wind farms located in the Mecklenburg-Western Pomerania region of North East Germany.
The wind farms, which have an overall installed capacity of 34 MW and are equipped with 11 Vestas V112 wind turbines, came on stream in 2014. Their average annual output during the past 4 years amounted to around 89 GWh, corresponding to more than 2,600 equivalent hours and approximately 67,000 t of avoided CO_2 emissions per year. The wind farms are entitled to benefit from an overall incentive tariff, which in 2018 averaged 97 Euro/MWh, for a period of 20 years.
The transaction closing, which took place on 13 September 2019, following authorisation by the German antitrust authorities, set a price in terms of equity value in the amount of 37 million Euro, corresponding to an enterprise value of 84 million Euro. The 2019 financial statements reflect the impact of consolidating the acquired companies starting from 1 January 2019.

Solar power
On 12 February 2019 ERG, through its subsidiary ERG Solar Montalto S.r.l., completed the **purchase** from Soles Montalto GmbH, an investment fund managed by the group AREAM – European asset manager in the renewables sector, of a 78.5% stake in Perseo S.r.l., 100% owner of Andromeda PV S.r.l., a company that in turn manages two photovoltaic power facilities with an overall installed capacity of 51.4 MW.
It has also been agreed that Soles Montalto GmbH will remain a minority quotaholder, based on quotaholders' agreements granting ERG complete industrial control of the asset and its full consolidation.
The plants, located at Montalto di Castro (Lazio region), in 2018 posted a total output of 85.6 GWh and EBITDA of 30 million Euro. The facilities, equipped with Sun Power technology and monoaxial tracker, typically came on stream in the fourth quarter of 2010 and are eligible for *Secondo Conto Energia* incentives for a period of 20 years until 2030.
The transaction's enterprise value amounts to approximately 220 million Euro, reflecting the acquired quota's equity value of 97 million Euro and the net financial position of the Target company which, at 31 December 2018, amounted to 124 million Euro.
The 2019 financial statements reflect the impact of consolidating the acquired companies starting from 1 January 2019.

Fourth quarter 2019

Consolidated financial results

In the **fourth quarter of 2019 adjusted revenues** came to Euro 260 million, showing essentially no change compared to the corresponding period in 2018 (Euro 261 million), since the downturn in incentivised revenues recorded by the hydroelectric power sector was offset by the growth in output as regards wind and solar power, both in Italy and abroad also following the expansion of the managed asset portfolio, and the thermoelectric power sector.

Adjusted EBITDA, excluding special items, amounted to Euro 124 million, compared to Euro 109 million posted in the fourth quarter of 2018. The positive variation of Euro 14 million reflects the following:

Wind Power (+12 million): EBITDA, at Euro 87 million, showed an increase compared to the corresponding period in 2018 (Euro 75 million) reflecting the more favourable wind conditions both in Italy (+64 GWh) and abroad (+135 GWh). More specifically, the results posted by the Italian wind farms (Euro 51 million, with an upturn compared to Euro 49 million a year earlier) benefited from the higher output, only partly offset by the lower unitary incentive value (92 Euro/MWh compared to 99 Euro/MWh), while the negative trend in energy prices was almost entirely counteracted by hedging transactions. Overseas results posted a growth (+10 million) thanks above all to the contribution from 138 MW pertaining to the new wind farms in France and Germany and the increase in output, particularly as regards France and Poland.

Solar Power (+3 million): EBITDA, at Euro 7 million, was practically double the result for the fourth quarter of 2018 (Euro 4 million) owing to the contribution from 51 MW of newly acquired solar power plants.

Hydroelectric Power (-5 million): EBITDA, at Euro 23 million (Euro 28 million in the fourth quarter of 2018), showed a downturn compared to the corresponding period a year earlier. Performance reflected above all the decline in incentivised volumes (-36 GWh) and the lower incentive value with respect to the fourth quarter of 2018.

Thermoelectric Power (+6 million): EBITDA, at Euro 11 million, showed an increase compared to Euro 5 million in the fourth quarter of 2018, reflecting an improvement in the spark spread, due to the significant reduction in the cost of natural gas which more than offset the upturn in CO_2 prices, the lower price in Sicily and the higher quantities sold to end customers, together with plant performance.

Adjusted EBIT came to Euro 48 million (Euro 38 million in 2018) after amortisation and depreciation totalling Euro 76 million, with an increase of Euro 4 million compared to the fourth quarter of 2018 (Euro 71 million) following above all the new investments carried out in the Solar Power sector and the operating wind farm acquisitions in France and Germany during the course of 2019.

Adjusted Group net result came to Euro 29 million, with an increase compared to the result of Euro 15 million posted in 2018, reflecting the previously commented operating results and the lower effective tax rate compared to the corresponding period a year earlier due to the reintroduction of tax benefits associated with economic growth (Aid for Economic Growth - ACE).

FY 2019

Consolidated financial results

In 2019 **adjusted revenues from ordinary operations** came to Euro 1,022 million, with a slight downturn compared to 2018 (Euro 1,027 million) due above all to the much lower volumes in the hydroelectric power sector compared to the exceptionally high volumes recorded a year earlier, partly offset by the growth in output as regards wind and solar power, both in Italy and abroad also reflecting the expansion of the managed asset portfolio, and the thermoelectric power sector.

Adjusted EBITDA excluding special items, at Euro 504 million, was up by Euro 13 million with respect to Euro 491 million posted in 2018. The variation reflects the following:

Wind Power (Euro +27 million): EBITDA amounted to Euro 301 million, with an increase compared to the corresponding period in 2018 (Euro 274 million) in the presence of more favourable wind conditions both in Italy (+149 GWh) and abroad (+387 GWh). More specifically, the results posted by the Italian wind farms (Euro 191 million, with an downturn compared to Euro 195 million a year earlier) reflected above all the lower unitary incentive value (92 Euro/MWh compared to 99 Euro/MWh), while the negative trend in energy prices was almost entirely counteracted by hedging transactions. Overseas results posted a growth (+10 million) thanks above all to the contribution from 138 MW pertaining to the new wind farms in France and Germany and the increase in output, particularly as regards France, Germany and Poland, together with the improved price scenario in the Eastern European countries. We mention that FY 2018 had benefited by the contribution from the 48 MW Brockaghboy wind farm (+3 million) in the UK, which was sold on 7 March 2018.

Solar Power (+30 million): EBITDA, at Euro 63 million, was double the figure for FY 2018 (Euro 32 million) thanks to the contribution from 51 MW of newly acquired solar power plants, given the favourable situation in terms of irradiation.

Hydroelectric Power (-59 million): EBITDA, at Euro 87 million (Euro 146 million in 2018), showed a sharp downturn compared to the previous year. The performance reflected the significant reduction in water availability (-511 GWh) during the period compared to historical levels and, more specifically, to the particularly abundant availability recorded a year earlier, impacting revenues from electricity sales, the incentive and lastly, to a lesser extent, the incentive price, which was lower compared to the previous year.

Thermoelectric Power (+17 million): EBITDA posted by the thermoelectric power sector, at Euro 69 million, showed an increase compared to Euro 53 million in 2018 following an improvement in the spark spread, due to the significant reduction in the cost of natural gas, which more than offset the upturn in CO2 prices, the lower price in Sicily and the higher quantities sold to end customers, together with plant performance.

Adjusted EBIT came to Euro 205 million (Euro 216 million in 2018) after amortisation and depreciation totalling Euro 299 million, up by Euro 24 million higher compared to 2018 (Euro 275 million), ascribable above all to the new investments in the Solar power sector and to the acquisitions of operating wind farms in France and Germany carried out during 2019.

The **Adjusted Group net result** amounted to Euro 104 million, including approximately Euro 1 million pertaining to minority interests, with a downturn compared to Euro 107 million posted in 2018, reflecting the previously commented operating results. Despite a rise in debt, financial charges decreased significantly with respect to 2018 owing to a reduction in the cost of debt, following the major liability management transactions carried out during 2019 and the simultaneous issuance of a Green Bond subject to more favourable conditions. Moreover, the effective tax rate was in line with the figure for 2018 due to the reintroduction of tax benefits associated with economic growth (Aid for Economic Growth - ACE).

Adjusted net financial debt stands at Euro 1,476 million, with an increase (Euro 133 million) compared to 31 December 2018 (Euro 1,343 million). The variation reflects above all investments during the period (Euro 432 million), the distribution of dividends (Euro 112 million), extraordinary charges incurred in connection with major liability management transactions (Euro 43 million[3]), and the payment of taxes (Euro 41 million). This is all partly compensated by the period's positive cash flow (492 million[4]), also following a reduction in the timing of Italian incentive payments. The adjusted net financial debt is shown net of the effects deriving from application of IFRS 16, therefore not including the discounting of future lease fee payments corresponding to around Euro 78 million at 31 December 2019.

Investments

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

4th Quarter		Million Euro	Year	
2019	**2018**		**2019**	**2018**
16	17	Wind Power	189	146
1	0	Solar Power	221	345
10	4	Thermoelectric Power	15	8
3	4	Hydroelectric Power	6	7
1	1	Corporate	2	3
31	**26**	**Total Investments**	**432**	**510**

Investments in the **fourth quarter of 2019** totalled **Euro 31 million** (Euro 26 million in 2018) and concerned investments carried out in **property, plant and equipment and intangible fixed assets**, including 54% in the Wind Power sector (65% in 2018), above all with regard to the commencement of construction works on the UK wind farms, 32% in the Thermoelectric Power sector (16% in 2018) as a result of extraordinary

[3] Amount primarily associated with reversal of the positive adjustment, recognised at the time of first consolidation, as regards the debt's fair value. This is an accounting adjustment and has no impact on cash flow
[4] Includes adjusted EBITDA, the change in working capital and net financial income (expenses)

maintenance on certain CCGT plant components, 9% in the Hydroelectric Power sector (14% in 2018) and 3% in the Corporate sector (5% in 2018), mainly in connection with the ICT area.

In 2019, **investments** amounted to **Euro 432 million** (Euro 510 million in 2018) and mainly concerned the acquisition of two photovoltaic facilities in Italy (Euro 220 million), operating wind farms in France and Germany (for respectively Euro 52 million and Euro 84 million), a project for the construction of a wind farm in the United Kingdom (Euro 6 million) and a pipeline of 224 MW in Germany (Euro 2 million). Moreover, during the period investments were carried out **in property, plant and equipment and intangible fixed assets amounting to Euro 68 million,** of which 66% in the Wind power sector (70% in 2018), primarily connected with completion of the German wind farm (Windpark Linda) and the commencement of construction works on the UK wind farms, 22% in the Thermoelectric Power sector (14% in 2018) as a result of extraordinary maintenance on certain CCGT plant components, 8% in the Hydroelectric Power sector (11% in 2018) and 3% in the Corporate sector (5% in 2018), mostly in connection with the ICT area.

Wind Power: investments in 2019 (**Euro 189 million**) concerned above all the acquisition of wind farms in France (52 MW) and Germany (34 MW), as well as the development of the Windpark Linda wind farm in Germany, which came on stream at the end of June. The first reblading intervention, carried out on a 13.2 MW Italian wind farm, was also successfully completed.

Solar Power: investments in 2019 concerned the acquisition of a 78.5% stake in 2 photovoltaic facilities, located in Montalto di Castro (Lazio Region), with an installed capacity of 51.4 MW and an estimated annual output of around 96 GWh, which are eligible for *Secondo Conto Energia* incentives for a period of 20 years until 2030. The enterprise value of the transaction, for the stake acquired, amounted to approximately Euro 220 million.

Hydroelectric Power: investments in hydroelectric power, amounting to Euro 6 million, refer above all to maintenance contracts and projects scheduled with regard to the seismic enhancement of infrastructures and in the area of Health, Safety and the Environment.

Thermoelectric Power: investments during 2019 (Euro 15 million) primarily concerned the ERG Power CCGT facility, which continued with its initiatives aimed at maintaining the plants' operational efficiency, flexibility and reliability. Moreover, the scheduled interventions went ahead in the area of Health, Safety and the Environment.

Operational Data

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

During the **fourth quarter of 2019**, total electricity sales amounted to 3.9 TWh (3.4 TWh in 2018), against a total of around 2.1 TWh produced by the Group's facilities (1.8 TWh in 2018), of which approximately 0.6 TWh abroad and 1.5 TWh in Italy. The latter figure represents about 2.0% of overall domestic electricity demand (1.8% in 2018).

During the course of 2019, total electricity sales amounted to 15.1 TWh (13.6 TWh in 2018), against a total of around 8.0 TWh produced by the Group's facilities (7.5 TWh in 2018), of which approximately 1.8 TWh abroad and 6.1 TWh in Italy. The latter figure represents about 1.9% of overall domestic electricity demand (1.9% in 2018).

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

The breakdown of sale volumes and electricity output, by type of source, is shown in the following table[5]:

[5] Electricity 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.

4th Quarter					Year			
2019	2018	Δ	Δ%	**Electricity Output (GWh)**	2019	2018	Δ	Δ%
1,155	**955**	**200**	**21%**	**Wind power output**	**4,000**	**3,464**	**537**	**15%**
587	*522*	*64*	*12%*	*- Italy*	*2,161*	*2,012*	*149*	*7%*
568	*433*	*135*	*31%*	*- Overseas*	*1,839*	*1,452*	*387*	*27%*
32	**20**	**12**	**59%**	**Solar power output**	**226**	**130**	**97**	**74%**
361	**338**	**23**	**7%**	**Hydroelectric power output**	**1,229**	**1,740**	**-511**	**-29%**
563	**506**	**57**	**11%**	**Thermoelectric power output**	**2,504**	**2,151**	**353**	**16%**
2,111	**1,819**	**292**	**16%**	**ERG Plants total output**	**7,959**	**7,484**	**476**	**6%**

Steam sales[6] **in the fourth quarter of 2019** amounted to 196 thousand tonnes, showing a downturn with respect to 239 thousand tonnes for the corresponding period in 2018; sales carried out **during 2019** totalled 875 thousand tonnes (with an increase compared to 737 thousand tonnes in 2018).

With regard to **output**, in the **fourth quarter of 2019** we particularly report:

Wind Power: wind power electricity output totalled 1,155 GWh, up by 21% compared to the corresponding period in 2018 (955 GWh), with a growth of 12% in Italian production (from 522 GWh to 587 GWh) and 31% overseas (from 433 GWh to 568 GWh).
The increase in Italian production (+64 GWh) reflects the improved wind conditions compared to those recorded in the fourth quarter of 2018 as regards all regions and particularly Sardinia, Sicily and Calabria.
Outside of Italy, the growth of 135 GWh is ascribable to the higher output in France (+90 GWh, reflecting above all the electricity produced by the facilities recently acquired or that came on stream during the last quarter of 2018), Germany (+35 GWh following the contribution of the new German wind farms) and Eastern Europe (+11 GWh).

Solar Power: output totalled around 32 GWh (20 GWh in the fourth quarter of 2018) with a sharp increase following the contribution from 51 MW pertaining to the newly acquired solar power facilities; the load factor was 10%, in line with the corresponding period a year earlier.

Hydroelectric Power: ERG Hydro's overall output in the fourth quarter of 2019, totalling 361 GWh, benefited from a net unit revenue, considering the sales price of electricity, proceeds from MSD and from replacement incentives during the period and other minor components, amounting to around 94 Euro/MWh, with a significant decrease compared to 114 Euro/MWh for the fourth quarter of 2018 owing to the already commented sharp decline in incentivised volumes.

Thermoelectric Power: net electricity output by ERG Power amounted to 563 GWh, with an increase over the fourth quarter of 2018 (506 GWh) in the presence of a more favourable market situation characterised by an upturn in net generation margins, due above all to the significant reduction in gas prices, despite the notable rise in CO2 prices. This trend exceeded the more general one recorded in Italy for the entire thermoelectric power sector thanks to the Sicily price differential with respect to the *PUN* (Single National Price) in a situation of lower prices in Sicily. The net supply of steam to captive customers at the Priolo Gargallo petrochemical site amounted to 196 thousand tonnes, with a decrease compared to 239 thousand tonnes in the fourth quarter of 2018.

In **FY 2019:**

Wind Power: wind power electricity output totalled 4,000 GWh, with an upturn of 15% compared to the corresponding period in 2018 (3,464 GWh), following a growth of approximately 7% in Italian production (from

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

2,012 GWh to 2,161 GWh) and 27% overseas (from 1,452 GWh to 1,839 GWh).
The increase in Italian production (+149 GWh) reflected the improved weather conditions with respect to those recorded for the corresponding period in 2018 as regards basically all regions and, more specifically, Sardinia, Puglia and Molise.
Outside of Italy, the net increase of 387 GWh is ascribable to the higher output in France (+242 GWh, essentially reflecting the output of plants recently acquired or which became commercially operational during the second half of 2018), Germany (+128 GWh due above all to the recent acquisitions), as well as Eastern Europe (+47 GWh), net of the discontinued UK production (-29 GWh) following the sale of the Brockaghboy wind farm.

Solar Power: solar power output amounted to around 226 GWh and the related load factor was 18% (16% in 2018).

Hydroelectric Power: ERG Hydro's total output in 2019, amounting to 1,229 GWh, benefited from a net unit revenue, considering the sales price of electricity, proceeds from MSD and from replacement incentives during the period and other minor components, corresponding to approximately 102 Euro/MWh, with a slight downturn compared to 107 Euro/MWh in 2018.

Thermoelectric Power: ERG Power's net electricity output amounted to 2,504 GWh, with a growth compared to 2018 (2,151 GWh), given the more favourable market situation characterised by increasing net generation margins, above all following the considerable downturn in gas prices, despite the significant rise in CO2 prices. This trend exceeded the more general one recorded in Italy for the entire thermoelectric power sector thanks to the Sicily price differential with respect to the *PUN* (Single National Price) in a situation of lower prices in Sicily. The net supply of steam to captive customers at the Priolo Gargallo petrochemical site amounted to 875 thousand tonnes, with a significant upturn compared to 737 thousand tonnes in 2018. As a result, the number of White Certificates accrued was notably higher with respect to 2018.
Adjusted EBITDA in 2019 came to Euro 69 million (Euro 53 million in 2018), with an upturn in results following the improvement in the spark spread, the higher quantities sold to customers at the Priolo site, the increase in proceeds deriving from White Certificates and plant performance.

Sustainability Data

The sustainability objectives that ERG has set itself are in line with the UN SDGs and constitute an integral part of the 2018-2022 Business Plan. The Group's commitment is focused on 3 main lines:

1. **the development of electricity generation using renewable sources**, which fully reflects our commitment to the fight against climate change.
2. **attention to the environment, work conditions and welfare**;
3. implementation, at Group level, of the new Anti-corruption Policy and the new **supplier selection procedures**.

Since entering the renewables sector, ERG has achieved a 90% reduction in the Carbon Index, namely the quantity of CO2 issued for each kWh produced, which at the end of 2019 was 145 gCO2/kWh, corresponding to half the average recorded in Italy.

Currently, thanks to the generation of energy using renewable sources, each year ERG avoids the emission of more than 3 million tonnes of CO2, approximately 17 million tonnes since entering the renewables sector.
The Priolo CCGT plant has confirmed its continuous reduction of the index as regards CO2 emission per kWhe produced: approximately -1% per year.

The policy is going ahead to minimise the environmental impact of Operations defined by the Sustainability Committee: at the end of 2019 around 90% of our indirect energy consumption was covered by purchases of Green electricity.

The Group's strength continues to lie in its People: over 99% are hired on a permanent basis. The training programme, which in 2019 exceeded 46,000 hours, involved 98% of the corporate population, with an average of more than 7 days dedicated per person.

In the areas where ERG's production assets are located, activities have been organised to support young people, culture and start-ups in the energy sector, with the involvement of over 10,000 students.

ERG reports its handling of climate change according to a TCFD (Task Force on Climate-related Financial Disclosures) approach, via both its Non-financial Statement and the Carbon Disclosure Project (CDP) which, for the second consecutive year, confirmed ERG's B rating, which is above both the Utilities sector and the European average.

For the second year running, ERG has been confirmed as one of the top 50 most sustainable firms in the world (ranking 35th position) in the Corporate Knights Global 100 Most Sustainable Corporations in the World Index.

The placement of ERG's first green bond for 500 million Euro met with a request that exceeded six times the amount of notes offered, generating interest on the part of investors of high standing from the main European countries.

Main Events in 2019

Wind Power

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

On **25 March 2019** ERG and the Zurich-based company Profond Finanzgesellschaft AG signed an agreement concerning the acquisition of a 100% equity stake in "Les Moulins de Frouges SAS", a French firm owner of six wind farms, with a total installed capacity of 52 MW, located in the Northern France region of Hauts-de-France (see PR dated 25/3/2019). The transaction closing took place on 6 May 2019.

On **2 May 2019** ERG acquired from RES, a global renewable energy company, a 100% stake in Craiggore Energy Ltd, a business incorporated in Northern Ireland, holder of permits for the construction of a wind farm in Northern Ireland, in the county of Londonderry, with an authorised capacity of 25 MW. The total investment estimated for construction of the wind farm is approximately 37 million GBP (about 41 million Euro), which already includes the acquisition price paid (see PR dated 2/5/2019).

On **14 June 2019** Parc Eolien du Pays a Part, a French ERG Group company, owner of a project located in the North of France for a capacity of 18 MW, won the third auction dedicated to onshore wind power (see PR dated 14/6/2019).

On **21 June 2019** the construction and commissioning phase was completed of Wind Park Linda, a wind farm located in Germany, with a capacity of 21.6 MW (see PR dated 21/6/2019).

On **27 June 2019** an agreement was signed with Windwärts Energie GmbH for the acquisition of a pipeline of wind power projects in Germany with an overall capacity of 224 MW. The total price agreed in terms of Enterprise Value is approximately Euro 4 million, divided between an upfront payment upon closing and subsequent amounts associated with development of the projects (see PR dated 27/6/2019).

On **19 August 2019** an agreement was signed with Aquila Capital regarding the acquisition of a 100% equity stake in three German companies, owners of a corresponding number of wind farms with a total installed capacity of 34 MW (see PR dated 19/8/2019). The transaction closing took place on September 13th.

Solar Power

On **11 January 2019** ERG acquired from Soles Montalto GmbH a 78.5% stake in Perseo S.r.l., 100% owner of Andromeda PV S.r.l., a company that in turn manages two photovoltaic power facilities with an overall installed capacity of 51.4 MW. The transaction closing took place on 12 February 2019 (see PR dated 12/2/2019).

On **6 March 2019** ERG suspended the incorporation of the ERG Q Solar 1 joint venture (see PR dated 6/3/2019).

Thermoelectric Power

On **18 October 2019** two Power Purchase Agreements (PPAs) were signed between ERG Power Generation and ACEA for the supply of power totalling 1.5 TWh during the period 2020-2022 (see PR dated 18/10/2019).

Corporate

On **14 January 2019** ERG finalised the gratuitous assignment of 80 ERG treasury shares in favour of each employee of the Group's Italian companies. The assignment, announced on 20 October 2018 (*see PR of the same date*) concerned a total number of 664 employees and 53,120 shares, held in ERG S.p.A.'s portfolio, with an overall value, including related ancillary costs, of 1.1 million Euro (see PR dated 14/1/2019).

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

On **13 March 2019** the early settlement of 36.6 million Euro was finalised, under the **Vendor Loan** granted to a.p.i. S.p.A. at the time of executing the agreement for the sale of TotalErg S.p.A. (see PR dated 13/3/2019).

On **4 April 2019** ERG completed the placement of a 6 year fixed rate bond for 500,000,000 Euro, issued as part of its 1 billion Euro EMTN (Euro Medium Term Notes) Programme (see PR dated 4/4/2019).

On **20 June 2019** the Fitch ratings agency confirmed for ERG S.p.A. a Long Term Issuer Default Rating (IDR) of BBB- with stable outlook and a senior unsecured rating of BBB- (see PR dated 20/6/2019).

On **2 August 2019** ERG S.p.A.'s Board of Directors appointed Paolo Luigi Merli to the position of General Manager with the title "Corporate General Manager & CFO" (see PR dated 2/8/2019).

Significant events after the year end

Wind Power France

On **24 February 2020** a **100% equity stake** was acquired **in five companies** incorporated in France, owners of three wind farms with a total installed capacity of 38 MW (See PR dated 24/2/2019).

On **5 March 2020** a 100% equity stake was acquired in Laszki Wind Wp. Z.o.o., the holder of authorisations for the construction of a 36 MW wind farm (see PR dated 5/3/2020).

Corporate

On **22 January 2020** ERG S.p.A. was promoted to an "AA" rating, following the "A" rating assigned in 2018, by MSCI ESG Research Ltd. ("MSCI"), one of the leading research firms measuring companies' performance on the grounds of environmental, social and governance (ESG) factors. ERG also ranked 35th place among the world's TOP 50 companies in the Corporate Knights Global 100 Most Sustainable Corporations in the World Index and maintained its CDP-Climate Change "B" rating (see PR dated 22/1/2019).

Business Outlook

Set out below is the foreseeable trend in the main scenario and performance indicators during 2020:

Wind Power: ERG continues to pursue its international Wind power development strategy and the Repowering programme as regards its Italian wind farms. The result outside of Italy will be essentially in line with that recorded in 2019, considering the forecast wind conditions estimated based on slightly less favourable statistics, offset by the contribution of the newly acquired wind farms in France (38 MW), given a favourable price scenario. In Italy EBITDA is expected to be in line with 2019, due to the higher incentive prices, which will compensate the exit from the incentive system at the beginning of the year of another 26 MW, as well as a slight decline in windiness.

Overall EBITDA posted by the Wind Power sector is therefore expected to be basically in line with the previous year.

Solar Power: In 2020, ERG will benefit by certain synergies arising from optimisation of the Energy Management portfolio and from the insourcing of some activities previously carried out by third parties, capitalising on its industrial skills in the operational consolidation of the managed assets.
EBITDA for FY 2020 is expected to show a slight upturn with respect to 2019.

Hydroelectric Power: Regarding this asset, volumes, estimated based on ten-year statistics, are expected to be higher compared to the particularly low volumes in 2019; this anticipated increase in volume will be accompanied by interventions to optimise Energy Management's production on the energy markets. The result will also benefit by the higher incentive price in respect of at least 40% of output .
The hydroelectric power sector is therefore expected to post an increase in EBITDA compared to 2019.

Thermoelectric Power: The result forecast for 2020, compared to 2019, will reflect a less favourable price and margin scenario, and a decline in energy efficiency certificate quantities following the exit from the high yield cogeneration period of one of the two plant modules. These effects will be partly offset by the improvement in operational efficiency also as a result of the scheduled shutdown in the last quarter of 2019, and Energy Management interventions on the spot and ancillary service markets. Overall EBITDA is expected to show a downturn compared to 2019.

Overall EBITDA for FY 2020 is estimated in a range between 500 and 520 million Euro (504 million Euro in 2019) thanks to the anticipated increase in Hydro sector volumes, the higher incentive price as regards both the Wind and Hydro sectors, the contribution from the new wind farms outside of Italy and the operational efficiency and energy management interventions. These positive effects are partly offset, especially as regards the Wind power sector, by the decreasing incentive perimeter in Italy, and by less favourable price and wind forecast scenarios, together with an expected downturn in the profitability of the Thermoelectric power sector. Insofar as concerns the price scenarios, we should mention the potential depressive effect on the values of commodities caused by the effects of the global Covid-19 emergency. In this connection, with regard to 2020 management, it should be noted that a predominant part of RES-E output and the Clean Spark Spreads associated with thermoelectric power productions has been covered by forward sales, in line with the Group's risk hedging policy.
FY 2020 investments are forecast in a range of between 185 and 215 million Euro, with a reduction compared to the amounts for 2019 characterised above all by M&A transactions. Investments in 2020, on the other hand, will concern the development of greenfield investments, with the construction of wind farms in Great Britain (around 120 MW), Poland (38 MW) and France (28 MW), together with the usual fleet maintenance investments.
ERG's cash generation will make it possible to reduce the net debt to within a range of between 1.36 and 1.44 billion (1.48 billion in 2019), in view of the lesser amount of investments scheduled in M&A, the lower financial charges thanks to the full effect of liability management operations following the Green Bond issued during 2019, and including the distribution of an ordinary dividend of 0.75 Euro per share.

Additional information

Directors' Fees

The Ordinary Shareholders' Meeting will be called upon, *inter alia*, to pass resolution with regard to the fee to be allocated to each member of the Board of Directors, valid until the date of the Shareholders' Meeting convened to approve the Annual Financial Statements for the period ending 31 December 2020, as well as the additional fee to be allocated to the Directors, other than Group employees, who do not hold offices within the Board and who are members of ERG's Control and Risk Committee and Nominations and Remuneration Committee, valid until the date of the Shareholders' Meeting convened to approve the Annual Financial Statements for the period ending 31 December 2020, on the basis of proposals formulated in accordance with applicable legislative, regulatory and statutory provisions.

Purchase and sale of treasury shares

The Ordinary Shareholders' Meeting will be called upon, *inter alia*, to resolve on the authorisation of the Board of Directors for the purchase of treasury shares up to a revolving limit of 30,064,000 ordinary shares, corresponding to 20% of ERG's share capital (intending thereby the maximum quantity of treasury shares from time to time held in portfolio), in order to optimise the equity structure with a view to maximising value creation for shareholders, also in relation to the liquidity available and in any case for any and all other purposes permitted by current applicable legislative and regulatory provisions.

The authorisation will be valid for a period of eighteen months with effect from the date of the resolution. The purchase must be conducted through the use of distributable profits and available reserves resulting from the last approved financial statements, in compliance with Article 132 of the Consolidated Finance Act and according to the procedures laid down in Article 144-*bis*, paragraph 1, letter b), of the Issuers' Regulations, at a unitary price, including additional purchase charges, to be no more than 30% lower in minimum and no more than 10% higher in maximum with respect to the reference price recorded by the share during the stock exchange session on the day before each individual transaction.
The Company currently holds 1,450,080 treasury shares, for an amount corresponding to 0.965% of share capital.
The Ordinary Shareholders' Meeting will be also called upon to resolve on the authorisation of the Board of Directors for the sale of treasury shares, in one or more stages, for a period of eighteen months starting from the date when the related resolution is adopted, in accordance with article 2357-*ter* of the Italian Civil Code, at a unitary price no more than 10% lower in minimum with respect to the reference price recorded by the share during the stock exchange session on the day before each individual sale. This is intended to optimise financial leverage and however in all other circumstances where the possibility to dispose of the shares appears, in the opinion of the administrative body, to be in keeping with the interests of the Company and the Shareholders.

Report on the remuneration policy and compensation paid

The Board of Directors has approved the Report on the remuneration policy and compensation paid. The Ordinary Shareholders' Meeting will be called upon, pursuant to Article 123-*ter* of the Consolidated Finance Act, to decide for or against:

- the first section of the Report. The related resolution will be binding.
- the second section of the Report. The related resolution will not be binding.

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

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

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

The results for the fourth quarter and FY2019 will be explained to analysts and investors today at 11 a.m. (CET), during the course of a conference call and simultaneous webcast, which may be viewed by visiting the Company's website (www.erg.eu); the presentation will be available on the said website, in the "Investor Relations/Presentations" section, at the offices of Borsa Italiana S.p.A. and on the eMarket Storage authorised storage mechanism (www.emarketstorage.com) 15 minutes before the conference call.

This press release, issued at 7.45 a.m. (CET) on 11 March 2020, is available to the public on the Company's website (www.erg.eu) in the section "Media/Press Releases", at the offices of Borsa Italiana S.p.A. and on the eMarket Storage authorised storage mechanism (www.emarketstorage.com).

The annual Financial Report, together with the reports of the Board of Statutory Auditors and of the Independent Auditors, the consolidated non-financial Statement and the Directors' Explanatory Report, the proposal and explanatory report of shareholder San Quirico S.p.A., as well as the additional documents prescribed, will be made available to the public within the deadlines and according to the procedures laid down in current regulations at the Company's registered office at Via De Marini 1, Genoa, and on the Company website (www.erg.eu) in the section "Corporate Governance/2020 Shareholders' Meeting", at the offices of Borsa Italiana S.p.A. and on the eMarket Storage authorised storage mechanism (www.emarketstorage.com).

Contacts:

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

Performance highlights

4rd quarter 2019	4rd quarter 2018	(EUR million)		Year 2019	Year 2018
		Key economic data adjusted [1]			
260	261	Revenues		1,022	1,027
124	**109**	**EBITDA**		**504**	**491**
48	**38**	**EBIT**		**205**	**216**
29	15	Net Profit		105	107
29	**15**	**of which profit attributable to owners of the parent**		**104**	**107**
		Key financial data			
3,264	**3,172**	**Net adjusted invested capital [2]**		**3,264**	**3,172**
1,787	1,829	Shareholders' Equity		1,787	1,829
1,476	1,343	Total net financial indebtedness [2]		1,476	1,343
812	1,178	of which non-recourse Project Financing [3]		812	1,178
45%	42%	Financial leverage		45%	42%
48%	**42%**	**EBITDA Margin %**		**49%**	**48%**
		Operating data			
1,929	**1,822**	**Installed capacity at period end - wind farms**	*MW*	**1,929**	**1,822**
1,155	955	Electric power generation from wind farms	*milioni di KWh*	4,000	3,464
480	**480**	**Installed capacity - thermoelectric plants**	*MW*	**480**	**480**
563	506	Electric power generation from thermoelectric plants	*milioni di KWh*	2,504	2,151
527	**527**	**Installed capacity at period end - Hydoelectric plants**	*MW*	**527**	**527**
361	338	Electric power generation from hydroelectric plants	*milioni di KWh*	1,229	1,740
141	**90**	**Installed capacity - solar plants**	*MW*	**141**	**90**
32	20	Electric power generation from solar plants	*milioni di KWh*	226	130
3,930	**3,409**	**Total sales of electric power**	*milioni di KWh*	**15,121**	**13,627**
31	26	Investments [4]	*milioni di Euro*	432	510
754	**737**	**Employees at period end**	*Unità*	**754**	**737**
		Net unit revenues [5]			
114.5	124.4	Wind Italy	*Euro/MWh*	118.1	124.9
91.8	95.9	Wind Germany	*Euro/MWh*	95.9	94.5
90.2	88.4	Wind France	*Euro/MWh*	89.3	87.4
78.2	76.5	Wind Poland	*Euro/MWh*	73.3	63.5
90.4	83.5	Wind Bulgaria	*Euro/MWh*	78.7	74.8
62.5	74.0	Wind Romania	*Euro/MWh*	67.0	58.2
n.a.	n.a.	Wind UK	*Euro/MWh*	n.a.	100.4
301.5	283.9	Solar	*Euro/MWh*	313.9	293.5
94.5	114.1	Hydroelectrict power	*Euro/MWh*	102.1	106.6
40.5	37.4	Thermoelectric power	*Euro/MWh*	39.9	41.6

The table shows adjusted results, to enhance the understanding of the business segments' performance, therefore excluding special items.

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

(2) Adjusted net financial indebtedness and the adjusted net invested capital are represented net of the effects deriving from the application of IFRS 16, therefore excluding the recognition of assets and the discounting of future payments of leasing instalments of approximately EUR 78 million on net financial indebtedness and on net invested capital at 31 December 2019 (EUR 77 million).

(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. They also include M&A investments of EUR 364 million made in 2019 for the acquisition of two photovoltaic plants from Soles Montalto GmbH with a total installed capacity of 51.4 MW (EUR 220 million), for the acquisitions of companies owning wind farms in France and Germany (respectively, EUR 52 million and EUR 84 million), of a pipeline in Germany (EUR 2 million) and of a project for the construction of a wind farm in the United Kingdom (EUR 6 million). In 2018 M&A investments were equal to EUR 449 million in relation to the acquisition of the companies of the ForVei (Solare) Group and for the acquisitions of companies owning wind farms in France, Germany and United Kingdom.

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

Performance by sector

4th quarter 2019	4th quarter 2018	(EUR million)	Year 2019	Year 2018
		Adjusted revenue		
115	109	Wind power	414	389
10	6	Solar	71	38
31	43	Hydroelectric power	119	194
104	102	Thermoelectric power [1]	418	405
10	11	Corporate	37	36
(10)	*(11)*	*Intra-segment revenues*	*(37)*	*(36)*
260	**261**	**Total adjusted revenue**	**1,022**	**1,027**
		Adjusted EBITDA		
87	75	Wind power	301	274
7	4	Solar	63	32
23	28	Hydroelectric power	87	146
11	5	Thermoelectric power [1]	69	53
(4)	(3)	Corporate	(16)	(15)
124	**109**	**Adjusted EBITDA**	**504**	**491**
		Amortisation, depreciation and write-downs		
(42)	(39)	Wind power	(169)	(159)
(11)	(9)	Solar	(41)	(24)
(14)	(15)	Hydroelectric power	(57)	(58)
(7)	(8)	Thermoelectric power [1]	(28)	(31)
(1)	(1)	Corporate	(3)	(3)
(76)	**(71)**	**Amortisation and depreciation adjusted**	**(299)**	**(275)**
		Adjusted EBIT		
44	36	Wind power	132	115
(4)	(5)	Solar	22	8
9	14	Hydroelectric power	30	88
3	(3)	Thermoelectric power [1]	41	22
(5)	(4)	Corporate	(19)	(18)
48	**38**	**Adjusted EBIT**	**205**	**216**
		Investments [2]		
16	17	Wind power	189	146
1	0	Solar	221	345
3	4	Hydroelectric power	6	7
10	4	Thermoelectric power	15	8
1	1	Corporate	2	3
31	**26**	**Total investments**	**432**	**510**

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

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

Adjusted Income Statement

To enhance understandability of the Group's performance, the operating results are shown in this section excluding the impact relative to the application of the IFRS 16 - IFRS 9 standards and of special items.
It should be recalled that this document reflects the impacts of the consolidation, from 1 January 2019, of the companies acquired during the year.
For the definition of indicators, the composition of the financial statements and the reconciliation of the amounts involved, reference is made to that indicated in the section Alternative Performance Indicators below.

4th quarter			Year	
2019	**2018**	*(EUR million)*	**2019**	**2018**
259.7	260.6	Revenue	1,021.6	1,026.7
6.3	5.9	Other revenue	14.5	22.8
265.9	**266.6**	**TOTAL REVENUE**	**1,036.1**	**1,049.5**
(73.1)	(93.8)	Costs for purchase and changes in inventory	(290.8)	(327.2)
(51.6)	(44.5)	Costs for services and other operating costs	(176.6)	(167.3)
(17.5)	(19.0)	Personnel Expense	(65.0)	(64.3)
123.7	**109.3**	**EBITDA**	**503.7**	**490.6**
(75.9)	(71.4)	Amortisation, depreciation and write-downs of fixed assets	(298.8)	(274.8)
47.8	**37.8**	**EBIT**	**204.9**	**215.8**
(13.4)	(16.6)	Net financial income (expenses)	(61.2)	(69.7)
0.0	(0.2)	Net income (loss) from equity investments	0.1	(0.1)
34.5	**21.0**	**Profit before taxes**	**143.8**	**146.1**
(5.7)	(6.2)	Income taxes	(38.9)	(39.0)
28.8	**14.9**	**Profit for the period**	**104.9**	**107.1**
0.3	0.0	Minority interests	(1.2)	(0.1)
29.1	**14.9**	**Group's net profit (loss)**	**103.6**	**107.0**

Adjusted Statement of Financial Position

The reclassified statement of financial position contains the assets and liabilities of the mandatory financial statements, used in the preparation of the annual financial report, highlighting the **uses** of resources in non-current assets and in working capital and the related funding **sources**.
For the definition of the indicators for the main items used in the Reclassified Statement of Financial Position, reference is made to that indicated in the "Alternative Performance Indicators" section below.
The adjusted values at 31 December 2019 do not include the impact deriving from the application of IFRS 16 of increased net financial indebtedness of approximately EUR 78 million with a balancing entry in Net invested capital amounting to approximately EUR 77 million.

Adjusted Statement of Financial Position	**12/31/2019**	**12/31/2018**
(EUR million)		
Non current assets	3,422.2	3,273.6
Net working capital	125.6	179.3
Provisions for employee benefits	(5.4)	(5.8)
Other assets	210.6	291.7
Other liabilities	(489.5)	(567.0)
Net invested capital	**3,263.5**	**3,171.8**
Group Shareholders' Equity	1,775.6	1,828.8
Non-controlling interests	11.5	0.0
Net financial indebtedness	1,476.4	1,343.0
Equity and financial debt	**3,263.5**	**3,171.8**

Adjusted Cash Flow

4th quarter 2019	4th quarter 2018	(EUR million)	Year 2019	Year 2018
123.7	109.3	Adjusted EBITDA	503.7	490.6
9.8	(7.2)	Change in net working capital	49.2	(114.0)
133.5	**102.1**	**Cash Flow from operations**	**552.9**	**376.6**
(30.6)	(25.9)	Investments in property, plant and equipment and intangible assets	(67.9)	(60.2)
-	-	Company acquisitions (business combinations)	(364.0)	(449.4)
-	-	Capital expenditure in financial non-current assets	-	-
-	-	Sale of equity investment in TotalErg	-	179.5
-	-	Sale of Brockaghboy net assets	-	105.7
1.2	(0.4)	Divestments and other changes	2.1	(0.2)
(29.4)	**(26.3)**	**Cash Flow from investments/divestments**	**(429.8)**	**(224.5)**
(13.4)	(16.6)	Financial income (expense)	(61.2)	(69.7)
-	-	Closure fair value ERG Wind loan	(43.5)	-
0.0	(0.2)	Net gains (losses) on equity investment	0.1	(0.1)
(13.4)	**(16.8)**	**Cash Flow from financial management**	**(104.6)**	**(69.8)**
(15.5)	**(12.4)**	**Cash Flow from tax management**	**(41.0)**	**(20.5)**
(0.0)	-	Distribution of dividends	(112.4)	(171.1)
17.4	0.1	Other changes in equity	1.2	1.4
17.4	**0.1**	**Cash Flow from Shareholders'equity**	**(111.1)**	**(169.7)**
0.2	**(0.3)**	**Change in the consolidation scope**	**0.2**	**(2.4)**
1,569.1	**1,389.4**	**Opening net financial indebtedness**	**1,343.0**	**1,232.7**
(92.8)	*(46.4)*	*Change in the period*	*133.4*	*110.3*
1,476.4	**1,343.0**	**Closing net financial indebtedness**	**1,476.4**	**1,343.0**

The **Cash Flow from operations** of **2019** is positive by EUR 553 million, up by EUR 176 million compared to the corresponding period of 2018, mainly due to changes in working capital and to the adjustment of the timelines for the collection of incentives in the Wind and Hydroelectric sectors, which led to the collection of the incentives relating to the first ten months of 2019. In addition, the cash flow of 2018 was affected by the payment of a debt position tied to OIL purchases in previous years.

The **Cash flow from investments** of **2019** is tied mainly to the M&A activity and in particular to the acquisition of two photovoltaic facilities with total installed capacity of 51.4 MW from Soles Montalto GmbH (EUR 220 million), of operational wind farms in France (EUR 52 million) and Germany (EUR 84 million), of a project for the construction of a wind farm in the United Kingdom (EUR 6 million) and of a pipeline in Germany (EUR 2 million), and to the investments in property, plant and equipment and intangible assets (EUR 68 million).

Cash flow from financial management refers to the interest accrued during the year. Financial management also includes the effect of the closure of the fair value of the project financing of ERG Wind Investment Ltd.

The **Cash flow from Equity** refers to the changes of the cash flow hedge reserve tied to derivative financial instruments, as well as the dividends distributed.

The **adjusted net financial indebtedness** totalled **EUR 1,476 million**, up by EUR 133 million compared to 31 December 2018 (EUR 1,343 million). The change mainly reflects the investments in the year (EUR 364 million) as a result of the additional growth in the solar sector in Italy and in the wind sector in France and Germany, dividend distribution (EUR 112 million), the extraordinary expenses incurred in the course of the significant liability management transactions (EUR 43 million), the payment of taxes (EUR 41 million), partly offset by the positive cash flow of the year (EUR 492 million), also as a result of the reduction of the timelines for collection on incentives in Italy.

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 IAS/IFRS adopted by the Group.
These alternative indicators are used by the Group in order to facilitate the communication of information on its business performance as well as its net financial indebtedness.
Finally, in order to enhance understanding of the business segments' performance, the operating results are shown with the exclusion of significant special income components of an extraordinary nature (special items): these results are indicated with the term "Adjusted results".
Since the composition of these indicators is not regulated by the applicable accounting 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 of an extraordinary nature (special items);

- **EBITDA** is an indicator of operating performance calculated by adding "Amortisation, depreciation and impairment losses" 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 of an extraordinary nature (special items) and with the adjustment of the impact tied to the IFRS 16 application;

- **Adjusted EBIT** is the net operating profit, explicitly indicated as a subtotal in the Financial Statements, with the exclusion of significant special income components of an extraordinary nature (special items) and with the adjustment of the impact tied to the IFRS 16 application;

- **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 income components of an extraordinary nature (special items), and with the adjustment of the impact tied to the IFRS 16 application, 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 determined by the algebraic sum of Non-current Assets, Net Working Capital, Liabilities related to Post-employment Benefits, Other Assets and Other Liabilities;

- **Adjusted net invested capital** is Net invested capital, as defined above, with the inclusion of impact relative to the application of IFRS 16 mainly linked to the increase in right of use assets;

- **Net financial indebtedness** is an indicator of the financial structure and is determined in accordance with CONSOB communication 15519/2006, also including the portion of non-current assets relative to derivative financial instruments. Until 31 December 2018 the indicator also included the non-current financial loan to api S.p.A. (EUR 36 million) as deferred component of the TotalErg sale price;

- **Adjusted net financial indebtedness** is the net financial indebtedness, as defined above, net of the liability linked to the discounting of future payments of leasing instalments, following the application of IFRS 16.

- **Financial leverage** is calculated by comparing the adjusted net financial indebtedness (including Project Financing) to the adjusted net invested capital.

- **Special items** include significant special income components of an extraordinary nature. These include:
    - income and expenses connected to events whose occurrence is non-recurring, i.e. those transactions or events that do not frequently re-occur over the normal course of business;
    - income and expenses related to events that are not typical of normal business activities, such as restructuring and environmental costs;
    - capital gains and losses linked to the disposal of assets;
    - significant write-downs recorded on assets following impairment tests;
    - income and the associated reversals recognised in application of IFRS 9, in relation to the restructuring of loans in place.

Reconciliation with adjusted operating results

4th quarter 2019	4th quarter 2018	EBITDA	Year 2019	Year 2018
123.9	**101.5**	**EBITDA from continuing operations**	**495.9**	**479.6**
-	-	*Contribution of discontinued operations (Brockaghboy)* (1)	-	3.3
123.9	**101.5**	**EBITDA**	**495.9**	**482.9**
		Special items exclusion and impact of IFRS 16		
		Corporate		
0.9	2.7	*- Reversal of ancillary charges on non-recurring operations* (2)	9.3	2.7
(0.3)	-	*- Adjustment for impact of IFRS 16* (3)	(0.9)	-
1.2	-	*- Reversal of HR and corporate reorganisation costs* (4)	7.2	-
(8.2)	-	*- Reversal for release of provision for disposed businesses* (5)	(8.2)	-
-	5.1	*- Reversal of charges ERG80*	-	5.1
		Thermoelectric		
-	-	*- Reversal of ancillary charges on non-recurring operations* (2)	-	-
(0.3)	-	*- Adjustment for impact of IFRS 16* (3)	(1.0)	-
		Hydroelectric		
(0.0)	-	*- Adjustment for impact of IFRS 16* (3)	(0.2)	-
		Solar		
(0.1)	-	*- Adjustment for impact of IFRS 16* (3)	(0.4)	-
		Wind		
(1.9)	-	*- Adjustment for impact of IFRS 16* (3)	(6.5)	-
8.5	-	*- Reversal of allocations to tax-related provisions* (5)	8.5	-
123.7	**109.3**	**Adjusted EBITDA**	**503.7**	**490.6**

4th quarter 2019	4th quarter 2018	Amortisation, depreciation and impairment losses	Year 2019	Year 2018
(78.0)	**(71.4)**	**Amortisation and depreciation expense for continuing operations**	**(306.0)**	**(274.1)**
-	-	*Contribution of discontinued operations (Brockaghboy)* (1)	-	(0.7)
(78.0)	**(71.4)**	**Amortisation and depreciation and impairment losses**	**(306.0)**	**(274.8)**
		Special items exclusion		
1.7	-	*- Adjustment for impact of IFRS 16* (3)	6.7	-
0.5	-	*- Reversal of amortisation and depreciation on disposed Businesses* (5)	0.5	-
(75.9)	**(71.4)**	**Adjusted depreciation and amortisation**	**(298.8)**	**(274.8)**

4th quarter 2019	4th quarter 2018	Profit attributable to owners of the parent	Year 2019	Year 2018
25.1	**8.3**	**Profit attributable to owners of the parent**	**31.6**	**132.6**
		Special items exclusion and impact of IFRS 16		
0.3	-	*Adjustment for impact of IFRS 16* (3)	1.0	-
0.9	-	*Exclusion of impact of HR and corporate reorganisation costs* (4)	5.4	-
-	-	*Exclusion of ancillary charges on Corporate / Germany loan prepayments* (6)	2.0	-
-	-	*Exclusion of ancillary charges on ERG Wind loan prepayments* (6)	49.4	-
-	-	*Exclusion of ancillary charges on ERG Power loan prepayments* (6)	1.5	-
0.9	2.2	*Exclusion of ancillary charges on non-recurring operations* (2)	8.7	2.2
-	4.4	*Exclusion of liabilities/charges ERG 80*	-	4.4
-	-	*Exclusion of capital gain from sale of UK equity investment*	-	(26.4)
-	-	*Exclusion of exchange differences on UK sale*	-	0.2
(5.1)	-	*Exclusion of expenses related to disposed Businesses* (5)	(5.1)	-
6.4	-	*Exclusion of expenses related to allocations to tax-related provisions* (5)	6.4	-
0.5	(0.0)	*Exclusion of the net gain on refinancing (IFRS 9)* (7)	2.7	(6.0)
29.1	**14.9**	**Adjusted profit attributable to the owners of the parent**	**103.6**	**107.0**

1. The accounting results of Brockaghboy, the subsidiary sold on 7 March 2018, are subject to the requirements of IFRS 5.
   In this document to facilitate understanding of the figures, it was deemed necessary to show and comment the results achieved in the period 1 January 2018 to 7 March 2018 by the assets sold under ordinary operations, in line with the approach already adopted in the Directors' report on the 2018 Financial Statements.

2. Ancillary charges pertaining to other non-recurring transactions mainly related to the acquisitions that took place in 2019 in relation to two photovoltaic plants in Italy and operational wind farms in France and Germany.

3. Adjustment for impact of IFRS 16. Reference is made to the comments made in the previous article.

4. Expenses related to corporate reorganisation of the Group, in particular to the simplification and rationalisation of the organisational-corporate structure of the Group in Italy and abroad.

5. Allocation that took place in the period, related to the reappraisal of the tax-related risks on the wind business and partial release on the Provision for Businesses disposed of by the Group.

6. Financial expenses correlated to the early closure of a Corporate loan and project financing as part of Liability Management activities concurrently with the launch of the first Green Bond. Of particular note are the expenses recognised as a consequence of the closure of the ERG Wind Investment project financing and tied to the reversal (EUR 43 million[7]) of the positive adjustment, recognised upon first consolidation, of the fair value of the debt and to the prepayment of the related IRS instrument (EUR 23 million[7], net of the reversal of the first consolidation reserve)

7. The Group renegotiated a number of loans during the year. IFRS 9 does not allow for the deferment of the positive economic effects of the renegotiation of loans on the residual life of the liability: this resulted in a net gain of approximately EUR 4 million being accounted for in 2019. For the purposes of clearer disclosure of the cost of net financial indebtedness, it was considered appropriate to show in the adjusted income statement financial expense related to the debt service payment, deferring the recognition of benefits of the renegotiation over the remaining term of the liability and not recognising them all in one immediate entry at the time of the amendment. The adjustment commented herein relates primarily to the reversal of the aforementioned benefit net of the effects linked to the reversal of similar income relating to re-financing operations of previous years.

Below is the reconciliation between the financial statements and the adjusted statements:

Income Statement YEAR 2019

(EUR million)	Values in Consolidated Financial Statement	*Adjustment for IFRS 16*	*Adjustment for IFRS 9*	*Reversal of special items*	Consolidated Financial Statement adjusted
Revenue	1,021.6	-	-	-	1,021.6
Other revenue	22.8	-	-	*(8.2)*	14.5
TOTAL REVENUE	**1,044.4**	**-**	**-**	***(8.2)***	**1,036.1**
Costs for purchase and change in inventories	(290.8)	-	-	-	(290.8)
Costs for services and other operating costs	(190.5)	*(9.0)*	-	*22.9*	(176.6)
Cost of labour	(67.1)	-	-	*2.1*	(65.0)
EBITDA	**495.9**	***(9.0)***	**-**	***16.8***	**503.7**
Amortisation, depreciation and write-downs of fixed assets	(306.0)	*6.7*	-	*0.5*	(298.8)
EBIT	**189.9**	***(2.3)***	**-**	***17.2***	**204.9**
Net financial income (expenses)	(137.1)	*3.7*	*3.5*	*68.7*	(61.2)
Net income (loss) from equity investments	(0.5)	-	-	*0.7*	0.1
Profit before taxes	**52.3**	***1.4***	***3.5***	***86.6***	**143.8**
Income taxes	(19.5)	*(0.4)*	*(0.8)*	*(18.2)*	(38.9)
Net result from continued operations	**32.8**	***1.0***	***2.7***	***68.4***	**104.9**
Net result from asset sold	-	-	-	-	-
Profit for the period before minorities	**32.8**	***1.0***	***2.7***	***68.4***	**104.9**
Minority interests	(1.2)	-	-	-	(1.2)
Group's net profit (loss)	**31.6**	***1.0***	***2.7***	***68.4***	**103.6**

[7] Before the tax effect

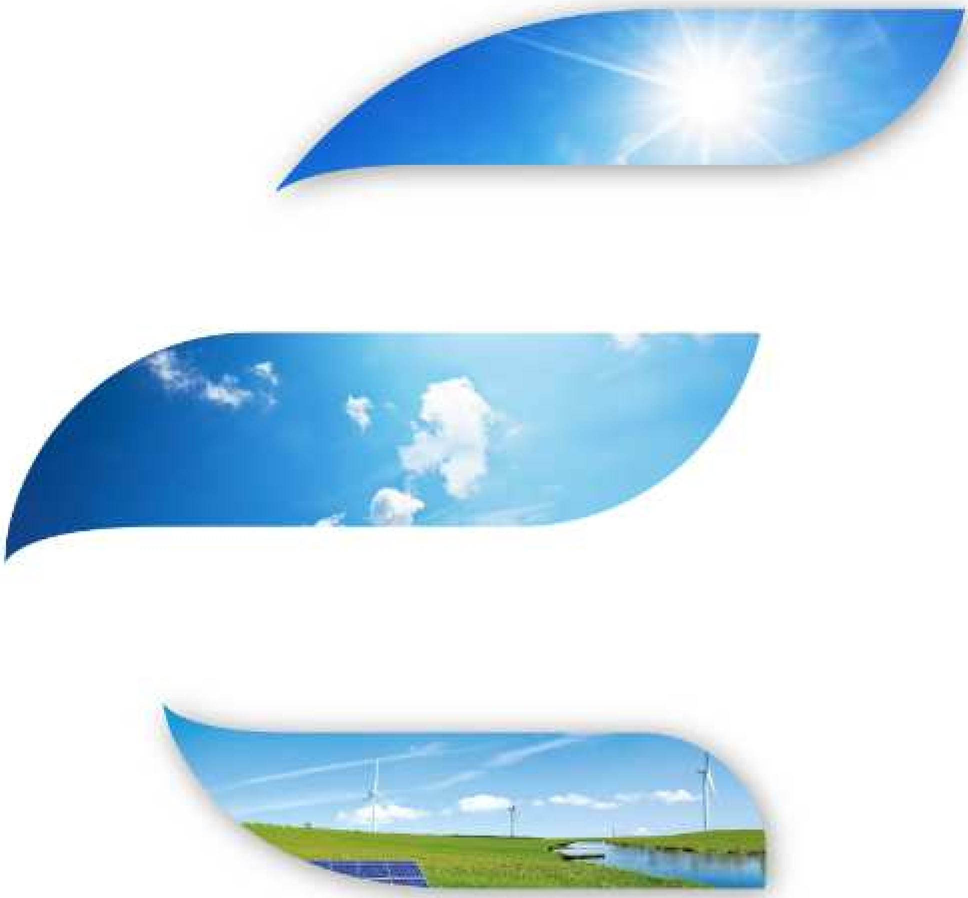
Income Statement YEAR 2018

(EUR million)	Values in Consolidated Financial Statement	*Reversal of Broackaghboy IFRS 5 reclassification*	*Reversal of special items*	Consolidated Financial Statement adjusted
Revenue	1,023.7	*2.9*	-	1,026.7
Other revenue	21.9	*0.9*	-	22.8
TOTAL REVENUE	**1,045.6**	***3.8***	**-**	**1,049.5**
Costs for purchase and change in inventories	(327.2)	*(0.0)*	-	(327.2)
Costs for services and other operating costs	(172.0)	*(0.6)*	*5.3*	(167.3)
Cost of labour	(66.8)	-	*2.5*	(64.3)
EBITDA	**479.6**	***3.3***	***7.8***	**490.6**
Amortisation, depreciation and write-downs of fixed assets	(274.1)	*(0.7)*	-	(274.8)
EBIT	**205.5**	***2.6***	***7.8***	**215.8**
Net financial income (expenses)	(61.4)	*(0.6)*	*(7.7)*	(69.7)
Net income (loss) from equity investments	(0.1)	*26.7*	*(26.7)*	(0.1)
Profit before taxes	**144.0**	***28.7***	***(26.6)***	**146.1**
Income taxes	(39.7)	*(0.2)*	*1.0*	(39.0)
Net result from continued operations	**104.3**	***28.4***	***(25.6)***	**107.1**
Net result from asset sold	28.4	*(28.4)*	-	-
Profit for the period before minorities	**132.8**	**-**	***(25.6)***	**107.1**
Minority interests	(0.1)	-	-	(0.1)
Group's net profit (loss)	**132.6**	**-**	***(25.6)***	**107.0**

Reclassified statement of financial position at 31 December 2019

(EUR million)	Values in Consolidated Financial Statement	*Adjustment for IFRS 16*	Consolidated Financial Statement adjusted
Intangible of non-current assets	1,110.7	-	1,110.7
Property, plant and equipment	2,336.3	*(78.5)*	2,257.9
Equity investments and other non current assets	53.6	-	53.6
Non current assets	**3,500.6**	***(78.5)***	**3,422.2**
Inventories	22.3	-	22.3
Trade receivables	193.5	-	193.5
Trade payables	(87.8)	-	(87.8)
Excise duties payables to tax authorities	(2.3)	-	(2.3)
Net working capital	**125.6**	**-**	**125.6**
Provisions for employee benefits	(5.4)	-	(5.4)
Other assets	323.9	*1.9*	325.9
Other liabilities	(604.8)	-	(604.8)
Net invested capital	**3,340.1**	***(76.5)***	**3,263.5**
Equity attributable to the owners of the parent	1,774.6	*1.0*	1,775.6
Non controlling interests	11.5	-	11.5
Medium-long term financial indebtedness	2,100.9	*(70.1)*	2,030.79
Short term net financial indebtedness	(547.0)	*(7.4)*	(554.39)
Equity and financial debt	**3,340.1**	***(76.5)***	**3,263.5**

Annex to the press release of 11 March 2020



Management Report as at 31 december 2019

Introduction

This document is an annex supporting the press release of 11 March 2020 to provide further details and to comment the 2019 results of the ERG Group.
The comments provided are an excerpt from the Report on Operations which, together with the Notes to the Financial Statements, will be published within the times prescribed by current regulations.

Disclosure pursuant to Articles 70 and 71 of the Issuers' Regulations
The Parent Company 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.

Operating segments
Operating results are presented and commented on with reference to the various generation technologies, in line with the Group's internal performance measurement methods.
The results by business segment also reflect the energy sales on markets by Group Energy Management, in addition to the application of effective hedges of the generation margin. The above mentioned hedges include, inter alia*, the use of instruments by the Energy Management department to hedge the price risk. In order to give a clearer representation of the businesses in terms of technology, therefore the wind and hydroelectric power results include the hedges entered into in relation to renewable sources ("RES") and the thermoelectric power results include the hedges on the "spark spread".*

Alternative Performance Indicators (APIs) and adjusted results
Some of the APIs used in this document are different from the financial indicators expressly provided for by the IAS/IFRS adopted by the Group.
These alternative indicators are used by the Group in order to facilitate the communication of information on its business performance as well as its net financial indebtedness.
Finally, in order to enhance understanding of the business segments' performance, the operating results are also shown with the exclusion of significant special income components of an extraordinary nature (special items): these results are indicated with the term "***Adjusted results***"*.*
"***Reported results***" *are the results corresponding to the values indicated in the Notes to the consolidated financial statements, which include significant special income components of an extraordinary nature (special items).*
A definition of the indicators and the reconciliation of the amounts involved is provided in the specific "Alternative Performance Indicators" section and the comments in the following IFRS 16 paragraph.

IFRS 16
IFRS 16 - Leases has been applied from 1 January 2019.
The Group, as lessee, has recognised a new liability for leases and higher right of use assets amounting to approximately EUR 63 million at 1 January 2019 related mainly to the Wind business and to the relative use of land, warehouses, buildings, equipment, substations and machine inventory.
The application of the new standard has changed and the representation in the income statement of costs for operating leases: these costs are now recognised as amortisation of the right of use and as financial charges correlated to the liability linked to the discounting of future payments of leasing instalments. Previously, the Group recognised costs for operating leases on a straight-line basis over the lease term, essentially in line with the financial occurrence of relative rentals payments.
The application of the IFRS 16 standard has therefore involved:

- *the improvement in gross operating profit (EBITDA) in respect of the leasing instalments that fall within the scope of IFRS 16, of approximately EUR 9 million in 2019;*
- *the increase (approximately EUR 78 million at 31 December 2019) of the net financial indebtedness and of the net invested capital (approximately EUR 77 million) in relation to the application of the asset method indicated by the new standard;*
- *greater depreciation and amortisation expense (EUR 7 million) and greater financial expenses (EUR 4 million) linked to the application of the above-mentioned method.*

At the time of the first application, ERG availed itself of the option to use the modified retroactive method, therefore without redetermination of the balances of the comparative years.
In view of the foregoing submissions, and given the typical nature of the item, in order to best represent the business profitability, it has been deemed opportune to recognise, in the ***Adjusted Income Statement****, leasing costs within the Adjusted EBITDA, in continuity with the representation of the previous years and in accordance with the financial expression (periodic instalment) of the same.*
In accordance with it, ***the adjusted net financial indebtedness*** *and the* ***adjusted net invested capital*** *are represented net of the liability linked to the discounting of future payments of leasing instalments.*
For the reconciliation of the above-mentioned amounts, reference is made to the "Alternative Performance Indicators" section.

Corporate bodies

BOARD OF DIRECTORS[8]

CHAIRMAN
Edoardo Garrone (executive)

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

CHIEF EXECUTIVE OFFICER
Luca Bettonte

DIRECTORS
Massimo Belcredi (independent[10])
Mara Anna Rita Caverni (independent[11])
Barbara Cominelli (independent[11])
Marco Costaguta (non-executive)
Paolo Francesco Lanzoni (non-executive[12])
Silvia Merlo (indipendent[11])
Elisabetta Oliveri (independent[11])
Mario Paterlini (independent[11])

BOARD OF STATUTORY AUDITORS[13]

CHAIRMAN
Elena Spagnol
STANDING AUDITORS
Lelio Fornabaio
Fabrizio Cavalli

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

Paolo Luigi Merli

INDEPENDENT AUDITORS

KPMG S.p.A.[14]

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[8] Board of Directors appointed on 23 April 2018.
[9] Director in charge of the Internal Control and Risk Management System.
[10] With reference to the provisions of Article 148, paragraph 3, of the Italian Consolidated Finance Act.
[11] With reference to the provisions of Article 148, paragraph 3, of the Italian Consolidated Finance Act and the matters contained in the current Corporate Governance Code recommended by Borsa Italiana S.p.A.
[12] Upon his appointment as (non-executive) Director of the parent company San Quirico S.p.A., while the Board of Directors of ERG S.p.A., at its meeting of 16 July 2019, confirmed his autonomy of judgement, deemed it preferable to qualify him as a non-independent director in accordance with Article 148, paragraph 3 of the Consolidated Finance Act.
[13] Board of Statutory Auditors appointed on 17 April 2019
[14] Appointed on 23 April 2018 for the period 2018 – 2026

Business description

The ERG Group is a major independent operator in the production of electricity from renewable sources such as wind, solar, hydroelectric and high-efficiency, low environmental impact cogenerative thermoelectric power plants.

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

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

ERG Power Generation S.p.A., with generating facilities comprising over 3,000 MW of installed capacity, also operates, directly or through its subsidiaries, in the following Electric Power generation sectors:

Wind

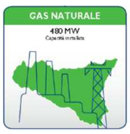
ERG is active in the generation of electricity from wind sources, with 1,929 MW of installed power at 31 December 2019. ERG is the leading wind power operator in Italy and one of the top ten in Europe.
The wind farms are mainly concentrated in Italy (1,093 MW), but with a significant and growing presence also abroad (836 MW operational), mainly in France (359 MW), Germany (272 MW), Poland (82 MW), Romania (70 MW) and Bulgaria (54 MW).

Solar

ERG is active in the generation of electricity from solar sources, with an installed capacity of 141 MW, an increase of 51.4 MW following the acquisition in January 2019 of two photovoltaic plants in Lazio, which have been added to the 31 photovoltaic plants acquired in 2018, which became operative between 2010 and 2011 and are located in 8 regions between the North and the South of Italy.

Hydroelectric

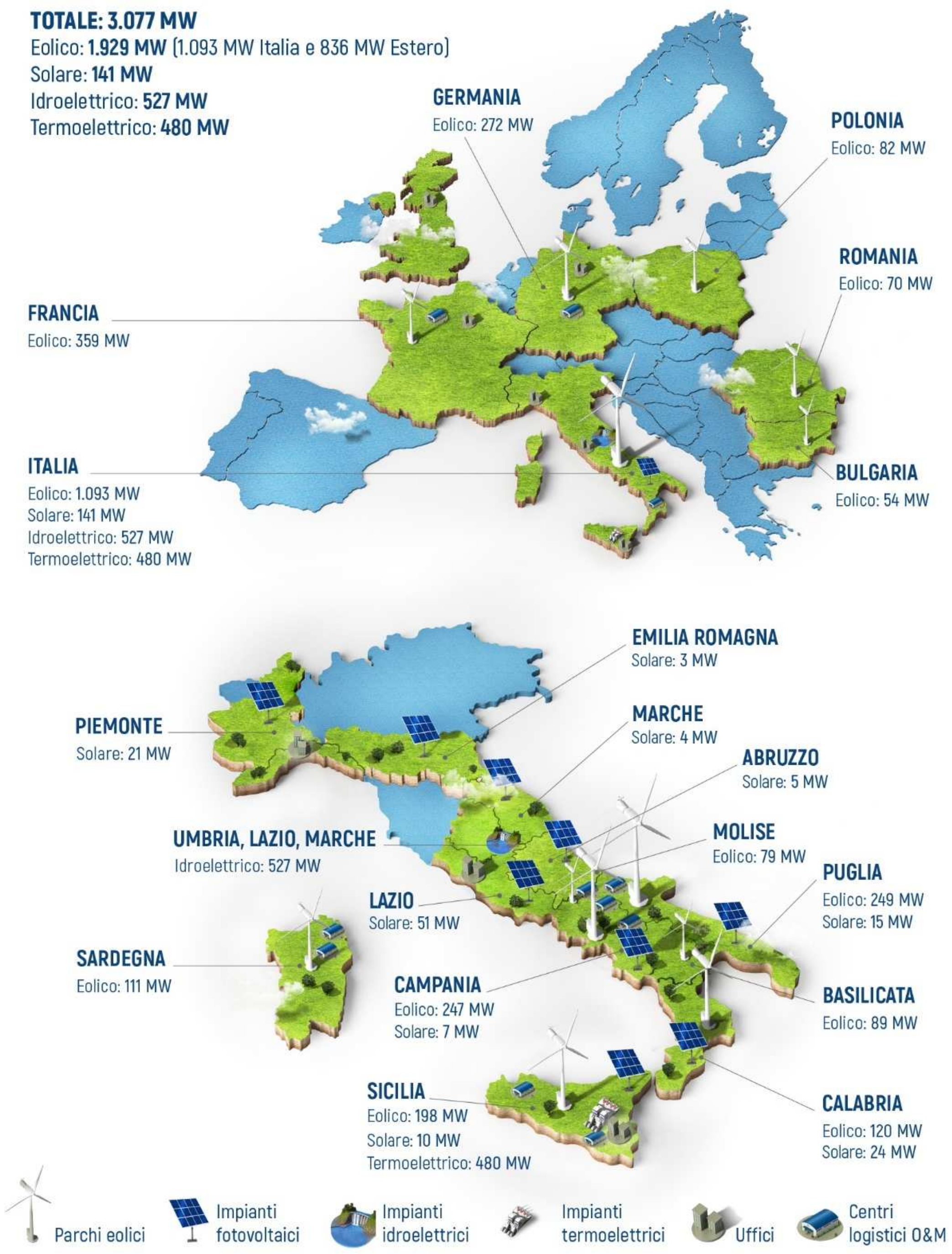
ERG is active in the generation of electricity from hydroelectric sources through an integrated portfolio of assets consisting of 19 plants, 7 dams, 3 reservoirs and one pumping station, located in Umbria, Marche and Lazio, linked by a network of rivers and canals of over 150 km with a capacity of 527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



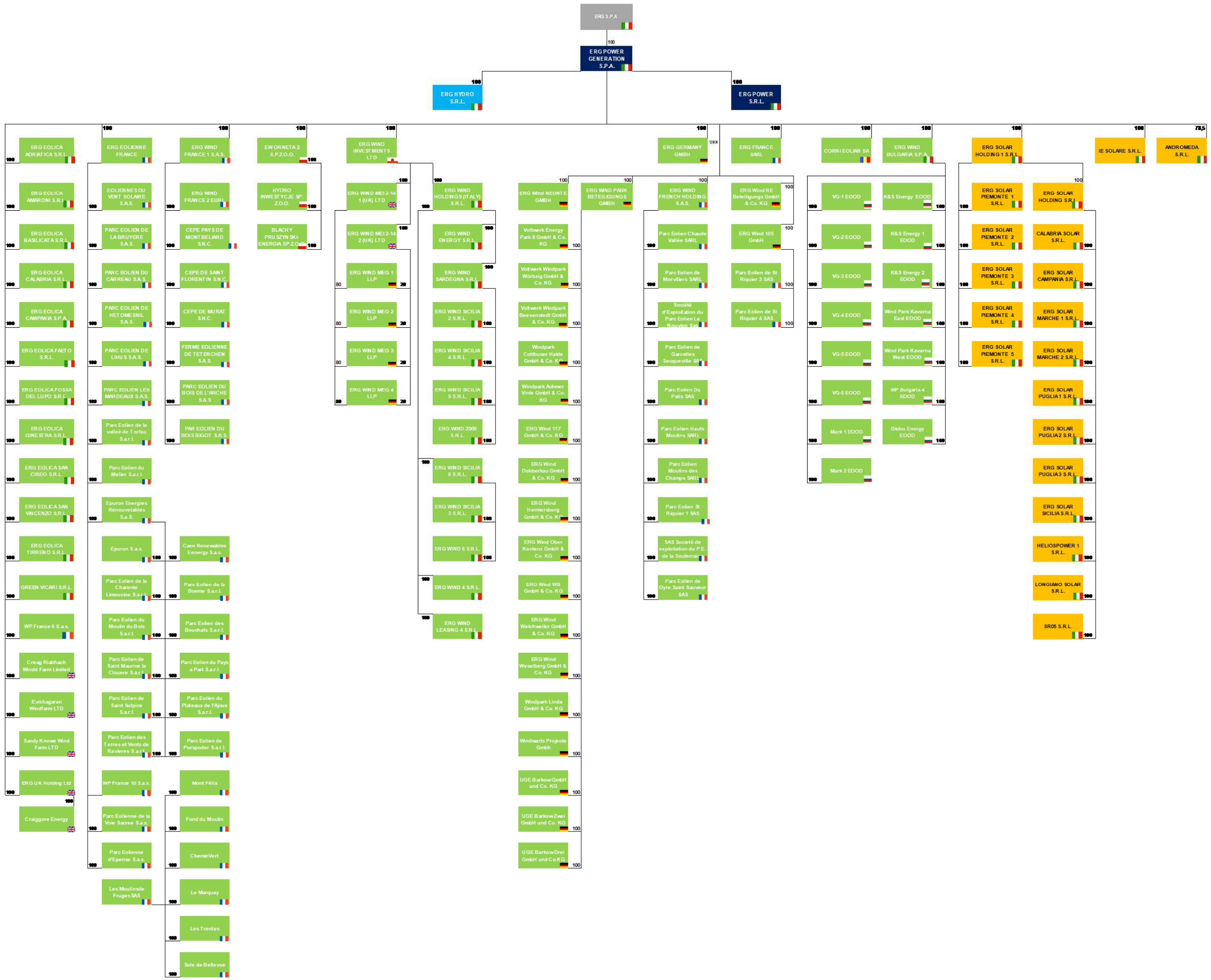
Thermoelectric

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, low environmental impact cogeneration plant (HEC), which uses combined cycle technology fuelled with natural gas. It entered commercially into operation in April 2010 along with other ancillary plants for the production of steam and, to a lesser extent, of other utilities.

Geographical segments at 31 December 2019



Consolidation scope at 31 December 2019



Organisational model

The Group's organisational structure is characterised by the definition of two macro-roles:

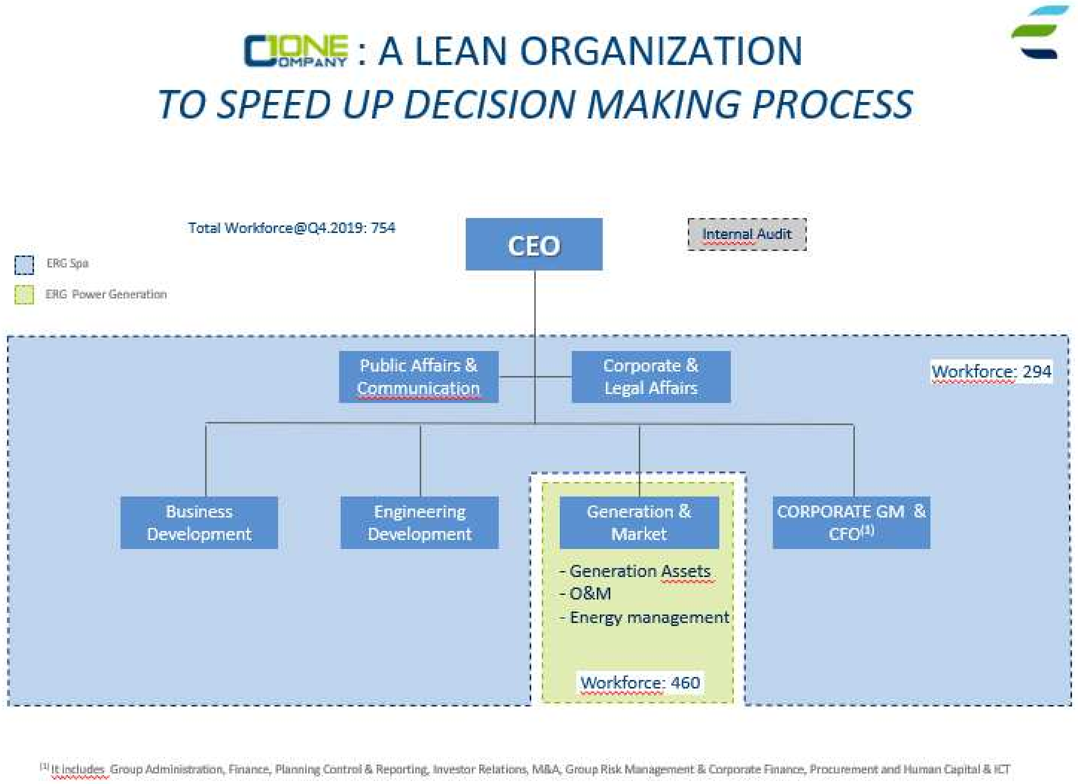
- ERG S.p.A – Corporate – which provides strategic guidance, is directly responsible for business development processes and ensures the management of all business support processes. Following the organisational changes that took place in 2019, the company has been organised into the following areas:

- Business Development
- Engineering Development
- Corporate General Manager & CFO;
- Public Affairs & Communication
- Corporate & Legal Affairs

It should be stressed that Corporate General Manager & CFO, established on 2 August 2019, includes the areas of Group Administration, Planning, Control & Reporting, Finance, Risk Management & Corporate Finance, M&A, Investor Relations, Procurement and Human Capital & ICT with the goal of placing under a single General Management Department the activities pertaining to the main services supporting the Business.

- 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 and the Key Accounts;
- a centre of process engineering technological excellence relative to the different 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.

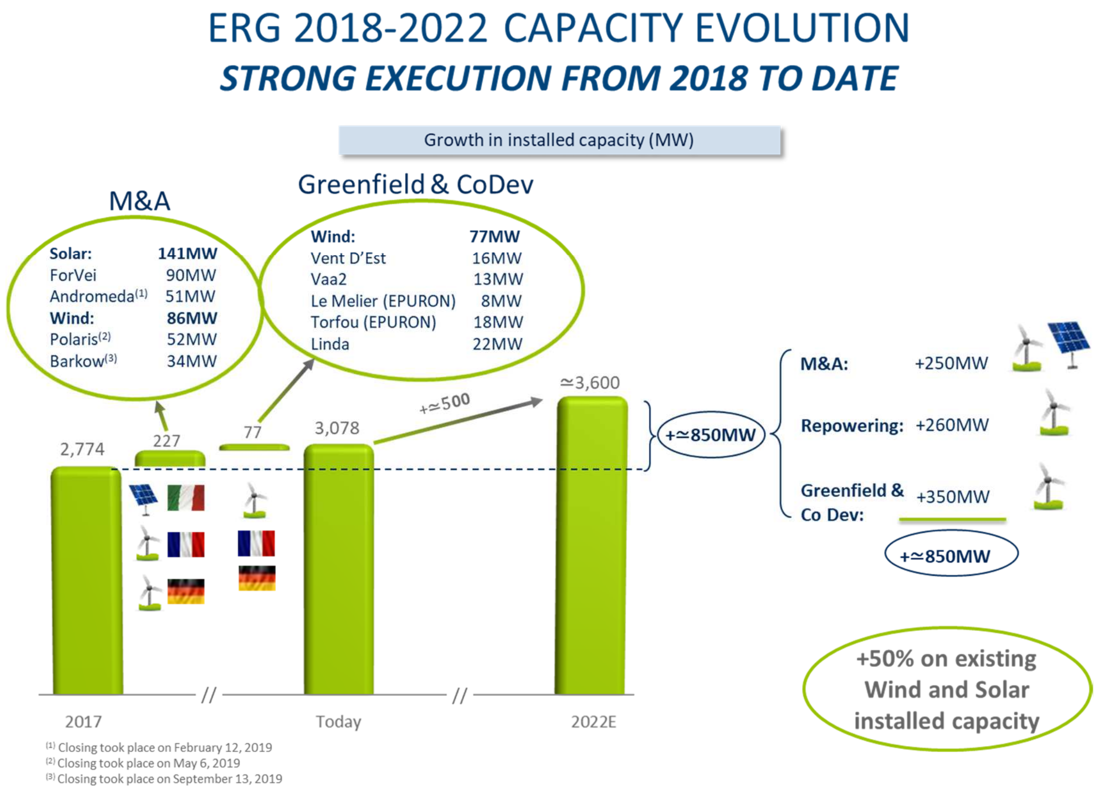


Strategy

ERG has radically changed its business portfolio, anticipating long-term energy scenarios, reaching a position of leadership in the renewable energy sector, in the Italian as well as in the European market.
After the completion of ERG's industrial transformation, started 10 years ago, the Company became a primary independent producer of electricity from renewable sources in Europe. The Group has reached an installed capacity of over 3,000 MW with an asset portfolio that is diversified both technologically and geographically. ERG is the leading wind power operator in Italy and among the main ones in Europe and it has chosen to adopt a business model oriented to sustainable development and to decarbonisation targets, consistent with the transition process of the energy system that is ongoing throughout the world.
In recent years, there has been a radical and profound change in Europe in the industry of electricity generation from renewable sources: while on one hand Governments have been increasingly pushing towards decarbonisation in favour of renewable sources, on the other hand there has been a radical change in the competitive scenario through the progressive introduction of competitive auctions for the award of new renewable capacity and the consequent abandonment of incentivising systems. Hence, renewables have changed from being a business with strong infrastructural connotations to a business with decidedly industrial characteristics.
Within this changed competitive environment, ERG's strategy is to continue to grow in renewable energies, now leveraging its industrial know-how, its territorial presence, the quality of its assets, operating efficiency and the flexibility of the integrated Energy Management portfolio.
The goal in the 2018-2022 time interval is to increase installed capacity by 850MW through three channels:

1) **Greenfield and co-Development:** ERG intends to continue with its growth strategy through the organic development of its own pipeline of projects or agreements for co-development in France, Germany and the United Kingdom.
2) **Repowering and Reblading in Italy**: in consideration of the technological evolution of the wind power sector, ERG has the goal of carry out repowering and reblading on wind farms provided with obsolete technology, with turbines of less than 1 MW, with incentives already expired or expiring, but at the same time located in the windiest sites, therefore with very high expected profitability even in the absence of incentives.
3) **M&A:** ERG intends to continue to have an opportunistic approach in order to exploit growth opportunities in renewable sources in the countries of interest for it, leveraging the experience acquired along its transformation path and the synergies deriving from consolidation with its own portfolio.

In 2019 ERG took several steps forwards in the growth outlined by the Business Plan, having added 137 MW both originating from M&A in solar power (with particular reference to the acquisition of Andromeda for 51 MW) and in wind power (acquisition of Polaris, 52 MW in France to the more recent acquisition of Barkow, 34 MW in Germany), and having advanced greenfield development (opening construction sites in the UK and obtaining authorisations in France for 37 MW) and the repowering project with the submission of the authorisation requests for a number of MW that may even exceed those included in the Plan.



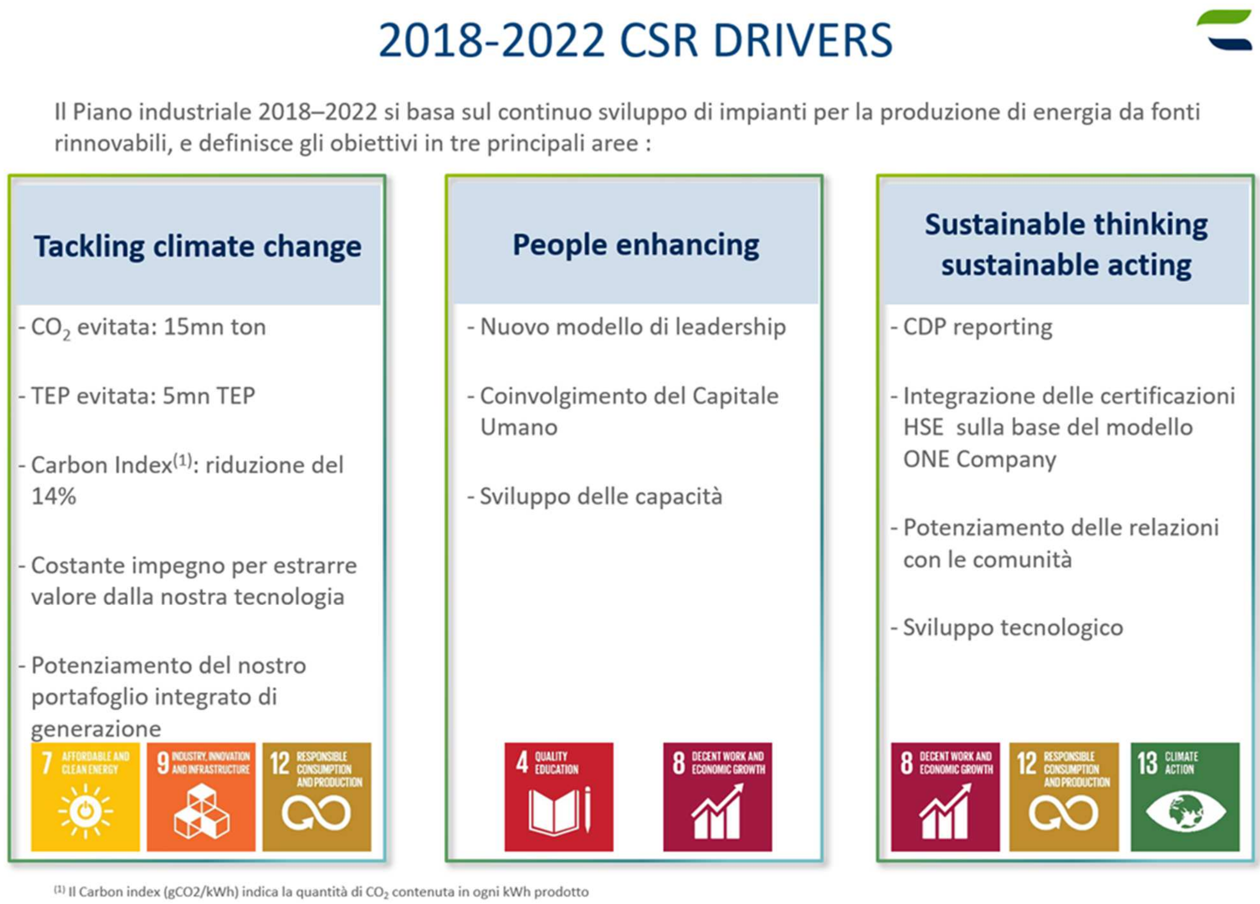
ERG's strategy and Sustainability commitments

ERG, in accordance with the 2018-2022 Business Plan, approved the Sustainability targets for the same period in line with UN SDGs and consistent with ERG's strategy of developing renewables and combating climate changes.
ERG's commitments are focused on 3 main threads:

(1) **the development of generation of electricity from renewable sources**, which will represents our commitment to combat climate change.

(2) **care for the environment, working conditions and welfare;**

(3) **implementation, at Group level, of the new Anticorruption Policy and of the new supplier selection procedures**.



For further information on the objectives and results achieved in 2019, reference is made to the 2019 Non-Financial Statement

Change in business scope in 2019

- **Wind - UK**
  On 2 May 2019 ERG, through its subsidiary ERG UK Holding Ltd., completed the acquisition from RES, an international company in the renewable energies sector, of a 100% equity interest in **Craiggore Energy Ltd**, a company incorporated under Northern Irish law, holder of authorisations for the construction of a wind farm in Northern Ireland, in the county of Londonderry.
  The wind farm will consist of 10 turbines for an approved capacity of 25 MW and estimated energy production – once fully operational – of approximately 87 GWh per year, equal to over 3,500 full-load hours and approximately 43 Kt of avoided CO_2 emissions, as well as to the estimated energy requirement of approximately 21,500 households.
  During the fourth quarter of 2019, activities preliminary to construction were carried out, with construction itself expected in the first quarter of 2020 and commissioning, after finalising the connection to the national grid, by June 2021. The project will participate in the Integrated Single Electricity Market (I-SEM).
  The total estimated investment required to build the wind farm is approximately GBP 37 million (around EUR 41 million), already including the purchase price.

- **Wind - France**
  On 6 May 2019, ERG, through its subsidiary ERG Eolienne France SAS, completed the acquisition from Profond Finanzgesellschaft AG, based in Zurich, of 100% of "Les Moulins de Fruges SAS", a French company owning **six wind farms** with total installed capacity of 52 MW located in the Hauts-de-France region in Northern France.
  The parks, which started operating between 2007 and 2009, with a EBITDA for 2018 of EUR 6.2 million and a total expected generated power of 99 GWh, equal to over 1,800 full-load hours and to approximately 50 kt of avoided CO_2 emission, benefit from a Feed-in Tariff (FiT), equal on average to EUR 93 per MWh in 2018 and with a duration of 15 years.
  The Enterprise Value of the acquisition is EUR 52 million. The net financial indebtedness of the company is zero. The closing of the transaction took place after receiving the approval of the French Ministry of Economy and Finance. This document reflects the impacts of the consolidation of the companies acquired as from 1 January 2019.

- **Wind - Germany**
  On 27 June 2019, ERG, through its subsidiary ERG Power Generation S.p.A., completed, with Windwärts Energie GmbH, the acquisition of a pipeline of wind power projects in Germany with a total capacity of 224 MW. **Windwarts**, which has long experience as a developer, is a pioneer in the renewable energies sector in Germany and it is a wholly-owned subsidiary of the utility MVV Energie AG. The early-medium stage pipeline, totalling approximately 224 MW, comprises 13 projects in different stages of development, 4 of which, at the most advanced stage, are considered by the Regional Plans. The projects are located in Northern Germany, specifically in Lower Saxony and Schleswig-Holstein, in particularly windy areas with an average estimated producibility above 3,000 equivalent hours.
  The total agreed price in terms of Enterprise Value is approximately EUR 4 million, divided between an upfront payment upon closing and subsequent amounts tied to the development of the projects.

- **Wind - Germany**
  On 19 August 2019, ERG, through its subsidiary ERG Windpark Beteiligungs GmbH, executed an agreement with a subsidiary of Aquila Capital, a German investment company, for the acquisition of 100% of the capital of three German companies owning as many wind farms located in the Mecklenburg-Western Pomerania region in the North-eastern area of the country.
  The wind farms, with total installed capacity of 34 MW and equipped with 11 Vestas V112 turbines, started operating in 2014 and in the last four years their average annual generation has been approximately 89 GWh corresponding to over 2,600 hour equivalents and equal to approximately 67,000 t of CO_2 emissions avoided per year. The wind farms benefit for 20 years from the initial date of operations from a total feed-in tariff that, for 2018, averaged 97 EUR/MWh.
  The transaction, closed on 13 September 2019, following Antitrust authorisation in Germany, entailed a price, in terms of equity value, of EUR 37 million, to which corresponded an enterprise value of EUR 84 million. This document reflects the impacts of the consolidation of the companies acquired as from 1 January 2019.

- **Solar**

  On 12 February 2019, ERG, through its subsidiary ERG Solar Montalto S.r.l., completed **the acquisition** from Soles Montalto GmbH, an investment fund managed by the AREAM group, a European asset manager in the renewable sector, of 78.5% of Perseo S.r.l., holder of 100% of Andromeda PV S.r.l., a company that in turn manages two photovoltaic plants with 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 plants are located in Montalto di Castro (Lazio), and in 2018 recorded a total output of 85.6 GWh and EBITDA (gross operating profit) of EUR 30 million. Equipped with Sun Power and uni-axial tracker technology, the plants on average came into operation in the 4th quarter of 2010 and will benefit from the second feed-in premium for 20 years, until 2030.

  The enterprise value of the transaction is of around EUR 220 million, corresponding to the equity value of the acquired portion of EUR 97 million and the net financial position of the Company acquired at 31 December 2018 of EUR 124 million.

  This Report reflects the impacts of the consolidation of the companies acquired since 1 January 2019: for more information on the Purchase Price Allocation for solar, reference is made to the section "Financial statements and Alternative Performance Indicators".

ERG's stock market performance

On 30 December 2019, the reference price of ERG's shares was EUR 19.22, up (+16.5%) from the end of 2018, versus an increase, in the same period, in the FTSE All Share index (+27.2%), the FTSE Mid Cap index (+18.3%) and the Euro Stoxx Utilities Index (+24.0%).

During the period under review, the listed price of the ERG's share ranged between a minimum of EUR 15.69 (25 March 2019) and a maximum of EUR 20.18 (29 November 2019).

Figures relating to the prices and exchange volumes of ERG's shares at 30 December 2019 are set out below:

Share price	EUR
Reference price at 30.12.19	19.22
Maximum price (29.11.19) (1)	20.18
Minimum price (25.03.19) (1)	15.69
Average price	17.73

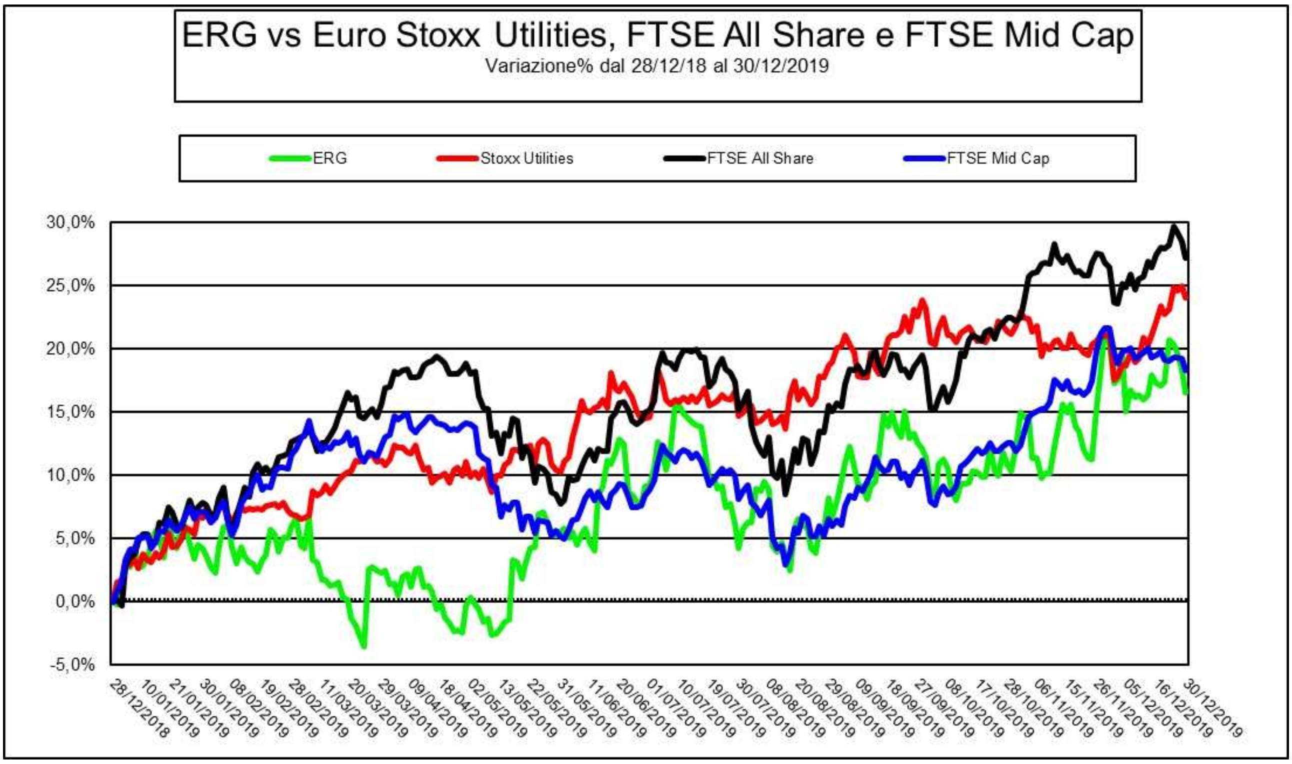
(1) lowest and highest price reached during the day's trading; hence they do not match the official and closing prices on the same date.

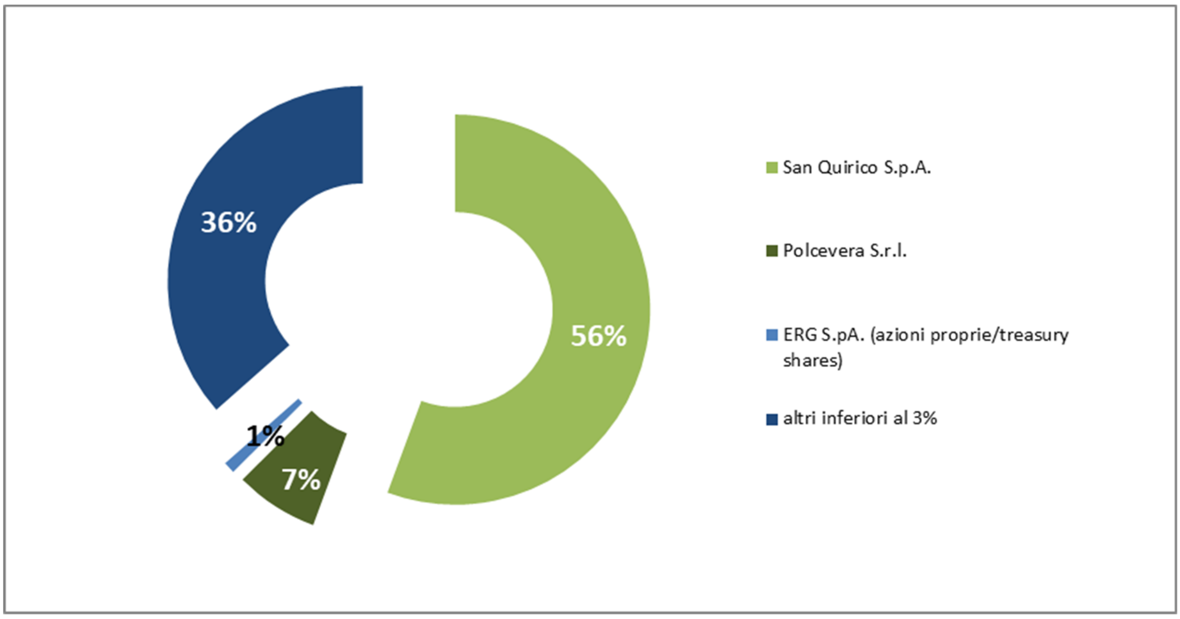
Volumes traded	No. of shares
Maximum volume (26.03.19)	1,113,089
Minimum volume (26.08.19)	71,571
Average volume	256,639

Market capitalisation was approximately EUR 2,889 million at 30 December 2019 (EUR 2,480 million at the end of 2018).

The average number of shares outstanding in the year was 148,868,444.

Performance of ERG's Shares and Shareholding Structure





Significant events during the year

Wind Power Sector

Date	Country	Significant events	Press release
15 January 2019	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 part of the 768 MW of assets under construction and development of Epuron, acquired last year (see press release of 6/4/2018) and of 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 of 15/01/2019**
25 March 2019	France	Signing of an agreement with Profond Finanzgesellschaft AG, based in Zurich, for **the acquisition of 100% of "Les Moulins de Fruges SAS"**, a French company owning six wind farms with total installed capacity of 52 MW located in the Hauts-de-France region in Northern France. **The transaction's closing took place on 6 May 2019**.	**Press release of 25/03/2019**
2 May 2019	UK	**Acquisition** from RES, an international company in the renewable energy sector, of 100% of Craiggore Energy Ltd, a company incorporated under Northern Irish law, holder of authorisations for the construction of a wind farm in Northern Ireland, in the county of Londonderry for an approved capacity of 25 MW. The total estimated investment required to build the wind farm is approximately GBP 37 million (around EUR 41 million), already including the purchase price.	**Press release of 02/05/2019**
14 June 2019	France	**Parc Eolien du Pays a Part**, French company of the ERG Group, owner of a project situated in the North of France with a power of 18 MW, won the third auction dedicated to onshore wind power.	**Press release of 14/06/2019**
21 June 2019	Germany	The construction and commissioning phase of **Wind Park Linda**, a wind farm situated in Germany, with a power of 21.6 MW was completed.	**Press release of 21/06/2019**
27 June 2019	Germany	**Signing** of an agreement with **Windwärts Energie GmbH** for the acquisition of a pipeline of wind power projects in Germany with a total capacity of 224 MW. The total agreed price in terms of Enterprise Value is approximately EUR 4 million, divided between an upfront payment upon closing and subsequent amounts tied to the development of the projects.	**Press release of 27/06/2019**
19 August 2019	Germany	Execution of an agreement with Aquila Capital for **the acquisition of 100% of the capital of three German companies** owning as many wind farms, with total installed power of 34 MW. The transaction's closing date was **13 September**.	**Press release of 19/08/2019** **Press release of 13/09/2019**

Solar Sector

Date	Significant events	Press release
11 January 2019	**Acquisition** from 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. The transaction's closing date was 12 February 2019.	**Press release of 11/01/2019**
6 March 2019	Suspension of the incorporation of the joint venture **ERG Q Solar 1**.	**Press release of 06/03/2019**

Thermoelectric Sector

Date	Significant events	Press release
18 October 2019	**Execution** of two Power Purchase Agreements (PPAs) between ERG Power Generation and ACEA for the supply of a total amount of 1.5 TWh of energy in the 2020-2022 time interval.	**Press release of 18/10/2019**

Corporate

Date	Significant events	Press release
14 January 2019	**Finalisation of the free allocation of 80 ERG treasury shares** to each employee of the Italian companies of the ERG Group. The allocation, announced on 20 October 2019 (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 of 14/01/2019**
4 February 2019	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 of 04/02/2019**
13 March 2019	The early collection of EUR 36.6 million object of the **Vendor Loan** granted to a.p.i. S.p.A. at the time of signature of the agreement for the sale of TotalErg S.p.A.	**Press release of 13/03/2019**
4 April 2019	**Placement of a bond** of an amount of EUR 500,000,000 with a maturity of 6 years at a fixed rate, issued in the context of its own EUR 1 billion Euro Medium Term Notes (EMTN) Programme.	**Press release of 04/04/2019**
20 June 2019	**Fitch** ratings agency confirmed for ERG S.p.A. a Long Term Issuer Default Rating (IDR) of BBB- with stable outlook and a senior unsecured rating of BBB-.	**Press release of 20/06/2019**
2 August 2019	**Appointment** by the Board of Directors of ERG S.p.A. of Paolo Luigi Merli as "Corporate General Manager & CFO".	**Press release of 02/08/2019**

Performance highlights

(EUR million)		Reported [2] Year 2019	Reported [2] Year 2018	Adjusted [1] Year 2019	Adjusted [1] Year 2018
Key economic data					
Revenue		1,022	1,024	1,022	1,027
EBITDA		**496**	**480**	**504**	**491**
Operating profit (EBIT)		**190**	**206**	**205**	**216**
Profit		33	133	105	107
of which profit attributable to owners of the parent		32	133	104	107
Key financial data					
Net invested capital [3]		**3,340**	**3,172**	**3,264**	**3,172**
Equity		1,786	1,829	1,787	1,829
Total net financial indebtedness [3]		1,554	1,343	1,476	1,343
of which non recourse Project Financing[4]		812	1,178	812	1,178
Financial leverage		47%	42%	45%	42%
EBITDA Margin %		**49%**	**47%**	**49%**	**48%**
Operating data					
Installed capacity of wind farms at the end of the year	*MW*			**1,929**	**1,822**
Electric power output from wind farms	*KWh million*			4,000	3,464
Installed capacity of thermoelectric plants	*MW*			**480**	**480**
Electric power output from thermoelectric plants	*KWh million*			2,504	2,151
Installed capacity of hydroelectric plants at the end of the year	*MW*			**527**	**527**
Electric power output from hydroelectric plants	*KWh million*			1,229	1,740
Installed capacity of solar plants at the end of the year	*MW*			**141**	**90**
Electric power output from solar plants	*KWh million*			226	130
Total sales of electric power	*KWh million*			**15,121**	**13,627**
Capital expenditure [5]	*EUR million*			432	510
Employees at the end of the year	*Units*			**754**	**737**
Net unit revenue [6]					
Wind Italy	*EUR/MWh*			118.1	124.9
Wind Germany	*EUR/MWh*			95.9	94.5
Wind France	*EUR/MWh*			89.3	87.4
Wind Poland	*EUR/MWh*			73.3	63.5
Wind Bulgaria	*EUR/MWh*			78.7	74.8
Wind Romania	*EUR/MWh*			67.0	58.2
Wind UK	*EUR/MWh*			n.a.	100.4
Solar	*EUR/MWh*			313.9	293.5
Hydroelectric	*EUR/MWh*			102.1	106.6
Thermoelectric	*EUR/MWh*			39.9	41.6

The table also shows adjusted results, to enhance the understanding of the business segments' performance, therefore excluding special items.

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

(2) Reported economic indicators are calculated on the basis of the values indicated in the Notes to the Consolidated Financial Statements and include special items and related applicable theoretical taxes. In 2018, in accordance with IFRS 5, the results of the company Brockaghboy Windfarm Ltd were posted in profit (loss) from discontinued operations.

(3) As already indicated in the Introduction, adjusted net financial indebtedness and the adjusted net invested capital are represented net of the effects deriving from the application of IFRS 16, therefore excluding the recognition of assets and the discounting of future payments of leasing instalments of approximately EUR 78 million on net financial indebtedness and on net invested capital at 31 December 2019 (EUR 77 million).

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

(5) In property, plant and equipment and intangible assets. They also include M&A investments of EUR 364 million made in 2019 for the acquisition of two photovoltaic plants from Soles Montalto GmbH with a total installed capacity of 51.4 MW (EUR 220 million), for the acquisitions of companies owning wind farms in France and Germany (respectively, EUR 52 million and EUR 84 million), of a pipeline in Germany (EUR 2 million) and of a project for the construction of a wind farm in the United Kingdom (EUR 6 million). In 2018 M&A investments were equal to EUR 449 million in relation to the acquisition of the companies of the ForVei (Solare) Group and for the acquisitions of companies owning wind farms in France, Germany and United Kingdom.

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

Performance by sector

(EUR million)	Year	
	2019	**2018**
Adjusted revenue		
Wind	414	389
Solar	71	38
Hydroelectric	119	194
Thermoelectric [(1)]	418	405
Corporate	37	36
Intra-segment revenue	*(37)*	*(36)*
Total adjusted revenue	**1,022**	**1,027**
Adjusted EBITDA		
Wind	301	274
Solar	63	32
Hydroelectric	87	146
Thermoelectric [(1)]	69	53
Corporate	(16)	(15)
Adjusted EBITDA	**504**	**491**
Amortisation, depreciation and impairment losses		
Wind	(169)	(159)
Solar	(41)	(24)
Hydroelectric	(57)	(58)
Thermoelectric	(28)	(31)
Corporate	(3)	(3)
Adjusted depreciation and amortisation	**(299)**	**(275)**
Adjusted EBIT		
Wind	132	115
Solar	22	8
Hydroelectric	30	88
Thermoelectric [(1)]	41	22
Corporate	(19)	(18)
Adjusted EBIT	**205**	**216**
Capital expenditure [(2)]		
Wind	189	146
Solar	221	345
Hydroelectric	6	7
Thermoelectric	15	8
Corporate	2	3
Total capital expenditure	**432**	**510**

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

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

Comments on the year's performance

In 2019 **adjusted revenue** was EUR 1,022 million, slightly down compared to 2018 (EUR 1,027 million), mainly as a result of the hydroelectric volumes, much lower than last year's exceptionally high ones, partly offset by the increase in wind and solar power generation, both in Italy and abroad, also as a result of the expansion of the managed assets portfolio, and of the thermoelectric sector.

Adjusted EBITDA, net of special items, amounted to EUR 504 million, up by EUR 13 million compared to EUR 491 million recorded in 2018. The change is a result of the following factors:

- **Wind (EUR +27 million):** EBITDA of EUR 301 million, up compared to the same period of 2018 (EUR 274 million) with more favourable wind conditions both in Italy (+149 GWh) and abroad (+387 GWh). In particular, the result of the wind farms in Italy (EUR 191 million, down from the previous year's EUR 195 million) was mainly affected by the lower value of the unit incentive (92 EUR/MWh versus 99 EUR/MWh), whereas the unfavourable trends of energy prices were almost completely offset by hedges. Results abroad are growing (EUR +31 million) thanks mainly to the contribution of the 138 MW of new wind farms in France and Germany, to the higher output in particular in France, Germany and Poland, as well as to the better price scenario in Eastern European countries. It should be recalled that 2018 had benefited from the contribution from the 48 MW Brockaghboy farm (EUR +3 million) in the UK, sold on 7 March 2018.
- **Solar (EUR +30 million):** the EBITDA, of EUR 63 million, doubled with respect to 2018 (EUR 32 million) thanks to the contribution of 51 MW of the newly acquired photovoltaic plants in a favourable irradiation environment.
- **Hydroelectric (EUR -59 million):** EBITDA of EUR 87 million (EUR 146 million in 2018), markedly decreased from the previous year. Performance was affected by the significantly reduced water resources (-511 GWh) recorded in the year compared to the historical one and in particular to the significantly high one of last year, with effect on revenue from electricity sales, on the incentive and lastly, to a lesser extent, of the incentive price, lower than last year.
- **Thermoelectric (EUR +17 million):** thermoelectric EBITDA, amounting to EUR 69 million, is higher than the EUR 53 million in 2018 as a result of a better spark spread, due to the significant reduction in the cost of natural gas which more than offset the growing trend of the prices of CO_2, the reduction of the price in Sicily, and to the higher quantities sold to end customers and of the performance of the plants.

Reported EBITDA amounted to EUR 496 million, up on the EUR 480 million recorded in 2018, substantially for the same reasons indicated with respect to the adjusted EBITDA.
The reported EBITDA for 2019 does not include leasing instalments in accordance with IFRS 16 *and includes* the ancillary costs relating to extraordinary transactions as well as costs for the rationalisation of the organisational-corporate structure of the Group.

The **adjusted EBIT** amounted to EUR 205 million (EUR 216 million in 2018) after amortisation and depreciation of EUR 299 million, up by EUR 24 million with respect to 2018 (EUR 275 million) mainly due to the new capital expenditure made in the Solar sector and to the acquisitions of the operating wind farms in France and Germany, which took place in 2019.

The **reported EBIT** amounted to EUR 190 million (EUR 206 million in 2018) after amortisation and depreciation of EUR 306 million, up by EUR 31 million with respect to 2018 (EUR 275 million) mainly due to the same reasons indicated in the comment to the adjusted EBIT and to the adoption of IFRS 16 (EUR 7 million).

The **adjusted profit attributable to the owners of the parent** amounted to EUR 104 million, including approximately EUR 1 million pertaining to minorities, a decrease from the profit of EUR 107 million of 2018, as a consequence of the previously commented operating results. In spite of growing indebtedness, financial charges were markedly lower than in 2018 due to the reduction in the cost of debt thanks to the important liability management transactions carried out in 2019 and the concurrent issue of a Green Bond under improved conditions. Moreover, the effective tax rate was in line with 2018 as a result of the re-introduction of the tax relief tied to economic growth (ACE).

The reported profit attributable to the owners of the parent amounted to EUR 32 million, including approximately EUR 1 million attributable to minority shareholders, compared to EUR 133 million of 2018 and, relative to the aforementioned adjusted profit for the period attributable to the owners of the parent, it was mainly affected by the extraordinary financial expenses tied to debt restructuring through the issue of the first Green Bond and the concurrent closure of two important Project Financing lines. Moreover, 2018 benefited from the capital gain related to the sale of the Brockaghboy wind farm in the United Kingdom (EUR 27 million).

In 2019, **investments** totalled **EUR 432 million** (EUR 510 million in 2018) and relate mainly to the acquisition of two photovoltaic plants in Italy (EUR 220 million), of operational wind farms in France and Germany (respectively EUR 52 million and EUR 84 million), of a project for the construction of a wind farm in the United Kingdom (EUR 6 million) and of a pipeline of 224 MW in Germany (EUR 2 million). Moreover, during the year **EUR 68 million** in investments **in property, plant and equipment and intangible assets** were also made, of which 66% in the Wind sector (70% in 2018), mainly related to the completion of the wind farm in Germany (Windpark Linda) and to the start of construction of the wind farms in the UK, 22% in the Thermoelectric sector (14% in 2018) as a result of the extraordinary maintenance work on some components of the CCGT plant, 8% in the Hydroelectric sector (11% in 2018) and 3% in the Corporate sector (5% in 2018), mostly for ICT.

The **adjusted net financial indebtedness** totalled **EUR 1,476 million**, up by EUR 133 million compared to 31 December 2018 (EUR 1,343 million). The change mainly reflects the investments in the year (EUR 432 million), dividend distribution (EUR 112 million), the extraordinary expenses incurred in the course of the significant liability management transactions (EUR 43 million[15]), and payment of taxes (EUR 41 million). All, partly offset by the positive cash flow of the year (EUR 492 million[16]), also as a result of the reduction of the timelines for collection on incentives in Italy.
As already specified in the Introduction, adjusted net financial indebtedness is represented net of the effects deriving from the application of IFRS 16, therefore excluding the discounting of future payments of leasing instalments of approximately EUR 78 million at 31 December 2019.

[15] Value mainly tied to the reversal of the positive adjustment, recognised upon first consolidation, of the fair value of the debt. This is an accounting adjustment without impacts on cash flow.
[16] It includes the adjusted EBITDA, the change in working capital and net financial income (expenses)

REFERENCE MARKET

Price scenario

Price scenario (EUR/MWh)	Year 2019	Year 2018
Italy		
National single price - Electricity reference price in Italy (baseload) [1]	52.3	61.3
Electricity price North area	51.2	60.7
Electricity price Central-North area	52.2	61.1
Electricity price Central-South area	52.3	60.9
Electricity price South area	50.9	59.4
Electricity price Sardinia	51.8	60.7
Electricity price Sicily	62.8	69.5
Zonal price Central-North (peak)	59.4	68.8
Feed-In Premium (FIP) (former Green Certificates) - Italy	92.1	99.0
Abroad		
France (baseload electricity)	39.5	50.0
Germany (baseload electricity)	37.9	44.5
Poland	84.2	76.2
of which (baseload electricity)	*53.5*	*52.8*
of which Certificates of Origin	*30.7*	*23.4*
Bulgaria (baseload electricity)	47.5	39.9
Romania (baseload electricity + 1 Green Certificate)	79.7	75.8
of which baseload electricity	*50.3*	*46.4*
of which Green Certificate	*29.4*	*29.4*
Northern Ireland (baseload electricity)	*50.3*	*61.0*
Great Britain (baseload electricity)	*49.2*	*64.9*

(1) Single National Price

Italian Market - Demand and output

Italian Market (GWh) [1]	Year 2019	Year 2018
Demand	319,597	321,431
Pumping consumption	2,412	2,313
Import/Export	38,163	43,899
Internal production [2]	283,846	279,845
of which		
Thermoelectric	186,811	184,338
Hydroelectric	46,959	49,928
Geothermal	5,687	5,756
Wind	20,063	17,557
Photovoltaic	24,326	22,266

(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 **2019** the electricity demand of the national electrical system amounted to 319.6 TWh, slightly down compared to the values recorded in 2018. With regard to Sicily, a region in which ERG is present with its CCGT plant and with wind and photovoltaic installations, demand of approximately 18.9 TWh was recorded during the period, down (-0.7%) compared to 2018, while in the group of regions consisting of Abruzzo-Lazio-Marche-Molise-Umbria, where ERG is active with its hydroelectric plants, the demand for electricity came to 44.7 TWh

(+1.5%).

In the same period, (net) domestic electricity output was 283.8 TWh, up by 1% compared with 2018, whilst the net balance of trades with other countries recorded net imports of 38.2 TWh (-13% compared to 2018).
67% of (net) domestic output was covered by thermoelectric power plants and the remaining 34% by renewable sources; specifically, 18% of this output was from hydroelectric power, 5% from photovoltaic plants, 8% from wind farms and 2% from geothermal sources. Compared to 2018, there was an increase in wind (+14%), photovoltaic (+9%) and thermoelectric (+1%) outputs, while hydroelectric output declined (-6%) along with geothermal (-1%).

GROUP SALES

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

During 2019, total sales of electricity amounted to 15.1 TWh (13.6 TWh in 2018), in the presence of an overall output from the Group plants of approximately 8.0 TWh (7.5 TWh in 2018), of which roughly 1.8 TWh abroad and 6.1 TWh in Italy. The latter figure corresponds to approximately 1.9% of electric power demand in Italy (1.9% in 2018).

The breakdown of sale volumes and electric power output, by type of source, is shown in the following table[17]:

Sources of electric power (GWh)		
	Year	
	2019	**2018**
Wind - wind power generation Italy	2,161	2,012
Wind - wind power generation Abroad	1,839	1,452
Solar - photovoltaic power generation	226	130
CCGT - thermoelectric power generation	2,504	2,151
Hydroelectric - hydroelectric power generation	1,229	1,740
ERG Power Generation - purchases	7,161	6,143
Total	**15,121**	**13,627**

Sales of electric power (GWh)		
	Year	
	2019	**2018**
Electricity sold to captive customers	527	550
Electricity sold wholesale (Italy)	12,754	11,625
Electricity sold abroad	1,839	1,452
Total	**15,121**	**13,627**

Wholesale sales of energy include sales on the IPEX electricity stock 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 output, in line with Group risk policies.
In 2019, steam sales[18] amounted to 875 thousand tonnes, an increase compared to the 737 thousand tonnes in 2018.

[17] 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.
[18] 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.

	Year			
Installed power (MW)	**2019**	**2018**	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	**836**	**729**	**107**	**15%**
of which				
Germany	*272*	*216*	*55*	*26%*
France	*359*	*307*	*52*	*17%*
Poland	*82*	*82*	*0*	*0%*
Bulgaria	*54*	*54*	*0*	*0%*
Romania	*70*	*70*	*0*	*0%*
Total installed capacity at the end of the year [(1)]	**1,929**	**1,822**	**107**	**6%**

[(1)] power of plants in operation at year end. It is reminded that the Brockaghboy wind farm in Northern Ireland (47.5 MW) was sold on 7 March 2018.

Installed power at 31 December 2019, amounting to 1,929 MW, refers for 1,093 MW to Italian wind farms (of which 775 MW incentivised) and for 836 MW to wind farms abroad. The increase by 107 MW with respect to 31 December 2018 is due to the acquisition in France of 52.0 MW already in operation, to which is added a further increase by 55.4 MW in Germany as a result of the start of commercial operations of a 21.6 MW wind farm, which occurred at the end of June 2019 and of the acquisition of three wind farms for an additional 33.8 MW, which took place in September 2019.
There was also a further increase by 31 MW occurred in France in December 2018, as a result of the start of commercial operations of 2 wind farms.

Highlights of adjusted performance items

Operating results	Year 2019	2018
(EUR million)		
Adjusted revenue from sales and services	**414**	**389**
Adjusted EBITDA(1)	**301**	**274**
Amortisation, depreciation and impairment losses (1)	(169)	(159)
Adjusted EBIT (1)	**132**	**115**
Investments in property, plant and equipment and intangible assets	189	146
EBITDA Margin % (2)	**73%**	**70%**
Total wind farm generation (GWh)	4,000	3,464

(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.

Consolidated **revenue** recognised **in 2019** increased mainly as a result of the higher output both due to more favourable wind conditions, both in Italy and abroad, and to the contribution provided by the higher MW in operation abroad. These increases more than offset the reduction deriving from the lower unit value of the incentive in Italy (from 99.0 to 92.1 EUR/MWh). In particular, compared to 2018, no longer incentivised output amounts to 26 GWh, with consequent lower revenue for a value of approximately EUR 2 million.

With regard to net unit revenue in Italy in 2019, taking into consideration the sale price of electricity, incentives (former green certificates) net of hedges and other minor components, was equal to 118 EUR/MWh for ERG in Italy, down compared to the value of 125 EUR/MWh in 2018, as a result of the already discussed lower unit value of 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%) by the prices of the incentive provided for the year, but have an impact on the incentive for the subsequent year.

The following table reports revenue by country:

Adjusted revenue	Year 2019	2018	Δ	Δ%
(EUR million)				
Italy	**249**	**266**	**(17)**	**-6%**
Abroad	**165**	**124**	**41**	**33%**
of which				
Germany	*46*	*33*	*13*	*41%*
France	*71*	*49*	*22*	*46%*
Poland	*19*	*14*	*5*	*34%*
Bulgaria	*13*	*13*	*1*	*6%*
Romania	*15*	*12*	*3*	*21%*
UK	*0*	*3*	*(3)*	*-100%*
Total	**414**	**389**	**24**	**6%**

Net unit revenue	Year 2019	2018	Δ	Δ%
EUR/MWh				
Wind Italy	118.1	124.9	*(7)*	*-5%*
Wind Germany	95.9	94.5	*1*	*2%*
Wind France	89.3	87.4	*2*	*2%*
Wind Poland	73.3	63.5	*10*	*15%*
Wind Bulgaria	78.7	74.8	*4*	*5%*
Wind Romania	67.0	58.2	*9*	*15%*
Wind UK	n.a.	100.4	*n.a.*	*n.a.*

In **2019** net unit revenue in France and Germany was 89.3 EUR/MWh and 95.9 EUR/MWh respectively (including refunds for limitations in Germany). The main changes in net unit revenue abroad were seen in Romania (+15% following the increase in energy sale prices), and in Poland (+15%, thanks to the significant increase in the sale price of certificates of origin as well as the energy sale price). For completeness, the unit revenue relative to wind farms in Northern Ireland owned by the Group until the beginning of March 2018 is also reported.

	Year			
Generation (GWh)	**2019**	**2018**	Δ	Δ%
- Italy	**2,161**	**2,012**	**149**	**7%**
of which				
Campania	*480*	*439*	*41*	*9%*
Calabria	*221*	*219*	*2*	*1%*
Puglia	*525*	*471*	*53*	*11%*
Molise	*174*	*156*	*18*	*11%*
Basilicata	*185*	*178*	*7*	*4%*
Sicily	*343*	*341*	*1*	*0%*
Sardinia	*235*	*207*	*27*	*13%*
- Abroad	**1,839**	**1,452**	**387**	**27%**
of which				
Germany	*465*	*337*	*128*	*38%*
France	*794*	*552*	*242*	*44%*
Poland	*255*	*219*	*36*	*16%*
Bulgaria	*135*	*138*	*(3)*	*-2%*
Romania	*190*	*176*	*14*	*8%*
UK	*0*	*29*	*(29)*	*-100%*
Total plants generation	**4,000**	**3,464**	**537**	**15%**

In 2019, the **electricity output** from wind power amounted to 4,000 GWh, up by 15% compared to the corresponding period in 2018 (3,464 GWh), as a result of an increase in output of approximately 7% in Italy (from 2,012 GWh to 2,161 GWh) and of 27% abroad (from 1,452 GWh to 1,839 GWh).
The increased output in Italy (+149 GWh) is linked to better wind conditions than those recorded in the same period of 2018 across all regions and in particular in Sardinia, Puglia and Molise.
As regards abroad, the net increase of 387 GWh is attributable to greater output in France (+242 GWh, substantially from plants that were recently acquired or that became operational in the second half of 2018), in Germany (+128 GWh, mainly as a result of the recent acquisitions), as well as in Eastern Europe (+47 GWh), net of reduced output in the UK (-29 GWh) following the sale of the Brockaghboy wind farm.

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

Load Factor %	Year 2019	2018	Δ
- Italy	**23%**	**21%**	**2%**
of which			
Campania	*22%*	*20%*	*2%*
Calabria	*21%*	*21%*	*0%*
Puglia	*24%*	*22%*	*2%*
Molise	*25%*	*22%*	*3%*
Basilicata	*24%*	*23%*	*1%*
Sicily	*20%*	*20%*	*0%*
Sardinia	*24%*	*21%*	*3%*
- Abroad	**25%**	**23%**	**2%**
of which			
Germany	*20%*	*18%*	*3%*
France	*25%*	*23%*	*2%*
Poland	*36%*	*31%*	*5%*
Bulgaria	*29%*	*29%*	*-1%*
Romania	*31%*	*29%*	*2%*
Load Factor [1]	**24%**	**22%**	**2%**

(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 2019, the overall load factor, of 24%, was up with respect to the value recorded in 2018 (22%), increasing from 23% to 25% abroad and from 21% to 23% in Italy.
The slight increase of the load factor in 2019 is due to the greater wind speeds recorded in the year, in addition to the continued high levels of plant availability.

The above-mentioned data do not include the data relating to the plants in Northern Ireland following the aforementioned sale on 7 March 2018 of the 47.5-MW plant and of the new 21.6 MW plant that became operational in Germany at the end of the first half of 2019.

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

Adjusted EBITDA *(EUR million)*	2019	2018	Δ	Δ%
Italy	**191**	**195**	**(4)**	**-2%**
Abroad	**110**	**79**	**31**	**40%**
of which				
Germany	*31*	*22*	*10*	*45%*
France	*47*	*30*	*17*	*56%*
Poland	*15*	*10*	*5*	*52%*
Bulgaria	*8*	*8*	*1*	*7%*
Romania	*10*	*7*	*3*	*48%*
UK	*(1)*	*3*	*(4)*	*n.a.*
Total	**301**	**274**	**27**	**10%**

The **adjusted EBITDA** of 2019 totalled EUR 301 million, up compared to the values recorded the previous year (EUR 274 million), in a general environment of more favourable wind conditions both in Italy and abroad and of an expanded scope (EUR 16 million).
The decreased contribution in Italy compared to the previous year reflects mainly the lower value of the unit incentive, discussed above.
The improved results abroad (EUR +31 million) benefit from the greater installed capacity in France (EUR +12 million) and Germany (EUR +8 million), of the improved environment mainly in East European countries (EUR +5 million) and greater total output (EUR +10 million); these positive results more than offset the impact of the sale of the Brockaghboy wind farm in the UK, of which the year 2018 had benefited by approximately EUR 3 million.

The EBITDA margin of 2019 totalled 73%, confirming its particularly high absolute value, in line with the previous year (70%), in spite of the phase out of the incentives of some facilities, commented above, also thanks to the contribution of the wind farms abroad.

Capital expenditure

The capital expenditure of 2019 (**EUR 189 million**) refers mainly to the acquisitions of wind farms in France (52 MW) and in Germany (34 MW), as well as for the development of the Windpark Linda wind farm in Germany, which started operating at the end of June. In addition, the first reblading operation was successfully completed on a 13.2 MW wind farm in Italy.

Relevant legislative and regulatory updates during the year

Italy

- **Basilicata Region - Wind Farms Safety Booklet**
  On 26 February 2019, the Regional Council of Basilicata adopted the "Operational provisions for the preparation of a safety booklet for wind farms" in order to reduce the risk of accidents caused by the accidental breakage of wind turbines (especially small ones).
  The provision, prepared by the Environment and Energy Department, anticipates the preparation of an information booklet through the Region's web portal which has the purpose to induce the subjects responsible for the management of plants to disclose maintenance interventions carried out, as well as annually record the technical and functional checks of all wind power generators in wind farms.
  This instrument will allow to identify and check the construction, conditions and operational modalities and maintenance of existing plants.
  The annual update will be the responsibility of the person responsible for the management and operation of the wind farm, for the entire life of the same, regardless of the number of wind turbines, their power, and in the light of verification and maintenance interventions carried out.
  These procedures will be necessary so not to incur the application of financial penalties of up to EUR 30,000.

- **ARERA Resolution No. 103/2019/R/eel - Additional provisions for areas revision**
  With its Resolution 103/2019/R/eel of 19 March 2019, ARERA prescribed, starting from 1 January 2021, that the Umbria Region shall be moved from the Central-North to the Central-South market area and that a separate Calabria area shall be established, with the consequent suppression of the Rossano limited output node.

- **Missed Wind Output (MPE), revision of Reliability Index (IA)**
  With its resolution 195/2019 of 21 May 2019, the Authority redefined the formula for calculating the Reliability Index starting from 1 January 2017, to correct some of its distorting effects. This index is used in quantifying the value of missed wind output to be recognised to the dispatching user that limited its installation's output to comply with the dispatching orders issued by Terna. There are no impacts for the Group.

- **Ministerial Decree of 4 July 2019 - Incentivising instruments for electricity from renewable sources**
  On 9 August 2019, the Ministerial Decree of 4 July 2019 was promulgated; it was prepared by the Ministry of Economic Development with the concurrence of the Ministry of the Environment, introducing "Incentives for the electricity generated by onshore wind, solar photovoltaic, hydroelectric facilities and for those fuelled by residual gases from purification processes".
  The scope of application is limited to sources and technologies defined as "mature", comprising onshore wind, photovoltaic, hydroelectric and residual gases from purification processes.
  The decree covers the three-year interval from September 2019 to September 2021 and it confirms the use of limited incentive schemes by energy quotas, divided between registries (for projects with power below 1 MW) and auctions (for projects with size greater than or equal to 1 MW).
  Direct access to the incentives is no longer provided for small facilities (e.g. mini-hydroelectric), while ground-located photovoltaic plant installed on farming areas are still excluded from auctions or registries.
  Different technologies considered homogeneous, such as wind and photovoltaic, are now grouped in "technologically neutral" quotas and thus they compete within the same auctions.
  Notices are expected to be published every four months both for auctions and for registries; the first

competition was opened last 30 September and closed on 4 November. The total quota for wind and photovoltaic technologies, divided in 7 auctions, amounts to 5.5 GW.
Inasmuch as the law known in Italy as "*Spalmaincentivi volontario*" ("Voluntary incentive allocation") is in force, nearly all projects for the repowering of existing facilities are excluded from participating in the auctions and registries provided by the Decree.

- **Revision of the timelines for the payment of incentives**
  On 9 August 2019, the GSE, in consideration of the first instance ruling of the Regional Administrative Court of Lazio with respect to the repeal of the "GRIN convention" scheme (formerly, Green Certificates), prescribed, pending the definition of the ultimate outcome of the litigation, the revision of the timelines for the payment of the feed-in tariffs.
  In particular, the timelines for payment of the incentives starting from the accruals of July 2019 were revised. According to the GSE Communication, for the generic "m" month the payment, following publication of the report highlighting the incentives due for the month "m+1", will take place by the end of the "m+2" month.

- **Results of Registries and Auctions relating to the Notices closed on 30 September 2019, per Italian Ministerial Decree of 4 July 2019**
  The standings of the first Notices of the Auctions and of the Registries prescribed by the Italian Ministerial Decree of 4 July 2019 were published on 28 January 2020. On 730 MW of total available capacity, the GSE received 880 applications for 772 MW. The contingents for the auctions were assigned almost exclusively to wind farms, with discounts between 30.54% and 4.29% with respect to the baseline tariff of 70 EUR/MWh. With regard to the Registries, all contingents were fully allocated and assigned to hydroelectric, wind and photovoltaic plants, with the exception of the contingent dedicated to photovoltaic installed to replace Eternit and asbestos, with only 8% of available capacity assigned. As to Renovations, operators showed a very low level of interest. The next Notices will open on 31 January to close on 1 March 2020 and will also include the contingents not assigned in the previous session.

- **Feed-In Premium (FIP) former Green Certificates**
  For the purposes of determining the 2020 feed-in premium (2020 FIP), the Authority disclosed, by means of resolution 17/2020 of 28 January 2020, the average annual value recorded in 2019 for electricity sale prices, equal to 53.01 EUR/MWh. The 2020 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 99.05 EUR/MWh.

France

- **Results of 3rd wind power auction**
  The third French wind power auction was completed on 1 April 2019. For this session, the available capacity volume was set to 500 MW, the starting price to 71 EUR/MWh (down compared to the starting price of the previous sessions, i.e. 74.8 EUR/MWh) and possession of the environmental authorisation was not required (as prescribed for the 1st wind power auction session of December 2017). There were 21 auctioned projects, totalling 516 MW, for an estimated annual energy output of approximately 1.34 TWh, with an average weighted auction price of 63 EUR/MWh.
  ERG, through its French subsidiary Parc Eolien du Pays à Part, was among the auction winners with an 18 MW project.

Germany

- **Auction starting price for the 2020 sessions**
  On 29 November 2019, the BNETZA set to 62 EUR/MWh the auction starting price for onshore wind power for all sessions expected in 2020. Therefore, for 2020 the rule established by EEG 2017 for the determination of the auction starting price on the basis of the mean of the three highest tariffs awarded in the three previous auctions, plus 8%, will not be in force.

Bulgaria

- **Change to the incentive system**
  Bulgaria's Energy Act, revised in 2018, prescribes that from 1 January 2019, for existing plants with capacity of over 4 MW, the incentive scheme will move from a FIT structure to a FIP structure. The

incentive is calculated as the difference between the value of the FIT tariff, as previously recognised, and a Reference Price calculated on the estimate of the future price of electricity adjusted on the wind profile. In May 2019, the transferral to FIP was prescribed also with reference to installations with less than 4 MW installed capacity, no later than 1 October 2019.
At the end of May 2019, the Bulgarian Energy Authority (EWRC) set the Reference Price, used to calculate the incentive, to 84.15 BGN for the period from 1 July 2019 to 30 June 2020 (down by approximately 17 BGN). In May 2019, the EWRC set the new access to grid fee to 5.12 BGN/MWh (from 3.02 BGN/MWh).

- **Decision of the Sofia Court of Cassation on the Authority Provision to regulate the energy sector (EWRC) relative to the introduction of a cap on energy eligible for incentives**
  The Sofia Court of Cassation, with pronouncement of 28 January 2019, defined the SP-1 provision of EWRC of 31 July 2015 unlawful. The SP-1 provision had changed the existing regulatory system by introducing, also with retrospective effect, maximum thresholds for the quantity of energy output from wind farms eligible for incentives. On 28 March 2019 EWRC, with provision SP-5, reintroduced the provisions cancelled by the pronouncement of the Court of Cassation, determining provision SP-5 to be retroactively effective from 31 July 2015. Following the above-mentioned SP-5 provision, the Group, like other operators, lodged an appeal before the 1st degree Administrative Court which, with its decision of 29 October 2019, repealed the impugned provision. The decision by the Administrative Court was in turn impugned before the Supreme Court of Sofia.

Romania

- **The regulatory Agency has approved an increase in the annual contribution due by operators in the electricity and gas energy sectors**
  At the end of December 2018, the government approved an order including tax and budgetary measures with effects on the electricity, gas and telecommunications sectors. In particular, for electricity producers, there is a provision to increase the annual contribution to the Agency of Natural Resources and Energy (ANRE), set fat 2% of the revenue of the previous year for 2019 compared to 0.1% for 2018. With Decision no. 18 of 25 February 2019, ANRE also clarified that revenue deriving from the sale of Green Certificates is not to be included in the tax basis for the purposes of the calculation of the new contribution.

- **The regulatory Agency has defined the mandatory quota for the purchase of GCs for 2020**
  With its Ordinance no. 238/2019 of 20 December 2019, the Regulatory Agency for the Energy Sector (ANRE) defined the 2020 mandatory quota, i.e. 0.45061 GC/MWh.

Poland

- **Onshore wind farm incentives: new auction procedures**
  On 15 May 2019, the Polish Minister of Energy set the starting auction price for wind farms to 285 PLN/MWh. Furthermore, in August 2019, amendments were introduced to the RES Act with regard to auction procedures, and to the Distance Act, providing a three-year extension of the validity of the authorisations to build not conforming to the rule of minimum distance from other buildings.

- **Results of 2019 wind - photovoltaic auction**
  The auction for access to incentives, which took place on 5 December 2019, entailed, for wind farms and photovoltaic plants with more than 1 MW of power, the allocation of an incentivised output contingent of 113,970 GWh over a time span of 15 years, corresponding to approximately 2,500 MW of installed wind power capacity. The starting auction price for wind farms was set to 285 PLN/MWh.
  The results of the auction show that the available output contingent was only partially awarded, for a total amount of 77,837 GWh. The auction resulted in the assignment of incentives mainly to onshore wind farms, selected for approximately 2.2 GW of capacity and an average price of 208 PLN/MWh.
  The ERG Group was among the awardees, with a 36-MW project.

UK

- **Great Britain electricity market: Capacity Market**
  On 15 November 2018 the European Court of Justice annulled the 2014 provision of the European Commission declaring the compatibility of the mechanism for the remuneration of capacity with the European State Aid regulations. The immediate consequence of the judgement was the indefinite postponement of future auctions and the block of all payments due from previous auctions.
  On 1 April 2019, although the EU Commission had not yet completed its verification procedure on the

Capacity Market, the British Parliament passed an act authorising the Government to restart the auction procedures for capacity procurement, subordinating its effectiveness to compliance with state aid regulations.
In May 2019, after a consultation on the Capacity Market, the UK Department for Business, Energy and Industrial Strategy (BEIS) established a first opening to participation of non-programmable renewable sources in the scheme. On 22 July, the TSO published the instructions for the auctions to be held in 2019 including, for the first time, the technical provisions for the participation also of facilities from non-programmable renewable sources, in particular wind and solar.
On 24 October 2019, the BEIS announced the restoration by the Commission of the declaration of conformity of the scheme with respect to the aforementioned State aid regulations. Consequently, the scheme was reauthorised and therefore previously suspended payments to suppliers are scheduled; in addition, the validity of the contracts assigned in the substitute auction held in July 2019 and the three auctions planned for the start of 2020 are also confirmed.

- **Isle of Ireland electricity market: Capacity Market**
  The capacity remuneration mechanism for Ireland, approved by the European Commission in 2017, is based on a system of reliability options and it entails the execution of specific auctions for the assignment of capacity contingents. In view of the payment of a bonus in EUR/MW/year, the awardee undertakes to pay a Variable Price (CR) equal to the difference between the price recorded in the Previous Day Market and a Strike price defined for each individual auction and determined on the basis of the marginal technology with the highest variable cost. At present, this value is 500 EUR/MWh, equal to the variable cost of a unit of consumption.
  The new capacity that participates in the mechanism is awarded a multi-year agreement with 10-year duration. Wind technology can participate in capacity market auctions, with a de-rating factor of 8.9% of installed nominal capacity.
  On 5 and 6 December 2019, the T-2 auction was held for the year 2021/2022: ERG participated in the auction in Northern Ireland with capacity corresponding to two projected wind farms and was awarded a capacity of approximately 6 MW at a price of 40.9 k£/MW/year for a total duration of 10 years.

SOLAR

ERG is active in the generation of electricity from solar sources, with an installed capacity of 141 MW, an increase of 51.4 MW following the acquisition in January 2019 of two photovoltaic plants in Lazio, which have been added to the 31 photovoltaic plants acquired in 2018, which became operative between 2010 and 2011 and are located in 8 regions between the North and the South of Italy, and the plant of ISAB Energy Solare S.r.l, a Group company (installed capacity less than 1 MW and annual output of around 1 GWh, through solar panels installed in Sicily at the IGCC ISAB site in Priolo).

Highlights of adjusted performance items

	Year	
Operating results	**2019**	**2018**
(EUR million)		
Adjusted revenue from sales and services	**71**	**38**
Adjusted EBITDA(1)	**63**	**32**
Amortisation, depreciation and impairment losses(1)	(41)	(24)
Adjusted EBIT (1)	**22**	**8**
Investments in property, plant and equipment and intangible assets	221	345
EBITDA Margin % (2)	**88%**	**84%**
Total solar plant generation (GWh)	**226**	**130**

(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 adjusted revenue from sales and services

In 2019, output amounted to approximately 226 GWh and the related load factor was 18% (16% in 2018).
Revenue for 2019 totalled EUR 71 million, of which EUR 60 million relating to revenue from the feed-in premium and EUR 11 million to revenue from the sale of energy.

In 2019, the related **net unit revenue** totalled 314 EUR/MWh (294 EUR/MWh in 2018 relating to ForVei that in 2019 has unit revenue of 281 EUR/MWh compared to the 363 EUR/MWh of Andromeda), of which mainly 267 EUR/MWh relating to feed-in premiums and approximately 50 EUR/MWh to revenue from the sale of energy.

Adjusted EBITDA in 2019 totalled EUR 63 million, of which EUR 71 million relating to the above-mentioned revenue and EUR 7 million in fixed costs related mainly to maintenance costs.
The EBITDA doubled thanks to the contribution of 51 MW of the newly acquired photovoltaic plants (EUR +31 million).

EBITDA margin of 2019 totalled 88% (84% in 2018).

Capital expenditure

Investments in 2019 referred to the acquisition of 78.5% of two photovoltaic plants, located in Montalto di Castro (Lazio), with an installed capacity of 51.4 MW and an estimated annual output of approximately 96 GWh, which benefit from the Second Feed-in Premium for 20 years until 2030. The enterprise value of the transaction amounted to approximately EUR 220 million for the acquired shareholding.

Relevant legislative and regulatory updates during the year

See the section of the chapter dedicated to wind power.

HYDROELECTRIC

ERG is active in 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.

Highlights of adjusted performance items

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

	Year	
Operating results	**2019**	**2018**
(EUR million)		
Adjusted revenue from sales and services	**119**	**194**
Adjusted EBITDA(1)	**87**	**146**
Amortisation, depreciation and impairment losses(1)	(57)	(58)
Adjusted EBIT (1)	**30**	**88**
Investments in property, plant and equipment and intangible assets	6	7
EBITDA Margin %	**74%**	**75%**
Total hydroelectric plant generation (GWh)	**1,229**	**1,740**

(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 **2019**, revenue, amounting to EUR 119 million, related mainly to electricity sales (mostly on the spot market) for EUR 67 million, revenue from the feed-in premium (former Green Certificates) for EUR 51 million.
The costs are essentially attributable to the concession fees, personnel expenses, operation and maintenance costs, insurance payments and costs for services.

EBITDA in 2019 amounted to EUR 87 million (EUR 146 million in 2018), a decrease of EUR 59 million, mainly due to the reduced availability of water resources, significantly lower than the historical average and than the particularly high value recorded in 2018.

The total output of ERG Hydro in 2019, i.e. 1,229 GWh, benefited from a net unit revenue, considering the energy sale value of revenue from MSD and from substitute incentives of the period and other lesser components, amounting to approximately 102 EUR/MWh, slightly down compared to 107 EUR/MWh in 2018.

It should be recalled that the average sale prices reflect both the electricity sales price and the feed-in premium (former green certificate), recognised on a portion of approximately 40% of output with a lower unit value than that of 2018 of 99 EUR/MWh and equal to approximately 92 EUR/MWh.

The EBITDA margin of 2019 totalled 74%, down from 75% in 2018.

The final load factor in the period, equal to 27% in 2019 (versus 38% in 2018) was affected by the reduced water resources recorded.

The level of the reservoirs of the Turano, Salto and Corbara lakes at the end of the year were respectively approximately 533, 526 and 134 metres above sea level, an increase compared to 31 December 2018 (respectively 522, 518 and 124 metres above sea level), due to seasonal phenomena and the utilisation of the period.

Capital expenditure

Hydroelectric investments, totalling approximately EUR 6 million, relate mainly to maintenance orders and planned projects in the fields of seismic improvement of infrastructures, Health, Safety and the Environment.

Relevant legislative and regulatory updates during the year

See also the section of the chapter dedicated to wind power.

- **ARERA Resolution No. 103/2019/R/eel - Additional provisions for areas revision**
  Reference is made to the Wind section.

- **ARERA Resolution no. 490/2019 Preliminary indications prior to the release of the opinion to the Regions on bills pertaining to the definition of the fees to be applied to holders of concessions for large-scale diversion of water for hydroelectric use.**
  The resolution, approved on 26 November 2019, makes available to the Regions the preliminary indications prior to the release of the opinion on regional bills pertaining to the definition of the fees to be applied to holders of concessions for large-scale diversion of water for hydroelectric use, in accordance with Article 12, Paragraph 1-*quinquies* of Italian Legislative Decree no. 79/1999, as amended by the "Simplifications Act".
  The Authority, solely for the variable component of the fee, provides indications on the release of its opinion about the determination of said component. It also indicates to Regions its non-binding guidelines, for the purposes of implementing regional Laws on concession fees, further specifying the time lines for release of the opinion.

- **State Property Office - Adjustment of additional Coastal fees.**
  On 18 December 2019, Official Gazette no. 296/2019 published the decree of the State Property Office that adjusts for inflation the amount of the Coastal hydroelectric additional fee both for large (> 3,000 kW) and for small (between 220 and 3,000 kW) diversions of water for hydroelectric use.
  For the 2020-2021 two-year time interval, the yearly additional fees increase from 5.78 to 5.87 EUR/kW for small diversions and from 7.67 to 7.78 EUR/kW for large-scale diversions.

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 2019	Year 2018
(EUR million)		
Adjusted revenue from sales and services	**418**	**405**
Adjusted EBITDA[(1)]	**69**	**53**
Amortisation, depreciation and impairment losses [(1)]	(28)	(31)
Adjusted EBIT [(1)]	**41**	**22**
Investments in property, plant and equipment and intangible assets	15	8
EBITDA Margin %	**17%**	**13%**
Total thermoelectric plant generation (GWh)	**2,504**	**2,151**

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

In **2019**, ERG Power's net electricity generation was 2,504 GWh, up compared to 2018 (2,151 GWh), in relation to the more favourable market context, with increased net generation margins, mainly due to the significant decrease in gas prices in spite of a significant increase in CO_2 prices. This trend was stronger than the more general one recorded in Italy for the entire thermoelectric sector thanks to the differential price in Sicily versus the National Single Price (PUN) in an environment of lower prices in Sicily.

The net supply of steam to captive customers of the Priolo Gargallo petrochemical site totalled 875 thousand tonnes, up significantly with respect to 737 thousand tonnes in 2018. Consequently, the number of accrued White Certificates grew markedly relative to 2018.

Adjusted EBITDA **of 2019** amounted to EUR 69 million (EUR 53 million in 2018), an increase as a result of the improvement in the spark spread, of the higher sales to customers at the Priolo Site, of the higher income deriving from White certificates and of the performance of the plants.

Capital expenditure

Investments in 2019 (EUR 15 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 facilities. Progress was also made on the planned Health, Safety and Environment projects.

Relevant legislative and regulatory updates during the year

- **Essential units pursuant to Italian Law Decree no. 91/2014**
  With **resolution no. 48/2019**, ARERA implemented the quantification of the adjustment value, equal to EUR 4.7 million, relative to the 2016 compensation scheme, and the determined value was slightly higher than the one already recognised. The payment of the adjustment was finalised in favour of ERG Power Generation S.p.A. on 28 February 2019. On 25 May 2016, the news was announced on the TERNA website of 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 Italian 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 CCGT plant of ERG Power Generation was subject to the regulation of essential plants required by Italian Law Decree no. 91/2014 until 27 May 2016.
  With reference to the compensation scheme request relative to the period from 1 January 2016 to 27 May 2016, with resolution 841 of 5 December 2017 ARERA had already provided for the recognition of an extraordinary account.

- **Regulation of the Capacity Market remuneration scheme**
  On 27 June 2019, ARERA issued its favourable Opinion on the draft decree of the Ministry of Economic Development directed at the approval of the capacity market (CM) remuneration scheme.
  The Ministry of Economic Development then signed the Decree of 28 June 2019, approving the regulations for the remuneration scheme of the availability of energy generation capacity. The Decree prescribes competitive tender procedures to be held by 2019 and referred to delivery years 2022 and 2023.
  In September, ARERA approved two additional resolutions, functional to the start of the CM; with resolution no. 363/2019, it defined the economic parameters of the remuneration mechanism, while with resolution no. 365/2019 it approved the methods for determining the price to be paid by end customers to cover the net costs deriving from the CM.
  The two procedures, for 2022 and 2023 delivery, were duly held respectively on 6 and 28 November 2019. ERG participated in the auction in the Sicily Zone with the capacity of its CCGT and, in both procedures, it was awarded capacity contracts for 340 MW and a corresponding bonus of 33,000 EUR/MW/year.

- **Energy efficiency certificates (TEE). Administrative Court of Lombardy Decision no. 2538/2019 and consequent resolutions**
  On 28 November 2019, the first degree decision no. 2538/2019 of the Administrative Court of Lombardy was published; allowing an appeal by ACEA and Italgas, repealed the Italian Ministerial Decree of 10 May 2018 in the part that provides the determination, by the Ministry of Economic Development, of a cap of EUR 250 to the tariff contribution for the coverage of TEE costs. Consequently, all ARERA resolutions promulgated to implement the Italian Ministerial Decree of 10 May 2018 were repealed, and specifically resolutions no. 487/2018, 501/2018, 209/2019 and 273/2019.
  Executing the decision, last 12 December ARERA published its resolution no. 529/2019 with which it started a process to reform the mechanism for determining the tariff contribution (CF) to be paid to electricity and gas distributors. The new mechanism will be used to redefine the CT for the year 2018. To allow operations in the short term, ARERA resolved an initial rule to be implemented immediately, confirming the value of the CT paid by way of advance to distributors - 175 EUR/TEE - that partially complied with the 2019 obligations no later than 30 November 2019. It also confirmed the Regulations of the TEE market and of the platform of bilateral contracts, as well as the validity of the mechanism of "virtual" TEEs issued by the GSE.

- **Prices of origin Guarantees and TEE, Resolution no. 502/2019**
  Last 3 December, ARERA approved the 2020 prices for the operation of organised markets and of the platforms for recording bilateral trades of the origin guarantees (GO) and of energy efficiency certificates (TEE) managed by the energy markets Operator (GME), confirming current values. Specifically, for each GO traded on the organised market or recorded on the platform, the price is EUR 0.003, while for each TEE traded on the organised market or in bilateral transactions completed with the TEE record, the price is EUR 0.1.

- **Increase in electricity dispatching service costs: measures subsequent to resolution no. 342/2016 of the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA)**

Following the impugnment by ERG Power Generation S.p.A. and ERG Hydro S.r.l. of ARERA resolution no. 342/2016 and consequent provisions, last November the Lombardy TAR confirmed the lawfulness of the impugned provisions. The two companies of the ERG Group lodged an appeal with the Council of State against the TAR decision.
Resolution no. 342/2016 was promulgated by ARERA following significant increases in dispatching service costs for end customers recorded in 2016.

Resolution no. 342/2016 was followed by specific provisions addressed to ERG Power Generation S.p.A. and ERG Hydro S.r.l. whereby the Authority closed the procedures initiated with resolution no. 342/2016, issuing specific prescriptions for ERG Hydro S.r.l. and ERG Power Generation S.p.A. On these bases, Terna proceeded to quantify the amount to be returned, the economic impact of which was not considered significant.
Both the resolutions of ARERA and the quantification performed by Terna are subject to the repeal proceeding currently pending before the Council of State.

Incentive framework

• Wind 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 sale 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. With the Italian Ministerial Decree of 4 July 2019, wind power and photovoltaic compete together for the same quota both for the registries and for the 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 period. • Plants that entered into operation from 2017 onwards: FIP incentives allocated through Dutch auctions (EEG 2017).
France	• Plants that stipulated the application to purchase electricity generation by December 2015: a feed-in tariff (FIT) for 15 years, defined based on the year the application to purchase electricity generation was made and updated annually according to a formula tied to the index of hourly labour cost and to the index of the generation prices of industrial products. After 10 years of operation, it will be reduced for the subsequent 5 years of the incentive based on the wind farm's actual load factor if the annual number of hours of operation exceed 2,400. • Plants that stipulated the application to purchase electricity generation in 2016: feed-in premium (FIP). The FIP is divided into several components: the incentive component (*complément de rémunération*), calculated as the difference between the current FIT and the average monthly price of energy weighted on the national wind power profile, plus a management premium to cover the costs for managing the sale of energy. • New plants that do not fall into the above categories: recognition of incentives occurs through auction procedures or direct access in the case of plants with a capacity below 18 MW and wind turbines with unit power not exceeding 3 MW.
Bulgaria	• A feed-in tariff (FIT) in brackets based on hours of operation, which is constant in nominal terms. The duration of the incentive varies based on the date of entry into operation, and can be equal to 12 years or 15 years. From 1 January 2019, for existing plants with capacity of over 4 MW, the incentive scheme has moved from a FIT structure to a FIP structure. The incentive is calculated as the difference between the value of the FIT tariff, as previously recognised, and a Reference Price calculated on the estimate of the future price of electricity adjusted on the wind profile. From 1 October 2019, existing plants with capacity between 1 MW and 4 MW also moved to the FIP.
Poland	• Plants in operation by July 2016: Certificates of Origin (CO). The Substitution Fee (the penalty applied in the event of non-compliance with the CO purchase obligation) is calculated on the basis of the weighted annual average of the prices of the COs recorded the previous year, plus 25%. • From 2018 onwards, a multi-technology Dutch auction system was reintroduced, i.e. wind - photovoltaic. The quotas and the starting auction prices are defined by the Government. The incentive is calculated as the difference between the awarded price, inflated on a yearly basis, and the average daily price of electricity (two-way CFD).
Romania	• Green certificates with a duration of 15 years with delayed assignment with respect to the underlying electricity output. Specifically: a) recovery period of the Green Certificates (GCs) held from 1 July 2013 to 31 March 2017 (it takes place at constant instalments through the years 2018-2025); b) period of validity of the GCs, which is planned until 31 March 2032 (only the GCs issued before 31 March 2017 maintain the validity of 12 months); • the cap and the floor between which the price of the GCs may fluctuate were set respectively at 35 EUR/MWh and 29.4 EUR/MWh; • from 2018 onwards, the mandatory quota for the electricity consumers shall be determined according to a pre-set fixed volume of GCs on the market and a maximum average expense on the end consumer;

Solar sector incentives

Italy

- Incentives for photovoltaic plants are paid through a FIP tariff on energy entered into the network for the duration of 20 years;
- The feed-in tariff was introduced in Italy with Interministerial Decrees of 28/07/2005 and of 06/02/2006 (1st Feed-in Premium) which provided for a financing system for electric power generation operating expenses;
- New measures were introduced with Italian Ministerial Decree of 19/02/2007 (2nd Feed-in Premium) such as the application of the incentive tariff on all energy produced by the plant and differentiation of tariffs also in function of the type of architectural integration and the size of the plant;
- In 2010, the 3rd Feed-in Premium came into effect with Italian Ministerial Decree of 06/08/2010, applicable to plants which came into operation from 1 January 2011 to 31 May 2011, which introduced specific tariffs for integrated photovoltaic plants with innovative characteristics. Italian Law n. 129/2010 (so-called “save Alcoa law") then confirmed the 2010 tariffs of the 2nd Feed-in Premium for all plants able to certify the conclusion of works by 31 December 2010 and become operational by 30 June 2011;
- The Italian Ministerial Decree of 05/05/2011 (4th Feed-in Premium) defined the incentive mechanism relating to plants coming into operation after 31 May 2011 and introduced an annual cumulative cost limit for incentives, set at EUR 6 billion;
- The Italian Ministerial Decree of 05/07/2012 (5th Feed-in Premium) partly confirmed the provisions of Italian Ministerial Decree of 05/05/2011 and fixed the cumulative cost of incentives at EUR 6.7 billion. The incentive provisions of the Feed-in Premium were no longer applied after 6 July 2013 when the ceiling of EUR 6.7 billion was reached;
- The Italian Ministerial Decree of 17 October 2014 (so-called “incentive spreading” decree) made it mandatory for producers to choose, by November 2014, a method for remodulating incentives:
  a) extension of the incentive period by a further 4 years with simultaneous reduction of the unit incentive by a value of between 17% and 25%, depending on the residual life of the right to incentives;
  b) an initial period of incentive reduction followed by a subsequent period of increase thereof for an equivalent amount;
  c) flat reduction applied for the remaining incentive period, variable between 6% and 8% depending on the size of the plant.
- The Italian Ministerial Decree of 4 July 2019 allows photovoltaic plants to access the incentives through auctions and registries together with the wind power quota provided that:
  a) they are authorised;
  b) they use new components;
  c) they comply with the prohibition to install ground-located modules in a farming area.

Duration of the incentive: 20 years

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 sale price of the electricity of the previous year. Duration of the incentive: 15 years;**
- Facilities starting operations from 2013 onwards that requested the incentive in accordance with the Ministerial Decree of 6 July 2012 and the Ministerial Decree of 23 June 2016:
  - if their power is less than 250 kW, all-inclusive tariff for 20 years through direct access;
  - if their power is between 250 kW and 10 MW, one-way CFD through Registry for 20 years for plants up to 1 MW; 25 years for plants with greater power if incentivised with the Italian Ministerial Decree of 6 July 2012, otherwise for 30 years if their power is greater than 5 MW and if incentivised with the Italian Ministerial Decree of 23 June 2016;
  - if their power is greater than 10 MW, one-way CFD through auction for 25 years if incentivised with the Italian Ministerial Decree of 6 July 2012, otherwise for 30 years if incentivised with the Italian Ministerial Decree of 23 June 2016;
- Plants requesting the incentives in accordance with the Italian Ministerial Decree of 4 July 2019:
  - if their power is less than 250 kW and they are included among certain cases, access to all-inclusive tariff through Registry for 20 years;
  - if their power is greater than 400 kW but less than 1 MW, two-way CFD for 20 years through registry;
  - if their power is up to 400 kW and 25 years for power between 400 kW and 1 MW;

- if their power is greater than 1 MW, two-way CFD through auction for 30 years.

Most of the hydroelectric plants of the ERG Group are incentivised through FIP tariff for 15 years as a result of partial hydroelectric revamping.
Additional mini-hydroelectric plants are incentivised through fixed all-inclusive tariff assigned with direct access (in accordance with the Italian Ministerial Decree of 23 June 2016) or as a result of successful participation in the selection through registries in accordance with the Italian Ministerial Decree of 4 July 2019.

• Thermoelectric (Cogeneration)

Italy

- High-Efficiency Cogeneration - HEC (cogeneration of electricity and useful heat) is incentivised through the recognition of Energy Efficiency Certificates - EECs (White Certificates), issued for ten years on the basis of the primary energy savings that cogeneration makes it possible to achieve when compared to the separate production of the same amount of electricity and heat. Energy Efficiency Certificates are exchanged in a regulated market managed by the Energy Markets Operator (Gestore dei Mercati Energetici, GME) or through bilateral negotiations between operators.
  ERG owns a high-efficiency cogeneration (HEC) plant, based on combined-cycle, natural gas fuelled technology, to which are recognised Energy Efficiency Certificates on the basis of the energy savings achieved annually.

Relevant legislative and institutional updates during the year

General

European Union

- **New measures of the Clean Energy for all Europeans package**
  On 21 December 2018, three measures provided by the "Clean Energy Package" of the European Commission, issued at the end of 2016, were published on the Official Journal of the European Union. These are the new directives on renewal energies and on energy efficiency, as well as of the Governance regulation.
  The measures were approved by the European Parliament on 13 November 2019 and by the EU Council on 4 December 2018.
  The remaining four measures, completing those of the Clean Energy Package, were published on the Official Journal of the European Union on 14 June 2019. They are: the Directive on the electricity market, the Regulations on the electricity market and on the Risk Preparedness of the electricity system and of the Regulation on the ACER.

- **Governance Regulation**
  The Regulation introduces the obligation for each Member State of preparing its own National Plan for Energy and Climate, containing the definition of national energy/environment targets for 2030, as well as the details of the times and implementing procedures for their achievement.
  In this regard, a unified methodology for the calculation of national contributions is provided, and all Member States must follow it to calculate their own contribution.
  States may determine the division of the unit target for 2030 among the various energy components (air conditioning, transport, electricity).
  For the renewable electricity generation target, the States shall indicate implementation volumes and times, following a nearly linear trajectory.
  The draft National Plan must be sent to the EU no later than 31 December 2018 (Italy sent it on 8 January 2019), to be subsequently analysed by the Commission and possibly returned to the State that sent it for any refinement. The definitive version of the Plan shall be sent to Brussels no later than 31 December 2019 Italy sent its NECP in early January 2020).

  On 25 February, after the last plan was sent by Spain, the European Commission communicated that all proposed National Energy and Climate Plans (NECP) sent by the 28 Member States had been received.
  The documents were evaluated by the various executive bodies of the EC; based on the Regulation, the EC sent recommendations to each Member States last 30 June 2019. EU Countries were tasked with submitting to the Commission the final version of the NECPs that will include the EC recommendations and the results of the national consultation process no later than 31 December 2019.

- **Regulation and Directive on Electricity Markets**
  The new provisions are directed at increasing competition in the electricity sector, flexibility in electricity generation and consumption dynamics, offering additional rights to consumers and facilitating their active participation in the market.
  The *Energy Only* model for electricity markets is confirmed, designing them to facilitate the full integration of renewable sources, the promotion of flexibility on the generation side and *demand-side response*,
  "Off-market" support interventions, such as must-run and priority dispatching, are expected to be rendered unnecessary.
  It will still be possible to launch a market for electricity generation capacity to overcome temporary critical issues of the energy market, with new rules to be applied after 2020. For participants, adequate Emission Performance Standards (EPS) are expected to be introduced, to discourage support to plants with higher emission of greenhouse gases.
  In addition, market conditions will be created for the development of storage (electrochemical, pumping, hydrogen) and of electricity mobility.

- **Revision of the European Market Infrastructure Regulation (EMIR)**
  Regulation no. 834/2019, the so-called Refit EMIR (Regulatory Fitness and Performance Programme), published in the Official Journal of the European Union on 20 May 2019, entered into force on 17 June 2019, amends the EMIR Regulation on OTC (over the counter) derivative instruments.

The amendments affect the compensation obligation for financial counterparties (CF) and non-financial counterparties (NFC), the procedures for reporting OTC derivatives by financial counterparties if the compensation thresholds are exceeded, the procedures for the counterparties to report the novation of derivatives, the specification that the compensation obligation includes all types of novation of derivative contracts.

- **Letter of formal notice to Member States for the hydroelectric sector**
  On 7 March 2019, within the scope of infringement proceedings no. 2011/2026 on renewal of the hydroelectric Concessions,
  the European Commission notified the Italian Government of a new complementary Letter of Formal Notice pursuant to the similar letter of September 2013.
  In parallel, letters of complaint were sent on the matter of the failure to open competitive proceedings for hydroelectric concessions to Austria, France, Germany, Poland, Portugal, Sweden and United Kingdom.
  With the new letter to Italy, the EC restates the objections to the Italian regulations already represented in the past and not fully resolved (according to the Commission) with the recent regulations on the matter (Italian Law no. 12/2019).
  The complaints pertain in particular to the violation of the Directive on Services (2006/123/EC) and of the Treaty on the Functioning of the European Union (TFEU) because in the EC's opinion no transparent, impartial tenders have yet been initiated at the EU level for the renewal of expired or expiring Italian hydroelectric and concessions and indemnities are imposed in favour of the outgoing concession holder that would be penalising for the incoming concession holder.

- **2019 European Elections**
  On 25 May 2019, elections for the renewal of the European Parliament were held.
  The elections, with average voter participation above 50% of those entitled, marked a trend reversal with respect to the declining trend recorded since 1979.
  The outcome of the vote can be summarised as a defeat for social democrats (S&D) and the people's parties (EPP), which thus lost the majority of seats in Parliament, which they held for several decades, and lower than expected performance of the nationalist parties.
  Therefore, a majority of pro-European Union forces was consolidated, thanks to the growth in the groups of liberal Euro MPs (ALDE), supported by the French Euro MPs led by President Macron (REN) and of the Greens.
  In particular, ALDE and Green, both sharply focused on the environment, are considered the main winners of the elections.

- **New European Commission**
  On 16 July 2019 Ursula Gertrud Albrecht - von der Leyen, member of the German CDU and Defence Minister of Germany, was elected President of the European Commission - first woman to serve in that office. The new European Commission, comprising 26 European commissioners who assist the president in the next five years - 11 women and 15 men - took office on 1 December 2019.
  Among the commissioners, Frans Timmermans was designated as executive vice-president of the Commission for the *European Green Deal* (EGD) with delegated powers for Climate.
  On the occasion of the Madrid COP 25 of December 2019, the President communicated the contents and general timeline of the EGD.
  Among the 47 main "actions" that will comprise the EGD, some directly pertain to the energy sectors, in particular the general Plan for the reduction of greenhouse gas emissions by 2030 between 50% and 55% - versus the current 40% of the Clean Energy Package - to reach "climate neutrality" (zero net CO_2 emissions of anthropic origin) by 2050. The presentation of the Plan should take place in the summer of 2020. By June 2021, the policy measures to achieve this new objective will be revised, starting from the Emission Trading System (which will be extended to new sectors), from the reduction of emissions in exempt sectors and from the regulation of the farming and forestry chain.
  By June 2021, the directives on renewable sources and on energy efficiency will also be revised.
  In 2020 are also planned the measures for the "smart integration of renewable energies and energy efficiency" in the different sectors, including the promotion of the development of "renewable gases"; existing infrastructures will not be neglected, but rather they will have to be enhanced to make them suitable for the purpose.
  One of the largest regulatory products is the "gas package", which will include measures in support of decarbonized gases and a new market design.
  In June 2020, the EC will publish the final assessment of the Integrated National Energy and Climate Plans (INECPs) which will then have to be revised in 2023 to align them to the new targets of the EGD.

The Guidelines on State aid will be revised by 2021, while in 2021 the revision of the *Energy Taxation Directive* in environmental terms will be proposed; it will probably be associated with a border carbon-tax (called "*carbon border adjustment mechanism*") for sectors not subject to measures for the reduction of carbon leakage risk contained in the ETS (e.g. free quotas).

In mid-January 2020, the European Parliament favourably received the EGD of the Commission through a specific Resolution and in fact it suggested bringing to 55% the 2030 GHG reduction targets. It also invited the Commission to promptly revise the ETS directive, and to accelerate the revision of the renewable energies directive to align it to the proposed objectives and to remove direct and indirect subsidies to fossil fuels no later than 2020.

In the same period the European Commission, within the EGD, submitted to the European Parliament the *Sustainable Europe Investment Plan*, together with the *Just Transition Mechanism* to allow all Member States to carry out the transition towards decarbonization in a non-discriminatory way.
The Plan should mobilise for the next 10 years a volume of investments of approximately 1,000 billion Euro, half of which will originate firstly from the long-term Budget of the EU and to a lesser extent from the revenues of the *Emission Trading System*. The remaining half will be finance by the Member States and by the European Investment Bank, as well as by the private sector.
Aside from direct or indirect funding, the Plan should stimulate the creation of a regulatory and financial framework useful to concentrate both public and private investments in the transition of the economy towards environmental sustainability.
In parallel, through the Plan the Commission intends to support public institutions to promote the transition towards the objectives of the EGD, above all through the revision of the State Aid Guidelines and of the treatment of green / sustainable investments with respect to the budget rules of the Union.
The funds for the *Just Transition Mechanism* will come in a lesser percentage from the duly created *Just Transition Fund*, from a system of guarantees from InvestEU (the union programme to sustain investments and access to funding) to attract private investments and from a lending mechanism for the public sector in collaboration with the European Investment Bank (EIB).
To access the European funds, Member States shall identify admissible territories through territorial plans agreed with the Commission, undertaking to offset every Euro paid by the fund with at least EUR 1.5 from other European funds to which they access, as well as from national funds. The resource allocation criteria will be based both on the volume of initiatives required to implement the transition, and on the impacts in employment terms to the most heavily impacting sectors (e.g. fossil sources), and at the level of the economy of the requesting State. Sites with nuclear power plants are excluded from eligible areas.

Italy

- **Conversion Law of the "Simplifications" Law Decree**
  In December 2018, Law Decree no. 135 of 14 December 2018 was published on the Official Gazette; it introduces "Urgent support and simplification provisions for entities and for the public administration", known as "Simplifications Decree".
  The law converting the Simplifications Decree - Law no. 12 of 11 February 2019 - was published on 12 February 2019 and introduced changes to the rules for concessions for large-scale diversion of water for hydroelectric use and on the determination of the related annual concession fees, whose applicability to concessions that are not due to expire shortly is still being assessed.
  In a nutshell, the new regulations provide that:
  - upon the expiry of the concessions or in the event of withdrawal or surrender, ownership of "wet" works - 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 "dry" works - turbines, alternators, buildings - if they are deemed reusable, the outgoing concession holder will be paid a price on the basis of the estimated value of the material in place, calculated at the time of initial possession, minus the amortised 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 non-current assets to be reused according to the proposed concession project,

a price is paid to be 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 reassigned by the Regions to economic operators identified through public tenders, or to companies with mixed public and private capital, or through forms of public/private partnerships.
- within one year but no later than 31 March 2020, the Regions regulate by law the methods and procedures for the concession reassignment tenders; such procedures shall be initiated within two years from the entry into force of the regional law, subject to the application of procedures defined by a specific project of the MSE-MATTM in case of failure to comply with the terms;
- the duration of the new concessions is between 20 years and 40 years, which can be extended up to 10 years for particularly complex / costly projects;
- the concession fee, to be determined by regional law, shall consist of two components:
  - a fixed one, tied to the average nominal concession power,
  - a variable one, tied to "normalised revenue" determined according to the energy sold and the zonal price.
- Regions may require concession holders for a free annual supply of electricity of 220 kWh for each kW of average nominal concession power; for concessions expiring by 2023 or already expired, regions allow the operation of the installations for the time necessary to issue the reassignment procedures - in any case no later than 31 December 2023 - upon payment of an additional fee. A decree of the Minister of Economic Development determines the minimum value of the fixed component of the fee and of the additional fee. If the decree is not adopted within 180 days, Regions may determine the minimum annual value as no less than EUR 30 for the fixed component and EUR 20 for the additional fee for each kW of concession power.

In addition to the provision on hydroelectric plants, the suppression of the "waste traceability control system" (SISTRI) and of the related contribution by obligated parties from 1 January 2019 onwards; it was replaced by the national electronic Register for waste traceability.

- **"Growth" Law Decree and subsequent Conversion Law**

  On 30 April 2019, Law Decree no. 34 of 30 April 2019, introducing "Urgent measures for economic growth and for the resolution of specific crisis situations" (the "Growth" Decree) was published on the Official Gazette.

  Among its most relevant provisions is the redefinition of the disclosure obligations involving public disbursals.

  In particular, starting from financial year 2018, parties receiving subsidies, grants and contributions in general are obligated to publish the amounts received in the accompanying notes to the financial statements and in any consolidated financial statements.

  Starting from 1 January 2020, failure to comply with the disclosure obligations entails a sanction of 1% of the amounts received with a minimum amount of EUR 2,000, in addition to compliance with publication obligations. If 90 days from receipt of notice elapse without remedy, the operator shall be obligated to return the benefit in full.

  Other measures include higher depreciation for the purchase of capital equipment, higher IMU deductibility for tax years following the one current at 31 December 2018 and initiatives to promote TEE supply on the market.

- **2018 European Law**

  On 11 May 2019, Law no. 37 of 2019 was published on the Official Gazette of Italy; known as the 2018 European Law, it introduces "Provisions for compliance with the obligations deriving from Italy's membership in the European Union".

  The measure, in force since 26 May, prescribes inter alia the implementation of EU regulation no. 1031/2010 on some details on the auctioning of CO_2 quotas, of the European regulations on the recovery of waste electrical and electronic equipment (WEEE), as well as the repeal of the extension of the incentivised period for biomass, biogas and sustainable bioliquid fuel installations.

- **ARERA - 2019-2021 Strategic Framework**

  On 19 June 2019, ARERA published Resolution 249/2019/A whereby it adopts its own 2019-2021 Strategic Framework.

  The Strategic Framework specifies the strategic objectives in the current and medium term scenario, as well as the main lines of intervention, with their timeline.

For infrastructure, the focus shall be on the new technologies developed in the market (electrochemical accumulations on the electrical side, power-to-gas, hydrogen and renewable gases on the gas side) to ensure that network operators will continue to perform their function as neutral market facilitators.
The Capacity Market is confirmed along with the progressive development of the MSD, opening to all available resources and technologies.
The evolution of measurement instruments (smart meters) and the management of measurements (SII) with the consequent availability of data will make it possible to advance beyond current profiling systems and will constitute the main elements in support to the development of "aware consumers".
For the development of more efficient and integrated electricity and gas markets at the European level, it prescribes reassessing the activity of Terna and of electricity distributors, within a progressively more widespread use of distributed generation and accumulation resources along with an ever more active management of networks.
Innovative methods will be implemented for the procurement of dispatching services, taking into account the results of the pilot projects, adapting capacity market rules following the entry into force of the EU regulations contained in the Clean Energy Package. With the same reference, it will be necessary to revise the regulations pertaining to closed generation and consumption systems.
In the three-year time frame, the Authority also intends to enhance the contractual instruments and those protecting consumers/prosumers in retail markets, to take into account the new opportunities for market participation created by new technologies and by more widespread digitisation.

- **Law no. 117/2019 - "2018 European Delegation Law"**
  On 18 October 2019, Law no. 117/2019 introducing "*Delegated powers to the Government for the transposition of European directives and the implementation of other European Union acts - 2018 European Delegation Law"* was published on the Official Gazette no. 245.
  The measure merely establishes principles and directive criteria for the transposition of EU regulations. The most significant provisions pertain to the disposal of incentivised photovoltaic panels placed on the market before 12 April 2014, landfills and waste management, the resolution of tax disputes within the EU, the domestic market of natural gas and security in its procurement.

- **Conversion Law of the "Enterprise Crises" Law Decree**
  Last 2 November 2019, Law no. 128/2019 converting Law Decree no. 101/2019 ("Enterprise Crises Law Decree") was published on the Official Gazette no. 257; it contains, in Article 13-*bis*, a measure on the matter of cutting the incentives by the GSE. The law entered into force on 3 November 2019.
  The law amends with retroactive effects the set of penalties for violations detected in the collection of incentives for renewable energy; the monetary administrative penalties, even if they have already been assessed, have been reduced further (with respect to the amendment already introduced by the 2018 Budget Law).
  For plants that generate renewable energy, the GSE now orders the reduction of the incentive by between 10% and 50% depending on the extent of the violation; if violations are voluntarily reported by the responsible party outside an audit and inspection proceeding, reductions are further halved.
  Reductions are applied to plants already built and in operation that are subject to current administrative proceedings and, at the involved party's request, to those with GSE decisions on the forfeiture of the incentives, subject to proceedings with non-final decisions at the date of entry into force of the law.
  For large photovoltaic plants lacking regular certification, a 10% reduction of the feed-in premium is applied, even to plants to which the previously prescribed 20% reduction has already been applied; for "small" photovoltaic plants lacking certification, a 10% reduction is applied.

- **Conversion Law of the "Cybersecurity" Law Decree**
  On 20 November 2019, Law no. 133 of 18 November 2019, introducing "*Conversion into law, with amendments, of Law Decree no. 105 of 21 September 2019, introducing urgent provisions pertaining to the scope of national cybersecurity*", was published on the Official Gazette no. 272.
  Paragraph 2-*bis* of Article 1 specifies the criteria for the process for defining the "National Scope" of the involved parties. The scope shall comprise different players, both public and private.
  Parties shall be identified every four months from the entry into force of the law (21 November 2019). Inspection and audit competence is entrusted to the Office of the President of the Council of Ministers, which can rely on the Agency for Digital Italy. For private parties, the responsibility rests with the Ministry of Economic Development.

- **Conversion Law of the "Climate Law Decree"**
  On 13 December 2019, Law no. 141/2019 converting the "Climate/Air Quality Law Decree" was

published on the Official Gazette no. 292/2019.
Briefly, the law provides a “mobility bonus” intended for residents of municipalities with polluting emissions exceeding the European air quality regulations, of 500 or 1,500 Euro for those who scrap respectively a motorcycle or a motorcar up to Euro 3 Class no later than 31 December 2021 and it may be used to purchase passes for local public transportation or bicycles including pedal assist bicycles. Also provided are a fund to finance local public transportation improvement projects, allocations for state and municipal transportation with eco-sustainable vehicles, resources to finance an experimental reforestation programme, funds to promote the sale of some bulk or on-tap products.
The deadline to start returning taxes and pension and social security contributions not paid as a result of the “heavy pay slip” in central Italian areas affected by the 2016 earthquake is extended to 31 December 2019.
A permanent inter-ministerial Table is to be established at the Ministry of the Environment, to monitor and align to the results the actions of the national strategic Programme to contrast climate changes and improve air quality.
In addition, obligations to publicise environmental data have been established for public administrations, public service contractors and providers of public utility services.

- **Conversion into law of the 2020 Tax Decree and 2020 Budget Law**

On 24 December 2019, Law no. 157 of 19 December 2019, converting the 2020 Tax Decree no. 124/2019, was published on the Official Gazette no. 301.
With regard to energy, the provisions pertaining to the electronic transmission of electricity and natural gas quantities are provided, along with measures to improve the identification of missed payments of excise duties on natural gas and electricity.
The law also prescribes the archiving of files regarding electronic invoices and all relevant data until the 31st of December of the eighth year following the year of presentation of the invoice.
The law forbids cumulating the incentives recognised by the 3rd, 4th and 5th Feed-in Premium and the tax reduction prescribed by the “Tremonti Environment” law; it defines a procedure to allow taxpayers to maintain their right to benefit from the incentive tariffs of the three Feed-in Premiums, waiving the tax benefit enjoyed and paying and amount proportionate to the decrease applied in the income tax return.
Completion of the settlement entails the extinction of any pending cases pertaining to the recovery of tax relief to which the taxpayers are not entitled.
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On 30 December 2019, Law no. 160/2019 introducing the “State Budget for financial year 2020 and the multi-year budget for the 2020-2022 three-year time interval” was published by the Official Gazette no. 45/L.
Among the main provisions of interest, of note are the sterilisation of the VAT increase for the years from 2020 to 2022, the deductibility of the municipal tax relating to investment properties, as well as the establishment of a multi-year Fund tor circular economy, directed at re-launching the investments of public administrations with reference to the circularly economy, to decarbonisation of the economy, to the reduction of emissions, to energy savings, to environmental sustainability and to innovation. The fund would also be open to enterprises with “high sustainability”.
To support public expenditure programmes oriented to eco-sustainability, “Green” Government bonds are to be issued, while to implement the plan for the reduction of environmentally harmful subsidies, a dedicated Commission has been established with the Ministry of the Environment.
There is also a plan to reduce the environmental impact of Public Administration vehicles, through the introduction of vehicles powered by electricity, hybrid or hydrogen.
For transport companies, contributions are allocated for the renewal of the vehicle pool, promoting CNG, LNG, hybrid and electric or with EUR 6 internal combustion engines.
To facilitate the digital transition process of companies, the tax incentives provided by Impresa 4.0 are redefined. A tax credit is also provided for investments in research and development, in ecological transition, in technological innovation 4.0 and in other innovative activities.
Additional resources are allocated to the Fund for the sustainable growth for the reconversion and productive requalification of areas affected by industrial crisis.
The adoption of specific excise duty rates on the energy products used in the generation of electricity is confirmed.

- **Law-Decree no. 162/2019 “*Milleproroghe*” (A Thousand Extensions)**

Last 30 December 2019, the Law-Decree no. 162/2019 known as “*Mille proroghe*” (A Thousand Extensions), which should be converted into law by the end of February 2020, was published on the Official Gazette no. 305.

Among the main provisions is included the postponement of the liberalisation of retail markets in the gas and electricity sectors from 1 July 2020 to 1 January 2022, both for small and medium enterprises and for households. The Decree also indicates the process for the definition, by the Ministry of Economic Development, of criteria and procedures for informed entry into the market of end customers and for the definition of the List of authorised sellers.
With regard to cyber security, some provisions are specified with respect to the definition of the scope of national security, to be provided by an act of the President of the Council of Ministers not subject to publication or communication.
The Decree also prescribes that by the end of February 2020, by a decree of the President of the Council of Ministers a Commissioner and a Deputy Commissioner for the GSE shall be appointed at the proposal of the Ministries of Economic Development and of the Economy and Finance.

- **National Energy and Climate Plan (NECP)**
  The final version of the NECP was notified by Italy to the European Commission at the start of January 2020, which followed the transmission of the initial proposal in January 2019,
  The main overall decarbonisation targets for the country for 2030 can be summarised as follows:
  - portion of energy from renewable sources in gross final energy consumption, amounting to 30%;
  - portion of energy from renewable sources in gross final energy consumption in transports amounting to 22%;
  - portion of incremental energy from renewable sources in gross final consumption for heating and cooling amounting to 1.3%; per year (indicative);
  - reduction of primary energy consumption with respect to the PRIMES 2007 scenario (prior to the 2008 economic crisis) amounting to 43% (indicative);
  - reduction of greenhouse gas emissions for sectors not included in the Emission Trading System with respect to 2005 emissions amounting at least to 33%;
  - level of electric interconnection with bordering states amounting at least to 10%;
  - the indicative target for renewable energy in gross final electricity consumption amounts to 55%.

  No particular differences are noted for the significant issues with respect to the initial proposal set in January 2019, barring further increases of the targets for targets for electricity generation from wind and solar source, some more punctual references on the streamlining of the authorisation processes for farms and plants that are new or repowered and transmission infrastructures.
  The plan for getting out of coal-fueled electricity generation by 2025 is confirmed, while the contribution of the increased wind power generation capacity relating to repowering is not specified, as was instead required by the European Commission last June.

United Kingdom

General elections

The 2019 general elections in the United Kingdom were held on 12 December to elect the 650 members of the House of Commons, which comprise the 58th Parliament of the United Kingdom.
The Conservative Party, with 44% of votes, obtained 365 Parliament seats, against the 203 seats of Labour, 48 of the Scottish independence party and 11 of Liberal-Democrats.
The main result of the outcome of the vote translates into the consolidation of the plan for the exit of the United Kingdom from the European Union on 31 January 2020.

BREXIT

On 29 January 2020, the EU Parliament ratified the agreement for the exit of the UK from the EU. Since 1 February 2020, the UK has officially been a third party Country with respect to the Union; hence, negotiations have started for an overall trade agreement, which the party will have approximately one year to develop.
By effect of the current framework agreement, which does not provide the definition of a "hard" border between the Republic of Ireland and Northern Ireland, the risks of a possible division of the I-SEM electric market of the island of Ireland seem to have been avoided, to date.

France

Programmations Pluriannuelles de l'Énergie (PPE)

The new version of the PPE was issued as a draft in January 2019. The presented document calls for a three-fold increase in the installed capacity of electricity generation from onshore wind sources and a five-fold increase in PV capacity by 2030, while for offshore it calls for the construction of the Saint-Nazaire Wind Farm and 4 auctions for new projects. The specific targets for onshore wind power

indicate:
- for 2023, 24.6 GW
- for 2028, from 34.1 to 35.6 GW
- measures to encourage re-launching the operating capability of wind farms at the end of their life, installing latest-generation and hence more efficient machines.

In addition, a provision obligating to recycle the materials used in dismantled wind turbines will be implemented by 2023.

With regard to nuclear energy, the PPE calls for closing reactors for a power of 14.9 GW no later than 2035 including two reactors by the summer of 2020, the closing of 4-6 reactors from 2025 to 2030 and 6-8 reactors between 2030 and 2035.
The PPE should be finalised by the first quarter of 2020, after the consultation procedure and the approval of the Loi Énergie Climat, which prescribes inter alia the decrease to 50%, by 2035, of the proportion of nuclear power relative to total electricity output and the target of carbon neutrality in France by 2050.

Following French media reports of some unjustified expenses, the environmental Transition Minister, François de Rugy, resigned on 16 July. He was replaced by Elisabeth Borne, who is the Transport minister.

Germany

Coalition agreement on 8 GW of additional auctions for wind and solar energy
At the end of 2018, the governing coalition in Germany reached an agreement on the increase of the contingents to wind, solar and technologically neutral auctions.
For on-shore wind power, the total increase amounted to 4 GW; an additional amount of 4 GW will be auctioned for photovoltaic solar power.
Half of the volumes of technologically neutral auctions, regardless of whether they are awarded from wind or PV, will be subtracted from the volumes of the auctions “dedicated” to individual technologies of the following year.

Climate Protection Programme - Climate Protection Law and National fuel emissions trading scheme law
At the end of November 2019, the Council of State Governments (*Bundesrat*) approved two essential elements of the Government’s Climate Protection Programme, directed at facilitating the attainment of decarbonisation targets and support the German wind power industry which has been having difficulties for a few years.
The Climate Protection Law is a framework law converting into law the decarbonisation targets for 2030 (-55% of greenhouse gas emissions) and carbon neutrality by 2050, assigning specific annual emission budgets by sector for the 2020-2050 time interval,
The National fuel emissions trading scheme law prescribes valorising greenhouse gas emissions in the transport and construction sectors as an instrument to achieve climate targets. The companies that distribute fuels or the suppliers of fuels shall pay for emission permits (upstream approach). The price of permits will start from 25 EUR/t from 2021 to reach EUR 30 in 2022, EUR 35 in 2023, EUR 45 in 2024 and 55 EUR/t in 2025; subsequently, an auction shall be adopted, initially in the range between 55 and 60 EUR/t.

Plan for the phase-out of electricity generation from lignite
In mid-January 2020, the Federal Government and the four “coal-bearing” States, i.e. Saxony-Anhalt, Saxony, North Rhine-Westphalia and Brandenburg reached an agreement for discontinuing the use of lignite in electricity generation.
The agreement, to be presented to the *Bundestag* shortly and afterwards to the *Bundesrat* for a definitive approval by June 2020, envisions a programme for the progressive closure of all lignite-fuelled power plants ending in 2038 but with the intention of moving the deadline forward to 2035.
The agreement provides direct compensation to the regions involved in the programme, quantified at EUR 14 billion; in parallel, additional indirect measures amounting to EUR 26 billion are provided for social and economic support of the territories in the transition phase.
To these amounts are added indemnities directed to the two holdings owning the lignite plants - RWE and EPH - for a total amount of approximately EUR 4.35 billion.
The schedule would entail shutting down 8 plants by 2022 for a total of 2.8 GW, of 1.3 billion for the 2025-2027 three-year time interval, 1,600 MW in 2028 and 2,800 MW in 2029.
The remaining plants, with a total capacity of 7,300 MW, will be shut down between 2030 and 2038.
Concerning the exit from coal with higher heating value (anthracite), a first bill prescribes the use of

auctions to progressively remove this fossil source.
Electricity generation shall be offset by the development of generating plants powered by renewable energies (in particular, wind and photovoltaic) and gas, in addition to an 1,100 MW last-generation coal set.
The granted lignite phase-out programme will nevertheless not be sufficient for Germany to achieve the declared decarbonisation target.

FINANCIAL STATEMENTS

Income Statement

This section contains both Reported income results, calculated on the basis of the values posted in the Notes to the Consolidated Financial Statements and the Adjusted results, posted with the exclusion of the impacts relating to the adoption of IFRS 16 and IFRS 9, as well as of special items, to facilitate understanding the Group's operating performance.
It should be recalled that this section reflects the impacts of the consolidation, from 1 January 2019, of the companies acquired during the year.
For the definition of indicators, the composition of the financial statements and the reconciliation of the amounts involved, reference is made to that indicated in the section Alternative Performance Indicators below.

		Reported		Adjusted	
(EUR million)		2019	2018	2019	2018
Revenue	1	1,021.6	1,023.7	1,021.6	1,026.7
Other income	2	22.8	21.9	14.5	22.8
Total revenue		**1,044.4**	**1,045.6**	**1,036.1**	**1,049.5**
Purchases and change in inventories	3	(290.8)	(327.2)	(290.8)	(327.2)
Services and other operating costs	4	(190.5)	(172.0)	(176.6)	(167.3)
Personnel expense		(67.1)	(66.8)	(65.0)	(64.3)
EBITDA		**495.9**	**479.6**	**503.7**	**490.6**
Amortisation, depreciation and impairment of non-current assets	5	(306.0)	(274.1)	(298.8)	(274.8)
Operating profit (EBIT)		**189.9**	**205.5**	**204.9**	**215.8**
Net financial income (expense)	6	(137.1)	(61.4)	(61.2)	(69.7)
Net gains (losses) on equity investments		(0.5)	(0.1)	0.1	(0.1)
Profit before taxes		**52.3**	**144.0**	**143.8**	**146.1**
Income taxes	7	(19.5)	(39.7)	(38.9)	(39.0)
Profit (loss) from continuing operations		**32.8**	**104.3**	**104.9**	**107.1**
Net profit (loss) from continuing operations	8	0.0	28.4	0.0	0.0
Net profit (loss) for the year		**32.8**	**132.8**	**104.9**	**107.1**
Non-controlling interests		(1.2)	(0.1)	(1.2)	(0.1)
Profit attributable to owners of the parent		**31.6**	**132.6**	**103.6**	**107.0**

1 - Revenue

Revenue from sales consists mainly of:

- sales of electricity produced by wind farms, thermoelectric installations, hydroelectric plants and 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.

2019 revenue amounts to EUR 1,022 million, slightly down compared to EUR 1,024 million in 2018, which did not include the revenue of the company Brockaghboy Windfarm Ltd, sold in the first quarter of 2018, in accordance with IFRS 5.

2019 adjusted revenue amounts to EUR 1,022 million, slightly down compared to EUR 1,027 million in 2018. The change is a result of the following factors:

- the increase (EUR +24 million) of the **Wind power sector**, which rose mainly as a result of the higher output both due to more favourable wind conditions, both in Italy and abroad, and to the contribution provided by the higher MW in operation abroad (totalling EUR 414 million versus EUR 389 million);

- the increase of the **Solar sector** (EUR +33 million), as a result of the additional growth in the sector due to the acquisition of two photovoltaic plants with installed capacity of 51.4 MW (EUR 71 million versus EUR 38 million);
- the **Hydroelectric sector**, markedly lower than in 2018 (EUR -75 million) as a result of the reduced water resources compared to the particularly high values of 2018 (EUR 119 million versus EUR 194 million);
- the increase (EUR +14 million) of the **Thermoelectric sector** (EUR 418 million versus EUR 405 million).

2 - Other income

Other income mainly includes insurance reimbursements, compensation and expense repayments, immaterial chargebacks to third parties and grants related to income.
Other adjusted income does not include the partial release of the "provision for disposed Businesses" (EUR 8 million) in consideration of the favourable decision within a tax-related dispute, as is better commented in the Notes to the Financial Statements, to which reference is made for more details.

3 - Purchases and changes 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.

4 - Services and other operating costs

Costs for services include maintenance costs, commercial expenses (including energy transport costs), costs for utilities, for hydroelectric concessions, for agreements with local authorities, for consulting services, insurance, and for services rendered by third parties.
The other operating costs mainly relate to rent, provisions for risks and charges and to taxes other than income taxes.
Adjusted costs for services in 2019 do not include:

- ancillary charges mainly related to the acquisitions that took place in 2019 in relation to two photovoltaic plants in Italy and operational wind farms in France and Germany (EUR +9 million);
- higher allocations tied to the reappraisal of tax-related risks on the wind business in relation to 2019 and to the previous years and expenses related to corporate reorganisation of the Group, in particular to the simplification and rationalisation of the organisational-corporate structure of the Group in Italy and abroad (EUR +14 million);

Adjusted values also include lease costs that are not included in reported values in accordance with IFRS 16.

5 - Amortisation, depreciation and impairment losses

Amortisation and depreciation refer to wind farms, hydroelectric sector plants, the CCGT plant and solar installations.
The increase is tied mainly to greater depreciation and amortisation expense due to the acquisition of new photovoltaic plants at the start of 2019 and to the change in the scope of the wind power facilities acquired in France and in Germany in 2019.
Adjusted depreciation and amortisation does not include the amortisation of rights of use recognised for the purposes of IFRS 16 (EUR +7 million).

6 - Net financial income (expense)

Net financial expense in 2019 amounted to EUR 137 million, up compared to 2018 (EUR 61 million) mainly due to the non-recurring financial expenses incurred as a result of the significant liability management transactions carried out in 2019, as well as the aforementioned effects of the application of IFRS 16 as from 1 January 2019 and the reversal effect of the adjustments made in relation to the application of IFRS 9.
It is also noted that a significant portion of the non-recurring expenses incurred as a result of the Liability Management programme is attributable to the reversal of the positive adjustment, recognised upon first consolidation, of the fair value of the debt and to the prepayment of the related IRS instrument.

Adjusted net financial expense for 2019 amounted to EUR 61 million, down compared to 2018 (EUR 70 million).
The average cost of medium-long term debt in 2019 was 2.7% compared to 3.1% in 2018 as a result of

significant refinancing operations that took place in the second quarter of 2019. The return on invested liquidity was lower than in 2018 because of interest rate trends and the reduction in liquidity managed.
The item also includes the effects of the derivatives hedging against the risk of fluctuations in interest rates.

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

- expenses (EUR -66 million) relating to the closure of project financing and related IRS derivative instruments.
- financial expenses (EUR -4 million), tied to the reversal effect recognised upon application of IFRS 9 and relating to refinancing operations carried out in previous years;
- financial expenses (EUR -2 million) relative to prepayment of a corporate loan in the first quarter of 2019.

Also not included were the financial expenses related to the liability recognised upon application of the equity method introduced by IFRS 16 (EUR -4 million), as described in more detail in the relative paragraph providing further information in this regard.

7 - Income taxes
Income taxes in 2019 amounted to EUR 20 million, compared with EUR 40 million in 2018.

Adjusted income taxes in 2019 were EUR 39 million, in line with those in 2018. The adjusted tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 27% (27% in 2018).
The tax rate was in line with 2018 as a result of the re-introduction of the ACE tax benefit (*Aiuto alla Crescita* - aid to growth) with retroactive effect from 1 January 2019.

8 – Net profit (loss) from discontinued operations
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 Income Statement components associated with the sale of the equity investment were recognised, in accordance with IFRS 5, in “Net profit (loss) from discontinued operations”.

Statement of financial position

The reclassified statement of financial position contains the assets and liabilities of the mandatory financial statements, used in the preparation of the annual financial report, highlighting the **uses** of resources in non-current assets and in working capital and the related funding **sources**.
For the definition of the indicators for the main items used in the Reclassified Statement of Financial Position, reference is made to that indicated in the "Alternative Performance Indicators" section below.
Both the reported values and the adjusted values are shown below. The adjusted values at 31 December 2019 do not include the impact deriving from the application of IFRS 16 of increased net financial indebtedness of approximately EUR 78 million with a balancing entry in Net invested capital amounting to approximately EUR 77 million.

		Reported		*Adjusted*	
Reclassified Statement of Financial Position		**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**
(EUR million)					
Non-current assets	**1**	3,500.6	3,273.6	3,422.2	3,273.6
Net working capital	**2**	125.6	179.3	125.6	179.3
Provisions for employee benefits		(5.4)	(5.8)	(5.4)	(5.8)
Other assets	**3**	208.6	291.7	210.6	291.7
Other liabilities	**4**	(489.5)	(567.0)	(489.5)	(567.0)
Net invested capital		**3,340.1**	**3,171.8**	**3,263.5**	**3,171.8**
Equity att. to the owners of the parent		1,774.6	1,828.8	1,775.6	1,828.8
Non-controlling interests	**5**	11.5	0.0	11.5	0.0
Net financial indebtedness	**6**	1,553.9	1,343.0	1,476.4	1,343.0
Equity and financial indebtedness		**3,340.1**	**3,171.8**	**3,263.5**	**3,171.8**

1 - Non-current assets

(EUR million)	**Intangible assets**	**Property, plant and equipment**	**Financial assets**	**Total**
Non-current assets at 31/12/2018	**930.8**	**2,288.3**	**54.5**	**3,273.6**
Capital expenditure	4.2	63.7	0.0	67.9
Change in the consolidation scope	257.5	124.4	0.0	381.9
Divestments and other changes	(10.7)	9.1	(1.0)	(2.6)
Amortisation and depreciation	(71.1)	(227.7)	0.0	(298.6)
IFRS 16	0.0	78.5	0.0	78.5
Non-current assets at 31/12/2019	**1,110.7**	**2,336.2**	**53.6**	**3,500.6**
Adjustment for impact of IFRS 16	0.0	(78.5)	0.0	(78.5)
Adjusted non-current assets at 31/12/2019	**1,110.7**	**2,257.8**	**53.6**	**3,422.2**

The "Change in the consolidation scope" relates to the acquisition of two photovoltaic plants in Italy and of wind farms in France and Germany, fully consolidated from 1 January 2019 onwards.
The line "Divestments and other changes" comprises disposals of non-current assets, the use of main component spare parts and reclassifications.
The values at 31 December 2019 do not include the assets linked to the application of IFRS 16 of approximately EUR 78 million.

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 dynamics of collections relating to incentives as well as to the effects of the change in the consolidation scope.
The significant decrease with respect to 31 December is mainly due to the collections of the incentives relating to the output of the first ten months of 2019, as a result of the change in the timelines for collection of the feed-in tariffs for the wind and hydroelectric sectors.

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.
The increase for the year is mainly linked to the appropriation of the deferred tax liability recognised in the context of the purchase price allocation procedure relative to the aforementioned business combination.

5 - Non-controlling interests

The increase in minority interests in 2019 is linked to the aforementioned acquisition of part of the equity (78.5%) of Andromeda S.r.l. ("Andromeda " business combination).

6 - Net financial indebtedness

	Reported		*Adjusted*	
Summary of the Group's indebtedness	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**
(EUR million)				
Non-current financial indebtedness	2,100.9	1,832.2	2,030.8	1,832.2
Current financial indebtedness (cash and cash equivalents)	(547.0)	(489.2)	(554.4)	(489.2)
TOTAL	**1,553.9**	**1,343.0**	**1,476.4**	**1,343.0**

Emission Bond and refinancing operations

On 4 April 2019 ERG completed the placement of a non-convertible bond for an amount of EUR 500,000,000 with a maturity of 6 years at fixed rate, issued in the context of the Euro Medium Term Notes (EMTN) Programme. The issue took the form of a Green Bond, aimed at financing or refinancing renewable sources, wind and solar power generation projects of the ERG Group.
The issue was very successful, being over six times oversubscribed, receiving applications from top standing investors and representatives from many geographical areas, with significant participation of green and sustainable investors.
The notes, which have a minimum unit value of EUR 100,000, pay an annual gross coupon at a fixed rate of 1.875% and were placed at an issuing price of 99.674% of their nominal value.
Since December 2018 ERG S.p.A. has had a public rating of BBB- from the Fitch Ratings agency; the issue also benefited from the BBB- rating by Fitch Ratings.
Thanks to the liquidity deriving from the issue of the bond, from the subscription of a 5-year bilateral corporate loan with Commerzbank and from the liquidity generated by the ERG Group, in the first part of the second quarter of 2019, the Group proceeded to pay off the following loans ahead of time:

- loan for ERG Wind Investments Ltd with a net residual nominal value at the time of repayment of EUR 461 million[19]. The loan was hedged by an IRS derivative instrument with a negative fair value at the end of the period of EUR 53 million; a positive fair value item of EUR 43 million recorded upon first consolidation also referred to the loan
- loan for ERG Power S.r.l. with a net residual nominal value at the time of repayment of EUR 49 million. The loan was hedged by an IRS derivative instrument with a fair value at the end of the period of EUR 2 million.

The issue of the first Green Bond by ERG and the repayment of the above mentioned project financings is consistent with the strategy of progressive transformation of the Group's financial structure from Project to Corporate Financing and allows to rebalance the burden of corporate debt, which becomes prevalent, with respect to project financing borrowing.
The following table illustrates **the medium/long-term financial indebtedness** of the ERG Group:

Non-current financial indebtedness	**31/12/2019**	**31/12/2018**
(EUR million)		
Non-current loans and borrowings	675.8	794.0

[19] The net book value is of EUR 417 million, net of the positive fair value relative to the notional of approximately EUR 44 million

Current portion of bank loans and borrowings	(7.8)	(162.0)
Non-current financial liabilities	655.0	204.8
Total	**1,323.0**	**836.8**
Total Project Financing	812.1	1,177.6
Current portion of Project Financing	(104.3)	(146.2)
Non-current Project Financing	**707.8**	**1,031.4**
Long-term loan assets	**0.0**	**(36.1)**
IFRS 16 financial liabilities (non-current)	**70.1**	**0.0**
Total adjusted financial indebtedness	**2,100.9**	**1,832.2**
Adjustment for impact of IFRS 16	**(70.1)**	**0.0**
Total financial indebtedness	**2,030.8**	**1,832.2**

- The "**Non-current loans and borrowings**" at 31 December 2019 total EUR 676 million (EUR 794 million at 31 December 2018), and refer to:
  - 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 short-term 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 57 million) for the early termination of leasing contracts of 5 solar companies acquired in January 2018.
  - two Environmental, Social and Governance senior loans ("ESG Loans") with BNL (EUR 120 million) entered into in the fourth quarter of 2018, and with Credit Agricole (EUR 120 million), entered into in the first quarter of 2019, with the purpose 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.
  - a corporate loan with Commerzbank (EUR 60 million) entered into the second quarter of 2019 as part of the Liability Management activities.

  In the first quarter of 2019 a corporate acquisition loan of EUR 291 million, subscribed in 2015 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., was paid off early.

  The loans indicated above are recognised net of ancillary costs, recognised with the amortised cost method (EUR 3 million) and the effect of the renegotiation of borrowing (EUR 3 million) following the application of IFRS 9.

- The **current portion of loans and borrowings** (EUR 8 million) refers to the portion to be repaid within twelve months of the aforementioned Corporate loans.

- "**Non-current loans and borrowings**", amounting to EUR 655 million, refer mainly to:
  - net liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 40 million (EUR 88 million at 31 December 2018). The significant decrease in this item is due to the early repayment of the loan to the company ERG Wind Investments, hedged by an IRS derivative instrument with a fair value at the end of the period of EUR 53 million, which took place in the second quarter of 2019;
  - liability deriving from the issue of the non-convertible bond (EUR 99 million[20]) 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.
  - liability deriving from placement of a bond ("Green Bond") amounting to EUR 496 million with a 6-year duration at fixed rate, issued within the scope of the Euro Medium Term Notes (EMTN) Programme.
  - liabilities correlated to a deferred component (EUR 12 million) of the consideration for the acquisition of Creag Riabhach Wind Farm Ltd, holder of authorisations for the construction of a

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

wind farm in Scotland and of the consideration for the acquisition of the Epuron Group (EUR 5 million).

- The payables for “**Total Project Financing**” (EUR 812 million at 31 December 2019) are for:
  - EUR 284 million in loans related to the companies acquired from Soles Montalto in the first quarter, the companies acquired in 2018 from the ForVei (Solare) Group and the subsidiary ISAB Energy Solare;
  - EUR 528 million in loans issued for the construction of wind farms.

The Group has applied IFRS 9 from 1 January 2018. As regards the main effects on the Group, application of the standard does not allow for the deferment of the economic effects of the renegotiation of loans on the residual life of the liability by modifying the effective interest rate of the liability at that date: this involves accounting for a profit or an immediate loss at the date of modification of the liability, as an offset to the reduction of the corresponding debt. The application of the standard has resulted in the reduction of liabilities for loans at the transition date (1 January 2018) of EUR 7 million, as an offset to higher opening equity, 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 2019 came to EUR 8 million.
It is noted that in the adjusted Income Statement revenue and the associated reversals recognised in application of IFRS 9, in relation to the restructuring of loans in place are highlighted as special items.

The component of the consideration for the transfer of TotalErg to api S.p.A. of the value of EUR 36 million was collected in the first quarter of 2019, ahead of time.

The breakdown of **current net financial indebtedness** is shown below:

Current financial indebtedness (cash and cash equivalents)	31/12/2019	31/12/2018
(EUR million)		
Current bank loans and borrowings	0.1	20.1
Current portion of bank loans and borrowings	7.8	162.0
Other current financial liabilities	9.3	3.9
Current financial liabilities	**17.2**	**185.9**
Cash and cash equivalents	(521.9)	(611.4)
Securities and other current financial assets	(22.4)	(47.1)
Current financial assets	**(544.3)**	**(658.5)**
Current Project Financing	104.3	146.2
Cash and cash equivalents	(131.6)	(162.8)
Project Financing	**(27.3)**	**(16.6)**
IFRS 16 other financial liabilities (current)	**7.4**	**0.0**
Total current adjusted financial indebtedness	**(547.0)**	**(489.2)**
Adjustment for impact of IFRS 16	**(7.4)**	**0.0**
Total current financial indebtedness	**(554.4)**	**(489.2)**

The current portion of bank loans and borrowings relates to maturity dates set by the Corporate financing amortisation plans.
Current financial assets also include cash collateral on the trading operation on futures derivative instruments.
The amount of liquidity decreased in 2019 mainly due to the acquisitions that took place in the period and to the payment of dividends to shareholders.

Cash flows

The statement of cash flow is presented starting from **adjusted** values because they are more representative of the cash flows of the year.
The breakdown of changes in net financial indebtedness is as follows:

	Year	
(amounts in millions)	**2019**	**2018**
Adjusted EBITDA	503.7	490.6
Change in net working capital	49.2	(114.0)
Cash Flow from operations	**552.9**	**376.6**
Investments in property, plant and equipment and intangible assets	(67.9)	(60.2)
Company acquisitions (business combinations)	(364.0)	(449.4)
Capital expenditure in financial non-current assets	-	-
Sale of equity investment in TotalErg	-	179.5
Sale of Brockaghboy net assets	-	105.7
Divestments and other changes	2.1	(0.2)
Cash Flow from investments/divestments	**(429.8)**	**(224.5)**
Financial income (expense)	(61.2)	(69.7)
Closure fair value ERG Wind loan	(43.5)	
Net gains (losses) on equity investment	0.1	(0.1)
Cash Flow from financial management	**(104.6)**	**(69.8)**
Cash Flow from tax management	**(41.0)**	**(20.5)**
Distribution of dividends	(112.4)	(171.1)
Other changes in equity	1.2	1.4
Cash Flow from Equity	**(111.1)**	**(169.7)**
Change in the consolidation scope	**0.2**	**(2.4)**
Opening net financial indebtedness	**1,343.0**	**1,232.7**
Net change	*133.4*	*110.3*
Closing net financial indebtedness	**1,476.4**	**1,343.0**

The **Cash Flow from operations** of **2019** is positive by EUR 553 million, up by EUR 176 million compared to the corresponding period of 2018, mainly due to changes in working capital and to the adjustment of the timelines for the collection of incentives in the Wind and Hydroelectric sectors, which led to the collection of the incentives relating to the first ten months of 2019. In addition, the cash flow of 2018 was affected by the payment of a debt position tied to OIL purchases in previous years.

The **Cash flow from investments** of **2019** is tied mainly to the M&A activity and in particular to the acquisition of two photovoltaic facilities with total installed capacity of 51.4 MW from Soles Montalto GmbH (EUR 220 million), of operational wind farms in France (EUR 52 million) and Germany (EUR 84 million), of a project for the construction of a wind farm in the United Kingdom (EUR 6 million) and of a pipeline in Germany (EUR 2 million), and to the investments in property, plant and equipment and intangible assets (EUR 68 million).

Cash flow from financial management refers to the interest accrued during the year. Financial management also includes the effect of the closure of the fair value of the project financing of ERG Wind Investment Ltd.

The **Cash flow from Equity** refers to the changes of the cash flow hedge reserve tied to derivative financial instruments, as well as the dividends distributed.

The **adjusted net financial indebtedness** totalled **EUR 1,476 million**, up by EUR 133 million compared to 31 December 2018 (EUR 1,343 million). The change mainly reflects the investments in the year (EUR 364 million) as a result of the additional growth in the solar sector in Italy and in the wind sector in France and

Germany, dividend distribution (EUR 112 million), the extraordinary expenses incurred in the course of the significant liability management transactions (EUR 43 million), the payment of taxes (EUR 41 million), partly offset by the positive cash flow of the year (EUR 492 million), also as a result of the reduction of the timelines for collection on incentives in Italy.

IFRS 16

The Group has applied IFRS 16 from 1 January 2019.
The new standard 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.

The Group has applied IFRS 16 from the date of first application (i.e. 1 January 2019) using the modified retrospective approach. Therefore, the cumulative effect of the adoption of IFRS 16 is recognised to adjust the opening balance at 1 January 2019, without restating the comparative information.

The Group, as lessee, has recognised new liabilities for operating leases and higher right of use assets amounting to approximately EUR 63 million at 1 January 2019 related mainly to the Wind business and to the relative use of land, warehouses, buildings, equipment, substations and machine inventory.
The application of the new standard has changed the nature and the representation in the income statement of costs for operating leases: these costs are now recognised as amortisation of the right of use and as financial charges correlated to the liability linked to the discounting of future payments of leasing instalments. Previously, the Group recognised costs for operating leases on a straight-line basis over the lease term, essentially in line with the financial occurrence of relative rentals payments.

The application of the IFRS 16 standard has therefore involved:

- the improvement in gross operating profit (EBITDA) in respect of the leasing instalments that fall within the scope of IFRS 16, of approximately EUR 9 million in 2019;
- the increase (EUR 78 million at 31 December 2019) of the net financial indebtedness and of the net invested capital (approximately EUR 77 million) in relation to the application of the asset method indicated by the new standard;
- greater depreciation and amortisation expense (EUR 7 million) and greater financial expenses (EUR 4 million) linked to the application of the above-mentioned asset method.

At the time of the first application, ERG availed itself of the option to use the modified retroactive method, therefore without restating previous financial years for comparison.
In view of the foregoing submissions, in order to represent the business profitability, it has been deemed opportune to recognise, in the Adjusted Income Statement, leasing costs within the Adjusted EBITDA in accordance with the financial expression (periodic instalment) of the same and in continuity with previous years' representation.
In accordance with it, the adjusted net financial indebtedness and the adjusted net invested capital are represented net of the liability linked to the discounting of future payments of leasing instalments.

For the reconciliation of the above-mentioned amounts, reference is made to that indicated in the "Alternative Performance Indicators" section below.

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 IAS/IFRS adopted by the Group.
These alternative indicators are used by the Group in order to facilitate the communication of information on its business performance as well as its net financial indebtedness.
Finally, in order to enhance understanding of the business segments' performance, the operating results are shown with the exclusion of significant special income components of an extraordinary nature (special items): these results are indicated with the term "Adjusted results".
Since the composition of these indicators is not regulated by the applicable accounting 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 of an extraordinary nature (special items);

- **EBITDA** is an indicator of operating performance calculated by adding "Amortisation, depreciation and impairment losses" 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 of an extraordinary nature (special items) and with the adjustment of the impact tied to the IFRS 16 application;

- **Adjusted EBIT** is the net operating profit, explicitly indicated as a subtotal in the Financial Statements, with the exclusion of significant special income components of an extraordinary nature (special items) and with the adjustment of the impact tied to the IFRS 16 application;

- **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 income components of an extraordinary nature (special items), and with the adjustment of the impact tied to the IFRS 16 application, 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 determined by the algebraic sum of Non-current Assets, Net Working Capital, Liabilities related to Post-employment Benefits, Other Assets and Other Liabilities;

- **Adjusted net invested capital** is Net invested capital, as defined above, with the inclusion of impact relative to the application of IFRS 16 mainly linked to the increase in right of use assets;

- **Net financial indebtedness** is an indicator of the financial structure and is determined in accordance with CONSOB communication 15519/2006, also including the portion of non-current assets relative to derivative financial instruments. Until 31 December 2018 the indicator also included the non-current financial loan to api S.p.A. (EUR 36 million) as deferred component of the TotalErg sale price;

- **Adjusted net financial indebtedness** is the net financial indebtedness, as defined above, net of the liability linked to the discounting of future payments of leasing instalments, following the application of IFRS 16.

- **Financial leverage** is calculated by comparing the adjusted net financial indebtedness (including Project Financing) to the adjusted net invested capital.

- **Special items** include significant special income components of an extraordinary nature. These include:
    - income and expenses connected to events whose occurrence is non-recurring, i.e. those transactions or events that do not frequently re-occur over the normal course of business;
    - income and expenses related to events that are not typical of normal business activities, such as restructuring and environmental costs;
    - capital gains and losses linked to the disposal of assets;
    - significant write-downs recorded on assets following impairment tests;
    - income and the associated reversals recognised in application of IFRS 9, in relation to the restructuring of loans in place.

Reconciliation with *adjusted* operating results

EBITDA	Year 2019	Year 2018
EBITDA for continuing operations	***495.9***	***479.6***
Contribution of discontinued operations (Brockaghboy) (1)	-	*3.3*
IAS Reported EBITDA	***495.9***	***482.9***
Special items exclusion:		
Corporate		
- Reversal of ancillary charges on non-recurring operations (Special Projects) (2)	*9.3*	*2.7*
- Adjustment for impact of IFRS 16 (3)	*(0.9)*	*-*
- Reversal of HR and corporate reorganisation costs (4)	*7.2*	*-*
- Reversal for release of provision for disposed businesses (5)	*(8.2)*	*-*
- Reversal of charges ERG80	*-*	*5.1*
Thermoelectric		
- Reversal of ancillary charges on non-recurring operations (Special Projects)	*-*	*-*
- Adjustment for impact of IFRS 16 (3)	*(1.0)*	*-*
Hydroelectric		
- Adjustment for impact of IFRS 16 (3)	*(0.2)*	*-*
Solar		
- Adjustment for impact of IFRS 16 (3)	*(0.4)*	*-*
Wind		
- Adjustment for impact of IFRS 16 (3)	*(6.5)*	*-*
- Reversal of allocations to tax-related provisions (5)	*8.5*	*-*
Adjusted EBITDA	***503.7***	***490.6***

AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES	Year 2019	Year 2018
Amortisation and depreciation expense for continuing operations	***(306.0)***	**(274.1)**
Contribution of discontinued operations (Brockaghboy) (1)	-	*(0.7)*
Amortisation, depreciation and impairment losses	**(306.0)**	**(274.8)**
Special Items Exclusion:		
- Adjustment for impact of IFRS 16 (3)	*6.7*	*-*
- Reversal of amortisation and depreciation on disposed Businesses (5)	*0.5*	*-*
Adjusted depreciation and amortisation	**(298.8)**	**(274.8)**

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	Year 2019	Year 2018
Profit attributable to owners of the parent	**31.6**	**132.6**
Special items exclusion:		
Exclusion of IFRS 16 impact (3)	*1.0*	*-*
Exclusion of impact of HR and corporate reorganisation costs (4)	*5.4*	*-*
Exclusion of ancillary charges on Corporate / Germany loan prepayments (6)	*2.0*	*-*
Exclusion of ancillary charges on ERG Wind loan prepayments (6)	*49.4*	*-*
Exclusion of ancillary charges on ERG Power loan prepayments (6)	*1.5*	*-*
Exclusion of ancillary charges on non-recurring operations (2)	*8.7*	*2.2*
Exclusion of ERG80 Expenses	*-*	*4.4*
Exclusion of capital gain from sale of UK equity investment	*-*	*(26.4)*
Exclusion of exchange differences on UK sale	*-*	*0.2*
Exclusion of expenses related to disposed Businesses (5)	*(5.1)*	*-*
Exclusion of expenses related to allocations to tax-related provisions (5)	*6.4*	*-*
Exclusion of the net gain on refinancing (IFRS 9) (7)	*2.7*	*(6.0)*
Adjusted profit attributable to owners of the parent	**103.6**	**107.0**

1. The accounting 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, it was deemed necessary to show and comment the results achieved in the period 1 January 2018 to 7 March 2018 by the assets sold under ordinary operations, in line with the approach already adopted in the Directors' report on the 2018 Financial Statements.

2. Ancillary charges pertaining to other non-recurring transactions mainly related to the acquisitions that took place in 2019 in relation to two photovoltaic plants in Italy and operational wind farms in France and Germany.

3. Adjustment for impact of IFRS 16. Reference is made to the comments made in the previous article.

4. Expenses related to corporate reorganisation of the Group, in particular to the simplification and rationalisation of

the organisational-corporate structure of the Group in Italy and abroad.

5. Allocation that took place in the period, related to the reappraisal of the tax-related risks on the wind business and partial release on the Provision for Businesses disposed of by the Group.

6. Financial expenses correlated to the early closure of a Corporate loan and project financing as part of Liability Management activities concurrently with the launch of the first Green Bond. Of particular note are the expenses recognised as a consequence of the closure of the ERG Wind Investment project financing and tied to the reversal (EUR 43 million[21]) of the positive adjustment, recognised upon first consolidation, of the fair value of the debt and to the prepayment of the related IRS instrument (EUR 23 million[18], net of the reversal of the first consolidation reserve)

7. The Group renegotiated a number of loans during the year. IFRS 9 does not allow for the deferment of the positive economic effects of the renegotiation of loans on the residual life of the liability: this resulted in a net gain of approximately EUR 4 million being accounted for in 2019. For the purposes of clearer disclosure of the cost of net financial indebtedness, it was considered appropriate to show in the adjusted income statement financial expense related to the debt service payment, deferring the recognition of benefits of the renegotiation over the remaining term of the liability and not recognising them all in one immediate entry at the time of the amendment. The adjustment commented herein relates primarily to the reversal of the aforementioned benefit net of the effects linked to the reversal of similar income relating to re-financing operations of previous years.

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

Income Statement YEAR 2019

(EUR million)	Financial statements	*Adjustment for impact of IFRS 16*	*Adjustment for impact of IFRS 9*	*Reversal of special items*	Adjusted income statement
Revenue	1,021.6	-	-	-	1,021.6
Other income	22.8	-	-	*(8.2)*	14.5
Total revenue	**1,044.4**	**-**	**-**	***(8.2)***	**1,036.1**
Purchases and change in inventories	(290.8)	-	-	-	(290.8)
Services and other operating costs	(190.5)	*(9.0)*	-	*22.9*	(176.6)
Personnel expense	(67.1)	-	-	*2.1*	(65.0)
EBITDA	**495.9**	***(9.0)***	**-**	***16.8***	**503.7**
Amortisation, depreciation and impairment of non-current assets	(306.0)	*6.7*	-	*0.5*	(298.8)
Operating profit (EBIT)	**189.9**	***(2.3)***	**-**	***17.2***	**204.9**
Net financial income (expense)	(137.1)	*3.7*	*3.5*	*68.7*	(61.2)
Net gains (losses) on equity investments	(0.5)	-	-	*0.7*	0.1
Profit before taxes	**52.3**	***1.4***	***3.5***	***86.6***	**143.8**
Income taxes	(19.5)	*(0.4)*	*(0.8)*	*(18.2)*	(38.9)
Profit (loss) from continuing operations	**32.8**	***1.0***	***2.7***	***68.4***	**104.9**
Net profit (loss) from continuing operations	-	-	-	-	-
Net profit (loss) for the year	**32.8**	***1.0***	***2.7***	***68.4***	**104.9**
Non-controlling interests	(1.2)	-	-	-	(1.2)
Profit (loss) attributable to the owners of the parent	**31.6**	***1.0***	***2.7***	***68.4***	**103.6**

[21] Before the tax effect

Income Statement YEAR 2018

(EUR million)	Financial Statements	*Reversal reclassifications IFRS 5 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	(327.2)	*(0.0)*	-	(327.2)
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)
Operating profit (EBIT)	**205.5**	***2.6***	***7.8***	**215.8**
Net financial income (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 (loss) from continuing operations	**104.3**	***28.4***	***(25.6)***	**107.1**
Net profit (loss) from continuing operations	28.4	*(28.4)*	-	-
Net profit (loss) for the year	**132.8**	**-**	***(25.6)***	**107.1**
Non-controlling interests	(0.1)	-	-	(0.1)
Profit (loss) attributable to the owners of the parent	**132.6**	**-**	***(25.6)***	**107.0**

Reclassified statement of financial position at 31 December 2019

12 Months 2019

(EUR million)	Statement of Financial Position	*Adjustment for impact of IFRS 16*	Adjusted Statement of financial position
Intangible assets	1,110.7	-	1,110.7
Property, plant and equipment	2,336.3	*(78.5)*	2,257.9
Equity investments and other financial non-current assets	53.6	-	53.6
Non-current assets	**3,500.6**	***(78.5)***	**3,422.2**
Inventories	22.3	-	22.3
Trade receivables	193.5	-	193.5
Trade payables	(87.8)	-	(87.8)
Excise duties payable to tax authorities	(2.3)	-	(2.3)
Net working capital	**125.6**	**-**	**125.6**
Post-employment benefits	(5.4)	-	(5.4)
Other assets	323.9	*1.9*	325.9
Other liabilities	(604.8)	-	(604.8)
Net invested capital	**3,340.1**	***(76.5)***	**3,263.5**
Equity attributable to the owners of the parent	1,774.6	*1.0*	1,775.6
Non-controlling interests	11.5	-	11.5
Non-current financial indebtedness	2,100.9	*(70.1)*	2,030.8
Current net financial indebtedness	(547.0)	*(7.4)*	(554.4)
Equity and financial indebtedness	**3,340.1**	***(76.5)***	**3,263.5**

Significant events after the end of the year

Date	Sector	Significant events	Press release
22 January 2020	Corporate	The rating of ERG S.p.A. was upgraded to **"AA"**, from "A" assigned to it in 2018, by **MSCI ESG Research Ltd. ("MSCI")**, one of the foremost research companies on enterprise performance calculated on the basis of environmental, social and governance (ESG) factors. In addition, ERG, at 35th place, was confirmed among the top 50 companies in the world, in the Corporate Knights Global 100 Most Sustainable Corporations in the world Index, and it maintained the B rating of CDP Climate Change.	**Press release of 22/01/2020**
24 February 2020	Wind France	**Acquisition of 100% of the capital of five French companies** owning three wind farms, with total installed power of 38 MW.	**Press release of 24/02/2020**
5 March 2020	Wind Poland	**Acquisition of 100% of the share capital of Laszki Wp. Z.o.o.,** a company that holds the permits for the construction of a wind farm with 36 MW of power.	**Press release of 05/03/2020**
9 March 2020	Corporate	On 9 March 2020, in view of the Italian and global emergency regarding Covid-19 and the consequent restrictions put in place throughout Italy, ERG proactively extended the possibility to operate in Smart Working to all working days during the weeks until 3 April 2020. This solution was offered to all employees of the Group's Italian branches insofar as such a procedure is compatible with the effective performance of duties respectively assigned, ensuring maximum care in guaranteeing business continuity and the security of the company's production sites.	

Business outlook

The expected outlook for the main operating and performance indicators in 2020 is as follows:

- **Wind:** ERG is continuing with its strategy of international development in Wind and in the programme for the Repowering of its own wind farms in Italy. The result abroad will substantially be in line with that of 2019 in light of the wind forecasts estimated to be slightly less favourable on a statistical basis, offset by the contribution of the newly acquired wind farms in France (38 MW), in a favourable price scenario. In Italy, the EBITDA is expected to be in line with 2019 as a result of the higher incentive price which will offset the exit of an additional 26MW from the incentive system at the start of the year, and wind conditions expected to decline slightly.
  The total EBITDA of the Wind sector is thus expected to be substantially in line with the previous year.

- **Solar:** In 2020, ERG will benefit from some synergies deriving from the optimisation of the Energy Management portfolio, and from the in-sourcing of some activities previously carried out by third parties capitalising its own industrial competencies in the operating consolidation of the managed assets.
  The EBITDA for the entire year 2020 is forecast to grow slightly with respect to 2019.

- **Hydroelectric:** for this asset, the estimated volumes on a ten-year statistical basis are higher than the particularly depressed volumes of 2019; this forecast of higher volumes will be accompanied by the production optimisation action of Energy Management on energy markets. The result will also benefit from the higher incentive price on at least 40% of production.
  Therefore, EBITDA for the hydroelectric sector is expected to increase compared to the values of 2019.

- **Thermoelectric:** the forecast for the 2020 result will be affected, compared to 2019, by a less favourable price and margin scenario, and by the contraction of the volumes of energy efficiency certificates as a result of the exit of one of the two modules of the plant from the high-efficiency cogeneration period. These effects will be partly offset by the improvement of operating efficiency also as result of the programmed shutdown that took place in the fourth quarter of 2019, and by the Energy Management activity on spot and dispatching service markets.
  Overall, EBITDA is expected to contract relative to 2019.

Total EBITDA for the 2020 financial year is forecast within a range of between EUR 500 million and EUR 520 million (EUR 504 million in 2019) thanks to greater forecast volumes in the Hydro sector, to the higher price of the incentive both in Wind and in Hydro, to the contribution of the new wind farms abroad and to operating efficiency and energy management actions. These positive effects are partly offset mainly in the Wind sector by a decreasing incentivised perimeter in Italy, and by less favourable price scenarios and wind forecasts, as well as by lower expected profitability in the Thermoelectric sector. With reference to the price scenarios, of note is the potential depressive effect on commodity values engendered by the worldwide Covid-19 emergency. In this context, with reference to 2020 operations, it is pointed out that a preponderant portion of RES productions and of the Clean Spark Spreads tied to thermoelectric generation have already been the subject of forward sale, in line with the Group's risk hedging policy.
Capital expenditure for 2020 is forecast to be in the range between EUR 185 and 215 million, down from the 2019 amounts, characterised mainly by an M&A transaction. The capital expenditure of 2020, on the contrary, will be related to the development of greenfield investments with the construction of the wind farms in Great Britain for approximately 120 MW, in Poland for 38 MW and in France for 28 MW, in addition to the usual capital expenditure for wind farm maintenance.
ERG's cash generation will allow to reduce indebtedness, which will be in a range between EUR 1.36 and 1.44 billion (EUR 1.48 billion in 2019), for smaller forecast capital expenditure in M&A, lower financial expenses thanks to the full effects of liability management operations after the issue of the Green Bond in 2019, and inclusive of the distribution of the ordinary dividend of EUR 0.75 per share.

Abstract of Non Financial Statement 2019

ERG
EVOLVING ENERGIES

The governance of sustainability

Our Group has defined a set of documents that represent the values that guide our business activities:

- Our Code of Ethics, initially adopted in 2004, that in 2018 has reached its fifth edition and was approved by the Boards of Directors of all Group companies.
- Our Sustainability Policy, the third updated edition of which was approved at the end of 2019.
- Our Human Rights Policy, approved at Group level at the end of 2018.

The Sustainability Committee is in charge of Sustainability Governance, to guide and monitor all sustainability activities. It is tasked with the following duties:

- Defining the Group's sustainability orientations and promoting corporate social responsibility projects.
- Approving, monitoring, and evaluating sustainability objectives and priority areas for actions related to CSR.
- Approving the materiality analysis, timing and media for the Non-Financial Statement and for CSR initiatives.

The Sustainability Committee includes: the President, the CEO, the Executive Vice President, and all the C-levels.

During 2019, the Sustainability Committee met twice to approve the update of the Sustainability Policy, the materiality analysis, and the sustainability strategies, including their objectives.

Consolidated non-financial statement

The gathering of data and information is carried out under the supervision of the Sustainability Committee through the Corporate Social Responsibility Department and involves all the Group's companies and departments.

The Non-Financial Statement contains information about environmental, social, and personnel-related issues, about the respect for human rights and the fight against corruption, to the extent necessary to ensure that the activities carried out by the ERG Group, its progress, results, and impact are fully understood. In addition, it analyses the main risks, generated or sustained, related to these issues and arising from the company's.

The non-financial reporting is in line with the principle of materiality or relevance. In this regard, during the year, we updated the materiality matrix to confirm or review the significant issues we had already identified in 2018. The analysis confirmed the issues identified in previous years

The consolidated non-financial declaration was prepared according to the "GRI Sustainability Reporting Standards" defined in 2016 by the GRI Global Reporting Initiative. The perimeter of the economic data is the same as the consolidated financial statements of the ERG Group comprising ERG S.p.A. and its fully consolidated subsidiaries, referring to the year ended 31 December 2019.

Main performance indicators

		Year	
		2019	2018
CO_2 avoided			
CO_2 avoided	kt	3.086	3.029

		Year	
		2019	2018
Atmospheric emissions			
Group Carbon Index	gCO_2/kWh	145	135
Scope 1 emission originated by energy production	kt	1.555	1.008
Thermoelectric CO_2 Index	kt CO_2/Gwheq	0,396	0,399

		Year	
		2019	2018
Energy consumption			
Total indirect energy consumptions	GWh	24,9	20,3
of which: % indirect green energy consumption		89%	86%
Indirect emissions - Scope 2 (marked based)	kt	1,4	1,5

		Year	
		2019	2018
Waste			
Waste exited	kt	4.297	4.591
% of which sent to recycling		88%	82%
% of which non-hazardous wastes		97%	94%

		Year	
		2019	2018
People			
Employees	n.	754	737
Employees on permanent employment contracts	n.	99,7%	99,7%
% of female employement		20,8%	20,1%
of which: % of female employement at Genoa site		43,0%	42,0%

Below we present a brief commentary on the primary sustainability indicators:

- **CO_2 avoided:** The avoided CO_2 highlights the positive contribution of the Group's production from renewable sources against Climate Change. It is calculated by multiplying the production of electricity from renewable sources in each country by the carbonization factor of the thermoelectric production of each country, published by Terna on its website.
- **Carbon index and atmospheric emissions:** Since its entry into the renewables industry, ERG has reduced its Carbon Index by 90%, i.e., the amount of CO_2 emitted for each kWh produced. At the end of 2019 it stands at 145 gCO_2/kWh, almost half of the average of the Italian generation capacity. The slight increase compared to 2018 reflects the significant increase in CCGT production (+19%) and the related Scope 1 emissions. However, the CCGT plant confirms its efficiency by decreasing by approximately 1% its CO_2 emission index per kWhe produced generated,
- **Energy consumption:** The increase of indirect energy consumption, which is needed to keep the auxiliary systems of the plants working during downtime periods, is due to the growth in installed wind and solar capacity (compared to 2018), and to a greater use of pumping. Following the Policy approved by the Sustainability Committee in 2016, at the end of 2019, over 89% of the Group's energy consumption (+3% compared to 2018) is covered by certified green energy.
- **Waste:** The waste produced comes mainly from plant maintenance: the change in quantities is

therefore linked to the seasonality of their shutdowns. Over 97% of the waste produced is classified as "non-hazardous". Following the resolution of the Umbria region of 2018, that establishes the possibility of considering the wood that accumulates on the banks of the lake as reusable material and therefore suitable as energy recovery, the quantity of waste sent to recycling has exceeded 88% (+6% compared to 2018). During the year, ERG Group implemented the plastic-free project to identify the best initiatives to eliminate or reduce behaviors that generate plastic consumption. The 2019 results shows that we managed to eliminate around 2500 kg of plastic equal to about 16 t of CO_2, an annual saving of about 25 t of CO_2.

- **People:** The number of employees has grown by 17 at Group level. As last year, about 99.7% of employees have permanent contracts and females account for around 20.8% (+0.7% compared to 2018). The percentage of women at the Genoa office increased by one percentage point, to 43%.
- **Training:** Human Capital Coverage compares the level of "expected" skills for each role as compared to the "real" level of coverage of the people in that same role. At the end of 2019, the "Human Capital coverage" index was 93%, with an increase of about three percentage points compared to 2018, a result that enabled us to achieve the objectives defined in the Plan ahead of time. The increase was possible by identifying the priority organizational areas, the development of processes aimed at improving productivity, and "targeted" training. The latter factor led to an major increase in training (approximately +25%), which involved 98% of our people (+6% compared to 2018): practically all employees took part in at least one training course during the year. The training investment index was also significant: around 84% of the training concerned topics that are not mandatory by law, aimed at increasing the technical skills and "soft skills" of our people.

It should also be noted that during 2019:

Sustainable procurement: we launched a project aimed at defining the supplier selection parameters along the supply chain, following our sustainability strategy and related objectives. The project has the objective of efficiently managing environmental, social, and economic impacts, as well as promoting good commercial practices throughout the life cycle of products and services. The Board of ERG S.p.A. approved the Supplier Code of Conduct to which all Group suppliers must comply. During 2020, we will implement further steps in the selection and field verification phase.

Climate Change Approach: ERG conducted an analysis of the impacts that Climate Change can have on its business. The project followed the guidelines of the TCFD (Task Force on Climate-related Financial Disclosures) implemented by the European Commission in the "Guidelines on the communication of non-financial information: integration concerning the communication of information relating to the climate". Our analysis focused on four pillars: Governance, Strategy, Risk Management, Metrics & Targets. The complete disclosure is available within the Non-Financial Statement of 2019.