ANNUAL REPORT
AS AT 31 DECEMBER 2019

ERG
EVOLVING ENERGIES

CONTENTS

2 CONSOLIDATED FINANCIAL STATEMENTS

3 SEPARATE FINANCIAL STATEMENTS

1

Director’s Report

INTRODUCTION

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 the presentation in the income statement of costs for operating leases: these costs are now recognised as depreciation of the right of use assets and as financial expense correlated to the liability linked to the discounting of future lease payments. Previously, the Group recognised costs for operating leases on a straight-line basis over the lease term, essentially in line with the financial occurrence of the related payments.

The application of the IFRS 16 standard has therefore involved:

- the improvement in gross operating profit (EBITDA) in respect of the leases 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 liability method indicated by the new standard;
- greater depreciation expense (EUR 7 million) and greater financial expense (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 retrospective approach, therefore without restating the comparative figures.

Based on the above, 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.

Similarly, **the adjusted net financial indebtedness** and the **adjusted net invested capital** are represented net of the liability linked to the discounting of future lease payments.

For the reconciliation of the above-mentioned amounts, reference is made to the “Alternative Performance Indicators” section.

CORPORATE BODIES

BOARD OF DIRECTORS [1]

Chairman
EDOARDO GARRONE *(executive)*

Deputy Chairman
ALESSANDRO GARRONE *(executive)*[2]
GIOVANNI MONDINI *(non-executive)*

Chief Executive Officer
LUCA BETTONTE

Directors
MASSIMO BELCREDI *(independent)*[3]
MARA ANNA RITA CAVERNI *(independent)*[4]
BARBARA COMINELLI *(independent)*[4]
MARCO COSTAGUTA *(non executive)*
PAOLO FRANCESCO LANZONI *(non executive)*[5]
SILVIA MERLO *(independent)*[4]
ELISABETTA OLIVERI *(independent)*[4]
MARIO PATERLINI *(independent)*[4]

BOARD OF STATUTORY AUDITORS [6]

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.[7]

1 Board of Directors appointed on 23 April 2018.
2 Director in charge of the Internal Control and Risk Management System.
3 With reference to the provisions of Article 148, paragraph 3, of the Italian Consolidated Finance Act.
4 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.
5 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.
6 Board of Statutory Auditors appointed on 17 April 2019.
7 Appointed on 23 April 2018 for the period 2018 - 2026.

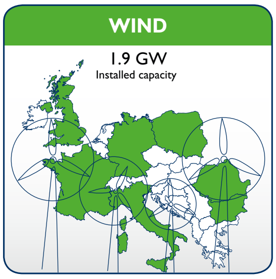
BUSINESS DESCRIPTION

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.

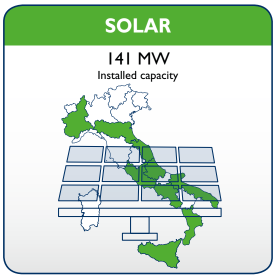
ERG Power Generation S.p.A., with generating facilities comprising over 3,000 MW of installed capacity, also operates, directly or through its subsidiaries, in the following Electric Power generation sectors:



Wind

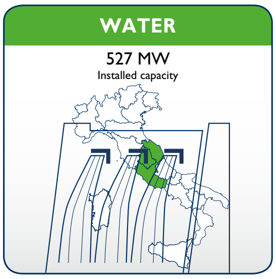
ERG is active in the generation of electricity from wind sources, with 1,929 MW of installed power at 31 December 2019. ERG is the leading wind power operator in Italy and one of the top ten in Europe.

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).



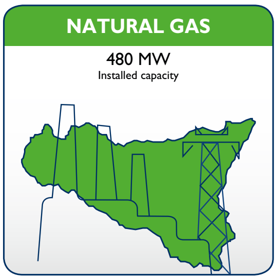
Solar

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.

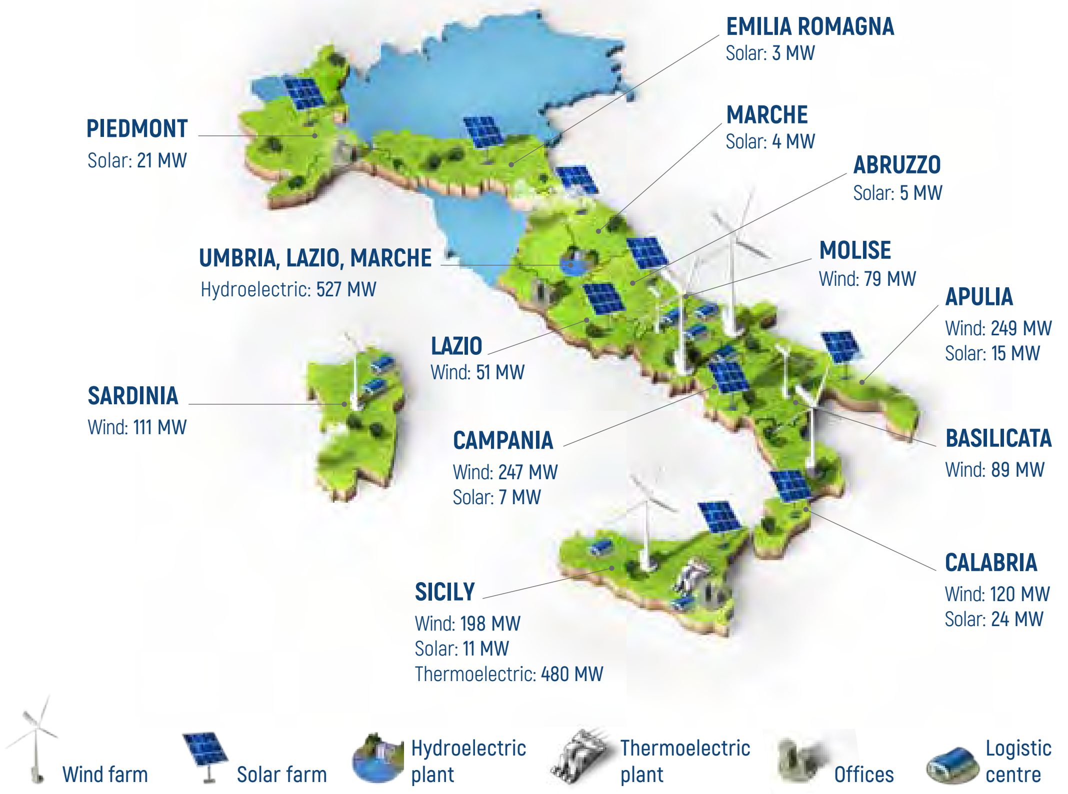


Thermoelectric

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

TOTAL: 3,077 MW
Wind: **1,929 MW** (1,093 MW Italy and 836 MW Abroad)
Solar: **141 MW**
Hydroelectric: **527 MW**
Thermoelectric: **480 MW**



CONSOLIDATION SCOPE AT 31 DECEMBER 2019

ORGANISATIONAL MODEL

ONE COMPANY

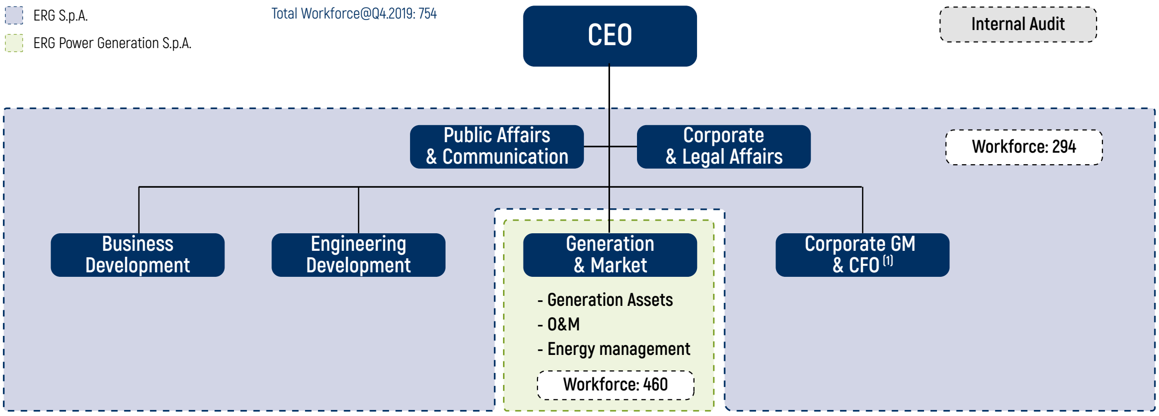
The Group's organisational structure is characterised by the definition of two macro-roles:

- 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.

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



(1) It includes Group Administration, Finance, Planning & Control, Investor Relations, M&A, Group Risk Management & Corporate Finance, Procurement and Human Capital & ICT

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.

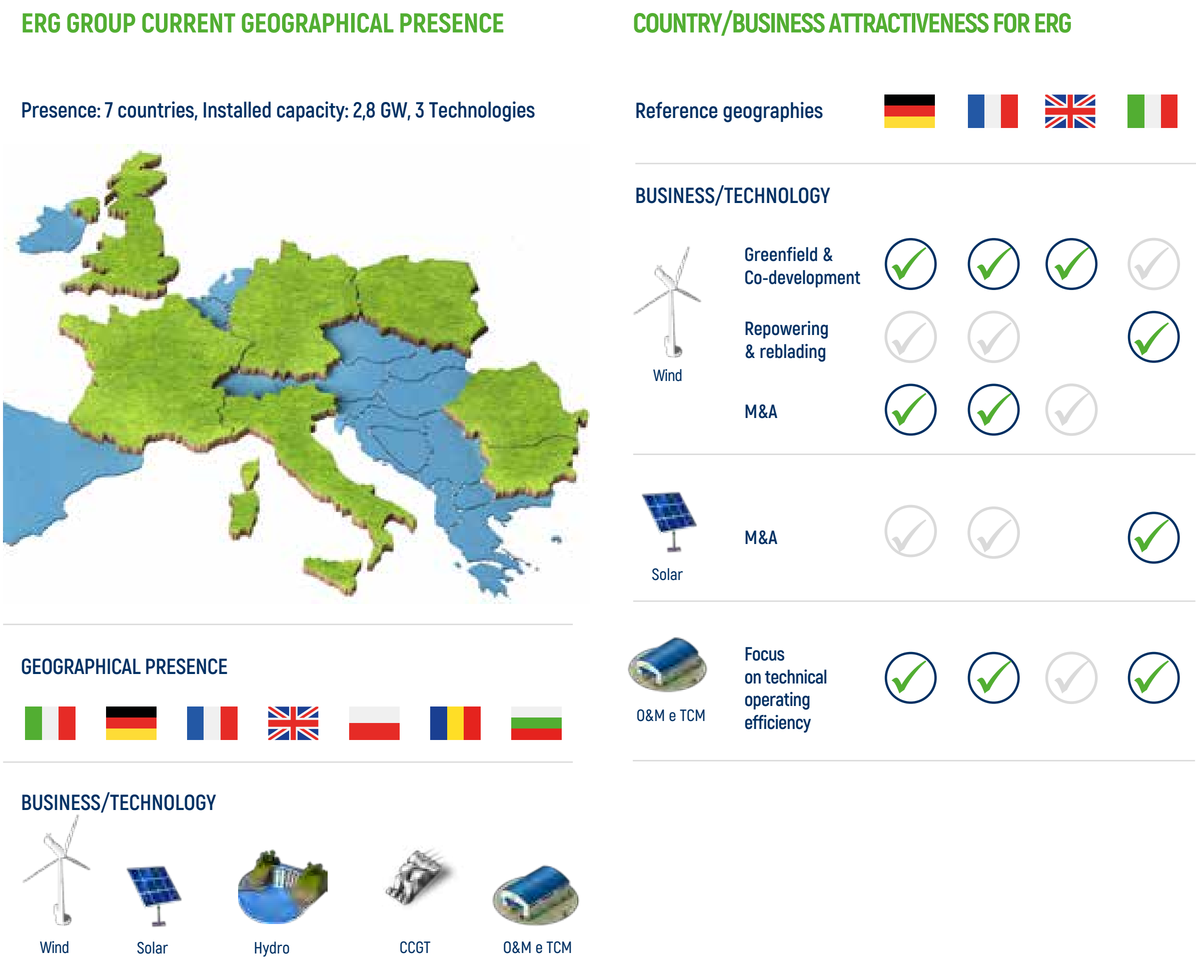
In recent years, there has been a radical and profound change in Europe in the industry of electricity generation from renewable sources: while on one hand Governments have been increasingly pushing towards decarbonisation in favour of renewable sources, on the other hand there has been a radical change 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:

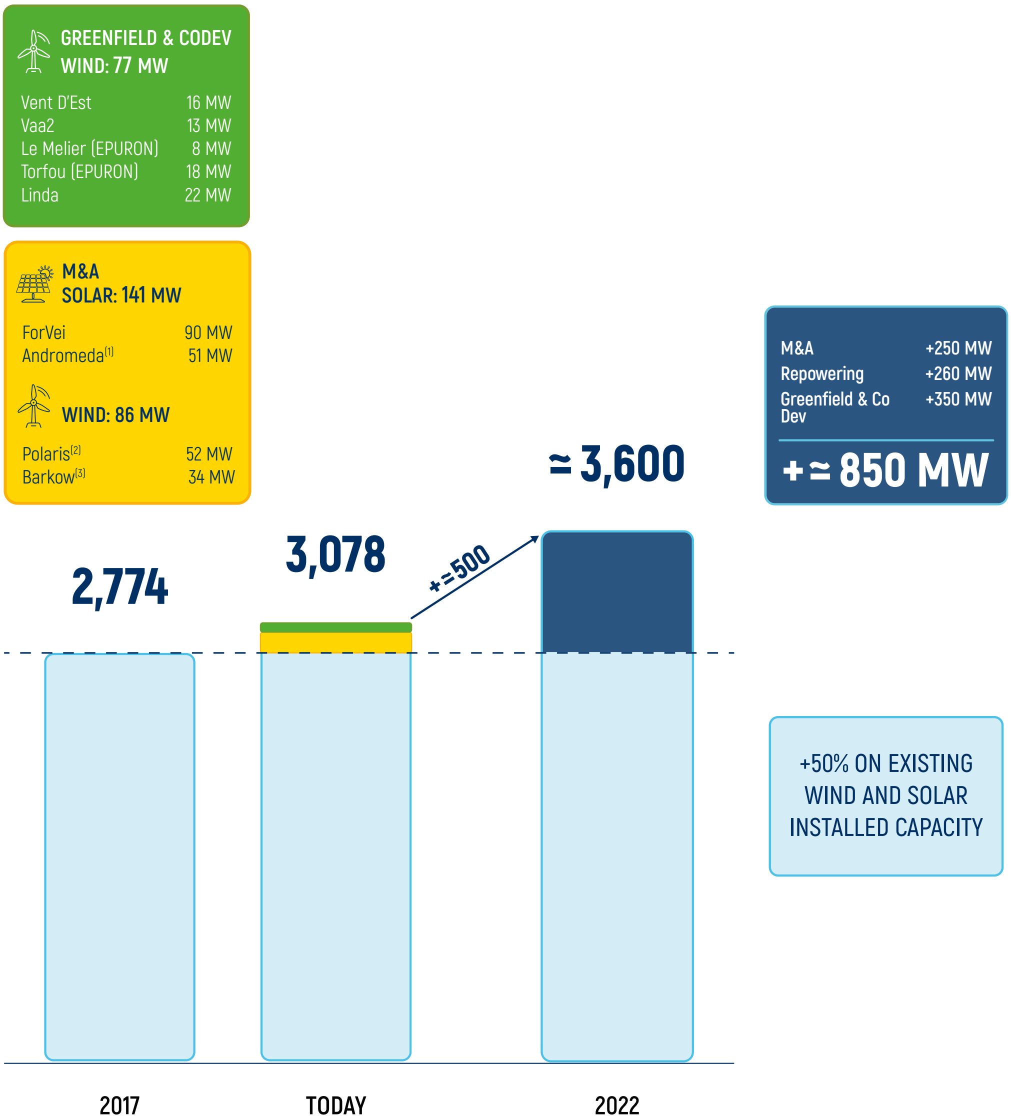
1) **Greenfield and co-Development**: ERG intends to continue with its growth strategy through the organic development of its own pipeline of projects or agreements for co-development in France, Germany and the United Kingdom;
2) **Repowering and Reblading in Italy**: in consideration of the technological 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.

ERG 2018-2022 STRATEGIC OPTIONS



In 2019 ERG made progress towards its growth objectives outlined in 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 2018 - 2022 CAPACITY EVOLUTION STRONG EXECUTION FROM 2018 TO DATE
Growth in installed capacity (MW)



[1] Closing took place on February 12, 2019
[2] Closing took place on May 6, 2019
[3] Closing took place on September 13, 2019

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:

- **the development of generation of electricity from renewable sources,** which will represents our commitment to combat climate change;
- **care for the environment, working conditions and welfare;**
- **implementation, at Group level, of the new Anticorruption Policy and of the new supplier selection procedures.**

2018-2022 CSR DRIVERS

The 2018-2022 Business Plan is based on the continuous development of plants for the generation of energy from renewable sources, and defines targets in three main areas:

Tackling climate change

- Avoided CO_2: 15 mn ton
- Avoided TEP: 5mn TEP
- Carbon Index(1): 14% reduction
- Constant effort to extract value from our technology
- Enhancement of our integrated generation portfolio

People enhancing

- New leadership
- Human Capital involvement
- Skills development

Sustainable thinking sustainable acting

- CDP reporting
- Integration of HSE certifications on the basis of the ONE Company model
- Enhancement of community relations
- Technological development

(1) The Carbon index (gCO_2/kWh) indicates the quantity of CO_2 in every kWh generated

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 S.a.s., completed the acquisition from Profond Finanzgesellschaft AG, based in Zurich, of 100% of "Les Moulins de Fruges S.a.s.", 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 Report 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.

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 Report 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 the non controlling 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

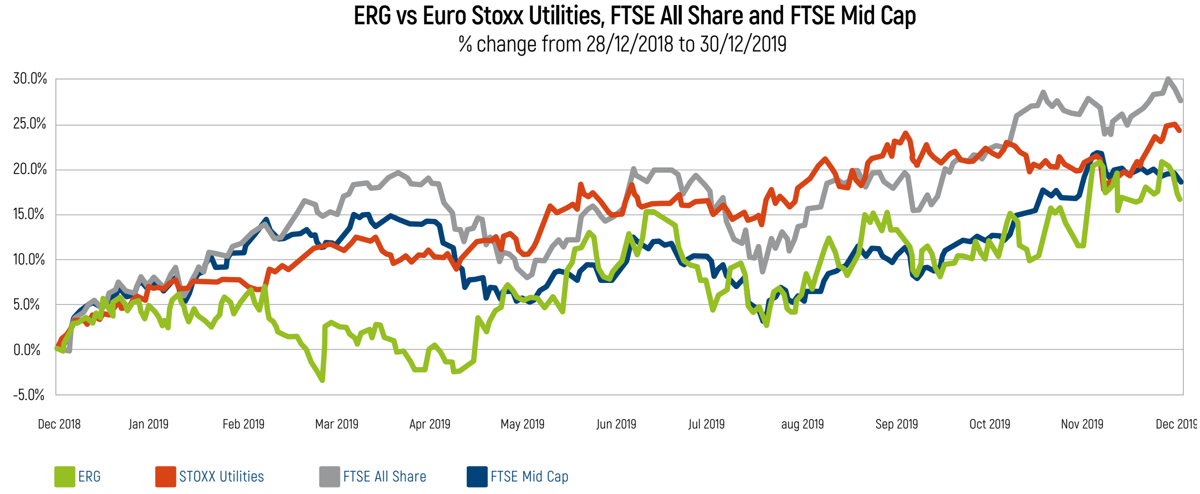
(1) lowest and highest price reached during the day's trading; hence they do not match the official and closing prices on the same date

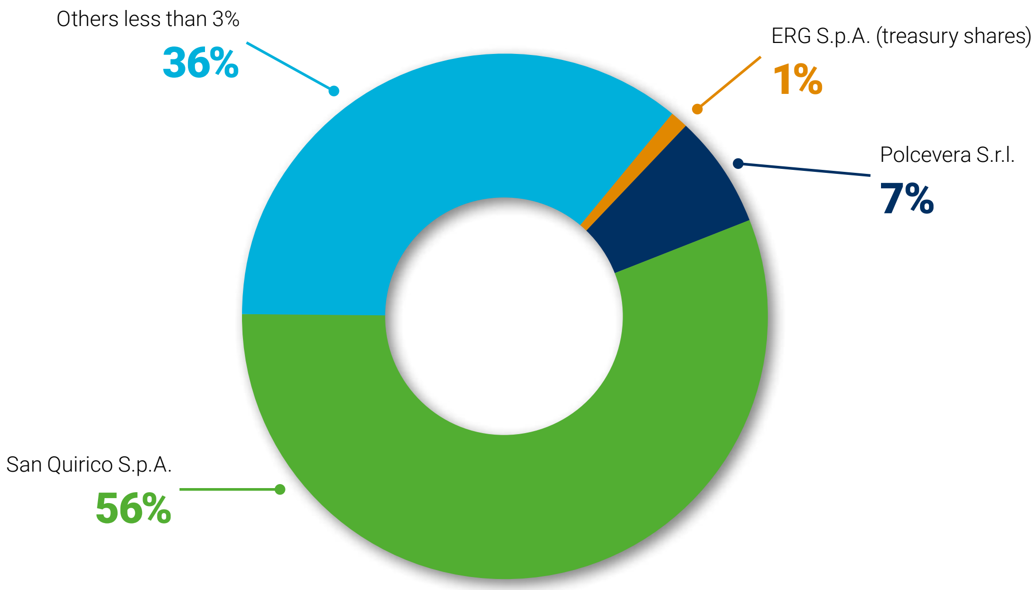
Volumes traded	No. of shares
Maximum volume (26.03.19)	1,113,089
Minimum volume (26.08.19)	71,571
Average volume	256,639

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 S.a.s."**, 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 lease payments 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

	Year	
(EUR million)	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 lease payments 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 non controlling interests 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 at better 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 non controlling interests 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[8]), and payment of taxes (EUR 41 million). All, partly offset by the positive cash flow of the year (EUR 492 million[9]), 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 lease payments of approximately EUR 78 million at 31 December 2019.

8 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.

9 It includes the adjusted EBITDA, the change in working capital and net financial income (expenses).

PROFIT FOR THE YEAR - BUSINESS

REFERENCE MARKET

Price scenario

	Year	
	2019	2018
Price scenario (EUR/MWh)		
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

	Year	
	2019	**2018**
Italian Market (GWh) [1]		
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[10]:

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[11] amounted to 875 thousand tonnes, an increase compared to the 737 thousand tonnes in 2018.

10 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.

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

WIND

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

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

INSTALLED POWER (MW)	Year			
	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	
EUR million	2019	2018
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			
(EUR million)	2019	2018	Δ	Δ%
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			
(Euro/Mwh)	2019	2018	Δ	Δ%
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.

GENERATION (GWh)	Year			
	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)	Year 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 second was opened last 31 January and closed 1st March 2020. 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 "*Spalma incentivi 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 opened on 31 January and closed on 1 March 2020 including 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

OPERATING RESULTS	Year	
(EUR million)	2019	2018
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:

OPERATING RESULTS	**Year**	
(EUR million)	**2019**	**2018**
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	
(EUR million)	2019	2018
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-iwn 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 up 250 kW to 400 kW, two-way CFD for 20 years through registry; - if their power is up to 400 kW o 1 MW, two-way CFD through Registry for 25 years; - 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.

  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) and related Law no. 8/2020**

Last 30 December 2019, the Law-Decree no. 162/2019 known as "Mille proroghe" (A Thousand Extensions), converted in Law n.8/2020, 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 in two steps, in January 2021 for small enterprises and in January 2022 for the 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 within 60 days of taking effects, 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. The Commissioner is entitled to all the powers of ordinary and extraordinary administration of the GSE S.p.A.

- **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-fuelled 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.

- **CFD**

  On 2 March 2020, BEIs launched a consultation on the readmission of established technologies - mainly onshore wind and PV - to auctions for access to the mechanism for stabilising revenues - the CFD - from 2021. The consultation ends on 22 May 2020.

France

- **Programmations Pluriannuelles de l'Énergie (PPE)**

  The new version of the PPE was issued as a draft in January 2019 and concluded in February. The final version is expected to be published by April.. 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.

RISKS AND UNCERTAINTIES

By the nature of its business, the ERG Group is exposed to different types of risks, including, for example, regulatory risks, operating risks, and those connected to access to capital markets.

To ensure an adequate management of these risks, the Group implemented an Enterprise Risk Management process directed at contributing in a proactive and integrated manner to safeguarding the share capital of the ERG Group and to managing the Group efficiently and effectively in line with the corporate strategies defined by the Board of Directors, giving adequate consideration to current and perspective risks, including medium and long term risks, with an organic and comprehensive vision.

In this context, the Enterprise Risk Management is characterised by a structured approach, defined on the basis of the guidelines of the Internal Control and Risk Management System and aligned with international best practice, and it develops through:

- the identification and assessment of the main risks tied to the Business Plan, along with the definition of the respective Risk Policies, also by means of market benchmarks to adopt the best practices for this matter;
- the continuous verification of the operation and effectiveness of the risk management process.

The Enterprise Risk Management system is based on the creation, at all levels of the organisation of a risk mindfulness culture, through a clear identification of responsibilities and the informed assumption of risks, and the development of an effective risk management process, through a clear definition of objectives, of management strategies, and of clear rules set forth in the related risk policies, which assure both control over corporate operations and the consistency and responsibility of the activities carried out.

The ERM process requires an "integrated", "continuous" and "dynamic" risk management, directed at promoting the harmonisation of specific Risk Management methods and instruments at the Group level. It should be pointed out that, at the date of preparation of the present Report, no particular risks and uncertainties are envisioned, in addition to those mentioned in the document, which may determine significant consequences on the operating results, financial position and cash flows of the ERG Group.

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

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

The risk tied to natural variability in the availability of renewable sources, which change according to the climate conditions of the site in which generation facilities are located, is mitigated through:

- the technological diversification of renewable facilities (e.g. Wind, Hydro and Solar) and the geographic diversification of the generation facilities that allow to reduce both impact and the probability of occurrence;
- scheduling the outages of renewable facilities in relation to the periods of low contribution of renewable sources which allows to reduce the impact;
- the use of more accurate weather forecasting instruments (Wind, Water and Sun) to define production plans that allow to improve the short-term strategies for managing the Volume Risk.

Risk analysis statistical models are also to be used, as they allow to quantify its economic impact in the time horizon of the plan.

2. Price Risk

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

- oscillation of Electricity prices for all generating plants whose electricity is sold on the Market;
- oscillation of the prices of Gas, CO_2 and EEC associated with the production of the natural gas-fuelled cogeneration plant (CCGT) of ERG Power.

The ERG Group minimises the impact deriving from the oscillations of Commodity Prices through:

- an aggregate portfolio view that allows to allocate risks where they can be managed most effectively, benefiting from the offset of the opposite-sign positions assumed;
- the definition of risk exposure limits and of an associated escalation process if the limits are exceeded, identifying the persons responsible for defining / authorising actions to return below the limits;
- the definition of processes and responsibilities for monitoring the exposure level using appropriate indicators (e.g. P@R, V@R, Stop Loss, Profit Taking, Open positions);
- the definition of the minimum and maximum hedge quantities ("Hedging Ratios") on electricity sales for the time horizon of the plan;
- the use of derivative instruments to stabilise the cash flows generated, contributing to assure the Group's economic and financial balance. The use of derivative instruments for hedging purposes is authorised exclusively in view of the existence of an underlying asset to pursue the reduction of the economic impacts tied to price volatility on the financial market and it is constantly monitored;
- whenever possible, balancing purchase formulas (e.g. for natural gas) with the formula for charge-back to end customers and/or the transfer, in sale contracts, of higher costs deriving from price oscillations, including specific clauses to reduce emerging costs (e.g. tied to the profile).

From the organisational viewpoint, the Governance model adopted by the Group calls for the separation of the control functions from those that manage risks in operations.

3. Risks in the evolution of the regulatory framework

This risk is tied to the evolution of the legal and regulatory framework of the countries in which the ERG Group operates. Changes in operating rules and in the prescriptions and obligations that characterise the markets and countries in which ERG is present can significantly influence results and operating performance, and/or determine significant economic impacts on the value of assets.

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

For this purpose, the ERG Group has established specific Organisational Unit dedicated to continuous monitoring of the national and international reference regulations, which monitor the evolution of the regulatory framework in the countries where it is present.

Among the main matters subject to regulatory evolutions, the following are highlighted in particular:

- the broad reform of the Electricity Market both at the European level and in the different countries in which the Group operates (ranging from capacity mechanisms to measure to contrast the effects of cyber-attacks or natural disasters in the energy sector to the introduction of Long Term Power Purchase Agreements);
- the reform of the incentive systems for Renewable Energy Sources in the different countries where the Group operates (e.g. transition from FIT to FIP; introduction of the Auction);
- the rules that regulate the duration and conditions of Large-Scale Hydroelectric Concessions;
- the certification of energy savings within the White Certificates mechanism by the GSE;
- the rules to obtain and maintain authorisations and permits for the construction and operations of Renewable plants, as well as the incentives associated with them.

4. Risk of New Investments

This risk refers to the set of uncertain events originated by different factors, for example: scenario (micro/macro-economic, political, regulatory, Business), technical, operating, financial, organisational, etc. that may impact the decision of a New Investment Initiative and on its success.

These risks are mainly connected with the impossibility of developing economic/financial forecasts with any certainty in the lifetime of the Project (in case of a specific initiative), with consequent losses in terms of income or assets, or the deterioration of the Group's image.

To minimise risk, the ERG Group has defined specific structured processes for the selection of investments, providing a series of subsequent levels of review and approval carried out on the basis, inter alia, of internal and external support studies, benchmark analyses, legal-regulatory analysis, financial assessment/planning models. The Group minimises possible risks tied to new investments assessing, for all relevant projects, all risks to which the following are associated:

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

In addition, the Group periodically revises the WACC / HR, also through benchmarks, to assure an adequate return with respect to the expected risk profile.

Risk management strategies are implemented in accordance with corporate policies.

5. Risks connected with the Rating of the Parent Company ERG S.p.A.

The possibility of accessing capital markets and other forms of financing as well as the connected costs depend, inter alia, on the credit rating assigned to the ERG Group.

Any downgrades by rating Agencies could limit the possibility of accessing capital markets and raise the cost of funding with consequent negative effects on the economic, financial and capital position of the Group.

In 2019, ERG's risk profile, as assessed by the Fitch rating Agency remains Investment Grade "BBB-", with stable Outlook. ERG's rating is tied to purely endogenous and market variables, as well as to Italy's sovereign debt rating.

ERG implements a risk mitigation strategy directed at preventing the emergence of "crisis" situations (e.g. liquidity; Breach of financial covenants) that develops at different level and calls for the pursuit of: (i) a balanced financial structure in terms of duration and composition, (ii) continuous monitoring of the actual and expected results and of financial balances, (ii) the systematic cash generation by its own business activities and (iii) the geographic and technological diversification of its own plants.

6. Information & Communication Technology Risks

The Risk refers to the inadequacy of technical and organisational measures directed at protecting the integrity, availability, confidentiality of automated information and of the resources used to acquire, store, process and communicate this information. In particular, the following main ICT risks are identified:

- risk of access to uncontrolled networks, systems and CED spaces: this risk identifies the eventuality that unauthorised personnel may access systems, information or spaces where the computers reside and compromises their use, jeopardising the integrity and security of the systems and information contained therein;
- information system vulnerability risk: it is the eventuality that the architecture / Framework of ICT systems is vulnerable to internal/external attacks or exposed to accidental events as a result of defects in design, implementation, configuration and/or operation, as well as in the absence of awareness of the risks deriving from ICT attacks by the corporate population;
- risk of technological disaster: it is the eventuality that the technological infrastructures serving corporate operations are dramatically compromised by accidental events.

The activities of the ERG Group are managed through ICT systems that support the main corporate processes, both operational and administrative and commercial. The Group mitigates ICT risks through the following control objectives, in line with the main reference international standards:

- constant protection of the confidentiality, integrity and availability of the information managed on the ICT systems;
- adoption of specific models of behaviour to be adopted in the use of workstations and IT instruments directed at assuring adequate levels of security of the information;
- outsourcing the management of the main systems with a supplier provided with data centres with high levels and standards of physical security, formally certified;
- adoption of instruments for the management of logic and physical accesses and for their verification and recording, based on reference best practices;
- use of automatic instruments for the detection and management of incidents and anomalies;
- implementation of processes for the design, development, operation, maintenance, assistance and disposal of IT infrastructures, of network services and of the applications for mitigating the vulnerability of the ICT systems, in line with reference best practices.

To mitigate the potential risks of interruption of the business activities on the ICT processes deemed strategic, the Group has a Disaster Recovery system that assures the continuity of the service and of the data on an alternative Data Centre whose efficiency is subjected to periodic tests.

In addition, the path to the integration and consolidation of the information system inside the Group, defined on the basis of the changes in the corporate structure that took place in previous years, currently being finalised, will lead to the achievement of important benefits and the consequent reduction of the associated ICT risks thanks to an approach based on risk management.

In consideration of the significance of the activities carried out on a daily basis on the Electricity Exchange, particular attention is paid to the safeguard of the Market interface systems. These systems are subjected to specific management and maintenance procedures to protect their stability.

7. Reputational Risk

This risk relates to the potential effects deriving from a negative perception of the reputation of the ERG Group. The reputation of an organisation is the set of all expectations, perceptions and opinions developed over time by all stakeholders (customers, suppliers, investors, media, etc.) in relation to the qualities of the organisation, to its characteristics and to the expected behaviours.

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

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

- a structured Corporate Social Responsibility process, comprising, inter alia, Social responsibility initiatives and the dissemination of the "Consolidated non-financial statement";

- continuous monitoring of the stakeholders' perception of the ERG brand;
- specific active communication and information relations with the main stakeholders and with the media;
- a Crisis Management process that, through a structured approach, allows to promptly manage and contain the effects of the crisis to safeguard the Group's reputation.

8. Risk of violation of Anti-corruption Regulations

The ERG Group is active in the generation of electricity from renewable sources both in Italy and abroad, in particular: in France, Germany, Romania, Poland, Bulgaria and the United Kingdom.

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

ERG condemns all corrupt practices with the utmost rigour and without exception. To prevent corruption offences, the Group has adopted a system of rules and controls defined in relation to the domestic and international regulatory environment in which it operates. In particular, for all Group Companies:

- the system of rules of behaviour adopted by Group Companies (Code of Ethics, Model 231 and Anti-corruption Policy), according to the respective characteristics, which all employees are obligated to comply with in the performance of their duties and which forbid every form of active or passive corruption, involving not only governmental officials but also private parties;
- the responsibilities and specific spending powers (authorising and signature) are defined and assigned in compliance with the principle of Segregation of Duties, to limit the possibility that a single party may complete an entire process in a fully autonomous manner;
- specific employee training programmes are defined and implemented, to enhance their knowledge, on one hand, of the regulatory anti-corruption landscape (and the related penalty system), and on the other hand the rules of behaviour adopted by the Group (e.g. Code of Ethics, 231 Models and Anti-corruption Policy). Moreover, information sessions are periodically administered for Board of Directors on the rules prescribed by Italian Legislative Decree no. 231/01;
- there is ongoing process, overseen by the Supervisory Bodies under Italian Legislative Decree no. 231/01, for the management of the reports of behaviours contrary to the principles of the Code of Ethics and of Models 231; this process, with reference to possible violations of the Anti-corruption Policy, is overseen by "Compliance 231";
- a "Significant Third Parties" testing process is defined, through which a concrete assessment is carried out of the corruption risk that can be connected with the establishment of a contractual relationship, identifying, if the case warrants it, the appropriate risk mitigation and management measures;
- specific third-level audit activities are carried out by the Internal Audit department, in compliance with the principles set forth by the Code of Ethics, by the 231 Models and by the Anti-corruption Policy.

9. Risk of Business Interruption

The risk is connected to the occurrence of phenomena of a natural, accidental or catastrophic nature (i.e. earthquakes, floods, seaquakes, fights, etc.), during the performance of business activities, with negative consequences in economic terms or on the preservation of corporate assets, such as to cause severe operational crises or to undermine the Group's stability and balance in a significant way.

With regard to the risks of unavailability of the plants, the ERG Group mitigates these risks through:

- plant management policies directed at pursuing high levels of safety and operating excellence in line with best industrial practices;
- the adoption and continuous revision, in line with sector best practices, of both ordinary and preventive planned maintenance procedures, directed at identifying and preventing potential critical issues, also on the basis of specific engineering analyses carried out by specialised personnel;
- the periodic revision of the plants and the use of instruments for controlling and remotely controlling the technical parameters for monitoring and timely detecting any anomalies as well as, when possible, the redundancy of the components necessary to assure the continuity of productive processes;
- the continuous administering of specialist training for technical personnel working on the plants.

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

Concerning production processes, particular attention is paid to the activities for the prevention and control of the risks connected therewith, through the performance of Risk Assessment, Business Impact Analysis and a Business Continuity Management activity, directed at assuring the operating continuity of the generating plants.

To cover risks of a natural and catastrophic nature, to transfer its own industrial risks and those towards third parties and to hedge residual risks, the ERG Group employs the insurance market, assuring a high protection profile for its own structures even with regard to the interruption of activities. The contractual conditions that characterise these insurance policies are subject to periodic revision.

Risk mitigation strategies are implemented in accordance with corporate policies.

10. Health, Safety and Environment (HSE) Risk

The Risk mainly tied to the management of the industrial assets that have an impact on workers' health and safety and on environmental issues.

Health safety are those that can potentially impact and compromise the biological equilibrium of the personnel tasked with performing operations or work, following the emission of environmental risk factors, of a chemical, physical and biological, into the environment. Safety risks pertain to the occurrence of accidents or injuries, or of damage or (more or less severe) physical disabilities incurred by persons performing the various work activities.

Environmental risks, instead, are connected with the possibility of occurrence of events that cause an alteration of the physical-chemical parameters characterising the environmental matrices (such as: water, air and soil), with negative consequences on the natural habitat and/or on the persons' health and such as to entail the adoption of extraordinary emergency measures with negative consequences for the Company, in terms of income, capital and/or reputation.

The ERG Group, strongly engaged in the mitigation of these risks, has adopted specific Health, Safety and Environment Policies that, in line with the best reference international best practices, require from all Group Companies: (i) compliance with all current regulations; (ii) pursuit of specific performance targets; (iii) continuous training of personnel; (iv) certification of specific integrated HSE management systems.

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

In particular, the Companies that manage industrial assets, which by their nature are more exposed to the HSE risk, are all provided with a certified OHSAS 18001 and ISO 14001 Management system, as well as the achievement of the EMAS certification on the main plants. The company ERG S.p.A. has been provided since December 2019 with a certified ISO 45001 Management system. In 2019, the certifying agencies carried out periodic visits and issued and/or confirmed the certification in the Group Companies' possession.

The Group also carries out a structured oversight of Health and Safety matters through the development of numerous prevention programmes and by spreading a "safety culture", directed both at internal personnel and to the suppliers who operate at the plants. Attention to persons is also expressed through initiatives within the scope of personnel development, of the assessment of performance at all levels and of the sharing of best practices.

Adoption of the best available technologies, the application of ever more rigorous and stringent operating practices in terms of prevention and reduction of pollution and the correct management of the waste produced allow to efficiently manage the industrial activity and Health, Safety and Environmental matters.

The ERG Group annually publishes its "Consolidated non-financial statement", providing salient information and data about the HSE and social aspects connected with the activity of the Group itself.

11. Country Risk

The risk refers to possible evolutions of the political, legal, economic and/or social environment of a Country that can have negative impacts, on operations, on the operating results and/or on the financial balance.

Some examples that can be included under Country risk are: (i) the lack of a stable legal framework and uncertainties on the protection of the rights of foreign operators in case of contractual breaches by State Agencies or other private parties; (ii) the penalising enforcement of laws or unilateral contractual changes entailing the reduction of the assets' values; (iii) increases in tax pressure; (iv) complex authorising processes that impact the time-to-market of development projects; (v) delays, revision or non-compliance vs targets for contrasting Climate Change with consequent reduction of investments in Renewable Energies, including in infrastructure supporting the development of the Renewable Generation (e.g. transmission and distribution networks). In particular, the ERG Group implements a management strategy directed at minimising the Country risk, which entails:

- not assuming the risk and hence the not executing the investments in countries with political / social instability that is not suited to the risk profile the Group wants to assume;

- mitigating the risk in countries with a high interest in carrying out new investments, requiring an adequate return in relation to the expected risk profile. This assessment is carried out through the analysis of the main indicators of the country taken into consideration (e.g. macroeconomic, financial indicators).

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

12. Litigation Risk

This risk refers to the possibility that one of the Companies of the ERG Group (or its employees) may be involved in civil and/or administrative and/or tax proceedings and/or in legal actions deriving from potential violations of laws or regulations, from contractual or extra-contractual liability or from other controversies (e.g. labour disputes). The occurrence of these eventualities could cause damages, generate sanctions, damage the reputation of the Group.

The litigation risk also refers to the possibility that a Group company may impugn an act or a measure harming its own interests, promulgated by Institutions or Administrative Bodies and/or by independent Authorities.

The ERG Group implements a risk management strategy entailing:

- the oversight carried out by specific corporate Organisational Units responsible for assuring compliance with reference regulations in the different fields of competence (e.g. Legal, tax-related, administrative, etc.);
- management of the pre-litigation phase by the competent Organisational Units with the support of the specialists of the legal and tax areas;
- management of litigation with the support of outside law offices of high standing, experienced in the matters in dispute;
- constantly monitoring the evolution of ongoing litigation and assessment of the probability of loss; if the risk of loss of a specific proceeding is deemed likely, an estimate of the economic impact is made, which also takes into consideration all possible consequences and a specific provision is allocated in the financial statements;
- preparing and sending internal periodic notices providing information on the progress of the litigation, also through the 231 flows to the Supervisory Bodies.

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

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

- a regular and correct management, coordinated at Group level, of direct relations or through business associations with the Institutional Stakeholders at the local, national and international level;

- participation in the drafting phases of the acts or measures (including consultation procedures);
- possibly impugning the acts or measures deemed harmful before competent authorities.

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

For more details about the Group's disputes and contingent liabilities, please see the **notes 19 and 26** of the Notes to the Consolidated Financial Statements.

13. Liquidity Risk

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

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

- to allow the Group to be solvent both in normal business conditions and in crisis conditions, optimising the related opportunity cost;
- to assure the availability of an adequate level of operating flexibility, optimising the cost of funding in relation to current and perspective market conditions; the Group uses a prudential approach in estimating the projected incoming and outgoing flows, which also takes into account impact assessments of different scenario, including stress scenarios that allow to identify the risk factors that could alter the cash flows forecast in the Financial Plan (e.g. scenario changes, delays in the execution of disposals) and to define and implement the related mitigating actions;
- to maintain a balance in terms of duration and composition of the debt also thanks to an operating structure that is active within assigned limits that are subject to periodic revision and approval, and to a second level control structure, autonomous from the first one, which verifies its work;
- to assure an adequate distribution of the credit lines, of cash deposits and of the related financial activity among the main Italian and international banking institutions.

To assure efficient liquidity management, Treasury activity is centralised in the Parent Company, which provides for the Group's liquidity requirement primarily with the cash flows generated by ordinary operations and with credit facilities, when necessary, assuring appropriate liquidity management.

To pursue its risk mitigation objectives, the stock of financial assets of the ERG Group is invested in short-term, highly liquid financial instruments, favouring a very low risk profile. Use of short selling is never allowed.

Risk management strategies are implemented in accordance with corporate policies.

14. Trade Credit Risk

This is the risk of an unexpected change of the credit rating of a counterparty towards which there is such exposure as to cause potential negative consequences in terms of income and capital. The Group's objective is to maintain the profile of the risk in question at extremely low levels by preliminarily assessing the credit rating of the counterparties and adopting, when deemed necessary, risk mitigation instrument, such as the acquisition of guarantees.

In particular, ERG in the pursuit of its own commercial and business objectives, minimises the credit risk profile, through:

- the definition of risk exposure limits at the Group level and of any risk mitigation instruments (e.g. Bank Guarantees / Sureties) to ensure that the risk profile is aligned to the requirements of the Group;
- an overall Group portfolio strategy that allows to benefit from offsetting the different risk profiles associated with individual customers and in particular between the riskiest and the most secure positions in terms of Probability of Default;
- a structured process of "active" credit management in which specific Organisational Units and a Credit Committee:
  - assess the credit merit of each individual commercial counterparty in terms of Rating, Credit Limit and Probability of Default and attribute it a specific level of credit facility in terms of maximum exposure ("credit line");
  - analyse the risk profile of the portfolio and the exposure levels towards counterparties in terms of credit line granted and of revenue;
  - analyse ageing, constantly monitoring the level of exposure, overall and by individual counterparty, assess the definition and implementation of any specific corrective actions.

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

Risk management strategies are implemented in accordance with corporate policies.

For more details about trade receivables and the loss allowance, please see Note 9 - Trade receivables of the Notes to the Consolidated Financial Statements.

15. Credit Risk towards Financial Counterparties

The ability to adequately assess financial counterparties and to promptly intercept any threats and risk elements is a fundamental requirement for safeguarding the Group's assets and reputation. This risk is defined as the risk that an unexpected change of the credit rating of a financial counterparty towards which there is an exposure (e.g. cash deposit) may cause consequent negative impacts at the economic/financial level and reputational damage.

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

- dealing with counterparties with Investment Grade Public Rating, or in its absence, a specific authorisation by the CEO with the input of the Risk Committee;

- risk diversification strategies (e.g. depositing cash at different banks and/or using mutual funds) as per the indications of the Risk Committee;
- for each financial counterparty, the verification that it is not included in any Domestic and/or International Black List;
- continuous monitoring of the Counterparties' standing and an escalation process in case of negative events and/or deterioration of the risk profile.

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

- the autonomy of the Finance area in depositing cash up to 12 months at banks with Investment Grade Rating;
- an authorisation process (within the Risk Committee) for uses of cash above 12 months or at banks with Rating below Investment Grade (at least one Investment Grade Rating by any Agency between S&P, Moody's, and Fitch).

At the date of preparation of this Report, it is pointed out that all cash is deposited at Investment Grade Bank Group with at least "BBB-" rating (S&P Scale)

16. Risk of Loss of Key Personnel

This is the risk that the global rewarding systems implemented in the Group (comprising fixed and variable components and benefits) are inconsistent with the persons' motivation or market benchmarks, with consequent economic impact for the Group, caused by the loss of professionals who are key and/or deemed strategic.

The Group mitigates this risk through the development of remuneration strategies and policies, based on weighing and matching positions, aligned with market benchmarks, in order to assure the effectiveness of the rewarding components (monetary and otherwise).

In particular, the Group uses differentiated instruments for retention according to the level of strategic relevance and seniority of its personnel. From this perspective, the fixed component of remuneration assures retention through continuous market benchmarks, while the variable component assures the alignment between corporate objectives and individual interests by awarding bonuses upon attaining long-term objectives (LTI) and short-term objectives (MBO).

The mitigation strategies for these risks are implemented in accordance with corporate policies.

17. Interest Rate Risk

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

In particular, the ERG Group implements an interest rate risk management strategy entailing:

- seeking and finding financial resources at the best conditions offered by the market, in compliance with the restrictions set by the Risk Committee;
- regularly monitoring the level of exposure to the risk and compliance with the restrictions set by the Risk Committee;
- using derivative instruments (e.g. IRS, Interest Rate Swaps), authorised exclusively in view of the existence of an underlying asset.

pursuing the following objectives:

- identifying the optimal combination between fixed rate and floating rate;
- optimising the Group's cost of debt within the risk limits assigned by the Chief Executive Officer, whose decision is supported by the consultative opinion of the Risk Committee, and consistently with the specificity of the business;
- reducing the possible economic impacts tied to rate volatility on the financial market.

The mitigation strategies for these risks are implemented in accordance with corporate policies.

18. Exchange Rate Risk

This is the risk that changes in the exchange rates of the currencies with which the Group operates may impact:

- the income, as a result of the different significance of costs and revenue expressed in a foreign currency with respect to the time when the price conditions were defined (economic risk);
- the income, as a result of the translation of trade or financial receivables/payables denominated in a foreign currency (transaction risk);
- the consolidated financial statements (income and equity) as a result of the translation of assets and liabilities of undertakings that prepare the financial statements in another currency (translation risk).

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

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

Any use of derivative instruments for hedging purposes is authorised exclusively in view of the existence of an underlying asset and it is subordinated to the approval of the Risk Committee and subject to periodic monitoring.

The mitigation strategies for these risks are implemented in accordance with corporate policies.

19. Risks tied to the loss of key Suppliers

This risk is identified as the eventuality that the Group will incur losses or higher costs, reputation damage or interruption in business continuity, at least short term, as a result of the loss of a given supplier (e.g. going out of business, bankruptcy, natural events with repercussions on its production capacity) deemed strategic or of the excessive concentration of orders on a specific single supplier.

The policy of the ERG Group is to pursue the minimisation of the risks tied to relations with suppliers by identifying a set of behaviours / actions and adopting a specific policy for managing purchases, based on the following principles:

- the development of a rigorous internal process for the qualification (economic/financial, technical and HSE) and selection of suppliers according formally defined parameters and criteria, relying on tenders with the identification of a minimum number of suppliers for the procurement of goods and/or services, assuring whenever possible a structured rotation of the suppliers;
- the identification of specific Organisational Units responsible, in particular, for selecting and overseeing the suppliers' performance;
- the development of specific contracts, providing protection clauses both in the General Conditions and in specific contracts;
- specific activity for the structural monitoring of the supplier pool and controlling purchasing processes, directed at assuring compliance with the quality and order concentration parameters, defined in Group procedures.

20. Industrial Relations Risk

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

The relations with employees deriving from the employment agreement are assured, both individually and collectively, through compliance with labour laws and with international laws covering human rights, diversity and equal opportunities and the establishment of a corporate culture centred:

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

The mitigation strategies for these risks are implemented in accordance with corporate policies.

21. Risk associated with the consequences of the exit of the United Kingdom from Europe (Brexit)

As a result of the outcome of the referendum of June 2016, the exit of the United Kingdom from the European Union was decided, and international treaties between the EU and the UK are being renegotiated.

The results of the negotiations on Brexit and its consequences on EU economies and on the relations between Europe and United Kingdom are still uncertain.

Thus, significant elements of uncertainty persist which can have potential repercussions on financial markets, such as a progressive devaluation of the exchange rate of the British Pound relative to the Euro and greater volatility of financial markets in general because of the increased uncertainty, with impacts on the Group's results, albeit circumscribed given (i) the limited presence of the Group in the United Kingdom with respect to its own international production portfolio (ii) a development plan that envisions most investments towards the end of the five-year plan, when the political scenario should be defined.

In particular, the ERG Group manages risk through a strategy comprising several levels and entailing the activation, development and maintenance of relations with local and European institutions, directed at understanding evolutions in the renegotiation of the international treaties between Europe and United Kingdom and its possible impacts on the business both for current investments and for future ones. Moreover, for new investments, risk mitigations entails the assessment of the same investments requiring an adequate return on the expected risk profile, taking into account the main indicators of the country (e.g. macroeconomic, financial indicators) that are periodically revised to take into consideration any changes that may have an impact on the correct representation of the country risk.

Risk management strategies are implemented in accordance with corporate policies.

22. Climate Change Risk

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

To contract the climate change, already underway, the Intergovernmental Panel on Climate Change (IPCC) has highlighted in its publications the effects that global warming may have and in part is already having on the plant (among others – intensification of heat waves and of extreme weather events, rising sea levels, thinning Arctic sea ice and continental glaciers) and the importance of limiting the rise of average temperatures under 2°C.

The path to reach this goal requires timely interventions in all sectors of the economy and of industry on a global scale and the Energy sector is one of the key factors to assure the planet's sustainability.

In June 2017, the Task Force on Climate-related Financial Disclosures (TCFD) published a Final Report providing a series of recommendations on the procedures for reporting on risks and the related opportunities, also issued by the European Commission in the publication of June 2019. The TCFD guidelines require providing disclosure with respect to four broad topic areas: **Governance; Strategy; Risk Management; Metrics & Targets**.

In this context and with reference to the TCFD guidelines, ERG structured a path of analysis that developed through:

- identification of the reference scenarios;
- identification of the variables present in the scenarios that impact ERG's business;
- identification of the risks and opportunities tied to climate change in relation to ERG's business.

The scenarios were selected among the most highly accredited ones in the literature and 3 have been selected in particular:

- a physical scenario prepared by the Intergovernmental Panel of Climate Change (IPCC) that hypothesises the absence of mitigation actions. In this scenario, it is estimated that greenhouse gas emissions will cause a +1.5°C rise in average temperature by 2040, which will subsequently exceed +2°C, with relevant effects for the planet.
- two transition scenarios that focus on the actions to limit GHG emissions:

- Below 2 Degree Scenario (**B2DS**) of the International Energy Agency (IEA), used by the Science Based Target Initiative (SBT) to set targets for the reduction of greenhouse gas emissions;
- Sustainable Development Scenario (**SDS**) of the IEA that considers the same Sustainable Development Goals (SDGs).

Mitigation strategies consistent with the above-mentioned transition scenarios require that, to contain the rise of average temperature below 1.5°C, global CO_2 emissions should be reduced by approximately 45% by 2030 relative to 2010, to reach "zero" around 2050, while a target of 2.0°C would require a 25% reduction in emissions by 2030 and reach "zero" around 2070.

Subsequently, the different variables that can impact ERG's business were identified and classified in "Physical" and "Transitory" events. Physical events include "Acute" events (e.g.: storm, flood, intense heat waves), and "Chronic" events (Rise in average temperature; Rise in sea level; Reduction in rainfall). Transitory events include "Regulatory" aspects (e.g. Change in subsidies and incentives; Change of the regulatory framework of GHG emissions;), "Market" aspects (e.g. Uncertainty of Electricity Demand; Increased competitive pressure), "Reputational" aspects, those tied to Technological Innovation (e.g. Promotion of energy efficiency) and those on "Resilience" in particular referred to the actions directed at contrasting the negative effects of climate changes.

The project has allowed to identify the risks and opportunities (in consideration of ERG's strategic positioning) determined by Climate Changes, any financial impact (in qualitative and not quantitative terms) and the related management strategies implemented to mitigate risks.

In particular, the risks include, for example: (i) possible Damages to plants and/or to infrastructures and/or Interruption in the Supply Chain due to Acute Physical events; (ii) Reduction in the performance of the plants due to heat waves with negative impact on their efficiency; (iii) Decrease in average rainfall with negative impacts on the generation of Electricity from Hydroelectric assets.

The opportunities include, for example: (i) Increase in electricity demand for cooling (ii) Possible increase in the price of electricity promoted by exit from coal.

To contrast the deriving risks and exploit any opportunities, the ERG Group, one of foremost renewable energy operators at the National and European level, makes its choses in an "Aware and Responsible" manner, implementing a climate strategy that is closely integrated with the business strategy, based, inter alia, on the following actions:

Implementation of a plan for the development and generation of energy from renewable sources (mainly: Wind, Water and Sun) in Italy and abroad, which has allowed to meet a growing portion of electricity demand through the use of "Clean Technologies" and to "avoid" emitting CO_2 into the atmosphere with respect to traditional generation, contributing to contrast Climate Change;

- pursuit of a strategy directed at territorial and technological diversification that allows to offset its negative impacts deriving from climate changes;
- continuous monitoring of regulatory evolution in the Countries where the Group operates and the establishment and maintenance of effective and durable relations with local stakeholders;

- introduction in the portfolio strategy of bilateral contracts / PPA for the sale of Electricity with medium/long term expiration dates to contrast the higher volatility of prices that may emerge as the sum of effects tied to Climate Change;
- specific communication activities for the maintenance of a high reputation of the Group towards stakeholders that envisions, inter alia, a structure Corporate Social Responsibility process (sustainability reporting, monitoring sustainability objectives, ESG rating).

ERG has adopted the best prevention and protection strategies, also with the goal or reducing possible impacts on its own assets through initiatives directed at increasing their resilience to the most extreme weather events. The Group has demonstrated, over the years, its ability to anticipate radical changes in the context in which it operates, promptly changing its growth strategy. Over the years, ERG was transformed from an operator in the refinement and distribution of fuels to a primary operator in Italy and Europe in the generation of electricity from renewable sources. ERG is engaged, through its own targets of investment in "zero emission" green technologies and in particular in wind and in solar power, to provide its own contribution to the fight against climate change in line with COP21 objectives. The results of this activity on Climate Change are set forth in greater detail in the 2019 Non-Financial Statement.

HEALTH, SAFETY AND ENVIRONMENT

Foreword

Protecting the health and safety of persons and safeguarding the environment have always characterised the ERG Group's way of doing business: preventing and managing the connected risks therefore are central for the implementation of the Group's strategic guidelines.
The health, safety and environment principles adopted are set forth in the Sustainability Policy, which expresses for all stakeholders the sustainability values, commitments, objectives that ERG intends to pursue.
In line with its Code of Ethics and its Human Rights Policy, ERG steers the activities of the entire Group, coupling the objective of the creation of sustainable value over time, with environmental protection and care for internal and external stakeholders. For the ERG Group, growing sustainably means integrating economic and business growth targets with the creation of value for the Environment and the Company, to increase the value generated and transform it also into competitive advantage.

Health and Safety

In 2019, business activities continued in compliance with the health, safety and environment Policy and in accordance with the principles prescribed by the Guidelines and by the Code of Ethics adopted by the Group.
The ERG Group continued to pursue the "zero accident" target and in 2019 it achieved a significant reduction, in Italy, of the frequency and severity injury indicators for its own personnel and for third parties, as it had last year.
In terms of actions taken, an intense training activity was completed, both managerial and pertaining to workplace health and safety, at all organisational levels, involving the different involved personnel, in line with the contents of current regulations and the obligations of the responsible parties, with Employers first among them.
Moreover, the ERG Group, which has always been attentive to the health and safety of its employees, in 2019, as in previous years, offered to its personnel the possibility of undergoing a series of medical tests for prevention purposes; as in the previous year, it offer all of its personnel the possibility to be administered the flu vaccine.
As stated, the culture of safety based on prevention has fundamental importance for the ERG Group, because it helps protect people and the environment from harm. For this reason, in 2019 as well, every event in which harm to health and safety occurred or could have occurred was thoroughly assessed, based on the group procedure, to identify the necessary corrective actions, whose long-term goal is to prevent the repetition of the events.
The efforts expended in 2019 entailed a sharp decline in injuries to ERG Power Generation employees in Italy. Two injuries were recorded, one to an ERG Power generation employee and one to a third party company employee, in the course of wind farm maintenance activities. Vice versa, in activities abroad, in the maintenance of wind farms, four injuries were recorded, of which two in France (one to a third party employee) and two in Germany.

The Group's HSE functions assessed the events that took place and the actions identified after assessment of the individual events were taken. The analyses did not involve only the area and the specific context of the accident, but all the areas of the involved wind farms, in order to extend the effects of the prevention activities as far as possible.

Moreover, in 2019 a project called "Leadership in Safety" was launched throughout the Group, directed at promoting the adoption of behavioural leadership models in relation to safety manners by those in charge of operations, starting from the top and down to the local supervisors who directly manage the workers' operating activities. The main recipients are the operating managers of the group, i.e. those who have the responsibility for managing personnel, the HSE team, and progressively in cascade also the Group's personnel.

The macro-phases are the following, with workshop, cascading coaching, cascading meeting:

- 2019- classroom initiatives for Management and coaching initiatives for the persons in charge of the operating units/Country Managers;
- 2020- "on the job training" initiatives.

Environment

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

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

Another goal being pursued at group level is the development of awareness of the management of environmental aspects within the purchasing process. With respect to the matter of sustainable purchases ("Sustainable Procurement"), a preliminary analysis was carried out and the ground was laid to develop an action line in concert with group Procurement, to take advantage of the environmental benefits deriving from the application of specific product and service techniques and from the adoption of management procedures oriented to sustainability.

In May 2019, after the creation of the ERG working group and engaging an outside supplier specialised in "sustainable procurement", the kick-off meeting was held.

In October 2019, the "guideline for the procedures for preparing the technical specification for contracting office cleaning services with reduced environmental impact" was disclosed. The principles of the document were integrated as environmental sustainability requirements in the new office cleaning contract of all ERG locations in Italy.

Management Systems and Certifications

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

- ERG S.p.A. completed transitioning its certification of the safety management system from the OHSAS 18001 standard to the ISO 45001 standard;
- ERG Power Generation S.p.A. defined its Integrated Management System (IMS) as a set of "organisational structure, procedures, processes and resources necessary to implement Management for the Environment and Safety", applicable to all group technologies (Wind&Solar, Hydro and Thermo).

The Integrated Management System has the following purposes:

- it identifies and describes in detail the productive processes managed, highlighting the various processes, the interfaces, the related inputs and outputs, the control elements;
- it measures processes and keeps them under control, so as to achieve the planned results in compliance with the principle of effectiveness, efficiency and continuous improvement;
- it manages processes in accordance with the requirements of the regulations;
- it entails the adoption of procedures and reference guidelines applicable to all units.

In 2019, the Integrated Management Systems of ERG Power Generation adopted by the Thermo, Hydro and Wind & Solar units, revised for the consolidated organisational set-up, were tested and unified under a single reference accreditation agency (RINA), similarly to 2018.

Concerning the safety aspects, as stated above, ERG S.p.A. completed the shift from the OHSAS 18001 standard to ISO 45001, ahead of the mandatory timelines (March 2021, date on which all OHSAS 18001 certificates will expire). The new standard, in confirming the fundamental aspects of the previous one, nevertheless stresses the importance of some aspects, in particular the workers' involvement in the corporate processes that have implications in safety matters.

As provided by the systems themselves, internal audits were scheduled and carried out to verify compliance with regulations, with the usual establishment of mixed audit teams with resources coming from organisational units outside the audited unit. This has allowed to consolidate internal communication and the exchange of the competencies that were developed, which started the previous year.
The audit programme was carried out between May and November 2019 and it was performed, in relation to health and safety matters, already with a view to revision according to the new reference standard, i.e. the ISO 45001 standard.
Another important objective, achieved by ERG Power S.r.l. and by ERG Hydro S.r.l. in 2019, is the annual verification of EMAS compliance, in accordance with Regulation (EC) no. 1221/2009 and no. 2017/1505/EU.

The EMAS (Eco-Management and Audit Scheme), together with the adoption of an Environmental Management System consistent with the ISO 14001 international standard, allows to consolidate an effective and efficient management of environmental aspects, based on trust and transparency in dealing with the institutions and with the public and on the active participation of the employees and of the Third Parties that operate in the operating sites.
The main instrument is the “Environmental Statement”, which transparently allows to communicate to stakeholders, and more in general to the public, the environmental performance of the reference Units. On the institutional website were published the 2019 revision, with the updates of the results and of the objectives achieved in 2018.

Voluntary participation in a community eco-management system represents additional confirmation of the importance of environmental sustainability for our Group, to make still more effective one of the objectives of the Corporate Social Responsibility: open communication with the public.

GOVERNANCE

ERG carries out its activity in compliance with the highest Corporate Governance standards, constantly applying the principles of integrity, impartiality and transparency.

With the objective of assuring these principles at any moment of the corporate life, the Group implemented a Governance System and an Internal Audit and risk management System that not only complies with current legal and regulatory provisions, but is also aligned with domestic and international best practices and, in particular, with the recommendations of the Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A.

The elements that constitute Corporate Governance are the **statutory bodies**, the **board committees** and the **corporate governance documents** that regulate their operation[12].

The **Board of Directors**, appointed by the Shareholders' Meeting of 23 April 2018, comprises 12 members - 6 of whom are independent[13] (one elected by the non-controlling investors) - in compliance with the gender balance criterion[14]; the mandate of the Board of Directors will expire on the date of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2020.

The **Nominations and Remuneration Committee** comprises, in accordance with the Corporate Governance Code, three non-executive directors the majority of whom are independent and it has the duty, inter alia, to formulate proposals to the Board of Directors for the remuneration of Directors with delegated powers or serving in particular offices and to formulate opinions to the Chief Executive Officer for the definition of remuneration policies and incentive plans for Key Managers and the Top Management of the Group.

ERG has adopted a **Remuneration policy** of the members of the Board of Directors and of Key Managers in line with the provisions of the Corporate Governance Code, hence directed at stimulating the closest alignment of the beneficiaries' interests with the pursuit of the priority objective of the sustainable creation of value for Shareholders in a medium/long term horizon. The medium/long term incentive System (**LTI System**) provided for the Executive Deputy Chairman, the Chief Executive Officer, the Key Managers and other Top Managers of the Group that have strategic relevance for the purposes of achieving the 2018-2022 Business Plan, entails the assignment of a determined number of ERG shares, at the end of a three-year vesting period, subordinated to the attainment of a predefined percentage of Group EBITDA cumulated in the 2018-2020 time interval. The LTI System also specifies that if in addition to the

12 For detailed information, please refer to the section "Report on corporate governance and the shareholders" and to the "Consolidated non-financial statement" relating to the year 2019 available on the Company's website (www.erg.eu).

13 5 independent Directors in accordance with the Consolidated Law on Finance and with the Corporate Governance Code and 1 independent Director in accordance with the Consolidated Law on Finance but not in accordance with the Corporate Governance Code exclusively in consideration of the long time of permanence in office.

14 In accordance with Article 147-*ter*, paragraph 1-ter, of the Consolidated Law on Finance, as amended by Italian Law no. 160 of 27 December 2019, in the Board of Directors to be appointed by the Shareholders' Meeting call for approval of the Financial Statements at 31 December 2020 at least two fifths of elected Directors shall be reserved to the less represented gender.

attainment of the EBITDA percentage, a determined price of the ERG stock is also reached, the number of assignable ERG shares increase up to a predefined maximum.

The **Control and Risk Committee** comprises, in accordance with the Corporate Governance Code, three non-executive directors the majority of whom are independent and its task is to support the assessments and the decisions of the Board of Directors relating, inter alia, to the internal control and risk management System and to the approval of the periodic financial reports.

ERG deems correct **risk management and mitigation** within the Group to have fundamental importance and therefore it has defined a policy directed at defining the rules and attributing the related responsibilities.

With particular reference to financial and market risks, the Group strengthened the **Risk Committee** some time ago; this is an internal committee comprising the Chief Executive Officer, the General Manager and Top Management, with the purpose of managing, inter alia, the risks inherent to the Energy Management activity for the Group's entire energy portfolio: for this purpose, the Company has formalised a multi-year hedging policy, identifying minimum and maximum limits to the hedges that are periodically monitored in terms of execution and performance.

ERG has established a very rigid **system for controlling and assessing investments** (both in terms of M&A and of organic growth), in order to respect the set profitability parameters. In this context, the following perform a central role:

- the **Investment Committee**, an internal committee comprising the Chief Executive Officer, the General Management and the Top Management, with the task of providing support in the assessment of investment proposals by the Group and to express a technical and economic-financial opinion for the Strategic Committee on every investment proposal;
- the **Strategic Committee**, a committee within the board, comprising the non-executive Deputy Chairman, the Chief Executive Officer, two Directors (an independent one[15] and a non-executive one) and the General Manager with the task, inter alia, of providing support to the Chief Executive Officer and to the Board of Directors for the definition of strategic guidelines for business, for the portfolio, for strategic finance and in the decisions relating to multi-year strategic plans and with reference to relevant investments and acquisitions.

15 In accordance with the Consolidated Law on Finance and the Corporate Governance Code.

HUMAN CAPITAL

The 2018-2022 Business Plan set highly challenging objectives for the ERG Group and requires tackling the management of people and processes with great consistency and incisiveness; in this context, in 2019 ERG's effort continued to be strongly oriented in two directions:

- continuous refinement and adaptation of the organisational model with the goal of maintaining it constantly updated with respect to the Group's progress on the path set by the business plan;
- optimisation of the model for the development of the Human and organisational Capital, comprising four areas of intervention:
  - continuous optimisation of organisation and processes, as levers enabling value generation;
  - increase in the value of the human capital (PEOPLE);
  - evolution of rewarding systems;
  - development of a modern, innovative approach to industrial relations.

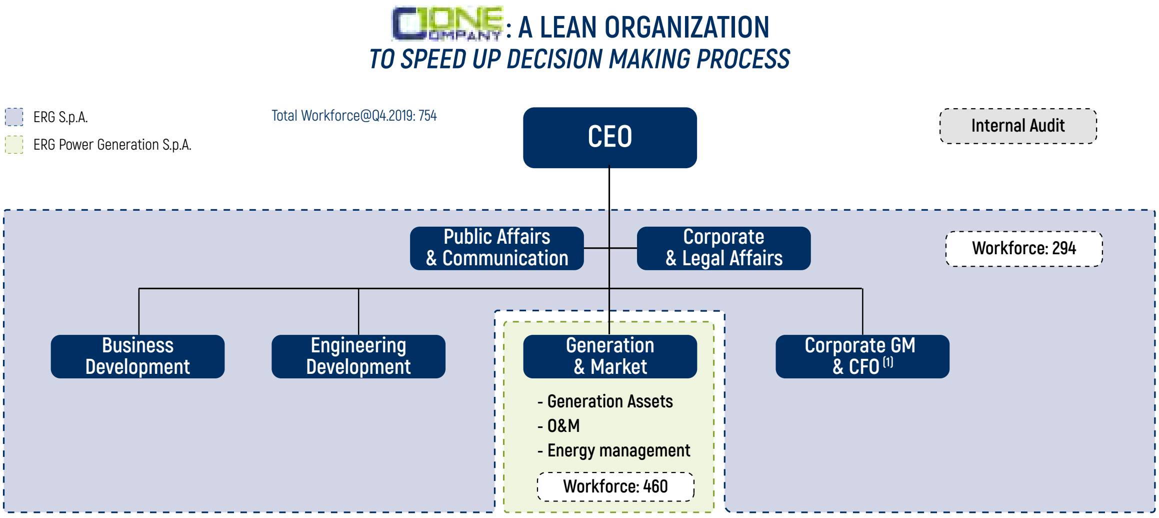
Organisation & Processes

The Group's organisational structure - is characterised by a marked orientation to process logic and it entails 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, Finance, Planning Control & Reporting, Group Risk Management & Corporate Finance, Merger & Acquisitions, 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.



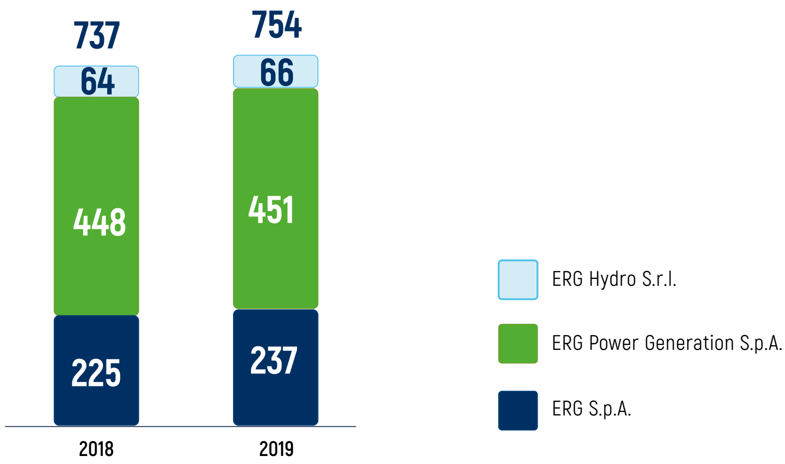
(1) It includes Group Administration, Finance, Planning & Control, Investor Relations, M&A, Group Risk Management & Corporate Finance, Procurement and Human Capital & ICT

One of the main pillars for the construction of the organisational model is the identification of the value creation levers, directed at unambiguously assigning their specific managerial and operational responsibilities with the objective of maximising their capacity for action and effectiveness with respect to the targets of the plan.

In 2019, a continuous analysis and optimisation work continued to assure the constant adequacy of the model that led, as indicated above, to the creation of the General Management Department at the Corporate level.

In terms of Group headcount, at 31 December 2019 ERG had 754 employees (+17 compared to 31 December 2018), divided as follows:

- ERG S.p.A. recorded an increased headcount compared to 2018, reaching a total number of 237 persons relative to 225 at the end of the previous year;
- ERG Power Generation S.p.A. and its subsidiaries recorded a slight increase in headcount, reaching 451 employees (+3 compared to 2018), with an important continuous work of organisational refinement, rejuvenation and qualitative remix;
- ERG Hydro S.r.l. ended the year 2019 with 66 employees (+2 compared to 2018), recording, during the year, a physiological turnover tied in particular to the processes of rejuvenation and qualitative remix of the personnel.



The changes in the number of employees were generated, on one hand, by physiological but limited turnover phenomena within the different companies of the Group, on the other hand above all by the Group's intention to strengthen its organisational structure, in particular in foreign Countries to assure the achievement of the important business targets developed in the industrial plan, with particular reference to:

- the continuation of the in-sourcing plan in terms of Operations & Maintenance of the Wind generation technology and the structuring of Countries outside Italy, also in relation to the staff areas;
- the strengthening of the competence areas functional to industrial development, in particular with regard to engineering;
- the investment in junior resources to be trained in-house in the technical training centre established for this purpose in the Wind sector, with the goal of adequately supporting the continuation of the important efficiency results assured by the in-sourcing of maintenance processes, carried out in the previous years,
- the acquisition of competences functional to the management of the new Solar technology, included in the Group's generating pool starting from early 2018 and characterised by specific technical and managerial features that need to be adequately handled, within an industrial logic, with adequate resources in terms of quantity and quality of the competences.

The average age of the Group's personnel is approximately 43.2 years, lower than in 2018 (43.6) attesting to the effectiveness of the rejuvenation policies implemented by the Group in recent years, and the level of education records an incidence of high school and university graduates of approximately 93% with respect to the entire population, up compared to the figure at the end of last year (91%).

Human Capital Development

Diffused leadership is ERG's managerial development model. This means that the management team is highly involved in the valorisation of Human Capital as a corporate competitiveness lever.

For this reason, in 2019 the Human Capital Committee retained its fundamental role in defining and monitoring the main human resource development programmes and activities, supporting the Executive Vice President and the Chief Executive Officer in the main decisions pertaining to personnel management.

The Committee confirmed its own guidance and control role, both with regard to the evolution of the Group's Organisational Model and sharing new organisational changes, and with respect to spreading and strengthening the managerial culture and to the implementation of strategies and instruments for their implementation; in particular, in 2019 a great deal of effort was expended in the deployment of the Group's new managerial competences model, to assure its adoption by the entire corporate population with the goal of making it one of the levers for the achievement of the important objectives set by the new business set-up and by the 2018-2022 business plan.

Moreover, in line with its own mission, in 2019 continued to provide a fundamental impulse for the development of the following processes:

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

The objective, newly confirmed with conviction, is to provide the Group with an integrated Human Capital management system able to assure the continuous adaptation of the capital of competences and knowledge to ever-changing business conditions, so that the capital of resources available is constantly capable of rising to the challenges dictated by ever-growing competition and by a complex, shifting scenario.

In this context, the Group has further brought on line the integrated utilisation with the other human capital processes of the competence management model developed in previous years; an extremely innovative instrument, closely based on the needs to safeguard specific skills for the coverage of individual organisational roles, and able to "measure" the value of the competence capital present in the Group with a centralised process cutting across all of the Group's Organisational Units.

The methodology was further refined, acting on instruments already introduced in the Group in recent years (the Organisational Manual, the new Group organisational model, a centralised catalogue of competences) that constitute the basis of the instrument, as well as on specific aspects of the instrument itself (competence catalogue, profiling method, etc.), it allowed to calculate, for 2019 as well, the Human Capital Coverage (HCC) index which reached 93%, increasing by 3 percentage points from the previous year. This indicator, which has become subject to regular measurement and optimisation actions, is able to express the level of actual coverage with respect to the desired one, in relation to the competence profile necessary for the effective implementation of a determined organisational role, or of a certain group of organisational roles.

The measurement of the HCC index, together with the analysis of business and organisational evolutions, also allows to give additional momentum to Human Capital management and development processes, allowing to address with greater consistency with respect to actual needs both job rotation and career planning processes, and talent development processes with the connected investments in training.

As in previous years, in 2019 the investment in training activities has remained at high levels (approximately 5,844 days, involving 737 participants), but above all it was distinguished in terms of quality and focus. The system, comprising three areas (Managerial, Institutional and technical/specialist), covers with end-to-end approach (from newly hired personnel to executives) all the needs of the corporate population; in practice, it is the basic structure of an ERG "corporate university", with a training platform integrated in human capital management processes and closely aligned with the needs dictated by the evolution of the business.

With regard to training, particularly significant, moreover, is the new technical training centre for the maintenance technicians of the Wind technology in which internal and external trainers instruct newly hired personnel (in particular, but also more senior employees) with the goal of always maintaining the O&M team's operating capacity at the highest possible level, providing the Group with a significant competitive advantage in the in-sourced management of maintenance processes.

Management Alignment and Motivation

The ability to align corporate management on clear, integrated objective is a primary need of modern organisations. In 2019, short-term and long-term incentive systems, assigned according to available levers, continued to be implemented. Short-term incentives are dedicated to the Group's Managers and to a selected population of Professionals. The system is based on a Management By Objectives (MBO) approach in which the selected balance between Group targets (30%) and individual targets (70%) corresponds to the best practices of leading companies with regard to managerial incentives, and which was designed to further support the development of leadership and of individual initiative.

The 2018-2020 Long Term Incentive System, instead, is intended for Group Directors – Top Management. This System is directed at assuring, in line with international best practices, a closer alignment of the Beneficiaries to the shareholders' interests in the medium-long term through the assignment of an incentive in shares and to improve the operating efficiency of the business through the use of the performance target consisting of the accumulated Group EBITDA Target.

The 2018-2020 Long Term Incentive System entails the attribution, at the start of the plan, of a predefined number of ERG ordinary shares that will be assigned at the end of the three-year vesting period if a predetermined value of the accumulated Group EBITDA Target is attained in the 2018-2020 three-year time interval.

The system also prescribes that:

- if, in addition to the EBITDA Target, the Outstanding Price is also attained, the number of Assigned Shares increases as a function of the level of value creation for shareholder and up to a predetermined maximum (Cap);
- if dividends paid referred to the 2018-2020 time interval are different with respect to the hypotheses underlying the implementation of the system, the number of assignable shares, with respect to the shares attributed at the start of the plan, may change upwards or downwards.

The number of shares attributed at the start of the plan amounted to 385,000. At 31 December 2019, the revised number of shares attributed following the entry of a beneficiary, resolved by the Nominations and Remuneration Committee on 28 February 2019, and the exit of a beneficiary as a result of resignation amounted to 370,000 with a CAP, upon reaching the Outstanding Price, of 740,000.

For additional details, please refer to the Report on the Remuneration Policy and on the paid remuneration.

2019 INDUSTRIAL RELATIONS

2019 was a seminal year for the ERG's new industrial relations model, both in terms of innovations and in terms of development of new instruments for valorising the social dialogue.

During the year, the new 2019-2021 Performance Bonus was defined; for the first time, it has a unified, simplified national structure. As always in the tradition of ERG industrial relations, it was a goal shared with all Social Partners at the end of a path comprising different levels of debate (National, Local, Corporate).

Starting from 2019, therefore, to all of the Group's Italian personnel has been applied a Performance Bonus correlated with a single economic indicator (Group EBITDA) and with the technological performance of the business in which the Group operates (Wind, Hydro, Power, Solar). It was a significant breakthrough, which for the first time valorises the One Company dimension of the company and the impacts of production performance, that cut across it.

	ERG S.p.A.	ERG Power Generation S.p.A.
Profitability Index (R) 50%	**Group EBITDA (100%)**	
Productivity Index (P) 50%	**Wind (25%)** KII Performance	**Solar (5%)** KII Performance
	Power (25%) KII Performance	**Hydro (25%)** KII Performance
	KPI HR (20%) Green Pay - Sustainability	

In addition, payment of the bonus was then connected at the territorial level to the achievement of the following **sustainability and Green Pay objectives**:

1) reduction of injury frequency and severity indexes;
2) reduction of plastic consumption in a plastic free perspective;
3) reduction of toner consumption.

The inclusion of a connection between the "green" dimension of the company and the economic valorisation of the corporate performance bonus, in addition to being an **innovative Green Pay model** in the Italian landscape, is an experience that will also influence future negotiation developments between the Company and the Social Partners.

CULTURAL AND SOCIAL ACTIVITIES

In 2019, ERG renewed its cultural and social commitment, operating in line with the previous years on three main lines of action: "**environment, health and social development" - "culture and knowledge" - "youth and sports**".

The initiatives involved mainly:

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

Listed below, by way of example, are some initiatives that pertained to these three areas. For additional information and deep dives on the activities carried out during the year, please refer to the Consolidated Non-Financial Statement prepared in accordance with Italian Legislative Decree no. 254/2016 at 31 December 2019.

Environment, Health and Social Development

Support to start-ups

In January 2019, the award ceremony was held for the second edition of ERG RE-Generation Challenge, the business plan competition launched by ERG with the collaboration of dpixel to identify talents and entrepreneurial ideas with high innovation content in the Energy Saving, Infrastructure, Renewable Energy, Smart Grid, Green Economy, Social Innovation and Sharing Economy sectors.

The Scouting Tour travelled through eight Central-Southern Italy regions (Sicily, Sardinia, Calabria, Campania, Basilicata, Puglia, Molise and Umbria), as many as 120 entrepreneurial projects from all of Italy were examined and 10 of them went beyond the preliminary selection phases and they vied for the three finalist positions in an event organised in Salerno with the local support of the Sella Group.

Educational activities

In 2019, the environmental education project "**Vai col vento!**" ("Go with the Wind!") reached its sixth edition; it is promoted by ERG and dedicated to the eighth grade students of the Municipalities in which the Group's wind farms are located. The initiative, sponsored by the Italian Ministry of the Environment since its first edition and - since 2016 - by the Carabinieri, involved nearly 1,800 students residing in Sicily, Calabria, Basilicata, Campania, Molise, Puglia and Sardinia. "Vai col vento!" aims at raising the awareness of students and teachers on the active role the young generations can play to safeguard the environment and for the development of a widespread culture on sustainability.

"**A tutta acqua!**" ("Full blast with water!") reached its third edition; it is the similar project dedicated to the high school students of the Umbria and Lazio regions, in which ERG is present with hydroelectric plants.
As part of the **School Project**, ERG has supported, in the territory of Syracuse, Sicily, the competition entitled "**Un casco vale una vita**" ("A helmet is worth a life"), dedicated to eighth grade students, which has reached its tenth edition; "**Icaro 2019**" ("Icarus 2019"), a road safety education project for high school students.
The "**Giornata dell'Energia Elettrica**" ("Electricity Day"), an initiative aimed at young technical school students that ERG has organised for 13 years in Sicily and for 4 years in Umbria, in the areas where it is present with the generating plants.
In 2019, ERG launched its first environmental education project outside Italy, organising a day dedicated to wind energy at the Tristan L'Hermite School of La Souterraine in France.

Social initiatives

The third day of **ERG Corporate Volunteer Work** was held in Sicily in November, in collaboration with Legambiente. The initiative is a part of "Puliamo il Mondo" ("Let Us Clean up the World"), Italian edition of the international initiative called "Clean Up the World", dedicated to cleaning up urban centres. Coordinated by Legambiente volunteers, ERG Personnel and their family members carried out clean-up activities at the Marinas of Priolo Gargallo and Melilli in Siracusa.

ERG also confirmed its support to the **Mus-E Foundation ONLUS** and to the **Flying Angels Foundation Onlus**.

Culture and Knowledge

ERG supports the **Fra' Sole** (Brother Sun) **Project**, whose goal is to carry out a series of initiatives to make the complex of the Sacred Convent of Saint Francis sustainable; it is visited by over 6 million pilgrims every year. ERG also supplies green electricity to the monument complex.

In 2019, moreover, ERG was a partner of the event **TEDx Genoa** "**X kind of Magic**" and confirmed its support for the **INDA Onlus Foundation**, which since 1914 has organised classical plays at the Greek Theatre of Syracuse, through its support to the theatrical productions and to the other activities promoting classical culture; at the **Camogli Communication Festival**; at the **Science Festival** at the "**Umbria Jazz**" **Festival**, held in July in Perugia. ERG's contribution facilitated the organisation of the second edition of **Umbria Jazz Spring**, thus making the Festival initiative in Terni.

Youth and Sports

ERG sponsored the **35th Ravano Tournament - 26th Mantovani Cup**, the largest school youth tournament in Europe. The 2019 edition involved, in April and May, over 6,000 young participants from schools in Liguria, Lower Piedmont and the province of Siena, engaged in 12 different sports in 10 days. This year, particular attention was once again dedicated to sensitising the very young participants to “green” behaviours through a series of Edutainment laboratories: ERG was present with a corner entirely dedicated to the theme of the generation of “sustainable” energy from renewable sources.

In 2019, moreover, the twenty-eighth edition of the “**Archimedes and Electra Trophy**” was held; the event is considered a classic school sporting event in the Province of Syracuse. The event took place at the “Riccardo Garrone” ERG Sports Centre in Syracuse and it saw the participation of approximately 1,000 students from 22 primary and middle schools of Syracuse and its province.

Edoardo Garrone Foundation

The Edoardo Garrone Foundation, established in 2004 at the initiative of Riccardo Garrone and name after his father Edoardo, is the natural continuation of the philanthropic commitment of the Garrone and Mondini families. Today it is chaired by Alessandro Garrone. Its mission is to promote the social, economic and cultural development of the territories, placing new generations at the centre of a planning process that is capable of creating value over time.

Since 2014, with the **ReStartApp** and **ReStartAlp** campuses, the Edoardo Garrone Foundation has been engaged in the redevelopment of the mountain economy, offering an intensive instruction programme for the development of sustainable and innovative entrepreneurial projects. In 2019, **ReStartApp for Italian trails** gave the opportunity to 9 under-40 people to develop their enterprise idea for the valorisation of the network of trails and paths that crisscross the Italian territory. Respectively in March and in June, two projects were completed, called **ReStartAlp 2018** - Alpine enterprise incubation campus - and **ReStartApp for Central Italy** - acceleration programme dedicated to the central Italian companies affected by the 2016 earthquake.

Convinced as it is that young people are society’s only concrete bridge to its own future and that school is the most favourable place for their education, in 2019 Edoardo Garrone Foundation confirmed the **Genova Scoprendo** and **AppenninoLAB** projects. The first one, dedicated to middle schools, is an educational programme that brings classes in contact with the cultural, environmental and economic assets of the city of Genoa, following the thread of active citizenship and environmental sustainability. The second one, instead, involves approximately 30 legal-age students from schools in Liguria and Piemonte in an educational experience and orientation to the development of the economic, environmental and social potential of the Apennine mountains.

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, presented to exclude 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 Report 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 discontinued 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.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION (EUR million)		Reported		Adjusted	
		31/12/2019	31/12/2018	31/12/2019	31/12/2018
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	(298.8)
IFRS 16	0.0	78.5	0.0	78.5
Non-current assets at 31/12/2019	**1,110.7**	**2,336.3**	**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 operating 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 non-controlling interests in 2019 is linked to the aforementioned acquisition of an investment (78.5%) in Andromeda S.r.l. ("Andromeda " business combination).

6 - Net financial indebtedness

SUMMARY OF THE GROUP'S INDEBTEDNESS (EUR million)	Reported		Adjusted	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
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[16]. 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.

16 The net book value is of EUR 417 million, net of the positive fair value relative to the notional of approximately EUR 44 million.

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

NON-CURRENT FINANCIAL INDEBTEDNESS

(EUR million)	31/12/2019	31/12/2018
Non-current loans and borrowings	675.8	794.0
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[17]) 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[18] 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 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.

17 Net of ancillary costs, recognised with the amortised cost method

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

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

CURRENT FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS) (EUR million)	31/12/2019	31/12/2018
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 in the hedging 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 depreciation of the right of use assets and as financial expense correlated to the liability linked to the discounting of future lease payments. Previously, the Group recognised costs for operating leases on a straight-line basis over the lease term, essentially when the relative lease payments were made.

The application of IFRS 16 has therefore involved:

- the improvement in gross operating profit (EBITDA) in respect of the leases 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 liability method indicated by the new standard;
- greater depreciation expense (EUR 7 million) and greater financial expenses (EUR 4 million) linked to the application of the above-mentioned asset method.

At the date of the first application, ERG availed itself of the option to use the modified retrospective method, therefore without restating the comparative figures.

Based on the above, 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.

Similarly the adjusted net financial indebtedness and the adjusted net invested capital are represented net of the liability linked to the discounting of future lease payments.

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 Operating Working Capital** is the sum of Inventories, Trade Receivables and Trade Payables;
- **Net invested capital** is the sum of Non-current Assets, Net Operating Working Capital, Liabilities related to Post-employment Benefits, Other Assets and Other Liabilities;
- **Adjusted net invested capital** is Net invested capital, as defined above, with the 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 lease payments, following the application of IFRS 16.
- **Financial leverage** is calculated by comparing the adjusted net financial indebtedness (including Project Financing) to the adjusted net invested capital.
- **Special items** include significant special income components of an 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	Note	Year 2019	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	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	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) 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[19], 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.

19 Before the tax effect.

2019 INCOME STATEMENT (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 discontinued 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**

2018 INCOME STATEMENT (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 discontinued 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 **31 December 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 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 Operating 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**

							REPORTED			ADJUSTED	
(EUR thousand)	Financial statements	Non-current assets	Net working capital	Post-employment benefits	Other assets	Other liabilities	NET INVESTED CAPITAL	Net financial indebtedness	Adjustment for impact of IFRS 16	NET INVESTED CAPITAL	Net financial indebtedness
Intangible assets	889.8	889.8					**889.8**			**889.8**	
Goodwill	220.9	220.9					**220.9**			**220.9**	
Property. plant and equipment	2,257.9	2,257.9					**2,257.9**			**2,257.9**	
Right of use of leased assets	78.5	78.5					**78.5**		**(78.5)**	**–**	
Equity investments	13.8	13.8					**13.8**			**13.8**	
Other non-current financial assets	41.6	39.8					**39.8**	1.8		**39.8**	**1.8**
Deferred tax assets	42.3				42.3		**42.3**			**42.3**	
Other non-current assets	42.9				42.9		**42.9**			**42.9**	
Non-current assets	**3,587.7**										
Inventories	22.3		22.3				**22.3**			**22.3**	
Trade receivables	193.5		193.5				**193.5**			**193.5**	
Other current assets	95.8				95.8		**95.8**		**1.9**	**97.7**	
Current tax assets	27.7				27.7		**27.7**			**27.7**	
Current financial assets	22.4							22.4			**22.4**
Cash and cash equivalents	653.5							653.5			**653.5**
Current assets	**1,015.1**										
Discontinued operations	**–**										
TOTAL ASSETS	**4,602.8**										
Equity attributable to the owners of the parent	1,774.6								**1.0**		
Non-controlling interests	11.5										
Equity	**1,786.1**										
Provisions for employee benefits	5.4			(5.4)			**(5.4)**			**(5.4)**	
Deferred tax liabilities	209.1					(209.1)	**(209.1)**			**(209.1)**	
Other non-current provisions	139.1					(139.1)	**(139.1)**			**(139.1)**	
Non-current financial liabilities	2.032.6							2,032.6			**2.032.6**
Liability for leased assets (non-current)	70.1							70.1	**(70.1)**		**–**
Other non-current liabilities	34.7					(34.7)	**(34.7)**			**(34.7)**	
Non-current liabilities	**2.491.1**										
Other current provisions	50.2					(50.2)	**(50.2)**			**(50.2)**	
Trade payables	87.8		(87.8)				**(87.8)**			**(87.8)**	
Current financial liabilities	121.6							121.6			**121.6**
Liability for leased assets (current)	7.4							7.4	**(7.4)**		**–**
Other current liabilities	53.2		(2.3)			(50.9)	**(53.2)**			**(53.2)**	
Current tax liabilities	5.4					(5.4)	**(5.4)**			**(5.4)**	
Current liabilities	**325.6**										
Discontinued operations	**–**										
TOTAL EQUITY AND LIABILITIES	**4,602.8**										
Reclassified statement of financial position		**3,500.6**	**125.6**	**(5.4)**	**208.6**	**(489.5)**	**3,340.1**	**1,553.9**		**3,263.5**	**1,476.4**

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

The financial statements of ERG S.p.A. at and for the year ended 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Financial Reporting Standards - IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC).

RECLASSIFIED INCOME STATEMENT

For clearer disclosure, the results of ordinary operations for the year 2018 are shown and commented on in this Report.

RECLASSIFIED INCOME STATEMENT	Year	
(EUR million)	**2019**	**2018**
Revenue	36.9	35.7
Other income	10.0	3.7
Total revenue	**46.9**	**39.4**
Purchases and change in inventories	(0.2)	(0.3)
Services and other operating costs	(61.5)	(56.0)
EBITDA	**(14.8)**	**(16.8)**
Amortisation, depreciation and impairment of non-current assets	(3.9)	(2.9)
Net financial income (expense)	(7.8)	(0.9)
Net gains (losses) on equity investments	34.7	20.3
Profit (loss) before taxes	**8.2**	**(0.3)**
Income taxes	2.8	4.4
Profit for the year	**11.0**	**4.1**

Revenue

Revenue in 2019 amount to EUR 37 million, versus EUR 36 million in 2018, and refers mainly to charges for services provided to subsidiaries.

Other income

Other revenue consist mainly of reimbursements and charges to Group companies, tied to various consultancy services and special projects. The item includes 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.

Purchases and change in inventories

Costs for purchases refer mainly to costs for consumables.

Services and other operating costs

Costs for services and other operating costs mainly include the cost of labour and costs for third party services.

Amortisation, depreciation and impairment losses

Amortisation and depreciation increased compared to the previous year and refer to amortisation on intangible non-current assets (software) and depreciation of property, plant and equipment (properties). The increase in the year is due to the adoption of IFRS 16.

Net financial income (expense)

The item mainly includes net intra-group income (EUR +9.4 million), interest income on liquidity management (EUR +2.5 million) and expenses on bank loans (EUR -13.8 million).
Also included are the effects of the derivatives hedging the risk of interest rate fluctuations of approximately EUR 4 million and the expenses deriving from measurement at amortised cost of the loans, amounting to EUR 2.5 million.

Net gains (losses) on equity investments

The item includes the dividends paid by ERG Power Generation S.p.A.

Income taxes

Income taxes are positive by EUR 2.8 million in 2019 (positive by EUR 4.4 million in 2018).

STATEMENT OF FINANCIAL POSITION

For clearer disclosure, it is specified that the net financial indebtedness is recognised net of the loans granted by ERG S.p.A. to the subsidiaries ERG Power Generation S.p.A. and ERG Power S.r.l. (228 million).

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(EUR million)	31/12/2019	31/12/2018
Non-current assets	1,818.8	1,856.6
Net working capital	(8.5)	(8.2)
Provisions for employee benefits	(1.5)	(1.5)
Other assets	56.5	87.7
Other liabilities	(129.1)	(155.1)
Net invested capital	**1,736.1**	**1,779.5**
Equity	1,373.0	1,474.4
Net financial indebtedness	363.1	305.1
Equity and financial indebtedness	**1,736.1**	**1,779.5**

At 31 December 2019, the net invested capital amounted to approximately EUR 1,736 million, with a decrease by EUR 43 million compared to 2018.

Non-current assets

Non-current assets consist mainly of financial non-current assets.

Net working capital

Net working capital consists of trade receivables and payables from and to Group companies and third parties.

Other assets

These consist mainly of receivables from tax authorities and of other receivables from Group companies. This item also includes receivables for deferred tax assets and prepaid expenses.

Other liabilities

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

Net financial indebtedness (cash)

SUMMARY OF NET INDEBTEDNESS

(EUR million)	31/12/2019	31/12/2018
Non-current financial indebtedness	1,277.6	738.3
Current financial debt (cash)	(914.4)	(433.3)
Total	**363.1**	**305.1**

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

NON-CURRENT FINANCIAL INDEBTEDNESS

(EUR million)	31/12/2019	31/12/2018
Non current bank borrowings	668.0	632.1
Bond	600.0	100.0
Other non-current loans and borrowings	8.1	6.3
IFRS 16 financial liabilities (non-current)	1.5	0.0
Total	**1,277.6**	**738.3**

The increase is mainly due to the issue of a non-convertible Green Bond (EUR 500 million) made in April 2019, to finance or refinance projects for the generation of energy from renewable sources, wind and solar energy of the ERG Group, to issue new loans (EUR 180 million), in view of the early extinction of a EUR 291 million corporate acquisition loan entered into in 2015 with a pool of 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.

The breakdown of current financial indebtedness is shown below:

CURRENT FINANCIAL DEBT (CASH)

(EUR million)	31/12/2019	31/12/2018
Current bank borrowings	15.3	184.6
Other current financial liabilities	0.0	(0.1)
IFRS 16 financial liabilities (current)	0.9	0.0
Current financial liabilities	**16.2**	**184.5**
Cash and cash equivalents	(480.1)	(598.5)
Securities and other financial assets	(1.9)	(3.5)
Loan assets with subsidiaries	(448.6)	(15.7)
Current financial assets	**(930.6)**	**(617.8)**
Total	**(914.4)**	**(433.3)**

Current bank borrowings include the repayment portion on Corporate loans (EUR 15 million) expected in 2020. Current financial receivables and payables from and to subsidiaries consist of the balances of the financial and centralised treasury accounts held with the other Group companies within the scope of the centralised finance activity. The decrease of cash and cash equivalents in the year is due to payment of the dividends to shareholders for EUR 112 million, partially offset by the collection of dividends from ERG Power Generation S.p.A. for EUR 35 million.

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

(EUR million)	31/12/2019	31/12/2018
CASH FLOWS FROM OPERATING ACTIVITIES (A):		
Profit of the year	11.0	4.1
Amortisation and depreciation	3.9	2.9
Change in working capital and other assets and liabilities (1)	5.5	(76.2)
Total	**20.4**	**(69.2)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net capital expenditure in property, plant and equipment and intangible assets	(5.2)	(3.2)
Net capital expenditure in non current financial assets	3.1	(6.7)
API Vendor Loan Collection	36.1	179.5
Total	**34.0**	**169.7**
CASH FLOWS FROM EQUITY		
Dividend distributed	(111.7)	(171.1)
Other changes in equity	(0.8)	(1.3)
Total	**(112.5)**	**(172.5)**
CHANGE IN NET FINANCIAL INDEBTEDNESS	**(58.1)**	**(72.0)**
OPENING NET FINANCIAL INDEBTEDNESS	**305.1**	**233.1**
CHANGE IN THE YEAR	**58.1**	**72.0**
CLOSING NET FINANCIAL INDEBTEDNESS	**363.1**	**305.1**

(1) the change in working capital is mainly due to the changes in receivables from subsidiaries for IRES (CORPORATE INCOME TAX) from tax consolidation

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

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

- Longburn WindFarm Ltd.;
- ERG Development France S.a.s;
- Parc Eolien de Saint-Loup sur Cher S.ar.l.;
- Parc Eolien du Puits Gergil SAR;
- Parc Eolien du Plateau de la Perche S.ar.l.;
- Parc Eolien des Boules S.ar.l.;
- Parc Eolien de la Foye S.a.s.;
- Rigghill Wind Farm Limited (joint venture);
- Creggan Wind Farm Limited as a "dormant" Company.

The scope of consolidation also includes the following subsidiaries in liquidation:

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

DISCLOSURE IN ACCORDANCE WITH ARTICLE 2.6.2, PARAGRAPH 7, OF THE REGULATION OF BORSA ITALIANA S.P.A.

ERG Wind Investments L.t.d.

In relation to the obligation under Article 2.6.2 of the Regulation of the Markets organised and managed by Borsa Italian S.p.A. and taking into account the provisions of Article 36 of the Market Regulation adopted by Consob with its resolution no. 16191 of 29 October 2007 as amended, it is certified that (i) ERG S.p.A. acquired from ERG Wind Investments Ltd.[20] - the articles of association, the composition and the powers of the related corporate bodies; (ii) ERG Wind Investments Ltd. provides to the Group's auditors the necessary information to carry out the audit of the annual and interim financial reports of ERG S.p.A. and has an administrative-accounting system capable of regularly delivering to the Top Management and to the auditors of the Group the income statement, balance sheet and financial data necessary for the preparation of the consolidated financial statements.

20 Indirectly controlled non-EU foreign company having significant relevance on the basis of the provisions per Title VI, Paragraph II of the Issuers' Regulations.

The key figures from the financial statement of ERG Wind Investments Ltd., prepared for the purposes of drafting the consolidated financial statements at 31 December 2019 are as follows.

RECLASSIFIED INCOME STATEMENT

(EUR million)	2019	2018
Revenue from sales and services	0.0	0.0
Other revenue and income	0.0	0.0
Total revenue	**0.0**	**0.0**
Purchases	0.0	0.0
Change in inventories	0.0	0.0
Services and other operating costs	(0.6)	(0.4)
Personnel expense	0.0	0.0
EBITDA	**(0.6)**	**(0.4)**
Amortisation, depreciation and impairment of non-current assets	0.0	0.0
Operating profit (EBIT)	**(0.6)**	**(0.4)**
Net financial income (expense)	(64.6)	(24.2)
Net gains (losses) on equity investments	57.3	55.4
Profit (loss) from ordinary operations	**(7.9)**	**30.7**
Net non-recurring income (expenses)	0.0	0.0
Profit (loss) before taxes	**(7.9)**	**30.7**
Income taxes	19.2	8.6
Profit of the year	**11.3**	**39.3**

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(EUR million)	31/12/2019	31/12/2018
Intangible assets	(0)	(0)
Property, plant and equipment	0	0
Equity investments and other non current financial assets	654	741
Non-current assets	**654**	**741**
Inventories	0	0
Trade receivables	0	0
Trade payables	(0)	(0)
Excise duties payable to tax authorities	0	0
Net operating working	**(0)**	**(0)**
Post-employment benefits	0	0
Other assets	34	36
Other liabilities	(28)	(38)
Net invested capital	**659**	**739**
Equity attributable to the owners of the parent	651	251
Non-controlling interests	0	0
Non-current financial indebtedness	(0)	453
Current net financial indebtedness	7	35
Equity and financial indebtedness	**659**	**739**

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

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

- the definition of the business strategies, of the corporate governance system and of corporate assets;
- the determination of shared general policies with regard to human resources, information & communication technology, accounting, budget, tax matters, procurement, finance, investments, risk management, legal and corporate affairs, communication, institutional relations, corporate social responsibility and business development.

Taking into account the corporate organisational model adopted by the Group starting on 1 January 2017, the directly and indirectly controlled Italian companies with respect to which, in 2019, in accordance with Articles 2497 et seq. of the Italian Civil Code, the direction and coordination activity was carried out within the scope outlined above are:

ERG Power Generation S.p.A. and its following subsidiaries:

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

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

In 2019, ERG S.p.A. managed its various equity investments, held directly and indirectly, also through service contracts for staff activities, for a total price of EUR 35.4 million.

ERG S.p.A. also manages, as the consolidator, the Group VAT and the "national tax consolidation" with the main subsidiaries of the Group.

All transactions are related to ordinary operations and they are settled at market conditions.

PRIVACY

Following the implementation of the Privacy management system in May 2018 (the date of entry into force of the Regulation (EU) no. 2016/679 - GDPR), the ERG Group constantly monitored and continually developed the Privacy management system also throughout 2019.

The objectives set in 2018, and the actions agreed with the Board of Directors, were pursued and the actions completed. In particular, reference is made to the "Quality Assurance" carried out by a specialised external company to verify the Group's compliance with the standards defined by the Regulation (EU) no. 2016/679 - GDPR, which had a positive outcome, and to the Training extended to the entire ERG Group, carried out in 2019 to fulfil the obligations deriving from the Regulations.

The Training was carried out on the basis of two main modules:

- Basic Training Module, applied to the entire ERG Group (in Italy), and that pertains mainly to the general aspects relating to data protection (the applicable Principles, the changes from the Privacy Code per Italian Legislative Decree no. 196/2003, Roles and Responsibilities, penalties, codes of conduct, violations, data subjects and their rights, consent and its management, the processing record, etc.).
- Personalised classroom Training Module, administered to a small Group of persons who process personal data in a more specific and in-depth manner with respect to the recipients of the previous module, and that pertains mainly to aspects relating to the Definitions, to the Professionals (Roles and Responsibilities), to the main actions to be carried out and the operational implications (Disclosure, Collection and management of consent, management of violations, Record of processing activities, management of video surveillance, the processing of Employees' personal data, Relations with Third Party suppliers, training, management of evidence, interactions with any DPO and/or with the Supervisory bodies, etc.).

In the first case, 365 employees were trained, all certified with final test; concerning classroom training, instead, the course was administered to 100 Employees (also certified with final Test), including Top Managers reporting directly to the Chief Executive Officer.

The training, by corporate choice, was not administered to the "blue collar" workers of the ERG Group, because they are not involved in the management of personal data processing.

Certification that the final test was passed is necessary to demonstrate the ERG Group's accountability to the Data Protection Authority in case of inspections.

TREASURY SHARES

At 31 December 2019, ERG S.p.A. held 1,450,080 treasury shares equal to 0.965% of the share capital. In accordance with IAS 32, treasury shares were presented as a reduction in equity, through the use of the share premium reserve.

BRANCHES

ERG S.p.A. has its registered office and principal place of business in Genoa and it has offices in Rome, in Terni and in Priolo Gargallo. The company has no branches.

RELATED PARTY TRANSACTIONS

Information about related party transactions, including transactions with non-consolidated investee companies, is provided in **Note 33** of the Consolidated Financial Statements.

The Procedure for Related Party transactions, adopted by the Company, is available to the public at www.erg.eu. (This information is provided in the Report on corporate governance and the shareholder structure, an integral part of the Financial Statements).

RECONCILIATION STATEMENT IN ACCORDANCE WITH CONSOB COMMUNICATION NO. DEM/6064293 OF 28 JULY 2006

The reconciliation statements between the result of the period and the Group's equity with the similar value of the parent company are indicated under Note 34 of the Notes to the Consolidated Financial Statements.

RESEARCH AND DEVELOPMENT ACTIVITIES

During the year, the Group did not carry out any research and development activities.

EVENTS AFTER THE REPORTING DATE

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, with reference to the Covid-19 emergency in Italy and around the world, and to the resulting restrictions across the entire country, ERG proactively extended the smart working option to every working day of the week until 3 April 2020. This option has been made available to all employees in the Group's Italian offices where the smart working option is compatible with the effective performance of the duties assigned, ensuring that the greatest attention is given to guaranteeing business continuity and the safety of its 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 2020 is forecast within a range of 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 sales, 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 of 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.

Genoa, 10 March 2020

On behalf of the Board of Directors
The Chairman
Edoardo Garrone

Report on Corporate Governance and Ownership

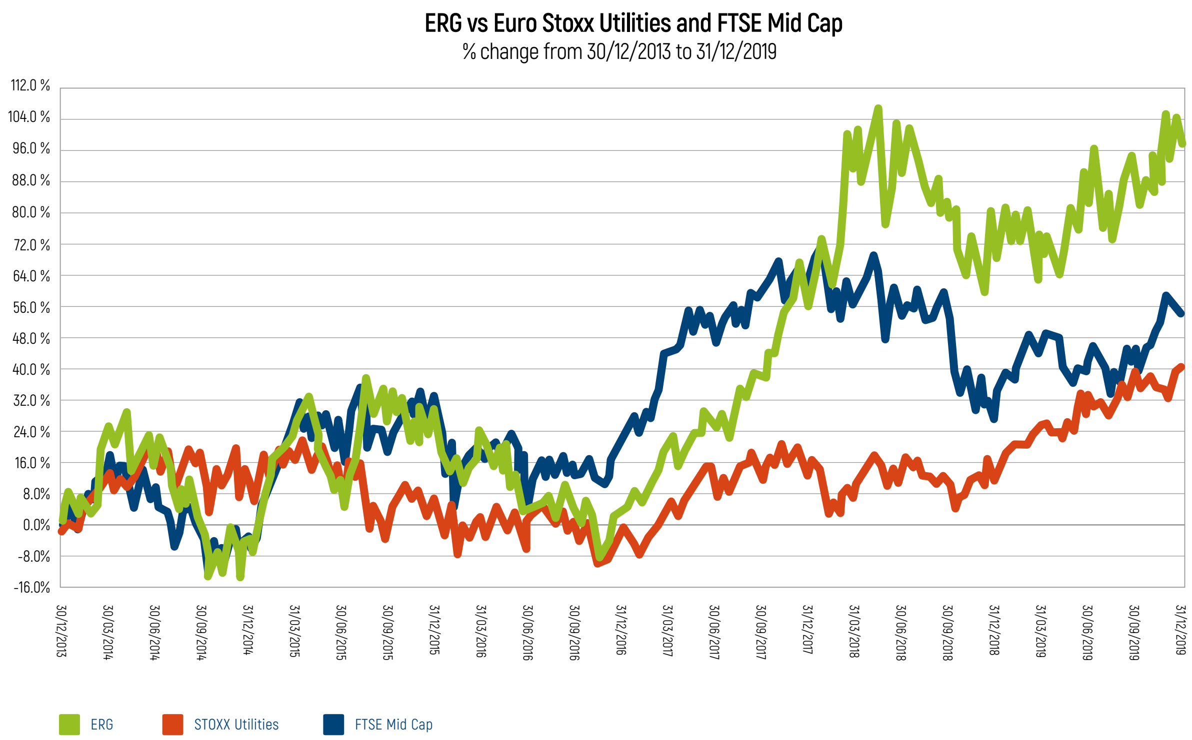
1. EXECUTIVE SUMMARY

1.1. ERG GROUP - MAIN HIGHLIGHTS

Figures in EUR millions	2017	2018	2019	% change 2018-2019
Revenue from sales and services [(1)]	1,056	1,027	1,022	0%
EBITDA	472	491	504	3%
EBIT	220	216	205	-5%
Net financial indebtedness	1,233	1,343	1,476	10%
ROI	7.1%	6.8%	6.3%	
ROE	11.7%	11.8%	11.5%	
Capitalisation at 31/12	2,315	2,480	2,889	
Employees	714	737	754	
Sector		**Utility**		
Equity	1,877	1,829	1,787	
EBIT	220	216	205	

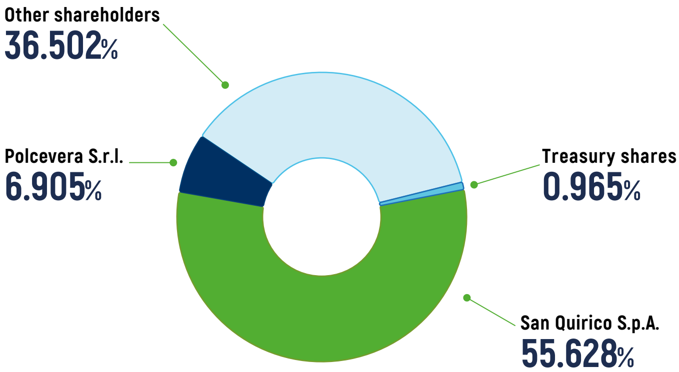
(1) at adjusted replacement cost

SHARE PERFORMANCE, 2014 - 2019



1.2. OWNERSHIP STRUCTURE

OWNERSHIP STRUCTURE AT 31/12/2019



OTHER CHARACTERISTICS OF THE OWNERSHIP STRUCTURE

	Yes/No	% of share capital
Shareholders' agreement in force	No	–
Loyalty shares	No	–
Senior management's investment	Yes	0.05%
Participation threshold for the presentation of lists	Yes	1%

1.3. CORPORATE BODIES AND BOARD COMMITTEES

SHAREHOLDERS

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

BOARD OF DIRECTORS

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

Composed of 12 members, 6 of which are independent*. Held 10 meetings in 2019, with an average duration of around 2 hours and 30 minutes.

10 Meetings | 2 h 30' Duration

BOARD OF STATUTORY AUDITORS**

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

Comprised of a Chairman, 2 Standing Auditors and 3 Alternate Auditors. 15 meetings were held in 2019 with an average duration of around 2 hours and 30 minutes.

15 Meetings | 2 h 30' Duration

CONTROL AND RISK COMMITTEE

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

Comprised of one Chairman and 2 members, all non-executive and all independent as per the Consolidated Finance Act and mostly independent as per the Corporate Governance Code. 9 meetings were held in 2019, with an average duration of around 2 hours and 30 minutes.

9 Meetings | 2 h 30' Duration

NOMINATIONS AND REMUNERATION COMMITTEE

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

Comprised of one Chairman and 2 members, all non-executive and all independent as per the Consolidated Finance Act and mostly independent as per the Corporate Governance Code. 6 meetings were held in 2019, with an average duration of around 1 hour.

6 Meetings | 1 h 00' Duration

STRATEGIC COMMITTEE

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

Comprised of one Chairman and 5 members. 10 meetings were held in 2019 with an average duration of around 2 hours and 45 minutes.

10 Meetings | 2 h 45' Duration

** **Appointed on 17 April 2019**

* 5 independent as per the Corporate Governance Code and 1 independent as per the Consolidated Finance Act ("T.U.F.").
** Internal Control and Risk Management System.
*** Responsible for formulating opinions for the purposes of the Procedure for Transactions with Related Parties.

1.4. INTERNAL COMMITTEES

RISK COMMITTEE

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

INVESTMENT COMMITTEE

- Supports the Chief Executive Officer in assessing investment proposals;
- Expresses a justified technical, economic and financial opinion at various stages in the investment process.

HUMAN CAPITAL COMMITTEE

- Defines and monitors the main human capital development programmes and processes;
- Provides support to the Executive Vice President and the CEO in decisions relating to strategies that determine the value of ERG's Human Capital;
- Monitors the effective implementation of the Human Rights Policy, managing the reports relating to non compliance thereof.

MANAGEMENT COMMITTEE ENGINEERING DEVELOPMENT

- Monitors the relevant projects of the Group in the specific area of Engineering Development, supporting the relative Project Leader, ensuring also the alignment of all Organisational Units as regards priorities and guaranteeing consistency with the decisions of the Investment Committee;
- Analyses business development and technological innovation opportunities.

MANAGEMENT COMMITTEE RUNNING

- Monitors the economic, financial and industrial results of the Group through standardised reporting and control models;
- Monitors changes in the institutional and regulatory framework of reference sharing growth trends, opportunities and risks;
- Monitors activities and projects in the context of domestic and foreign institutional relations.

MANAGEMENT COMMITTEE BUSINESS DEVELOPMENT

- Monitors the relevant projects of the Group in the specific area of Business Development, supporting the relative Project Leader, ensuring also the alignment of all Organisational Units as regards priorities and guaranteeing consistency with the decisions of the Investment Committee;
- Analyses business development opportunities both in terms of geographical expansion and technological diversification.

SUSTAINABILITY COMMITTEE

Guides and oversees the management of Corporate Social Responsibility (CSR) matters, and in particular:
- Defines the Group's sustainability guidelines and promotes the implementation of consistent practices in the field of corporate social responsibility;
- Approves, monitors and evaluates sustainability objectives and priority areas for action relating to CSR;
- Approves the time-frames and methods for drawing up the Non-Financial Statement and CSR initiatives.

CREDIT COMMITTEE

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

1.5. COMPOSITION OF THE BOARD OF DIRECTORS

STRUCTURE OF THE BOARD OF DIRECTORS

Director	Office	Role	Independent	M/m*	CRC**	NRC**
Edoardo Garrone	Chairperson	Executive	No	M		
Alessandro Garrone	Deputy Chairperson	Executive	No	M		
Giovanni Mondini	Deputy Chairperson	Non-executive	No	M		
Luca Bettonte	Chief Executive Officer	Executive	No	M		
Massimo Belcredi	Director***	Non-executive	Consolidated Finance Act	M	X	
Mara Anna Rita Caverni	Director	Non-executive	Corporate Governance Code	M	C	
Barbara Cominelli	Director	Non-executive	Corporate Governance Code	M		X
Marco Costaguta	Director	Non-executive	No	M		
Paolo Francesco Lanzoni	Director	Non-executive	No	M		X
Silvia Merlo	Director	Non-executive	Corporate Governance Code	M		C
Elisabetta Oliveri	Director	Non-executive	Corporate Governance Code	M	X	
Mario Paterlini	Director	Non-executive	Corporate Governance Code	m		

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

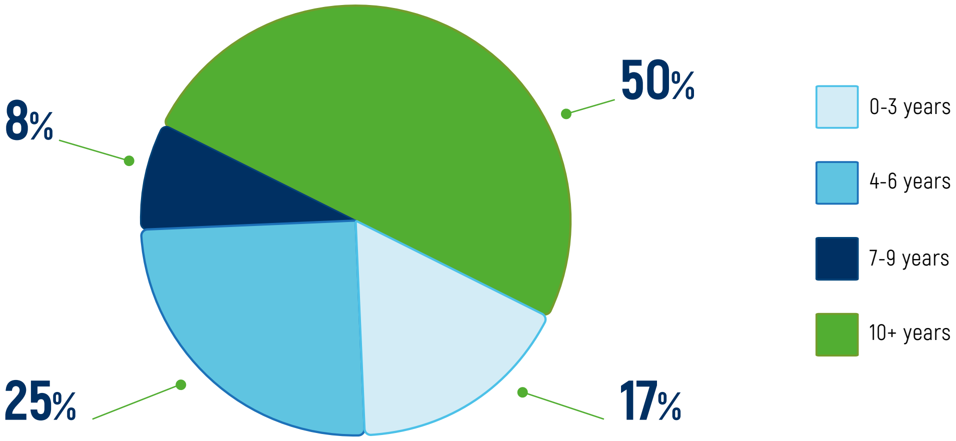
** CRC: Control and Risk Committee; NRC: Nominations and Remuneration Committee - they provide to the Board of Directors and to the relevant bodies the opinions provided for by the Procedure for Transactions with Related Parties. Appointed on 23 April 2018.

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

C: Chairperson of the relevant Committee.

X: Member of the relevant Committee.

LENGTH OF OFFICE OF DIRECTORS IN BOARD OF DIRECTORS (% OF TOTAL DIRECTORS)



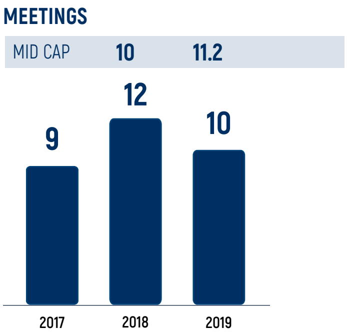
CHANGES COMPARED TO THE PREVIOUS MANDATE

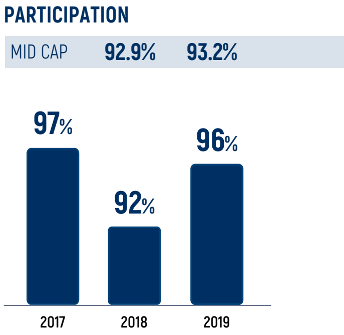
	Previous mandate (2015-2017)	**Current mandate** (2018-2020)	**Mid Cap**[1] (last year available)
Number of Directors	12	12	10.9
Directors elected from the minority list	1	1	1.74
% of the less represented gender in the BoD	25%	33%	35.6
% Independent Directors as per CFA	58%	50%[3]	54.9%
% Independent Directors as per Corporate Governance Code	33%[2]	42%	50.6%
Average age of Directors	55[2]	56	57
Status of Chairperson	Executive	Executive	–
Existence of Lead Independent Director	Yes	No[4]	47.4%[5]

1 Source Assonime-Emittenti Titoli-CONSOB 2019.
2 Change with respect to the years 2015 and 2016 as a result of the resignation on 20 April 2017 of the Director Luigi Ferraris and the subsequent appointment, on 11 May 2017, pursuant to Article 2386 of the Italian Civil Code and Article 15 of the Articles of Association, of Alessandro Careri as new Director of the Company.
3 Change with respect to 2018; as a result of the appointment of the Director Paolo Francesco Lanzoni as (non-executive) Board Member of the parent San Quirico S.p.A., the Board of Directors, in its meeting of 16 July 2019, while confirming his independence, considered it preferable to qualify him as non-independent director pursuant to the provisions of Article 148, third paragraph, of the Consolidated Finance Act (CFA).
4 Not required under the provisions of the Corporate Governance Code. Note that on 3 August 2018 the Director Massimo Belcredi was made responsible for coordinating the requests and contributions of non-executive directors (with particular reference to those who are independent) on matters of interest with respect to the operation of the Board of Directors or the management of the company, as well as working with the Chairperson of the Board of Directors to ensure that directors receive full and timely information.
5 Companies in which Lead Independent Director is active.

1.6. OPERATION OF THE BOARD OF DIRECTORS

NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS AND PARTICIPATION RATE





DIRECTOR OR AUDITOR OFFICES HELD IN OTHER COMPANIES

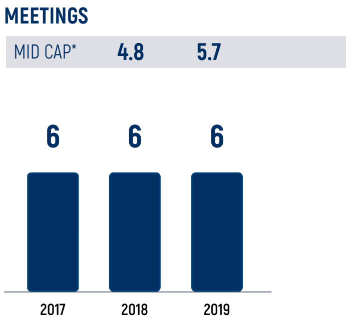
	Other group companies	Other listed companies				Other unlisted companies of significant size or financial, banking companies	
		Executive Director	Non-Executive Director	Independent director	Statutory auditor	Director	Statutory auditor
Edoardo Garrone	–	1	–	–	–	2	–
Alessandro Garrone	–	–	–	–	–	1	–
Giovanni Mondini	–	–	–	–	–	1	–
Luca Bettonte	–	–	–	–	–	–	–
Massimo Belcredi	–	–	–	1	–	–	–
Mara Anna Rita Caverni	–	–	–	2	–	–	–
Barbara Cominelli	–	–	–	1	–	–	–
Marco Costaguta	–	–	2	–	–	3	–
Paolo Francesco Lanzoni	–	–	–	–	–	2	–
Silvia Merlo	–	–	–	3	–	1	–
Elisabetta Oliveri	–	–	2	–	–	1	–
Mario Paterlini	–	–	–	1	–	–	–

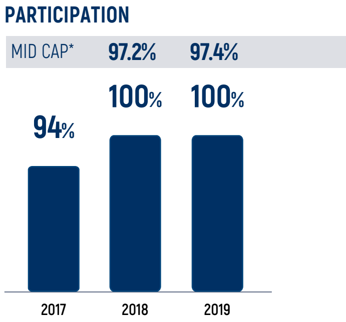
BOARD EVALUATION PROCESS

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

1.7. REMUNERATION

NUMBER OF NOMINATIONS AND REMUNERATION COMMITTEE MEETINGS AND PARTICIPATION RATE





* Figures relating to Remuneration Committee

REMUNERATION POLICY

SHORT-TERM INCENTIVE SYSTEMS (MBO)

	No	Yes
Short-term incentive system		x
Bonus cap		x

LONG-TERM INCENTIVE SYSTEMS (LTI)

	No	Yes
Long-term incentive system		x
Bonus cap		x

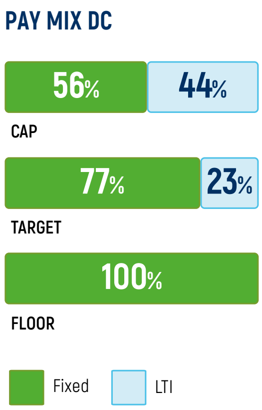
LTI VEHICLES		
Cash	x	
Financial Instruments - Performance Shares		x

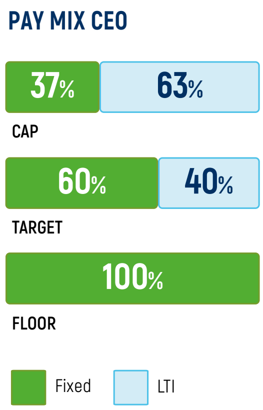
SHORT-TERM INCENTIVE SYSTEMS (MBO)

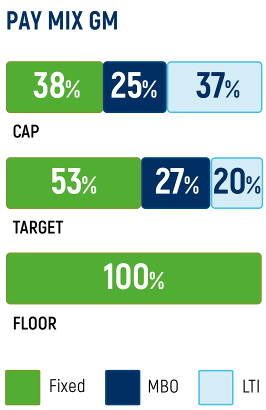
MBO parameters	Weight
*Group EBT**	30%
INDIVIDUAL OBJECTIVES e.g. EBITDA, NFP, OPEX, ...	70%

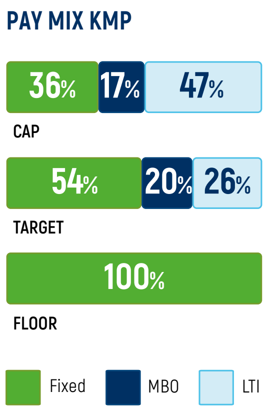
* Profit (loss) before IAS taxes at current values

LTI parameters for Executive Deputy Chairperson (EDC), Chief Executive Officer (CEO), General Manager (GM) and other key management personnel	Weight
Cumulated Group EBITDA 2018-2020	100%



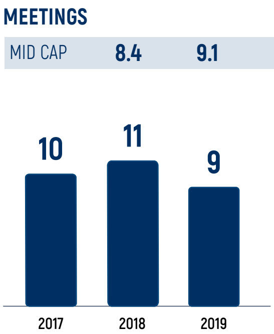


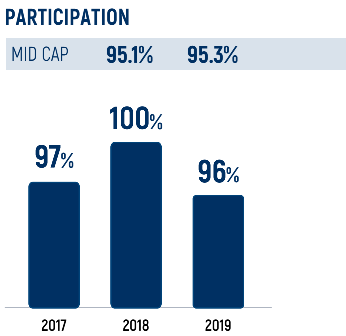




1.8. CONTROL AND RISK SYSTEM

NUMBER OF CONTROL AND RISK COMMITTEE MEETINGS AND PARTICIPATION RATE

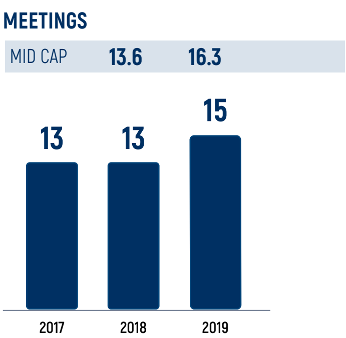


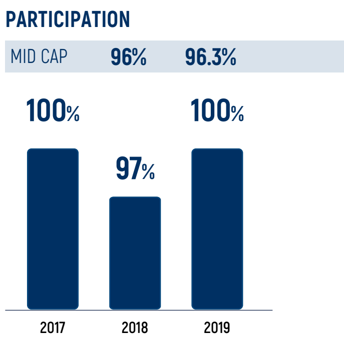


COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

Auditors	Office	Independent	Other listed companies	Other offices in unlisted companies of significant size or financial, banking or insurance companies
Elena Spagnol	Chairperson	X	2	–
Lelio Fornabaio	Standing	X	2	2
Fabrizio Cavalli	Standing	X	–	8
Vincenzo Campo Antico	Alternate	X		
Luisella Bergero	Alternate	X		
Paolo Prandi	Alternate	X		

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





MAIN ELEMENTS OF THE CONTROL AND RISK SYSTEM

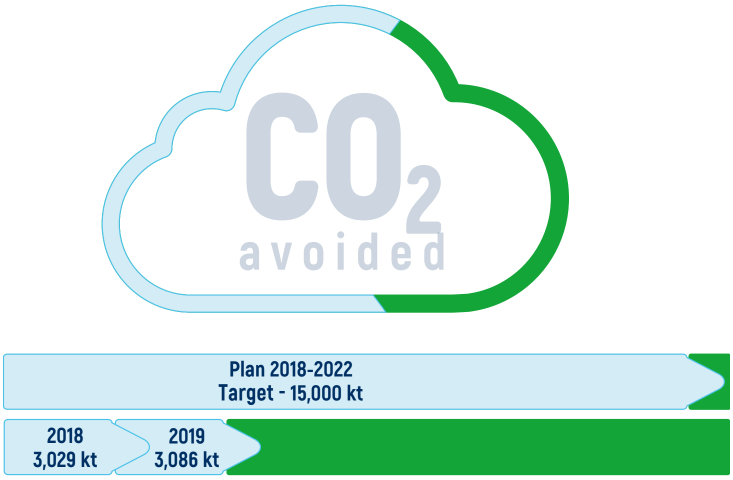
	Yes/No
Risk Management function	Yes
Chief Risk Officer	No
Enterprise Risk Management plan in place	Yes
If yes, has this plan been discussed with the Committee?	Yes

MAIN RISKS

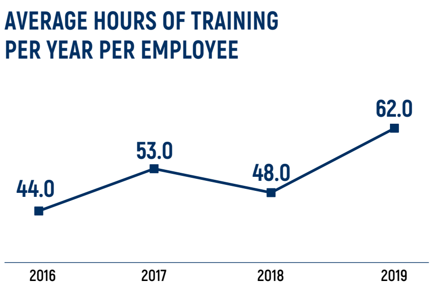
RISK	DESCRIPTION	MANAGEMENT STRATEGY IMPLEMENTED BY THE ERG GROUP
1 - Natural variability of renewable contributions	Production volumes are subject to the natural variability of renewable production sources (water, wind and sun) which, in the event of lower contributions, may adversely affect the production of renewable plants and, subsequently, Group results	• Diversification of the generation portfolio from both a technological (Wind/Solar/Hydro/Thermal) and geographical (at European level) point of view in order to compensate for variations in the various renewable sources (wind/solar/hydro). • Use of as accurate as possible forecasting systems to define the production plan and short-term operating activities; • Scheduling of stoppages at renewable energy plants during periods of low input from renewable energy sources; • Use of industrial control systems (SCADA) for the continuous monitoring of the performance of plants - through specific KPI indicators - and of their status, which make it possible to intervene promptly in the event of accidental failure and to reduce machinery downtime; • Programmes for the continuous improvement of the processes for managing and maintaining assets in order to ensure their increased efficiency; • Insurance coverage to mitigate the risks related to Business Interruption and Property Damage in the generation portfolio.
2 - Price Risk	Risk linked to the volatility of prices in the commodities market (in particular EE and Gas), which can affect Group results.	• Definition and regular monitoring of risk exposure limits; • Escalation process in the event that the approved limits are exceeded; • Use of financial instruments to hedge price risk only if there is an underlying asset; • Contractualisation, where possible, of indexed sales formulae that may allow the risk to be transferred to the customer.
3 - Legislative and regulatory changes	Possible worsening of the national and international legislative/regulatory framework in the countries in which the Group operates that may negatively impact the achievement of business targets	• Legislative and regulatory monitoring through institutional relations, related channels, comparison with operators in the sector, and the specialised press; • Active participation in consultations to protect Group interests; • Maintenance of effective and long-lasting relations with local stakeholders in the countries in which the Group operates (e.g. through regional development and sustainability projects); • Sensitivity Analysis to assess the effect of the main regulatory changes on Group results; • Periodic reporting to Management.
4 - Rating downgrade	Risk linked to potential downgrading by the Rating Agency that could limit the Group's ability to access the capital market and/or increase the cost of funding with negative effects on the Group's operating results, financial position and cash flows, and on its reputation.	• The risk mitigation strategy, which is aimed at preventing the occurrence of "crisis" situations (e.g. liquidity; breach of financial covenants) that could lead to a downgrade of the rating, is structured over various levels and involves the pursuit of: - A financial structure that is balanced in terms of duration and composition; - The continuous monitoring of the final and expected results and of the financial balances; - Investment planning consistent with existing financial covenants and the risks associated with them; - The search for a business portfolio that ensures stable cash generation from its business activities, including through the geographical and technological diversification of its plants.
5 - New capital expenditure	Possible uncertain events originating from various factors, for example, scenarios (micro/macroeconomic, political, regulatory, business-related), technical, operating, financial or organisational factors which may impact the decision to make new capital expenditure and/or impact its success	• Specific Organisational Units tasked with ensuring the achievement of growth objectives through new capital expenditure (organic growth and/or M&A); • Structured processes for selecting capital expenditure that involve a set of successive levels of examination and approval of projects carried out based on, inter alia, internal and external support studies, benchmark analyses, legal-regulatory analyses, sustainability models and financial assessment/planning; • Detailed analysis for the relevant projects of all the risks associated with them: (i) potential impacts and strategy/actions to contain/eliminate the risk; (ii) follow-up items to monitor the mitigation processes; • Periodic updating of the WACC/HR, including through benchmarks, to ensure a suitable return in relation to the expected risk profile.
6 - Cyber attacks on industrial production systems	Potential cyber-attacks that exploit vulnerabilities may bring industrial production systems to a standstill and, subsequently, affect Group results (e.g. Revenue);	• Carrying out of security assessments to identify critical issues in the systems and support infrastructure; • Definition and implementation of a Security Program to adapt processes, systems and infrastructure to best practices aimed at increasing levels of safety; • Development of security awareness and training plans for users; • Use of automated tools (e.g. Intrusion Detection Systems) for the prevention, detection and management of incidents; • Insurance to cover the risks of Cyber Crime.

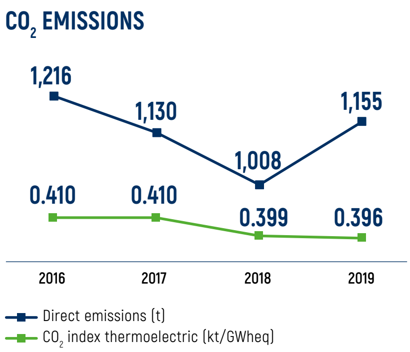
RISK	DESCRIPTION	MANAGEMENT STRATEGY IMPLEMENTED BY THE ERG GROUP
7 - Failure to protect reputational capital	Internal/external events that may have a negative impact on the ERG Group's reputation (including: financial performance, ethics and integrity, social responsibility, HSE Policies, ICT security, crisis management, etc.)	• Specific information and communication activities aimed at maintaining the Group's strong reputation among stakeholders, including, inter alia, a structured Corporate Social Responsibility process with specific social responsibility initiatives and the dissemination of Non-Financial Information; • Active relations with all major stakeholders and the media, and monitoring of stakeholders' perceptions; • Communication activities through the website/social media and continuous monitoring of stakeholder perceptions of the ERG brand; • Structured Reputational Crisis Management process that enables crisis effects to be promptly managed and contained in order to safeguard the reputation of the ERG Group.
8 - Anti-Corruption Compliance	The possibility that one of the Companies in the Group and/or a director, representative or employee of the same, could be involved in proceedings for offences committed in breach of anti-corruption laws that may involve the application of sanctions against the aforementioned persons (both physical and legal persons) and negative repercussions in terms of reputation	• Adoption of the rules of conduct system (Code of Ethics and Anti-Corruption Policy) valid for the entire Group; • Adoption of an "Integrated Anti-Corruption Model", for all companies, in Italy and abroad, in line with best practices; • Definition of information flows for the monitoring of the Anti-Corruption System; • Regular training on anti-corruption matters and ongoing efforts to raise awareness among management on the culture of ethics and of business integrity; • Adoption of the "Significant Third Party Due Diligence Procedure", provided for by the Anti-Corruption System and Policy; • Definition and implementation of Compliance Programmes to verify compliance with the Anti-Corruption Policy.
9 - Industrial risks and HSE	Risks related to malfunctioning systems potentially resulting in critical issues during production processes and/or having a negative impact in terms of HSE	• Technological and geographical diversification of the generation portfolio in order to limit negative impacts; • Constant supervision by Management and implementation of a Business Continuity Management/Asset Integrity Management process that ensures the proper maintenance of production assets, through specific activities (e.g. risk assessment, Business Impact Analysis); • Technological development of plants and emergency management plans; specialist HSE audit and monitoring of plants; • Adoption of certified (ISO 14001 and OHSAS 18001) Management Systems and regular training for all staff working within the facilities; • Specific levels of insurance coverage for business interruption, property damage and any accidents involving staff.

1.9. SUSTAINABILITY



SUSTAINABILITY INDICATORS





2. HISTORY

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

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

This corporate policy was implemented through:

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

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

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

- amendments to the Articles of Association to bring them into line with the regulatory changes introduced by the Italian company law reform, by legislative provisions on the matter of shareholders' rights, on transactions with related parties and, lastly, on gender balance in the composition of the board of directors and internal control bodies;

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

- the adoption, in December 2004, of a Group Code of Ethics - subsequently updated on 3 August 2018 - as a tool for defining and communicating ERG's duties and responsibilities towards its stakeholders, as well as being an imperative element of an Organisation and Management Model consistent with the requirements of Italian Legislative Decree no. 231/01;
- adherence to the Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A. (the "Corporate Governance Code")[2] since its first edition in 1999.
- the adoption of a Code of Conduct for the Directors of companies belonging to the ERG Group (the "Group"), updated on 14 May 2014;
- the appointment of independent directors and non-executive directors to the Board;
- the adoption of a Remuneration Policy for members of the Board of Directors, the General Manager and other Key management personnel as prescribed by the Corporate Governance Code and the amended Article 123-*ter* of the Consolidated Finance Act, [most recently updated on 10 March 2020], aimed at contributing to company strategy, the pursuit of long-term interests and the sustainability of the company by aligning the interests of management with those of shareholders and strengthening the relationship between managers and the Company, both in terms of awareness of the importance of the stock value and its continuity over time;
- the definition of Guidelines for the identification and execution of significant transactions - most recently updated on 1 January 2017 - and of other governance documents designed to ensure transparent and timely management of the Group's relationship with the market;
- the adoption of a Procedure for the handling and processing of relevant and privileged information and for the public dissemination of statements and information, most recently approved by the Board of Directors on 16 July 2019;
- the definition of Guidelines for the Internal Control and Risk Management System, updated on 3 August 2018;
- the adoption of an integrated risk management model, with the objective of identifying, as exhaustively as possible, the risks inherent in the Group's full range of business activities;
- the adoption of a specific Procedure to assure the transparency and the substantial and procedural correctness of

2 On 15 December 2015, the Board of Directors resolved to adhere to the new Corporate Governance Code published in July 2015; consequently, all references to the provisions of the Corporate Governance Code shall be deemed to refer to the aforesaid edition of the Code. With reference to the criteria of gender diversity referred to in principles 2.P.4. and 8.P.2, introduced in the edition of the Corporate Governance Code published in July 2018, the Board of Directors, in its meeting of 6 March 2019, in the light of the positive experience gained in this regard, and although the provisions of Article 147-*ter*, paragraph 1-*ter*, and Article 148, paragraph 1-*bis*, of the Consolidated Finance Act (CFA) shall cease to be effective - based on the legislation in force at the time -, respectively, at the expiry of the mandate given to the Board of Directors for the three-year period 2021-2023 and the expiry of the mandate given to the Board of Statutory Auditors for the three-year period 2022-2024, resolved to carry out every appropriate assessment on adhesion to the aforesaid criteria during the course of the current mandate. It is noted in this regard that, on 1 January 2020, legislature introduced new gender diversity criteria, in particular: (i) in accordance with Article 147-*ter*, paragraph 1-*ter*, of the Consolidated Finance Act (CFA), as amended by Italian Law no. 160 of 27 December 2019, in the election of the new Board of Directors by the Shareholders' Meeting called to approve the Financial Statements at 31 December 2020, the least represented gender must make up at least two fifths of the Directors elected; (ii) in accordance with Article 148, paragraph 1-*bis*, of the CFA, as amended by Italian Law no. 160 of 27 December 2019, in the election of the new Board of Statutory Auditors by the Shareholders' Meeting called to approve the Financial Statements at 31 December 2021, the least represented gender must make up at least two fifths of the Statutory Auditors elected. Since the two-fifths stipulation is arithmetically impossible, and hence inapplicable, in the case of corporate bodies with three members, CONSOB clarified, with communication no. 1/20 of 30 January 2020, that numbers in such cases should be rounded down and not up, as currently prescribed in the Issuers' Regulation.
Note also that the new Corporate Governance Code was published on 31 January 2020. Since the companies that adopt the new Corporate Governance Code are called upon to apply such code as from the first financial year beginning after 31 December 2020, informing the market thereof in the report on corporate governance to be published in 2022, the Board of Directors shall be required in 2020 to carry out every appropriate assessment as regards adherence thereto.

transactions with related parties carried out by ERG directly or through its subsidiaries, most recently updated on 1 January 2017[3];

- the definition of a Code of Conduct for Internal Dealing - updated version approved by the Board of Directors on 11 May 2017 - aimed at regulating disclosure obligations in respect of the market, the Company and CONSOB with reference to transactions involving ERG shares/debt instruments issued by ERG or derivatives or other related financial instruments carried out, directly or indirectly, by members of the administrative and control bodies of ERG and of significant subsidiaries, by members of top management of the Group and by persons closely connected with them;
- the adoption of Guidelines for compliance with Italian Legislative Decree no. 231/01 and anti-corruption laws within ERG Group companies, approved, in their latest version, on 9 October 2017;
- the adoption of the Anti-Corruption System and Policy, most recently approved by the Board of Directors on 2 August 2019, as well as a Significant Third Party Due Diligence Procedure, with the aim of helping to ensure, together with the Code of Ethics and Models 231, compliance with the national and international anti-corruption regulations of the countries in which the Group operates.

3 It is noted in this regard that Italian Legislative Decree no. 49/2019, which transposed into Italian law Directive (EU) 2017/828, lays down, inter alia, rules regarding reporting and procedural safeguards for the execution of material transactions with related parties, and assigns CONSOB the task of identifying the principles that administrative bodies are required to observe when defining corporate procedures for the execution of such transactions. At the date of approval of the Report, the relative content of the secondary regulation had not yet been defined.

3. INFORMATION ABOUT THE OWNERSHIP STRUCTURE AT 31 DECEMBER 2019 PURSUANT TO ART. 123-*BIS* OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (CONSOLIDATED FINANCE ACT OR "CFA")

Share capital structure at 31/12/2019					
	Number of shares	Amount of subscribed and paid-up share capital	% with respect to share capital	Listed (market) / not listed	Rights and obligations
Ordinary shares	150,320,000	EUR 15,032,000	100	MTA/FTSE Index Italy Mid Cap	–
Shares with limited voting rights	–	–	–	–	–
Shares without voting rights	–	–	–	–	–

Significant equity investments at 31/12/2019			
Declarant	Direct shareholder	% of ordinary share capital	% of voting share capital
San Quirico S.p.A.	San Quirico S.p.A.	55.628	55.628
San Quirico S.p.A.	Polcevera S.r.l.	6.905	6.905

Other disclosures at 31/12/2019			
	Yes	No	No notable disclosures in this regard
Restrictions on the transfer of securities		X	
Restrictions on the right to vote		X	
Shareholders' agreements		X	
Covenants pursuant to Article 123-*bis*, paragraph 1 subsection i) of the T.U.F.[1]	X		

1 the information in question is contained in the Report on the remuneration policy and the amounts paid published pursuant to Article 123-*ter* of the Consolidated Finance Act

Note that:

- there are no securities conferring special control rights;
- there are no employee stock option plans. It should be noted, however, that with effect from 14 January 2019, as part of the operation communicated to the market on 20 October 2018, to coincide with the celebration of ERG's 80th anniversary, 53,120 ERG shares held in the portfolio by the Company were allocated free of charge to employees of the Italian companies of the Group who joined the initiative. The operation was proposed and supported financially by the parent San Quirico S.p.A., a holding company of the Garrone and Mondini families;
- with regard to the provisions of Article 123-*bis*, paragraph 1, subsection h) of the CFA, it should be noted that

there are in existence financing agreements containing the usual provisions regarding the change of control of the debtor, which could theoretically involve the reimbursement of the loan in question if there is a change in control of ERG S.p.A. and in particular: (i) bilateral financing granted by UBI on 26 February 2016, with an amount outstanding, at 31 December 2019, of EUR 100 million and final payment due in February 2021; (ii) bilateral financing granted by Mediobanca on 11 March 2016, with an amount outstanding, at 31 December 2019, of EUR 150 million and final payment due in June 2023; (iii) bilateral financing granted by UniCredit on 21 April 2016, with an amount outstanding, at 31 December 2019, of EUR 75 million and final payment due in January 2022; (iv) bilateral financing granted by BNL on 20 December 2018, with an amount outstanding at 31 December 2019 of EUR 120 million and final payment due in November 2023; (v) bilateral financing granted by Credit Agricole on 4 February 2019, with an amount outstanding at 31 December 2019 of EUR 120 million and final payment due in November 2023; (vi) bilateral financing granted by Commerzbank on 2 May 2019, with an amount outstanding at 31 December 2019 of EUR 60 million and final payment due in May 2024;

- for rules applicable to the appointment and replacement of the members of the Board of Directors and of the Board of Statutory Auditors, and to amendments to the Articles of Association, please refer to the relevant sections of this report (hereinafter also the “Report”);
- no powers have been granted to Directors in relation to capital contributions pursuant to Article 2443 of the Italian Civil Code;
- the Directors have no powers to issue equity instruments;
- the Shareholders’ Meeting held on 17 April 2019, after annulment of the previous authorisation for the period still remaining, authorised the Board of Directors, pursuant to Article 2357 of the Italian Civil Code, to repurchase treasury shares for a period of 12 months from the date of the related resolution, up to a revolving maximum (i.e. the maximum amount of treasury shares held in the portfolio from time to time) of 30,064,000 (thirty million, sixty-four thousand) ordinary ERG shares with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction;
- the Shareholders’ Meeting held on 17 April 2019, after annulment of the previous authorisation for the period still remaining, authorised the Board of Directors, pursuant to Article 2357-*ter* of the Italian Civil Code, for a period of 12 months from the date of the related resolution, to sell, all at once or in several steps, treasury shares at a unit price not lower than 10% below the closing price of the stock on the day immediately preceding each individual sale.

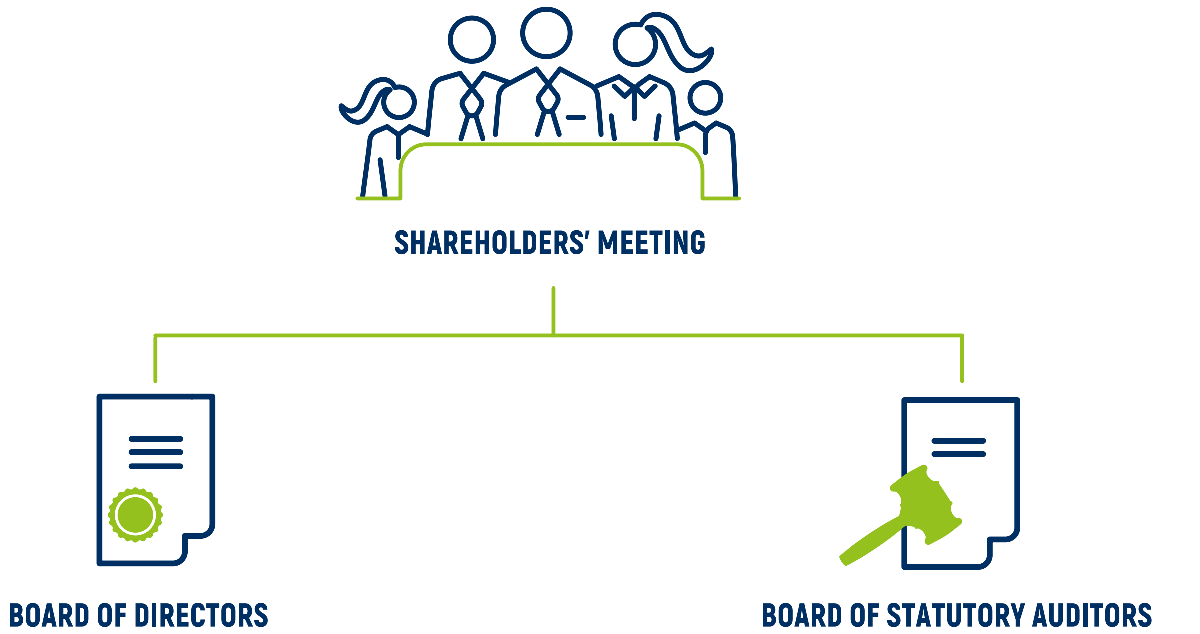
4. CORPORATE GOVERNANCE

ERG's corporate governance complies with the provisions of the Italian Civil Code and other laws and regulations relating to companies, particularly those contained in the CFA, and, overall, reflects compliance with the Corporate Governance Code[4]. The edition of the Corporate Governance Code to which the Company adheres is available to the public on the Borsa Italiana S.p.A website (www.borsaitaliana.it).

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

4 Please refer to the information provided in Note 2.

5. STATUTORY BODIES



Board of Directors

Edoardo Garrone
Chairperson

Alessandro Garrone
Deputy Chairperson

Giovanni Mondini
Chairperson

Luca Bettonte
Chief Executive Officer

Massimo Belcredi
Director

Mara Anna Rita Caverni
Director

Barbara Cominelli
Director

Marco Costaguta
Director

Paolo Francesco Lanzoni
Director

Silvia Merlo
Director

Elisabetta Oliveri
Director

Mario Paterlini
Director

The current Board of Directors, comprising twelve members, was appointed by the Shareholders' Meeting of 23 April 2018[5]; consequently, the appointment to the Board of Directors shall expire at the date of the Shareholders' Meeting convened to approve the financial statements at 31 December 2020.

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

For the appointment of the current Board of Directors, two lists of candidates were presented, one by the shareholder San Quirico S.p.A. and the other by a number of institutional investors, as follows[6]:

San Quirico S.p.A. list

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

Institutional investors list

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

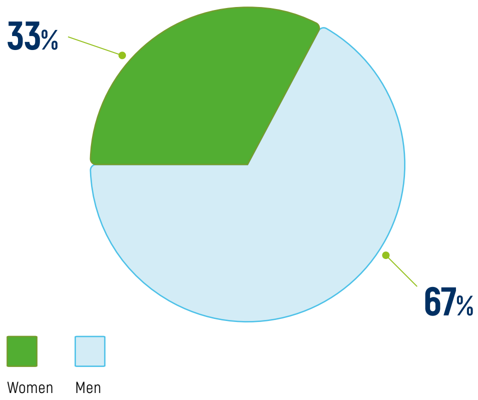
* Candidate indicated in the list as fulfilling the independence requirements in accordance with the provisions of the Consolidated Finance Act (CFA).

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

Pursuant to the Articles of Association, the Company is managed by a Board of Directors which, **in compliance with the gender balance criterion** prescribed by current law and regulatory provisions[7], consists of no fewer than 5 and no more than 15 members.

Directors are appointed on the basis of lists presented by shareholders - in which the candidates shall be listed with a progressive number - which, accompanied by information on the personal and professional characteristics of the candidates and a declaration as to whether they meet the independence requirements prescribed by the CFA, must be filed, in compliance with Article 147-*ter*, paragraph 1-*bis* of the CFA, at least twenty-five days prior to the date of the Shareholders' Meeting and shall be made available to the public at least twenty-one days prior to said Meeting. The lists may only be presented by shareholders who, either individually or with other shareholders, represent the minimum percentage of share capital (currently 1%[8]) established in accordance with Article 144-*quater* of the Regulations implementing the Consolidated Finance Act (CFA, adopted by CONSOB with Resolution no. 11971 of 14 May 1999 ("Issuers' Regulations"). This share capital percentage is the same as that required for the presentation of lists for the appointment of the Board of Directors in office[9].

BOARD OF DIRECTORS COMPOSITION BY GENDER



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

6 For the percentage of votes obtained by the lists in relation to the voting capital, please refer to the Summary Report of the voting on the items on the agenda of the Shareholders' Meeting of 23 April 2018, available on the Company's website (www.erg.eu) in the section "*Corporate Governance/2018 Shareholders' Meeting*".

7 Pursuant to Article 147-*ter*, paragraph 1-*ter*, of the Consolidated Finance Act, as amended by Italian Law no. 160 of 27 December 2019, the articles of association of listed companies must reserve at least two fifths of the membership of administrative bodies to the less represented gender, for six consecutive terms. This division criterion applies as from the first renewal of the administrative bodies of listed companies subsequent to 1 January 2020.

8 Pursuant to CONSOB Resolution no. 28 of 30 January 2020.

9 Pursuant to CONSOB Resolution no. 20273 of 24 January 2018.

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

In accordance with Article 147-*ter*, paragraph 1-*ter* of the Consolidated Finance Act, as amended by Italian Law no. 160 of 27 December 2019, in the election of the Board of Directors by the Shareholders' Meeting called to approve the Financial Statements at 31 December 2020, the least represented gender must make up at least two fifths of the Directors elected.

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

All candidates must fulfil the integrity requirements set out by current regulations for members of the Supervisory Bodies, as well as adequate professionalism requirements for the office to be held.

Together with each list, by the deadline indicated above, each candidate must file the statement accepting his/her candidacy and declaring under his/her own responsibility that there are no causes for ineligibility and incompatibility and that the requirements prescribed by applicable regulations are met, and indicating whether (s)he qualifies as independent director.

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

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

The election of the Directors takes place as follows:

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

In any case, the election will be won by the candidate or, if the Board has more than seven members, the first two candidates from the list that received the highest number of votes, who fulfil the independence requirements, in the progressive order in which they were entered in the list[10].

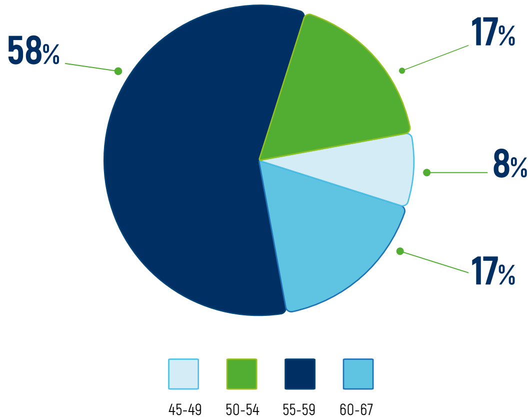
10 For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Directors, please refer to the Articles of Association, available on the Company's website (www.erg.eu) in the section "*Corporate Governance/Ethics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

Should one or more Directorships fall vacant, measures shall be taken as provided by law. If, however, during the mandate, the majority of Directors appointed by the Shareholders' Meeting should for any reason cease to fill their offices, the entire Board of Directors will be considered to have resigned, and the Shareholders' Meeting shall be called urgently by the Directors remaining in office in order to elect a new Board. The Board shall, however, remain in office solely for the purposes of carrying out ordinary administration activities until the Shareholders' Meeting has decided on the new Directors and the majority of the new Directors have accepted their appointment.

The Directors in office at the date of approval of the Report are[11]:

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

BOARD OF DIRECTORS COMPOSITION BY AGE



Executive Directors

Edoardo Garrone

Alessandro Garrone[12]

Luca Bettonte

Non-Executive Directors[13]

Giovanni Mondini

Marco Costaguta

Paolo Francesco Lanzoni

Non-Executive Directors who are independent pursuant to the CFA

Massimo Belcredi[14]

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

Directors who are independent pursuant to the CFA and the Corporate Governance Code

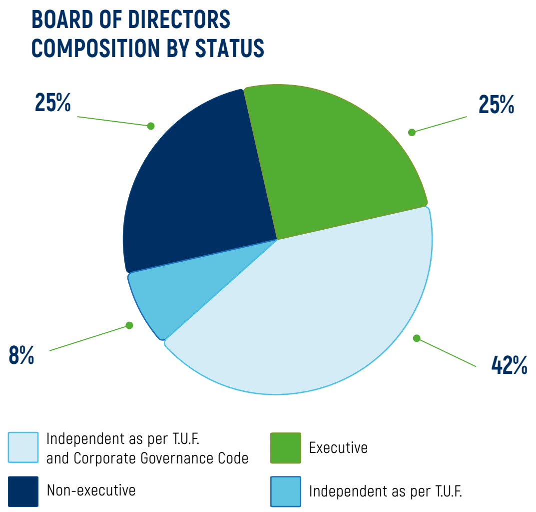
Mara Anna Rita Caverni
Barbara Cominelli
Silvia Merlo
Elisabetta Oliveri
Mario Paterlini

General Manager

Paolo Luigi Merli[15]

Secretary

Giovanni Marco Scollo



At the first meeting after the appointment, on 23 April 2018, the Board of Directors confirmed the independence of the Directors Massimo Belcredi and Paolo Francesco Lanzoni with reference to Article 148, third paragraph, of the Consolidated Finance Act (CFA)[16] and the independence of the Directors Mara Anna Rita Caverni, Barbara Cominelli, Silvia Merlo, Elisabetta Oliveri[17] and Mario Paterlini both with reference to Article 148, third paragraph, of the Consolidated Finance Act, and with reference to the information contained in the current Corporate Governance Code. As a result of the appointment of the Director Paolo Francesco Lanzoni as (non-executive) Director of the parent San Quirico S.p.A., the Board of Directors, in its meeting of 16 July 2019, while confirming his independence of judgement, considered it preferable to qualify him as non-independent director pursuant to the provisions of Article 148, third paragraph, of the Consolidated Finance Act (CFA). In its meeting of 31 October 2019, the Board of Directors confirmed the assessments made previously.

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

The independent Directors held meetings on 31 October 2019 and 13 November 2019, but remained in contact and regularly consulted each other in advance on the principal matters examined by the Board of Directors. The Director

15 In its meeting of 2 August 2019, the Board of Directors appointed Paolo Luigi Merli as General Manager with the title "Corporate General Manager & CFO".

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

17 The Board of Directors, following the resolution adopted on 14 May 2019 at the proposal of the Nominations and Remuneration Committee, having heard the opinion of the Board of Statutory Auditors, in relation to the remuneration to be paid to members of the Strategic Committee, among whom the independent Director Elisabetta Oliveri, having noted that the payment of remuneration in favour of members of the Strategic Committee, who are not employees of the Group and who do not hold positions in the Board of Directors, has been an integral part of the Company's Remuneration Policy since 2012 and with reference to the same Shareholders' Meeting, in turn expressed its favourable opinion pursuant to Article 123-*ter* of the Consolidated Finance Act (CFA), having noted that the same, also in the light of that communicated by the aforesaid Director, would not be significant for the purposes of what is provided for by application criterion 3.C.1 subsection d) of the Corporate Governance Code in relation to the assessment of the independence of Directors, and resolved to confirm the assessment of the independence of the Director Elisabetta Oliveri carried out during the meetings of 23 April 2018 and 14 May 2018 both with reference to what is foreseen by Article 148, paragraph 3, of the CFA and what is provided in this regard by the Corporate Governance Code.

responsible for coordinating the requests and contributions of non-executive directors (with particular reference to those who are independent) put forward, also on behalf of the latter, proposals and suggestions to the Chairperson and the Executive Deputy Chairperson as regards issues relating to the governance of the Company. The response was positive with respect to the proposals made. The Director responsible for coordinating the requests and contributions of non-executive directors (with particular reference to those who are independent) and the Executive Deputy Chairperson subsequently reported to the Board of Directors regarding the process followed and the implementation status of the individual proposals.

Other appointments as director or statutory auditor held by Directors in other companies listed in regulated markets, including abroad, in finance, banking and insurance companies or companies of significant size[18] at 31 December 2019[19]:

Edoardo Garrone	*Chairperson of the Board of Directors of San Quirico S.p.A.* *Chairperson of the Board of Directors of Il Sole 24 Ore S.p.A.* *Director of Invitalia Ventures Sgr S.p.A.*
Alessandro Garrone	*Director of Banca Passadore e C. S.p.A.*
Giovanni Mondini	*Deputy Chairman of the Board of Directors of San Quirico S.p.A.*
Massimo Belcredi	*Director of BPER Banca S.p.A.*
Mara Anna Rita Caverni	*Director of Atlantis S.p.A.* *Director of Cerved Group S.p.A.*
Barbara Cominelli	*Director of Autogrill S.p.A.*
Marco Costaguta	*Director of Antares Video S.r.l.* *Director of Fine Foods S.p.A.* *Director of Goglio S.p.A.* *Director of OTB S.p.A.* *Director of Rimorchiatori Riuniti S.p.A.*
Paolo Francesco Lanzoni	*Director of San Quirico S.p.A.* *Director of Castello Sgr S.p.A.*
Silvia Merlo	*Director of GEDI Gruppo Editoriale S.p.A.* *Director of Leonardo S.p.A.* *Chief Executive Officer of Merlo S.p.A.* *Director of San Lorenzo S.p.A.*
Elisabetta Oliveri	*Director of Fincantieri S.p.A.* *Chairperson of the Board of Directors of SAGAT S.p.A.* *Director of TREVI - Finanziaria Industriale S.p.A.*
Mario Paterlini	*Director of Buzzi Unicem S.p.A.*

18 Pursuant to the provisions of Article 144-*duodecies*, subsection f), of the Issuers' Regulations.
19 Other than offices held in Group companies.

Other attendees of Board of Directors meetings

Meetings of the Board of Directors also involve representatives from Group management to provide certain specific and timely insights on topics discussed on an as needed basis. In 2019, managers took part in **9** of the **10 meetings** of the Board of Directors, in several cases in support of the discussion of more topics on the agenda.

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

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

- Article 6 of the Corporate Governance Code;
- the provisions of the Consolidated Finance Act (CFA) and the Issuers' Regulations on the transparency of the remuneration of the directors of listed companies and of Key management personnel;
- the Procedure for Transactions with Related Parties and the principles expressed in the Group's Code of Ethics.

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

- on 18 December 2012, to incorporate the powers delegated by the Board of Directors (appointed by the Shareholders' Meeting of 20 April 2012) and the adoption of the 2012-2014 Medium/Long-Term Incentive System (the "LTI System");
- on 11 March 2015, effective as from 2015, in order to incorporate the adhesion of the Company to the current Corporate Governance Code and the general principles of the 2015-2017 LTI System in anticipation of the renewal of the Board of Directors by the Shareholders' Meeting on 24 April 2015;
- on 22 March 2016, in order to implement the resolution of the Board of Directors of 15 December 2015 defining the conditions necessary to implement the 2015-2017 LTI System, in line with the Policy itself and based on the 2015-2018 Business Plan;
- on 9 March 2017, in order to implement (i) the organisational changes occurring following the reorganisation of the risk management, compliance and internal control processes of the ERG Group and the "One Company" Project, (ii) the introduction of a clause to which any deferred payment of non-recurring remuneration is subject, following assessment by the Nominations and Remuneration Committee and resolution by the Board of Directors;
- on 7 March 2018, effective as from 2018, in order to incorporate the essential elements of the 2018-2020 LTI System approved by the Shareholders' Meeting of 23 April 2018, which, inter alia, appointed a new Board of Directors;
- on 6 March 2019, in order to implement the resolution of the Board of Directors of 14 May 2018 defining the conditions necessary to implement the 2018-2020 LTI System, in line with the Policy itself and based on the 2018-2022 Business Plan;
- on 10 March 2020, in order to implement (i) the organisational changes occurring following the appointment, on 2 August 2019, of the General Manager by the Board of Directors, as well as (ii) the new regulations introduced by Article 123-*ter* of the Consolidated Finance Act, as amended by Italian Legislative Decree no. 49 of 10 May 2019,

which transposed into Italian law (Directive EU) 2017/828 which lays down, inter alia, rules regarding transparency and the involvement of shareholders in the remuneration of directors and entrusts CONSOB with the task of including some of the elements indicated by the aforesaid Directive in the disclosures in the report on the remuneration policy and the amounts paid, both with regard to the remuneration policy (Section I) and the remuneration paid during the reference year (Section II). At the date of approval of the Report, the relative content of the secondary regulation had not yet been defined.

During 2019, the members of the Nominations and Remuneration Committee submitted to the Board of Directors proposals on the remuneration of Directors (appointed by the Shareholders' Meeting of 23 April 2018) who are executive or vested with particular roles or called to be part of the Strategic Committee[20] and of the General Manager, based on the provisions of the current Remuneration Policy[21].

Powers

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

- to the **Chairperson**, **Edoardo Garrone**
  - the authority to manage corporate affairs, through the tasks of supervision, direction and control, taking into account his role as Chairman of the Board of Directors and that stated in this regard in the Corporate Governance Code[23];
- to the **Deputy Chairperson**, **Alessandro Garrone**
  - the authority to oversee preliminary and functional activities to define the strategic objectives of the Company and the Group and the preparation of the Strategic Plan to be submitted to the Board of Directors for consideration and possible approval; additionally, to provide strategic coordination of the subsidiaries;
  - the authority to oversee and control activities for the preparation of draft Budgets to be submitted for review and possible approval by the Board of Directors;
  - the authority to provide guidance and supervision for research, development and negotiation with third parties in mergers and acquisitions transactions and structured finance transactions, which, due to their importance, are subject to the approval of the Board of Directors;
  - the authority to oversee the definition of the Company's organisational structure up to the second level reporting directly to the Chief Executive Officer, contributing with the latter to the taking of decisions regarding the appointment of directors and executives, employee terminations, and remuneration policies and incentives;
  - the authority to oversee internal audit, risk management and compliance activities and processes, through the tasks of supervision, direction and control;

20 Although not Group employees and with no seat on the Board of Directors.
21 For detailed information on this matter, please refer to the Report on the remuneration policy and the amounts paid referred to in Article 123-*ter* of the Consolidated Finance Act, to be presented to the Shareholders' Meeting convened in April 2020, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.
22 Commentary on Article 2, fifth paragraph, of the Corporate Governance Code.

- the office of Director in charge of the internal control and risk management system, with powers and responsibilities as outlined in the current Corporate Governance Code in line with the Guidelines for the Internal Control and Risk Management System approved by the Company;

• to the **CEO**, **Luca Bettonte** (Chief Executive Officer of the Company)[23]
  - the powers necessary to perform all actions pertaining to the company's business, except for those reserved to the Board of Directors (by law or by the Articles of Association) or delegated to other Board Members;
  - the powers and responsibilities for the protection of health, and maintenance of safety in the workplace and the environment;
  - the authority to protect persons and other subjects with regard to the processing of personal data.

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

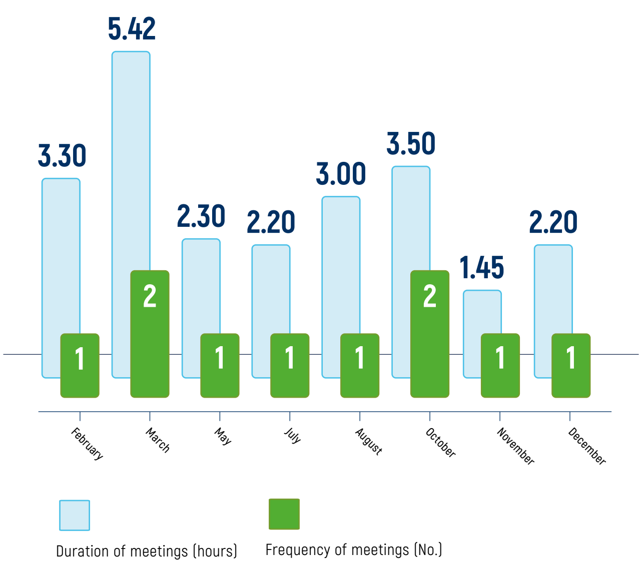
Moreover, the Board of Directors, in accordance with the recommendations of the Corporate Governance Code, has specified that the powers vested in the Executive Deputy Chairperson and in the Chief Executive Officer shall be exercised within the scope of the directives and instructions imparted to them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

Frequency

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

During 2019, the Board of Directors held **10 meetings**, and for 2020 there are expected to be no fewer than **8** meetings.

BOARD OF DIRECTORS - FREQUENCY

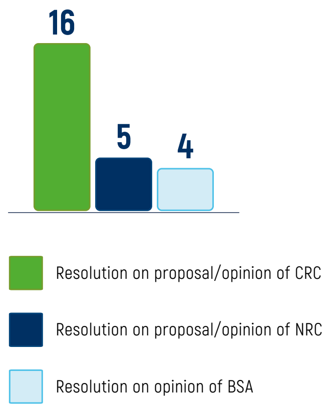


23 The interlocking directorate situation, set forth in application criterion 2.C.5. of the Corporate Governance Code, does not apply.

In the 2019 meetings, the Board of Directors passed **49 resolutions** pertaining to as many issues (**25** of which were adopted on the basis of a proposal or of an opinion provided by the Board Committees or following a prior assessment by them) and for **45** of them the related documentation was sent to Directors and Statuory Auditors beforehand (at least 48 hours before the meeting, barring exceptions), said advance notice being deemed suitable to enable Directors and Statuory Auditors to acquire adequate knowledge of the items on the agenda.

During all Board meetings, with particular reference to those in which, for some of the matters covered, the documentation could not, exceptionally, be sent beforehand, the Chairperson ensured that specific and timely insights were guaranteed and, where appropriate, provided by representatives of Group management invited by the Board of Directors to participate.
It is also noted that, of the **4 resolutions** in relation to which Board members and Statutory Auditors had not been sent the relevant documentation in advance, **2 resolutions** were however adopted on the basis of a prior assessment by the Board Committees.
The average duration of the meetings held by the Board of Directors was around **2 hours and 30 minutes**.
At the date of approval of this document, the Board of Directors had met **once**.

BOARD OF DIRECTORS RESOLUTIONS PASSED ON PROPOSAL OR OPINION OF A BOARD COMMITTEE



Activities carried out

Directors made a significant contribution to the work of the Board of Directors and Committees in 2019, in terms of meeting attendance and effective participation in proceedings.
In the course of 2019, the Board of Directors performed the activities and responsibilities referred to in application criterion 1.C.1. of the Corporate Governance Code in accordance with the role that the Code attributes to the Board of a listed company.
The Board of Directors, with respect to the provisions of application criterion 1.C.3. of the Corporate Governance Code, acknowledged that in light of the findings outlined in the document prepared by the Nominations and Remuneration Committee and taking into account the number of directorships and statutory auditorships held by the individual Directors in other listed companies and in financial, banking, or insurance companies or companies of significant size, it does not appear to be necessary to establish a maximum number of directorships and statutory auditorships.
The Chairman of the Board of Directors ensured that during the meetings of the Board of Directors and of the Committees within the Board, in relation to the topics discussed, the Chief Executive Officer and representatives of Group management provided all directors with the information necessary to provide adequate knowledge of the sector in which the Group operates, of corporate dynamics and its trends and of the reference regulatory framework.

At least once a quarter, the Chief Executive Officer reported to the Board of Directors with regard to the exercise of the mandate and the performance of the Company and the Group.
During the year, the Chairperson communicated specific initiatives and events, organised by primary stakeholders and intended for Directors and Statutory Auditors of listed companies, which some Directors and Statutory Auditors subsequently attended.
Induction activities, led by top managers of the Company, and site visits were also organised with the aim of giving Directors and Statutory Auditors a better understanding of Group operations.

Board Performance Review

With regard in particular to subsection g) of application criterion 1.C.1. of the Corporate Governance Code, the Board of Directors, at its meeting of 21 February 2020, carried out a review, partly on the basis of a document prepared for this purpose by the Nominations and Remuneration Committee, of the size, composition and functioning of the Board of Directors and its Committees during 2019, expressing, in this regard, an overall favourable opinion accompanied by specific indications with respect to the operation of the Board of Directors and of its Committees. This document was prepared using the assessment criteria used in the previous year and the results of a self-assessment questionnaire prepared by Corporate Affairs at the request of the Nominations and Remuneration Committee and sent to members of the Board of Directors and of the Board of Statutory Auditors. This questionnaire allows individual Directors and Statutory Auditors to point out any matters worthy of being looked into further.

Statutory Auditors Performance Review

The Chairperson of the Board of Statutory Auditors, in the board meeting held on 21 February 2020, informed the Board of Directors on the results of the self-assessment carried out with regard to the size, composition and functioning of the Board of Statutory Auditors in the course of 2019. This assessment was carried out using, inter alia, the findings of a self-assessment questionnaire drawn up by Corporate Affairs at the request of the Board of Statutory Auditors.

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

1.1 Objectives

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

1.2 Implementation methods

Since the Company's administrative, management and control bodies, in accordance with the provisions of Articles 147-*ter* and 148 of the Consolidated Finance Act and Articles 15 and 22 of the Articles of Association, are appointed on the basis of lists of candidates submitted by shareholders, the composition of said bodies depends on the decisions made from time to time by the latter during the Shareholders' Meeting, in compliance with the applicable laws and regulations.

Without prejudice to the foregoing, the Board of Directors considers that the Company's policy on diversity in relation to the composition of its administrative, management and control bodies (the "Policy"), in accordance with the provisions of the Corporate Governance Code, can be expressed through **specific recommendations or guidelines** made by the Board of Directors to the shareholders, from time to time, before the appointment of the Board of Directors and the Board of Statutory Auditors, and explained in the report on matters on the agenda, provided in accordance with Article 125-*ter* of the Consolidated Finance Act, and in the report on corporate governance and ownership in accordance with Article 123-*bis* of the Consolidated Finance Act.

1.3 Composition of the management body

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

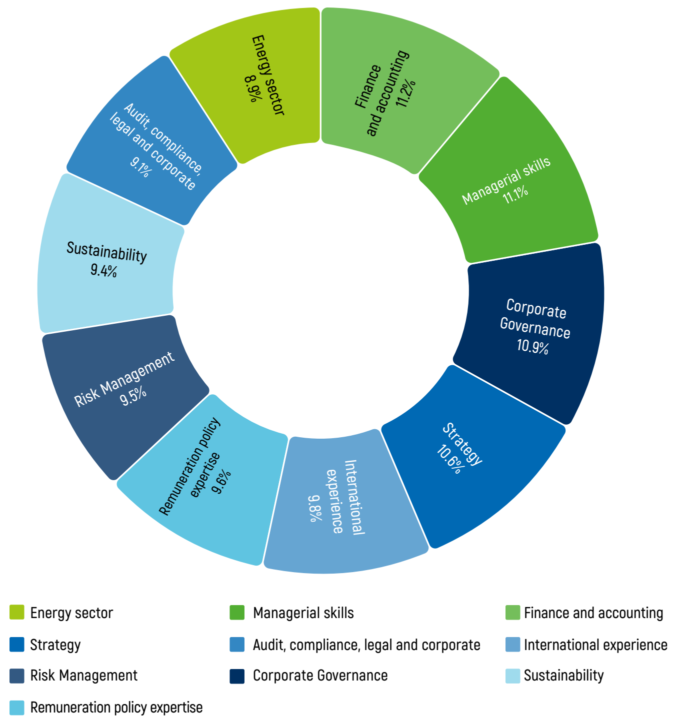
Since the current Board of Directors, made up of 12 members, was appointed by the Shareholders' Meeting of 23 April 2018 and consequently the mandate given to the same will expire on the date of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2020, it is envisaged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

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

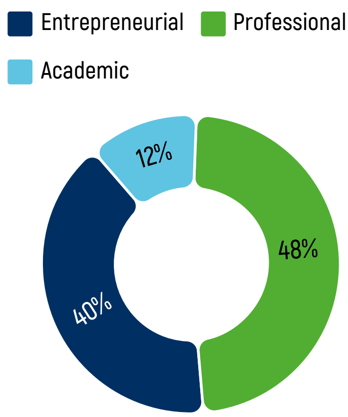
Educational and professional background

With reference to the **skills within the Board of Directors**, the self-assessment process for 2019 has shown, in line with the results of the self-assessment performed by the previous Board of Directors, a balanced distribution of skills within the Board of Directors, gained mainly through entrepreneurial and professional experiences, and the opportunity to (i) increase, among non-executive directors, within the scope of the Group's business, the weight of the experience/skills in the field of energy and from an international point of view, and (ii) have specific skills in the field of ESG. The skills present within the Board of Directors are largely the same as those recommended by the previous Board of Directors.

SKILLS CURRENTLY PRESENT IN THE BOARD OF DIRECTORS

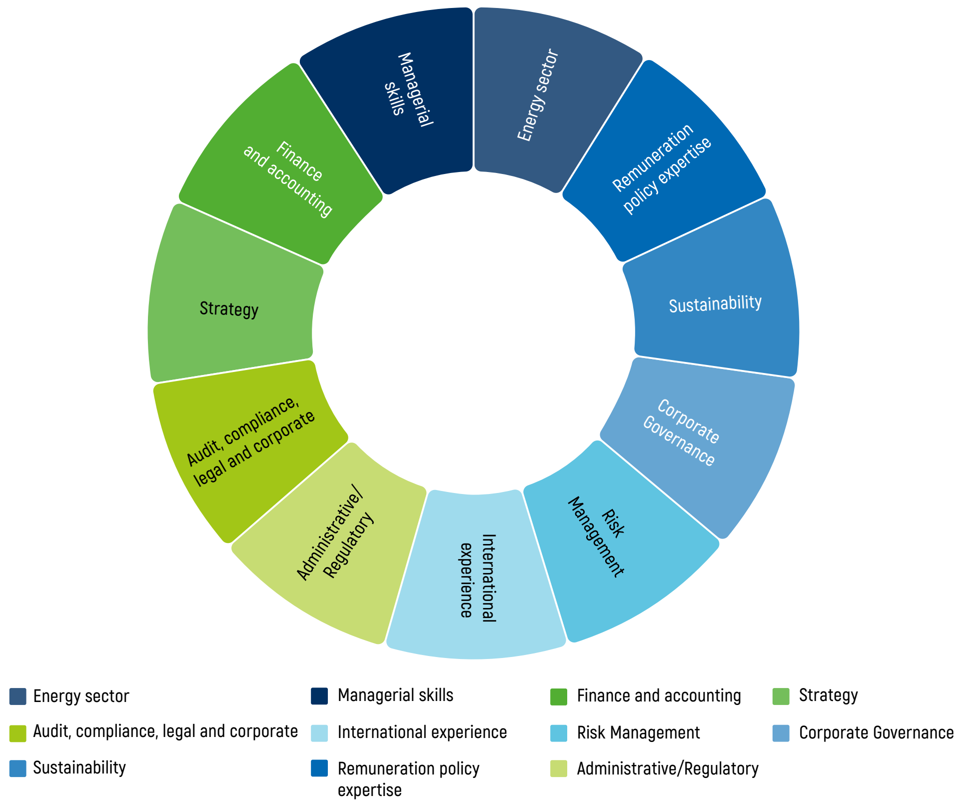


EXPERIENCE GAINED



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

SKILLS THAT OUGHT TO BE PRESENT IN THE BOARD OF DIRECTORS



Gender composition

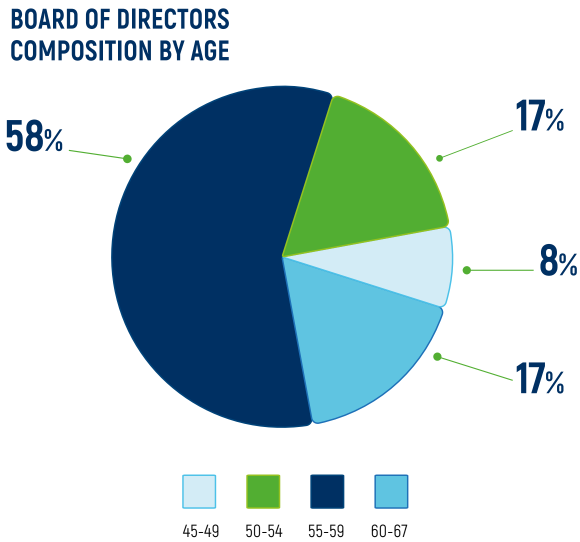
It is recalled that with reference **to gender balance**, the previous Board of Directors, following the self-assessment process relative to 2017, did not consider it necessary to recommend more stringent requirements than those laid down by legislation. Self-assessment did, however, show that the skills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

The self-assessment process relative to 2019 showed that the skills and experience necessary for the purposes of the composition of the Board of Directors are present across both genders.

Age

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

The self-assessment process relative to 2019, in the light of the activities carried out by the Board of Directors during the same financial year, shows that the current composition by age is adequate.



Results

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

1.4 Composition of the control body

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

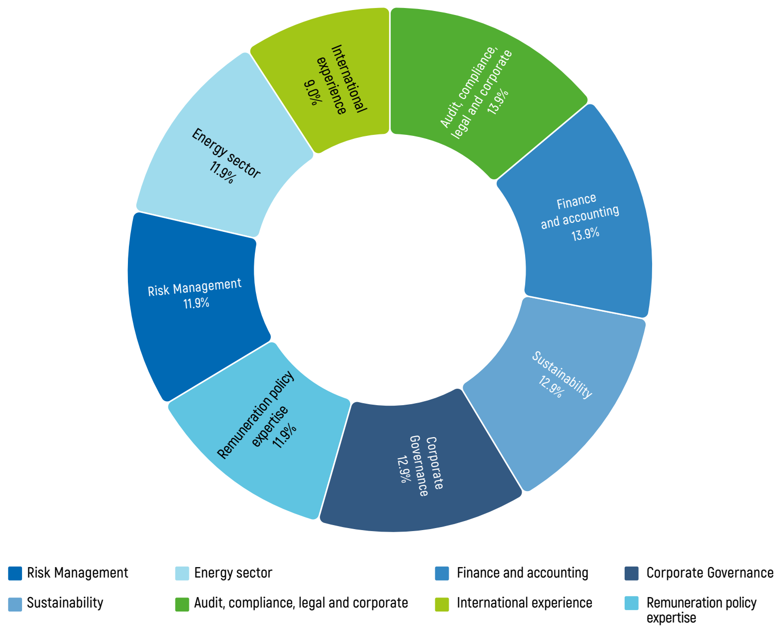
Since the current Board of Statutory Auditors was appointed by the Shareholders' Meeting of 17 April 2019 and consequently the mandate given to the same will expire on the date of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2021, it is expected that this assessment process will be once again carried out during the first quarter of 2022 in such a way that its outcome will constitute an integral and substantial part of the **recommendations** to the Shareholders' Meeting that will be called to appoint the new control body.

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

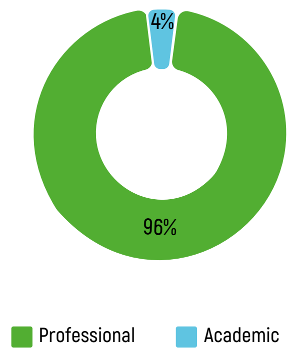
Educational and professional background

With reference to the **skills within the Board of Statutory Auditors**, the Board of Directors acknowledged the findings of the self-assessment of the Board of Statutory Auditors, relative to 2019, which, showed a balanced allocation of skills within the Board of Statutory Auditors, gained mainly through professional experience (as shown below).

SKILLS CURRENTLY PRESENT IN THE BOARD OF STATUTORY AUDITORS

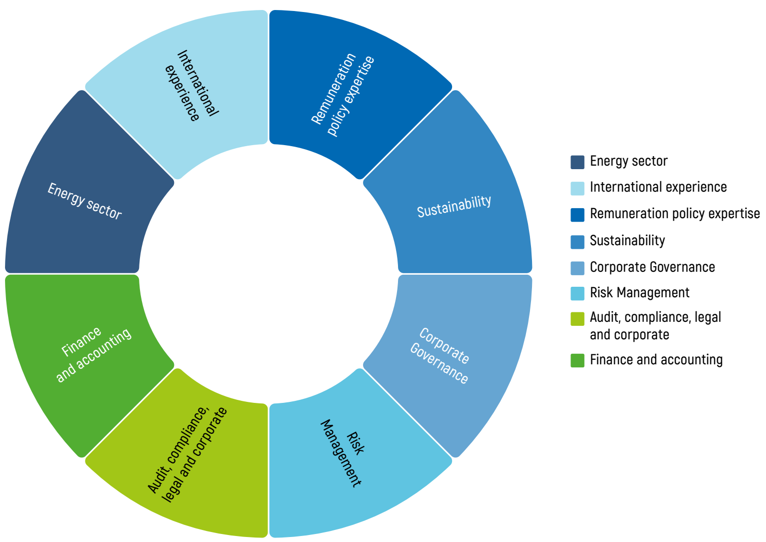


EXPERIENCE GAINED IN THE BOARD OF STATUTORY AUDITORS



It is recalled that with reference to the **<u>skills that ought to be present in the Board of Statutory Auditors</u>**, the previous Board of Statutory Auditors, following the outcome of the self-assessment process relating to 2018, had indicated that the skills already represented in the Board of Statutory Auditors should be maintained.

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



Gender composition

With reference to **gender balance**, the Board of Directors acknowledged the findings of the self-assessment, relative to financial year 2018, by the previous Board of Statutory Auditors, which considered it unnecessary to recommend more stringent requirements than those laid down by legislation.

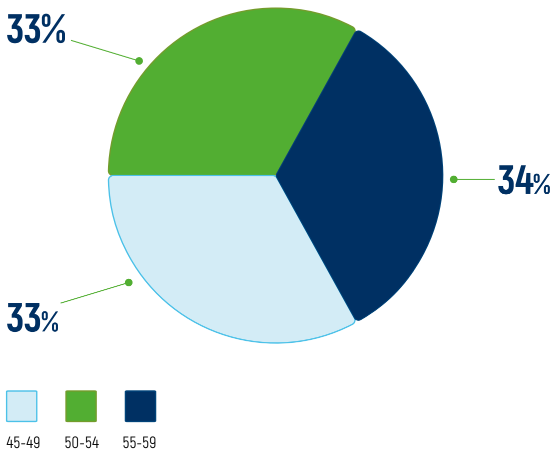
The self-assessment process relative to 2019 showed that the skills and experience necessary for the purposes of the composition of the Board of Statutory Auditors are present across both genders.

Age

It is recalled that with reference **to age**, following the self-assessment process for 2018, it was not considered necessary to make specific recommendations.

The self-assessment process relative to 2019, in the light of the activities carried out by the Board of Statutory Auditors during the same year, shows that the current composition by age is adequate.

BOARD OF STATUTORY AUDITORS COMPOSITION BY AGE



Results

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

Recommendations of the Italian Corporate Governance Committee

The Board of Directors, in its meeting of 10 March 2020, in view of the content of the Report on Corporate Governance and Ownership and the Remuneration Policy, with reference to the recommendations made in the letter sent by the Italian Corporate Governance Committee to the chairpersons of the management and control bodies of all listed companies, in which it recommends (i) incorporating the sustainability of company activities when defining remuneration strategies and policy, including on the basis of the importance of factors that may impact the creation of value over the long-term;

(ii) adequately managing the reporting of information to the board of directors, including as regards any regulations relating to work carried out by the board, ensuring that confidentiality is safeguarded without compromising the completeness, usability and timeliness of the information; (iii) applying with greater rigour the independence criteria defined by the Code, placing greater focus on assessing the significance of relationships under evaluation and defining ex ante the quantitative and/or qualitative criteria to be used in the evaluation; and (iv) verifying that the fees paid to non-executive directors and to members of the control body are commensurate to the skills, professionalism and commitment required, acknowledged the following.

Specifically:

- in relation to the **recommendation referred to in subparagraph (i)**, the ERG Group believes that the full compatibility of its activities with the health and safety of workers, and the safeguarding of communities, natural resources and the environment, is an essential requirement to make its plants and operations acceptable and to achieve its growth objectives. ERG therefore constantly strives to ensure that the business operations of all the companies in the Group are carried while fully respecting the health and safety of employees and third parties, and the environment, understood in the broadest sense. In line with the Code of Ethics of the ERG Group, the MBO system includes a sustainability clause related to accidents at work according to which the variable remuneration referred to the company target will not be paid out, for the reference year, regardless of the corporate performance recorded, if there is a fatal accident involving a Group employee or an accident causing a level of permanent disability greater than or equal to 46%;
- with reference to the **recommendation referred to in subparagraph (ii)**, following the outcome of the self-assessment, the Directors and Statutory Auditors unanimously found both the Board of Directors pre-meeting information supplied and the notice with which the relevant documentation was made available to be adequate. Note that with regard to the **49 resolutions** passed by the Board of Directors in 2019, for **45** of them the related documentation was sent to Directors and Statutory Auditors beforehand (at least 48 hours before the meeting, barring exceptions), said advance notice being deemed suitable to enable Directors and Statutory Auditors to acquire adequate knowledge of the items on the agenda. It should also be specified that confidentiality is guaranteed through the use of a virtual data room in which the aforesaid documents are placed at the disposal of the Directors and the Statutory Auditors;
- with reference to the **recommendation referred to in subparagraph (iii)**, following the outcome of the self-assessment, the Directors[24] and Statutory Auditors unanimously found the process of assessment by the Board of Directors on the independence of non-executive directors to be adequate. The evidence of this process, which is subject to a thorough assessment at individual level, and the explanations of decisions taken in this regard are provided in the section dedicated to the Board of Directors and the relative notes 16 and 17 of this Report;
- with reference to the **recommendation referred to in subparagraph (iv)**, it is noted that in line with the Company Remuneration Policy:
  - the remuneration of **non-executive Directors**, pursuant to the provisions of Article 2389, paragraph 1, of the Italian Civil Code, is decided upon at the time of appointment or by the Shareholders' Meeting which, following standard practice, is called upon annually to decide on the remuneration to be allocated to each member of the Board of Directors, on the basis of the proposals formulated by Shareholders in compliance with the applicable legislative, regulatory and statutory provisions. The Shareholders' Meeting is also called upon annually to decide on the remuneration to be allocated to Directors, who are not employees of the Group and who do not hold positions in the Board of Directors, and to members of the Nominations and Remuneration Committee and of the Control and Risk Committee, also on the basis of the proposals formulated by Shareholders in compliance with the applicable legislative, regulatory and statutory provisions.

24 Excluding Independent Directors since they are directly concerned.

The Board of Directors recommends that such remuneration is in line with the professional commitment required of the role and the related responsibilities and provides to the market the main factors on the basis of which such assessments are to be carried out. The Board of Directors, in view of the expiry of its mandate on the date of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2020, with the support of the Nominations and Remuneration Committee, will in the course of 2020 assess the adequacy of such remuneration making, where deemed appropriate, specific recommendations to the Shareholders' Meeting that will be called to appoint the new Board of Directors.

- the remuneration of **standing members of the Board of Statutory Auditors**, pursuant to the provisions of Article 2402 of the Italian Civil Code and Article 22 of the Articles of Association, is decided upon at the time of appointment or by the Shareholders' Meeting for their entire term of office, on the basis of the proposals formulated by Shareholders in compliance with the applicable legislative, regulatory and statutory provisions.

  The Board of Directors recommends that such remuneration is in line with the professional commitment required of the role and the related responsibilities and provides to the market the main factors on the basis of which such assessments are to be carried out. The Board of Directors, in view of the expiry of the mandate given to the Board of Statutory Auditors on the date of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2021, with the support of the Nominations and Remuneration Committee, will in the course of 2021 assess the adequacy of such remuneration making, where deemed appropriate, specific recommendations to the Shareholders' Meeting that will be called to appoint the new Board of Statutory Auditors.

Board of Statutory Auditors

Elena Spagnol
Chairwoman

Lelio Fornabaio
Standing Auditor

Fabrizio Cavalli
Standing Auditor

The current Board of Statutory Auditors, comprising 3 standing auditors and 3 alternate auditors, was appointed by the Shareholders' Meeting of 17 April 2019; consequently, the appointment to the Board of Statutory Auditors shall expire at the date of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2021. For the appointment of the Board of Statutory Auditors, two lists of candidates were presented, one by the shareholder San Quirico S.p.A. and the other by a number of institutional investors as follows[25]:

San Quirico S.p.A. list

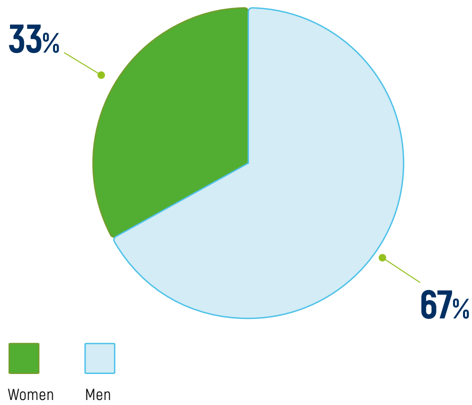
1. Lelio Fornabaio
2. Fabrizio Cavalli
3. Elisabetta Barisone
4. Vincenzo Campo Antico
5. Stefano Remondini
6. Luisella Bergero

Institutional investors list

1. Elena Spagnol
2. Paolo Prandi

In accordance with the Articles of Association, the Board of Statutory Auditors consists of three standing auditors and three alternate auditors in **compliance with the gender balance criterion** prescribed by current laws and regulations[26]. The Board of Statutory Auditors is appointed on the basis of lists presented by shareholders, which, in compliance with Article 147-*ter*, paragraph 1, of the Consolidated Finance Act (referenced by Article 148, paragraph 2 of the Consolidated Finance Act), must be filed at least twenty-five days prior to

BOARD OF STATUTORY AUDITORS COMPOSITION BY GENDER



25 For the percentage of votes obtained by the lists in relation to the voting capital, please refer to the Summary Report of the voting on the items on the agenda of the Shareholders' Meeting of 17 April 2019, available on the Company's website (www.erg.eu) in the section "*Corporate Governance/2019 Shareholders' Meeting*".

26 Pursuant to Article 148, paragraph 1-*bis*, of the Consolidated Finance Act, as amended by Italian Law no. 160 of 27 December 2019, the articles of association of listed companies must reserve at least two fifths of the membership of control bodies to the less represented gender, for six consecutive terms. This division criterion applies as from the first renewal of the control bodies of listed companies subsequent to 1 January 2020. Since the two-fifths stipulation is arithmetically impossible, and hence inapplicable, in the case of corporate bodies with three members, CONSOB clarified, with communication no. 1/20 of 30 January 2020, that numbers in such cases should be rounded down and not up, as currently prescribed in the Issuers' Regulations.

the date of the Shareholders' Meeting and shall be made available to the public at least twenty-one days prior to the Meeting.

Each list is made up of two sections: one for candidates for the office of Standing Auditor and the other for candidates for the office of Alternate Auditor. Each list shall contain a number of candidates, listed with a progressive number, not exceeding the maximum number of statutory auditors to be elected and, with the exception of those presenting fewer than three candidates, it shall comply, for each section, with the gender balance criterion prescribed by current laws and regulations.

In accordance with Article 148, paragraph 1-*bis*, of the Consolidated Finance Act, as amended by Italian Law no. 160 of 27 December 2019, in the election appointment of the Board of Statutory Auditors by the Shareholders' Meeting called to approve the Financial Statements at 31 December 2021, the least represented gender must make up at least two fifths of the Statutory Auditors elected[27]. Lists may only be presented by shareholders who, at the time of presenting the list, are in possession of a shareholding equal to that required for the presentation of lists for the election of Directors, currently equal to 1%[28]. This share capital percentage is the same as that required for the presentation of lists for the appointment of the Board of Statutory Auditors in office[29].

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

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

Candidates cannot be elected to the office of Statutory Auditor unless they satisfy the requirements of independence, professionalism and integrity as provided by Article 148, paragraph 3, of the Consolidated Finance Act or if they already serve as Standing Auditor in five listed companies[30].

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

Any list presented without compliance with the required prescriptions[31] shall be considered not to have been presented.

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

If no second list is presented or voted, the entire Board of Statutory Auditors shall comprise, in the order of presentation,

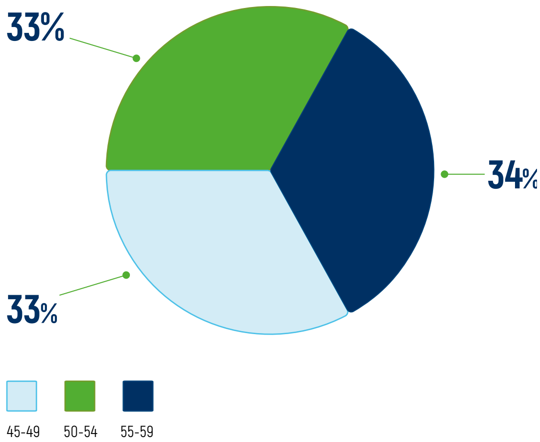
27 Reference is made to the specifications made in Note 31.
28 Pursuant to CONSOB Resolution no. 28 of 30 January 2020.
29 Pursuant to CONSOB Resolution no. 13 of 24 January 2019.
30 It is noted in this regard that the disclosure obligations as per Article 144-*quaterdecies* of the Issuers' Regulations do not apply to those who serve as members of the control body of a single issuer.
31 For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Statutory Auditors, please refer to the Articles of Association, available on the Company's website (www.erg.eu) in the section "*Corporate Governance/Ethics and Governance*".

the candidates of the single list voted. The first person on the list is elected Chairperson.

In the event that more lists are presented, election takes place as follows: from the list that received the highest number of votes are drawn, in the progressive order in which they are listed, two standing auditors and two alternate auditors; the third standing auditor and the third alternate auditor are elected choosing the candidates to the respective offices indicated at the top of the list that obtained the second-highest number of votes after the first one, among those presented and voted by minority shareholders who are not connected - even indirectly - with the shareholders who presented or voted the list that received the highest number of votes, according to current regulations and subject to the provisions of paragraph 13-*bis* of the Articles of Association pertaining to compliance with the gender balance criterion in the composition of the Board of Statutory Auditors. The standing auditor drawn from the minority list is appointed Chairperson.

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

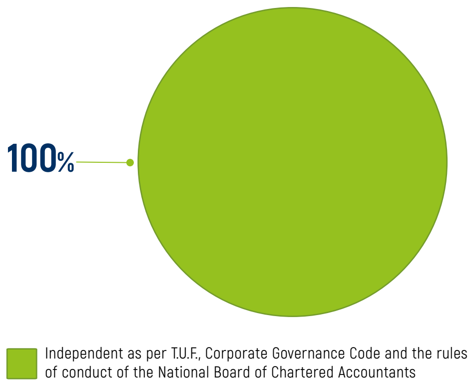
BOARD OF STATUTORY AUDITORS COMPOSITION BY AGE



The Statutory Auditors in office at the date of approval of the Report are[32]:

Elena Spagnol	*Chairwoman*
Fabrizio Cavalli	*Standing Auditor*
Lelio Fornabaio	*Standing Auditor*
Vincenzo Campo Antico	*Alternate Auditor*
Luisella Bergero	*Alternate Auditor*
Paolo Prandi	*Alternate Auditor*

BOARD OF STATUTORY AUDITORS COMPOSITION BY STATUS



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

The Board of Directors, in light of the information provided in

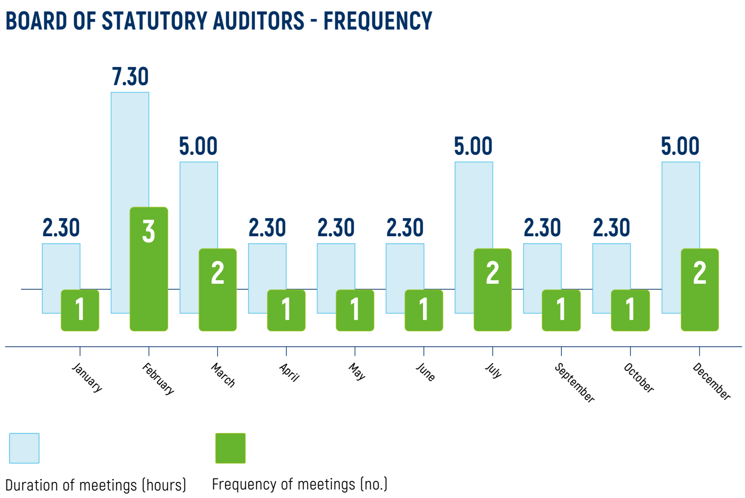
32 For the personal and professional qualifications of current members of the Board of Statutory Auditors, please refer to the relevant curriculum vitae available on the Company's website (www.erg.eu) in the section "*Corporate Governance/Board of Statutory Auditors*".

this regard by the members of the Board of Statutory Auditors and of the statements by the Chairwoman of the Board of Statutory Auditors, during its meeting of 14 May 2019, positively assessed the independence of the members of the Board of Statutory Auditors, both with reference to the provisions of Article 148, third paragraph, of the Consolidated Finance Act and with reference to the rules of conduct of the Board of Statutory Auditors prepared by the National Board of Chartered Accountants and the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A.

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

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

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



The Board of Statutory Auditors, at its meeting of 30 January 2020, proceeded to carry out, including through the use of a self-assessment questionnaire designed for such purpose by Corporate Affairs, an assessment with regard to the size, composition and functioning of the Board of Statutory Auditors in the course of 2019. The self-assessment showed a **balanced allocation of skills** within the Board of Statutory Auditors, gained mainly through **professional experience**. The findings of this process were communicated to the Board of Directors in the meeting of 21 February 2020.

During 2019 financial year, the Board of Statutory Auditors held **15 meetings**, while for 2020 there are expected to be no fewer than **14**.

The average duration of the meetings held by the Board of Statutory Auditors was around 2 hours and 30 minutes. At the date of approval of this document, the Board of Statutory Auditors had met **3 times**.

Other appointments as director or statutory auditor held by Statutory Auditors in other companies listed in regulated markets, including abroad, in finance, banking and insurance companies or companies of significant size[33] at 31 December 2019[34]:

Elena Spagnol	*Chairperson of the Board of Statutory Auditors of Fineco Bank S.p.A.* *Standing Auditor of F.I.L.A. - Fabbrica Italiana Lapis ed Affini S.p.A..*
Lelio Fornabaio	*Standing Auditor of Astaldi S.p.A.* *Standing Auditor of Atlantia S.p.A.* *Standing Auditor of Telepass S.p.A.* *Director of Aeroporto di Genova S.p.A..*
Fabrizio Cavalli	*Standing Auditor of Battaglio S.p.A.* *Standing Auditor of Cosiarma S.p.A.* *Standing Auditor of MARES S.p.A.* *Standing Auditor of R.T.F. S.p.A.* *Standing Auditor of Sews Cabind S.p.A.* *Standing Auditor of Spazio S.p.A.* *Standing Auditor of SKF Industrie S.p.A.* *Standing Auditor of Sumiriko Italy S.p.A.*

Shareholders' Meetings

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

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

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

33 Pursuant to the provisions of Article 144-duodecies, subsection f), of the Issuers' Regulations.
34 Other than offices held in Group companies.

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

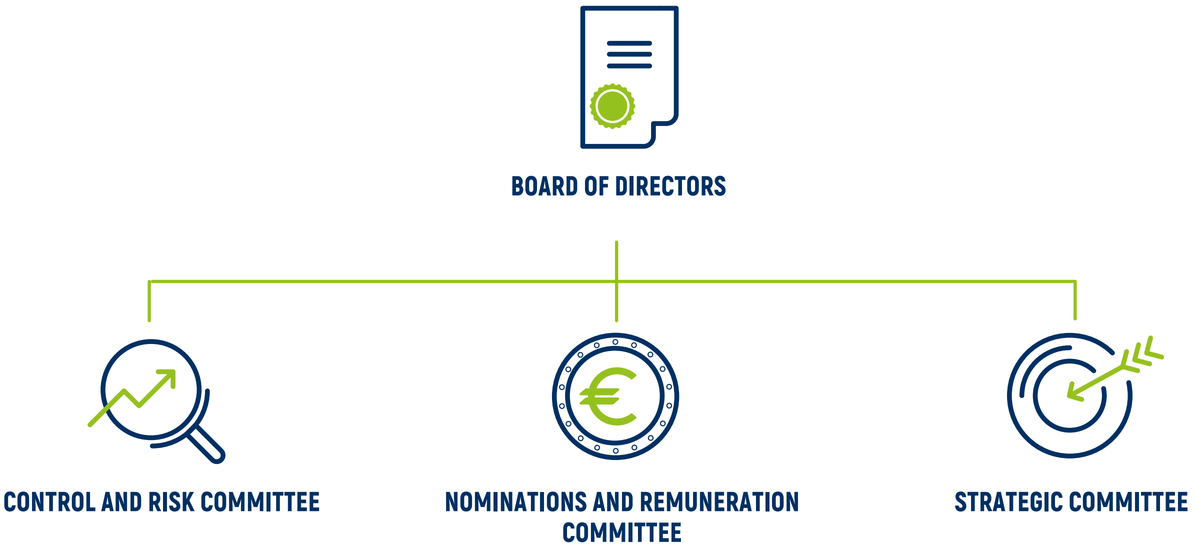
Meeting Regulations

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

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

5.1. BOARD COMMITTEES

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



Control and Risk Committee

Mara Anna Rita Caverni
Chairperson

Massimo Belcredi
Member

Elisabetta Oliveri
Member

Composition:

Mara Anna Rita Caverni - *Chairperson*

Massimo Belcredi

Elisabetta Oliveri

Giovanni Marco Scollo - *Secretary*

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

With reference to the provisions of Principle 7.P.4. of the Corporate Governance Code[35], it should be noted that in the first meeting of the Committee, held on 9 May 2018, the Director Mara Anna Rita Caverni, taking into account the experience gained by her over the previous three-year period, was appointed Chairperson of the Control and Risk Committee.

During the same meeting, the Committee appointed a Secretary from outside of its members. Together with the Secretary, the Chairperson coordinates the activities of the Committee and chairs its meetings.

The members of the Committee have adequate accounting, financial and risk management expertise[36].

Committee meetings are attended by the Chairperson of the Board of Statutory Auditors or another auditor designated by him or, depending on the topics to be discussed, by all members of the Board of Statutory Auditors; meetings may also be attended by the Chairperson of the Board of Directors, the Executive Deputy Chairperson, the Director in charge of the Internal control and risk management system, and the Chief Executive Officer, who are entitled to participate in the discussion of the agenda items and to identify adequate actions to confront critical or potentially critical situations, as well as (also depending on the topics to be discussed), the Chief Audit Officer, the General Manager as Chief Financial Officer and Manager responsible for preparing the Company's financial reports,

35 *"The Control and Risk Committee is made up of independent directors. Alternatively, the committee may be made up of non-executive directors, the majority of which being independent; in this case, the chairman of the committee is chosen from among the independent directors".*
36 These characteristics were assessed by the Board of Directors at the meeting of 23 April 2018.

the General Counsel, the Head of Group Administration, the Head of Group Risk Management & Corporate Finance and the Head of Corporate Affairs.

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

The Chief Audit Officer is invited to attend the meetings in order to report to the Committee, at least once a quarter, on the activity carried out from time to time.

The General Manager as Chief Financial Officer and Manager responsible for preparing the Company's financial reports is invited to attend the meetings in order to inform the Committee, at least quarterly (in consideration of the approval and publication of interim financial reports), about the accounting standards applied in the preparation of periodic financial statements and, at least semi-annually, about the activity carried out from time to time in accordance with Article 154-*bis* of the Consolidated Finance Act.

The Head of Group Administration is invited to attend meetings in order to report to the Committee, semi-annually, on the activity carried out from time to time with reference to compliance with Italian Law no. 262/05.

The Head of Group Risk Management & Corporate Finance is invited to attend the meetings in order to report to the Committee, on a semi-annual basis, on the activity carried out from time to time with reference to Risk Management.

The Head of Corporate Affairs is invited to attend the meetings in order to report to the Committee, on a semi-annual basis, on the activity carried out from time to time with reference to compliance with Italian Legislative Decree no. 231/01 and anti-corruption laws.

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

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

The Committee organises its work in such a way as to combine comprehensive information flows and efficiency of operation with maximum independence of its members.

In particular, where deemed appropriate, resolutions are taken without other parties being present.

Tasks

The Control and Risk Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code. As from the date of adherence by the Company to the edition of the Corporate Governance Code published in July 2015[37], the Chairperson of the Committee reports to the Board of Directors at the first board meeting on the meetings held by the Committee in the intervening period.

37 As from 15 December 2015.

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

Specifically:

- it assists the Board of Directors in the following tasks prescribed by the Corporate Governance Code: definition of the guidelines of the ICRM System; periodic verification of the adequacy of the actual operation and efficiency of the ICRM System; verification that the main corporate risks are correctly identified, adequately measured, managed and monitored;
- it expresses opinions on specific aspects pertaining to the identification of the main corporate risks as well as to the design, implementation and management of the ICRM System;
- it supports, with adequate investigations, the evaluations and decisions of the Board of Directors relating to the management of risks arising out of prejudicial acts of which the Board of Directors is aware;
- it expresses its own opinion on the appointment and termination of the Head of Internal Audit and on the proposal for his/her remuneration formulated by the Director in charge of the Internal Control and Risk Management System;
- it monitors the independence, adequacy, effectiveness and efficiency of the Internal Audit function;
- it assesses the annual work plan and the related budget prepared by the Head of Internal Audit and his/her periodic audit reports, requesting, where applicable, audits on specific operating areas;
- it examines the results of the activities of the Manager responsible for preparing the Company's financial reports;
- it assesses, together with the Manager responsible for preparing the Company's financial reports, and having consulted the Independent Auditors and the Board of Statutory Auditors, the correct use of the accounting policies and their consistency for the purposes of drawing up the Consolidated Financial Statements, the draft Financial Statements and the condensed Interim Financial Statements;
- it maintains appropriate relations with the Independent Auditors, the Board of Statutory Auditors, the Director in Charge of the Internal Control and Risk Management System, the Head of Internal Audit, and other departments within the Group's organisational structure that communicate with these parties, in such a way as to encourage them to carry out their respective activities in common areas of intervention in an effective and coordinated manner;
- it informs the Board of Directors, at least once every six months, upon approval of the Annual and Interim Financial Reports, about the work carried out and the adequacy of the ICRM System;
- it reviews the annual work plan prepared by the Supervisory Body, established pursuant to the provisions of Italian Legislative Decree no. 231/01 and the interim reports;
- it reviews the annual work plan for compliance with Italian Legislative Decree no. 231/01 and anti-corruption laws, and the interim reports;
- it reviews the annual work plan for compliance with Italian Law no. 262/05 and the interim reports;
- it assesses the continuous adequacy over time of the corporate procedures intended to regulate, in operational terms, the external communication of documents and information pertaining to the Company and the Group, with particular reference to relevant and "price sensitive" information;

- it provides the Board of Directors, the Chairperson, the Executive Deputy Chairperson and the Chief Executive Officer with all other advice and proposals deemed by the Committee to be necessary or appropriate for them to better carry out their respective duties in the areas of control, risk management and corporate disclosure;
- it provides to the Board of Directors and to the relevant bodies the opinions required by the Procedure for Transactions with Related Parties, where applicable being specifically comprised of two Independent Directors belonging to the same Committee and the other Independent Director belonging to the Nominations and Remuneration Committee[38]. If a member of the Committee is the counterparty of the transaction to be evaluated, or a related party thereto, the other members of the Committee shall call to participate in the meeting another unrelated independent director or, if there are none, an unrelated standing member of the Board of Statutory Auditors;
- it carries out any other duties assigned by the Board of Directors.

To better carry out its duties, the Committee may employ outside consultants at the Company's expense. Within the scope of the activity performed by the Committee members for the purposes of the Procedure for Transactions with Related Parties, the Board of Directors has not set any expense limit even for transactions of "Minor Relevance".

In the performance of its duties, the Committee was able to access the information and made use of the company functions necessary to carry out its tasks.

In 2019, the Committee held **9 meetings** - all duly recorded in minutes - during which, in addition to approving its calendar and organising its work, it addressed issues relating to the following macro-issues:

- Group governance;
- Internal Control and Risk Management System;
- Obligations as per Italian Legislative Decree no. 231/01 and the Anti-Corruption System;
- Group administrative and accounting processes.

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

With regard to Group Governance:

Guidelines, procedures and standards

- it examined the proposal to update the Anti-Corruption System and Policy and expressed its favourable opinion in this regard;
- it examined the proposed amendments to the Procedure for handling and processing privileged information and for the public dissemination of statements and information, aimed at implementing the provisions of CONSOB guidelines on the handling of privileged information, and expressed its favourable opinion in this regard.

38 For transactions pertaining to the allocation or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a Key manager of the Company or otherwise to one of the persons who holds the offices indicated in Annex 1 to the Procedure for Transactions with Related Parties, the Committee called upon to issue its opinion on the interest of the Company in the completion of the transaction with the related party and on the advantageousness and substantial correctness of the related conditions is the Nominations and Remuneration Committee, specifically comprised, where applicable, of two Independent Directors belonging to the same Committee and the other Independent Director belonging to the Control and Risk Committee, provided that the aforementioned transactions pursuant to Article 3.2, subsection c) of said Procedure are not excluded from the sphere of application of the same procedure. It is noted in this regard that Italian Legislative Decree no. 49/2019, which transposed into Italian law (Directive EU) 2017/828, lays down, inter alia, rules regarding reporting and procedural safeguards for the execution of material transactions with related parties, and assigns CONSOB the task of identifying the principles that administrative bodies are required to observe when defining corporate procedures for the execution of such transactions. At the date of approval of the Report, the relative content of the secondary regulation had not yet been defined.

Specific in-depth examinations carried out

- it examined the approach followed in the preparation of the Remuneration Report relative to financial year 2018-2019;
- it examined the checks carried out on the thresholds as referred to in the Procedure for Transactions with Related Parties and acknowledged their appropriateness;
- it examined the approach followed in the preparation of the Consolidated Non-Financial Statement at 31 December 2018;
- it examined and shared the procedures used for the management and coordination activities carried out by ERG S.p.A. in respect of direct and indirect subsidiaries, in Italy and abroad, taking account of the changes in this area since the last assessment, as well as the relationships between ERG S.p.A. and the parent San Quirico S.p.A.;
- it examined the amendments made to the Corporate Governance Code, in its version published on 16 July 2018.

With regard to the Internal Control and Risk Management System:

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

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

Dealings with Internal Audit

- it examined the quarterly update on the activities of Internal Audit, requesting specific insights in this regard;
- it examined and issued a favourable opinion on Internal Audit's 2020 work plan and budget.

Dealings with Group Risk Management & Corporate Finance

- it examined the half-yearly update on the Enterprise Risk Management process following the activities to assess risk and the main risks that may have an impact on achieving the objectives of the Business Plan, carrying out specific in-depth examinations;
- it examined the Risk Report on the Business Plan.

With regard to the obligations as per Italian Legislative Decree no. 231/01 and the Anti-Corruption System:

Dealings with the Supervisory Body

- it examined, on a six-monthly basis, the periodic reports on the activity carried out by the Supervisory Body;
- it examined the schedule of activities and budget of the Supervisory Body for 2020.

Dealings with 231 Compliance

- it analysed the interim reports on activities in relation to compliance with Italian Legislative Decree no. 231/01 and anti-corruption laws;
- it examined the plan of activities in relation to compliance with Italian Legislative Decree no. 231/01 and anti-corruption laws for 2020.

With regard to the Group's administrative and accounting processes:

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

- it examined the implementation of the impairment test procedure for the Financial Statements at 31 December 2018, and the most relevant general issues resulting from its application;
- it assessed, together with the Manager responsible for preparing the Company's financial reports, and having consulted the Independent Auditors and the Board of Statutory Auditors, the correct use of the accounting policies for the purposes of drawing up the draft Financial Statements at 31 December 2018 and the Interim Financial Report at 30 June 2019, and their uniformity for the purposes of drawing up the relative Consolidated Financial Statements, as well as the fundamental issues arising in the course of the statutory audit;
- it took note, having consulted the Manager responsible for preparing the Company's financial reports, together with the Board of Statutory Auditors, of the highlights of the operating, cash flow and capital figures in the Interim Reports at 31 March 2019 and 30 September 2019, making no observations or remarks in this regard.

Dealings with 262 Compliance

- it analysed the interim reports on activities in relation to compliance with Italian Legislative Decree no. 262/05, from which no elements emerged that could impede the issue of the statement by the Manager responsible for preparing the Company's financial reports and the statement by the Chief Executive Officer of ERG S.p.A. pursuant to Article 154-*bis*, paragraph 5, of the Consolidated Finance Act;
- it examined the risk assessment for 2019 pursuant to Italian Law no. 262/05.

Specific in-depth examinations carried out

- it took note of the main features of the intra-group service agreements for 2019;
- it examined the methods for renewing the Group VAT liquidation procedure for 2019;
- it analysed the main aspects relating to the domestic tax consolidation scheme of ERG S.p.A., the indirect subsidiary ERG Wind Investments Ltd and the companies belonging to ERG Solar Holding 1 S.r.l.

With regard to the information flows with the Board of Statutory Auditors and the Independent Auditors:

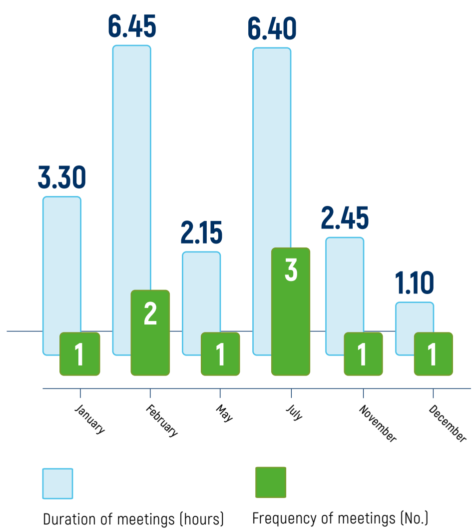
- it has been in regular contact with the Board of Statutory Auditors, which participated in all the Committee meetings, and with the independent audit company, which participated in all the Committee meetings in which the periodic financial reports were analysed;
- it consulted the Board of Statutory Auditors and the Independent Auditors as part of the process to assess the proper application of accounting policies and their consistency for the purposes of drawing up periodic financial reports.

CONTROL AND RISK COMMITTEE WORKS CALENDAR

The Committee deemed it possible to confirm, in light of the activities carried out in 2019, its positive assessment with regard to the adequacy of the Internal Control and Risk Management System.

The average duration of the meetings held by the Committee was around **2 hours and 30 minutes**. At the date of approval of this document, the Control and Risk Committee had met **3 times**.

CONTROL AND RISK COMMITTEE – FREQUENCY



Nominations and Remuneration Committee

Silvia Merlo
Chairperson

Barbara Cominelli
Member

Paolo Francesco Lanzoni
Member

Composition:

Silvia Merlo - *Chairperson*

Barbara Cominelli

Paolo Francesco Lanzoni

Giovanni Marco Scollo - *Secretary*

In accordance with the provisions of the Corporate Governance Code, the current Nominations and Remuneration Committee is comprised of three non-executive Directors, mostly independent as per the Corporate Governance Code, appointed by the Board of Directors in the meeting of 23 April 2018.

With reference to the provisions of Principle 6.P.3. of the Corporate Governance Code[39], it should be noted that in the first meeting of the Committee, held on 8 May 2018, the Director Silvia Merlo, taking into account the experience gained by her over the previous three-year period, was appointed Chairperson of the Nominations and Remuneration Committee.

During the same meeting, the Committee appointed a Secretary from outside of its members. Together with the Secretary, the Chairperson coordinates the activities of the Committee and chairs its meetings.

The members of the Committee have adequate financial and remuneration policy expertise[40].

Committee meetings are attended by the Chairperson of the Board of Statutory Auditors or another auditor designated by him/her or, depending on the topics to be discussed, by all members of the Board of Statutory Auditors; meetings may also be attended, upon invitation, by the Chairperson of the Board of Directors, the Executive Deputy Chairperson and the Chief Executive Officer, who are entitled to participate in the discussion of the agenda items and to identify adequate actions to confront critical or potentially critical situations.

Employees of Group Companies, representatives of the independent auditors and, in general, persons whose presence

---

39 *"The Board of Directors shall establish among its members a Remuneration Committee, made up of independent directors. Alternatively, the Committee may be made up of non-executive directors, the majority of which being independent; in this case, the chairman of the Committee is chosen from among the independent directors".*

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

is deemed necessary or appropriate for the discussion of the agenda items may be invited to attend Committee meetings.

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

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

Tasks

The Nominations and Remuneration Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code for the Nominations Committee and the Remuneration Committee[41]. As from the date of adherence by the Company to the edition of the Corporate Governance Code published in July 2015[42], the Chairperson of the Committee reports to the Board of Directors at the first board meeting on the meetings held by the Committee in the intervening period.

Specifically:

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

- it formulates proposals or expresses opinions to the Board of Directors for the remuneration of the Chairperson, Deputy Chairpersons, Chief Executive Officer and, more generally, Directors with powers or specific duties and the Directors called to serve on the Strategic Committee who do not hold positions in the Board of Directors;
- it formulates proposals or expresses opinions to the Chief Executive Officer and to the Executive Deputy Chairperson for the remuneration of the General Manager, so that the Board of Directors may pass resolutions in this regard;
- it formulates proposals or expresses opinions to the Chief Executive Officer and to the Executive Deputy Chairperson for the remuneration of other Key management personnel, and for the definition of incentive plans for Group management;
- it periodically assesses the adequacy, overall consistency and concrete application of the Remuneration Policy for members of the Board of Directors, the General Manager and other Key management personnel;
- it provides to the Board of Directors and to the relevant bodies the opinions required by the Procedure for Transactions with Related Parties, being, where applicable, specifically comprised of two Independent Directors belonging to the same Committee and the other Independent Director belonging to the Control and Risk Committee, (i) on the Company's interest in carrying out transactions involving the assignment or the increase in remuneration and benefits, in any form, to a member of an administrative or control body of the Company or to a Key Manager thereof

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

42 As from 15 December 2015.

or otherwise to one of the persons holding the offices indicated in Annex 1 to the Procedure for Transactions with Related Parties, and (ii) on the advantageousness and substantial correctness of the relative conditions, and shall comprise members of the Nominations and Remuneration Committee, provided that the said transactions pursuant to Article 3.2, subsection c), of said Procedure, are not excluded from the scope of the procedure itself[43].
If a member of the Committee is the counterparty of the transaction to be evaluated, or a related party thereto, the other members of the Committee shall call to participate in the meeting another unrelated independent director or, if there are none, an unrelated standing member of the Board of Statutory Auditors.

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

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

To better carry out its duties, the Committee may employ outside consultants at the Company's expense. Within the scope of the activity performed by the Committee members for the purposes of the Procedure for Transactions with Related Parties, the Board of Directors has not set any expense limit even for transactions of "Minor Relevance".
Whenever the Committee discusses the formulation of proposals for the remuneration of the Chairperson, the Executive Deputy Chairperson and the Chief Executive Officer, such individuals must leave the meeting.
In the performance of its duties, the Committee was able to access the information and company functions necessary to carry out its tasks.
In 2019, the Committee held **6 meetings** - all duly recorded in minutes - during which, in addition to approving its calendar and organising its work, it

43 If the conditions per Article 3.2 subsection c) of the Procedure for Transactions with Related Parties are met, i.e. (i) that the Company has adopted a remuneration policy; (ii) that the Nominations and Remuneration Committee was involved in defining the remuneration policy; (iii) that a report illustrating the remuneration policy has been submitted for the Shareholders' Meeting advisory vote; (iv) that the remuneration assigned is consistent with said policy - subject to the disclosure obligations per Article 154-ter of the Consolidated Finance Act, the Procedure shall not apply to transactions pertaining to the assignment or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a Key manager thereof or otherwise to one of the persons who hold the offices indicated in Annex 1 to the Procedure for Transactions with Related Parties. It is noted in this regard that Italian Legislative Decree no. 49/2019, which transposed into Italian law (Directive (EU) 2017/828, lays down, inter alia, rules regarding reporting and procedural safeguards for the execution of material transactions with related parties, and assigns CONSOB the task of identifying the principles that administrative bodies are required to observe when defining corporate procedures for the execution of such transactions. At the date of approval of the Report, the relative content of the secondary regulation had not yet been defined.

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

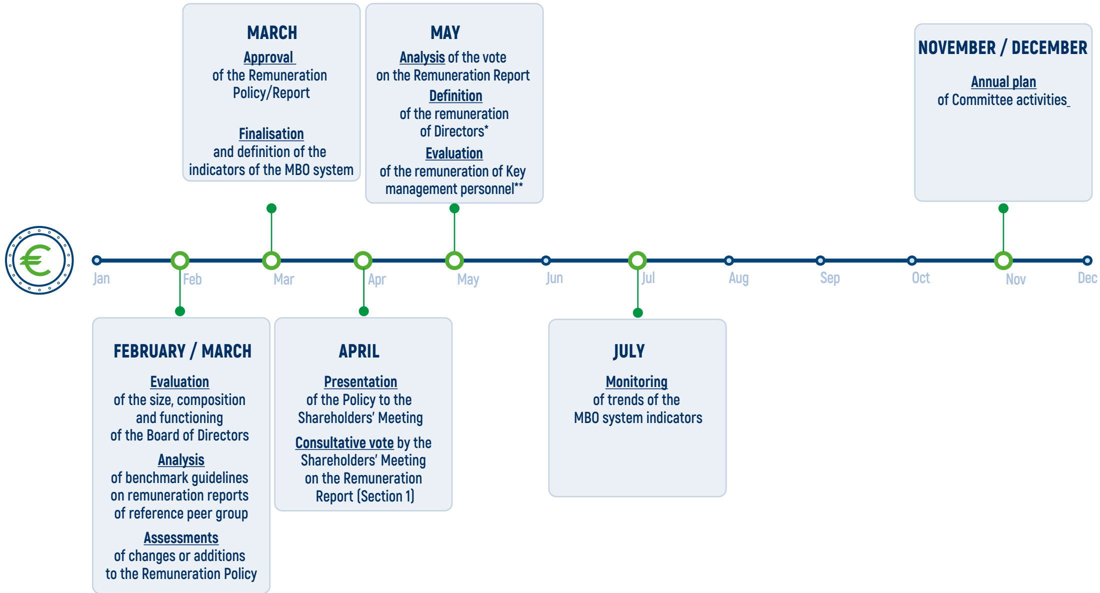
- formulated proposals for setting the remuneration of the Chairperson, Deputy Chairpersons, Chief Executive Officer and, more generally, Directors with powers or specific duties and the Directors called to serve on the Strategic Committee who do not hold positions in the Board of Directors, and the General Manager;
- issued its opinion on assessing/determining the remuneration of certain Key Managers[44] and the Chairperson of a company belonging to the ERG Group, a related party of ERG S.p.A.;
- made decisions, with reference to the MBO system, regarding (i) the definition of the corporate objective (reference target value) for 2019, (ii) the profit achieved in 2018 with respect to the business objective assigned (reference target value);
- actively participated in the process to update the Company Remuneration Policy in order to implement (i) the organisational changes occurring following the appointment, on 2 August 2019, of the General Manager by the Board of Directors, as well as (ii) the new regulations introduced by Article 123-*ter* of the Consolidated Finance Act, as amended by Italian Legislative Decree no. 49/2019, which transposed into Italian law Directive (EU) 2017/828 which lays down, inter alia, rules regarding transparency and the involvement of shareholders in the remuneration of directors and entrusts CONSOB with the task of including some of the elements indicated by the aforesaid Directive in the disclosures in the report on the remuneration policy and the amounts paid, both with regard to the remuneration policy (Section I) and the remuneration paid during the reference year (Section II). At the date of approval of the Report, the relative content of the secondary regulation had not yet been defined;
- analysed the advisory vote of the Shareholders' Meeting on the first section of the Company's Remuneration Report, concerning 2019;
- assessed the adequacy, overall consistency and practical application of the Company's Remuneration Policy, using the information provided by the Chief Executive Officer and the Executive Deputy Chairperson;

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

- prepared a support document for the assessment of the Board of Directors in relation to the size, composition and functioning of the Board and its Committees during 2019 using the valuation criteria used in the previous year and the findings of a self-assessment questionnaire sent to the members of the Board of Directors and the Board of Statutory Auditors.

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

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



* Executive or entrusted with special powers
** Executives with Strategic Responsibility

The average duration of the meetings held by the Committee was **around 1 hour**. At the date of approval of this document, the Nominations and Remuneration Committee had met **3 times**.

NOMINATIONS AND REMUNERATION COMMITTEE FREQUENCY

Strategic Committee

Alessandro Garrone
Chairperson

Giovanni Mondini
Member

Luca Bettonte
Member

Marco Costaguta
Member

Elisabetta Oliveri
Member

Paolo Luigi Merli
Member

Composition:

Alessandro Garrone - *Chairperson*

Giovanni Mondini

Luca Bettonte

Marco Costaguta

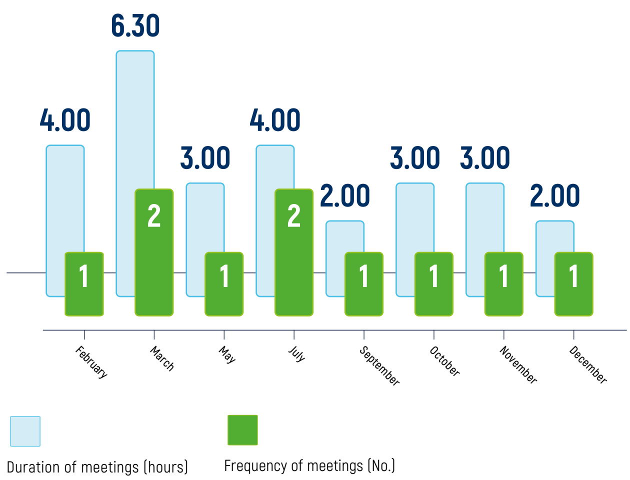
Elisabetta Oliveri

Paolo Luigi Merli - *Secretary*

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

In accordance with the strategies and policies approved by the Board of Directors, the Committee's activities include the strategic coordination of Group activities, the definition of strategic business and portfolio guidelines, and the 6-monthly review of threshold rates, guidelines and policies on strategic finance and for individual extraordinary financial transactions, monitoring the progress of their implementation over time.

STRATEGIC COMMITTEE – FREQUENCY



The Committee also examines the long-term strategic plans and capital expenditure budgets of the Group, and the strategic benefits of significant investments and transactions effected at Group level, as well as the consistency of economic and financial returns with respect to the threshold rates, and comments on the need to involve the Board of Directors, in accordance with the provisions of Group Investment Guidelines.

In 2019, the Committee held **10 meetings**.

The average duration of the meetings held by the Committee was **around 2 hours and 45 minutes**.

At the date of approval of this document, the Strategic Committee had met **1 times**.

5.2. INTERNAL COMMITTEES

RISK COMMITTEE

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

INVESTMENT COMMITTEE

- Supports the Chief Executive Officer in assessing investment proposals;
- Expresses a justified technical, economic and financial opinion at various stages in the investment process.

HUMAN CAPITAL COMMITTEE

- Defines and monitors the main human capital development programmes and processes;
- Provides support to the Executive Vice President and the CEO in decisions relating to strategies that determine the value of ERG's Human Capital;
- Monitors the effective implementation of the Human Rights Policy, managing the reports relating to non compliance thereof.

MANAGEMENT COMMITTEE ENGINEERING DEVELOPMENT

- Monitors the relevant projects of the Group in the specific area of Engineering Development, supporting the relative Project Leader, ensuring also the alignment of all Organisational Units as regards priorities and guaranteeing consistency with the decisions of the Investment Committee;
- Analyses business development and technological innovation opportunities.

MANAGEMENT COMMITTEE RUNNING

- Monitors the economic, financial and industrial results of the Group through standardised reporting and control models;
- Monitors changes in the institutional and regulatory framework of reference sharing growth trends, opportunities and risks;
- Monitors activities and projects in the context of domestic and foreign institutional relations.

MANAGEMENT COMMITTEE BUSINESS DEVELOPMENT

- Monitors the relevant projects of the Group in the specific area of Business Development, supporting the relative Project Leader, ensuring also the alignment of all Organisational Units as regards priorities and guaranteeing consistency with the decisions of the Investment Committee;
- Analyses business development opportunities both in terms of geographical expansion and technological diversification.

SUSTAINABILITY COMMITTEE

Guides and oversees the management of Corporate Social Responsibility (CSR) matters, and in particular:
- Defines the Group's sustainability guidelines and promotes the implementation of consistent practices in the field of corporate social responsibility;
- Approves, monitors and evaluates sustainability objectives and priority areas for action relating to CSR;
- Approves the time-frames and methods for drawing up the Non-Financial Statement and CSR initiatives.

CREDIT COMMITTEE

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

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

Management Committee Running

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

- monitors the economic, financial and industrial results of the Group through standardised reporting and control models;
- follows development in the reference institutional and regulatory framework, sharing growth trends, opportunities and risks;
- monitors activities and projects in the context of domestic and foreign institutional relations.

Management Committee Business Development

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

- monitors the relevant projects of the Group in the specific area of Business Development, supporting the relative Project Leader, ensuring also the alignment of all Organisational Units as regards priorities and guaranteeing consistency with the decisions of the Investment Committee;
- analyses business development opportunities both in terms of geographical expansion and technological diversification.

Management Committee Engineering Development

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

- monitors the relevant projects of the Group in the specific area of Engineering Development, supporting the relative Project Leader, ensuring also the alignment of all Organisational Units as regards priorities and guaranteeing consistency with the decisions of the Investment Committee;
- analyses business development opportunities both in terms of geographical expansion and technological diversification.

Investment Committee

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

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

Human Capital Committee

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

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

Risk Committee

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

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

Sustainability Committee

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

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

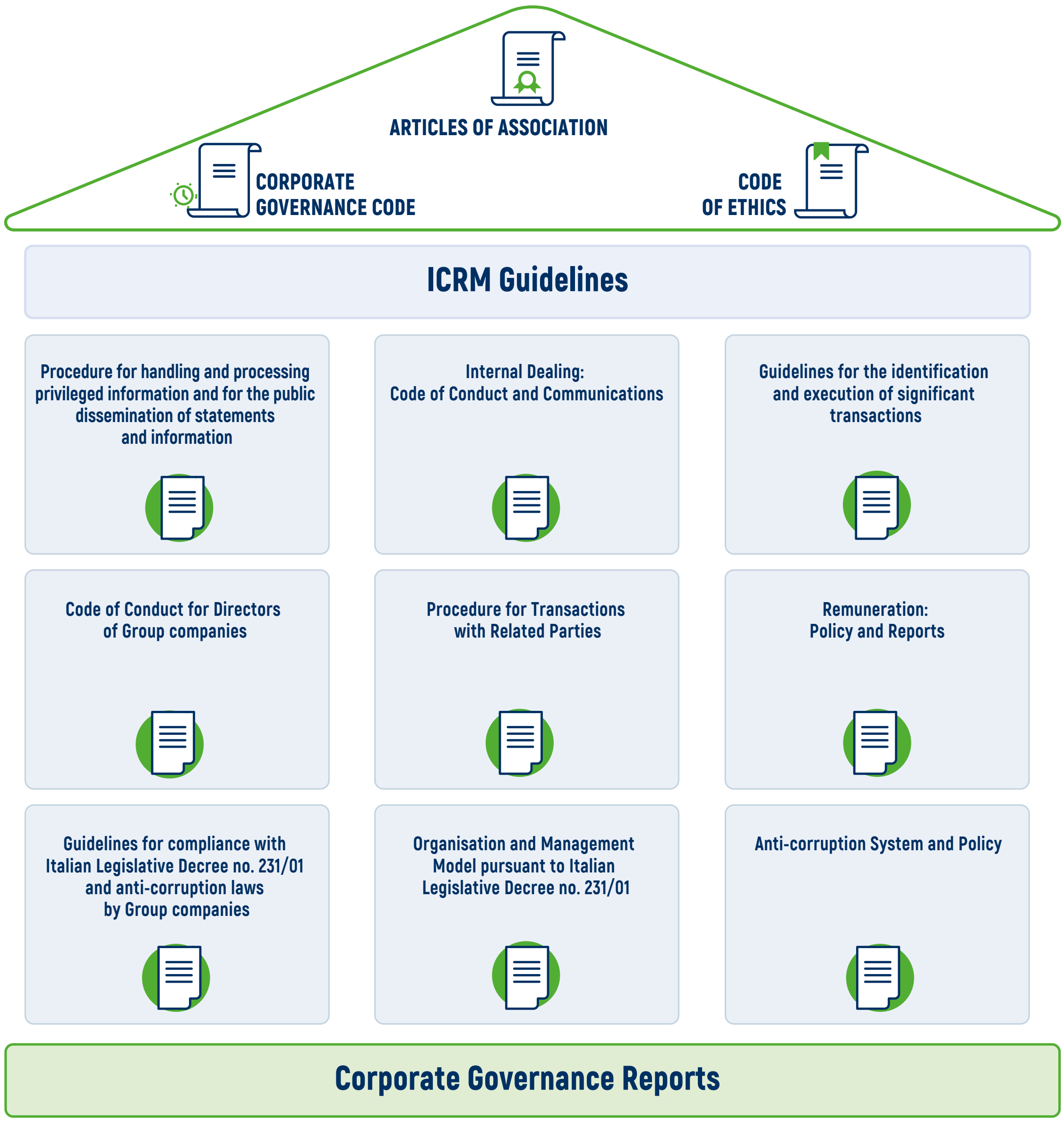
Credit Committee

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

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

5.3. CORPORATE GOVERNANCE DOCUMENTS

ERG's Corporate Governance system complies with the provisions of the Corporate Governance Code and is strongly oriented towards business ethics, understood as a system of values which inspires all business activities, at every level, in order to ensure business management geared towards value creation for shareholders in full compliance with the legality, transparency and fairness of business dealings and affairs.



Articles of Association

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

Code of Ethics

The Code of Ethics is an instrument for raising the awareness of all employees and associates and all other stakeholders so that, when carrying out their activities, they adopt correct and accountable conduct in line with the ethical and social values to which ERG aspires. The Code of Ethics is therefore an essential part of the Organisation and Management Model pursuant to Italian Legislative Decree no. 231/01.

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

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

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

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

Corporate Governance Code

The Company has adhered to the Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A. since its first edition in 1999. On 15 December 2015, the Board of Directors, following the Control and Risk Committee's preliminary assessment of the main amendments made, decided to adopt the new edition of the Corporate Governance Code published in July 2015. Note that with reference to the criteria of gender diversity referred to in principles 2.P.4. and 8.P.2, introduced in the edition of the Corporate Governance Code published in July 2018, the Board of Directors, in its meeting of 6 March 2019, in the light of the positive experience gained in this regard, and although the provisions of Article 147-*ter*, paragraph 1-*ter*, and Article 148, paragraph 1-*bis*, of the Consolidated Finance Act (CFA) shall cease to be effective - based on the legislation in force at the time -, respectively, at the expiry of the mandate given to the Board of Directors for the three-year period 2021-2023 and the expiry of the mandate given to the Board of Statutory Auditors for the three-year period 2022-2024, resolved to carry out every appropriate assessment on adhesion to the aforesaid criteria during the course of the current mandate. It is noted in this regard that, on 1 January 2020, legislature introduced new gender diversity criteria, in particular: (i) in accordance with Article 147-*ter*, paragraph 1-*ter*, of the Consolidated Finance Act (CFA), as amended by Italian Law no. 160 of 27 December 2019, in the election of the new Board of Directors by the Shareholders' Meeting called to approve the Financial Statements at 31 December 2020, the least represented gender must make up at least two fifths of the Directors elected; (ii) in accordance with Article 148, paragraph 1-*bis*, of the CFA, as amended by Italian Law no. 160 of 27 December 2019, in the election of the new Board of Statutory Auditors by the Shareholders' Meeting called to approve the Financial Statements at 31 December 2021, the least represented gender must make up at least two fifths of the Standing Auditors elected. Since the two-fifths stipulation is arithmetically impossible, and hence inapplicable, in the case of corporate bodies with three members, CONSOB clarified, with communication no. 1/20 of 30 January 2020, that numbers in such cases should be rounded down and not up, as currently prescribed in the Issuers' Regulation.

Note also that the new Corporate Governance Code was published on 31 January 2020. Since the companies that adopt the new Corporate Governance Code are called upon to apply such code as from the first year beginning after 31 December 2020, informing the market thereof in the report on corporate governance to be published in 2022, the Board of Directors shall be required in 2020 to carry out every appropriate assessment as regards adherence thereto.

Procedure for handling and processing relevant and inside information and for the public dissemination of statements and information

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

The procedure, which was approved by the Board of Directors on 9 August 2017, was updated on 16 July 2019 in order to implement the provisions of the CONSOB guidelines on the management of inside information, particularly as regards identifying and monitoring so-called "relevant information". This procedure defines the tasks and responsibilities of the functions involved, identifies the criteria, methods and timing of the various procedural stages, and establishes the appropriate decision-making levels for the dissemination of statements and information. For this purpose, it contains prescriptions aimed at assuring an exhaustive and timely flow of information within the companies of the Group and between them and the listed Parent for the purposes of compliance with information obligations pertaining to "price sensitive" events, vis-à-vis the market and the organisations tasked with its supervision.

Code of Conduct for Internal Dealing

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

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

Guidelines for the identification and execution of significant transactions

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

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

Code of Conduct for Directors of Group companies

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

Procedure for Transactions with Related Parties

The Board of Directors, with its resolution of 11 November 2010, following favourable opinion from the Control and Risk Committee and with the input of the Board of Statutory Auditors, approved and adopted a specific internal resolution - effective from

1 January 2011 - to assure the transparency and the substantial and procedural correctness of transactions with related parties carried out by ERG directly or through its subsidiaries. The Procedure was most recently updated on 1 January 2017 in order to take account of organisational changes. It is noted in this regard that Italian Legislative Decree no. 49/2019, which transposed into Italian law Directive (EU) 2017/828, lays down, inter alia, rules regarding reporting and procedural safeguards for the execution of material transactions with related parties, and assigns CONSOB the task of identifying the principles that administrative bodies are required to observe when defining corporate procedures for the execution of such transactions. At the date of approval of the Report, the relative content of the secondary regulation had not yet been defined.

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

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

Remuneration Committee, this policy has been revised as follows:

- on 18 December 2012, to take into account the powers delegated by the Board of Directors (appointed by the Shareholders' Meeting of 20 April 2012) and the adoption of the 2012-2014 LTI System;
- on 11 March 2015, to take into account, with effect from 2015, the Company's adherence to the current Corporate Governance Code and the general principles of the 2015-2017 LTI System[45];
- on 22 March 2016, in order to implement the resolution of the Board of Directors of 15 December 2015 defining the conditions necessary to implement the 2015-2017 LTI System, in line with the Policy itself and based on the 2015-2018 Business Plan;
- on 9 March 2017, in order to implement (i) the organisational changes occurring following the reorganisation of the risk management, compliance and internal control processes of the ERG Group and the "One Company" Project, (ii) the introduction of a clause to which any deferred payment of non-recurring remuneration is subject, following assessment by the Nominations and Remuneration Committee and resolution by the Board of Directors;
- on 7 March 2018, to take into account, with effect from 2018, the essential elements of the general principles of the 2018-2020 LTI System;
- on 10 March 2020, in order to implement (i) the organisational changes occurring following the appointment, on 2 August 2019, of the General Manager by the Board of Directors, as well as (ii) the new regulations introduced by Article 123-*ter* of the Consolidated Finance Act, as amended by Italian Legislative Decree no. 49/2019, which transposed into Italian law Directive (EU) no. 2017/828 which lays down, inter alia, rules regarding transparency and the involvement of shareholders in the remuneration of directors and entrusts CONSOB with the task of including some of the elements indicated by the aforesaid Directive in the disclosures in the report on the remuneration policy and the amounts paid, both with regard to the remuneration policy (Section I) and the remuneration paid during the reference year (Section II). At the date of approval of the Report, the relative content of the secondary regulation had not yet been defined.

Guidelines for compliance with Italian Legislative Decree no. 231/01 and anti-corruption laws within ERG Group companies

ERG, with particular reference to the definition of the corporate governance system and within the scope of the management and coordination activities carried out in respect of directly or indirectly controlled Italian and foreign subsidiaries in accordance with Article 93[46] of the Consolidated Finance Act (the "Subsidiaries" and, together with

45 For further information on this matter, please refer to the Report on the remuneration policy and the amounts paid referred to in Article 123-*ter* of the Consolidated Finance Act, to be presented to the Shareholders' Meeting convened in April 2018, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.

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

ERG, the "ERG Group companies" or the "ERG Group") - respecting the managerial and operating independence of said companies, which benefit from the advantages, the synergies and the economies of scale deriving from their inclusion in the ERG Group -, decided to summarise in the Guidelines the general reference principles and rules that Subsidiaries are asked to take into consideration.

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

- the adoption of the Code of Ethics and the Anti-Corruption Policy by all the Subsidiaries;
- the assessment, by each Italian Subsidiary, of activities within which there is the potential risk of offences being committed and the consequent implementation of instruments to achieve compliance with Italian Legislative Decree no. 231/01.

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

Organisation and Management Model pursuant to Italian Legislative Decree no. 231/01 and Supervisory Body

The purpose of Model 231 is to ensure conditions of correctness and transparency in the performance of company activities. It is therefore intended to serve as a valid instrument aimed at preventing the risk of committing the offences sanctioned by Italian Legislative Decree no. 231/01.

On 21 December 2004, the ERG Board of Directors resolved to adopt for the first time an organisation, management and control model pursuant to Italian Legislative Decree no. 231/01 and appointed the Supervisory Body.

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

Model 231 was designed and is periodically updated according to Confindustria Guidelines as well as Position Papers issued by the AODV (Italian association of supervisory bodies). In accordance with laws and regulations, Model 231 includes a disciplinary system aimed at sanctioning any violations of the Model or the Code of Ethics, and the failure to comply with company safeguard procedures. The version of Model 231 currently in force was approved by the Board of Directors of 12 July 2017. An extract of the document is published in the "Corporate Governance" section of the website www.erg.eu. An English version is also provided.

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

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

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

- **Code of Ethics**, which expresses the reference principles that must guide the activity of all those who contribute,

with their work, to the performance of corporate activities;
- **general part**, which defines the overall structure of the Model, in relation to the provisions of Italian Legislative Decree no. 231/01 and to the specific decisions made by the Company in its preparation referring to the disciplinary system, to be enforced in the event of violation of the prescribed rules and procedures;
- **specific part**, which defines the rules to be followed in the performance of sensitive activities.

In the course of 2019, organisational changes were made (i.e. appointment of the General Manager of ERG S.p.A.) and important new legislation was introduced (including, in particular, the criminal offence of "trading in influence" and some offences in tax matters) that necessitated a new risk assessment, which is still in progress, in order to update the 231 Model.

At Group level, following the acquisition of 18 companies operating in the sector of the generation of energy from solar sources, a risk assessment was carried out in 2018 which ended with the adoption by the aforesaid companies of the ERG Group Code of Ethics, the updating of Model 231 and the appointment of a new Supervisory Body. In 2019, the 231 Models of 21 companies in the wind power industry were updated, while one company introduced a 231 Model for the first time.

Together with the adoption of Model 231, the decision to comply with Italian Legislative Decree no. 231/01 led to the appointment of the Supervisory Body, tasked with overseeing the observance of the Code of Ethics and assuring the adequacy and actual implementation of the Model, and evaluating whether it is necessary to subsequently update it.

The ERG Supervisory Body, appointed by the Board of Directors on 23 April 2018 is comprised of:
- an external member, identified as a Statutory Auditor of the Company, acting as Chairperson (Lelio Fornabaio);
- one internal member, identified as the Head of Corporate Affairs, responsible for the "231 Compliance" department (Giovanni Marco Scollo);
- the Chief Audit Officer (Gabriello Maggini).

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

The members of the Supervisory Body shall remain in office for a period preferably no longer than three years and may be reappointed. In the case of expiry of the Board of Directors which appointed them, they will remain in office until the appointment of new members, or the confirmation of the previous members by the new Board of Directors.

In order to regulate its internal operations, the Supervisory Body approves its own internal regulations.

In 2019, the ERG Supervisory Body met 5 times, where necessary meeting with department heads to obtain insights on specific matters. It also met, on 3 occasions, with the Control and Risk Committee and the Board of Directors to explain the activities carried out and the Plan of activities for 2019.

The ERG Supervisory Body carries out its activities with respect to the Parent, while the Subsidiaries, which have their own specific 231 Model, have appointed their own Supervisory Body.

The synergies between the Code of Ethics and Model 231 are highlighted by the assignment of the ERG Supervisory Body as Guarantor of the Code of Ethics. Similarly, each subsidiary, having its own Supervisory Body, assigns the task of Guarantor of the Code of Ethics to its own Supervisory Body.

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

To increase the effectiveness of the governance and internal control of the Company, information flows are provided to the Supervisory Body. The primary function of the information flows is to enable each Supervisory Body to continuously oversee the functionality of Model 231 and to identify possible steps to amend the Internal Control and Risk Management System. To this end, each Supervisory Body has adopted a special procedure that identifies the relevant information flows, the timing for transmission, and the individuals responsible. In order to manage communications to each Supervisory Body, dedicated e-mail addresses were set up in addition to traditional mail addresses. With reference to the provisions of the Commentary on Article 7 of the Corporate Governance Code[47], it is specified that the information flows to each Supervisory Body are made through specific channels and guarantee the anonymity of the whistleblower.

In 2018, the Supervisory Bodies of the Group Companies approved the "Procedure for the regulation of information flows between the Supervisory Bodies of the ERG Group companies", with the objective of facilitating the movement of relevant information between the Supervisory Bodies of the companies themselves. Specifically, the procedure stipulates that each Supervisory Body, in examining the information flows and the reports received and, more generally, in fulfilling their duties of supervision, transmit, including with the operational support of the "231 Compliance" organisational unit, to other Supervisory Bodies where concerned, information flows from which clear information can be deduced which could be relevant for supervisory activities and/or for the correct application of Models 231 in relation to other Group companies.

ERG's Supervisory Body prepares an annual supervisory activity plan which is presented to the Control and Risk

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

Committee and to the Board of Directors of ERG, and reports at least twice a year to the Control and Risk Committee and to the Board of Directors on the implementation of the Code of Ethics and Model 231.

Training activities involved:

- classroom meetings with employees (including managers and executives) focused on issues pertaining to Italian Legislative Decree no. 231/01 (sanctioned offences, Model 231, tasks and powers of the Supervisory Body, information flows to the Supervisory Body);
- an e-learning course dedicated to the Code of Ethics, expected to be taken by employees and newly hired personnel;
- an e-learning course dedicated to issues relating to Italian Legislative Decree no. 231/01, intended for newly hired personnel.

In 2019, the classroom and e-learning courses for employees and newly hired personnel were completely redesigned, diversifying the content on the basis of the work actually carried out, using concrete examples and cases, with the aim of increasing the awareness of business rules and the involvement of people.
Specifically, three different training courses were created for each of the professional groupings (staff, production and commercial), structured as follows: (i) brief introduction to Italian Legislative Decree no. 231/01, (ii) simulation of real work situations, (iii) rules of conduct adopted by ERG and (iv) end-of-course questionnaire.
For e-learning, the module dedicated to the "staff" grouping has been completed. In the course of 2020, the specific contents of the training for newly hired personnel in the "production" grouping will be defined, and the training relating to the "commercial" grouping will be launched.
Classroom training involves the discussion of legal cases relating to case proposals and the participation of a criminal lawyer specialising in the liability of organisations, in addition to that of members of the Supervisory Bodies. The classroom training for the "staff" grouping has been completed; in the course of 2020, training activities will continue with reference, in particular, to employees from the "production" grouping.

In addition, information on specific issues relating to the legislation referred to in Italian Legislative Decree no. 231/01 is regularly provided to the members of the Board of Directors of ERG and its subsidiaries, as well as to members of the Board of Statutory Auditors.

Anti-Corruption System and Policy

ERG carries out its activities in accordance with the highest national and international standards of good Corporate Governance. In this context, the Group is firmly committed to respecting and applying the principles of integrity, impartiality and transparency.
These principles increase in importance when addressing corruption, a global phenomenon that irreparably destroys the integrity of both public and private enterprises.
In order to further stress that it conducts all aspects of its activity in strict compliance with applicable domestic and

international laws and regulations, with respect, inter alia, to anti-corruption, and to further demonstrate its adoption of the values described above, ERG has decided to adopt, in addition to the Code of Ethics, the Anti-Corruption System and Policy. The aim is to prohibit and prevent corrupt behaviour of any kind, in accordance with the "zero tolerance" principle for corruption. In order to achieve this objective, organisational responsibilities, principles and rules of conduct to be followed have been established so as to ensure compliance with the applicable Anti-Corruption Laws. The Anti-Corruption System and Policy apply to ERG and to all companies of the ERG Group and are addressed to all those who work in Italy and abroad, in the name of or on behalf of the ERG Group.
The Anti-Corruption System and Policy were approved by the Board of Directors of ERG on 9 October 2017 and subsequently updated on 2 August 2019. The Anti-Corruption Policy has been adopted by all other companies of the ERG Group, in Italy and abroad, and has been translated into English, French and German.
In 2018, the "Significant Third Party Due Diligence Procedure", provided for by the Anti-corruption System and Policy, was approved. The procedure was approved by the Chief Executive Officer of ERG S.p.A. on 9 January 2019.
The objective is to enable the companies of the Group, both Italian and foreign, to:

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

The procedure establishes the principles and rules, and allocates the responsibilities, for the carrying out of activities to: (a) identify Significant Third Parties; (b) carry out Due Diligence; (c) manage the outcomes of Due Diligence and the methods for establishing and monitoring relationships with the Significant Third Parties.
The "Significant Third Party Due Diligence Procedure" integrates, for companies under Italian law, the control procedures prescribed by Models 231 (and the Anti-Corruption Policy), with particular reference to sensitive activities: i) purchases of goods and services, consultancy and professional services, ii) transactions aimed at developing the business and selecting counterparties, iii) personnel recruitment and management, iv) management of the designation of company and control bodies in the subsidiaries, v) management of purchases and sales of commodities and credit. With reference to these sensitive activities, for foreign companies, the procedure integrates the controls prescribed by the Anti-Corruption Policy.
Extensive training was carried out in 2019 involving employees with responsibilities in activities at medium to high risk of corruption, in Italy and abroad.
The training involved the rules of conduct contained in the Anti-Corruption Policy, the controls provided for by the Significant Third Party Due Diligence Procedure and the information to be submitted to the to the "231 Compliance" department.

Finally, in the course of 2019 a procedure was prepared for the management of information flows to the "231 Compliance" department to enable monitoring of the operation of the Anti-Corruption System, with particular reference to the controls provided for by the Anti-Corruption Policy and the Significant Third Party Due Diligence Procedure.

6. MANAGEMENT AND COORDINATION

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

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

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

In particular, the Board of Directors, during the meeting held on 16 July 2019, acknowledged that ERG carries out management and coordination activities in respect of direct and indirect subsidiaries, in Italy and abroad, which benefit from the advantages, the synergies and the economies of scale deriving from their inclusion in the Group. These activities are carried out in compliance with the managerial and operational independence of said subsidiaries, and involve:

- the definition of business strategies, the corporate governance system and the corporate structures;
- the determination of shared general policies pertaining to human resources, information & communication technology, accounting, financial statements, taxation, procurement, finance, investments, risk management, legal and corporate affairs, communication, institutional relations, corporate social responsibility and business development.

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

The "Guidelines for the Internal Control and Risk Management System", adopted on 11 March 2014 by the Board of Directors of ERG, were subsequently updated in order to take into account organisational changes and changes resulting from the Company's adherence to the Corporate Governance Code. The version currently in force was approved on 13 July 2016 and takes into account, inter alia, the reorganisation of the Internal Control and Risk Management System which provided for the establishment of a Risk Management function at Group level.

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

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

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

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

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

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

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

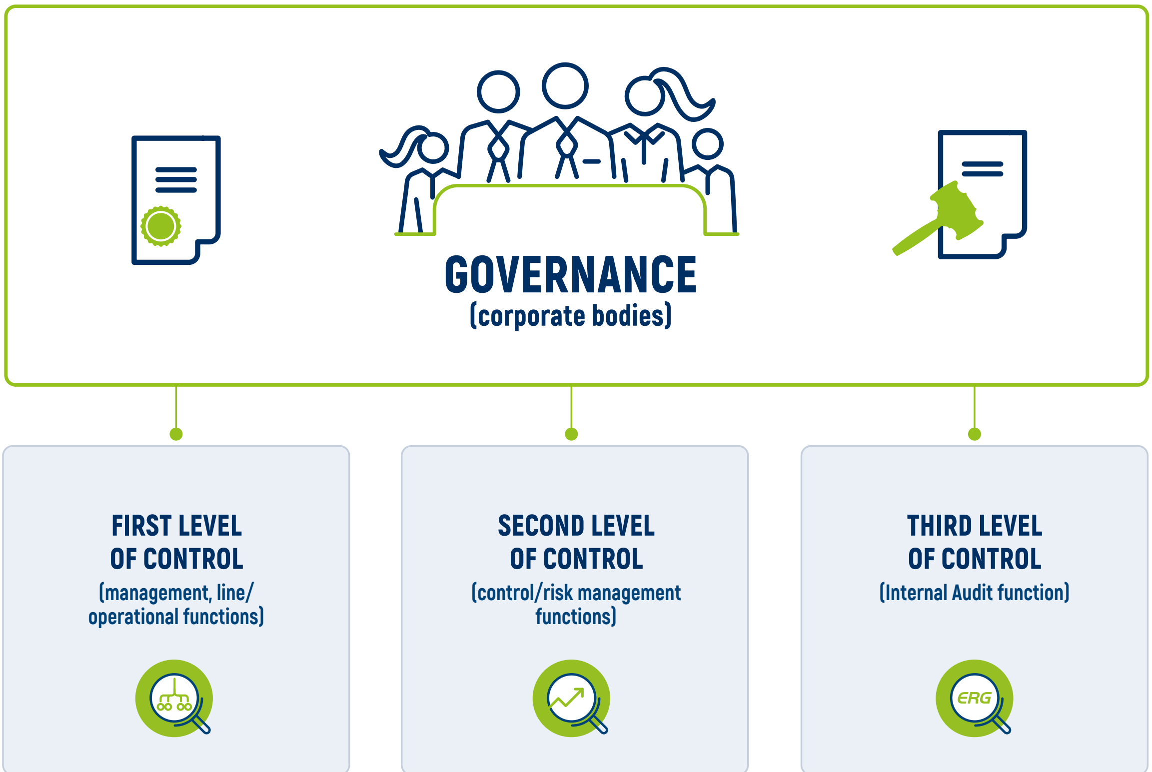
- **Board of Directors**: guides and assesses the adequacy of the ICRM System;

- **Chairperson of the Board of Directors**: supervises, directs and controls corporate affairs activities;
- **Executive Deputy Chairperson**: supervises, in particular, the Group's strategic decisions and the definition of the organisational macro-structure;
- **Chief Executive Officer**: has the powers necessary to carry out all actions pertaining to corporate activities and is responsible for identifying the main business risks, taking into account the characteristics of the activities carried out by the issuer and its subsidiaries and, after consulting with the Director in charge of the Internal Control and Risk Management System, submitting them periodically to the review of the Board of Directors;
- **Director in charge of the Internal Control and Risk Management System**: delegated by the Board of Directors to oversee - through supervision, guidance and control - internal audit, risk management and compliance activities and processes, and ensures that the functionality and overall adequacy of the ICRM System is maintained;
- **Control and Risk Committee**: advises and makes proposals to the Board of Directors, with the aim of supporting it, through appropriate proceedings, in evaluations and decisions relating to the ICRM System, as well as in relation to the approval of periodic financial reports;
- **Board of Statutory Auditors**: oversees compliance with the law and with the Articles of Association, adherence with correct administration principles, the adequacy of the organisational structure (for those aspects under its responsibility), of the ICRM System and the administrative and accounting system, and its reliability in correctly representing operations, and the adequacy of the provisions imparted to the Subsidiaries for the proper fulfilment of the prescribed disclosure obligations;
- **Supervisory Body** pursuant to Italian Legislative Decree no. 231/01: supervises the observance of the Code of Ethics and verifies the effectiveness and the adequacy of the Organisation and Management Model pursuant to Italian Legislative Decree no. 231/01;
- **Internal Audit**: responsible for third level control activities and has a significant position in the ICRM System being entrusted with the task of providing independent assurance on the ICRM System with the aim of improving the efficiency and effectiveness of the organisation. Internal Audit is tasked with verifying that the ICRM System is functional and adequate in relation to the size and operation of the ERG Group, verifying, in particular, that Management has identified the main risks, that the risks were assessed with consistent procedures and that the mitigating actions have been defined and carried out. It also verifies whether the risks are managed in accordance with the decisions of Board of Directors, with external rules and with rules within the Group

The following relevant parties also play a role: (i) Group Management, which bears prime responsibility for internal control and risk management activities (first control level); and (ii) second level control functions with specific control tasks and responsibilities over different areas/types of risk. These functions are autonomous and distinct from operational ones; they are involved in defining risk governance policies and the risk management process, including: (i) the Manager responsible for preparing the Company's financial reports, (ii) the Group Risk Management & Corporate Finance function, (iii) the Compliance departments, assigned to oversee compliance issues, with particular reference to legal risk and non-compliance, including the risk of committing criminal offences to the detriment or in the interest of the ERG Group, (iv) committees, composed of corporate management, acting in an advisory capacity and making proposals regarding specific risk issues.

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

INTERNAL CONTROL SYSTEM



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

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

The Group is aware that an effective Internal Control and Risk Management System allows the company to be managed on a sound and proper basis, consistent with the company targets defined by the Board of Directors, by promoting well-informed decisions and contributing to wealth preservation, the efficiency and effectiveness of processes, the reliability of financial reporting, and compliance with standards, the Articles of Association and internal procedures.

To promote and maintain an adequate ICRM System, the ERG Group uses organisational, informational and regulatory instruments, which allow the identification, measurement, management and monitoring of the main risks.

This system is integrated in the organisational, administrative and accounting structure and, more generally, in the corporate governance structure. It is based on the recommendations of the Corporate Governance Code, which the Group has adopted, taking as references national and international models and best practices, aimed at consolidating overall effectiveness and efficiency.

The System of Rules and Procedures

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

The beneficiaries of each standard are defined below:

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

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

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

The System for Assigning Powers

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

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

The system adopted in the Group provides for:

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

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

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

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

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

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

The Manager responsible for preparing the Company's financial reports relies on the support of the 262 Compliance Organisational Unit in verifying the operation of the administrative and accounting procedures by testing the controls. This organisational structure ensures complete segregation between the activities of preparing the administrative and accounting procedures and the activities of verifying their adequacy and effective application.
In such a context, all personnel of the Group are obliged to cooperate, in particular personnel in administrative functions that are more directly involved in the preparation of corporate accounting records, but also those in other functions that, directly or indirectly, contribute to the process through the preparation of documents and information, the inputting or updating of data in the company's information systems, and normal operations.
The activity of Compliance pursuant to Italian Law no. 262/05 has been submitted to the Control and Risk Committee and applies to the companies of the Group, from a logical point of view, in terms of methodology and as regards the principles of control and accuracy of the process.

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

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

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

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

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

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

Elements of the System

Methodological approach

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

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

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

Risk identification and assessment

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

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

at the international level and recognised within Italy as a reference model by the Corporate Governance Code (control environment, risk assessment, information and communication, control activities, monitoring);

3. the general risks for the Company's information systems supporting related processes (IT General Controls);
4. the processes that generate, with inherent risk, the accounts of the Consolidated Financial Statements for each company selected;
5. for each relevant process, the specific risks for financial reporting, with particular reference to so-called financial statement assertions (existence and occurrence, completeness, rights and obligations, measurement and recognition, presentation and disclosure).

The Risk Assessment process carried out at the level of Consolidated Group Financial Statements in order to determine the appropriate scope of analysis, is based on the combined application of two analytical parameters, one quantitative and the other qualitative. As regards the purely quantitative part of the analysis, the following elements are determined:

- large portion (coverage of the Consolidated Financial Statements): this dimension is used to measure the extent of the area within which controls are to be analysed and evaluated, defined on the basis of the weight the dimensions have on the main items in the financial statements;
- significant account: this refers to the quantitative size that items in the financial statements must have in order to be considered significant after the application of a materiality threshold;
- significant process: by means of account-process matching, processes are identified for which controls should be assessed, given that all processes associated with accounts that have balances greater than the materiality threshold form part of the activity.

Following the quantitative analysis described above, the Risk Assessment process then requires an analysis to be performed based on qualitative elements, with a dual purpose:

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

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

Identification of controls

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

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

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

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

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

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

Assessment of controls and monitoring processes

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

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

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

As part of the activities carried out, regular updates are made in relation to the mapping of processes, risks and controls pursuant to Italian Law no. 262/05 and to the tests for the purposes of declarations.

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

9. THE INDEPENDENT AUDITORS

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

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

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

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

KPMG S.p.A. is also tasked with performing a review of the interim condensed interim Consolidated Financial Statements.

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

In order to preserve the independence of the Independent Auditors, a note was drawn up governing the appointment of the audit company and the entities which are part of its network by Group companies which provides for, in particular, depending on the type of the assignment, a binding opinion by the Board of Statutory Auditors.

10. INVESTOR RELATIONS

The Company manages the relations with its Shareholders, institutional investors and the market through the Investor Relations function, under the responsibility of Emanuela Delucchi, which operates within the Division run by the Corporate General Manager & Chief Financial Officer.

Investor Relations activities are focused on the dissemination to the financial community of any information that may be useful for assessing opportunities for investing in ERG stock: including periodic updates on results, strategy explanation, regulatory updates and plan objectives. In terms of communication activities, Investor Relations periodically organises meetings - both in Italy and abroad - and conference calls with analysts and investors; moreover, it also makes use of the more popular social channels and the dedicated area on its website, where users can, for example, access live broadcasts via webcast of conference calls for the presentation of financial results.

In recent years, with the completion of the industrial transformation and with a business model oriented towards growth in renewables, dialogue with Socially Responsible Investors (SRIs), who base their investment decisions on CSR issues, has increased.

11. COMMITMENTS

The Company intends to confirm its commitment:

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

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

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

Board of Directors

Office	Members	Year of birth	In office since	In office until	List (M/m)*	Executive	Non-executive
Chairperson	Edoardo Garrone	1961	23/04/2018	Appr. Financial statements at 31/12/2020	M	Yes	
Deputy Chairperson	Alessandro Garrone	1963	23/04/2018	Appr. Financial statements at 31/12/2020	M	Yes	
Deputy Chairperson	Giovanni Mondini	1966	23/04/2018	Appr. Financial statements at 31/12/2020	M		Yes
Chief Executive Officer	Luca Bettonte	1963	23/04/2018	Appr. Financial statements at 31/12/2020	M	Yes	
Director	Massimo Belcredi	1962	23/04/2018	Appr. Financial statements at 31/12/2020	M		Yes
Director	Mara Anna Rita Caverni	1962	23/04/2018	Appr. Financial statements at 31/12/2020	M		Yes
Director	Barbara Cominelli	1970	23/04/2018	Appr. Financial statements at 31/12/2020	M		Yes
Director	Marco Costaguta	1959	23/04/2018	Appr. Financial statements at 31/12/2020	M		Yes
Director	Paolo Francesco Lanzoni	1953	23/04/2018	Appr. Financial statements at 31/12/2020	M		Yes
Director	Silvia Merlo	1968	23/04/2018	Appr. Financial statements at 31/12/2020	M		Yes
Director	Elisabetta Oliveri	1963	23/04/2018	Appr. Financial statements at 31/12/2020	M		Yes
Director	Mario Paterlini	1963	23/04/2018	Appr. Financial statements at 31/12/2020	m		Yes

Directors who left office during the reference year : 0

None

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

Number of meetings held during the reference year: BoD10 - CRC 9 - NRC 6

Notes

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

** This column shows the percentage of Directors' attendance at the meetings, respectively, of the Board of Directors and of the Committees (no. of presences/no. of meetings held during the person's actual period in office).

*** This column shows the number of appointments as Director or Statutory Auditor held by the interested party in other companies listed on regulated markets, including abroad, in financial, banking, insurance companies or in companies of significant size other than those held in ERG Group companies.

**** This column shows whether the member of the Board of Directors is also member of the Committee.

***** This column shows the date of first appointment of the directors since 16 October 1997, the date of the Company's initial listing.

					Control and Risk Committee		Nominations and Remuneration Committee	
Independent as per Code	Independent as per T.U.F.	% attendance (**)	Number of other offices (***)	Length of office as from first appointment (****)	(****)	(**)	(****)	(**)
		100%	3	16/10/1997				
		100%	1	16/10/1997				
		90%	1	16/10/1997				
		100%	–	15/12/2009				
	Yes	100%	1	29/04/2003	Yes	100%		
Yes	Yes	100%	2	24/04/2015	Yes	100%		
Yes	Yes	90%	1	24/04/2015			Yes	100%
		100%	5	20/04/2012				
		90%	2	29/04/2003			Yes	100%
Yes	Yes	100%	4	24/04/2015			Yes	100%
Yes	Yes	100%	3	23/04/2018	Yes	89%		
Yes	Yes	80%	1	23/04/2018				

TABLE 2: Structure of the Board of Statutory Auditors

Board of Statutory Auditors					
Office	**Members**	**Year of birth**	**In office since**	**In office until**	**List (M/m)***
Chairperson	Elena Spagnol	1968	17/04/2019	Appr. Financial Statements 31/12/2021	m
Standing auditor	Lelio Fornabaio	1970	17/04/2019	Appr. Financial Statements 31/12/2021	M
Standing auditor	Fabrizio Cavalli	1961	17/04/2019	Appr. Financial Statements 31/12/2021	M
Alternate auditor	Vincenzo Campo Antico	1966	17/04/2019	Appr. Financial Statements 31/12/2021	M
Alternate auditor	Luisella Bergero	1971	17/04/2019	Appr. Financial Statements 31/12/2021	M
Alternate auditor	Paolo Prandi	1961	17/04/2019	Appr. Financial Statements 31/12/2021	m
Auditors who left office during the reference year					
Standing auditor	Stefano Remondino	1963	03/05/2016	Appr. Financial Statements 31/12/2018	M
Quorum required for list presentation at the time of last appointment: 1%					

Number of meetings held during the reference year: 15

Notes

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

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

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

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

Independent as per Code	% attendance (**)	Number of other offices (***)	Length of office as from first appointment (****)
Yes	100%	2	03/05/2016
Yes	100%	4	15/04/2010
Yes	100%	8	17/04/2019
Yes	–	–	15/04/2010
Yes	–	–	23/04/2013
Yes	–	–	03/05/2016
Yes	100%		

Board Proposal

BOARD PROPOSAL

Dear Shareholders, in relation to the results achieved, we invite you to resolve upon the following:

- to approve the Financial Statements of your company for the period ended 31 December 2019, which closes with profit of EUR 11,029,960.49;
- to resolve to pay to the Shareholders a dividend of EUR 0.75 per share. The dividend will be payable for each share with dividend rights outstanding at the ex-dividend date, excluding the company's own shares, in accordance with Article 2357-*ter* of the Italian Civil Code, via use of the year's earnings and, for the remaining part, via use of "Other reserves" of profit;
- to approve the payment of the dividend as from 20 May 2020, with an ex-dividend date of 18 May 2020 and record date of 19 May 2020.

Genova, 10 March 2020

On behalf of the Board of Directors

The Chairperson

Edoardo Garrone

Consolidated Financial Statements

STATEMENT OF FINANCIAL POSITION(1)(2)

(EUR thousand)	Notes		31/12/2019		31/12/2018
ASSETS					
Intangible assets	1		889,776		782,511
Goodwill	2		220,940		148,269
Property, plant and equipment	3		2,257,880		2,288,316
Right-of-use assets (2)	3		78,449		–
Equity investments:	4		13,804		14,000
- carried at equity	4	*13,030*		*12,918*	
- other equity investments	4	*774*		*1,080*	
Other non-current financial assets	5		41,629		76,604
Deferred tax assets	6		42,257		128,028
Other non-current assets	7		42,928		42,890
Non-current assets			**3,587,663**		**3,480,619**
Inventories	8		22,273		21,623
Trade receivables	9		193,466		251,001
Other current assets and receivables	10		95,805		98,379
Current tax assets	10		27,656		22,406
Current financial assets	17		22,419		49,690
Cash and cash equivalents	17		653,528		774,193
Current assets			**1,015,148**		**1,217,292**
Assets held for sale			–		–
TOTAL ASSETS			**4,602,811**		**4,697,911**
EQUITY					
Share capital	11		15,032		15,032
Other reserves	11		1,064,871		915,746
Retained earnings/(Accumulated losses)	11		663,150		765,426
Profit for the year	11		31,553		132,628
Equity attributable to the owners of the parent	11		**1,774,606**		**1,828,832**
Non-controlling interests	12		11,530		–
TOTAL EQUITY			**1,786,136**		**1,828,832**
LIABILITIES					
Employee benefits	13		5,381		5,820
Deferred tax liabilities	6		209,064		288,637
Other non-current provisions	14, 20		139,144		143,894
Non-current financial liabilities	17		2,032,624		1,868,211
Non-current lease liabilities (2)	17		70,130		–
Other non-current liabilities	15		34,716		34,417
Non-current liabilities			**2,491,059**		**2,340,979**
Other current provisions	14, 20		50,235		45,580
Trade payables	16		87,830		92,294
Current financial liabilities	17		121,558		334,726
Current lease liabilities (2)	17		7,406		–
Other current liabilities	18		53,182		33,032
Current tax liabilities	18		5,405		22,468
Current liabilities			**325,617**		**528,100**
Liabilities associated with assets held for sale			–		–
TOTAL LIABILITIES			**2,816,675**		**2,869,079**
TOTAL EQUITY AND LIABILITIES			**4,602,811**		**4,697,911**

(1) the notes commenting on individual items are an integral part of these consolidated financial statements
(2) the Group adopted IFRS 16 for the first time on 1 January 2019, availing itself of the option to use the modified restrospective method, therefore without restating comparative fitures. For additional details, refer to the section First-time adoption of IFRS 16 – Leases

INCOME STATEMENT (1)(2)

(EUR thousand)	Notes	2019	2018
Revenue	22	1,021,594	1,023,736
Other income	23	22,795	21,903
Purchases	24	(290,824)	(327,239)
Services and other operating costs	25	(190,528)	(172,025)
Personnel expense	26	(67,137)	(66,800)
Gross operating profit (EBITDA)		**495,900**	**479,575**
Amortisation, depreciation and impairment of non-current assets	27	**(305,954)**	**(274,069)**
Operating profit (EBIT)		**189,945**	**205,507**
Financial expense	28	(183,236)	(98,652)
Financial income	28	46,139	37,236
Net financial income (expense)	28	**(137,098)**	**(61,416)**
Net gains on equity-accounted investments	29	112	143
Other net losses on equity investments	29	(658)	(221)
Net losses on equity investments	29	**(546)**	**(78)**
PROFIT BEFORE TAXES		**52,302**	**144,013**
Income taxes	30	(19,531)	(39,683)
PROFIT FROM CONTINUING OPERATIONS		**32,771**	**104,330**
Profit (loss) from discontinued operations	31	–	28,432
PROFIT FOR THE YEAR		**32,771**	**132,762**
Non-controlling interests		(1,218)	(133)
PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT		**31,553**	**132,628**

(1) the notes commenting on individual items are an integral part of these consolidated financial statements.
(2) the Group adopted IFRS 16 for the first time on 1 January 2019, availing itself of the option to use the modified restrospective method, therefore without restating comparative figures. For additional details, refer to the section **First-time adoption of IFRS 16 - Leases**.

(EUR)		2019	2018
Basic earnings per share from continuing operations	34	0.220	0.701
Diluted earnings per share from continuing operations	34	0.220	0.701
Basic earnings per share att. to the owners of the parent	34	0.212	0.891
Diluted earnings per share att. to the owners of the parent	34	0.212	0.891

STATEMENT OF COMPREHENSIVE INCOME (1)(2)

(EUR thousand)	Notes	2019	2018
Profit for the year		**32,771**	**132,762**
Changes that will not be reclassified to profit or loss			
Actuarial losses	13	(86)	(68)
Related tax	13	24	20
		(62)	**(48)**
Changes that will be reclassified to profit or loss			
Cash flow hedges - effective portion of the fair value change	11	32,980	(19,785)
Related tax	11	(7,915)	4,749
		25,065	**(15,036)**
Foreign operations - Exchange differences from translation	11	(1,980)	(2,788)
Related tax	11	376	530
		(1,604)	**(2,258)**
Other comprehensive income (expense) net of the tax effect		**23,399**	**(17,342)**
Comprehensive income for the year		**56,169**	**115,419**
Non-controlling interests		(1,218)	(133)
Comprehensive income attributable to the owners of the parent		**54,952**	**115,286**

(1) the notes commenting on individual items are an integral part of these consolidated financial statements
(2) the Group adopted IFRS 16 for the first time on 1 January 2019, availing itself of the option to use the modified retrospective method, therefore without restating previous periods for comparison. For additional details, refer to the section **First-time adoption of IFRS 16 - Leases**

STATEMENT OF CASH FLOWS (1)(2)(3)(4)(5)(6)

(EUR thousand)	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES (A):			
Profit for the year		32,771	132,762
- Amortisation, depreciation and impairment of non-current assets	27	305,955	274,069
- Increase in other provisions	14, 20	18,601	17,337
- Decrease in other provisions	14, 20	(23,221)	(18,050)
- Net change in deferred tax assets and liabilities	6	(9,241)	(9,618)
- Impairment of current assets	25	903	25
- Gains (losses) on equity investments	28	259	(26,635)
- Changes to post-employment benefits	13	(439)	(583)
Other changes in non-monetary items		25,874	(9,586)
		351,461	**359,721**
- Change in other current assets and liabilities:			
- Change in inventories	8	(650)	(985)
- Change in trade receivables	9	64,661	22,280
- Change in trade payables	16	(5,641)	(46,289)
- Net change in other receivables/payables and other assets/liabilities	7, 10, 15, 18	(4,754)	(47,522)
		53,616	**(72,516)**
CASH FLOWS FROM OPERATING ACTIVITIES (A)		**405,077**	**287,207**
CASH FLOWS FROM INVESTING ACTIVITIES (B):			
Acquisition of intangible assets	1, 2	(4,229)	(7,546)
Acquisition of property, plant and equipment	3	(63,686)	(52,702)
Acquisitions of equity investments and other non-current financial assets	4, 5	(1,211)	(6,098)
Net change in other increases/decreases in non-current assets	1, 3	(593)	(3,593)
Net change in equity investment consolidation method	4	9	6,915
Sale of Brockaghboy Windfarm Ltd(2)		–	105,740
Sale of TotalErg		–	179,538
TotalERG Vendor Loan Collection	17	36,179	(36,054)
Disposals of equity investments and other non-current financial assets	4, 5	–	26
Changes in Other current financial assets	17	27,364	20,407
Change in the Consolidation Scope due to business combination(3)		(146,838)	(146,623)
Change in the Consolidation Scope due to acquisition of assets(3)		(8,197)	–
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B):		**(161,203)**	**60,010**
CASH FLOWS FROM FINANCING ACTIVITIES (C):			
Increase in non-current loans	17	198,901	331,493
Green Bond Issue	17	500,000	–
Decrease in non-current loans	17	(935,555)	(405,257)
Net change in current bank loans and borrowings	17	(19,982)	(78,371)
Net change in other current financial liabilities	17	66,868	(62,742)
Early closure of IRS derivatives ERG Wind Investments Ltd and ERG Power S.r.l.	17	(55,001)	–
Dividends paid to shareholders	11	(112,362)	(171,139)
Payment of lease liabilities (4)		(7,406)	–
CASH FLOWS USED IN FINANCING ACTIVITIES (C):		**(364,537)**	**(386,016)**
NET CASH FLOW FOR THE YEAR (A+B+C+D)		**(120,665)**	**(38,800)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR CONTINUING OPERATIONS	17	**774,193**	**812,992**
NET CASH FLOWS FOR THE YEAR		(120,665)	(38,800)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**653,528**	**774,193**

(1) the notes commenting on individual items are an integral part of these Consolidated Financial Statements
(2) more information is available in the **Brockaghboy Sale** section of the 2018 Financial Statements
(3) more information is available in the section **Change in the consolidation scope**
(4) the Group adopted IFRS 16 for the first time on 1 January 2019, availing itself of the option to use the modified retrospective method, therefore without restating comparative figures. For additional details, refer to the section First adoption of First adoption of **IFRS 16 - Leases**
(5) during 2019, taxes of approximately EUR 41 million were paid, net of offsetting, settling 2019 and as an advance for 2020
(6) this item includes interest paid in relation to lease liabilities for IFRS 16 leased assets for an amount equal to EUR 1,866 thousand

	Notes	2019	2018
Additional statement of cash flows information			
Income taxes paid (5)	6	40,959	20,537
Interest paid (6)	28	40,528	30,845

STATEMENT OF CHANGES IN EQUITY (1)(2)

(EUR thousand)	Share capital	Reserves	Profit (loss) for the year	Equity attributable to the owners of the parent	Non-controlling interests	Equity
BALANCE AT 31/12/2017	15.032	1.655.619	206.815	1.877.466	–	1.877.466
IFRS 9 Adjustment	–	3.136	–	3.136	–	**3.136**
Allocation of 2017 profit	–	206.815	(206.815)	–	–	**–**
Share-based payments with equity-linked instruments	–	3.384	–	3.384	–	**3.384**
Distribution of dividends	–	(171.139)	–	(171.139)	–	**(171.139)**
Non-controlling interests from acquisitions	–	–	–	–	–	**–**
Increase in capital reserves	–	898	–	898	–	**898**
Other changes	–	(332)	–	(332)	–	**(332)**
Profit for 2018	–	–	*132.628*	*132.628*	*133*	***132.761***
2018 profit attributable to non-controlling interests	–	–	*133*	*133*	*(133)*	**–**
Actuarial gains (losses)	–	*(48)*	–	*(48)*	–	***(48)***
Changes in the hedging reserve	–	*(15.036)*	–	*(15.036)*	–	***(15.036)***
Exchange gains (losses)	–	*(2.258)*	–	*(2.259)*	–	***(2.258)***
Comprehensive income (expense)	**–**	**(17.342)**	**132.761**	**115.418**	**–**	**115.419**
BALANCE AT 31/12/2018	15.032	1.681.039	132.761	1.828.832	–	1.828.832
Allocation of 2018 profit	**–**	**132.761**	**(132.761)**	**–**	**–**	**–**
Share-based payments with equity-linked instruments	**–**	**2.269**	**–**	**2.269**	**–**	**2.269**
Distribution of dividends	**–**	**(111.652)**	**–**	**(111.652)**	**(710)**	**(112.362)**
Increase in capital reserves	**–**	**–**	**–**	**–**	**–**	**–**
Acquisitions of companies with third parties	**–**	**–**	**–**	**–**	**11.022**	**11.022**
Other changes	**–**	**205**	**–**	**205**	**–**	**205**
Profit for 2019	–	–	*31.553*	*31.553*	*1.218*	**32.771**
Actuarial gains (losses)	–	*(62)*	–	*(62)*	–	**(62)**
Changes in the hedging reserve	–	*25.065*	–	*25.065*	–	**25.065**
Exchange gains (losses)	–	*(1.604)*	–	*(1.604)*	–	**(1.604)**
Comprehensive income	**–**	**23.399**	**31.553**	**54.952**	**1.218**	**56.169**
BALANCE AT 31/12/2019	15.032	1.728.021	31.553	1.774.606	11.530	1.786.136

(1) the notes commenting on individual items are an integral part of these consolidated financial statements

(2) the Group adopted IFRS 16 for the first time on 1 January 2019, availing itself of the option to use the modified retrospective method, therefore without restating comparative figures. For additional details, refer to the section **First-time adoption of IFRS 16 - Leases**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ERG S.p.A. is the entity that prepares the financial statements.

ERG S.p.A. has its registered office in via De Marini 1, Genoa (WTC Tower).

The 2019 Consolidated Financial Statements comprise the financial statements of ERG S.p.A. and of its subsidiaries (together, "ERG" or "the Group").

The core business of the ERG Group consists of the production of electricity from renewable sources such as wind, solar, hydroelectric and high-efficiency cogenerative thermoelectric power plants located mainly in Italy, France and Germany. The publication of these Consolidated Financial Statements was authorised by the Board of Directors on 10 March 2020.

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

BASIS OF PREPARATION

These consolidated financial statements, expressed in thousands of Euro (functional currency of the parent company ERG S.p.A. and its presentation currency), were prepared:

- without any departures, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Financial Reporting Standards – IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC). The set of all reference standards and interpretations indicated above shall hereafter be defined as "EU – IFRS";
- on a going concern basis and therefore assuming that the Group will be able to meet the mandatory repayment conditions of the credit facilities granted by the banks and the bond issues as indicated in **Note 36 - Financial instruments**.

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

The consolidated financial statements were prepared in accordance with paragraph 3 of Article 9 of Italian Legislative Decree no. 38 of 28 February 2005.

They were audited by the independent auditors KPMG S.p.A. in accordance with the statutory audit engagement for the years from 2018 to 2026, conferred upon it pursuant to Italian Legislative Decree no. 39/2010 by the Shareholders' Meeting on 23 April 2018.

These are the first consolidated financial statements in which the group has applied IFRS 16 - Leases. The financial statements in this document therefore reflect the changes required by the first-time adoption of IFRS 16, the effects of which are described in the section - **First-time adoption of IFRS 16 - Leases**.

Further details regarding the accounting standards and measurement criteria adopted by the Group are provided in **Note 41 - Main accounting policies**.

BASIS OF PRESENTATION

The Consolidated Financial Statements consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and these Notes.

ERG presents its income statement captions by nature, which is deemed more representative than presenting them by function, with separate presentation of the profit or loss from discontinued operations. The form chosen is in fact consistent with internal and management reporting procedures.

With reference to the Statement of Financial Position, the presentation format adopted makes a distinction between current and non-current assets and liabilities, as allowed by IAS 1, with separate indication of assets classified as held for sale and of liabilities included in a disposal group, classified as held for sale. Current assets, which include cash and cash equivalents, are those held to be realised, sold or consumed in the normal operating cycle of the Group or in the 12 months after year end; current liabilities are those expected to be extinguished within the normal operating cycle of the Group or in the 12 months after year end.

The structure of the statement of cash flows is based on the indirect method, with the indication of the cash flows from operating activities, investing activities and financing activities associated with discontinued operations. Furthermore, as required by CONSOB resolution 15519 dated 27 July 2006 in **Note 32 - Non-recurring items**, significant income and expense arising from non-recurring transactions or events that do not occur frequently in the ordinary course of business are presented separately in the income statement. Also pursuant to the aforementioned CONSOB resolution, the amounts related to the positions and transactions with related parties are indicated separately in **Note 33 - Related parties**.

USE OF ESTIMATES - RISKS AND UNCERTAINTIES

Preparation of financial statements and notes pursuant to IFRS requires ERG to make estimates and assumptions that affect the carrying amounts of the assets and liabilities, of the costs and revenue recognised in the consolidated financial statements and disclosures relating to contingent assets and liabilities. Making these estimates involves using information available and subjective assumptions.

By their very nature, the estimates and assumptions used may vary from year to year and, therefore, it cannot be excluded that, in subsequent years, the current carrying amounts may differ as a result of the change in the subjective assessments used. The main estimates for which subjective assessments are more usually required, in addition to those relating to fair value measurements, described in the specific section, were formulated, inter alia, for:

- the impairment test of goodwill, intangible assets and property, plant, equipment and rights of use the main assumptions for the determination of recoverable amounts (Impairment test section) relate, in particular, to the identification of the expected prices of energy and gas, the assessment of the availability of renewable resources, changes in the regulatory framework, the estimate of the recoverable amount, in particular for "dry" and "wet" works at the end of the concessions for large-scale diversion of water for hydroelectric use, and the identification of macroeconomic variables such as inflation and discount rates;
- the determination of the amortisable amount of concessions for large-scale diversion of water for hydroelectric use;
- the definition of the useful life of non-current assets and the related amortisation and depreciation (in the section **Property, Plant and Equipment** and in the section **Intangible assets**);
- the measurement of deferred tax assets, recognised on the basis of the Group's future taxability of profits as forecast by business plans as well as of the expected settlement and renewal of tax consolidation schemes (**Note 6 - Taxation**);
- the estimates for provisions and for contingent liabilities related to civil, administrative and fiscal disputes; in particular, the valuation processes are based on complex elements that by their nature imply reliance on the Directors' judgement, also taking into account the elements acquired by external consultants, and involve both determining the degree of likelihood of the occurrence of conditions that may entail a financial outlay and hence classification among liabilities or among contingent liabilities, and quantifying the related amount (**Note 14 - Other provisions and Note 20 - Contingent liabilities and disputes**). In particular, with reference to the Provision for disposed Businesses the most complex elements are connected with the process and with the measurement procedures related to the risks tied mainly to events dating back in time and pertaining to environmental, legal and tax matters tied to the divested "Oil" businesses of Coastal Refining and of integrated Downstream;
- the estimate of the revenue attributable to the thermoelectric business in relation to the determination of the fair value of energy efficiency certificates (**Revenue** section);
- the determination of loss allowances, allowances for inventory write-down and impairment of assets (**Note 8 - Inventories, Note 9 - Trade receivables**);
- the transition to IFRS 16, which introduces some professional judgement elements entailing the definition of some accounting policies and the use of assumptions and estimates in relation to the lease term and to the definition of the incremental borrowing rate. For further details, reference is made to the section **First-time adoption of IFRS 16 - Leases**.

Fair value measurements

Some standards and disclosure obligations require the Group to measure the fair value of financial and non-financial assets and liabilities.

In relation to the fair value measurement, the Group has its own structure of appraisers, responsible in general for all significant fair value measurements, including Level 3 measurements (if present).

Non-observable input data and valuation adjustments are subjected to regular reappraisal. When information provided by third parties, such as broker quotes or pricing services, is used to determine fair value, the team of appraisers assesses and documents the evidence obtained from third parties to support the fact that such measurements comply with the provisions of EU-IFRS, including the level of fair value hierarchy in which the related measurement has to be classified.

The significant aspects relating to the measurement are communicated to the Control and Risk Committee of the Group.

In measuring the fair value of an asset or a liability, the Group uses, insofar as it is possible, observable market data. Fair values are categorised in various hierarchical levels according to the input data used in the measurement techniques, as illustrated below.

- Level 1: quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (prices) and indirectly (derived from prices).
- Level 3: unobservable inputs for the asset or liability.

If the input data used to measure the fair value of an asset or of a liability are categoried within different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises the transfers between the various levels of the given fair value hierarchy of the event or of the change in the circumstances that determined the transfer in which the transfer took place.

Additional information on the assumptions to determine fair value is provided in the following notes:

- **Note 25 - Services and other operating costs** and **Note 26 - Personnel expense**
- **Note 31 - Discontinued operations;**
- **Note 36 - Financial Instruments;**
- **Business combinations section.**

Estimates and assumptions are revised periodically and the effects of any changes are reflected in profit or loss in the period of the change.

FIRST-TIME ADOPTION OF IFRS 16 - LEASES

IFRS 16 - Leases **has been applied 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 previous 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 application of the new Standard changes the nature and the presentation in the income statement of costs for operating leases of the Group pertaining to land, warehouses, buildings, equipment, substations and the vehicle fleet. These costs are now recognised as depreciation of the right-of-use asset and as financial expense related to the liability linked to the discounting of future lease payments.

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

At the commencement date, the Group recognises:

- the right-of-use asset and the lease liabilities. The asset is initially measured at cost and subsequently at cost less any accumulated depreciation and any accumulated impairment losses, and it may be adjusted for any remeasurement of the lease liabilities.
- the lease liabilities at the present value of the lease payments not paid at the commencement date discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group uses the incremental borrowing rate (determined as the sum of the Group's credit spread and the forward curve based on Euro area swap rates).

  The liability thus recognised is subsequently increased to reflect interest , and decreased to reflect the lease payments made and possibly remeasured in case of changes to future payments in relation to:
  - a change in the index or rate;
  - a change in the amount the Group expects to have to pay under a residual value guarantee;
  - a change in the assessment as to whether a purchase, extension or termination option will be exercised or not.

The Group analysed all lease agreements, defining the lease term, which is the non-cancellable period of a lease.

The Group's leases have an average term of 14 years, with the inclusion for some leases of a renewable option exercisable at the end of the binding period. Others provide for additional payments tied to the change of the local price indices.

In relation to the renewal options, the Group estimated the term of the related lease agreement taking into account the reasonable certainty that the option will be exercised.

Specifically, for land and buildings, this assessment considered the specific facts and circumstances of each asset.

With regard to the other categories of assets, mainly corporate cars and equipment, the Group generally deemed improbable that extension or early termination clauses would be exercised in consideration of the practice usually followed by the Group.

First-time adoption

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

Impacts on the opening balances at 1 January 2019:

(EUR thousand)	1 January 2019
Lease liabilities	63,424
Other assets (advanced or accumulated payments)	3,179
Total right-of-use assets	**66,603**

At the date of initial application, the lease liabilities were determined at the present value of the lease payments not yet paid discounted using the incremental borrowing rate of the Group at 1 January 2019. The weighted average of the applied rate is 3.27%.

(EUR thousand)	1 January 2019
Commitments deriving from operating leases at 31 December 2018 as presented in the consolidated financial statements of the Group (1)	81,934
Lease extension options whose exercise is reasonably certain	17,577
Incremental borrowing rate at 1 January	3.27%
Values Discounted using the incremental borrowing rate at 1 January 2019	63,424

(1) the commitments deriving from operating leases presented in the consolidated financial statements of the Group at 31 December 2018 are already indicated less the future minimum payments of the leases with a term of less than 12 months and commitments having a non-significant amount

Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by any prepaid or accrued lease payments.

The Group has used the following practical expedients to apply IFRS 16 to leases previously classified as operating leases in accordance with IAS 17:

- exempting the recognition of right-of-use assets and of lease liabilities for agreements with a duration of less than 12 months;
- exempting leases for which the underlying asset is of low value (right-of-use assets of low value, including IT equipment). The Group recognises leases paymentsrelating to the aforesaid contracts as a cost on a straight-line basis over the lease term;
- excluding the initial direct costs from the measurement of right-of-use assets at the date of initial application;
- determining thelease term containing extension/termination options on the basis of the experiences acquired.

The are no significant impacts for the financial leases of the Group and for the agreements in which the Group is a lessor.

At 1 January 2019 (transition date), the Group, as lessee, therefore recognised new liabilities (EUR 63 million) for operating leases and increased Right-of-use assets (EUR 66.6 million) related mainly to the Wind business and pertaining to the use of land, warehouses, buildings, equipment, substations and the vehicle fleet.

2019

Adoption of the new standard entailed, as outlined above, the recognition of higher depreciation and interest against the reversal of the lease payments for operating leases.

In particular, in 2019 the following were seen:

- an improvement in gross operating profit (EBITDA) in respect of the leasing payments that fall within the scope of IFRS 16, of approximately EUR 8.9 million;
- greater depreciation expense (EUR 6.7 million) and greater financial expense (EUR 3.6 million);
- an increase (EUR 77.5 million at 31 December 2019 of which EUR 70.1 million medium-long term and EUR 7.4 million short term) of the net financial indebtedness and of the net invested capital (EUR 78.4 million increase in non-current assets, less EUR 1.9 million of other assets) in relation to the application of the liability method indicated by the new standard.

CONSOLIDATION SCOPE AT 31 DECEMBER 2019

The main transactions carried out involving the Group's **equity investments** concerning, respectively, transactions relating to the **change in consolidation scope**, other transactions and significant events that occurred during the year, are summarised below.

- On **12 February 2019**, ERG completed the 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. On 31 December 2019, Perseo S.r.l was reverse merged into Andromeda PV S.r.l effective retroactively from 1 January 2019.
- On **2 May 2019**, ERG, through its subsidiary ERG UK Holding Ltd., completed the acquisition from RES 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.
- On **6 May 2019**, ERG, within the scope of the Polaris project, completed the acquisition from Profond Finanzgesellschaft AG of 100% of "Les Moulins de Fruges S.a.s.", a French company owning six wind farms with total installed capacity of 52 MW located in the Hauts-de-France region in Northern France.
- 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.
- On **13 September 2019**, ERG, through its subsidiary ERG Windpark Beteiligungs GmbH, completed the acquisition from a subsidiary of Aquila Capital, a German investment company, of 100% of the capital of three German companies owning as many wind farms with total installed capacity of 34 MW located in the Mecklenburg-Western Pomerania region in the north-eastern area of the country.

For more details, please refer to the more extensive comments provided in the section **Change to the consolidation scope**.

Other transactions:

- On **6 March 2019**, ERG and Quercus suspended the incorporation of the joint venture ERG Q Solar 1, no longer of interest to them, reserving the right to jointly assess any other opportunities.
- On **31 October 2019**, the shareholders' meeting of EPURON Sas resolved to change the company's name to ERG Developpement France S.a.s.
- On **22 November 2019** the French company Parc Eolien la Foye S.a.s., with registered office in Paris, was established.
- On **5 December 2019**, the deed was executed for the merger of ERG Solar Montalto S.r.l. into Andromeda PV S.r.l. The merger shall take effect from 31 December 2019, while accounting and tax effects apply as from 1 January 2019. Note that as from 31 December 2019, Andromeda PV S.r.l. will transfer its registered office to the following address: Via De Marini 1, Genoa.
- On **16 December 2019** the deed was executed for the merger of ERG Eolica Amaroni S.r.l. and ERG Eolica Basilicata S.r.l. into ERG Eolica Fossa del Lupo S.r.l., and of ERG Eolica Calabria S.r.l. and ERG Eolica San Cireo S.r.l. into ERG Eolica San Vincenzo S.r.l. The merger shall take effect as from 1 January 2020.

In addition, the following significant events took place in the year:

- placement of non-convertible bonds 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. For further details, see **Note 17 - Net Financial Position**;
- prepayment of the loans of ERG Wind Investments Ltd and ERG Power S.r.l. For further details, please see **Note 19 - Covenants and negative pledges**;
- 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.

With regard to the existence of restrictions and guarantees on the equity investments held by the Group, please refer to **Note 19 - Covenants and negative pledges**.

CHANGE IN THE CONSOLIDATION SCOPE

(EUR thousand)	Andromeda (1)	Polaris (2)	Barkow (3)	Craiggore (4)	Windwards (5)	TOTAL
Intangible assets	152,810	2,022	22,333	5,088	2,000	184,252
Goodwill	56,062	10,169	6,440	–	–	72,671
Property, plant and equipment	28,761	37,364	58,279	608	–	125,012
Right-of-use assets	–	1,464	5,494	–	–	6,958
Equity investments	–	–	–	–	–	–
Other financial assets	–	–	–	–	–	–
Deferred tax assets	33,410	13,281	190	–	–	46,880
Other non-current assets	–	655	4,865	–	–	5,520
Non-current assets	**271,042**	**64,955**	**97,600**	**5,696**	**2,000**	**441,293**
Inventories	–	–	–	–	–	–
Trade receivables	5,526	1,412	1,092	–	–	8,030
Other current assets	1,207	128	250	121	380	2,086
Current financial assets*	–	–	–	–	–	–
Cash and cash equivalents*	19,310	1,573	4,458	(5,817)	(2,380)	17,145
Current assets	**26,043**	**3,113**	**5,800**	**(5,696)**	**(2,000)**	**27,261**
Assets held for sale	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL ASSETS	**297,085**	**68,068**	**103,400**	**0**	**–**	**468,553**
Equity attributable to the owners of the parent	**–**	**–**	**–**	**–**	**–**	**–**
Non-controlling interests	**10,949**	**–**	**–**	**–**	**–**	**10,949**
Employee benefits	–	–	–	–	–	-
Deferred tax liabilities	44,038	10,698	7,584	–	–	62,320
Other non-current provisions	2,035	1,308	965	–	–	4,307
Non-current financial liabilities*	129,349	–	50,708	–	–	180,056
Non-current lease liabilities	–	1,286	5,060	–	–	6,346
Other non-current liabilities	13	180	74	–	–	266
Non-current liabilities	**175,434**	**13,471**	**64,391**	**–**	**–**	**253,296**
Other current provisions	177	–	–	–	–	177
Trade payables	481	453	244	–	–	1,177
Current financial liabilities*	109,609	53,965	37,281	–	–	200,855
Current lease liabilities	–	179	434	–	–	612
Other current liabilities	437	–	1,050	–	–	1,487
Current liabilities	**110,703**	**54,597**	**39,009**	**–**	**–**	**204,308**
LIabilities associated with assets held for sale	**–**	**–**	**–**	**–**	**–**	**–**
		–				
TOTAL EQUITY AND LIABILITIES	**297,085**	**68,068**	**103,400**	**–**	**–**	**468,553**
*** Impact on Net Financial Position**	**(219,647)**	**(53,856)**	**(89,024)**	**(5,817)**	**(2,380)**	**(370,725)**
IFRS 16 impact on Net Financial Position						**(6,959)**
Impact on Net Financial Position Directors' Report						**(363,768)**

1) 2 Italian companies from Soles Montalto GmbH - **Andromeda** business combination
2) 7 French companies from Profond Finanzgesellschaft AG - **Les Moulins de Fruges S.a.s.** business combination
3) 3 German companies acquired by a subsidiary of Aquila Capital – **Barkow** business combination
4) 1 Northern Irish company from RES - **Craiggore** asset
5) 1 German company from Windwärts Energie GmbH - **Windwärts** asset

The table above provides a breakdown of the assets acquired and the liabilities assumed inclusive of the impacts of the adoption of IFRS 16.
The impact on the Net Financial Position relates to the following items: current financial assets, cash and cash equivalents, non-current financial liabilities and current financial liabilities (which include the amount paid for the acquisition).

The effects of the main transactions carried out involving the Group's equity investments shown in the previous table are detailed below.

"ANDROMEDA" BUSINESS COMBINATION

On 11 January 2019, ERG, through its subsidiary ERG Power Generation S.p.A., entered into an agreement with Soles Montalto GmbH, an investment fund managed by the AREAM group, a European asset manager in the renewable sector, to take over 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 as a non-controlling investor, on the basis of shareholders' agreements that will guarantee ERG full industrial control of the asset and its consolidation. The plants, located in Montalto di Castro (Lazio), 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 approximately EUR 220 million, corresponding to the equity value of the acquired portion of EUR 96 million and to the net financial position of the Target estimated at 31 December 2018, i.e. EUR 125 million. On **12 February 2019**, ERG completed the acquisition from Soles Montalto GmbH.

With this transaction, ERG became one of the five leading photovoltaic operators in Italy, with over 140 MW of installed power and completed its plan targets early with high quality assets.

This document reflects the impacts of the consolidation of the companies acquired as from 1 January 2019.

Determination of the total acquisition price

The acquisition price was EUR 96 million for the acquisition of 78.5% of the share capital of the acquirees.

The acquisition-related costs incurred to close the transaction of EUR 2.9 million were excluded from the consideration transferred and recognised in the 2019 income statement under services and other costs (EUR 2.7 million) and in the 2018 income statement (EUR 0.2 million).

Measurement of the assets and liabilities of the business combination at the acquisition date

The acquisition was recognised on a definitive basis; the present values of the acquired assets were determined on the basis of the best estimate available at the preparation date of these consolidated financial statements and are shown in the table below:

(EUR thousand)	Acquisition figures	Adjustment to the acquisition figures	Assets acquired and liabilities assumed
Intangible assets	7	152,803	152,810
Goodwill	–	–	–
Property, plant and equipment	129,411	(100,650)	28,761
Right-of-use assets	–	–	–
Equity investments	–	–	–
Other financial assets	–	–	–
Deferred tax assets	4,402	29,007	33,410
Other non-current assets	–	–	–
Non-current assets	**133,820**	**81,160**	**214,980**
Inventories	–	–	–
Trade receivables	5,526	–	5,526
Other current assets	1,207	–	1,207
Current financial assets*	–	–	–
Cash and cash equivalents*	19,310	–	19,310
Current assets	**26,043**	**–**	**26,043**
TOTAL ASSETS	**159,863**	**81,160**	**241,023**
Equity attributable to the owners of the parent	10,835	29,141	39,976
Non-controlling interests	2,968	7,981	10,949
Total Equity	**13,802**	**37,122**	**50,925**
Employee benefits	–	–	–
Deferred tax liabilities	–	44,038	44,038
Other non-current provisions	2,035	–	2,035
Non-current financial liabilities*	129,349	–	129,349
Non-current lease liabilities (2)	–	–	–
Other non-current liabilities	13	–	13
Non-current liabilities	**131,396**	**44,038**	**175,434**
Other current provisions	177	–	177
Trade payables	481	–	481
Current financial liabilities*	13,571	–	13,571
Current lease liabilities	–	–	–
Other current liabilities	437	–	437
Current liabilities	**14,665**	**–**	**14,665**
TOTAL EQUITY AND LIABILITIES	**159,863**	**81,160**	**241,023**
*** Impact on Net Financial Position**	**(123,609)**	**–**	**(123,609)**

The **Acquisition figures** column shows the opening balances determined on the basis of the accounting records at the date of first-time consolidation (1 January 2019) of the acquirees expressed in accordance with the IFRS:

- **property, plant and equipment**: photovoltaic plants recognised at acquisition cost including ancillary costs and costs directly attributable to the asset and adjusted by the related accumulated depreciation;
- **deferred tax assets**: relating to the portion of interest expense exceeding 30% of gross operating profit;
- **trade receivables**: relative to the sale of electricity and the feed-in premium;
- **other current assets**: mainly VAT assets;
- **cash and cash equivalents**: cash on hand held in current accounts;
- **other non-current provisions** tied to tax expenses;
- **non-current financial liabilities**: medium-long term portion of bank borrowings for project financing;
- **trade payables**: mainly relative to payables to third-party suppliers for O&M;
- **current financial liabilities**: mainly the short-term portion of bank borrowings for project financing.

in the **Adjustments to the acquisition figures** column:

- **intangible assets**: capital gain allocated upon recognition of the acquisition; this capital gain was posted to the item "Rights and Concessions" and relates in particular to the right to receive incentives (Feed-in Premium) for a residual period of 12 years;
- **property, plant and equipment**: the item includes the adjustment to the fair market value of property, plant and equipment;
- **deferred tax assets** related to the allocations referred to above;
- **deferred tax liabilities** related to the allocations referred to above.

Determination of goodwill

The difference between the total acquisition price and the net value of the acquired assets and liabilities was recognised as goodwill, as illustrated in the following table:

Acquisition price (1)	**96,038**
Fair value of the acquired net assets	50,925
Third party investments in proportion to the number of shares held	10,949
Goodwill	**56,062**

(1) the item does not include the repayment of the loans of the acquiree

With regard to the definition of the total acquisition price, please refer to the previous paragraphs.

The goodwill deriving from the acquisition refers mainly to the synergies expected to be achieved as a result of integrating the acquiree into the Group. The goodwill recorded in the consolidated financial statements will not be deductible for the purposes of income tax.

Andromeda contribution in 2019

In the period between the date of first-time consolidation (1 January 2019) and the reporting date of these consolidated financial statements, the acquirees contributed to the Group's income statement with revenue of EUR 33 million and an operating profit of EUR 15 million.

"LES MOULINS DE FRUGES S.A.S." BUSINESS COMBINATION

On 25 March 2019, ERG, through its subsidiary ERG Eolienne France SAS, entered into an agreement for 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.

On **6 May 2019**, ERG completed the acquisition. The transaction, which obtained the authorisation of the French Ministry of the Economy and Finance, allows ERG to have in Europe more than 3,000 MW of installed power in the four technologies it operates, and to consolidate its positioning in France, accelerating the growth path set out in the business plan.

Determination of the total acquisition price

The acquisition price was EUR 53.0 million of which EUR 37.6 million for the acquisition of 100% of the share capital of the acquirees and EUR 16.4 million for the takeover of the shareholders' loan.

The acquisition-related costs incurred to close the transaction, amounting to EUR 0.8 million, were excluded from the transferred price and recognised in the 2019 income statement.

Measurement of the assets and liabilities of the business combination at the acquisition date

The acquisition was recognised on a definitive basis; the present values of the acquired assets were determined on the basis of the best estimate available at the preparation date of these consolidated financial statements and are shown in the table below:

(EUR thousand)	Acquisition figures	Adjustment to the acquisition figures	Assets acquired and liabilities assumed
Intangible assets	–	2,022	2,022
Goodwill	–	–	–
Property, plant and equipment	37,364	–	37,364
Right-of-use assets	1,464	–	1,464
Equity investments	–	–	–
Other financial assets	–	–	–
Deferred tax assets	13,281	–	13,281
Other non-current assets	655	–	655
Non-current assets	**52,764**	**2,022**	**54,785**
Inventories	–	–	–
Trade receivables	1,412	–	1,412
Other current assets	128	–	128
Current financial assets*	–	–	–
Cash and cash equivalents*	1,573	–	1,573
Current assets	**3,113**	**–**	**3,113**
TOTAL ASSETS	**55,877**	**2,022**	**57,899**
Equity attributable to the owners of the parent	25,913	1,516	27,430
Non-controlling interests	–	–	–
Total Equity	**25,913**	**1,516**	**27,430**
Employee benefits	–	–	–
Deferred tax liabilities	10,192	505	10,698
Other non-current provisions	1,308	–	1,308
Non-current financial liabilities*	–	–	–
Non-current lease liabilities	1,286	–	1,286
Other non-current liabilities	180	–	180
Non-current liabilities	**12,966**	**505**	**13,471**
Other current provisions	–	–	–
Trade payables	453	–	453
Current financial liabilities*	16,366	–	16,366
Current lease liabilities	179	–	179
Other current liabilities			–
Current liabilities	**16,998**	**–**	**16,998**
TOTAL EQUITY AND LIABILITIES	**55,877**	**2,022**	**57,899**
*** Impact on Net Financial Position**	**(16,257)**	**–**	**(16,257)**

The **Acquisition statement** figures column shows the opening balances, inclusive of the effects of the adoption of IFRS 16, determined on the basis of the accounting records at the date of first-time consolidation (1 January 2019) of the acquirees expressed in accordance with the IFRS, adjusted as necessary in order to determine the fair value of the assets and liabilities subject to consolidation:

- **property, plant and equipment**: wind farms recognised at acquisition cost including ancillary costs and costs directly attributable to the asset and adjusted by the related accumulated depreciation;
- **deferred tax assets**: mainly recognised on prior tax losses;
- **trade receivables**: relative to the sale of electricity;
- **cash and cash equivalents**: cash on hand held in current accounts;
- **other non-current provisions** mainly related to dismantling expenses;
- **deferred tax liabilities**: mainly recognised on the difference between the net carrying amount and the tax value of the property, plant and machinery;
- **trade payables**: mainly relative to payables to third-party suppliers for O&M;
- **current financial liabilities**: payables to the previous parent.

In the **Adjustments to the acquisition figures** column:

- **intangible assets**: the item includes the capital gain allocated upon recognition of the acquisition; this capital gain was posted to the item "Rights and Concessions" and relates in particular to the right to receive incentives (Feed-in Tariff - FIT) for a residual period of 6 years.
- **deferred tax liabilities** related to the allocations referred to above.

Determination of goodwill

The difference between the total acquisition price and the net value of the acquired assets and liabilities was recognised as goodwill, as illustrated in the following table:

Acquisition price (1)	**37,599**
Fair value of the acquired net assets	27,430
Goodwill	**10,169**

(1) the item does not include the repayment of the loans owed by the acquiree in respect of the seller

With regard to the definition of the total acquisition price, please refer to the previous paragraphs.

The Goodwill deriving from the acquisition refers mainly to the synergies expected to be achieved as a result of integrating the acquirees into the Group. The goodwill recorded in the consolidated financial statements will not be deductible for the purposes of income tax.

Les Moulins de Fruges S.a.s. contribution in 2019

In the period between the date of first-time consolidation (1 January 2019) and the reporting date of these consolidated financial statements, the acquirees contributed to the Group's income statement with revenue of EUR 9.5 million and an operating profit of EUR 2.3 million.

"BARKOW" BUSINESS COMBINATION

On **19 August 2019** ERG, through its subsidiary ERG Windpark Beteiligungs GmbH, signed 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 a total feed-in tariff that, for 2018, averaged 97 EUR/MWh

On **13 September 2019**, following authorisation by the Antitrust Authority and consent by the financing banks to the change in control, the acquisition was completed. The transaction enabled ERG to increase its presence in the German on-shore wind market, bringing the installed capacity in the country to 272 MW, and to achieve well in advance the Mergers & Acquisitions targets contained in the Business Plan to support its growth.

Determination of the total acquisition price

The acquisition price was EUR 37.0 million of which EUR 22.2 million for the acquisition of 100% of the share capital of the acquirees and EUR 14.7 million for the takeover of the shareholders' loan.
The acquisition-related costs incurred to close the transaction, amounting to EUR 0.9 million, were excluded from the transferred price and recognised in the 2019 income statement.

Measurement of the assets and liabilities of the business combination at the acquisition date

The acquisition was recognised on a definitive basis; the present values of the acquired assets were determined on the basis of the best estimate available at the preparation date of these consolidated financial statements and are shown in the table below:

(EUR thousand)	Acquisition figures	Adjustment to the acquisition figures	Assets acquired and liabilities assumed
Intangible assets	10	22,323	22,333
Goodwill	–	–	–
Property, plant and equipment	58,279	–	58,279
Right-of-use assets	5,494	–	5,494
Equity investments	–	–	–
Other financial assets	–	–	–
Deferred tax assets	190	–	190
Other non-current assets	4,865	–	4,865
Non-current assets	**68,837**	**22,323**	**91,160**
Inventories	–	–	–
Trade receivables	1,092	–	1,092
Other current assets and receivables	250	–	250
Current financial assets*	–	–	–
Cash and cash equivalents*	4,458	–	4,458
Current assets	**5,800**	**–**	**5,800**
TOTAL ASSETS	**74,637**	**22,323**	**96,960**
Equity attributable to the owners of the parent	(112)	15,849	15,737
Non-controlling interests	–	–	–
Total Equity	**(112)**	**15,849**	**15,737**
Employee benefits	–	–	–
Deferred tax liabilities	1,111	6,474	7,584
Other non-current provisions	965	–	965
Non-current financial liabilities*	50,708	–	50,708
Non-current lease liabilities	5,060	–	5,060
Other non-current liabilities	74	–	74
Non-current liabilities	**57,917**	**6,474**	**64,391**
Other current provisions	–	–	–
Trade payables	244	–	244
Current financial liabilities*	15,105	–	15,105
Current lease liabilities	434	–	434
Other current liabilities	1,050	–	1,050
Current liabilities	**16,833**	**–**	**16,833**
TOTAL EQUITY AND LIABILITIES	**74,637**	**22,323**	**96,960**
*** Impact on Net Financial Position**	**(66,848)**	**–**	**(66,848)**

The **Acquisition statement** figures column shows the opening balances, inclusive of the effects of the adoption of IFRS 16, determined on the basis of the accounting records at the date of first-time consolidation (1 January 2019) of the acquirees expressed in accordance with the IFRS, adjusted as necessary in order to determine the fair value of the assets and liabilities subject to consolidation:

- **property, plant and equipment**: wind farms recognised at acquisition cost including ancillary costs and costs directly attributable to the asset and adjusted by the related accumulated depreciation;
- **deferred tax assets**: mainly recognised on prior tax losses;
- **trade receivables**: relative to the sale of electricity;
- **cash and cash equivalents**: cash on hand held in current accounts;
- **other non-current provisions** mainly related to dismantling expenses;
- **non-current financial liabilities**: medium-long term portion of bank borrowings for project financing and financial liabilities for fair value IRS derivatives;
- **deferred tax liabilities**: mainly recognised on the difference between the net carrying amount and the tax value of the property, plant and machinery;
- **trade payables**: mainly relative to payables to third-party suppliers for O&M;
- **current financial liabilities**: payables to the previous parent company.

in the **Adjustments to the acquisition figures** column:

- **intangible assets**: capital gain allocated upon recognition of the acquisition; this capital gain was posted to the item "Rights and Concessions" and relates in particular to the right to receive incentives (Feed-in Premium) for a residual period of 16 years;
- **deferred tax liabilities** related to the allocations referred to above.

Determination of goodwill

The difference between the total acquisition price and the net value of the acquired assets and liabilities was recognised as goodwill, as illustrated in the following table:

Acquisition price [1]	**22,176**
Fair value of the acquired net assets	15,737
Goodwill	**6,440**

(1) the item does not include the repayment of the loans owed by the acquiree in respect of the seller

With regard to the definition of the total acquisition price, please refer to the previous paragraphs.

The Goodwill deriving from the acquisition refers mainly to the synergies expected to be achieved as a result of integrating the acquirees into the Group. The goodwill recorded in the consolidated financial statements will not be deductible for the purposes of income tax.

Barkow contribution in 2019

In the period between the date of first-time consolidation (1 January 2019) and the reporting date of these consolidated financial statements, the acquirees contributed to the Group's income statement with revenue of EUR 8.5 million and an operating profit of EUR 1.9 million.

ACQUISITION OF "CRAIGGORE" ASSETS

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 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 equivalent hours and approximately 43 Kt of avoided CO_2 emissions, as well as to the estimated energy requirement of approximately 21,500 households.

Construction work is expected to start in the fourth quarter of 2019, and the entry into operation, following completion of the connection to the national grid, is expected by April 2021.

Since it is an acquisition of authorisations for the construction of a wind farm, the acquired assets and liabilities do not comply with the definition of IFRS 3 - Business Combinations. Therefore, these assets and liabilities were recognised as acquisitions of individual assets and liabilities, allocating the difference between the paid price and net acquired assets to Rights and Concessions.

Determination of the total acquisition price

The acquisition price was EUR 5.8 million of which EUR 5.1 million for the acquisition of 100% of the share capital of the acquirees and EUR 0.7 million for the repayment of outstanding loans at the date of the acquisition of control of the acquirees.

ACQUISITION OF "WINDWÄRTS" ASSETS

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.

Since it is an acquisition of development costs for the construction of wind farms, the acquired assets and liabilities do not comply with the definition of IFRS 3 - Business Combinations. Therefore, these assets and liabilities were recognised as acquisitions of individual assets and liabilities, allocating the difference between the paid price and net acquired assets to current intangible assets.

Determination of the total acquisition price

The acquisition price was EUR 1.9 million for the acquisition of 100% of the share capital of the acquirees.

IMPAIRMENT TESTING

This section provides a description of the impairment tests on the Group's main assets, as required by IAS 36.

In particular, it is specified that for the test:

- of goodwill, a test was conducted on the recoverable amount determined at group of units level , and identified in the value in use calculated on the estimated cash flows over the useful life of the assets allocated to the aforesaid groups;
- of tangible, intangible assets and rights of use with finite useful lives allocated to individual CGUs, in accordance with IAS 36, indicators were identified that can provide evidence that an asset may have undergone impairment. If the comprehensive analysis of the indicators shows that there was a potential impairment loss for a CGU, then the related recoverable amount is determined.

With regard to equity investments, which by their nature have indefinite useful lives, their specific features were taken into account; please therefore refer to the respective paragraphs for an explanation of the approach used.

The above tests were carried out in accordance with the Impairment Test Procedure approved by the Board of Directors of ERG S.p.A. on 21 February 2020.

Test of Goodwill

In consideration of the goodwill recognised in the consolidated financial statements, for these consolidated financial statements, its recoverable amount was tested at group of units level.

According to IAS 36, the recoverable amount of an asset or of a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Identification of groups of cash-generating units (CGU)

Following the thorough process of transformation of the organisational structure of the Group completed in 2017 (One Company) and the acquisitions completed in 2018 and 2019 in the solar power field in Italy and in wind power in France, the operating segments currently identified by the Group, which coincide with the fourth different technologies used for energy generation, are listed below:

- Wind;
- Solar;
- Hydroelectric;
- Thermoelectric.

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

Starting from the 2018 Financial Statements, in light of the previously commented changes to the organisation and consolidation scope, management decided to reassess the allocation of the Goodwill in particular with reference to the provisions of point a) of paragraph 80 of IAS 36.

More specifically, in the aforementioned paragraph, the standard specifies that goodwill has to be allocated to the lowest level at which goodwill is monitored for internal management purposes and, in the case of ERG, the lowest level at which goodwill is monitored coincides with the group of units whose profitability is measured.

In particular, also taking into account the indications of Paragraph 87 of IAS 36 in 2018 the management reconsidered the allocation of the Goodwill to groups of units consistent with the purposes of the integrated reporting of the Group, i.e. according to the technology/Country matrix as illustrated below.

For further details in relation to the reassessment of the allocation of the Goodwill, reference is made to the Notes to the 2018 consolidated financial statements.

	Wind	Solar	Hydro	Thermo
Italy	✔	✔	✔	✔
France	✔			
Germany	✔			
Poland	✔			
Romania	✔			
Bulgaria	✔			
UK*	✔			

* Wind farms under construction

The groups of units were then identified, consistently with the Group's organisational and business structure, as assets that generate independent cash inflows deriving from their continuous use and they follow a dual dimension pertaining, on one hand, to generating technology and, on the other hand, to the current reference market, identified in the country where the facilities are, for a total number of 10 groups od CGUs.

As of December 31, 2019, the Goodwills have been allocated to the Groups of CGU Wind Italy (126 million), Wind France (33 million), Wind Germany (6 million) and Solar Italy (56 million) as best commented in the next paragraph.

The recoverable value allocated to goodwill of the groups of units is tested by determining the value in use by discounting operating cash flows on the basis of the following assumption:

- the groups of units coincide with the set of wind farms respectively situated in Italy, in France, in Germany and in solar parks located in Italy;
- to determine the value in use, the present value of expected cash flows from operating activities associated with the groups of units for the residual years of operation of the farms with respect to the original definition of an assumed working life, i.e. twenty years, was estimated;
- an estimated terminal value was considered as an additional ten-year flow subsequent to the end of the useful life of the assets;
- a discount rate equal to the industry WACC was used to compute the present value of expected cash flows (3.75% in Italy, 2.91% in France and 2.78% in Germany);
- the Group adopted a post-tax discount rate that reflects current market measurements of the time value of money

and of the risks specific to the CGUs. In determining the discount rate, the financial parameters considered were the Beta and Debt/Equity ratios derived from panels of comparable companies, in order to consider both the market risk of companies operating in the same industry and a market-based financial structure. With regard, instead, to the cost of equity (ke), this includes the rate of return of risk-free assets and it is identified as the rate of return of German ten-year government bonds;

- the growth rates used are based on growth forecasts for the Group's industry, taking into account the Group's market share. Changes in sale prices and in direct costs are determined on the basis of past experience and on future market expectations.

In particular, the following were taken into account for the determination of the cash flows:

- the data contained in the Update to the "2018-2022 business plan", reviewed by the Board of Directors of ERG S.p.A. on 10 March 2020, excluding the Repowering, Business Development and Merger & Acquisition initiatives as impact scenarios, however favourable;
- for subsequent years, the data processed on the basis of models simulating the macroeconomic and energy scenario and assuming a steady production trend.

Group management deems the assumptions used to identify the recoverable amount of the goodwill connected with the four groups of units (Wind Italy, Wind France, Wind Germany and Solar Italy) to be reasonable and, on the basis of the aforementioned assumptions, no impairment has emerged.

The verifications carried out for the purposes of these consolidated financial statements showed, for all the groups of CGUs assessed, a positive difference (headroom) between the recoverable amount and the carrying amount[1]:

Specifically:

CGU Group	**Headroom***
	(EUR million)
Wind Italy	583
Wind France	34
Wind Germany	17
Solar Italy	62

* positive difference (headroom) between the recoverable amount and the carrying amount

1 The carrying amount corresponds to the Net Invested Capital and is determined by the algebraic sum of the Non-current Assets (including Goodwill), Net Working Capital, Liabilities related to Post-employment Benefits, Other Assets and Other non-financial Liabilities and lease debt, of all the companies within the group of CGUs, including the consolidation entries consistent with the Group consolidated financial statements but considering the different sub-aggregation of data corresponding with the group of CGUs.

Sensitivity analysis

The result of the impairment test is based from the estimates made by the Group Management on the basis of the information available to date and the estimates of reasonable assumptions on the evolution of wind, price variables. interest rate in the previous paragraph. Recruitment with a higher profile of uncertainty and for which a higher use of subjective valuations is required relate, in particular to those relating to the identification of expected energy prices, the assessment of availability of renewable resources and the estimation of the financial parameters used to determine the discount rate.

The Group took into account the aforesaid variables in processing and defining the basic assumptions used to determine the recoverable amount of the gains allocated to the segments examined, and it also carried out a sensitivity analysis on the recoverable amount of the CGU Groups, this analysis assumed two scenarios:

- revenue from energy sales (i.e., energy remuneration and generation) could undergo upward or downward fluctuations of an estimated 5% compared to the values estimated for the Plan;
- the discount rate used could increase by 1 percentage point.

CGU Group	Change in Headroom*	
	-5% Revenue	+1% Wacc
	(EUR million)	
Wind Italy	-96	-87
Wind France	-31	-31
Wind Germany	-20	-19
Solar Italy	-29	-32

* positive difference (headroom) between the recoverable amount and the carrying amount

The recoverable amount would be equal to the reference carrying amount (headroom equal to zero) in the following revenue reduction assumptions for the respective groups of CGUs.

- Wind Italy: -30% ;
- Wind France: -5.5%;
- Wind Germany: -4%;
- Solar Italy: -11%.

The recoverable amount would be equal to the reference carrying amount (headroom equal to zero) in the following WACC increase assumptions for the respective CGU Groups.

- Wind Italy: with Wacc equal to 14.0% ;
- Wind France: with Wacc equal to 4%;
- Wind Germany: with Wacc equal to 3.6%;
- Solar Italy: with Wacc equal to 5.8%.

The above analyses confirm the sensitivity of the assessments of the recoverability of non-current assets to changes in the aforesaid variables; in this context, the Directors will systematically monitor changes in the aforesaid external, uncontrollable variables in order to make any necessary adjustments to the estimates of the recoverability of the carrying amounts of goodwill in the consolidated financial statements.

Test of (property, plant and equipment and intangible) assets with finite useful lives

For the purposes of the 2019 consolidated financial statements, the Group verified whether there are any indications that either property, plant and equipment and intangible assets with finite useful lives may have become impaired.

For this purpose, it is specified that for the ERG Group:

- property, plant and equipment are represented by the electricity generation plants of different technologies (wind farms in Italy and abroad, solar plants in Italy, hydroelectric plants in Italy and the CCGT thermoelectric plant located in Sicily);
- intangible assets are mainly represented by the residual value of the values[2] allocated in the purchase price allocation and recorded as increases to the value of concessions, permits and management rights of solar wind farms and hydropower plants, including possible rights to incentive tariffs.

In line with the previous years, these values are allocated to the individual reference CGU represented by the individual legal entities and/or business combinations that generated them.

In accordance with IAS 36, the group identified a list of indicators that can indicate that an asset may have become impaired (triggering events).

For this purpose, both internal and external sources of information have been considered:

- concerning the internal sources, the following were examined: (i) the obsolescence or the physical deterioration of the asset, (ii) any significant changes in the use of the assets and (iii) the financial performance of the asset with respect to the forecast.
- concerning the external sources, instead, the following are considered: the performance of the market prices of the assets, any technological, market or regulatory discontinuities and trends in market interest rates. To verify this information, a synthetic indicator was also identified ("profitability indicator") calculated by discounting the sum of the operating cash flows (EBITDA) for the residual observation period, determined on the basis of the same procedures and assumptions already commented in the previous paragraph for Goodwill testing. To include the related tax effects, the indicator is net of notional taxes on EBITDA.

  The indicator thus calculated is compared with that of the previous year in order to verify the potential impairment loss, in accordance with Paragraph 15 of IAS 36.

2 Values relating to business combinations from previous years.

Lastly, the Group verifies that the carrying amount of the net assets of the Group is no higher than stock market capitalisation.

If the comprehensive analysis of the indicators shows that both property, plant and equipment and intangible assets with finite useful lives may have become impaired, the recoverable amount will be determined and compared with the carrying amount.
The recoverable amount for the individual CGUs is calculated as the value in use with the same procedures and assumptions already commented in the previous section for Goodwill testing.
If this amount is lower, the carrying amount of the assets would be reduced reduced to the related recoverable amount with the exception of the cases in which fair value net of costs to sell was higher.
Group management deems the assumptions used to identify and verify the indicators to be reasonable and, on the basis of the aforementioned assumptions, no need to determine the recoverable value has emerged.

Recoverable value of groups of units

Lastly, although it is not expressly required by IAS 36, Group Management determined the recoverable amount, i.e., the value in use, of the groups of units to which no goodwill is allocated, comparing it with the related carrying amount. No impairment emerged as a result of this test.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

NOTE 1 - INTANGIBLE ASSETS

	Rights and Concessions	Other intangible assets	Assets under development	Total
Historical cost	821,984	54,941	1,402	878,327
Amortisation and impairment losses	(194,275)	(49,483)	–	(243,758)
BALANCE AT 31/12/2017	**627,709**	**5,458**	**1,402**	**634,569**
Assets held for sale	**–**	**–**	**–**	**–**
Changes for the year:				
Change in the consolidation scope	181,592	1,089	7,697	**190,378**
Capital expenditure	4,006	2,811	728	**7,546**
Capitalisations and reclassifications from/to intangible assets	3,586	2,821	(4,761)	**1,645**
Reclassifications from other items	–	–	5,770	**5,770**
Disposals and divestments	–	–	–	**-**
Amortisation	(51,931)	(3,764)	–	**(55,695)**
Impairment	–	–	–	**-**
Other changes	(189)	(1,500)	(12)	**(1,701)**
Historical cost	1,012,171	59,613	10,823	1,082,608
Amortisation and impairment losses	(247,398)	(52,699)		(300,097)
BALANCE AT 31/12/2018	**764,773**	**6,914**	**10,823**	**782,511**
Assets held for sale	**–**	**–**	**–**	**–**
Changes for the year:				
Change in the consolidation scope	182,236	–	2,000	**184,236**
Capital expenditure	–	1,790	2,439	**4,229**
Capitalisations and reclassifications from/to intangible assets	(4,040)	996	(7,239)	**(10,283)**
Reclassifications from other items	–	–	–	**–**
Disposals and divestments	–	–	–	**–**
Amortisation	(67,527)	(3,539)	–	**(71,065)**
Impairment	–	–	–	**–**
Other changes	59	12	78	**149**
Historical cost	1,190,248	62,514	8,101	1,260,862
Amortisation and impairment losses	(314,746)	(56,340)		(371,086)
BALANCE AT 31/12/2019	**875,501**	**6,174**	**8,101**	**889,776**

To enhance understandability, changes for the year relating to reclassifications, disposals and divestments are shown net of the related accumulated amortisation.

Rights and Concessions include concessions, authorisations and rights to operate wind farms, solar and hydroelectric plants, including any rights to feed-in tariffs, amortised based on their residual useful life.

Other intangible assets are mainly comprised of software licences.

Assets in progress relate mainly to development costs capitalised on projects under construction.

The **change in the consolidation scope** relates to that commented on in the related section.

The **capital expenditure** refers mainly to costs relating to the construction of the German wind farm Windpark Linda GmbH & Co. KG.

The item **capitalisations and reclassifications from/to intangible assets** includes components of capitalised expenses reclassified under different classes of assets, relative to the development of a completed wind farm in Germany and to the development of wind farms under construction in the United Kingdom.

NOTE 2 - GOODWILL

The table below shows the changes in the item “Goodwill” during the year:

(EUR thousand)	Wind	Solar	Hydro	Thermo	Total
BALANCE AT 31/12/2018	**138,773**	**–**	**–**	**9,496**	**148,269**
Changes for the year:					
“Andromeda” business combination	–	56,062	–	–	**56,062**
“Les Moulins de Fruges S.a.s.” business combination	10,169	–	–	–	**10,169**
“Barkow” business combination	6,440	–	–	–	**6,440**
Impairment from impairment test	–	–	–	–	**–**
BALANCE AT 31/12/2019	**155,382**	**56,062**	**–**	**9,496**	**220,940**

The item, which is not amortised in the Income Statement, is subject to an impairment test every year or more frequently if there are indications during the year that the asset may be impaired. For the purposes of these consolidated financial statements, the test required by paragraph 12 of IAS 36 was performed and no elements emerged that required an adjustment to the carrying amount of goodwill.

For additional details, reference is made to the **Impairment test section**.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Other assets	Assets under construction	Total
Historical cost	238,210	4,041,428	25,320	28,879	4,333,837
Depreciation and impairment losses	(117,181)	(2,017,243)	(17,553)	–	**(2,151,977)**
BALANCE AT 31/12/2017	**121,029**	**2,024,185**	**7,767**	**28,879**	**2,181,860**
Assets held for sale	**–**	**–**	**–**	**–**	**–**
Changes for the year:					
Change in the consolidation scope	4,904	252,920	117	16,307	**274,247**
Capital expenditure	1,081	17,371	1,600	32,650	**52,702**
Capitalisations and reclassifications from/to property, plant and equipment	9,567	21,182	343	(32,737)	**(1,645)**
Disposals and divestments	–	–	–	–	**–**
Depreciation	(7,861)	(208,974)	(1,538)	–	**(218,373)**
Impairment	–	–	–	–	**–**
Other changes	(753)	27	(0)	250	**(476)**
Historical cost	253,962	4,394,047	26,723	45,348	4,720,080
Depreciation and impairment losses	(125,996)	(2,287,334)	(18,434)	–	**(2,431,765)**
BALANCE AT 31/12/2018	**127,966**	**2,106,713**	**8,289**	**45,348**	**2,288,316**
Assets held for sale	**–**	**–**	**–**	**–**	**–**
Changes for the year:					
Change in the consolidation scope	5,719	118,643	27	622	**125,011**
Capital expenditure	827	14,603	1,308	46,949	**63,686**
Right-of-use assets	79,050	665	5,418	–	**85,133**
Capitalisations and reclassifications from/to property, plant and equipment	(9,329)	58,783	782	(39,953)	**10,284**
Disposals and divestments	(5)	(744)	(2)	–	**(751)**
Depreciation	(7,255)	(218,550)	(1,722)	–	**(227,527)**
Depreciation of right-of-use assets	(5,208)	(33)	(1,443)	–	**(6,684)**
Impairment	(482)	(1,045)	–	–	**(1,527)**
Other changes	(95)	484	9	(9)	**388**
Historical cost	317,352	4,730,466	34,110	52,957	5,134,886
Depreciation and impairment losses	(126,164)	(2,650,948)	(21,445)		**(2,798,557)**
BALANCE AT 31/12/2019	**191,189**	**2,079,518**	**12,665**	**52,957**	**2,336,329**

To enhance understandability, changes for the year relating to reclassifications, disposals and divestments are shown net of the related accumulated depreciation.

The **change in the consolidation scope** refers mainly to the aforementioned business combinations during the year, relating to the photovoltaic plants in Italy and to the wind farms in France and Germany. For a more detailed analysis, please refer to the paragraph **Consolidation Scope**.

Capital expenditure refers mainly to the costs incurred for the development of the Windpark Linda wind farm in Germany, which became operational at the end of the second quarter and the start of the development of wind farms under construction in the United Kingdom.

Interest of EUR 436 thousand in relation to the ongoing construction of the wind farms in Germany (Windpark Linda GmbH & Co KG) and the United Kingdom (Sandy Knowe Windfarm Ltd. and Evishagaran Windfarm Ltd.) was capitalised in the year.

With regard to the existence of restrictions on the assets held by the Group, please refer to **Note 19 - Covenants and negative pledges**.

The item Property, plant and equipment includes right-of-use assets, accounted for in accordance with IFRS 16. The change in this item over the year is shown in the following table:

(EUR thousand)	Land and buildings	Specific plant	Equipment	Other assets	Total
BALANCE AT 1 JANUARY 2019	**63,419**	**665**	**151**	**2,368**	**66,603**
Increase in right-of-use assets	8,752			2,914	**11,666**
Increase in right-of-use assets due to business combination	6,959				**6,959**
Derecognition of right-of-use assets	(76)			(19)	**(94)**
Depreciation for the year	(5,208)	(34)	(29)	(1,413)	**(6,684)**
BALANCE AT 31 DECEMBER 2019	**73,846**	**631**	**122**	**3,851**	**78,449**

The increases in the year refer mainly to right-of-use assets referred to the aforementioned business combination and to increases attributable to Italian and foreign wind companies.

NOTE 4 - EQUITY INVESTMENTS

	Equity investments				
	Subsidiaries not consolidated line by line	Joint ventures	Associates	Other companies	Total
BALANCE AT 31/12/2018	**378**	**236**	**12,918**	**465**	**14,000**
Assets held for sale	–	–	–	–	–
Changes for the year:					
Acquisitions/share capital increases/increases	8	–	–	–	**8**
Change in consolidation method	–	–	–	–	**–**
Reclassifications	–	–	–	–	**–**
Impairment losses/utilisation of loss allowances	(313)	–	–	–	**(313)**
Disposals and divestments	–	–	–	–	**–**
Measurement of company with equity method	–	–	111	–	**111**
BALANCE AT 31/12/2019	**73**	**236**	**13,029**	**465**	**13,804**

The positive change arising from the **measurement using the equity method** is attributable to the performance during the period of the investee Priolo Servizi S.C.p.A.

Impairments losses refer to the impairment of the equity investment in the company Longburn Wind Farm Ltd.

The equity investments held at 31 December 2019 are summarised as follows:

	Measured at Equity	Measured at cost	Total
Equity investments:			
- in subsidiaries not consolidated line by line	–	73	**73**
- in joint ventures	–	236	**236**
- in associates	13,029	–	**13,029**
- in other companies	–	465	**465**
Total	**13,029**	**773**	**13,804**

NOTE 5 - OTHER NON-CURRENT FINANCIAL ASSETS

"Other non-current financial assets" amounting to EUR 41,629 thousand (EUR 76,604 thousand at 31 December 2018) are mainly comprised of grants due pursuant to Italian Law no. 488/92 pertaining to wind farms acquired as part of the ERG Wind transaction, which are tied-up in the dedicated Escrow Account established by Article 61, paragraph 23, of Italian Law Decree no. 112/2008 (converted by Law no. 133/2008) and awaiting the decision of the Court of Avellino, amounting to EUR 32 million. Pending the ruling, the Ministry of Economic Development revoked the grants pursuant to Italian Law no. 488/92 which had been assigned to the beneficiary companies, with decrees notified respectively on 29 October and 3 November 2014. An extraordinary appeal was promptly filed against the cancellation decrees, with an application for prudential suspension of the effectiveness of the challenged measures; currently, a decision is pending on both the suspension application and on the merits of the appeal. Pending this appeal, on 27 July 2015, the payment orders were served to the companies which the ERG Wind companies have appealed before the Court of Genoa, submitting a further application for precautionary suspension. The appeal was accepted, therefore suspending the effectiveness of the payment orders, subject to submission of appropriate bank sureties by the appellants.

With respect to the aforesaid receivables, a liability of an equal amount has been allocated and it was recognised in the 2013 consolidated financial statements as part of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (**Note 15 - Other non-current liabilities**).

The decrease in the item during the period relates mainly to the early collection of the receivable (EUR 36 million) due from api corresponding to the deferred portion of the sale amount of the assets regulated by a vendor loan agreement as part of the TotalErg transaction.

The item also includes financial assets with group companies not consolidated line by line (EUR 0.2 million) and guarantee deposits.

NOTE 6 - TAXATION

Deferred tax assets

	31/12/2019	
(EUR thousand)	**Temporary differences**	**Tax effect**
Provisions for risks and charges	106,940	25,063
Tax losses	121,779	30,329
Derivative Instruments	97,595	22,524
Amortisation, depreciation and Impairment of non-current assets	61,375	46,546
Other impairment losses	13,389	3,619
Other	101,468	29,469
Total deferred tax assets before offsetting	**502,546**	**157,550**
Offsettable deferred taxes		(115,293)
Total deferred tax assets after offsetting		**42,257**

Deferred tax assets

	31/12/2018	
(EUR thousand)	**Temporary differences**	**Tax effect**
Provisions for risks and charges	111,521	28,777
Tax losses	72,254	16,557
Derivative Instruments	113,996	29,038
Amortisation, depreciation and Impairment of non-current assets	106,515	24,513
Other impairment losses	14,816	3,714
Other	150,955	25,428
Total deferred tax assets	**570,056**	**128,028**

Deferred tax assets are recognised, provided their future recovery is probable, on the taxable temporary differences between the carrying amount of recognised assets and liabilities and their tax base and on the tax losses that can be carried forward.

The rate used to calculate deferred taxes for the Italian companies is the same as the nominal IRES (corporate income tax) rate (24%), increased, where so prescribed, by the IRAP (regional income tax) rate (3.90% - 4.82% - 5.57%).

The rates for foreign companies consolidated line by line are as follows:

- France 25% - 28%;
- Germany 26.6% - 30.5%;
- UK 17% - 19%;
- Romania 16%;
- Poland 19%;
- Bulgaria 10%.

Deferred tax assets amounting to EUR 42,257 thousand at 31 December 2019 (EUR 128,028 thousand at 31 December 2018), are mainly recognised in view of derivative instruments, allocations to provisions for risks and charges, business combinations and recoverable tax losses.

In addition, it is pointed out that:

- deferred tax assets amounting to EUR 8.1 million relating to non-deductible interest expense pertaining to the solar business were recognised in the financial statements;
- deferred tax assets relating to excess interest expense that can be carried forward, amounting to approximately EUR 36.5 million, referred to the ERG Wind Group, acquired in 2013, were not recognised in the financial statements. In 2019, the Group did not use the tax benefit not recognised previously.

  The reasons for not recognising these deferred tax assets are connected with the absence of a specific tax plan and with the expected evolution of the corporate structure of the ERG Wind group also as a result of the liability management operations that determined a change to the financial structure during 2019.

The Group deems it likely that the deferred tax assets recognised at 31 December 2019 will be recovered.

Deferred tax liabilities

	31/12/2019	
(EUR thousand)	Temporary differences	Tax effect
Purchase Price Allocation	1,004,695	290,346
Amortisation and Depreciation of Non-Current Assets	133,084	25,027
IFRS 9 tax effects	7,117	1,708
Other	198,047	7,276
Total deferred tax liabilities before offsetting	**1,342,943**	**324,357**
Offsettable deferred taxes		**(115,293)**
Total deferred tax liabilities after offsetting		**209,064**

Deferred tax liabilities

	31/12/2018	
(EUR thousand)	Temporary differences	Tax effect
Purchase Price Allocation	822,136	249,900
Amortisation and Depreciation of Non-Current Assets	121,619	26,380
IFRS 9 tax effects	6,021	1,445
Other	147,112	10,912
Total deferred tax liabilities	**1,096,888**	**288,637**

Deferred tax liabilities are recognised on taxable temporary differences which result from adjustments made to the financial statements of consolidated companies in order to align them with the Group's accounting policies, as well as on temporary differences between the carrying amount of recognised assets and liabilities and their corresponding tax base. The rate used to calculate deferred taxes is the same as the nominal IRES (corporate income tax) rate (24%), increased, where so prescribed, by the IRAP (regional income tax) rate (3.9% - 5.57%).

Deferred tax liabilities at 31 December 2019 of EUR 209,064 thousand (EUR 288,637 thousand at 31 December 2018), were recognised mainly on the capital gains from the business combinations and fiscally-driven depreciation and amortisation.

NOTE 7 - OTHER NON-CURRENT ASSETS

"Other non-current assets", equal to EUR 42,928 thousand (EUR 42,890 thousand at 31 December 2018) relate mainly to:

- the portion still to be collected (EUR 22 million) of the receivables for grants per Italian Law no. 488/92 relating to wind farms acquired with the ERG Wind transaction. With respect to the aforesaid receivables, a liability of an equal amount has been allocated and it was recognised in the 2013 consolidated financial statements as part of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (**Note 15 - Other non-current liabilities**);
- amounts of EUR 10 million due as compensation for the liability tied to interest and revaluations on the contributions under Italian Law no. 488/1992 relating to wind farms acquired with the ERG Wind transaction and revoked by the Ministry of Economic Development as discussed more thoroughly in **Note 14 - Other Provisions**;
- tax assets (EUR 5 million).

NOTE 8 - INVENTORIES

Materials, equal to EUR 22,273 thousand (EUR 21,623 thousand at 31 December 2018), relating to spare parts which are used mainly in the ordinary maintenance of wind farm installations and the CCGT plant.

NOTE 9 - TRADE RECEIVABLES

	31/12/2019	31/12/2018
Receivables from customers	128,087	123,989
Receivables for incentives	71,822	131,560
Receivables from Group companies that are not consolidated line by line	1,334	3,105
Loss allowance	(7,777)	(7,654)
Total	**193,466**	**251,001**

The item mainly includes receivables for the supply of electricity to third parties, sale of utilities to customers operating at the Priolo site and environmental certificates (feed-in tariff, green certificates and white certificates). The change relative to 31 December 2018 is mainly due to the reduction in credit collection times for incentives in Italy.

For information concerning receivables from non-consolidated Group companies, reference is made to **Note 33 - Related parties**.

The loss allowance changed as follows:

	31/12/2019	Increases	Decreases	IFRS 9 Adoption	31/12/2018
Loss allowance	(7,777)	(256)	133	–	(7,654)
Total	**(7,777)**	**(256)**	**133**	**–**	**(7,654)**

The Group assesses the existence of objective evidence of impairment on individual basis. The impairment tests are checked at individual company level by the Credit Committee which meets periodically to analyse the situation of past due trade receivables and any critical issues related to their collection.

The loss allowance is deemed to be sufficient to address the risk of potential non-collectability of past due trade receivables.

The **increases** refer in particular to accruals for doubtful trade receivables relating mainly to the solar business.

The analysis of the trade receivables existing at year end follows.

The aging brackets are presented net of the related loss allowance.

	31/12/2019	31/12/2018
Receivables not past due	**180,601**	**237,852**
Receivables past due:		
within 30 days	8,744	3,030
within 60 days	762	3,234
within 90 days	747	249
after 90 days	2,612	6,635
Total	**193,466**	**251,001**

NOTE 10 - OTHER CURRENT ASSETS - CURRENT TAX ASSETS

Other current assets and receivables

	31/12/2019	31/12/2018
Tax assets	48,006	61,320
Portions of deferred charges	40,800	27,982
Other assets	6,994	9,071
Current tax assets	27,656	22,406
Total	**123,462**	**120,785**

Tax assets relate to VAT and withholding taxes and other income taxes.

The change in portions of deferred charges relative to 31 December 2018 refers mainly to the excess CO_2 allowance purchased compared to requirements.

Other assets include, inter alia, amounts due from non-consolidated Group companies and the portions of costs deferred to subsequent periods, in addition to amounts due as compensation for the liability tied to interest and revaluations on the grants under Italian Law no. 488/1992 relating to wind farms acquired with the ERG Wind transaction and revoked by the Ministry of Economic Development as discussed more thoroughly in **Note 14 - Other provisions**.

NOTE 11 - EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT

Share capital

The parent's ully paid-in share capital at 31 December 2019 consisted of 150,320,000 shares with a par value of EUR 0.10 each for a total of EUR 15,032,000 (unchanged since 31 December 2018).

At 31 December 2019, the Company's Shareholders Register, relative to holders of significant investments, showed the following:

- San Quirico S.p.A. holds 83,619,940 shares, i.e. 55.628%;
- Polcevera S.r.l. holds 10,380,060 shares, i.e. 6.905%.

At 31 December 2019, San Quirico S.p.A. and Polcevera S.r.l. were controlled by the Garrone and Mondini families, heirs of the founder of the ERG Group, Edoardo Garrone.

Treasury shares

The treasury shares at the date of preparation of this document amounted to 1,450,080 at the average purchase price of EUR 6.88 (1,503,200 at the average purchase price of EUR 6.88 at 31 December 2018).

On 17 April 2019, pursuant to Article 2357 of the Italian Civil Code, the Shareholders of ERG S.p.A. authorised the Board of Directors, for a period of 12 months from 17 April 2019, subject to revocation for the period still remaining, of the previous authorisation to repurchase and sell treasury shares resolved by the Shareholders on 23 April 2018, to repurchase treasury shares up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 30,064,000 (thirty million, sixty-four thousand) ordinary ERG shares with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction. The Shareholders also authorised the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, for 12 months as from 17 April 2019, to sell, all at once or in several steps, and with any procedures deemed appropriate, in relation to the purposes which the disposal is attempting to achieve, treasury shares at a unit price no lower than 10% below the closing price of the stock on the day immediately preceding each individual sale.

In accordance with IAS 32, treasury shares are presented as a reduction in equity, through the use of the share premium reserve.

The original cost of treasury shares, impairment losses, and gains and losses deriving from any subsequent sales are presented as changes in equity.

On 20 October 2018, on the occasion of the celebration of ERG's 80th anniversary, the ultimate parent San Quirico S.p.A. and ERG S.p.A. signed an agreement that provides for the free allocation of 80 ERG treasury shares to each employee of the Italian companies of the ERG Group, the cost of which (including the value of the ERG treasury shares) were fully repaid by San Quirico S.p.A., a holding company of the Garrone and Mondini families.

The allocation was finalised on 14 January 2019 and involved a total of 664 employees and 53,120 shares held in the portfolio by the parent, for a total of EUR 898 thousand.

Other Reserves

The composition of equity is shown in the following table:

	31/12/2019	31/12/2018
Share capital	15,032	15,032
Share premium reserve	64,572	64,207
Revaluation reserves	66,946	66,946
Legal reserve	3,236	3,236
Merger reserve	251,120	251,120
Retained earnings	663,150	765,426
Other reserves	678,998	530,238
Profit for the year	31,553	132,628
Equity attributable to the owners of the parent	**1,774,606**	**1,828,832**
Non-controlling interests	11,530	–
Equity	**1,786,136**	**1,828,832**

For more details on changes in Other Reserves, refer to the section **Statement of Changes in Equity**.

Dividends

The dividends paid by ERG S.p.A. in 2019 (EUR 111.7 million) and in 2018 (EUR 171.1 million), as resolved upon approval of the Financial Statements for the previous year, amounted respectively to EUR 0.75 and EUR 1.15 (of which EUR 0.40 is the non-recurring component) for each of the shares with dividend rights as of the coupon date.

On 10 March 2020, the Board of Directors proposed the payment to shareholders of a dividend of EUR 0.75 per share.

The dividend will be paid starting from 20 May 2020, with coupon date starting on 18 May 2020 and record date on 19 May 2020.

Proposal of the Board of Directors of 10 March 2020

Dear Shareholders, in relation to the results achieved, we invite you to resolve upon the following:

- to approve the Financial Statements of your company for the year ended 31 December 2019, which show a profit of EUR 11,029,960.49;
- to resolve to pay to the Shareholders a dividend of EUR 0.75 per share. The dividend will be payable for each share with dividend rights outstanding at the ex-dividend date, excluding the company's own shares, in accordance with Article 2357-ter of the Italian Civil Code, via the profit for the year and, for the remaining part, via use of "Other reserves";
- to approve the payment of the dividend as from 20 May 2020, with an ex-dividend date of 18 May 2020 and record date of 19 May 2020.

Supplementary information on capital

The objectives identified by the Group for capital management are to safeguard corporate viability, to create stakeholder value and to support Group development. In particular, the Group pursues the maintenance of an adequate level of capitalisation that allows it to produce a satisfactory economic return for the shareholders and to assure access to external financing sources, also through the achievement of an adequate rating.

In this context, the Group manages its own capital structure and makes adjustments to it, if changes in the economic conditions require it. There were no substantial changes to the objectives, to the policies or to the processes as at the date of preparation of this document.

NOTE 12 - NON-CONTROLLING INTERESTS

Non-controlling interests relate to the consolidation on a line-by-line basis of the following companies that have other shareholders:

Company	% non-controlling investors	non-controlling interests
Andromeda PV S.r.l.	21.50%	11,530

NOTE 13 - EMPLOYEE BENEFITS

"Employee benefits" totalling EUR 5,381 thousand (EUR 5,820 thousand at 31 December 2018), includes the estimated liability relating to the benefits payable to employees when they terminate their employment.

There are no assets serving the plans.

The main assumptions used in determining the actuarial value of the liability relating to post-employment benefits and their changes during the year are shown below. The discount rate was determined on the basis of a panel of corporate securities with maturity of 10 years or more with AAA rating.

	2019	2018
Discount rate	0.8%	1.6%
Inflation rate	0.8%	1.5%
Average turnover rate	3.0%	3.0%
Average rate of increase of remuneration	1.5%	1.5%
Average age	46	45

	31/12/2019	31/12/2018
OPENING BALANCE	**5,820**	**6,403**
Change in the consolidation scope	–	–
Revaluation for the year	276	176
Decreases in the year	(714)	(758)
CLOSING BALANCE	**5,381**	**5,820**

The decreases for the year are attributable mainly to departures of employees and advances to personnel.

The following table shows the impact on the liability of a +/-0.5% change in the discount rate:

	31/12/2019	31/12/2018
+0.5% change in the discounting rate: lower liability	(220)	(256)
-0.5% change in the discounting rate: higher liability	238	280

NOTE 14 - OTHER PROVISIONS

Other non-current provisions

	31/12/2019	Increases	Decreases	Reclassifications	Change in the consolidation scope	31/12/2018
Provisions for dismantlement costs	45,567	1,341	(292)	–	2,273	42,244
Provision for disposed businesses	75,924		(13,237)	–	–	89,161
Provisions for non-current tax risks	12,656	–	(1,412)	–	2,043	12,025
Provisions for non-current institutional risks	–	–	(325)	–	–	325
Other provisions for non-current risks and charges	4,997	4,922	(96)	–	32	139
Total	**139,144**	**6,263**	**(15,362)**	**–**	**4,348**	**143,894**

Other non-current provisions, amounting to EUR 139,144 thousand (EUR 143,894 thousand at 31 December 2018) comprise mainly liabilities tied to:

- costs for the restoration of the site on which the wind farms operate for the larger number of assets recognised as property, plant and equipment;
- the provision for disposed businesses for which reference is made to **Note 20 - Contingent liabilities and disputes**.

The **increases** for the year relate mainly to:

- the remeasurement of the costs for the restoration of wind farms and solar plants and in particular to the reversal of the discounting effect. The discount rates used, depending on the reference countries, are within the 1%-3.5% range. For the other provisions, no discounting was applied because of the uncertainty about the utilisation times;
- the recognition of liabilities related to the internal reorganisation procedures underway and, in particular, to the simplification and rationalisation of the organisational-corporate structure of the Group in Italy and abroad.

The **decreases** during the year mainly refer to use for costs incurred in the year (5 millions) and to partial releases in view of positive developments in relation to disputes (8,2 millions).

Other current provisions

	31/12/2019	Increases	Decreases	Reclassifications	Change in the consolidation scope	31/12/2018
Provision to cover losses of investees	6,459	345	(513)	–	–	6,627
Provisions for current tax risks	13,740	9,185	(1,256)	–	–	5,810
Provisions for current institutional risks	24,607	302	(26)	–	–	24,331
Provision for current legal risks	2,716	2,145	(4,160)	–	–	4,732
Other provisions for current risks and charges	2,713	361	(1,905)	–	177	4,081
Total	**50,235**	**12,338**	**(7,859)**	**–**	**177**	**45,580**

Other current provisions amounted, at 31 December 2019, to EUR 50,235 thousand (EUR 45,580 thousand at 31 December 2018) and are composed as follows:

- the **Provision for charges for coverage of investees' losses** relates mainly to the non-consolidated, no longer operational subsidiary ERG Petroleos, which is being wound up;
- the **provision for current tax risks** takes into consideration the estimated liabilities arising from tax-related disputes. It is also noted that the provision includes, inter alia, the allowance relating to the existing dispute and to the potential dispute in relation to local taxes brought as a result of the different interpretation provided by the Italian Revenue Agency regarding application of the regulatory provisions introduced by Italian Law no. 208/2015 (in particular, wind towers are considered by the Revenue Agency to be relevant for the purposes of calculating cadastral rent);
- the **provision for current institutional risks** includes:
  - the provision for charges tied to interest and revaluations on the grants under Italian Law no. 488/1992 (EUR 15.6 million), relating to wind farms acquired with the ERG Wind transaction and revoked by the Ministry of Economic

Development as discussed more thoroughly in **Note 5 - Other non-current financial assets**. The risks connected to the revocation of the aforementioned contributions are covered in the ERG Wind acquisition agreements by specific indemnification obligations issued by the seller and therefore the relative amount receivable has been recognised in "Other current assets";

- the provision for contingent charges of foreign companies (EUR 9 million) refers to contingent liabilities concerning Romania, recognised in 2015 on the winding up of the joint venture LUKERG Renew.

The **increases** relate mainly to:

- the recalculation of the liability in relation to certain tax-related disputes for 2019 and previous years;
- charges to cover losses of investees (EUR 0.3 million);
- charges related to the outcome of legal disputes (EUR 2.1 million).

The **decreases** relate mainly to:

- utilisation relating to tax disputes arising during the year (EUR 1.2 million);
- uses to cover losses of investee companies (EUR 0.5 million);
- the closure of disputes connected with the projects tied to the wind business (EUR 4.2 million);
- the release relating to the provision for costs potentially arising from the energy business due to the elimination of the risk in question (EUR 1.4 million).

For the other current provisions, discounting was not applied by virtue of their classification as current liabilities.

NOTE 15 - OTHER NON-CURRENT LIABILITIES

	31/12/2019	31/12/2018
Price of Wind Group acquisition	9,821	9,821
Liabilities for prior year taxes from merger of foreign companies	18,594	18,594
Portions of income deferred to subsequent years	1,801	1,971
Other minor items	4,500	4,030
Total	**34,716**	**34,417**

NOTE 16 - TRADE PAYABLES

	31/12/2019	31/12/2018
Suppliers	87,447	92,258
Payables to Group companies not consolidated line by line	383	36
Total	**87,830**	**92,294**

These are liabilities deriving from commercial transactions and are payable within the next year. They refer mainly to liabilities for the purchase of utilities (gas and electricity) and for investments.

NOTE 17 - NET FINANCIAL POSITION

	31/12/2019	31/12/2018
Non-current loans/borrowings	675,803	795,670
- current portion of loans and borrowings	(7,815)	(163,618)
Non-current Project Financing	812,110	1,177,550
- current portion of Project Financing	(104,310)	(146,164)
Non-current bonds	603,688	100,559
- current portion of Bonds	(7,065)	(897)
Fair value of hedging derivatives on interest rates	41,765	88,225
Non-current financial liabilities for the purchase of equity investments	18,449	16,884
Non-current financial liabilities	**2,032,625**	**1,868,210**
Lease liabilities	77,536	–
- current portion of lease liabilities	(7,406)	–
Non-current financial liabilities for leased assets	**70,130**	**–**
NET NON-CURRENT FINANCIAL DEBT	**2,102,755**	**1,868,210**
Current loans/borrowings	7,815	163,618
Current Project Financing	104,310	146,164
Current bonds	7,065	897
Current bank loans and borrowings	92	20,074
Other current financial liabilities	2,274	3,973
Current financial liabilities	**121,555**	**334,726**
Current lease liabilities	7,406	–
Current lease liabilities	**7,406**	**–**
Loan assets with investees	(8,357)	(8,490)
Other current loan assets	(14,062)	(41,200)
Current financial assets	**(22,419)**	**(49,690)**
Bank deposits	(535.678)	(611,389)
Cash in hand and cash equivalents	0	(7)
Bank deposits related to Project Financing	(117.850)	(162,797)
Cash and cash equivalents	**(653,528)**	**(774,193)**
NET CURRENT FINANCIAL POSITION	**(546,985)**	**(489,158)**
NET FINANCIAL INDEBTEDNESS	**1,555,770**	**1,379,053**

Net financial indebtedness, in accordance with ESMA requirements, totalled EUR 1,556 million, up by EUR 177 million compared to 31 December 2018 mainly due to the following impacts and the cash flow during the period net of the investments and changes in operating capital:

- EUR +364 million overall impact of the transactions described in the section **Change in the consolidation scope**;
- EUR +112 million distribution of dividends to Shareholders;
- EUR -328 million collection of incentives (Italian feed-in premium).

Net non-current financial position

For a comparison between the carrying amounts and the related fair value, please refer to **Note 36 - Financial Instruments**.

Non-current loans and borrowings

The "**Non-current bank 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) and UBI Banca S.p.A. (EUR 100 million) entered into in the first half of 2016 to refinance the current portion of the corporate acquisition loan entered into for the acquisition of ERG Hydro S.r.l., and with Unicredit S.p.A. (EUR 75 million) for the project financing for the wind farm in Corni (Romania);
- a corporate loan with Mediocredito (EUR 57 million) for the early termination of leasing contracts of 5 solar companies acquired at the beginning of the year;
- two medium/long-term Environmental, Social and Governance loans ("ESG Loans") of EUR 120 million with Banca Nazionale del Lavoro and EUR 120 million with Crédit Agricole to support the investment plan of the group and to refinance some corporate credit facilities;
- a corporate loan with Commerzbank (EUR 60 million) in view of the early repayment of the project financing of ERG Power S.r.l. and 5 wholly-owned German companies.

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 conditions and repayment plans of non-current loans and borrowings are as follows:

Company	Type	Carrying amount of financial liability	Nominal amount of financial liability	Currency of the loan	Disbursement	Maturity	Hedge
ERG S.p.A.	Bilateral corporate loan	145,554	150,000	EUR	2016	2023	IRS: fixed rate 0.2125%
ERG S.p.A.	Bilateral corporate loan	99,825	100,000	EUR	2016	2021	IRS: fixed rate -0.045%
ERG S.p.A.	Bilateral corporate loan	74,790	75,000	EUR	2016	2021	IRS: fixed rate -0.092%
ERG S.p.A.	Corporate loan	56,547	56,875	EUR	2018	2026	–
ERG S.p.A.	Environmental, Social and Governance Loan	119,619	120,000	EUR	2018	2023	IRS: fixed rate 0.34%
ERG S.p.A.	Corporate loan	59,841	60,000	EUR	2019	2024	IRS: fixed rate 0.0005%
ERG S.p.A.	Corporate loan	119,628	120,000	EUR	2019	2023	IRS: fixed rate 0.34%
TOTAL LOANS/BORROWINGS		**675,803**	**681,875**				

Please refer to **Note 19** for a comment on any pertaining Covenants and negative pledges.

Non-current Project Financing

Liabilities for project financing, amounting to EUR 812 million (EUR 1,178 million at 31 December 2018), refer to the items in the following table:

(EUR thousand)			ASSOCIATED FINANCIAL DEBT					
Company	Type	Net Carrying Amount asset	Carrying amount of financial liability	Nominal amount of financial liability	Currency of the loan	Disbursement	Maturity	Hedge
ERG Eolica Adriatica	Secured project financing	104,395	78,059	80,821	EUR	2009	2025	IRS: fixed rate 4.176%
ERG Eolica Fossa del Lupo	Secured project financing	91,707	60,103	63,505	EUR	2017	2027	IRS: fixed rate 2.26%
ERG Eolica Campania	Secured project financing	69,447	11,519	11,605	EUR	2009	2020	IRS: fixed rate 4.37%
ERG Eolica Ginestra	Secured project financing	51,012	21,812	22,410	EUR	2010	2025	IRS: fixed rate 3.27%
ERG Eolica Amaroni	Secured project financing	27,451	16,943	18,032	EUR	2017	2027	IRS: fixed rate 1.68%
ERG Eolica Faeto	Secured project financing	8,393	7,711	7,761	EUR	2007	2021	IRS: fixed rate 2.13%
Eoliennes du Vent Solaire	Secured project financing	1,962	2,450	2,450	EUR	2011	2025	Fixed rate loan
ERG Eolica Basilicata	Secured project financing	33,208	25,663	28,116	EUR	2017	2027	IRS: fixed rate 1.456%
EW Orneta 2 SP Z.O.O.	Secured project financing	91,448	34,211	34,909	Zloty	2015	2029	IRS: fixed rate 2.47% (wibor)
K & S Energy Eood	Secured project financing	40,066	10,792	10,972	EUR	2012/13	2022	IRS: fixed rate 0.14%
ERG Wind France 1	Secured project financing	35,529	16,159	16,718	EUR	2016	2025	IRS: fixed rate -0.065%
Parc Eolien du Patis S.a.s.	Secured project financing	5,570	5,587	5,587	EUR	2013	2027	IRS: fixed rate 2.025%
Parc Eolien de Garcelles Sacqueville S.a.s.	Secured project financing	4,176	3,502	3,502	EUR	2007	2023	IRS: fixed rate 3.75%
S.a.s. Societè de exploitation du P.E. de la Souterraine	Secured project financing	5,176	5,647	5,647	EUR	2013	2028	IRS: fixed rate 2.01%
Parc Eolien de Oyre Saint Sauveur S.a.s.	Secured project financing	9,134	8,216	8,216	EUR	2014	2029	Loan for 40% at fixed rate
Parc Eolien St Riquier 1 S.a.s.	Secured project financing	6,236	8,421	8,421	EUR	2009	2027	Fixed rate loan
ERG Wind 117 GmbH & Co. KG	Secured project financing	13,039	10,386	10,587	EUR	2013	2030	Fixed rate loan
Windpark Achmer Vinte GmbH & Co. KG	Secured project financing	1,394	2,700	2,700	EUR	2006	2021	Fixed rate loan
Windpark Cottbuser Halde GmbH & Co. KG	Secured project financing	15,823	18,832	19,730	EUR	2007	2025	Fixed rate loan
Parc Eolien Chaude Vallée S.ar.l.	Secured project financing	8,762	9,688	9,688	EUR	2011	2027	Loan for 85% at fixed rate
Parc Eolien Hauts Moulins S.ar.l.	Secured project financing	9,489	9,710	9,710	EUR	2012	2028	Loan for 86% at fixed rate
Parc Eolien de Morvillers S.ar.l.	Secured project financing	9,555	10,210	10,210	EUR	2012	2027	Fixed rate loan
Parc Eolien Moulins des Champs S.ar.l.	Secured project financing	9,414	9,569	9,569	EUR	2012	2028	Loan for 85% at fixed rate
Parc Eolien de St Riquier 3 S.a.s.	Secured project financing	10,325	10,800	10,800	EUR	2014	2028	Fixed rate loan
Parc Eolien de St Riquier 4 S.a.s.	Secured project financing	8,874	9,193	9,193	EUR	2014	2028	Fixed rate loan
ERG Wind Dobberkau GmbH & Co. KG	Secured project financing	6,734	10,541	11,285	EUR	2014	2025	IRS: fixed rate 0.949%
ERG Solar Holding S.r.l.	Secured project financing	–	149,892	158,003	EUR	2016	2030	IRS: fixed rate 0.75%
ISAB Energy Solare (S.r.l.)	Secured project financing	2,187	2,156	2,156	EUR	2011	2029	IRS: fixed rate 2.81%
Parc Eolien de la valleè de Torfou S.a.r.l.	Secured project financing	18,158	20,443	21,342	EUR	2017	2034	Fixed rate loan
Parc Eolien du Melier S.a.r.l	Secured project financing	8,994	10,091	10,091	EUR	2015	2031	Fixed rate loan
ERG Windpark Linda GmbH & Co. KG	Secured project financing	31,065	23,471	23,660	EUR	2018	2038	Fixed rate loan
Andromeda S.r.l.	Secured project financing	119,318	131,672	131,992	EUR	2010	2028	Fixed rate loan
UGE Barkow GmbH & Co.KG Umweltgerechte Energie	Secured project financing	18,609	21,080	21,080	EUR	2014	2033	IRS 1: fixed rate 2.070% IRS 2: fixed rate 1.700%
UGE Barkow Zwei GmbH & Co.KG Umweltgerechte Energie	Secured project financing	12,981	14,507	14,507	EUR	2014	2033	IRS 1: fixed rate 2.070% IRS 2: fixed rate 1.700%
UGE Barkow Drei GmbH & Co.KG Umweltgerechte Energie	Secured project financing	18,157	20,362	20,362	EUR	2014	2033	IRS 1: fixed rate 2.110% IRS 2: fixed rate 2.110% IRS 3: fixed rate 1.700%
TOTALE PROJECT FINANCING			**812,114**	**835,353**				

Project Financing shown in the table are guaranteed by the underlying asset.

Please refer to **Note 19** for a comment on any pertaining Covenants and negative pledges.

At 31 December 2019, the weighted average interest rate on loans, borrowings and project financing was 1.80% (1.34% at 31 December 2018). The rate indicated does not take into account interest rate hedges.

Bonds

The liability for bonds, amounting to EUR 603.7 million at 31 December 2019 (EUR 100.6 million at 31 December 2018), includes:

- the liability deriving from the issue of the non-convertible bonds in July 2017, aimed at raising additional funds for new capital expenditure in the renewable energies sector and to refinance the capital expenditure made for hydroelectric plants in Italy;
- the liability deriving from the issue of the non-convertible Green Bond carried out in April 2019, aimed at financing or refinancing ERG Group projects for the generation of energy from renewable sources (wind and solar). More information is available in the following section **ERG places its first Green Bond for EUR 500 million**.

The liability for bonds is presented net of commissions and other borrowing costs with an opening amount of EUR 4.9 million. These costs were recognised in the 2019 financial expenses using the amortised cost method in the amount of EUR 0.6 million.

ERG places its first Green Bonds for EUR 500 million

On **4 April 2019** ERG S.p.A. completed the placement of bonds 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 of EUR 1 billion (see Press Release of 19 December 2018), as most recently amended and supplemented on 26 March 2019.

The placement of the bond took place after a roadshow of 4 days on the major European financial hubs (Milan, Amsterdam, Paris, London and Frankfurt), during which the top management of ERG met more than 100 investors.

The issue took the form of Green Bonds, aimed at financing or refinancing renewable sources, wind and solar power generation projects of the ERG Group.

The bond is intended exclusively for Euromarket institutional investors. 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 amount.

The settlement date was set as 11 April 2019. From that date onwards, the bonds will be listed on the regulated market of the Luxembourg Stock Exchange.

Fitch Ratings assigned a rating of BBB- to the issue.

The issue of the first Green Bonds by ERG is consistent with the strategy that foresees the progressive transformation of the Group's financial structure from Project to Corporate Financing, consistently with the prospective change in the industry and with the expected development of the generation portfolio.

The placement was handled by Banca IMI, Barclays, BNP Paribas, Crédit Agricole Corporate and Investment Bank, Mediobanca - Banca di Credito Finanziario S.p.A. and UniCredit as Joint Bookrunners and by ING as Co-Lead manager.

The conditions and repayment plans of the bonds are as follows:

Company	Type	Carrying amount of financial liability	Nominal amount of financial liability	Currency of the loan	Disbursement	Maturity	Hedge
ERG S.p.A.	Bonds	100,659	100,000	EUR	2017	2023	Fixed rate loan
ERG S.p.A.	Bonds	503,029	500,000	EUR	2019	2025	Fixed rate loan
TOTAL BOND		**603,688**	**600,000**				

The carrying amount of the financial liability includes approximately EUR 7.8 million of interest accrued in the year.

Fair value of hedging derivatives on interest rates

The other non-current loans and borrowings include liabilities deriving from the fair value measurement of the derivatives hedging interest rates of EUR 41.7 million (EUR 88.2 million at 31 December 2018), the details of which are provided below:

	Issuing bank	Agreement	Maturity	Payable for fair value	
(EUR thousand)				**31/12/2019**	**31/12/2018**
ERG Wind Investments Ltd. (1)	IntesaSanpaolo	IRS	–	–	(29,310)
ERG Wind Investments Ltd. (1)	IntesaSanpaolo	IRS	–	–	(21,945)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	15/06/22	(3,013)	(4,438)
ERG Eolica Adriatica S.r.l.	ING	IRS	15/06/22	(3,042)	(4,483)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	15/06/22	(3,013)	(4,438)
ERG Eolica Adriatica S.r.l.	BNP Paribas BNL	IRS	30/06/25	(278)	(82)
ERG Eolica Adriatica S.r.l.	UBI Banca	IRS	30/06/25	(109)	(32)
ERG Eolica Adriatica S.r.l.	Unicredit	IRS	30/06/25	(278)	(82)
ERG Eolica Fossa del Lupo S.r.l.	ING	IRS	31/12/25	(1,481)	(1,678)
ERG Eolica Fossa del Lupo S.r.l.	Crédit Agricole	IRS	31/12/25	(1,273)	(1,443)
ERG Eolica Fossa del Lupo S.r.l.	Centrobanca	IRS	31/12/25	(977)	(1,107)
ERG Eolica Fossa del Lupo S.r.l.	Credit Agricole	IRS	31/12/27	(353)	(120)
ERG Eolica Campania S.p.A.	UniCredit	IRS	31/05/20	(98)	(350)
ERG Eolica Ginestra S.r.l.	UniCredit	IRS	30/06/25	(634)	(769)
ERG Eolica Ginestra S.r.l.	Centrobanca	IRS	30/06/25	(634)	(769)
ERG Eolica Ginestra S.r.l.	Unicredit	IRS	30/06/25	(634)	(769)
ERG Eolica Amaroni S.r.l.	ING	IRS	31/12/26	(488)	(479)
ERG Eolica Amaroni S.r.l.	Credit Agricole	IRS	31/12/26	(488)	(479)
ERG Eolica Amaroni S.r.l.	Credit Agricole	IRS	31/12/27	(30)	(9)
ERG Eolica Faeto S.r.l.	Banco popolare	IRS	31/12/21	(95)	(180)
ERG Eolica Faeto S.r.l.	Unicredit	IRS	31/12/21	(95)	(180)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30/12/19	–	(16)
Parc Eolien les Mardeaux S.a.s.	HSH	IRS	30/12/19	–	(17)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30/12/19	–	(15)
Parc Eolien de Hetomesnil S.a.s.	HSH	IRS	30/12/19	–	(16)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30/12/19	–	(15)
Parc Eolien de Lihus S.a.s.	HSH	IRS	30/12/19	–	(16)
Parc Eolien de la Bruyere S.a.s.	HSH	IRS	30/12/19	–	(16)
Parc Eolien de la Bruyere S.a.s.	HSH	IRS	30/12/19	–	(17)
ERG Eolica Basilicata S.r.l.	BNP Paribas BNL	IRS	30/06/31	(808)	(710)
ERG Eolica Basilicata S.r.l.	Credit Agricole	IRS	30/06/31	(808)	(710)
EW Orneta 2 SP Z.O.O.	ING	IRS	31/12/29	(451)	(120)
EW Orneta 2 SP Z.O.O.	Pekao Bank	IRS	31/12/29	(451)	(120)
ERG Power S.r.l. (2)	BNP Paribas BNL	IRS	–	–	(646)
ERG Power S.r.l. (2)	IntesaSanpaolo	IRS	–	–	(646)

	Issuing bank	Agreement	Maturity	Payable for fair value	
(EUR thousand)				31/12/2019	31/12/2018
ERG Power S.r.l. (2)	Credit Agricole	IRS	–	–	(518)
ERG Power S.r.l. (2)	Santander	IRS	–	–	(103)
ERG Power S.r.l. (2)	Centrobanca	IRS	–	–	(103)
ERG Power S.r.l. (2)	ING	IRS	–	–	(103)
ERG S.p.A. (3)	ING	IRS	–	–	(263)
ERG S.p.A. (3)	BNP Paribas BNL	IRS	–	–	(256)
ERG S.p.A. (3)	Unicredit	IRS	–	–	(265)
ERG S.p.A. (3)	Barclays	IRS	–	–	(253)
ERG S.p.A. (3)	IntesaSanpaolo	IRS	–	–	(264)
ERG S.p.A. (3)	Credit Agricole	IRS	–	–	(268)
ERG S.p.A (3)	Natixis	IRS	–	–	(265)
ERG S.p.A.	UBI Banca	IRS	26/02/21	(255)	(284)
ERG S.p.A.	UBI Banca	IRS	26/02/21	(210)	–
ERG S.p.A.	Mediobanca	IRS	30/06/23	(3,422)	(1,290)
ERG S.p.A.	Mediobanca	IRS	15/03/21	(698)	(1,185)
ERG S.p.A.	Unicredit	IRS	21/04/21	(199)	(199)
ERG S.p.A.	Unicredit	IRS	31/01/22	(293)	–
ERG S.p.A.	Crédit Agricole	IRS	19/11/23	(2,874)	(914)
ERG S.p.A.	BNL	IRS	19/11/23	(2,874)	(914)
ERG S.p.A.	Commerzbank	IRS	02/05/24	(633)	–
ERG S.p.A.	Commerzbank	IRS	30/09/29	(6)	–
ERG S.p.A. (4)	Unicredit	IRS	31/12/27	146	
ERG S.p.A. (4)	Credit Agricole	IRS	31/12/27	402	
ERG S.p.A. (4)	Barclays	IRS	31/12/27	469	
ERG S.p.A. (4)	Unicredit	IRS	30/09/29	453	
ERG S.p.A. (4)	UBI	IRS	30/09/29	368	
Parc Eolien Du Patis S.a.s	Crédit Coopératif	IRS	02/08/27	(205)	(206)
Parc Eolien Du Patis S.a.s	Crédit Coopératif	IRS	30/07/27	(207)	(209)
Parc Eolien de Garcelles Secqueville S.a.s	Nord LB	IRS	30/06/23	(260)	(394)
S.a.s. Societè de exploitation du P.E. de la Souterraine	Crédit Coopératif	IRS	29/12/28	(576)	(530)
Parc Eolien de Oyre Saint Sauveur S.a.s	Natixis	IRS	01/07/29	(396)	(350)
Parc Eolien St Riquier 1 S.a.s	Saar	IRS	31/12/24	(248)	(205)
ERG Wind 117 GmbH & Co. KG	Commerzbank	IRS	31/12/29	(467)	(328)
ERG Wind 117 GmbH & Co. KG	Commerzbank	IRS	31/12/30	(217)	(111)
ERG Wind Dobberkau GmbH & Co. KG	Nord LB	IRS	31/12/25	(432)	(407)
ERG Solar Holding S.r.l.	IntesaSanpaolo	IRS	30/06/30	(1,243)	(319)
ERG Solar Holding S.r.l.	UBI Banca	IRS	30/06/30	(1,246)	(320)
ERG Solar Holding S.r.l.	UniCredit	IRS	30/06/30	(1,470)	(378)
ERG Solar Holding S.r.l.	IntesaSanpaolo	IRS	30/06/30	(310)	(148)
ERG Solar Holding S.r.l.	UBI Banca	IRS	30/06/30	(310)	(148)
ERG Solar Holding S.r.l.	UniCredit	IRS	30/06/30	(367)	(175)
ISAB Energy Solare S.r.l.	IntesaSanpaolo	IRS	30/06/29	(329)	(319)
ERG Wind France 1 S.a.s (4)	HypoVereinsbank	IRS	30/09/23	(28)	–
ERG Wind France 1 S.a.s (4)	UBI Banca	IRS	30/09/23	(28)	–
Windpark Linda GmbH & Co. KG	HSH Nordbank AG	IRS	31/12/38	(714)	–
K&S Energy EOOD	Raiffeisen Bank	IRS	31/12/22	(11)	–
Barkow GmbH	Commerzbank	IRS	31/12/30	(630)	–
Barkow Zwei GmbH	Commerzbank	IRS	31/12/30	(418)	–
Barkow Drei GmbH	Commerzbank	IRS	30/06/31	(670)	
Barkow Drei GmbH	Commerzbank	IRS	30/06/31	(40)	–
Barkow GmbH	Commerzbank	IRS	30/06/33	31	–
Barkow Zwei GmbH	Commerzbank	IRS	30/06/33	21	–
Barkow Drei GmbH	Commerzbank	IRS	30/06/33	15	–
TOTAL				**(39,913)**	**(88,225)**

(1) (2) the derivative financial instrument was redeemed early as a result of the repayment of the relative project financing
(3) the derivative financial instrument was redeemed as a result of the repayment of the relative loan
(4) on 31 December 2019, the positive fair value of the derivatives, equal to EUR 1.8 million, was posted to non-current financial assets

Non-current financial liabilities for the purchase of equity investments

The item includes non current financial liabilities for foreign acquisitions of companies operating in the wind business.

Non-current lease liabilities

Non-current financial liabilities arisen as a result of the adoption of the new IFRS 16 standard. For additional details, refer to the section First-time adoption of **IFRS 16 - Leases**.

Net current financial position

Current bank loans and borrowings

The decrease in the item is attributable to the closure of the short-term positions referred to current accounts of short-term credit lines.

Other current financial liabilities

Other current financial liabilities relate mainly to foreign acquisitions of companies operating in the wind business (EUR 2 million).

Current lease liabilities

The item includes current financial liabilities arisen as a result of the adoption of the new IFRS 16 standard. For additional details, refer to the section First-timeadoption of **IFRS 16 - Leases**.

Loan assers with investees

They refer to the loan with the subsidiary ERG Petroleos S.A., not consolidated line by line.

Other current financial assets

These mainly include receivables from ECC - European Commodity Clearing, relating to the margin of futures contracts stipulated (EUR 6.5 million).

Cash and cash equivalents

The item consists of cash generated by Group activities and by asset sales of previous years, deposited on a short-term basis at the banks with which the Group works.

The item includes the balance in the accounts of the wind and solar investees of ERG Power Generation S.p.A. according to the restrictions on use set forth in the relative project financing agreements for EUR 118 million.

With regard to restricted liquidity, please refer to **Note 19 - Covenants and Negative Pledges**.

It is not necessary to provide a reconciliation with the cash and cash equivalents presented in the statement of cash flows, because the value is the same.

Reconciliation between Net Financial Position and Net Financial Indebtedness

The table below shows the reconciliation between net financial position and the net financial indebtedness reported in the **Directors' Report**:

	31/12/2019	31/12/2018
Net Financial indebtedness	**1,555,770**	**1,379,053**
Receivable from api	–	(36,054)
Exclusion of impact of IFRS 16	(77,536)	–
Exclusion of Positive fair value ERG S.p.A. derivative financial instruments	(1,837)	–
Net Financial Indebtedness Directors' Report	**1,476,397**	**1,342,999**

NOTE 18 - OTHER CURRENT LIABILITIES - CURRENT TAX LIABILITIES

	31/12/2019	31/12/2018
Payables to tax authorities	1,740	3,037
Payables to employees	8,133	7,222
Payables to pension and social security institutions	4,626	5,013
Payables for Tax Consolidation to TotalErg S.p.A.	–	6,244
Portions of income deferred in subsequent years	157	257
Payables for fair value non-financial derivative instruments	21,166	–
Other current liabilities	17,359	11,259
Current tax liabilities	5,405	22,468
Total	**58,587**	**55,501**

During 2019, taxes of approximately EUR 41 million were paid, net of offsetting, settling 2019 and as an advance for 2020.

NOTE 19 - COVENANTS AND NEGATIVE PLEDGES

The characteristics of existing loans/project financing and of the related covenants.

At the reporting date, all the covenants on the Group's loans had been satisfied.

Corporate acquisition loan ERG S.p.A.

ERG S.p.A. has the following outstanding corporate loans:

- syndicated corporate acquisition loan stipulated on 7 August 2015 with a pool of seven banks coordinated by the agent bank Banca IMI S.p.A. (UniCredit, IntesaSanpaolo, Bnp Paribas, Credit Agricole, Ing, Natixis, Barclays);
- bilateral corporate loan with UBI Banca S.p.A., stipulated on 26 February 2016;
- bilateral corporate loan with Mediobanca S.p.A., stipulated on 11 March 2016;
- bilateral corporate loan with UniCredit S.p.A., stipulated on 21 April 2016.

The above loan agreements provide for the following financial Covenant; failure to comply with the Covenant constitutes an "event of default" in accordance with the related loan agreements.

The Ratio of Net Debt/EBITDA referred to the Consolidated Financial Statements of the ERG Group must be no higher than 4.00 at 31 December 2018, with values progressively decreasing to 3.75, according to the following scale on the respective calculation dates:

- 4.00 at 30 June 2019;
- 3.75 at 31 December 2019; 30 June 2020; 31 December 2020.

If the covenants are not fulfilled, the agreements provide for the possibility for the borrower to apply an "Equity Cure" that will be taken into consideration as a reduction of net financial indebtedness.

The agreements also provide a standard Negative pledge for similar loan agreements, with the prohibition to pledge assets securing any other third party lenders.

ERG S.p.A. also has the following new corporate loans:

- Loan Facility Agreement of EUR 120 million with BNL stipulated on 19 November 2018;
- Loan Facility Agreement of EUR 120 million with Credit Agricole stipulated on 19 November 2018;
- Loan Facility Agreement of EUR 60 million with Commerzbank stipulated on 19 March 2019.

These loans do not have actual financial covenants tied to the termination of the agreement, but specify that the interest rates will be raised (20bps-120bps) if the rating of the Company is downgraded.

The agreements also provide a standard Negative pledge for similar loan agreements, with the prohibition to pledge assets securing any other third party lenders.

On 6 February, the syndicated acquisition corporate loan stipulated on 7 August 2015 with a pool of seven banks coordinated by the agent bank Banca IMI S.p.A. (UniCredit, IntesaSanpaolo, Bnp Paribas, Credit Agricole, Ing, Natixis, Barclays), for a residual amount of EUR 291 million, was repaid.

Project Financing of ERG Power S.r.l.

With reference to the project financing of ERG Power S.r.l., on 6 May 2019, the company extinguished the residual payable amounting to EUR 49.6 million and the swap hedges using cash on hand and using a loan of approximately EUR 95 million with ERG S.p.A. to optimise financial and management costs of the project itself. The loan, entered into in 2010, comprised a base line of EUR 330 million. According to the amortisation plan, the last payment date was 31 December 2021.

Loan entered into in June 2007 by the company ERG Eolica Faeto S.r.l. (formerly Eos 4 Faeto S.r.l.).

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 6.1 million at 31 December 2019), in addition to a letter of comfort of ERG Renew S.p.A. (now ERG Power Generation S.p.A) The loan is also subject to the following covenants and negative pledges:

- Historical Debt Service Coverage Ratio (DSCR): calculated as the ratio between the project's cash flow after the VAT flows for repayment of the principal amount of the VAT line, for the current year and the preceding one and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If it is less than 1.10, ERG Eolica Faeto S.r.l. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.05 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.

- the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Faeto S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan entered into by Green Vicari S.r.l. in August 2007.

This loan was extinguished on 30 June 2019, following payment of the final contractual instalment.

Financing pertaining to the construction of the five wind farms situated in France: Parc Eolien de Lihus, Hetomesnil, Bruyère, Carreau, Mardeaux

The loan relating to the Bruyere and Carreau companies was extinguished on 30 June 2019, following payment of the final contractual instalment, and the loan relating to the remaining three companies (Hetomesnil, Lihus, Mardeaux) was extinguished on 31 December 2019.

Loan entered into by the company Eoliennes Du Vent Solaire S.a.s. for the construction of a wind farm situated in France.

The guarantees issued entail the mortgage of real estate and a pledge on 100% of the company's share capital and restricted bank accounts (EUR 0.4 million at 31 December 2019). The loan is also subject to the following covenants and negative pledges:

- Debt Service Coverage Ratio (DSCR): calculated as the ratio between the project's cash flow after the VAT flows for repayment of the principal amount of the VAT line, for the current year and the preceding one and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines. If it is less than 1.15, Eoliennes du Vent Solaire S.a.s. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Therefore, Eoliennes du Vent Solaire S.a.s. may not issue further guarantees on its assets.

Loan entered into in January 2010 by the company ERG Eolica Ginestra S.r.l.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge of 100% of the company's share capital and on the company's restricted bank accounts (EUR 4.3 million at 31 December 2019). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Eolica Ginestra S.r.l. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.05 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- The Loan Life Cover Ratio (LLCR) is calculated as the ratio between the net present value - discounted at the weighted average cost of capital - of operating cash flows expected by the company between the date of calculation and the liability's maturity year and the amount of the liability existing as of the calculation date. If it is less than 1.20, ERG Eolica Ginestra S.r.l. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Ginestra S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan entered into in October 2009 by ERG Eolica Adriatica S.r.l. (formerly IVPC Power 5 S.p.A.).

The loan was restructured on 29 June 2018.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 12.7 million at 31 December 2019).

The baseline of the loan is subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Eolica Adriatica S.r.l. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical and/or Prospective DSCR are less than 1.05 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.

- the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Adriatica S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan entered into in October 2007 by the company ERG Eolica Campania (formerly IVPC Power 3 S.p.A.).

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 3.2 million at 31 December 2019). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Eolica Campania S.p.A. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical and/or Prospective DSCR are less than 1.05 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Campania S.p.A. may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan issued in March 2012 to the company ERG Eolica Fossa del Lupo S.r.l., in April 2013 to the company ERG Eolica Amaroni S.r.l. and in 2014 to the company ERG Eolica Basilicata S.r.l.

(hereafter, the "Companies") were jointly renegotiated as from 30 June 2017.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and restricted bank accounts (EUR 11.7 million at 31 December 2019). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the projects' cash flow after the VAT flows and the total amount of debt repayment (base line) prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the Companies to the hedging financial institutions or by the hedging financial institutions to the Companies according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, the Companies may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.05 and the Companies do not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.

- The Loan Life Cover Ratio (LLCR) is calculated as the ratio between the net present value - discounted at the weighted average cost of capital - of operating cash flows expected by the Company between the date of calculation and the liability's maturity year and the amount of the liability existing as of the calculation date. If the value is less than 1.05 and the Companies do not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, the Companies may not issue further guarantees on their assets except in the event of guarantees required by law.

Project Financing of ERG Wind Investments Ltd.

Following the issue of the EUR 500 million bond by ERG S.p.A., for which please refer to the section **ERG places its first Green Bonds for EUR 500 million**, the project financing of ERG Wind Investment Ltd. was extinguished for the residual amount of EUR 461.2 million on 24 April 2019. The aforesaid extinction allowed to free the project from project financing restrictions, releasing it for future business initiatives and allowing a more constant rise of the liquidity generated by it.

The loan, entered into in 2008, comprised a base line of EUR 1,125 million with maturity on 31 December 2022.

Loan issued in November 2015 to the company EW Orneta 2 SP. Z.O.O.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the share capital of EW Orneta 2 SP. Z.O.O. and on 100% of the share capital of Blachy Pruszyński - Energia SP. Z.O.O. and Hydro Inwestycje sp. z o.o. acquired by EW Orneta 2 SP. Z.O.O. on 24 May 2017 and on the restricted current accounts of EW Orneta 2 SP. Z.O.O.(EUR 3.8 million at 31 December 2019). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts.

If the Historical and/or Prospective Debt Service Coverage Ratio (DSCR) are less than 1.20, EW Orneta 2 SP. Z.O.O. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions.

If the Historical DSCR is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.

- The Loan Life Cover Ratio (LLCR) is calculated as the ratio between the net present value - discounted at the weighted average cost of capital - of operating cash flows expected by the company between the date of calculation and the liability's maturity year and the amount of the liability existing as of the calculation date. If less than 1.15, EW Orneta 2 SP. Z.O.O. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.

Loan (multiborrower project) granted in April 2012 and September 2013 to the Bulgarian company

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 3.2 million at 31 December 2019). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.20, ERG Wind Bulgaria may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Wind Bulgaria may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan granted in August 2016 to ERG Wind France 1.

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 4.3 million at 31 December 2019). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historical and Prospective DSCR are less than 1.20, ERG Wind France 1 may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.

- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Wind France 1 may not issue further guarantees on its assets except in the event of guarantees required by law.

Loan taken out by Parc Eolien de Garcelles-Secqueville S.a.s. with Norddeutsche Landesbank on 19 March 2007 and expiring on 30 June 2023.

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, the sole condition to proceed with distribution is that the DSRA - Debt Service Reserve Account - must be fully funded.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.6 million at 31 December 2019).

Loan taken out by Parc Eolien de la Chaude Vallée S.ar.l. with Natixis and Bpfrance on 7 October 2011 and expiring on 30 September 2027.

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05. Failure to comply with the minimum value of DSCR is an event of default of the loan.
- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.
- The main condition for distribution is that the DSCR must be higher than 1.15.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.7 million at 31 December 2019).

Loan taken out by Parc Eolien Hauts Moulins S.ar.l. with Landesbank Baden-Württemberg on 13 June 2012 and expiring on 30 November 2028

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must be 1.05.
  Failure to comply with the minimum value of DSCR is an event of default of the loan. • The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.15; fully funded DSRA account - Debt Service Reserve Account.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.5 million at 31 December 2019).

Loan taken out by Parc Eolien du Pâtis S.a.s. with Le Crédit Coopératif on 14 June 2013 and expiring on 31 July 2027.

- The main financial covenants are:
  - the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05;
  - the Outstanding debt/Equity ratio (with the denominator being equal to equity + shareholder loans) higher than or equal to 4. Failure to comply with one of the two covenants is an event of default of the loan.
- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.
  The main conditions for distribution are: DSCR higher than 1.15; fully funded DSRA account - Debt Service Reserve Account.
  The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.6 million at 31 December 2019).

Loan taken out by S.a.s. Societe d'Exploitation du Parc Eolien de La Souterraine with BP France on 11 October 2013 and expiring on 31 December 2028

- The main financial covenants are:
  - the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05;
  - the Outstanding debt/Equity ratio (with the denominator being equal to equity + shareholder loans) higher than or equal to 82.35/17.65.

Failure to comply with one of the two covenants is an event of default of the loan.

- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.

The main conditions for distribution are: DSCR higher than 1.15; fully funded DSRA account - Debt Service Reserve Account.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.5 million at 31 December 2019).

Loan taken out by Parc Eolien de Morvillers S.ar.l. with Natixis and Bpfrance on 23 August 2012 and expiring on 30 November 2027.

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05. Failure to comply with the minimum value of DSCR is an event of default of the loan.
- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.
- The main condition for distribution is that the DSCR must be higher than 1.15.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.7 million at 31 December 2019).

Loan taken out by Parc Eolien Moulins des Champs S.ar.l. with Landesbank Baden-Württemberg on 13 June 2012 and expiring on 30 November 2028

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05. Failure to comply with the minimum value of DSCR is an event of default of the loan.
- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.15; fully funded DSRA account - Debt Service Reserve Account.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.7 million at 31 December 2019).

Loan taken out by Parc Eolien de Oyré Saint Sauveur S.a.s. con Natixis on 24 April 2014 and expiring on 30 June 2029.

- The main financial covenants are:
  - the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.05;
  - the Outstanding debt/Equity ratio (where the denominator is equal to equity + shareholder loan) which may not exceed 85/15 until 1 June 2019; 90/10 between 1 June 2019 and 1 June 2024; 95/5 between 1 June 2024 and 1 June 2029.

Failure to comply with one of the two covenants is an event of default of the loan.

- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.
- The main condition for distribution is that the DSCR must be higher than 1.15.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.5 million at 31 December 2019).

Loan taken out by Parc Eolien de Saint Riquier 1 with Landesbank Saar on 31 March 2009 and expiring on 30 December 2027

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically must exceed 1.40 for distribution to take place. Distributions are in no case allowed in the years from 2014 to 2018 and from 2024 to 2026.
- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.4 million at 31 December 2019).

Loan taken out by Parc Eolien de Saint Riquier 3 S.a.s. with HSH Nordbank AG on 31 March 2014 and expiring on 30 December 2028.

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05.
- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.10; fully funded DSRA - Debt Service Reserve Account.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.7 million at 31 December 2019).

Loan taken out by Parc Eolien de Saint Riquier 4 S.a.s. with HSH Nordbank AG on 31 March 2014 and expiring on 30 December 2028

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05.
- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.10; fully funded DSRA - Debt Service Reserve Account.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.2 million at 31 December 2019).

Loans taken out by Windpark Achmer Vinte GmbH & Co. KG with DKB Deutsche Kreditbank on 14 February 2006 and 23 February 2006, expiring on 31 December 2021

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.

- Since no calculation of a specific financial covenant is provided, the sole condition to proceed with distribution is that the DSRA - Debt Service Reserve Account - must be fully funded. In addition, the lending bank has to expressly approved the distribution request.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.9 million at 31 December 2019).

Loans taken out by Windpark Cottbuser Halde GmbH & Co. KG with DKB Deutsche Kreditbank on 27 October 2007, 9 November 2006 and 29 March 2019, with maturity date of 31 December 2028

No specific financial covenant has been provided.

The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.

Since no calculation of a specific financial covenant is provided, the sole condition to proceed with distribution is that the DSRA - Debt Service Reserve Account - must be fully funded.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.0 million at 31 December 2019).

Loan taken out by ERG Wind 117 GmbH & Co. KG with Commerzbank on 6 August 2013 and expiring on 30 December 2030

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which must exceed 1.05 historically and 1.10 prospectively. Failure to comply with the minimum values of DSCR is an event of default of the loan.
- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.
- The main conditions for distribution are: Historical DSCR higher than 1.05; prospective DSCR higher than 1.10; fully funded DSRA - Debt Service Reserve Account.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.5 million at 31 December 2019).

Loan granted in August 2016 to ERG Solar Holding S.r.l. (formerly FVH1 S.r.l.)

The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 8.2 million at 31 December 2019). The loan is also subject to the following covenants and negative pledges:

- Historical and Prospective Debt Service Coverage Ratio (DSCR): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortisation schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts.

- The Loan Life Cover Ratio (LLCR) is calculated as the ratio between the net present value - discounted at the weighted average cost of capital - of operating cash flows expected by the company between the date of calculation and the liability's maturity year and the amount of the liability existing as of the calculation date.
- The Debt to Equity ratio (equity + shareholder loan), which may not exceed 80/20

  If the Historical and Prospective DSCR are less than 1.15, ERG Solar Holding S.r.l. may not distribute dividends to the shareholders, nor may it repay subordinated loans without prior authorisation by the financial institutions. If the Historical or Prospective DSCR is less than 1.05 and/or the Loan Life Cover Ratio is less than 1.10 and the company does not take any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.
- The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Solar Holding S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

The DSCR is calculated twice a year on the calculation dates of 31 December and 30 June, based on the previous 12 months.

Finance lease agreements of the companies ERG Solar Piemonte 1 S.r.l,. ERG Solar Piemonte 2 S.r.l., ERG Solar Piemonte 3 S.r.l., ERG Solar Piemonte 4 S.r.l. and ERG Solar Piemonte 5 S.r.l.

Finance lease agreements of the photovoltaic plants with Mediocredito Italiano at a rate of 6.5%. On 22 June 2018, the early repayment of all leases was renegotiated with said bank and, at the same time, a corporate loan agreement for EUR 70 million at the 6-month Euribor rate + a spread of 1.30% was stipulated. The agreement does not impose any specific covenants. The only provision is the commitment, as from 2020, to maintain the financial covenants (Net Debt / Ebitda or similar) that the Group will agree when renegotiating the outstanding corporate loans.

Loan taken out by Parc Eolien de La Vallee De Torfou with Auxifip on 5 October 2017 and expiring on 28 February 2034

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05.
- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.15; fully constituted DSRA - Debt Service Reserve Account; Financial Leverage ratio less than or equal to 90/10 in event of repayment of the shareholder loan..

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.7 million at 31 December 2019).

Loan taken out by Parc Eolien du Melier with Auxifip on 17 December 2015 and expiring on 30 November 2031

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05.
- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.
- The main conditions for distribution are: DSCR higher than 1.15; fully constituted DSRA – Debt Service Reserve Account; Financial Leverage ratio less than or equal to 85/15 in event that the shareholder loan is repaid within 4 years of the Consolidation Date, otherwise less than or equal to 90/10.

The DSCR is calculated once a year on the calculation date of 31 December. The latest DSCR at 31 December 2017 was submitted to the banks in March 2018.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.8 million at 31 December 2019).

Loan taken out by Windpark Linda GmbH with Hamburg Commercial Bank AG on 18 December 2018 and expiring on 30 December 2038

- The main financial covenant is the DSCR (Debt Service Coverage Ratio) which historically and prospectively must exceed 1.05.
- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.
- The main conditions for distribution are: DSCR and FDSCR higher than 1.10; fully funded DSRA - Debt Service Reserve Account - equal to the required Debt Service Reserve Amount; fully constituted Compensation Obligation Savings Account in accordance with contractual clauses no. 7 and 13.

The DSCR is calculated twice a year on the calculation date of 30 June and of 30 December.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 0.2 million at 31 December 2019).

Loan taken out by ERG Wind Dobberkau GmbH with Norddeutsche Landesbank on 12 July 2006 and expiring on 31 December 2025

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, the conditions to proceed with distribution are that the operating/insurance/tax expenses be paid; payment of the Debt Service; DSRA funded.

The guarantee documents indicated in the loan agreement include pledges on current accounts (EUR 1.5 million at 31 December 2019).

Project Financing ex DIF companies

With reference to the ex DIF companies (ERG Wind Ober Kostenz GmbH; ERG Wind Welchweiler GmbH; ERG Wind Hermersberg GmbH; ERG Wind Waldfischbach-Burgalben GmbH; ERG Wind Weselberg GmbH) the project financing of EUR 8.2 million was closed on 7 June 2019. The extinction of this loan made it possible to free the company from the project financing restrictions, allowing a faster rise of cash on a monthly basis, thanks also to the possibility of introducing a cash concentration mechanism with ERG Windpark Beteiligungs GmbH.

Loan taken out by ISAB Energy Solare with Mediocredito Italiano on 5 August 2011 and expiring on 30 June 2029

- No specific financial covenant has been provided.
- The negative pledges are those which are typical of project financing and they refer to the shares of the companies, its assets and current accounts.
- Since no calculation of a specific financial covenant is provided, distribution can be carried out after the payment of all operating costs and the debt.

Loans acquired through the Andromeda business combination

Andromeda Project Financing

Andromeda, a wholly owned subsidiary of Perseo, was acquired on 12 February 2019.

The loan tied to this project was issued in 2010 for a base credit line of EUR 195,200,000.00 divided in two tranches of equal amount, with rate of 7.47% and 4.84% and with the final maturity date on 30 November 2028.

The main financial covenants provided for the aforesaid Project Financing are the Historical Annual DSCR and the Projected Annual DSCR. Both parameters must be lower than 1.10x. Failure to comply with the minimum value of DSCR is an event of default of the loan.

Loans acquired through the Barkow business combination

Barkow Project Financing

September 2019 saw the acquisition of the German companies UGE Barkow GmbH & Co.KG Umweltgerechte Energie, UGE Barkow Zwei GmbH & Co.KG Umweltgerechte Energie, and UGE Barkow Drei GmbH & Co.KG Umweltgerechte Energie, wholly-owned subsidiaries of ERG Wind Park Beteiligungs GmbH.

Following the refinancing on 24 October 2019, the total amount of the financing at 31 December 2019 is EUR 55,948,947.00, broken down as follows:

- UGE Barkow GmbH & Co.KG Umweltgerechte Energie: EUR 21,080,306.00 (rate tranche A: 3.25% up to 31/03/2024 plus margin 1.5% + 3M Euribor; rate tranche B: 1.45% + 3M Euribor);
- UGE Barkow Zwei GmbH & Co.KG Umweltgerechte Energie: EUR 14,506,979.00 (rate tranche A: 3.25% up to 31/03/2024 plus margin 1.5% + 3M Euribor; rate tranche B: 1.45% + 3M Euribor);

- UGE Barkow Drei GmbH & Co.KG Umweltgerechte Energie: EUR 20,361,662.00 (rate tranche A: 2.75% up to 30/06/2024 plus margin 1.5% + 3M Euribor; rate tranche B: 2.45% up to 30/09/2024 plus margin 1.5% + 3M Euribor; rate tranche C 1.45% + 3M Euribor).

The main financial covenants provided by the aforesaid Project Financing are HDSCR and FDSCR: the former must not be lower than 1.00x, while the latter must not go below 1.05x. Failure to comply with the minimums stated, is an event of default of the loan.
The main condition for distribution is that the HDSCR and the FDSCR are greater, respectively, than 1.05x and 1.075x.

NOTE 20 - CONTINGENT LIABILITIES AND DISPUTES

ERG is a party in civil, administrative and tax proceedings and legal actions connected with the normal course of its operations.

It should be noted that appropriate provisions have been allocated for civil, administrative and tax proceedings and for the legal actions described below, where deemed necessary.

If no reference is made to a provision, the Group assessed the corresponding risk as possible and provided the relevant information.

This note also provides an update of the other civil, administrative and tax proceedings in which the Group takes part also when the risk of losing the proceeding is considered remote (not probable).

Provision for disposed businesses

In early 2018, the Group completed its industrial transformation, started in previous years, resulting in its definitive exit from the **OIL** business.

This path comprised two fundamental steps:

- the sale of the last stake held in ISAB S.r.l., on 30 December 2013, which marked the exit from the **Coastal Refining** business;
- the sale of the Group's interest in TotalErg S.p.A., on 10 January 2018, which determined the exit from the **Integrated Downstream** business.

Although the ERG Group is no longer an active operator in the oil industry, there are still remaining liabilities tied to the previous industrial activity and not yet fully defined.

For this purpose it should be recalled that upon drafting the 2013 Financial Statements, in view of the uncertainty inherent in disputes, including tax disputes, of the complexity of the Priolo site transactions and in general of the conclusion of the activities connected with the Coastal Refining business, the Group carried out a comprehensive assessment of the risk connected with the issues commented on above, estimating the allocation of a "Priolo Site Provision" of EUR 91 million.

In line with the considerations formulated for the sale of the last shareholding of ISAB S.r.l., also for the more recent sale of the shares within the TotalErg transaction, in 2018 the Group allocated a provision to cover the guarantees provided in favour of the buyer.

On the occasion of the 2018 Consolidated Financial Statements, for the purposes of a clearer and more consistent presentation of the above issues, the management aggregated the commented liabilities in a single provision called "Provision for disposed businesses" considering that while these allocations originate from different contexts (tax, environmental and legal) and at different times, they in fact have the same nature because they are all tied to discontinued operations and outside ordinary operations.

The provision, thus determined, amounted to EUR 76 million at 31 December 2019 (EUR 89 million at 31 December 2018) and is shown in Non-current liabilities.

The main issues underlying the allocation are summarised below:

- regarding the ongoing dispute between ERG Raffinerie Mediterranee (now ERG S.p.A.) and the Italian Tax Authorities over the application of **harbour duties** for embarkation and disembarkation rights at the Santa Panagia jetty, it should be recalled that on 6 April 2011 the Syracuse Provincial Tax Commission partially allowed the Company's appeal and ruled that harbour duties through 2006 are not due, finding them to be due from 2007 onwards. The first instance ruling was challenged within the deadline by the Italian Revenue Agency and by ERG with appeal relative to the period subsequent to 2006.
  The appeal decision, issued by the Regional Tax Commission and filed on 27 May 2013, amended the first decree decision unfavourably for ERG.
  Following a thorough evaluation of the reasons for the appeal decision, the Company decided to appeal before the Court of Cassation, deeming its own arguments to be well grounded (in particular with regard to the notion of "harbour" in accordance with Italian Law no. 84/94 and to the alleged novating or retroactive validity of Article 1, paragraph 986 of the 2007 Italian Budget Law). On 4 November 2013, the Syracuse Regional Tax Commission allowed the request to suspend the effectiveness of the appeal decision, requiring the release of a first demand insurance guarantee in favour of the Customs Agency. In the court order issued on 30 September 2019, the Court of Cassation ruled favourably on the appeal filed by the company and, consequently, rejected - overturning it - the contested decision by the Regional Tax Commission. The proceedings must therefore be continued within the terms prescribed by law before the Regional Tax Commission so that the latter - which has changed in composition since the previous hearing - may once again examine the merits of the case. Starting from 2007, the related taxes had already been recognised in the income statement on an the accruals basis, while no provision had been made for the years from 2001 to 2006;
- with reference to **environmental risk**, with regard to the South Site the likelihood of exposure to contingent liabilities is deemed remote, as the risk has already been limited by the settlement reached with the Ministry of the Environment in August 2011 and registered by the Court of Auditors on 20 December 2011, and by the Settlement Agreement stipulated on 30 December 2013 between ERG S.p.A. and LUKOIL. With regard to the North Site, depending on the double guarantee scheme deriving both from the agreement executed with ENI (previous owner of the site), and the agreement executed with LUKOIL (new owner), the risk is as follows:
  (i) for potential environmental damages preceding 1 October 2002, ENI shall be liable without limitation; (ii) with reference to the potential damages relating to the 1 October 2002 - 1 December 2008 time frame, deriving from a violation of the environmental guarantees issued by ERG, the latter shall be liable.
  The following limitations apply to ERG's contractual liability to LUKOIL: (a) upper applicable maximum limit equal to the sale price of the equity investment in ISAB S.r.l.; (b) environmental guarantees have a duration of 10 years and expired in December 2018; and (c) in case of uncertain identification of the period to which the potential damage is referred, a time shift that expired at the end of 2018 was applied. The agreement with LUKOIL prescribes, for ERG, a liability without time limitations for potential damages connected with events known at the time of execution of the agreement (Known Environmental Matters). The costs shall be divided between ERG

and LUKOIL (51% and 49%) up to the ceiling of EUR 33.4 million, while above this amount ERG will pay in full any additional expenses.

On 9 September 2017, the Ministry for the Environment warned some of the companies of the Priolo site, including ERG Power S.r.l. and ERG Power Generation S.p.A., to clean up the Augusta Roadstead. The request is unlawful and has therefore been contested before the Administrative Courts (the hearing for the presentation of the arguments has yet to be set). ERG S.p.A. is not party to the proceedings, but the environmental issues relating to the Augusta Roadstead arise in the context of the environmental guarantees present in the various contracts with ENI and LUKOIL;

- with reference to the sale of **TotalErg** and in particular to the guarantees connected to the buyer on previous years' contingent liabilities (retained matters and other previous years' contingent liabilities), the best estimate of the expense was computed on the basis of the information available to management and taking into account the large number of underlying elements and all possible outcomes of the related issues. In 2019, certain previous liabilities were defined, resulting in the partial use of the provision of approximately EUR 5 million.

Lastly, the provision includes allocations relating to minor issues of insignificant amounts tied mainly to as yet undefined commercial dealings.

At the time of preparation of this document, Group Management, assisted by the competent corporate departments and with the advice of its legal and tax counsels, carried out a comprehensive review of the issues described above, confirming the appropriateness of the measurements made and, taking into consideration in particular the aforementioned positive update by the Court of Cassation with regard to harbour duties and developments with regard to other matters, proceeded to redetermine the overall risk with a subsequent partial release of the Disposed Businesses Provision for EUR 8.2 million.

TotalErg

On 3 December 2013, at the offices of TotalErg S.p.A. in Rome and Milan and of ERG S.p.A. in Genoa, the Tax Police - Rome Unit executed the search warrant issued by the Prosecutor's Office at the Court of Rome within the scope of a criminal lawsuit against certain representatives of ERG S.p.A. and of TotalErg S.p.A. (a company arising from the merger of Total Italia S.p.A. into ERG Petroli S.p.A.), subsequently dismissed on 11 November 2019.

The investigation - according to the charge formulated in the aforementioned warrant - pertained to alleged tax irregularities referred to 2010, allegedly carried out by recording, in the accounts of TotalErg S.p.A., invoices for alleged non-existing crude oil purchase transactions, issued for a total amount of EUR 904 million by Bermuda-based companies belonging to the Total Group, whose costs were included in the tax returns of TotalErg S.p.A. and reported by the consolidator ERG S.p.A. in the National Tax Consolidation return of the ERG Group.

As soon as it was informed of the ongoing investigation, the Company started an intensive audit activity, aimed at thoroughly reconstructing the facts and the transactions in question, and at carefully analysing the internal control system.

With regard to tax matters, on 6 August 2014, as a result of the same investigation, ERG S.p.A. received, in its role as tax consolidator, a preliminary assessment report from the Tax Police of Rome, prepared with respect to TotalErg, the contents of which substantially refer to the aforesaid allegations.

Moreover, on the same date TotalErg received a preliminary assessment report for alleged tax irregularities pertaining to Total Italia for the years 2007, 2008, 2009, of a substantially similar nature and amount, for each year, to those referenced above, hence referring to periods prior to the incorporation of the TotalErg joint venture.

In view of the aforementioned preliminary assessment report, in order to further confirm the correctness of their actions, ERG S.p.A. and TotalErg S.p.A. submitted their own observations and notes providing further information to the tax authorities.

On 26 June 2015, ERG S.p.A., in its role as the tax consolidator, and TotalErg S.p.A., in its role as the consolidated entity (formerly ERG Petroli S.p.A.), were served an assessment notice for IRES for 2007. TotalErg S.p.A. was served an assessment notice for IRAP and VAT for the same year.

Compared to the specific findings regarding the alleged non-deductibility of the acquisition and service costs for 2007 set forth in the aforementioned assessment notice dated 6 August 2014 of approximately EUR 68 million, the assessment notice reduces the amount considerably to EUR 125 thousand.

On 6 July 2015, assessment notices for IRES, IRAP and VAT referring to 2007, 2008 and 2009 were served to TotalErg S.p.A., in its capacity as the merging entity of Total Italia S.p.A.

ERG S.p.A. and TotalErg S.p.A., in its capacity as the consolidated entity, on 29 November 2016 and 24 November 2016 respectively, were served assessment notices for IRES for 2010. TotalErg S.p.A. was served an assessment notice for Additional IRES, IRAP and VAT for the same year. Compared to the specific comments made in the official tax audit report of 6 August 2014 served to TotalErg S.p.A. which amounted to EUR 3,797 million of non-deductible costs, the assessment notices considerably reduce the amount in this case as well, to approximately EUR 7.5 million.

On 2 March 2017, the Milan Provincial Tax Commission accepted the appeal in relation to IRAP for the years 2007 to 2009 (dispute relating to TotalErg S.p.A. as the merging entity of Total Italia S.p.A.).

The Italian Revenue Agency appealed to the competent Regional Tax Commission within the terms established by law.

On 25 June 2018, the Milan Regional Tax Commission submitted its ruling, confirming the first instance ruling, in favour of TotalErg S.p.A.

The Italian Revenue Agency did not appeal before the Court of Cassation, therefore the favourable decision became definitive.

On 13 March 2017, the Milan Provincial Tax Commission rejected the appeal in relation to IRES, Robin Tax and VAT for the years 2007 to 2009 (dispute relating to TotalErg S.p.A. as the merging entity of Total Italia S.p.A.).

TotalErg S.p.A. appealed to the competent Regional Tax Commission within the terms established by law.

On 22 November 2018, the Milan Regional Tax Commission allowed the appeal filed by the company.

The Italian Revenue Agency may file its appeal with the Court of Cassation in accordance with the law.

On 25 May 2017, the Rome Provincial Tax Commission rejected the appeal in relation to IRES, IRAP and VAT for 2007 (dispute relating to TotalErg S.p.A. as the merging entity of ERG Petroli S.p.A.).

TotalErg S.p.A. appealed to the competent Regional Tax Commission on 27 December 2017 and the merit hearing is set to take place on 20 September 2018.

On 20 November 2018 the Rome Regional Tax Commission rejected the appeal filed by the company (with the exception of IRAP).

The Company filed an appeal to the Court of Cassation against this decision on 20 May 2019.

On 17 May 2018, the merit hearing was held before the Rome Provincial Tax Commission for IRES, Robin Tax, IRAP and VAT for 2010 (dispute relating to TotalErg S.p.A.). With its sentence no. 4129/19 of 22 March 2019, the Rome Provincial Tax Commission rejected the Company's appeal. An appeal will be filed in accordance with the law.

With its sentence no. 4129/19 of 22 March 2019, the Rome Provincial Tax Commission declared the tax claim in relation to IRAP and Robin Tax to be unlawful, confirming, instead, a higher sum for VAT purposes.

Both the Company and the tax office filed an appeal against this decision at the competent Regional Tax Commission for Lazio.

As regards the higher sum for IRES purposes, with its sentence no. 4128/19 of 22 March 2019, the Rome Provincial Tax Commission rejected the Company's appeal. The Company swiftly filed an appeal against this decision.

In relation to the issues described above, the joint venture agreement with Total provides for an adequate mutual system of guarantees that have remained valid even after the sale to API - Anonima Petroli Italiana S.p.A. of the equity investment in TotalErg (the disputes in question have remained the responsibility of the sellers ERG and Total Marketing Services SA, as the so-called Retained Matters, included in the measurement of the **Provision for disposed businesses**).

Notice of adjustment and settlement of registration tax for the sale of the ISAB Energy S.r.l. business unit

With regard to the sale of the business unit consisting mainly of the "IGCC" thermoelectric power plant which took place pursuant to the deed dated 30 June 2014 by ISAB Energy S.r.l. to ISAB S.r.l., on 6 July 2016, the provincial division of the Italian Revenue Agency at Syracuse - Noto office (hereinafter the "Agency") served to ERG S.p.A. as the merging entity on December 2015 of the seller ISAB Energy S.r.l., sent a notice amending the amounts declared for settlement of the registration tax.

This same notice was served on 28 June 2016 to ISAB S.r.l. in its capacity as the jointly and severally liable seller.

Essentially, the Agency demanded the rectification of the amount declared by the parties in terms of the registration tax in relation to each of the components of the business unit that was sold and proceeded to redetermine the value of (just) the real estate component consisting of the IGCC plant, measured at approximately EUR 7 million (net of accompanying liabilities of approximately EUR 7 million), and the carrying amount thereof at 30 June 2014 at approximately EUR 432 million, without considering that the future results of the business unit that was sold could justify the aforementioned value.

The Agency therefore assessed the overall market value of the business unit that was sold at approximately EUR 442 million, instead of the consideration of approximately EUR 25 million declared by the parties, a consideration that is nevertheless higher than the overall market value for the business unit of approximately EUR 13 million, pursuant to a sworn appraisal by a third party appraiser appointed by ISAB Energy.

Based on these assumptions, the Agency assessed a higher registration tax of approximately EUR 37 million, imposing a fine equal to the higher registration tax that was assessed plus interest (total amount EUR 76 million).

Regarding the analysis of this case, we note that with the above the Agency simply expressed a different estimate of "only" the property, plant and equipment component (IGCC plant) of the business unit, and not the business unit overall, in manifest violation of the regulations contained in the Consolidated Registration Tax Law.

In particular, based on the adjustment, the Agency identified only the carrying amount of the IGCC plant, completely disregarding its profitability (whether positive or negative) as part of the business unit in which the plant is expected to be used.

Therefore, the Agency disregarded the assumption and appraisal criteria that led the appraiser to determine the purchase price at approximately EUR 13 million, and particularly the lack of cash flows following the termination of the CIP 6 Agreement, and did not consider at all the ascertained negative future profitability of the sold business unit, or the relative badwill (as fully described in the appraisal compiled by Mr. Pozza, which is already in the hands of the Agency).

As the company believes that it is able to formulate valid arguments in its defence, with the assistance of its own tax consultants, it has submitted an appeal to the competent Provincial Tax Commission and applications for both administrative and judicial suspension of the provisional tax demanded in the course of the proceedings (the amount of the provisional tax is equal to approximately EUR 13 million).

On 10 August 2016, the Syracuse Provincial Tax Commission ordered the judicial suspension of the provisional tax demanded.

The relevant hearing was held on 15 November 2016 before the Syracuse Provincial Tax Commission.

On 16 May 2017, the Syracuse Provincial Tax Commission annulled the contested act, but re-determined the value of the divested business for the purposes of registration tax to be approximately EUR 71 million (compared to the approximately EUR 25 million declared for the purposes of registration tax).

The legal firm following the litigation confirmed the invalidity of the alleged tax as reformulated by the Syracuse Provincial Tax Commission and the subsequent existence of reasonable expectations of its complete rebuttal at the higher court levels.

On 17 July 2017, ERG S.p.A. appealed to the competent Regional Tax Commission, requesting the suspension of the effects of the first instance ruling.

On 9 September 2017, the Regional Tax Commission rejected the application for suspension referred to above.

On 13 October 2017, the Provincial Division of the Revenue Agency at Syracuse issued a specific payment order for higher registration tax of EUR 5.1 million, sanctions of EUR 5.1 million and interest at 10 October 2017 of EUR 0.6 million.

This same order was served on 11 November 2017 to ISAB S.r.l. in its capacity as the jointly and severally liable seller.

On 27 October 2017, an appeal was filed against the aforementioned payment order and, at the same time, an application was made for judicial suspension of the tax collection.

On 23 November 2017, the Syracuse Provincial Tax Commission ordered the judicial suspension of the tax collection and fixed the relevant hearing for 15 January 2018.

The merit hearing was held on 15 January 2018, and on 24 January 2018 the Syracuse Regional Tax Commission (sub-office) ordered the appointment of Sebastiano Truglio from Catania as the court-appointed expert.

On 7 March 2018, with decision 1168/04/2018, the Syracuse Provincial Tax Commission repaid approximately EUR 2 million of tax due with sanctions and interest totalling approximately EUR 4.5 million.

Following the decision, a new order was issued by the Italian Revenue Agency.

On 11 May 2018, the Company appealed against this decision and applied for judicial suspension of the tax collection.

The President of the Syracuse Regional Tax Commission set the date for the hearing for the judicial suspension of the tax collection for 17 July 2018; given that the deadline for the payment of the requested amounts with the aforementioned payment order was 15 June 2018 (therefore prior to the hearing for the judicial suspension of the tax collection), ERG S.p.A. was forced to pay approximately EUR 4.5 million (provisional tax demanded in the course of the proceedings).

This amount must be repaid by the Italian Revenue Agency in the event that it loses the first level proceeding and it was recorded among the receivables claimed by the company from the Tax Authority.

On 7 December 2018, the meeting was held between the court-appointed Expert Witness Mr. Truglio and the parties in the dispute for the conclusion of the expert witness activities.

On 6 May 2019, the court-appointed expert Mr. Sebastiano Truglio of Catania transmitted to the parties the draft estimate report, which presents a negative value of the business sold, hence a lower value than that declared by the Company.

On 12 June 2019, the court-appointed expert filed his estimate report with the Syracuse Regional Tax Commission and duly addressed the observations presented by the Italian Revenue Agency.

At the hearing on 2 December 2019, the Regional Tax Commission granted the court-appointed expert thirty days within which to respond in writing to the comments made by the Italian Revenue Agency with its letter dated 13 November 2019. The appeal before the Syracuse Regional Tax Commission, in which the court-appointed expert also partook, took place on 10 February 2020.

The decision is still pending.

At the date of approval of this report, the Directors confirm the risk assessment adopted in previous reports, considering the risk unlikely, and therefore have not recognised a related liability. Accordingly, the Directors confirm the recognition (and the relative value) of the company's tax asset (approximately EUR 4.5 million paid to the tax authorities for provisional tax demanded in the course of the proceedings).

ERG Eolica Ginestra

In 2014 ERG Eolica Ginestra S.r.l. was subjected to a tax audit for 2010 for IRES, IRAP and VAT purposes by the Genoa Provincial Division of the Italian Revenue Agency, which ended with the issuing of a preliminary assessment report served to the Company on 13 November 2014. The Agency has assessed only one alleged unlawful usage of the tax benefit provided under Art. 5 of Law Decree no. 78/2009, converted with amendments into Law no. 102/2009 ("Tax exemptions for investments in machinery"), the so-called Tremonti-ter, proposing that IRES taxation be applied again for 2010 on 50% of the investments on which the company had received a tax benefit.
On 30 March 2015, ERG Renew S.p.A. (now ERG Power Generation S.p.A.) in its role as the tax consolidator and ERG Eolica Ginestra S.r.l. as the consolidated company were served an assessment notice for IRES, 2010, confirming the findings made during the audit regarding a tax loss that is lower by approximately EUR 26 million.
On 5 June 2015, the company appealed to suspend collection which was accepted on 16 July 2015.
With its ruling filed on 14 January 2016, the Provincial Tax Commission of Genoa accepted the appeal submitted by ERG Eolica Ginestra S.r.l.
On 24 May 2016, the Genoa Provincial Office of the Italian Revenue Agency appealed to the Liguria Regional Tax Commission against the first instance ruling.
The hearing was held on 19 June 2018 at the Liguria Regional Tax Commission.
With its decision filed on 26 October 2018, the Liguria Regional Tax Commission rejected the appeal filed by the Genoa Provincial Office of the Italian Revenue Agency and confirmed the decision of the Genoa Provincial Tax Commission, favourable to ERG Eolica Ginestra S.r.l.
The Genoa Provincial Division of the Italian Revenue Agency did not appeal before the Court of Cassation, therefore the (positive) decision by the Liguria Regional Tax Commission became final.
In consideration of the above, the Group does not consider that it will lose and therefore no liabilities have been recognised to this end.

Law no. 488/92 grants of ERG Wind

In the 2001-2005 time interval, thus before the acquisition by ERG Renew S.p.A. (now ERG Power Generation S.p.A.) of the companies belonging to the International Power Group, funds were granted to these companies pursuant to Law no. 488/1992 totalling EUR 53.6 million.
In relation to the allocation of these grants in the first half of 2007, an investigation was initiated by the Public Prosecutor at the Court of Avellino in relation to alleged falseness of certain of the documents provided with the grant application.
During 2007, the attachment of the Law no. 488/1992 incentives still to be provided was ordered (EUR 21.9 million) and on 30 September 2008 the Public Prosecutor ordered the precautionary attachment of seven wind farms.

Following the deposit of an amount equal to EUR 31.6 million by the involved companies, in January 2010, the wind farms which had been under precautionary attachment were released, upon attachment of the aforementioned amounts.

These amounts were then transferred to the Single Guarantee Fund.

The preliminary investigation for the criminal proceedings at the Court of Avellino is underway. Examination of the expert report began on 1 February 2019 and was then adjourned to the hearing of 4 October, and then again to 14 November 2019, during which note was taken of the intervening change to the members of the bench hearing the case and all that was decided upon was the programme of activities of the new bench, with no witnesses or experts being heard.

Despite the pending proceedings, in March and April 2014 the companies that were the recipients of the incentives pursuant to Italian Law no. 488/1992 received from the Ministry of Economic Development the orders communicating commencment of the procedures to revoke the aforementioned incentives.

On 6 February 2015, extraordinary appeals were notified against the ministerial cancellation decrees, with simultaneous petition for the precautionary suspension of the enforceability of the contested measures.

On 27 July 2015, the beneficiary companies were issued with payment orders relating to the return of the incentives. Said orders were challenged with the submission of opposition proceedings before the Court of Genoa.

As part of said proceedings, the Civil Judge ruled the tax assessments be suspended against the submission of bank guarantees for the entire value of the latter (EUR 49 million). At the hearing of 23 October 2018 the Civil Judge, noting the prejudicial nature of the proceeding initiated with the extraordinary appeal before the President of the Republic of Italy, ordered the suspension of the civil proceedings while the administrative case is pending.

The proceedings subsequent to the filing of the extraordinary appeals to the Head of State are also still pending and, despite the reminders filed by the applicants, the decision on the appeal and on the merits did not take place during 2019. Ideally, the appeals will be decided upon in the first half of 2020.

In consideration of: (i) the guarantees issued by the seller of the companies of the International Power Group to ERG in the contract of transfer of the investments in these companies, (ii) the settlement agreement concluded between said seller and ERG dated 19 December 2016, in which these guarantees were confirmed and further detailed, and (iii) taking into account that in the 2013 consolidated financial statements a liability for an amount corresponding to the nominal amount of the incentives for which the Ministry of Economic Development is requesting the return (see definition of the purchase price allocation as a potential adjustment to the acquisition price of the ERG Wind Group (**Note 15 - Other non-current liabilities**) had already been allocated, further provisions are not required in the consolidated financial statements.

ERG Wind Investments Tax Audit

On 21 October 2015, the Tax Police - Special Income Unit - Investigation Group of Rome served to ERG Wind Investments Limited the final assessment report on findings (hereinafter the "PVC") upon completion of the audit work which had begun on 17 June 2015.

From the above mentioned audit, except for certain findings regarding an insignificant amount, the following issues arose (i) failure to withhold an amount on the differences connected to Interest Rate Swaps during the 2010-2013 tax periods paid to foreign counterparts, as they qualified as interest, amounting to EUR 8.7 million, (ii) inappropriate deduction during the 2010-2013 tax periods of interest expense on an upstream loan from foreign subsidiaries to ERG Wind Investments Limited as it was not supported by valid economic reasons (abuse of the right provided under article 10-bis of Law no. 212/2000) with consequent higher taxes of EUR 8.8 million (iii) failure to apply, in the 2010-2013 tax periods, withholding taxes on interest paid to non-resident parties as part of the existing project financing of EUR 14 million.

Regarding the aforementioned PVC of 28 December 2015, the Company has received (i) an assessment notice only for the 2010 tax period for its alleged failure to apply withholding on IRS differentials paid to foreign counterparties of EUR 2.5 million, plus a penalty of EUR 3 million and interest at 22 December 2015 of EUR 0.4 million, (ii) an additional assessment of penalties for the reason under (i) with separate quantification of the penalties due to failure to pay a withholding amount of EUR 0.8 million and (iii) a question regarding the alleged inappropriate deduction of the interest expense on an upstream loan from foreign subsidiaries to ERG Wind Investments Limited as it was not supported by a valid economic reasons (abuse of the right afforded under article 10-bis of Law no. 212/2000) for the 2010-2013 tax periods.

Following the proceedings initiated against Provincial Division I of Rome and the documentation produced, the finding presented the PVC regarding failure to apply, during the 2010-2013 tax periods, withholding tax on interest paid to non-resident individuals as part of the existing project financing of EUR for 14 million was removed.

On 29 January 2016, the Italian Revenue Agency - Provincial Division I of Rome was presented with a mutually-agreed assessment settlement procedure, and defence briefs against the tax assessment.

As the aforementioned settlement proposal was not successful, on 26 May 2016, because the company was able to formulate valid arguments in its defence, it appealed and concurrently requested the court to issue a stay against the collection pursuant to the assessment notice served on 28 December 2015.

On 16 November 2016, the Rome Provincial Tax Commission ordered the judicial suspension of the tax collection and fixed the hearing for 6 February 2017.

At the hearing of 6 February 2017, the Rome Provincial Tax Commission accepted the appeal brought by the company.

On 27 October 2017, the Italian Revenue Agency appealed to the competent Regional Tax Commission.

The merit hearing was held on 19 December 2018 at the Rome Regional Tax Commission. With its decision filed on 11 March 2019, the Rome Regional Tax Commission rejected the appeal filed by the Italian Revenue Agency. The Italian Revenue Agency did not file appeal with the Court of Cassation in accordance with the law, as a result of which the decision by the Rome Regional Tax Commission became final.

Withholding taxes on the IRS differentials, 2011 tax period: on 8 November 2016, ERG Wind Investments Limited received an assessment notice for the 2011 tax period for its alleged failure to apply withholding taxes on IRS differentials paid to foreign counterparties for EUR 1.8 million, plus a penalty of EUR 2 million and interest at 14 October 2016 of EUR 0.3 million.

An appeal and an application for judicial suspension of the tax collection within the terms prescribed by law have been filed. Following the failure to discuss the application for judicial suspension in good time, the company put forward a request to the Italian tax collection agency for payment by instalments in order to divide the amounts due into instalments. The request for payment by instalments was accepted with payment being fixed over 72 monthly instalments.

The merit hearing was held on 27 September 2017 at the competent Provincial Tax Commission.

On 11 September 2018, the Rome Provincial Tax Commission accepted the appeal brought by the company.

On 18 September 2018, the company filed a petition for disenrollment from the register and repayment of the amounts paid while the decision was pending (14 monthly installments were paid, amounting to EUR 0.2 million).

On 11 November 2018, the company was informed of the allowance issued by the Italian Revenue Agency for the amounts due. On 7 January 2019, the Italian tax collection agency reimbursed the amounts paid while the decision was pending.

On 29 October 2018, the Italian Revenue Agency appealed to the competent Regional Tax Commission. The case hearing is set to take place on 25 March 2020.

Withholding taxes on the IRS differentials, tax period 2012: on 31 October 2017, ERG Wind Investments Limited received an assessment notice for the 2012 tax period for its alleged failure to apply withholding taxes on IRS differentials paid to foreign counterparties for EUR 1.9 million, plus a penalty of EUR 2.1 million and interest of EUR 0.3 million at 20 October 2017.

An appeal and an application for judicial suspension of the tax collection within the terms prescribed by law have been filed.

On 7 May 2018, the merit hearing was held before the competent Tax Commission and on 21 August 2018 the Rome Provincial Tax Commission accepted the appeal filed by the company.

On 29 October 2018, the Italian Revenue Agency appealed to the competent Regional Tax Commission and the hearing date has yet to be set.

Withholdings taxes on the IRS differentials, tax period 2013: on 1 October 2018, ERG Wind Investments Limited received an assessment notice for the 2013 tax period for its alleged failure to apply withholding on IRS differentials paid to foreign counterparties for EUR 2.4 million, plus a penalty of EUR 2.7 million and interest of EUR 0.4 million at 1 October 2018.

On 15 November 2018, an appeal and an application were filed for judicial suspension of the tax collection.

On 21 March 2019, the merit hearing was held before the competent Tax Commission and on 17 July 2019 the Rome Provincial Tax Commission accepted the appeal filed by the company.

On 23 September 2019, the Italian Revenue Agency appealed to the competent Regional Tax Commission. The case hearing is set to take place on 6 April 2020. The Group does not deem it likely that it will lose the disputes in question and therefore no liabilities have been recognised to this end.

In addition, in view of the charge in question, ERG Renew S.p.A. (now ERG Power Generation S.p.A.) has activated the guarantees under the Share and Purchase Agreement stipulated with Engie (formerly Gaz de France Suez) concurrently with the acquisition of the ERG Wind Group against the tax assessment in question. Engie declared that the assessment can be considered as a "Seller Driven Matter"[3] only for the 2010 and 2011 tax periods.
On 9 March 2016, an arbitration was initiated in ordered to request/prove the liability of Engie (formerly Gaz de France Suez) also for the subsequent tax period (in particular the 2012 tax period).
ERG Renew S.p.A. (now ERG Power Generation S.p.A.) at end-2016 decided not to pursue the arbitration, while reiterating Engie's responsibilities for subsequent tax periods.
As a result of the assessment notice dated 31 October 2017 for the 2012 tax period, ERG Power Generation took action against Engie and obtained the qualification of "Seller Driven Matter" for said dispute (limited to this case and for the 2012 tax period).

ERG Wind Holdings (Italy) S.r.l. tax audit

On 3 December 2015, the Tax Police - Rome Unit served to ERG Wind Holdings (Italy) S.r.l. the final assessment report on findings (hereinafter the "PVC") upon completion of the audit work which had begun on 6 August 2014.
From the aforementioned investigation, except for certain findings of an insignificant amount, only one finding emerged regarding registration tax referring to a reorganisation that took place in 2012 relative to the transfer of business units consisting of electricity production plants (held on the basis of business leases) from 16 UK LLPs to ERG Wind Energy S.r.l. and subsequent assignment to the two shareholders (two UK LTD companies) of the investment in ERG Wind Energy S.r.l.
The abovementioned finding, based on the qualification of the company sale, would result in a higher registration tax of approximately EUR 9.5 million plus fines.
ERG Wind Holdings (Italy) S.r.l. would be jointly and severally liable to pay the aforementioned registration tax as an merging entity during 2013 of the two UK shareholders of 16 UK LLPs (that is, the two UK LTD companies).
Regarding the aforementioned PVC, on 14 December 2015, the Italian Revenue Agency Provincial Division 3 of Rome served to ERG Wind Holdings (Italy) S.r.l. a notice for payment order for the registration tax and fines.
The higher taxes requested total EUR 9.5 million plus interest (EUR 0.9 million) and fines (EUR 11.4 million), for a total of EUR 21.8 million.
On 10 February 2016 ERG Wind Holdings (Italy) S.r.l. appealed the aforementioned payment orders, in its belief that the company is able to put forth valid arguments in its defence.
The merit hearing was held on 12 July 2017 at the Rome Provincial Tax Commission.
On 31 January 2018, the Rome Provincial Tax Commission rejected the appeal presented by the company.
On 21 March 2018, ERG Wind Holdings (Italy) S.r.l. filed an appeal and an application for judicial suspension of the tax collection to the Rome Regional Tax Commission within the terms prescribed by law.

3 Engie formally recognises its liability based on the aforementioned Share and Purchase Agreement.

The merit hearing was held on 18 October 2018 at the Rome Regional Tax Commission.

On 6 December 2018 the Rome Regional Tax Commission (CTR) rejected the appeal filed by the company.

On 13 March 2019, ERG Wind Holdings (Italy) S.r.l. filed an appeal with the Court of Cassation and the hearing date has yet to be set.

On 4 September 2018 the Revenue Agency-Collection served the company with the Payment Notice bearing the enrollment in the register of 2/3 of the registration fee, penalties and interest - totalling EUR 14.6 million - as a result of the unfavourable first degree decision.

The company, deeming the document to be formally defective, filed appeal and petition for judicial suspension of the tax collection.

On 12 October 2018, the Genoa Provincial Tax Commission ordered the judicial suspension of the collection, subject to the issuance of a bank guarantee. At the hearing of 4 December 2018, the judicial suspension of the collection was confirmed until the date of publication of the first degree decision. The merit hearing was held on 5 February 2019.

With its ruling filed on 14 March 2019, the Genoa Provincial Tax Commission rejected the appeal filed by the company.

In this regard, it is pointed out that the 2019 Budget Law (Italian Law no. 145 of 30 December 2018) clarified that Article 1 paragraph 87 subsection a) of Italian Law no. 205 of 27 December 2017 (2018 Budget Law), is the authentic interpretation (hence with retroactive effect) of Article 20 paragraph 1 of the consolidated law per Italian Presidential Decree no. 131 of 26 April 1986. Therefore, the requalification of the company sale for the purposes of the registration fee, confirmed in the first and in the second degree of the proceedings - albeit not applicable, in the opinion of the company, to the case at hand - will have to be disallowed by the appeal court.

In light of the aforementioned regulatory changes, on 15 March 2019 ERG Wind Holdings (Italy) S.r.l. submitted to the Italian Revenue Agency - Provincial Office III of Rome a request for nullification by internal review of the notice of liquidation of the register tax and enforcement of penalties, after administrative suspension of the collection procedure.

On 12 April 2019, the Italian Revenue Agency - Provincial Office III of Rome transmitted to ERG Wind Holdings (Italy) S.r.l. the order of administrative suspension (effective 15 March 2019) of the payment notice requiring payment of 2/3 of the register tax, penalties and interest - totalling EUR 14.6 million.

The Company also filed, on 3 May 2019, with the Rome Regional Tax Commission, a request for judicial suspension of the execution of the appeal decision of the Rome Regional Tax Commission, filed on 6 December 2018. On 11 July 2019, the Rome Provincial Tax Commission ordered the judicial suspension of the tax collection until the decision of the Court of Cassation.

The Group does not deem it likely that it will lose and therefore no liabilities have been recognised to this end.

In addition, in view of the charge in question, ERG Renew S.p.A. (now ERG Power Generation S.p.A.) has activated the guarantees under the Share and Purchase Agreement stipulated with Engie (formerly Gaz de France Suez) concurrently with the acquisition of the ERG Wind Group. Engie has confirmed that the assessment can be considered to be a “Seller Driven Matter”.

Hydroelectric plant fees

Following the requests made in 2019 by some Municipalities and local authorities, further studies are being carried out, including with the support of an external legal consultant, with regard to the possible owing of certain fees in relation to concessions for water diversion pertaining to the Group’s hydroelectric plants. So far, the analyses have shown that there appear to be well-founded arguments in support of the Group having fulfilled its obligations.

Notice of settlement of registration tax for the purchase of the ERG Hydro S.r.l. equity investment

On 3 July 2017, ERG Power Generation S.p.A. and E.ON Italy received a notice from the Genoa Provincial Division of the Italian Revenue Agency informing them of its intention to requalify the transaction to sell its entire stake in Hydro Terni S.r.l. (now ERG Hydro S.r.l.) that took place in place on 30 November 2015 from ‘disposal of equity investment’ (post-partial demerger of the hydro business by E.ON Produzione S.p.A.) to sale of business and, consequently, highlighting the non-payment on the declared price (approximately EUR 950 million) of the relative proportional registration tax.

On 21 July 2017, the companies met inspectors with officials from the Genoa Revenue Agency in order to provide their first observations. As agreed with the Office, on 21 September 2017 the companies submitted to the Italian Revenue Agency a note providing further information in order to illustrate the intentions of the parties, the particular technical and legal issues underlying the civil lawsuit of the disposal of the equity investment with respect to the ”impracticable” sale of the business, as well as the main regulatory issues at the base of the groundlessness of the behaviour of the Agency.

In this respect, as a result of detailed technical and legal studies that ERG carried out, the acquisition of the equity investment in ERG Hydro S.r.l. (post-partial demerger of the hydro business by E.ON Produzione S.p.A.) was the only transaction that was actually possible within the terms and in the manner required to keep that investment economically sustainable. Specifically, the issues that prevented a different transaction from being possible (i.e. transfer of a company) were: (i) the complexity and uncertain timing of obtaining authorisation from the authorities in regard to the transfer of concessions, (ii) planning/land discrepancies for some hydroelectric assets, and (iii) the incompatibility of an acquisition of a business unit of the company with the structure of the ERG Group, within which each individual business is managed by a specific company appointed for said purpose.

Despite ERG Power Generation and E.ON Italia presenting a note providing further information (supplemented with further information on 26 October 2017) and the meeting with inspectors of the Genoa Revenue Agency held on 17 October 2017, on 27 October 2017 the Genoa Provincial Division of the Italian Revenue Agency issued a payment order for higher registration tax equal to approximately EUR 28.8 million plus interest for EUR 1.9 million (no fines were imposed).

On 24 November 2017, an appeal and an application were filed for judicial suspension of the tax collection.

On 14 December 2017, the judicial suspension of the tax collection was ordered.

The merit hearing was held on 14 March 2018.

On 7 November 2018, the decision no. 1256/6/18 of 14 March 2018 was filed; with it, the Genoa Provincial Tax Commission rejected the appeal filed by ERG Power Generation S.p.A.

On 15 January 2019, the company appealed and applied for judicial suspension of the tax collection.

On 26 February 2019, ERG Power Generation S.p.A. received - following the first decree decision - a payment notice bearing the enrolment in the register of approximately EUR 41.8 million (amount including tax, 30% penalties, interest and collection premiums).

On 21 March 2019 the Regional Tax Commission ordered the suspension of the collection of the amount required for payment as a result of the filing of a specific request for such suspension by the Company.

On 31 May 2019, the appeal decision was discussed.

On 5 July, the ruling of the Regional Tax Commission, in favour of the company, was filed.

On 12 February 2020, the Revenue Agency appealed to the Court of Cassation to overturn the above-mentioned decision.

Lastly, the 2019 Budget Law (Italian Law no. 145 of 30 December 2018) clarified that Article 1 paragraph 87 subsection a) of Italian Law no. 205 of 27 December 2017 (2018 Budget Law) is the authentic interpretation (hence with retroactive effect) of Article 20 paragraph 1 of the consolidated law per Italian Presidential Decree no. 131 of 26 April 1986.

At the date of approval of this report, the Directors confirm the risk assessment adopted in previous reports, considering the risk unlikely, and therefore have not recognised a related liability.

NOTE 21 - GUARANTEES, COMMITMENTS, RISKS AND FUTURE MINIMUM PAYMENTS OF OPERATING LEASES

Sureties given (EUR 44,376 thousand)

These are mainly guarantees provided in favour of third parties, guarantees by the parent ERG S.p.A.

These are mainly counterparties with which commercial dealings were carried out, as well as a guarantee in favour of the Italian electricity market operator (GME) directed at allowing operations on said market.

Other Guarantees and commitments made (EUR 16,583 thousand)

The other guarantees and commitments made refer mainly to commitments related to the Group's information systems.

INCOME STATEMENT ANALYSIS

NOTE 22 - REVENUE

	2019	2018
Revenue from sales	1,013,542	1,015,613
Revenue from the provision of services	8,052	8,122
Total	**1,021,594**	**1,023,736**

Revenue from sales consists mainly of:

- sales of **electricity** produced by wind farms, thermoelectric installations, hydroelectric plants and photovoltaic installations, as well as by sales on organised markets and through physical bilateral agreements. The electricity is sold on wholesale channels to industrial operators of the Priolo Site and to customers via bilateral agreements. Specifically, electricity sold wholesale includes sales on the IPEX electricity exchange, both on the "day before market" (MGP) and on the "intraday market" (MI), as well as the "dispatching services market" (MSD), in addition to sales to the main operators of the sector on the "over the counter" (OTC) platform.
  The Group also sells water and steam supplied to industrial operators at the Priolo site.
- incentives **related** to the output in the year of the wind farms and photovoltaic plants in operation, and the hydroelectric plants of ERG Hydro. In Italy, the valuation of the incentives was calculated at the price of 92.11 EUR/MWh determined on the basis of the expected realisable value. With reference to the regulations pertaining to incentives, please refer to the section **Revenue recognition**.
  For further details regarding the prices and quantities sold please see the comment in the **Directors' Report**.

The following table shows the breakdown of revenue from sales:

	2019	2018
Sales to third parties	1,003,665	1,004,072
Sales to Group companies not consolidated line by line	9,877	11,542
Total	**1,013,542**	**1,015,613**

Sales to third parties includes EUR 255 million (EUR 188 million in 2018) of prices by way of feed-in tariff collected by the companies operating in Italy in the wind, solar and hydroelectric segments.

A single customer has a revenue exceeding 10% of the total revenue of the Group.

The breakdown of revenue by type and operating segment is presented below:

(EUR million)	Wind	Thermoelectric [1]	Hydroelectric	Solar	Corporate	Total
Revenue from sales						
Energy to the market	121	260	72	11	–	463
Energy to end customers	–	57	–	–	–	57
Third party transport and dispatching	–	6	–	–	–	6
Steam - Gas and other utilities	–	60	–	–	–	60
Feed in Tariff – GO	279	–	47	60	–	386
White Certificates	–	29	–	–	–	29
Green Certificates abroad	13	–	–	–	–	13
Total Revenue from sales	**413**	**411**	**119**	**71**	**0**	**1,014**
Revenue from the provision of services						
Other - Services	1	7	–	–	0	8
Total Revenue for services	**1**	**7**	**–**	**–**	**0**	**8**
TOTAL REVENUE	**414**	**418**	**119**	**71**	**0**	**1,022**

(1) Revenues for Energy to the market include positive effects of the year's coverage of 13 million

Revenue for Energy to the market includes the net positive impact of EUR 13 million of commodity hedging derivatives. The details are shown below:

(EUR thousand)	
Gains on power sales cash flow hedges	14,551
Gains on gas sales cash flow hedges	10
Total	**14,561**
Losses on power sales cash flow hedges	(1,295)
Losses on gas sales cash flow hedges	–
Total	**(1,295)**
TOTAL	**13,267**

The details of revenue by operating segment and by geographical area, with a previous-year comparison, are presented below:

(EUR million)	2019	2018
Wind	414	386
Thermoelectric	418	405
Hydroelectric	119	194
Solar	71	38
Corporate	–	–
Total	**1,022**	**1,024**

(EUR million)	2019	2018
Italy	857	903
France	71	49
Germany	46	33
Poland	19	14
Bulgaria	13	13
Romania	15	12
UK	–	–
Total	**1,022**	**1,024**

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

In 2019, the timelines for the payment of incentives were revised, starting from the amounts for July 2019. 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", takes place by the end of the "m+2" month.

Collection of the receivables correlated to feed-in tariff revenue takes place on average no later than two months from the accrual date of the price, while "white certificates" are generally collected within the following year.

NOTE 23 - OTHER INCOME

	2019	2018
Indemnities	3,016	2,483
Reimbursement of expenses	912	956
Capital gains on disposals	73	34
Non-recurring income	5,390	11,293
Income for hydroelectric water supply compensation	2,238	2,241
Income for resale of electricity transmission capacity	473	3,946
Charge-backs to TotalErg	–	–
Other income	10,693	951
Total	**22,795**	**21,903**

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

Other income in 2019 mainly reflects the partial release of the Disposed Businesses Provision (EUR 8 million in 2019) by ERG S.p.A.

NOTE 24 - PURCHASES

The 2019 amount is equal to EUR 291 million (EUR 327 million in 2018) and refers mainly to the purchase of electricity from GME and gas from Eni and Edison S.p.A.

The decrease relates mainly to lower electricity costs.

Purchase costs include the net negative impact of EUR 35 million of commodity hedging derivatives.

The details are shown below:

(EUR thousand)	
Gains on power purchases cash flow hedges	338
Gains on gas purchases cash flow hedges	106
Total	**444**
Losses on power purchases cash flow hedges	(12,414)
Losses on gas purchases cash flow hedges	(22,746)
Total	**(35,160)**
TOTAL	**(34,716)**

NOTE 25 - SERVICES AND OTHER OPERATING COSTS

	2019	2018
Services	129,807	120,901
Rental, lease and hire expenses	25,440	31,199
Impairment of receivables	903	25
Accruals for risks and charges	14,944	4,672
Taxes and duties	13,145	10,719
Other operating expenses	6,289	4,509
Total	**190,528**	**172,025**

Costs for services are broken down as follows:

Detail of costs for services

	2019	2018
Commercial, distribution and transport costs	6,224	9,950
Maintenance and repairs	34,016	32,063
Utilities and consumption	5,154	4,586
Insurance	9,433	8,888
Consultancy services	22,143	16,614
Advertising and promotions	1,076	1,048
Directors' Remuneration	7,670	7,365
Statutory Auditors' Remuneration	781	696
Audit costs	1,488	1,302
Services from network operator	1,558	1,775
Costs for services from Priolo Servizi S.C.p.A.	8,924	8,099
Other services	31,340	28,515
Total	**129,807**	**120,901**

- **Commercial, distribution and transportation costs** refer to ancillary costs relative to the distribution of electricity.;
- **maintenance and repairs** mainly consist of the costs for routine maintenance of electricity generation plants;
- **directors' Remuneration** includes the related contributions, expenses and the portion of the cost pertaining to the 2018-2020 Long-Term Incentive Plan. In accordance with **IFRS 2 - Share-Based Payment**, following the

implementation of the 2018-2020 Long-Term Incentive Plan, with reference to the Directors, the portion of the cost accrued was recognised under costs for services;

- **other services** refer to the costs relating to services provided by the joint venture Priolo Servizi to the ERG Power CCGT plant at the industrial site of Priolo Gargallo, bank expenses, general overheads and ancillary personnel costs.

Duties and taxes refer mainly to the municipal taxes for the ERG Power CCGT plant and the wind farms, undeductible VAT for ERG S.p.A. financial assets and other taxes and duties.

NOTE 26 - PERSONNEL EXPENSE

	2019	2018
Wages and salaries	45,670	46,219
Social security expenses	13,111	12,829
Post-employment benefits	2,875	2,784
Other personnel costs	5,482	4,968
Total	**67,137**	**66,800**

Note that, in accordance with **IFRS 2 - Share-based payment**, following implementation of the 2018-2020 Long-Term Incentive Plan, with reference to employees the portion of the cost accrued in 2019 and representing the fair value of the instruments was recognised under "Personnel expense".

The cost for post-employment benefits pertains mainly to the portion of benefits relating to defined contribution plans. The cost also includes the contributions paid to defined contribution plans in favour of key management personnel, for the details of which please see the Related Parties section.

The other costs include additional post-employment benefits.

The item grew as a result of the increase in the work force of the ERG Group, whose breakdown is as follows (average number in the year):

	2019	2018
Executives	39	36
Managers	189	183
White-collar staff	346	333
Blue collar workers – Intermediate	180	178
Total	**753**	**731**

At 31 December 2019, the total number of employees was 754.

NOTE 27 - AMORTISATION, DEPRECIATION AND IMPAIRMENT OF NON-CURRENT ASSETS

	2019	2018
Amortisation of intangible assets	71,065	55,695
Depreciation of property, plant and equipment	227,527	218,373
Depreciation of leased assets	6,702	–
Impairment of non-current assets	659	–
Total	**305,955**	**274,069**

The increase in depreciation/amortisation is mainly due to the increase relating to the acquisition of new photovoltaic plants at the beginning of 2019 and to the change in the consolidation scope of the wind farms acquired in France and Germany in 2019, partially offset by the decrease due to the end of the useful life of some plant components relating to the Italian and French wind farms, and components of the CCGT plant.

It is also noted that as a result of the application of IFRS 16, the depreciation of right-of-use assets increased in the year by EUR 6.7 million compared to the previous year.

NOTE 28 - NET FINANCIAL INCOME (EXPENSE)

	2019	2018
Income		
Exchange gains	16	1,497
Effect of loan renegotiations (IFRS 9 gain)	60	9,811
Bank interest income	1,970	3,648
Interest rate derivatives	43,243	19,352
Other financial income	850	2,928
	46,139	**37,236**
Expense		
Exchange losses	(41)	(1,376)
Effect of loan renegotiations (IFRS 9 loss)	(3,569)	(2,888)
Bank interest expense	(38,662)	(30,845)
Interest rate derivatives	(79,958)	(38,809)
Amortised cost on loans, borrowings and project financing	(54,727)	(21,641)
Interest expense on lease liabilities	(3,655)	–
Other financial expense	(2,623)	(3,093)
	(183,236)	**(98,652)**
Total	**(137,098)**	**(61,416)**

The total effect of the renegotiation of loans, equal to EUR -3.5 million, relates to the expense generated as a result of the application of IFRS 9 during non-substantial modifications of financial liabilities.

The net change in income and expense from interest rate derivatives and on the expenses for amortised cost on loans, borrowings and project financing relates to the early closure of the existing interest rate derivatives on the project financing of ERG Wind Investments Ltd and ERG Power S.r.l. repaid early in the year.

NOTE 29 - NET GAINS (LOSSES) ON EQUITY INVESTMENTS

Net losses on equity investments of EUR 546 thousand (net losses of EUR 78 thousand in 2018) refer mainly to the impairment of the equity investment in Longburn Wind Farm LTD and to the Group's portion of the result of Priolo Servizi S.C.p.A.

NOTE 30 - INCOME TAXES

	2019	2018
Current income taxes	38,395	45,504
Previous years taxes	(124)	405
Deferred tax assets and liabilities	(18,740)	(6,226)
Total	**19,531**	**39,683**

Income taxes for the year were calculated taking into account the expected tax rate to be applied to the taxable profit of companies in the energy industry.

"Deferred tax assets and liabilities" originate from the temporary differences deriving from adjustments made to the consolidated companies' financial statements to comply with the Group's accounting policies, from the temporary differences between the carrying amount of recognised assets and liabilities and their tax base and from tax losses that can be carried forward.

Additionally, deferred tax liabilities amounting to EUR 19 million (EUR 18 million in 2018), calculated on the fair value of the derivatives that qualified for hedge accounting, were recognised directly in equity.

The rate used for the calculation of the deferred tax assets is the same as the nominal IRES rate of 24%, increased, where applicable, by the IRAP rate.

Reconciliation between effective and theoretical tax expense

IRES (CORPORATE INCOME TAX)		
Profit (loss) before taxes	**52,302**	
Theoretical IRES 24%	**12,552**	
Impact of consolidation adjustments that are not relevant for tax calculation purposes		1,755
Impact of ACE (Aid to Economic Growth)		(6,964)
Impact of permanent tax changes		(370)
Current and deferred IRES (Corporate Income Tax)		**6,973**

IRAP		
EBIT	189,945	
Impairment of receivables	903	
Total	**190,849**	
Theoretical IRAP 5%	**9,542**	
Effect of higher IRAP rate for some companies		(2,444)
Impact of permanent tax changes and consolidation adjustments that are not relevant for tax calculation purposes		5,510
Current, deferred and advanced IRAP		**12,609**
Total theoretical taxes	**22,095**	
Total IRES and IRAP in the financial statements		**19,582**
Previous year taxes		**(124)**
Substitute taxes		**73**
Total taxes in financial statements		**19,531**

NOTE 31 - PROFIT (LOSS) FROM DISCONTINUED OPERATIONS

In 2019, the Group does not have any assets classified in accordance with IFRS 5.

In the following table, the income statement for 2018 is presented in accordance with IFRS 5, with the exclusion of the results of Brockaghboy Windfarm Ltd.: for additional details, please refer to the section **Sale of Brockaghboy** in the 2018 Financial Statements.

	2018	
(EUR thousand)	**Brockaghboy Windfarm Ltd.**	**Profit (loss) from discontinued operations**
Revenue	2,937	2,937
Other income	889	889
Purchases	–	–
Services and other operating costs	(551)	(551)
Personnel expense	–	–
Gross operating profit	**3,275**	**3,275**
Amortisation, depreciation and impairment of non-current assets	(704)	(704)
Net financial income (expense)	(605)	(605)
Net gains (losses) on equity investments	26,714	26,714
PROFIT BEFORE TAXES	**28,680**	**28,680**
Income taxes	(248)	(248)
Profit (loss) from discontinued operations	**28,432**	**28,432**

NOTE 32 - NON-RECURRING ITEMS

As required by CONSOB resolution 15519 dated 27 July 2006, significant income and expense arising from non-recurring transactions or events that do not occur frequently in the ordinary course of business are presented below. The aforesaid "Non-recurring items" are included among the special items indicated in the Directors' Report.

Also pursuant to the aforementioned CONSOB resolution, the amounts related to the positions and transactions with related parties are indicated separately in **Note 33 - Related parties**.

(EUR thousand)		2019		2018
Revenue		–		–
Other income	1)	8,246		–
Purchases		–		–
Change in inventories		–		–
Services and other operating costs	2)	(22,912)	2)	(5,287)
Personnel expense	3)	(2,100)	3)	(2,470)
Amortisation, depreciation and impairment of non-current assets	4)	(462)		
Net financial income (expense)	5)	(72,202)	5)	7,877
Net gains (losses) on equity investments	6)	(659)		–
Income taxes	7)	18,995	7)	(650)
Loss from continuing operations of Non-recurring items		**(71,093)**		**(531)**
Profit (loss) from discontinued operations of Non-recurring items		**–**	8)	**26,170**
Profit (loss) of Non-recurring items		**(71,093)**		**25,640**
Non-controlling interests		**–**		**–**
Profit (loss) of Non-recurring items		**(71,093)**		**25,640**

In **2019**:

1) other income relates to the partial release of the provision for businesses disposed of by the Group.
2) services and other costs refer to ancillary costs related to business combinations, projects not completed successfully, costs related to the ongoing Group reorganisation procedures and to provisions during the year related to the reappraisal of tax-related risks for the wind business.
3) personnel expense related to the ongoing Group reorganisation procedures;
4) the item refers to the reversal of amortisation/depreciation related to businesses disposed of by the Group;
5) charges related to early closure of Project Financing and related IRS, previously commented on in **Note 19 - Covenants and Negative Pledges**;
6) expenses related to the write-down of wind projects not completed successfully;
7) income taxes refer to the tax effect of the items commented above;
8) the item refers to the net profit (loss) of non-recurring items of Brockaghboy Windfarm Ltd.

NOTE 33 - RELATED PARTIES

As required by CONSOB resolution 15519 dated 27 July 2006, the amounts of related party positions and transactions are indicated below.

The transactions carried out by ERG with related parties pertain mainly to:

- the exchange of goods, the performance of services, the provision and use of financing.
- contributions to non-corporate parties, referred to ERG, that pursue humanitarian, cultural and scientific initiatives, in particular, Edoardo Garrone Foundation, established as a natural evolution of the engagement of the Garrone and Mondini families in the social and cultural fields, dedicated to the memory of Edoardo Garrone who, in 1938, launched the industrial activity of the ERG Group.

Most of these transactions are exempted from the application of the internal ERG regulation **Procedure for related party transactions**, issued to implement the CONSOB regulation, because they are ordinary transactions concluded at market or standard conditions, or because they are below the threshold of materiality prescribed by the procedure itself.

All transactions were carried out in the interest of the Group and, with the exception of the transactions with entities pursuing humanitarian, cultural and scientific initiatives, are included under ordinary

operations. The joint ventures, associates and subsidiaries excluded from the consolidation scope are indicated in the section **List of Group companies** in the part dedicated to the list of companies recognised at cost.

Lastly, it is noted that ERG S.p.A. renewed the option for the 2019-2021 domestic tax consolidation scheme, with tacit renewal at the end of every three years for a further three years, with the subsidiaries (including indirect) ERG Power Generation S.p.A., ERG Eolica San Vincenzo S.r.l., ERG Eolica Faeto S.r.l., ERG Eolica Fossa del Lupo S.r.l., ERG Eolica Tirreno S.r.l., ERG Hydro S.r.l., ERG Power S.r.l. and ERG Wind Bulgaria S.p.A.

With regard to the terms of the contractual arrangements that could provide for the parent or its subsidiaries to provide financial support to a consolidated structured entity, please refer to **Note 21 - Guarantees, commitments and risks**.

Impact of transactions or positions with related parties on the statement of financial position

The most significant dealings with the joint ventures, associateds and subsidiaries excluded from the consolidation scope pertain to:

- trade receivables from Priolo Servizi S.c.p.A., a consortium company under the joint control of ERG Power S.r.l. (23.65%), ISAB S.r.l. (38.63%), part of the other shareholders of Gruppo Versalis S.p.A. (33.11%) and Syndial S.p.A. (4.61%), relating to utilities delivery services (in particular seawater, electricity and others) and to services rendered within the scope of the Operation & Maintenance contract;
- other current assets from San Quirico S.p.A. relating to tax assets that will be reimbursed by the finance administration to San Quirico and transferred to ERG S.p.A.;
- loan assets with ERG Petroleos S.A. within the scope of the related loan agreement.

The impact of transactions or positions with related parties on the items of the Statement of Financial Position is indicated in the following table:

31/12/2019	Priolo Servizi S.C.p.A.	San Quirico S.p.A.	Edoardo Garrone Foundation	ERG Petroleos	TotalErg	Key Managers	Other	Total	% of total item
Other non-current financial assets								–	0%
Trade receivables	1,238							1,238	1%
Other current assets		1,409						1,409	1%
Trade payables	343							343	0%
Other current liabilities						810		810	2%
Current financial assets				8,356				8,356	37%
Current financial liabilities								–	0%

31/12/2018	Priolo Servizi S.C.p.A.	San Quirico S.p.A.	Edoardo Garrone Foundation	ERG Petroleos	TotalErg	Key Managers	Other	Total	% of total item
Other non-current financial assets								–	0%
Trade receivables	3,073							3,073	1%
Other current assets		2,329						2,329	2%
Trade payables	30							30	0%
Other current liabilities						779		779	2%
Current financial assets				8,490				8,490	17%
Current financial liabilities								–	0%

Impact of transactions or positions with related parties on the income statement

The most significant dealings with the joint ventures, associates and subsidiaries excluded from the consolidation scope pertain to:

- revenue from Priolo Servizi S.C.p.A. for sale of energy and steam within the scope of the related supply contract;
- costs for services to Priolo Servizi S.C.p.A. consisting of the remuneration components provided by the Operation & Maintenance service agreement;
- other costs to Edoardo Garrone Foundation relating to the contribution for 2019;
- costs for services related to remuneration for the position of Chairman held in a Group company by a related party of ERG S.p.A.

The impact of transactions or positions with related parties on the items of the Income Statement is indicated in the following table:

2019	Priolo Servizi S.C.p.A.	San Quirico S.p.A.	Edoardo Garrone Foundation	ERG Petroleos	TotalErg	Key Managers	Other	Total	% of total item
Revenue from sales and services	10,256							10,256	1%
Other revenue and income		22						22	0%
Purchases								–	0%
Services and other costs	(8,924)		(100)					(9,024)	5%
Personnel expense						(1,686)		(1,686)	3%
Financial income								–	0%
Financial expense								–	0%

2018	Priolo Servizi S,C,p,A,	San Quirico S,p,A,	Edoardo Garrone Foundation	ERG Petroleos	TotalErg	Key Managers	Other	Total	% of total item
Revenue from sales and services	11,932							11,932	1%
Other revenue and income								–	0%
Purchases								–	0%
Services and other costs	(8,099)		(108)				(404)	(8,611)	5%
Personnel expense						(1,619)		(1,619)	2%
Financial income								–	0%
Financial expense								–	0%

Impact of transactions or positions with related parties on cash flows

The impact of related party cash flows is indicated in the following summary table:

	2019		
(EUR thousand)	**Total**	**Related parties**	**Impact %**
Cash flows from operating activities	405,077	1,979	0%
Cash flows used in investing activities	(161,203)	–	0%
Cash flows from financing activities	(364,537)	133	0%
Cash flows for the year	**(120,665)**	**2,113**	

	2018		
(EUR thousand)	**Total**	**Related parties**	**Impact %**
Cash flows from operating activities	287,206	31,795	11%
Cash flows from investing activities	60,009	–	0%
Cash flows from financing activities	(386,016)	2,924	-1%
Cash flows for the year	**(38,800)**	**34,719**	

NOTE 34 - EARNINGS PER SHARE

The calculation of earnings per share is based on the following data:

	2019	2018
Profit attributable to the owners of the parent(1)	31,553	132,628
Average number of shares outstanding(2)	148,868,444	148,816,800
Basic earnings per share from continuing operations(2)(3)	0.220	0.701
Diluted earnings per share from continuing operations(2)(3)	0.220	0.701

(1) EUR thousand
(2) Units
(3) Euro

There are no potentially dilutive shares that impact the Group's share of profit.

Reconciliation with the equity and profit of ERG S.p.A.

	Equity		Profit (loss) for the year	
	31/12/2019	31/12/2018	2019	2018
Equity and profit for the year of ERG S.p.A.	**1,372,954**	**1,474,419**	**11,030**	**4,084**
Derecognition of the effects of transactions carried out between consolidated companies:				
Derecognition of intra-group profits on inventories and non-current assets	(3,361)	(1,587)	–	–
Derecognition of intra-group dividends	–	–	(35,000)	(20,000)
	(3,361)	**(1,587)**	**(35,000)**	**(20,000)**
Deferred taxes:				
Deferred tax liabilities on the consolidation adjustments	–	–	(372)	768
Derecognition of the carrying amount of the equity investments:				
Difference between carrying amount and the Group's share of Equity	384,414	334,221	–	–
Adjusted pro rata results achieved by the investees			57,113	147,910
Recognition of Assets and Liabilities from business combinations	20,607	21,779	–	–
	405,021	**356,000**	**57,113**	**147,910**
Equity and profit for the year	**1,774,614**	**1,828,832**	**32,771**	**132,762**
Equity and profit (loss) for the year - non-controlling interests	**–**	**–**	**(1,218)**	**(133)**
Equity and profit for the year ERG Group	**1,774,614**	**1,828,832**	**31,553**	**132,628**

NOTE 35 - DISCLOSURE BY OPERATING SEGMENT AND GEOGRAPHICAL AREA

Reporting by business and geographical segment is presented in accordance with IFRS 8 - Operating segments.

The results at market value are indicators that are not defined in the IFRS. Management considers that these indicators are significant parameters for the presentation of the performance of the ERG Group.

To enhance understandability of the individual business segments' performance, the operating results are shown at market value of non-recurring items.

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

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

The criteria for determining the sectors are set out below

The Group has the following four operating segments subject to disclosure in the Directors' Report and as described in detail below, which correspond to the strategic business segments. These segments provide different products and services and they are managed separately because they need different technologies and strategies.

The activities of each segment of the Group disclosed herein are summarised below:

Wind

ERG is active in the generation of electricity from wind sources, with 1,929 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 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.

Reporting by business segment

(EUR million)	Wind	Thermo-electric	Hydro-electric	Solar	Corporate	TOTAL adjusted	Non-recurring items	TOTAL reported	Discontinued operations	TOTAL continuing operations
2019										
Total revenue	413.6	418.3	118.7	71.0	36.9	1,058.5	–	1,058.5	–	1,058.5
Intrasegment revenue	–	–	–	–	(36.9)	(36.9)	–	(36.9)	–	(36.9)
Revenue	**413.6**	**418.3**	**118.7**	**71.0**	**0.0**	**1,021.6**		**1,021.6**	**–**	**1,021.6**
Gross operating profit (loss)	**300.7**	**69.4**	**87.3**	**62.8**	**(16.5)**	**503.7**	**(7.8)**	**495.9**	**–**	**495.9**
Amortisation. depreciation and impairment losses	(169.0)	(28.2)	(57.5)	(41.2)	(3.0)	(298.8)	(7.2)	(306.0)	–	(306.0)
Operating profit (loss)	**131.7**	**41.2**	**29.8**	**21.6**	**(19.4)**	**204.9**	**(14.9)**	**189.9**	**–**	**189.9**
Net gains (losses) on equity-accounted investments	–	0.1	–	–		0.1				
Investments in associates and joint ventures	**–**	**13.0**	**–**	**–**	**–**	**13.0**	**–**	**13.0**	**–**	**13.0**
Capital expenditure in non-current assets	**44.5**	**14.9**	**5.6**	**1.0**	**1.9**	**67.9**	**–**	**67.9**	**–**	**67.9**

(EUR million)	Wind	Thermo-electric	Hydro-electric	Solar	Corporate	TOTAL adjusted	Non-recurring items	TOTAL reported	Discontinued operations	TOTAL continuing operations
2018										
Total revenue	389.4	404.8	194.1	38.4	35.7	1,062.3				
Intrasegment revenue	–	–	–	–	(35.7)	(35.7)				
Revenue	**389.4**	**404.8**	**194.1**	**38.4**	**0.0**	**1,026.7**		**1,026.7**	**(2.9)**	**1,023.7**
Gross operating profit (loss)	**273.9**	**52.9**	**146.2**	**32.3**	**(14.6)**	**490.6**	**(7.8)**	**482.8**	**(3.3)**	**479.6**
Amortisation, depreciation and impairment losses	(159.3)	(30.7)	(58.1)	(23.8)	(2.9)	(274.8)		(274.8)	0.7	(274.1)
Operating profit (loss)	**114.5**	**22.2**	**88.2**	**8.5**	**(17.6)**	**215.8**	**(7.8)**	**208.1**	**(2.6)**	**205.5**
Net gains (losses) on equity-accounted investments		0.1			–	0.1	–	0.1	–	0.1
Investments in associates and joint ventures	**–**	**12.9**	**–**	**–**	**–**	**12.9**	**–**	**12.9**	**–**	**12.9**
Capital expenditure in non-current assets	**42.1**	**8.1**	**6.7**	**0.1**	**3.2**	**60.2**	**–**	**60.2**	**–**	**60.2**

Reporting by geographical segment

(EUR million)	Italy	France	Germany	Poland	Bulgaria	Romania	UK	TOTAL adjusted	Non-recurring items	TOTAL reported	Discontinued operations	TOTAL continuing operations
2019												
Revenue	857.0	71.3	46.0	18.7	18.7	15.1	–	1,026.9	–	1,026.9	–	1,026.9
Gross operating profit (loss)	**393.6**	**47.0**	**31.3**	**14.9**	**8.4**	**9.8**	**(1.2)**	**503.7**	**(7.8)**	**495.9**	**–**	**495.9**
Amortisation, depreciation and impairment losses	(228.4)	(31.2)	(23.9)	(6.0)	(4.2)	(5.1)	-	(298.8)	(7.2)	(306.0)	–	(306.0)
Operating profit	**165.2**	**15.7**	**7.4**	**8.9**	**4.3**	**4.6**	**(1.2)**	**204.9**	**(14.9)**	**189.9**	**–**	**189.9**
Net gains on equity-accounted investments	0.1	–	–	–	–	–	–	0.1	–	–	–	–
Investments in associates and joint ventures	**12.9**	**–**	**–**	**–**	**–**	**–**	**–**	**12.9**	**–**	**12.9**	**–**	**12.9**
Capital expenditure in non-current assets	**34.7**	**1.4**	**15.2**	**0.0**	**0.0**	**–**	**16.6**	**67.9**	**–**	**67.9**	**–**	**67.9**

(EUR million)	Italy	France	Germany	Poland	Bulgaria	Romania	UK	TOTAL adjusted	Non-recurring items	TOTAL reported	Discontinued operations	TOTAL continuing operations
2018												
Revenue	903.2	48.9	32.7	13.9	12.6	12.5	2.9	1,026.7		1,027	(2.9)	1,023.7
Gross operating profit	**411.7**	**30.1**	**21.6**	**9.8**	**7.9**	**6.6**	**2.9**	**490.6**	**(7.8)**	**482.8**	**(3.3)**	**479.6**
Amortisation, depreciation and impairment losses	(216.7)	(23.3)	(19.0)	(6.0)	(4.1)	(5.2)	(0.4)	(274.8)		(274.8)	0.7	(274.1)
Operating profit	**195.0**	**6.8**	**2.7**	**3.8**	**3.8**	**1.3**	**2.5**	**215.8**	**(7.8)**	**208.1**	**(2.6)**	**205.5**
Net gains on equity-accounted investments	0.1	–	–	–	–	–	–	0.1	0	0.1	–	0.1
Investments in associates and joint ventures	**12.9**	**–**	**–**	**–**	**–**	**–**	**–**	**12.9**	**–**	**12.9**	**–**	**12.9**
Capital expenditure in non-current assets	**25.0**	**17.8**	**17.0**	**0.0**	**0.0**	**0.3**	**0.1**	**60.2**	**–**	**60.2**	**–**	**60.2**

For details and the reconciliation entries, please refer to the "**Alternative performance indicators**" section in the **Directors' Report**.

NOTE 36 - FINANCIAL INSTRUMENTS

31/12/2019

The following table shows, for each financial asset and liability, the carrying amount and the fair value. Information on the fair value of financial assets and liabilities not measured at fair value are excluded, when the carrying amount represents a reasonable approximation of fair value.

31/12/2019	Fair value – Hedging instruments	FVTPL instruments	FVOCI instruments	Financial assets measured at amortised cost	Other financial liabilities	Total Carrying Amount	Fair value
Equity investments	–	772	–	–	–	772	772
Other non-current financial assets	1,837	–	–	39,792	–	41,629	41,629
Derivative instruments	4,926	–	–	–	–	4,926	4,926
Other current financial assets(1)	–	–	–	19,180	–	19,180	19,180
Trade receivables	–	–	–	193,466	–	193,466	n/a
Financial instruments in working capital	–	–	137	–	–	137	n/a
Other receivables	–	–	–	164,566	–	164,566	n/a
Cash and cash equivalents	–	–	–	653,528	–	653,528	n/a
Total assets	**6,763**	**772**	**137**	**1,070,532**	**–**	**1,078,203**	**–**
Loans and borrowings	–	–	–	–	1,279,489	1,279,489	1,321,277
Non-recourse project financing	–	–	–	–	812,098	812,098	1,042,923
Current bank borrowings	–	–	–	–	92	92	92
Financial liabilities	–	–	–	–	20,296	20,296	20,296
Derivative instruments	62,931	–	–	–	–	62,931	62,931
Trade payables	–	–	–	–	87,830	87,830	n/a
Other payables	–	–	–	–	72,578	72,578	n/a
Total liabilities	**62,931**	**–**	**–**	**–**	**2,272,384**	**2,335,315**	**–**

(1) the column "Other financial assets measured at amortised cost" includes EUR 7,238 thousand of the guarantee margins related to the futures derivatives hedging the electricity price risk. This amount is reported net of the fair values of these contracts at 31 December 2019, positive by a total amount of EUR 9,336 thousand. The Fair Value of the instruments is shown in the table of Note 17

Instruments measured at Fair value through profit or loss (FVTPL) relate exclusively to instruments which must be measured at FVTPL in accordance with IFRS 9.

With the exception of derivative instruments, the other financial liabilities are measured at amortised cost.

The most important items to be included in parts of the net financial position relate to:

- Derivative instruments
- Loan assets
- Cash and cash equivalents
- Loans and borrowings
- Non-recourse project financing
- Current bank borrowings
- Financial liabilities

The most important items for the purposes of the income statement, the following are pointed out:

- Derivative instruments
- Loans and borrowings
- Non-recourse project financing

The following table provides an analysis of the financial instruments measured at fair value, grouped as levels 1 to 3 based on the degree to which their fair value can be observed:

- level 1, the fair value is determined from prices quoted on active markets;
- level 2, the fair value is determined using valuation techniques based on variables which are directly (or indirectly) observable on the market;
- level 3, the fair value is determined using valuation techniques based on significant variables that cannot be observed on the market.

	Level 1	Level 2	Level 3
Financial assets			
- Fair value - Hedging instruments	14,262	1,837	–
- FVTPL instruments	–	772	–
- FVOCI instruments	137	–	–
Total	**14,399**	**2,609**	**–**
Financial liabilities			
- Fair value - Hedging instruments(1)	–	62,931	–
- Fair value - FVTPL instruments	–		
- Other financial liabilities	532,836	1,851,752	–
Total	**532,836**	**1,914,683**	**–**

(1) "Fair value - Hedging instruments" includes the positive fair values of the futures contracts hedging the commodity price risk, amounting to EUR 9,336 thousand. Said amount is reported in these consolidated financial statements as a direct deduction of the Financial assets measured at amortised cost

The Group has no financial instruments classifiable under level 3.

Financial instruments classified in level 1 relate to the positive fair value of financial securities for an amount of EUR 137 thousand, to the positive fair value of futures contracts on commodities for an amount of EUR 14,262 thousand and to the fair value of the Green Bonds issued by the parent ERG S.p.A. for an amount of EUR 532,836 thousand.

Corporate loans, project financing and financial instruments on interest rates and commodities are mainly classified in level 2.

To determine the market value of these instruments, ERG uses various measurement and valuation models, as summarised below:

Type	Instrument	Pricing model	Market data used	Data provider	IFRS 7 Hierarchy
Interest rate derivatives	Interest Rate Swap	Discounted Cash Flow	- Deposit rates (Euribor) - Swap rates	- Reuters	Level 2
	Interest Rate Option (Cap, Floor)	Black & Scholes	- Deposit rates (Euribor) - Swap rates - Implied volatility of rates	- Reuters - Reuters	Level 2
Foreign exchange derivatives	FX Forward	Discounted Cash Flow	- Zero coupon curves of the reference currencies - ECB spot exchange rates	- Reuters	Level 2
	FX Option	Black & Scholes	- Zero coupon curves of the reference currencies	- Reuters	Level 2
		Edgeworth Expansion	- ECB spot exchange rates		
		Monte Carlo Simulation	- Implicit exchange rate volatility		
Derivatives on commodities	Commodity Swap	Discounted Cash Flow	- Official spot prices of reference commodities	- Platt's	Level 2
	Gas formules		- ECB spot exchange rates		
	Commodity Future	Listed instrument	- Official settlement prices - Source:EEX	- EEX via Reuters	Level 1
	Contract for Difference (CfD)	Discounted Cash Flow	- Forward PUN quoted on the OTC market	- EEX via Reuters	Level 2
			- Zero coupon curve on the Euro	- Reuters	

NOTE 37 - DISCLOSURE ON RISKS

The main risks identified and actively managed by the ERG Group are the following:

- the credit risk, which highlights the possibility of default of a counterparty or any impairment of the assigned credit rating;
- the market risk, deriving from exposure to exchange rate fluctuations, mainly between Euro and US Dollar, to interest rate fluctuations, and to the change in the prices of the products sold and of the purchases of raw materials (commodity price volatility risk);
- the liquidity risk, which expresses the risk that available financial resources are insufficient to maintain payment commitments.

The ERG Group attributes great importance to the identification and measurement of the risks and to the connected control systems, in order to assure an efficient management of the assumed risks. Consistently with this objective, an advanced Risk Management system was adopted that assures, in compliance with the existing policies on the matter, the identification, measurement and central level control for the entire Group of the degree of exposure to individual risks.

The Group Risk Management & Corporate Finance function ensures consistency with the assigned risk limits and provides adequate support with its own analyses, both to individual subsidiaries and to the Risk Committee and Top Management of the Parent, for strategic decisions.

Credit risk

Exposure to credit risk, inherent in the probability that a determined counterparty will not be able to meet its contractual obligations, is managed through appropriate analyses and assessments also supported by primary providers on the analysis of the credit risk, attributing to each counterparty an internal rating (Internal Rating Based, summary indicator of creditworthiness assessment). The rating class provides an estimate of the probability of default of a given counterparty on which the level of credit assigned depends, which is carefully monitored and which must never be exceeded. The choice of the counterparties in relation both to the industrial business and to financial trades depends on the decisions of the Credit Committee whose choices are supported by the credit rating analyses.

The concentration risk, both by customer and by sector, is monitored continuously but without ever presenting alert situations.

At 31 December 2019, maximum exposure to credit risk on trade receivables, broken down by geographical region, is as follows:

(EUR thousand)	31/12/2019	31/12/2018
Italy	142,200	208,282
France	11,055	7,352
Germany	6,808	4,235
Bulgaria	6,307	5,574
Poland	4,282	3,484
Romania	22,814	22,073
UK	–	–
Total	**193,466**	**251,001**

The carrying amount of the receivables includes an amount of EUR 84 million relating to the two main customers of the Group, operators of the market and of electrical services in Italy.

The table below provides information about the exposure of the ERG Group to credit risk at year end, by the classification of receivables not past due (see **Note 9 - Trade Receivables**) according to the credit rating corresponding to the ratings assigned by the information provider and assigned internally.

(EUR thousand)	2019	2018
AAA Rating	–	–
AA+/AA- Rating	17,863	20,201
A+/A- Rating	3,720	19,469
BBB+/BBB- Rating	101,680	188,013
BB+/BB- Rating	40,618	2,511
B+/B- Rating	15,122	2,374
CCC Rating	265	448
Receivables from Group companies that are not consolidated line by line	1,334	3,072
Unassigned	–	1,766
Total	**180,602**	**237,852**

In relation to the receivables that were not impaired, the Group assigns to each exposure a credit rating that provides a forecast of the risk of loss and considers proven experience in rating credit quality. Credit ratings are defined using qualitative and quantitative factors indicating the risk of breach.

The following table shows credit risk exposure and expected losses on trade receivables not past due at 31 December 2019 (with respect to the above table, the carrying amount is recorded net of items included under liabilities to adjust receivables and of receivables already collected at the date of this document).

(EUR thousand)	Carrying amount	Weighted average loss percentage	Loss allowance
AAA Rating	7,572	0.01%	(1)
AA+/AA- Rating	11,055	0.02%	(2)
A+/A- Rating	4,401	0.05%	(2)
BBB+/BBB- Rating	38,898	0.93%	(370)
BB+/BB- Rating	91,630	0.11%	(98)
B+/B- Rating	15,870	0.69%	(110)
CCC Rating	75	1.42%	(1)
CC Rating	91	3.59%	(3)
Total	**169,591**	**0,35%**	**(587)**

Liquidity risk

It is identified with the risk that the financial resources may not be sufficient to cover all maturing obligations. To date, the ERG Group guarantees with the generation of cash flows and with the availability of credit facilities, made available by different counterparties, the adequate coverage of its financial requirements.

The following tables summarise the time profile of the financial liabilities of the Group at 31 December 2019 and at 31 December 2018 on the basis of non-discounted contractual payments.

31/12/2019	Maturity of liabilities				
(EUR thousand)	On demand	under 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years
Loans and borrowings	–	2,320	22,929	817,389	522,823
Non-recourse project financing	–	16,277	111,596	441,182	378,576
Current bank borrowings	–	–	–	–	–
Derivative instruments	–	1,162	21,057	22,867	1,423
Trade payables	22,169	65,661	–	–	–
Total liabilities	**22,169**	**85,420**	**155,581**	**1,281,438**	**902,822**

31/12/2018	Maturity of liabilities				
(EUR thousand)	On demand	under 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years
Loans and borrowings	–	61,736	112,631	746,031	22,646
Non-recourse project financing	–	7,425	172,598	827,741	360,084
Current bank borrowings	20,000	–	–	–	–
Derivative instruments	–	1,471	48,882	63,975	724
Trade payables	27,447	64,817	–	–	–
Total liabilities	**47,447**	**135,449**	**334,111**	**1,637,747**	**382,006**

EMTN Euro Medium Term Notes Programme

On **19 December 2018** ERG S.p.A. completed a programme for non-convertible medium/long-term bond issues (Euro Medium Term Notes Programme - EMTN) up to the overall maximum amount of EUR 1,000 million, as a result of the approval granted last 13 December 2018 by the Board of Directors.

The programme, with a duration of one year, renewable on expiry, provides for the possibility of issuing non-convertible bonds that will be listed on the Luxembourg Stock Exchange, to be placed with institutional investors operating in Europe.

The Fitch Ratings agency (“Fitch”) assigned ERG S.p.A. an Issuer Default Rating of BBB- with stable outlook and the EMTN programme a BBB- rating.

This transaction will enable ERG to optimise its ability to exploit the financing opportunities offered by institutional investors on the Debt Capital Market (DCM), through a timely future issue of bonds.

The Board of Directors postponed to subsequent resolutions the approval of the individual bond issues within the EMTN Programme, as well as the definition of terms, duration and conditions.

Market risk

It comprises exchange rate risk, interest rate risk and commodity price risk. The management of these risks is regulated by the guidelines provided in the Group Policy and by internal procedures in the Finance area.

Moreover, specific risk management policies and procedures have been developed, based on the best practices of the industry, for the continuous measurement of exposure levels with respect to a Risk Capital value allocated by the parent.

Interest Rate Risk

It identifies the change in the future trends of interest rates that could determine higher costs for the Group. Containment of the interest rate risk is pursued by using derivative contracts such as Interest Rate Swaps and Interest Rate Options (plain vanilla).

The following table presents the impact on profit before taxes (due ro changes in the fair value of financial assets and liabilities) and equity (due to changes to the fair value of the cash flow derivatives) of a +/-1% change in the interest rate, maintaining all other variables fixed.

Impact on profit or loss

(EUR million)	2019	2018
Shock-up (+1% change in interest rate)	4.5	9.0
Shock-down (-1% change in interest rate)	(8.0)	(4.2)

Impact on Equity

(EUR million)	2019	2018
Shock-up (+1% change in interest rate)	41.2	31.2
Shock-down (-1% change in interest rate)	(43.0)	(35.7)

Commodity risk

The commodity price risk consists of the unexpected change in commodity prices, in the procurement of services, finished goods and services marketed for sale.

The Group implements all risk management strategies necessary to avoid the economic damages deriving from the volatility of the price for the sale and purchase of Electricity and from fluctuations in the Clean Spark Spread.

The following table considers the derivative financial instruments tied to different types of commodities and represents a source of reasonable price changes, maintaining all other variables fixed, the impact on the changes of profit before tax (because of changes in the fair value of the financial assets and liabilities) and of Group equity (due to changes of the fair value of cash flow hedge derivative instruments) of a +/-25% change in the price of the commodities.

Impact on profit or loss

(EUR million)	2019	2018
Shock-up (+25% change in price of commodities)	(0.3)	–
Shock-down (-25% change in price of commodities)	0.3	–

Impact on Equity

(EUR million)	2019	2018
Shock-up (+25% change in price of commodities)	(16.9)	(19.8)
Shock-down (-25% change in price of commodities)	16.9	19.8

Derivative instruments used

The main types of derivative instruments adopted in the management of financial risks, with the sole purpose of hedging, are the following:

Options: contract whereby one of the parties, paying a price (premium) to the other, acquires the right to purchase (call option) or sell (put option), at a future date, a certain quantity of financial instruments (underlying assets) at a set price (exercise price);

Forward contracts: they provide for the purchase or sale between two parties of a given asset (underlying asset) at a future date and at a price pre-set at the time of execution of the contract; this category also includes future contracts, which unlike forward contracts, are standardised, traded in lots and for predetermined maturity dates within regulated markets.

Swap: contract that determines the exchange of payment flows on certain dates by two parties. Payments can be expressed in the same currency or in different currencies and their amount is determined in relation to an underlying asset.

The derivatives entered into by ERG and designed to hedge the exposure to financial risks existing at 31 December 2019 are:

Interest rate derivatives

- Interest Rate Option instruments that make it possible to set upper limits (cap) and lower limits (floor) to interest rate fluctuations relating to loans indexed to a variable rate;
- Interest Rate Swap instruments to bring bank loans with fixed and variable rate to the risk profile deemed most appropriate. IRS contracts provide that the counterparties, with reference to a defined notional value and to pre-set maturities, mutually exchange interest flows calculated in relation to fixed rates or to variable rate parameters agreed previously.

Derivatives on commodities

- CfD (Contract for Difference) instruments, used to manage the risk of volatility of the price of electricity; this instrument allows the purchase or sale of quantities of electricity synthetically, settling upon expiry the differential between the agreed price and the market price recorded in the reference period.

Summary of derivatives used

The derivatives entered into by ERG, designed to hedge its exposure to commodities price, exchange rate and interest rate risks, were as follows at 31 December 2019:

	Type	Hedged risk	31/12/2019 Reference notional	31/12/2019 Fair Value	31/12/2018 Reference notional	31/12/2018 Fair Value
				(EUR thousand)		(EUR thousand)
	Cash Flow Hedging instruments					
A	Interest Rate Swaps and Interest Rate Caps	Interest rate risk	1,613 EUR million	(39,927)	1,783 EUR million	(88,534)
B	Gas price risk hedging swaps	Commodity transaction risk	4,746 thousands of MWh	(21,166)	2,014 thousands of MWh	(1,654)
C	Electricity price risk hedging futures	Commodity transaction risk	4,653 thousands of MWh	12,687	5,597 thousands of MWh	(23,808)
D	Electricity price risk hedging CFD	Commodity transaction risk	684 thousands of MWh	1,824	– thousands of MWh	–
	Total Cash Flow Hedging instruments			**(46,583)**		**(113,996)**
	Non Hedge Accounting Instruments					
D	Electricity price risk hedging CFD	Commodity transaction risk	– thousands of MWh	–	– thousands of MWh	–
C	Electricity price risk hedging futures	Commodity transaction risk	1,799 thousands of MWh	(248)	687 thousands of MWh	(206)
	Total non Hedge Accounting instruments			**(248)**		**(206)**
	TOTAL DERIVATIVE INSTRUMENTS			**(46,831)**		**(114,202)**

A Interest rate swaps and interest rate caps and floors.

Transactions for hedging the "interest rate" economic risk tied to fluctuations in interest rates on loans.

The reference notional values of the hedges refer to the following companies:

- ERG S.p.A.;
- wind and solar power business companies.

At 31 December 2019, the total fair value was a negative EUR 39.9 million. The change is recognised in the Hedging reserve.

B Gas price risk swaps

Swaps used to hedge the risk of price fluctuations in gas formulas for provision and supply agreements. In these contracts, the parties undertake to pay or collect at an agreed future date the difference between the established price and the price observed during the year multiplied by the quantities indicated in the contract.

At 31 December 2019, the total fair value was a negative EUR 21.2 million.

C Electricity price risk hedging futures

Forward contract in which two parties agree to exchange at a future date a certain asset at a price fixed at the time of concluding the contract.

At 31 December 2019, the total fair value was a negative EUR 12.6 million.

D Electricity price risk hedging CFD

Swaps used to hedge the risk of fluctuations in the price of electricity for provision and supply agreements. In these contracts, the parties undertake to pay or collect at an agreed future date the difference between the established price and the price observed during the year multiplied by the quantities indicated in the contract.

At 31 December 2019, the total fair value was a negative EUR 1.8 million.

With reference to the impact of hedging derivatives on the statement of comprehensive income, please refer to **Other comprehensive income**.

NOTE 38 - SIGNIFICANT EVENTS

Date	Sector	Significant events	Press release
22 January 2020	Corporate	ERG S.p.A.'s **rating** has been upgraded to "**AA**", as compared with its "A" rating in 2018, by **MSCI ESG Research Ltd. ("MSCI")**, one of the leading company performance researchers, calculated on the basis of environmental, social and governance (ESG) factors. Furthermore, ERG ranks 35th among the top 50 companies in the world in the Corporate Knights Global 100 Most Sustainable Corporations in the World Index and has maintained the CDP Climate Change rating of B.	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, with reference to the Covid-19 emergency in Italy and around the world, and to the resulting restrictions across the entire country, ERG proactively extended the remote work option to every working day of the week until 3 April 2020. This option has been made available to all employees in the Group's Italian offices where the remote work option is compatible with the effective performance of the duties assigned, ensuring that the greatest attention is given to guaranteeing business continuity and the safety of its production sites.	

NOTE 39 - AUDIT FEES

Based on Article 149-duodecies of the Issuers' Regulation, the 2019 costs relating to the services performed by the independent auditor KPMG S.p.A., the main auditor of the ERG Group, and by the companies belonging to its related network, are shown below.

The preparation of the table is in line with the "Procedure for audit engagements in the companies of the ERG Group and monitoring of additional services".

Audit services comprise the complete audit of the separate and Consolidated financial statements and the audit of the reporting package of the parent for the purposes of the preparation of the Consolidated Financial Statements of the ultimate parent.

Non-audit services refer mainly to:

- attestation services for EUR 40 thousand relating to the prospectus on the EMTM;
- other services for EUR 145 thousand relating to the voluntarily agreed checks required on the quarterly data of the subsidiaries for EUR 115 thousand and relating to the Audit of "non-financial information" and of the sustainability report for EUR 30 thousand;
- examination of the compliance of the separate annual accounts (unbundling) for EUR 54 thousand;
- tax returns for EUR 21 thousand.

Type of service	Party that performed the service	Recipient	2019 compensation (EUR thousand)
Statutory audit	Auditor of the parent	Parent company	266
	Auditor of the parent	Subsidiaries	838
	Network of the parent's auditor	Subsidiaries	124
Total Audit Services			**1,228**
Non-audit services	Tax advisory services	Subsidiaries	–
	Auditor of the parent	Parent company	189
	Network of the parent's auditor	Parent company	–
	Network of the parents auditor	Subsidiaries	–
	Auditor of the parent	Subsidiaries	72
Total non-audit services			**260**
Total			**1,488**

NOTE 40 - OTHER INFORMATION

During the year, no atypical and/or unusual transactions took place. Atypical and/or unusual transactions are those transactions that due to their significance/relevance, nature of the counterparties, subject of the transaction, procedures for determining the transfer price and timeframe of the event (proximity to the end of the year) can give rise to doubts with regard to: the correctness/completeness of the information in the financial statements, conflicts of interest, wealth preservation and the protection of non-controlling interests.

No advances were provided and there are no receivables from directors and statutory auditors of the parent for the performance of their duties also in other companies included in the consolidation scope.

Disclosure obligations pertaining to Italian Law no. 124/2017 of 4 August 2017

Article 1, paragraphs 125-129, of Italian Law no. 124 of 4 August 2017 introduced the obligation for companies that receive contributions from public administrations to publish the amounts received in the notes to the separate financial statements and, where applicable, the notes to the consolidated financial statements. In view of the interpretation difficulties encountered in applying these provisions (Assonime - circular no. 5 of 22 February 2019) the legislator intervened, amending the said regulations several times. More specifically, the legal provisions of Italian Law no. 124/17 were most recently revised by Italian Law Decree no. 34 of 30 April 2019, which set forth urgent economic growth measures to resolve specific crisis situations, converted with Italian Law no. 58 of 28 June 2019, which provided responses to important issues in order to simplify and rationalise the regulations under consideration. The ERG Group has therefore decided to state in the separate financial statements of the companies belonging to the Group the financial contributions received from public administrations for use by all the companies and that come under the general scheme of the reference system defined by the State (e.g. feed-in premium, energy efficiency certificates, etc.) with the exception of those belonging to the following categories:

- tax relief;
- training contributions received from inter-professional funds (e.g. Fondimpresa), since such funds are a form of partnership governed by private law, financed with the contributions paid by the companies themselves.

(EUR million)	Revenue 2019	of which feed-in premium (1)	of which white certificates (1) (2)	of which guarantees of origin (1) (2)	of which DD (3)	of which RES (1)
Wind Italy	149	148	–	1	–	–
Hydroelectric Italy	52	47	–	1	3	1
Thermoelectric Italy	29	–	29	–	–	–
Solar Italy	64	60	–	–	4	–
Total	**294**	**255**	**29**	**2**	**7**	**1**

(EUR million)	Receipts 2019	of which feed-in premium (1)	of which white certificates (1) (2)	of which guarantees of origin (1) (2)	of which DD (3)	of which RES (1)
Wind Italy	182	182	–	–	–	–
Hydroelectric Italy	74	71	–	1	3	–
Thermoelectric Italy	26	–	26	–	–	–
Solar Italy	59	55	–	–	4	–
Total	**341**	**307**	**26**	**1**	**7**	**–**

(1) issuing subject Gestore Servizi Energetici (GSE)
(2) sold to third parties
(3) energy sold to Gestore Servizi Energetici (GSE) pursuant to Resolution 207 of 2007

The reference amounts indicated in the tables above are also stated in the Financial Statements of the Group companies concerned.

In accordance with the provisions of Article 3-quater of Italian Law no. 12 of 11 February 2019, for any funds received please refer to the indications contained in the National Register of State Aid under Article 52 of Law no. 234 of 24 December 2012.

2019 Consolidated Non-Financial Statement

In accordance with the provisions of Article 5, paragraph 3b) of Legislative Decree 254/2016, ERG S.p.A. has prepared its Consolidated non-Financial Statement, which constitutes a separate report. The 2019 Consolidated non-Financial Statement, prepared in accordance with the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards) defined in 2016 by the Global Reporting Initiative (GRI), subjected to limited review by KPMG S.p.A., is available on the Group's website.

Recommendations with regard to information to be provided in the financial reports and in the press releases of the listed companies operating in the field of renewable energies

In accordance with CONSOB Recommendation no. DIE/0061493 of 18 July 2013 with regard to information to be provided in the financial reports and in the press releases of the listed companies operating in the field of renewable energies, the related tables are presented below.

Reconciliation with the carrying amount of Property, Plant and Equipment in the Statement of Financial Position

(EUR thousand))	Net carrying amount at 31/12/2019
Plants in operation	2,289,480
Plants not yet operational	24,419
Other property, plant and equipment	22,429
	2,336,329

Information about the energy generating plants in operation at 31 December 2019

Company	Plant	Associated financial debt				
		Carrying amount of financial liability	Type	Disbursement / Maturity		Hedge
ERG Power S.r.l.	C.C.G.T (Combine Cycle Gas Turbine)	n.a.	Project financing	2010	2021	IRS: fixed rate 2.77%
Thermoelectric		**n.a.**				
ERG Hydro S.r.l.	Hydroelectric Plant	n.a.	n.a.	n.a.	n.a.	n.a.
Hydroelectric						
ERG Eolica S. Vincenzo S.r.l.	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
ERG Eolica S. Cireo S.r.l.						
ERG Eolica Faeto S.r.l.		7,711	Project financing	2007	2021	IRS: fixed rate 2.13%
ERG Eolica Ginestra S.r.l.		21,812		2010	2025	IRS: fixed rate 3.27%
Green Vicari S.r.l.		–		–	–	-
ERG Eolica Basilicata S.r.l.		25,663		2017	2027	IRS: fixed rate 1.46%
ERG Eolica Fossa del Lupo S.r.l.		60,103		2017	2027	IRS: fixed rate 2.26%
ERG Eolica Amaroni S.r.l.		16,943		2017	2027	IRS: fixed rate 1.68%
ERG Eolica Adriatica		78,059		2009	2025	IRS: fixed rate 4.18%
ERG Eolica Campania		11,519		2009	2020	IRS: fixed rate 4.37%
ERG Wind Investments	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
ERG Wind Sardegna						
ERG Wind Sicilia 6						
ERG Wind 4						
ERG Wind 6						
ERG Wind Sicilia 2						
ERG Wind Sicilia 3						
ERG Wind Sicilia 4						
ERG Wind Sicilia 5						
ERG Wind 2000						
ERG Wind MEG 1 LLP						
ERG Wind MEG 2 LLP						
ERG Wind MEG 3 LLP						
ERG Wind MEG 4 LLP						
Parc Eolien du Carreau S.a.s.	Wind Farm	n.a.	Project financing	n.a.	n.a	n.a
Parc Eolien de la Bruyère S.a.s.		n.a.		n.a	n.a	n.a
Parc Eolien les Mardeaux S.a.s.		n.a.		n.a	n.a	n.a
Parc Eolien de Lihus S.a.s.		n.a.		n.a	n.a	n.a
Parc Eolien de Hetomesnil S.a.s.		n.a.		n.a	n.a	n.a
Eoliennes du Vent Solaire		2,450		2011	2025	fixed rate loan
ERG Wind France 1	Wind Farm	16,159	Project financing	2016	2025	IRS: fixed rate -0.065%
Ferme Eolienne de Teterchen S.a.s.		n.a.	n.a.	n.a.	n.a.	n.a.
Parc Eolien du Bois de l'Arche S.a.s.						
Parc Eolien du Bois de Bigot S.a.s.						
Cepe Pays De Montbeliard S.n.c.						
Cepe de Saint Florentin S.n.c.						
Cepe de Murat S.n.c.						
Parc Eolien de St Riquier 3 S.a.s.	Wind Farm	10,800	Project financing	2014	2028	Fixed rate loan
Parc Eolien de St Riquier 4 S.a.s.		9,193	Project financing	2014	2028	Fixed rate loan
Parc Eolien de la Chaude Vallee S.ar.l.		9,688	Project financing	2011	2027	Loan for 85% at fixed rate
Parc Eolien de Morvilers S.ar.l.		10,210	Project financing	2012	2027	Fixed rate loan
SEPE Du Nouvion S.a.s.		n,a,	n.a.	n.a.	n.a.	n.a.
Parc Eolien de Garcelles-Sacqueville S.a.s.		3,502	Project financing	2007	2023	IRS: fixed rate 3.75%
Parc Eolien du Patis S.a.s.		5,587	Project financing	2013	2027	IRS: fixed rate 2.025%
Parc Eolien Hauts Moulins		9,710	Project financing	2012	2028	Loan for 86% at fixed rate
Parc Eolien Moulins des Camps (La Chapelle)		9,569	Project financing	2012	2028	Loan for 85% at fixed rate
Parc Eolien de St Riquier 1 S.a.s.		8,421	Project financing	2009	2027	Fixed rate loan
Parc Eolien de la Souterraine		5,647	Project financing	2013	2028	IRS: fixed rate 2.01%
Parc Eolien de Oyre Saint Sauveur		8,216	Project financing	2014	2029	Loan for 40% at fixed rate

Geographic Location	% owned	Installed capacity (MW)	Energy generated by the plant in the year (GWh)	Net carrying amount at 31.12.2019 (EUR thousand)
Italy	100%	480	2.504	218,628
	100%	**480**	**2.504**	**218.628**
Italy	100%	527	1,229	596,901
	100%	**527**	**1.229**	**596,901**
Italy	100%	541	1,113	412,689
Italy	100%	636	1,084	198,607
Germany	100%		155	
France	100%	64	128	12,435
France	100%	64	143	38,048
France	100%	125	284	114,480

a)

Company	Plant	Associated financial debt				
		Carrying amount of financial liability	Type	Disbursement /	Maturity	Hedge
Parc Eolienne de la Voie Sacree S.a.s.	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
Parc Eolienne d'Epense S.a.s.						
WP France 6 S.a.s.	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
Parc Eolien de la valleè de Torfou S.a.r.l.	Wind Farm	10.091	Project financing	2017	2034	Fixed rate loan
Parc Eolien du Melier S.a.r.l		20.443		2015	2031	
Mont Félix	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
Fond du Moulin		n.a.	n.a.	n.a.	n.a.	n.a.
Chemin Vert		n.a.	n.a.	n.a.	n.a.	n.a.
Le Marquay		n.a.	n.a.	n.a.	n.a.	n.a.
Les Trentes		n.a.	n.a.	n.a.	n.a.	n.a.
Sole de Bellevue		n.a.	n.a.	n.a.	n.a.	n.a.
Globo Energy EOOD	Wind Farm	10.792	Project financing	2012/ 2013	2022	IRS: fixed rate 0.14%
Mark 1 EOOD						
Mark 2 EOOD						
WP Bulgaria 4 EOOD						
K&S Energy EOOD						
K&S Energy 1 EOOD						
K&S Energy 2 EOOD						
VG-1 EOOD						
VG-2 EOOD						
VG-3 EOOD						
VG-4 EOOD						
VG-5 EOOD						
VG-6 EOOD						
Wind Park Kavana East EOOD						
Wind Park Kavana West EOOD						
Corni Eolian S.A.	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
EW Orneta 2 Z.O.O.	Wind Farm	34.211	Project financing	2015	2029	IRS: fixed rate 2.47% (wibor)
Hydro Inwestycje SP.Z.O.O.		n.a.	n.a.	n.a.	n.a.	n.a.
Blachy Pruszynsky-Energy SP.Z.O.O.						
Voltwerk Energy Park 8 GmbH	Wind Farm	n.a.	n.a.	n.a.	n.a.	n.a.
Voltwerk Windpark Worbzig GmbH						
Voltwerk Windpark Beesenstedt GmbH						
Windpark Cottbuser Halde GmbH		18,832	Project financing	2007	2028	Fixed rate loan
WP Achmer Vinte GmbH		2,700		2006	2021	
Epuron Energy Park 117 (Frehne) GmbH		10,386		2013	2030	
ERG Wind Dobberkau GmbH & Co. KG		10,541		2014	2025	IRS: fixed rate 0.949%
ERG Wind Hermersberg GmbH & Co. KG		n.a.		n.a.	n.a.	n.a.
ERG Wind Ober Kostenz GmbH & Co. KG		n.a.		n.a.	n.a.	n.a.
ERG Wind WB GmbH & Co. KG		n.a.		n.a.	n.a.	n.a.
ERG Wind Welchweiler GmbH & Co. KG		n.a.		n.a.	n.a.	n.a.
ERG Wind Weselberg GmbH & Co. KG		n.a.		n.a.	n.a.	n.a.
UGE Barkow GmbH & Co.KG		21,080	Project financing	2014	2033	IRS 1: fixed rate 2.07% IRS 2: fixed rate 1.70%
UGE Barkow Zwei GmbH & Co.KG		14,507		2014	2033	IRS 1: fixed rate 2.07% IRS 2: fixed rate 1.70%
UGE Barkow Drei GmbH & Co.KG		20,362		2014	2033	IRS 1: fixed rate 2.10% IRS 2: fixed rate 2.10% IRS 3: fixed rate 1.70%
Windpark Linda GmbH & Co. KG	Wind Farm	23,471	Project financing	2018	2038	Fixed rate loan
Wind		**528,378**				
ERG Solar Holding S.r.l.	Photovoltaic plant	149,892	Project financing	2016	2030	Fixed rate loan
Isab Energy Solare S.r.l.	Photovoltaic plant	2,156	Project financing	2011	2029	Fixed rate loan
Andromeda PV S.r.l.	Photovoltaic plant	131,672	Project financing	2010	2028	Fixed rate loan
Solar		**283,720**				
TOTAL		**812,098**				

Geographic Location	% owned	Installed capacity (MW)	Energy generated by the plant in the year (GWh)	Net carrying amount at 31.12.2019 (EUR thousand)
France	100%	16	35	7,752
France	100%	13	31	13,779
France	100%	26	73	28,947
France	100%	52	100	35,516
Bulgaria	100%	54	135	39,031
Romania	100%	70	190	68,202
Poland	100%	82	255	90,890
Germany	100%	130	202	90,168
		34	88	57370
Germany	100%	22	20	32,879
	100%	**1,929**	**4,000**	**1,240,793**
Italy	100%	89	135	204,138
Italy	100%	1	1	2,187
Italy	100%	51	90	26,836
	100%	**141**	**226**	**233,161**
	100%	**3,077**	**7,959**	**2,289,484**

b)

Information about the energy generating plants not yet in operation at 31 December 2019

Name of Plant / Groups of Plants	Geographic Location	Owner company	Group	% owned	Maximum installed capacity expected (MW)	Progress of the project	Carrying amount at 31.12.2019 (EUR thousand)
Evishagaran	UK	Evishagaran Windfarm Ltd.	Evishagaran	100%	35	authorised but not yet under construction	11,975
Rigghill	UK	Rigghill Wind Farm Limited	Burcote	50%	24	not yet authorised and not under construction	–
Longburn		Longburn Wind Farm Ltd.		100%	23		–
Sandy Knowe		Sandy Knowe Wind Farm Ltd.		100%	49	authorised but not yet under construction	7,818
Craiggore	UK	Craiggore Energy	Craiggore	100%	25	authorised and under construction	3,517
Creag Riahbach Winf Farm Ltd.	UK	Creag Riahbach Winf Farm Ltd.	Creag Riahbach	100%	79	authorised but not yet under construction	990
Vallée de l'Aa2 extension	France	WP France 10 S.a.s.	WP France 10	100%	7	authorised but not yet under construction	119
Wind					**242**		**24,419**
Plants that are still non operational					**242**		**24,419**

With regard to the commitments and guarantees provided to the lenders of the plants per the above tables, please refer to the details provided in **Note 19 - Covenants and negative pledges**.

NOTE 41 - MAIN ACCOUNTING POLICIES

Unless otherwise specified, the accounting policies described below were applied consistently to all periods included in these Consolidated Financial Statements (with the exception of the first-time adoption of IFRS 16, as explained in more detail in the section **First adoption of IFRS 16 - Leases**).

Some amounts of the income statement and the statement of comprehensive income presented for comparison purposes were reclassified or restated as a result of the classification of one or more operating activities as discontinued in the previous year.

These Consolidated Financial Statements were prepared using the criterion of measurement at historical cost, with the exception of the following significant items that are measured as indicated below at each reporting date.

Item	Measurement criterion
Derivative financial instruments	Fair value
Non-derivative financial instruments at FVTPL	Fair value
Measurement of assets and liabilities of business combinations at the acquisition date	Fair value
Contingent consideration deriving from a business combination	Fair value
Discontinued operations	Lower value between carrying amount and fair value less cost to sell
Equity instruments at FVOCI	Fair value
Liabilities for cash-settled share-based agreements	Fair value

The main accounting standards adopted for the preparation of the Consolidated Financial Statements as at and for the year ended 31 December 2019, which are unchanged from the previous year, with the exceptions set forth in the section "Standards, amendments and interpretations applied starting on 1 January 2019", are shown below.

BASIS OF CONSOLIDATION

Consolidation scope

The Consolidated Financial Statements include the figures pertaining to ERG S.p.A., the Parent, and the subsidiaries either directly or indirectly controlled by ERG S.p.A. Such control exists when the Group is exposed to the variable returns deriving from its relationship with the entity, or claims rights on such returns, while having the ability to influence them by exercising its own power on the entity itself. The financial statements of subsidiaries are included in the consolidated financial statements from the time the parent starts exercising control until the date on which control ceases. Subsidiaries are consolidated commencing on the date when the Group actually obtains control. In case of loss of control, the Group eliminates the assets and liabilities of the subsidiary, any non-controlling interests and the other equity components relating to the subsidiaries. Any gain or loss deriving from loss of control is recognised in profit orloss for the year. Any equity investment held in the former subsidiary is measured at fair value on the date of loss of control.

Non-controlling (i.e. minority) interests

Non-controlling interests, if there are any, are measured in proportion to the related share of identifiable net assets of the acquiree at the acquisition date.

Changes to the equity investment of the Group in an investee that do not entail loss of control are recognised as owner transactions.

Equity investments carried at equity - Associates and joint ventures

Associates are entities over whose financial and management policies the Group exercises significant influence, while joint ventures are agreement joint arrangement whereby the Group has rights to the net assets but not rights to the assets and obligations for the liabilities.

Associates and joint ventures are measured at equity and initially recognised at cost. The cost of the investment includes transaction costs. The consolidated financial statements comprise the Group's share of the profits or losses of the investees recognised at equity until the date on which said significant influence or joint control cease.

Should the Group's share of the losses incurred by an associate or joint venture exceed the carrying amount of the investment recognised in the statement of financial position, after fully impairing the carrying amount, a provision is recognised for the Group's share of the losses to the extent that the Group has legal or constructive obligations to cover the losses of the associate or, in any event, to make payments on its behalf or in relation to its scope of activity.

Investments in consolidated companies

The financial statements of subsidiaries used for consolidation purposes were drawn up at 31 December 2019 based on the same accounting policies adopted by the Group and expressed in Euro.

When preparing the Consolidated Financial Statements, the financial statements of the parent and its subsidiaries are combined line by line by adding together like items of assets, liabilities, income and expenses, attributing to non-controlling interests, under separate items of the statement of financial position and income statement, their portion of equity and profit or loss for the year. The portion of equity attributable to non-controlling interests is calculated on the basis of the fair values attributed to assets and liabilities at the date control was acquired, excluding any goodwill allocable to them.

The carrying amount of investments is eliminated against the corresponding portion of equity of the investees, attributing to individual assets and liabilities their fair values at the date control was acquired. Any residual difference, if positive, is recognised as "Goodwill"; if negative, it is recognised in profit or loss as prescribed by IFRS 3 (Business Combinations).

Intragroup transactions

Application of the "line-by-line" method, aimed at eliminating the effects of all intragroup transactions on the statement of financial position and income statement, results in elimination of receivables and payables among the companies included in the consolidation scope, as well as revenue and costs and profits, if significant, originating from sales of products and assets.

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

ERG's Consolidated Financial Statements have been drawn up in Euros, which is the functional currency of the Group. The Euro is also the functional currency of the Parent ERG S.p.A. and of all major companies included in the consolidation scope, with the exception of:

- Polish companies;
- Romanian companies;
- Bulgarian companies;
- British companies.

The assets and liabilities of foreign operations, including goodwill and adjustments to fair value deriving from the acquisition, are translated into Euro using the closing rates. The revenue and costs of foreign operations in the income statement and in the statement of comprehensive income are converted into Euros using the exchange rate ruling on the transaction date.

Exchange differences are recognised in the Statement of comprehensive income and included in the translation reserve, with the exception of the exchange differences that are attributed to non-controlling interests.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially in the Statement of comprehensive income and reclassified from equity to profit or loss in the year of the disposal of the net investment.

A monetary item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the net investment in the foreign operation.

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

		Exchange rate: foreign currency / EUR	
	Currency	**Statement of financial position (1)**	**Income Statement (2)**
Poland	PLN - Zloty	4.257	4.298
Romania	RON - Romanian Leu	4.783	4.745
UK	GBP - British Pound	0.851	0.878
Bulgaria	BGN - Bulgarian LEV	1.960	1.960

(1) exchange rate at 31 December 2019
(2) average exchange rate of 2019

List of Group companies

The following tables show the consolidated companies, those measured using the equity method, and those measured at cost.

List of companies consolidated **on a line-by-line basis**:

	Registered office	Direct investment	Group's investment	Share/quota capital (1) (2)	Equity (1) (2)
ERG S.p.A.					
ERG Power Generation S.p.A.	Genoa	100%	100%	100,000	1,961,986
ERG Power Generation S.p.A.					
Corni Eolian S.A.	Constanta (Romania)	100%	100%	152,000	35,302
Creag Riabhach Wind Farm Ltd.	Edinburgh (UK)	100%	100%	4	4
ERG Eolica Adriatica S.r.l.	Genoa	100%	100%	10	33,090
ERG Eolica Amaroni S.r.l.	Catanzaro	100%	100%	10	5,965
ERG Eolica Basilicata S.r.l.	Genoa	100%	100%	38	5,915
ERG Eolica Calabria S.r.l.	Catanzaro	100%	100%	10	101
ERG Eolica Campania S.p.A.	Genoa	100%	100%	120	62,055
ERG Eolica Faeto S.r.l.	Genoa	100%	100%	10	8,069
ERG Eolica Fossa del Lupo S.r.l.	Catanzaro	100%	100%	50	34,349
ERG Eolica Ginestra S.r.l.	Genoa	100%	100%	10	(695)
ERG Eolica San Cireo S.r.l.	Genoa	100%	100%	3,500	11,328
ERG Eolica San Vincenzo S.r.l.	Genoa	100%	100%	3,500	12,385
ERG Eolica Tirreno S.r.l.	Camporeale	100%	100%	10	11
ERG Eolienne France S.a.s.	Paris (France)	100%	100%	61,143	62,358
ERG France S.a.r.l.	Paris (France)	100%	100%	2,000	(2,508)
ERG Germany GmbH	Hamburg (Germany)	100%	100%	210	598
ERG Hydro S.r.l.	Genoa	100%	100%	50,000	728,677
ERG Power S.r.l.	Genoa	100%	100%	5,000	186,503
ERG Solar Holding 1 S.r.l.	Genoa	100%	100%	20	19,784
ERG UK Holding Ltd.	Edinburgh (UK)	100%	100%	n,d,	n,d,
ERG Wind 105 GmbH	Leisnig (Germany)	100%	100%	1	(1,183)
ERG Wind Bulgaria S.p.A.	Genoa	100%	100%	50	25,778
ERG Wind France 1 S.a.s.	Paris (France)	100%	100%	1,097	2,783
ERG Wind French Holdings S.a.s.	Paris (France)	100%	100%	1,410	(653)
ERG Wind Investments Ltd.	Gibraltar	100%	100%	112,993	114,155
ERG Wind Neunte GmbH	Hamburg (Germany)	100%	100%	25	101
ERG Wind Park Beteiligungs GmbH	Hamburg (Germany)	100%	100%	25	(1,047)
ERG Wind RE Beteiligungs GmbH	Hamburg (Germany)	100%	100%	25	9
Evishagaran Windfarm Ltd.	Belfast (UK)	100%	100%	–	(1)
EW Orneta 2 Z.O.O.	Warsaw (Poland)	100%	100%	164,688	127,248
Green Vicari S.r.l.	Camporeale	100%	100%	119	17,053
ISAB Energy Solare S.r.l.	Genoa	100%	100%	100	(68)
Sandy Knowe Wind Farm Ltd.	Seebeck House (UK)	100%	100%	–	(89)
ERG Development Germany GmbH & Co.KG	Hannover (Germany)	100%	100%	3	2
WP France 6 S.a.s.	Paris (France)	100%	100%	6	33
Andromeda PV S.r.l.	Milan	100%	78,5%	50	101,355

(1) data referring to the latest approved financial statements
(2) data expressed in thousands of Euro with the exception of the companies Corni Eolian SA (expressed in thousands of RON) and EW Orneta 2 SP. ZOO (expressed in thousands of Zloty)

	Registered office	Direct investment	Group's investment	Share/quota capital (1) (2)	Equity (1) (2)
ERG Eolienne France S.a.s.					
Eoliennes du Vent Solaire S.a.s.	Paris (France)	100%	100%	37	(4,931)
Parc Eolien de Lihus S.a.s.	Paris (France)	100%	100%	1,114	626
Parc Eolien de Hetomesnil S.a.s.	Paris (France)	100%	100%	2,199	1,188
Parc Eolien de la Bruyère S.a.s.	Paris (France)	100%	100%	1,060	1,249
Parc Eolien du Carreau S.a.s.	Paris (France)	100%	100%	861	3,783
Parc Eolien les Mardeaux S.a.s.	Paris (France)	100%	100%	1,097	165
Epuron Energies Renouvelables S.a.s.	Paris (France)	100%	100%	500	3,284
Parc Eolien de la valleè de Torfou S.a.r.l.	Paris (France)	100%	100%	8	19
Parc Eolien du Melier S.a.r.l	Paris (France)	100%	100%	8	(793)
Parc Eolienne de la Voie Sacree S.a.s.	Paris (France)	100%	100%	74	3,886
Parc Eolienne d'Epense S.a.s.	Paris (France)	100%	100%	802	1,174
WP France 10 S.a.s	Paris (France)	100%	100%	6	(33)
Les Moulins de Fruges S.a.s.	Strasbourg (France)	100%	100%	2,100	(16,288)
Epuron Energies Renouvelables S.a.s.					
ERG Developpement S.a.s.	Paris (France)	100%	100%	100	(2,356)
Caen Renewables Eenergy S.a.s.	Paris (France)	100%	100%	37	(642)
Parc Eolien de la Charente Limousine S.a.r.l.	Paris (France)	100%	100%	8	(8)
Parc Eolien de la Boeme S.a.r.l.	Paris (France)	100%	100%	8	(3)
Parc Eolien du Moulin du Bois S.a.r.l.	Paris (France)	100%	100%	8	(11)
Parc Eolien des Bouchats S.a.r.l.	Paris (France)	100%	100%	8	3
Parc Eolien de Saint Maurice la Clouere S.a.r.l.	Paris (France)	100%	100%	8	2
Parc Eolien du Pays a Part S.a.r.l.	Paris (France)	100%	100%	8	2
Parc Eolien de Saint Sulpice S.a.r.l.	Paris (France)	100%	100%	8	5
Parc Eolien du Plateaux de l'Ajoux S.a.r.l.	Paris (France)	100%	100%	8	5
Parc Eolien des Terres et Vents de Ravieres S.a.r.l.	Paris (France)	100%	100%	8	4
Parc Eolien de Porspoder S.a.r.l.	Paris (France)	100%	100%	8	5
ERG Solar Holding 1 S.r.l.					
ERG Solar Holding S.r.l.	Genoa	100%	100%	20	26,564
ERG Solar Piemonte 1 S.r.l.	Genoa	100%	100%	10	2,048
ERG Solar Piemonte 2 S.r.l.	Genoa	100%	100%	10	797
ERG Solar Piemonte 3 S.r.l.	Genoa	100%	100%	10	2,638
ERG Solar Piemonte 4 S.r.l.	Genoa	100%	100%	10	459
ERG Solar Piemonte 5 S.r.l.	Genoa	100%	100%	10	2,393
ERG Solar Holding S.r.l.					
Calabria Solar S.r.l.	Milan	100%	100%	10	396
ERG Solar Campania S.r.l.	Genoa	100%	100%	100	2,874
ERG Solar Marche 1 S.r.l.	Genoa	100%	100%	10	717
ERG Solar Marche 2 S.r.l.	Genoa	100%	100%	10	362
ERG Solar Puglia 1 S.r.l.	Genoa	100%	100%	50	1,696
ERG Solar Puglia 2 S.r.l.	Genoa	100%	100%	100	551
ERG Solar Puglia 3 S.r.l.	Genoa	100%	100%	110	1,097
ERG Solar Sicilia S.r.l.	Genoa	100%	100%	1,000	2,051
Heliospower S.r.l.	Palermo	100%	100%	59	3,086
Longiano Solar S.r.l.	Milan	100%	100%	708	1,431
SR05 S.r.l.	Milan	100%	100%	25	696

(1) data referring to the latest approved financial statements
(2) data expressed in thousands of Euro

	Registered office	Direct investment	Group's investment	Share/quota capital (1) (2)	Equity (1) (2)
ERG UK Holding Ltd.					
Craiggore Energy	Co. Antrim (Northern Ireland)	100%	100%	–	–
ERG Wind 105 GmbH					
Parc Eolien de St Riquier 3 S.a.s.	Paris (France)	100%	100%	37	(740)
Parc Eolien de St Riquier 4 S.a.s.	Paris (France)	100%	100%	37	(862)
ERG Wind Bulgaria S.p.A.					
Globo Energy EOOD	Sofia (Bulgaria)	100%	100%	2,239	2,797
K&S Energy EOOD	Sofia (Bulgaria)	100%	100%	1,625	1,827
K&S Energy 1 EOOD	Sofia (Bulgaria)	100%	100%	1,546	2,537
K&S Energy 2 EOOD	Sofia (Bulgaria)	100%	100%	1,560	2,664
Mark 1 EOOD	Sofia (Bulgaria)	100%	100%	2,103	2,707
Mark 2 EOOD	Sofia (Bulgaria)	100%	100%	2,103	2,720
VG-1 EOOD	Sofia (Bulgaria)	100%	100%	777	1,104
VG-2 EOOD	Sofia (Bulgaria)	100%	100%	1,551	2,042
VG-3 EOOD	Sofia (Bulgaria)	100%	100%	1,563	2,136
VG-4 EOOD	Sofia (Bulgaria)	100%	100%	1,511	2,863
VG-5 EOOD	Sofia (Bulgaria)	100%	100%	1,564	2,151
VG-6 EOOD	Sofia (Bulgaria)	100%	100%	1,545	2,042
Wind Park Kavana East EOOD	Sofia (Bulgaria)	100%	100%	258	1,093
Wind Park Kavana West EOOD	Sofia (Bulgaria)	100%	100%	89	1,184
WP Bulgaria 4 EOOD	Sofia (Bulgaria)	100%	100%	1,103	1,464
ERG Wind France 1 S.a.s.					
ERG Wind France 2 S.a.r.l.	Paris (France)	100%	100%	1	(53)
Cepe Pays De Montbeliard S.n.c.	Paris (France)	100%	100%	365	(2,655)
Cepe de Murat S.n.c.	Paris (France)	100%	100%	444	4,362
Cepe de Saint Florentin S.n.c.	Paris (France)	100%	100%	251	(3,987)
Ferme Eolienne de Teterchen S.a.s.	Paris (France)	100%	100%	100	3,288
Parc Eolien du Bois de l'Arche S.a.s.	Paris (France)	100%	100%	100	4,905
Parc Eolien du Bois de Bigot S.a.s.	Paris (France)	100%	100%	80	2,716
ERG Wind French Holdings S.a.s.					
Parc Eolien de la Chaude Vallee S.a.r.l.	Paris (France)	100%	100%	8	(790)
Parc Eolien de Morvilers S.a.r.l.	Paris (France)	100%	100%	8	(639)
Parc Eolien de Garcelles-Sacqueville S.a.s.	Paris (France)	100%	100%	37	(925)
Parc Eolien du Patis S.a.s.	Paris (France)	100%	100%	1,164	1,283
Parc Eolien Hauts Moulins	Paris (France)	100%	100%	15	(2,266)
Parc Eolien Moulins des Camps	Paris (France)	100%	100%	15	(2,013)
Parc Eolien de St Riquier 1 S.a.s.	Paris (France)	100%	100%	37	(1,724)
S.a.s. Société d'Exploitation du Parc Eolien de la Souterraine	Paris (France)	100%	100%	505	(13)
Parc Eolien de Oyre Saint Sauveur	Paris (France)	100%	100%	37	(1,153)
Société d'Exploitation du Parc Eolien le Nouvion S.a.s.	Paris (France)	100%	100%	37	(1,218)
ERG Wind Investments Ltd.					
ERG Wind Holdings (Italy) S.r.l.	Genoa	100%	100%	212	487,341
ERG Wind MEI 2-14-1 Ltd.	London (UK)	100%	100%	–	(4,042)
ERG Wind MEI 2-14-2 Ltd.	London (UK)	100%	100%	–	(531)

(1) data referring to the latest approved financial statements
(2) data expressed in thousands of Euro

	Registered office	Direct investment	Group's investment	Share/quota capital (1) (2)	Equity (1) (2)
ERG Wind Holdings (Italy) S.r.l.					
ERG Wind 4 S.r.l.	Genoa	100%	100%	6,633	83,335
ERG Wind Energy S.r.l.	Genoa	100%	100%	1,000	24,500
ERG Wind Leasing 4 S.r.l.	Genoa	100%	100%	10	369
ERG Wind Sardegna S.r.l.	Genoa	100%	100%	77	53,656
ERG Wind Sicilia 6 S.r.l.	Genoa	100%	100%	77	51,313
ERG Wind Sardegna S.r.l.					
ERG Wind Sicilia 2 S.r.l.	Genoa	100%	100%	77	34,346
ERG Wind Sicilia 4 S.r.l.	Genoa	100%	100%	77	10,806
ERG Wind Sicilia 5 S.r.l.	Genoa	100%	100%	77	16,519
ERG Wind 2000 S.r.l.	Genoa	100%	100%	77	19,333
ERG Wind Sicilia 6 S.r.l.					
ERG Wind 6 S.r.l.	Genoa	100%	100%	77	36,759
ERG Wind Sicilia 3 S.r.l.	Genoa	100%	100%	77	25,942
ERG Wind MEI 2-14-1 Ltd.					
ERG Wind MEG 1 LLP (3)	London (UK)	80%	100%	33,168	42,573
ERG Wind MEG 2 LLP (3)	London (UK)	80%	100%	28,010	32,834
ERG Wind MEG 3 LLP (3)	London (UK)	80%	100%	33,585	39,516
ERG Wind MEG 4 LLP (3)	London (UK)	80%	100%	29,721	32,536
ERG Wind Park Beteiligungs GmbH					
ERG Wind 117 GmbH & Co. KG	Hamburg (Germany)	100%	100%	1	(918)
Voltwerk Energy Park 8 GmbH & Co. KG	Hamburg (Germany)	100%	100%	1	56
Voltwerk Windpark Worbzig GmbH & Co. KG	Hamburg (Germany)	100%	100%	–	1,215
Voltwerk Windpark Beesenstedt GmbH & Co. KG	Hamburg (Germany)	100%	100%	–	1,961
Windpark Cottbuser Halde GmbH & Co. KG	Hamburg (Germany)	100%	100%	5	(5,737)
Windpark Achmer Vinte GmbH & Co. KG	Hamburg (Germany)	100%	100%	7,500	436
ERG Wind Dobberkau GmbH & Co. KG	Hamburg (Germany)	100%	100%	5	(1,913)
ERG Wind Hermersberg GmbH & Co. KG	Hamburg (Germany)	100%	100%	1	(385)
ERG Wind Ober Kostenz GmbH & Co. KG	Hamburg (Germany)	100%	100%	1	(1,255)
ERG Wind WB GmbH & Co. KG	Hamburg (Germany)	100%	100%	1	(1,154)
ERG Wind Welchweiler GmbH & Co. KG	Hamburg (Germany)	100%	100%	5	(1,565)
ERG Wind Weselberg GmbH & Co. KG	Hamburg (Germany)	100%	100%	1	945
Windpark Linda GmbH & Co. KG	Hamburg (Germany)	100%	100%	2	(28)
UGE Barkow GmbH & Co. KG	Hamburg (Germany)	100%	100%	2	758
UGE Barkow Drei GmbH & Co. KG	Hamburg (Germany)	100%	100%	–	65
UGE Barkow Drei GmbH & Co. KG	Hamburg (Germany)	100%	100%	(2)	100
EW Orneta 2 SP. Z.O.O.					
Blachy Pruszynsky-Energy SP. Z.O.O.	Warsaw (Poland)	100%	100%	7,100	40,897
Hydro Inwestycje SP. Z.O.O.	Warsaw (Poland)	100%	100%	42	32,653
Les Moulins de Fruges S.a.s.					
Mont Félix	Strasbourg (France)	100%	100%	1,891	1,739
Fond du Moulin	Strasbourg (France)	100%	100%	344	(1,018)
Chemin Vert	Strasbourg (France)	100%	100%	1,804	(1,607)
Le Marquay	Strasbourg (France)	100%	100%	679	(938)
Les Trentes	Strasbourg (France)	100%	100%	1,935	(606)
Sole de Bellevue	Strasbourg (France)	100%	100%	1,925	340

(1) data referring to the latest approved financial statements
(2) data expressed in thousands of Euro with the exception of the companies Blachy Pruszynsky-Energy SP Z.O.O. and Hydro Inwestycje SP Z.O.O. (expressed in thousands of Zloty)
(3) the remaining 20% is held by ERG Wind MEI 2-14-2

List of equity investments **measured using the equity method**:

Company	Registered office	Direct investment	Group's investment	Share/quota capital (1) (2)	Equity (1) (2)	Carrying amount 31/12/2019
ERG Power S.r.l.						
Priolo Servizi S.c.p.A. (3)	Melilli	23.7%	23.7%	28,100	55,093	13,029
Associates						**13,029**

(1) data referring to the latest approved financial statements
(2) data expressed in thousands of Euro
(3) the consortium is subject to joint control with ISAB S.r.l., Versalis S.p.A. and Syndial

List of companies **measured at cost**:

Company	Registered office	Direct investment	Group's investment	Share/quota capital (1) (2)	Equity (1) (2)	Carrying amount 31/12/2019
ERG S.p.A.						
ERG Petroleos S.A. (3)	Madrid (Spain)	100%	100%	3.050	(6.445)	–
Subsidiaries						**–**
ERG Power Generation S.p.A.						
Creggan Wind Farm Limited (2) (4)	Seebeck House (UK)	100%	100%	–	–	–
Eolico Troina S.r.l. in liquidation	Palermo	99%	99%	20	232	25
Longburn Wind Farm Ltd. (2) (4)	Seebeck House (UK)	100%	100%	0	–	–
Subsidiaries						**25**
ERG Eolienne France S.a.s.						
Parc Eolien de Saint-Loup sur Cher S.a.r.l. (4)(5)	Paris (France)	100%	100%	n.d.	n.d.	8
Parc Eolien du Puits Gergil S.a.r.l. (4)(5)	Paris (France)	100%	100%	n.d.	n.d.	8
Parc Eolien du Plateau de la Perche S.a.r.l. (4)(5)	Paris (France)	100%	100%	n.d.	n.d.	8
Parc Eolien des Boules S.a.r.l. (4)(5)	Paris (France)	100%	100%	n.d.	n.d.	8
Ferme Eolienne de la Voie Sacree sud S.a.s. (4)	Paris (France)	100%	100%	10	(20)	10
Parc Eolien de la Foye S.a.s. (6)	Paris (France)	100%	100%	n.d.	n.d.	8
Subsidiaries						**48**
ERG Power Generation S.p.A.						
Rigghill Wind Farm Limited (4)	Seebeck House (UK)	50%	50%	–	–	236
Joint ventures						**236**
ERG S.p.A.						
CAF Interreg. Dipendenti S.r.l.	Vicenza	0.04%	0.06%	276	1.063	–
Meroil S.A.	Barcelona (Spain)	0.87%	0.87%	19.077	68.722	310
R.U.P.E. S.p.A.	Genoa	4.86%	4.86%	3.058	3.034	155
Other companies						**465**
TOTAL						**773**

(1) data referring to the latest approved financial statements
(2) data expressed in thousands of Euro with the exception of companies with registered offices in the UK whose data are given in thousands of GBP
(3) company in liquidation. In view of the deficit of ERG Petroleos, a provision for risks on equity investments of approximately EUR 6.5 million has been set aside.
(4) companies measured at cost as they are not yet operational.
(5) French company, not yet operational, set up on 31 December 2018
(6) French company set up on 22 November 2019.

IFRS 12

The new IFRS 12 "Disclosure of Interests in Other Entities" includes all disclosure provisions previously included in IAS 27 pertaining to Consolidated Financial Statements, as well as all disclosure requirements of IAS 31 and of IAS 28 pertaining to the investments of an entity in subsidiaries, joint ventures, associates and structured entities and it also provides new disclosure cases.

The objective of the standard is to require an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

Measurements and significant assumptions

The companies designated as subsidiaries in the section List of Group companies are entities in which the ERG Group has the majority of the votes that can be cast and exercises a dominant influence in the ordinary shareholders' meeting.

The companies designated as jointly controlled subsidiaries in the paragraph List of Group companies are entities over whose activity the Group has joint control as defined in IAS 28 - Investments in Associates and Joint Ventures.

The companies designated as associates in the paragraph List of Group companies are entities over whose activity the Group has joint control as defined in IAS 28 - Investments in Associates and Joint Ventures.

Investments in subsidiaries

For information about the Group's composition, please refer to the **Consolidation Scope**.

With regard to the nature and extent of restrictions to the Group's capability to access or use assets and to settle liabilities, please refer to **Note 19 - Covenants and negative pledges**.

The consequences of the changes in the investments in subsidiaries that took place in the year are described in the section **Changes in the consolidation scope**.

With regard to provisions that can limit the distribution of dividends or other distributions of capital, the project financing agreements provide that the distribution of the available portions of equity to the shareholders is subject to compliance with the conditions prescribed by such agreements, which impose the attainment of determined financial coverage ratios and the absence of default situations. Details of the constraints and of the carrying amounts of the assets and liabilities to which such restrictions apply by individual company are given in **Note 19 - Covenants and negative pledges**.

For the purposes of the disclosure of the nature, extent and financial effects of the Group's interests in subsidiaries, please refer to the **List of Group companies** section and to **Note 12 - Non-controlling interests**.

Shown below is a summary of the main economic and financial data for the contribution of Andromeda PV S.r.l, a subsidiary of ERG Power Generation S.p.A. (78.5%) and Soles Montalto GmbH (21.5%), to the Group's profit for the year.

Note also that dividends of EUR 710 thousand were paid to non-controlling interests.

Summary of the key economic and financial data

(EUR thousand)	31/12/2019
Intangible assets	152,810
Goodwill	56,062
Property, plant and equipment	28,761
Right-of-use assets	–
Equity investments	–
Other financial assets	–
Deferred tax assets	33,410
Other non-current assets	–
Non-current assets	**271,042**
Inventories	–
Trade receivables	5,526
Other current assets and receivables	1,207
Current financial assets*	–
Cash and cash equivalents*	19,310
Current assets	**26,043**
Assets held for sale	**–**
TOTAL ASSETS	**297,085**
Equity attributable to the owners of the parent	–
Non-controlling interests	10,949
Employee benefits	–
Deferred tax liabilities	44,038
Other non-current provisions	2,035
Non-current financial liabilities*	129,349
Non-current lease liabilities	–
Other non-current liabilities	13
Non-current liabilities	**175,434**
Other current provisions	177
Trade payables	481
Current financial liabilities*	109,609
Non-current lease liabilities	-
Other current liabilities	437
Current liabilities	**110,703**
Discontinued operations	**–**
TOTAL EQUITY AND LIABILITIES	**297,085**

(EUR thousand)	2019
Revenue	32,915
Other income	47
Purchases	–
Services and other operating costs	(2,591)
Personnel expense	–
Gross operating profit	**30,371**
Amortisation, depreciation and impairment of non-current assets	(14,669)
Operating profit	**15,702**
Financial expense	(8,566)
Financial income	56
Net financial income	**7,192**
Net gains (losses) on equity-accounted investments	–
Other net gains (losses) on equity investments	–
PROFIT BEFORE TAXES	**7,192**
Income taxes	(1,527)
PROFIT FOR THE YEAR	**5,665**
Non-controlling interests	(1,218)
PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT	**4,447**

Investments in associates

For the purposes of the disclosure of the nature, extent and financial effects of the Group's interests in associates, please refer to the **List of Group companies** section.

Shown below is a summary of the main economic and financial data for Priolo Servizi S.c.p.A., a consortium company under the joint control of ERG Power S.r.l. (23.65%), ISAB S.r.l. (38.63%) and the other shareholders of Gruppo Versalis S.p.A. (33.11%) and Syndial S.p.A. (4.61%).

Summary of the key economic and financial data

(EUR thousand)	Priolo Servizi 31/12/2019	Priolo Servizi 31/12/2018
Property, plant and equipment	71,329	70,897
Intangible assets and Goodwill	–	–
Equity investments and Other non-current financial assets	38	37
NON-CURRENT ASSETS	**71,367**	**70,934**
Inventories	1,652	1,539
Trade receivables	7,763	9,164
Trade payables	(19,732)	13,811
Excise duties payable to tax authorities	–	–
NET OPERATING WORKING CAPITAL	**(10,318)**	**3,109**
Post-employment benefits	(286)	366
Other assets	1,357	2,207
Other liabilities	(3,552)	(2,646)
NET INVESTED CAPITAL	**58,569**	**67,020**
Equity	55,093	54,621
Financial indebtedness	3,476	12,399
EQUITY AND FINANCIAL DEBT	**58,569**	**67,020**

	2019	2018
Revenue from sales and services	52,877	51,842
Other revenue and income	2,293	3,810
Purchases	(1,444)	(1,582)
Change in inventories	113	188
Services and other operating costs	(34,622)	(35,544)
Personnel expense	(8,345)	(8,845)
Gross operating profit	**10,872**	**9,869**
Amortisation, depreciation and impairment of non-current assets	(8,823)	(8,116)
Operating profit	**2,049**	**1,754**
Net financial income	(462)	(406)
Gains (losses) on equity investments	–	–
PROFIT BEFORE TAXES	**1,587**	**1,348**
Income taxes	(1,114)	(743)
PROFIT	**474**	**605**

Reconciliation with the carrying amount of the equity investment

(EUR thousand)	Priolo Servizi 31/12/2019	Priolo Servizi 31/12/2018
ERG Group investment	24%	24%
Equity attributable to the owners of the parent	13,029	12,918
Other adjustments	–	–
Carrying amount of the equity investment	**13,029**	**12,918**

Intangible assets

Intangible assets are recorded as assets, pursuant to IAS 38 - Intangible Assets, wherever they are identifiable, it is probable that their use will generate future economic benefits, and their cost can be measured reliably.

These assets are measured at their purchase or development cost, including all ancillary charges attributable to them, and are amortised on a straight-line basis over their useful life. They are decreased for impairment. Useful lives are reviewed annually and any changes, where necessary, are applied prospectively.

Intangible assets mainly comprise permissions, concessions and rights to incentives in relation to the wind farms and the photovoltaic plants.

In general, intangible assets are amortised over a maximum period of 5 years, with the exception of surface rights, authorisations, concessions and rights to incentives in relation to the wind farms and the photovoltaic plants, which are amortised over their term.

Considerations on the amortisable value of concessions for large-scale diversion of water for hydroelectric use.

The current regulations on the transfer of the ownership of assets subject to hydroelectric concessions has recently been thoroughly amended.

On 12 February, Law no. 12 of 11 February 2019, converting, with amendments, the "Simplifications Law Decree" was published in the Official Gazette of Italy - General Series no. 36. Article 11-*quater* of this law repeals the previous regulations and introduces new provisions for the renewal of concessions for large-scale diversion of water for hydroelectric use.

In particular, the new regulations provide that:

- upon the expiry of concessions for large-scale diversion of water for hydroelectric use or in the event of withdrawal or surrender, ownership of "wet" works 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;
- for "dry" works, if deemed reusable by the assignee of the new concession, compensation is paid according to the rules set by Article 25 paragraph 2 et seq., of Italian Royal Decree no. 1775 of 1933, net of the depreciated assets. Specifically:
  - in the case of moveable assets planned for use in the concession project, a price is paid, in terms of residual value, determined on the basis of the data available from "accounting documents or a professional appraisal";
  - movable assets not used in the concession project should be removed and disposed of by, and at the expense of, the incoming concession holder;
  - in the case of immoveable assets reused in the concession project, a price is paid, determined on the basis of the data available from "accounting documents or a professional appraisal";
  - immovable assets not planned for use in the project remain the property of the entitled party.

The depreciation period of hydroelectric plants is currently commensurate to the economic-technical life of the individual asset. Management will monitor the regulatory evolution and the related clarifications in order to assess possible future impacts on the depreciation process. There are no new items in these consolidated financial statements.

Business combinations

Business combinations are accounted for using the acquisition method at the date on which control over the acquired entity is actually obtained. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair value of the assets transferred to the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. The costs related to the acquisition are recognised as an expense in the years in which they are incurred.

Goodwill is recognised at the date of acquisition of control of an acquiree and is estimated as the excess between:

- the consideration transferred, the amount of any non-controlling interest in the acquiree measured in accordance with IFRS 3 (fair value of the pro-rata share of net assets related to non-controlling interests); in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree;
- the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, measured at fair value.

If the fair value of the net identifiable assets acquired is higher than the consideration transferred, the resulting gain or loss that emerges, after having checked that the fair value of the identifiable assets acquired and liabilities assumed is correct, is recognised in profit or loss on the acquisition date. The gain is attributed to the acquirer.

In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. If in prior years, the acquirer had recognised changes in the value of its equity interest in the acquiree in profit or loss, the amount shall be recognised in profit or loss on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, provisional amounts are recognised. Adjustments to the provisional amounts recognised at the acquisition date are accounted for retrospectively so as to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period may not exceed one year from the acquisition date.

The contingent consideration is recognised at fair value at the acquisition date. If the contingent consideration that meets the definition of financial instrument is classified as equity, it is not subjected to subsequent remeasured and its subsequent settlement is accounted for in equity. The other contingent consideration is measured at fair value at each reporting date and changes in fair value are recognised in profit or loss for the year.

Goodwill

Goodwill acquired in a business combination is not amortised, but is tested for impairment pursuant to the procedures provided for in IAS 36 - Impairment of Assets annually, or more frequently if specific events or changes in circumstances indicate the possibility that there may have been any impairment ("triggering events").

For the purposes of impairment testing, goodwill is, from the acquisition date, allocated to groups of cash-generating units.

If the recoverable amount of the groups of units to which the goodwill is allocated is less than its carrying amount, an impairment loss is allocated in the following order: first, to reduce the carrying amount of the goodwill, and then to the other assets of the group of units pro rata on the basis of the carrying amount of each asset in the group of units.

If the goodwill has been allocated to a group of cash-generating units and the unit is disposed of or transferred, goodwill is included in the carrying amount of the asset when determining the profit or loss on disposal.

Property, plant and equipment

An item of property, plant and equipment is measured at cost, inclusive of capitalised financial expense, net of cumulated depreciation and impairments.

If an item of property, plant and equipment comprises various parts having different useful lives, these parts are recognised separately (significant components).

The profit or loss generated by the sale of an item of property, plant and equipment is recognised in profit or loss for the year.

Expansion, modernisation and transformation costs and maintenance costs are capitalised only if they increase the future economic benefits of the asset to which they refer.

Cyclical maintenance costs are recognised as assets in the statement of financial position as a separate part of the main asset during the year in which they are incurred and are included in the depreciation process on the basis of their estimated useful life.

The cost of the item of property, plant and equipment, where the group has a present obligation to do so, includes the costs of its dismantling and removal and site restoration to be incurred when the facilities are abandoned, which are provided for in a specific provision. These costs are recognised starting on the date when they can be reliably estimated for those assets whose future disposal, and the time when this will happen, is foreseeable.

Capitalised costs are allocated to the income statement via depreciation.

Depreciation is calculated on a straight-line basis over the asset's estimated useful life. When the asset consists of several significant parts having different useful lives, each part is depreciated separately. The depreciable amount is the asset's historical cost less the expected residual value, if material and reliably measurable.

Land is not depreciated, even if acquired together with a building. Freely transferable assets are depreciated over the estimated life of the asset or the concession term, whichever is shorter.

The capital gains allocated to property, plant and equipment as a result of IFRS 3 - Business combinations are depreciated over the concession term.

The depreciation rates applied are as follows:

	%
Wind-power generators	5
Industrial and commercial buildings	2.5 - 7.34
Fixed hydraulic works	1
Pressurised pipelines	2.5
Hydraulic and electrical machinery	3.3
Automation and control systems	10
Equipment and machinery	5
Digital control-remote transmission facilities	10
Transport lines	5
Lightweight constructions	10
General plant	8.45 - 10.0
CCGT plant *	6.1
Digital control and remote transmission facilities	10
Motor vehicles, furniture and furnishings	8.38 - 25.0
Surface rights and other civil works	3.5
Photovoltaic modules	5
Other assets/miscellaneous equipment	from 10 to 20

* average rates

Impairment of non-financial assets (impairment test)

At least once a year, the Group measures the recoverable amount of intangible assets other than goodwill and of property, plant and equipment, to determine whether there are indications that they may be impaired (examination of triggering events). If such an indication exists, the group estimates the recoverable amount of the asset to determine the amount of the impairment loss.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the higher of its fair value less costs to sell, and its value in use, determined as the present value of expected future cash flows.

An asset is impaired when its carrying amount exceeds its recoverable amount. When an impairment loss recognised in prior periods for an asset other than goodwill no longer exists or may have decreased, its carrying amount is increased to its recoverable amount which does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset.

Equity investments carried at equity

Joint venture

A joint ventures is a joint arrangement whereby the Group has rights to the net assets but not rights to the assets and obligations for the liabilities (entities over whose assets the Group has joint control as defined by IFRS 11 - Joint Arrangements). The Consolidated Financial Statements include the Group's share of the profit or loss of the joint venture, measured using the equity method, starting from the date when joint control starts until the time when it ceases to exist.

If the Group's share of the losses of the joint ventures exceeds the carrying amount of the investment in the consolidated financial statements, the carrying amount of the investment is fully impaired and the share of additional losses is not recognised, except and to the extent to which the Group has an obligation to fund losses.

Associates

These are companies over which the Group exercises significant influence, but not control or joint control, i.e., the power to participate in the financial and operating policies of the associate, as defined by IAS 28 - Investments in Associates and Joint Ventures. The Consolidated Financial Statements include the Group's share of the profit or loss of the associates, measured using the equity method, starting from the date when significant influence starts until the time when it ceases to exist. If the Group's share of the associate's losses exceeds the carrying amount of the investment in the consolidated financial statements, the carrying amount of the investment is fully impaired and the share of additional losses is not recognised, except and to the extent to which the Group has an obligation to fund losses.

Financial Instruments

I. Recognition and measurement

Trade receivables and debt instruments issued are recognised at the time they are originated. All other financial assets and liabilities are initially recognised on the trading date, i.e. when the Group becomes a contractual party to the financial instrument.

Except for trade receivables that do not contain a significant financing component, financial assets are initially measured at fair value plus or minus, in the case of financial assets or liabilities not at FVTPL, transaction costs directly attributable to the acquisition or to the issue of the financial asset. At initial recognition, the trade receivables that do not have a significant financing component are measured at their transaction price.

II. Subsequent classification and measurement

At initial recognition, a financial asset is classified according to its measurement: amortised cost; fair value through other comprehensive income (FVOCI) - debt security; FVOCI - equity instrument; or at fair value through profit or loss (FVTPL).

Financial assets are not reclassified after their initial recognition, unless the Group changes its business model for the management of financial assets. In this case, all involved financial assets are reclassified the first day of the first year following the change to the business model.

A financial asset is measured at amortised cost if both of the following conditions are met and it is not designated at FVTPL:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if both of the following conditions are met and it is not designated at FVTPL:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an equity instrument not held for trading, the Group can make the irrevocable election to present subsequent changes in fair value through other comprehensive income. This choice is made for each asset.

All financial assets not classified as measured at amortised cost or FVOCI, as indicated above, are measured at FVTPL. All financial derivatives are included. At initial recognition, the Group may irrevocably designate the financial asset as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring the financial asset at amortised cost or FVOCI.

Financial assets: assessment of the business model

The Group assesses the objective of the business model within which the financial asset is held at portfolio level because it best reflects the way in which the asset is managed and the information communicated to corporate management. This information includes:

- the specified criteria and the objectives of the portfolio and the practical application of said criteria, including, inter alia, whether the strategy of corporate management is based on obtaining interest income from the agreement, on maintaining a determined interest rate profile, on aligning the duration of the financial assets to that of the related liabilities or the expected cash flows or on the collection of cash flows through the sale of the assets;
- the procedures for measuring portfolio performance and the procedures for communicating performance to the key management personnel;
- the risks that impact on the performance of the business model (and of the financial assets held within the scope of the business model) and the way in which these risks are managed;
- the procedures for remunerating the executives of the company (for example, if remuneration is based on the fair

value of the assets managed or on collected contractual cash flows); and
- the frequency, the value and the time frame of the sale of financial assets in previous years, the reasons for the sales and the expectations for future sales.

Transfers of financial assets to third parties within transactions that do not entail derecognition are not considered sales for the purposes of the assessment of the business model, in line with the Group's maintaining these assets in its financial statements.

Financial assets that meet the definition of financial assets held for trading or whose performance is based on fair value are measured at FVTPL.

Financial assets: test to establish whether the contractual cash flows are solely payments of principal and interest

For the purposes of the test, the 'principal' is the fair value of the financial asset at initial recognition, while the 'interest' is the consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for the other basic lending risks and costs (for example, liquidity risk and administrative costs), as well as a profit margin.

In assessing whether contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. Therefore, it assesses, inter alia, if the financial asset contains a contractual clause that modifies the time frame or the amount of the contractual cash flows so as not to meet the following condition. For the purposes of the test, the Group considers:

- contingent events that would modify the timing or the amount of the cash flows;
- clauses that could adjust the contractual rate of the coupon, including variable rate elements;
- prepayment and extension elements; and
- clauses that limit the requests for cash flows by the Group from specific assets (for example, elements without recourse).

The prepayment element is in line with the criterion of the "cash flows that are solely payments of principal and interest " when the prepayment amount substantially represents the unpaid amounts of the principal and the interest on the principal amount outstanding, which can include reasonable additional compensation for the early termination of the contract. Moreover, in the case of a financial asset acquired with a premium or a significant discount to the contractual par amount, an element that allows or requires prepayment equal to an amount that substantially represents the contractual par amount and accrued contractual interest (which may include reasonable additional compensation for the early termination of the contract) is recognised in accordance with said criterion if the fair value of the prepayment element is insignificant at initial recognition.

Financial assets: subsequent measurement and gains and losses

Financial assets measured at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is decreased by impairment loss. Interest income, exchange gains and losses and impairment losses are recognised in profit ofloss for the year as well as any gains or losses on derecognition.
Debt instruments measured at FVOCI	These assets are subsequently measured at fair value. Interest income calculated in accordance with the effective interest method, exchange gains and losses and impairment losses are recognised in profit or loss for the year. Other net gains and losses are recognised in the Statement of comprehensive income. At the time of derecognition, gains or losses accumulated in the Statement of comprehensive income are reclassified to profit or loss for the year.
Equity instruments measured at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised in profit or loss for the year unless they clearly represent a recovery of part of the cost of the investment. Other net gains and losses are recognised in the Statement of comprehensive income and are never reclassified to profit or(loss for the year.
Other financial assets measured at FVTPL	These assets are subsequently measured at fair value. Net gains or losses, including dividends or interest received, are recognised in profit or loss for the year.

Impairment of financial assets

The Group recognises a loss allowance for the losses expected on the receivables relating to:

- financial assets measured at amortised cost;
- debt instruments measured at FVOCI; and
- contract assets.

The Group measures za losss allowance at an amount equal to the financial asset's lifetime expected credit losses, with the exceptions indicated below, for the twelve following months:

- debt instruments with a low credit risk at the reporting date; and
- other debt instruments and bank current accounts whose credit risk (i.e. the risk of breach that manifests itself throughout the expected life of the financial instrument) did not increase significantly after the initial recognition.

The loss allowance for the trade receivables and contract assets are always measured at an amount equal to the financial assets' lifetime expected credit losses. When determining whether the credit risk relating to a financial asset has significantly increased since initial recognition in order to estimate the expected credit losses, the Group takes into consideration any reasonable and supportable information that is available without undue cost or effort. Quantitative and qualitative information is included, as are analyses, based on the historical experience of the Group, on an assessment of the financial asset and on forward-looking information.

For the Group, a breach referred to a financial assets occurs when:

- it is unlikely that the debtor will fully meet its obligations to the Group, without any action on the Group's part, such as the realisation of a guarantee (if present); or

- the financial asset has been due for more than 90 days.

The maximum period to take into consideration when measuring expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of the expected credit losses

Expected credit losses (ECL) are an estimate of losses on the weighted amount of credit losses. Credit losses are the present value of all cash shortfalls (i.e. the difference between all contractual cash flows due to the group in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the financial asset's effective interest rate.

Impaired financial assets

At each reporting date, the Group assesses whether financial assets measured at amortised cost and debt securities at FVOCI are impaired. A financial asset is impaired when one or more events occur that have a detrimental impact on the estimated future cash flows of the financial asset have taken place.

Evidence that the financial asset is credit-impaired includes the observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of the contract, such as a default or a past due event;
- the restructuring of a debt or an advance by the Group at conditions that the Group would not otherwise have taken into consideration;
- there is a probability that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties.

Presentation of the loss allowance in the statement of financial position

The loss allowance for financial assets at amortised cost is deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is allocated to profit or loss for the year and recognised in other comprehensive income.

Write-off

The gross carrying amount of a financial asset is reduced (or written off) to the extent to which there are no real expectations of recovery. For customers, the Group individually assesses the time frame and the amount of the write-off on the basis of the actual expectation of recovery. The Group does not expect any significant recovery of the amount written off. However, the financial assets written off could still be subject to enforcement in order to comply with the debt collection procedures prescribed by the Group.

Cash and cash equivalents

Cash and cash equivalents are presented, according to their nature, at their nominal amount.

In accordance with IAS 7, the definition of cash equivalents comprises cash on hand and bank/postal deposits repayable on demand, together with short-term, highly liquid investments that are readily convertible to a known amount of cash. It also includes short-term investments whose reimbursement value is predetermined at the date of initial purchase/recognition.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or at FVTPL. A financial liability is classified at FVTPL when it is held for trading, it represents a derivative or is designated as such at the time of the initial recognition. Financial liabilities at FVTPL are measured at fair value and any changes, including interest expense, are recognised in profit or loss for the year. The other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and exchange gains/(losses) are recognised in profitor loss for the year, as well as any gains or losses deriving from derecognition.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from them expire, when the contractual rights to receive the cash flows within a transaction in which substantially all the risks and benefits deriving from ownership of the financial asset are transferred or when the Group does not transfer or retain substantially all risks and benefits of ownership of the financial assets and does not maintain control of the financial assets.

The Group is involved in transactions that entail the transfer of assets recognised in its own statement of financial position, but retains all or substantially all risks and benefits deriving from the transferred assets. In these cases, the transferred assets are not derecognised.

The Group derecognises a financial liability when the obligation specified in the contract is fulfilled or cancelled or it expires. The Group derecognises a financial liability even in the case of a change of the related contractual terms and the cash flows of the modified liability are substantially different. In this case, a new financial liability is recognised at fair value on the basis of the amended contractual terms.

The difference between the carrying amount of the extinguished financial liability and the price paid (including the assets not represented by cash transferred or the assumed liabilities) is recognised in the profit or loss for the year.

Derivative financial instruments and hedging transactions

The Group uses derivative financial instruments to hedge its own exposure to interest rate risks and to the price risk. Embedded derivatives are separated from the host contract and recognised separately when the host contract does not constitute a financial asset and when determined criteria are met.

Derivative financial instruments are initially recognised at their fair value. After initial recognition, derivatives are measured at fair value and the related changes are usually reported in profit orloss for the year.

The Group designates some derivative financial instruments as hedging instruments to hedge the variability of the cash flows relating to highly probable expected transactions deriving from the fluctuation of interest rates and the price risk.

At the start of the designated hedging relationship, the Group documents the risk management objectives and the strategy in implementing the hedge, as well as the economic relationship between the hedged item and the hedging instrument and it is expected that changes in cash on hand of the hedged element and in the hedging instrument will mutually offset.

When a derivative financial instrument is designated as an instrument to hedge the exposure to the variability of cash flows, the effective portion of the fair value gain or loss on the derivative financial instrument is recognised in other comprehensive income and presented in the hedging reserve. The effective portion of the fair value gain or loss on the derivative financial instrument that is recognised in other comprehensive income is limited to the cumulative change in the fair value of the hedged instrument (at the present value) from the start of the hedge. The ineffective portion of the changes in fair value gain or loss on the derivative financial instrument is recognised immediately in profit or loss for the year. In a hedging relationship, the Group designates as hedging instrument only the fair value change of the spot element of the forward contract as a hedging instrument in a cash flow hedging relationship.

If the hedge ceases to meet the qualifying criteria or the hedging instrument is sold, terminates or is exercised, hedge accounting is discontinued prospectively. When the cash flow hedge ceases being reported, the cumulative gain or loss in the hedging reserve remains in equity until, in the case of a hedge of a transaction that entails the recognition of a non-financial asset or liability, it is included in the cost of the non-financial asset or liability at initial recognition or, in the case of the other cash flow hedges, it is reclassified to profit or loss for the year in the same year or years in which the hedged expected future cash flows have an effect on profit or loss for the year.
Where hedged future cash flows are no longer expected, the amount must be reclassified immediately from the hedging reserve and from the reserve for hedging costs to profit or loss for the year.

When a derivative instrument or a non-derivative financial liability is designated as a hedging instrument within a hedge of a net investment in a foreign operation, the effective portion, in the case of derivatives, of the fair value gain or loss on a derivative instrument or, in the case of a non-derivative item, exchange gains or losses, are recognised in other comprehensive income and presented in equity in the translation reserve. The ineffective portion is recognised immediately in profit or loss for the year. The amount recognised in the other comprehensive income is reclassified to profit or loss) for the year as a reclassification adjustment on the disposal of the foreign operation.
With reference to hedge accounting, the Group adopted a new model compliant with the new
IFRS 9, applied prospectively. Based on the new approach, a hedging relationship is effective if and only if it meets the following requirements:

- existence of an economic relationship between the hedging instrument and the hedged item;
- the credit risk is not dominant with respect to the changes in value; and
- the hedge ratio is the same one used for risk management purposes, i.e. the hedged quantity of the hedged element and the quantity of the hedging instrument used to cover the hedged item.

In accordance with IFRS 9, lastly, the Group carries out the basis adjustment, reclassifying the effective result of the hedge to adjust the value at initial recognition of the hedged item, in case of cash flow hedges of non-financial elements. However, for all cash flow hedges, including those of transactions entailing the recognition of a non-financial asset or liability, the cumulative gain or loss in the hedging reserve was reclassified to profit or loss of the year in the same year or in the same years in which the hedged expected future cash flows have an effect on profit or loss.

Contracts to buy or sell a non-financial item

In general, contracts to buy or sell a non-financial item, which were entered into and continue to be held for collection or delivery, according to the Group's normal expected purchase, sale or usage requirements, are outside the scope of IAS 39 (until 31 December 2017) and of IFRS 9 (from 1 January 2018) ("own use exemption") and hence they are recognised according to the reference accounting rules.

These contracts are recognised as derivatives and, consequently, at fair value through profit or loss only if:

- they can be settled net; and
- they were not entered into for normal purchase, sale or usage requirements.

A contract to buy or sell a non-financial item is classified as a "normal purchase or sale agreement" if it was entered into:

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

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

Ordinary shares

The incremental costs that can be directly attributed to the issue of ordinary shares decrease equity. Income taxes related to the costs of a transaction on capital are recognised in accordance with IAS 12.

Treasury shares

Treasury shares are presented as a reduction in equity.

In case of buy-back of shares recognised in equity, the consideration paid, including the costs that can be directly attributed to the transaction are recognised as a reduction in equity. The shares thus bought back are classified as treasury shares and recognised in the reserve for treasury shares. The consideration received from the subsequent sale or re-issue of treasury shares is recognised as an increase in equity. Any positive or negative difference deriving from the transaction is recognised in the share premium reserve.

Share-based payment transactions

The fair value, at the date of assignment of the incentives recognised in the share-based equity-settled payments, granted to employees, is recognised under costs with a corresponding increase in equity, over the period during which the employees acquire the right to the incentives. The amount recognised as a cost is adjusted to reflect the actual number of incentives for which the service/vesting conditions are met and non-market results were achieved, so that the final amount recognised under costs is based on the number of incentives that meet the aforementioned conditions at the vesting date. In the case of incentives recognised in the share-based payment, the conditions of which are not deemed to be met, the fair value at the date of assignment of the share-based payment is designated in order to reflect said conditions. With reference to the non-vesting conditions, any differences between the assumptions set forth at the assignment date and the actual hypotheses will not impact the financial statements.

On **23 April 2018**, the Shareholders Meeting of ERG S.p.A. approved the **2018-2020 long-term incentive plan**, in compliance with the terms and conditions set forth in the related Information Document.
The Plan calls for the assignment of a predefined number of ERG S.p.A. Shares, free of charge (hereafter, "Performance shares"), at the end of a three-year vesting period, subject to the attainment of a minimum predetermined economic performance (non-market condition). The performance parameter approved by the Board of Directors refers to the cumulative 2018-2020 Group EBITDA of the Business Plan.
According to the Regulation, this operating condition may be changed in light of changes in the consolidation scope or other significant events.
The shares allocated represent the conditional rights that are the subject of the Plan, free of charge and non-transferable inter vivos, each of which gives the Beneficiaries the right to be assigned free of charge 1 (one) share according to the terms and conditions contained in the Regulations.
The Plan also provides that if, in addition to the achievement of the economic performance objective, the ERG Stock attains a predetermined market performance (market condition) on the stock market (i.e. the outstanding Price), the number of Shares to be assigned will increase up to a predetermined maximum: the shares assigned shall be equal to the allocated shares (385,000, as resolved upon by the Board of Directors of ERG S.p.A.) if the price of the ERG shares is equal to or less than EUR 16 ("Target Price"); equal to 200% of the shares allocated if the price is higher than EUR 21 ("Cap"). If the price is between the Target Price and the Cap, shares will be allocated proportionally.
The estimate of the Fair Value, which is independent of the non-market activation condition (achievement of the Target EBITDA) as defined by IFRS 2, was carried out by applying the binomial model and the Montecarlo method, thus identifying a range of values and taking their average value into consideration.
The assessment exercise was carried out formulating the following assumptions:

- volatility (22%): average of the 90 days preceding the valuation date of the 180-day historical volatility of the ERG share;
- dividend Yield: estimated on the basis of the dividends forecast in the plan for the 2018-2022 three-year time interval, i.e. EUR 0.75 per share, as a percentage of share price;
- time to maturity: in accordance with the provisions of the regulation of the financial instrument, the derivative was assumed to have a duration of three years.

Note that for the purposes of calculating the fair value of the incentive plan, a range of values was identified between EUR 6.5 million and EUR 8.4 million with the average value of EUR 7.5 million to be recognised on an accruals basis in the years of the vesting period.

At 31 December 2019, the updated number of shares allocated following the addition of a beneficiary, resolved upon by the Nominations and Remuneration Committee in its meeting on 28 February 2019, and the removal of a beneficiary following resignations is 370,000. For further details, reference is made to the **Report on the Remuneration Policy and the amounts paid out**.

Inventories

Inventories, relating to spare parts, are measured at cost, determined using the weighted average cost method, or market value (replacement cost), whichever is lower.

Foreign currency transactions

Foreign currency transactions are converted in the functional currency of each group entity at the exchange rate ruling on the date of the transaction.

Foreign currency monetary assets and liabilities are translated using the closing rate into the functional currency of each group entity. Non-monetary items that are measured at the historical cost are maintained at the exchange rate at the transaction date except in the case of a persistently unfavourable trend in the exchange rate. Exchange differences arising on the settlement of items at rates different from those at which they were translated at initial recognition and those relating to monetary items at year end are recognised in profit or loss under financial income and expense.

However, the exchange differences deriving from the translation of the following items are recognised in the Statement of comprehensive income:

- equity instruments designated at FVOCI (not including impairment losses, in which case the exchange differences recognised in other comprehensive income were reclassified to profit or loss) and
- cash flow hedges to the extent to which the hedge is effective.

Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognised in profit or loss of the separate financial statements of the reporting entity or the individual financial statements of the foreign operation as appropriate. In the financial statements that include foreign operations, such exchange differences are recognised initially in other comprehensive income and reclassified from equity to profit or loss on the disposal of the net investment.

Other Provisions

ERG recognises Other provisions when:

- there is a present legal or constructive obligation to third parties;

- it is probable that the use of Group resources will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

Changes in accounting estimates are recognised in the income statement in the year in which the change occurs.

When the effect of the time value of money is material and the dates of settlement of the obligations can be estimated, the provision is discounted, using a discount rate that reflects the current market assessments of the time value of money. The increase in the provision due to the passage of time is recognised in profit or loss under "Financial income (expense)".

When the obligation relates to tangible assets (for example, dismantling and restoration of sites), the provision is recognised as a balancing entry to the asset to which it refers, and recognition in the income statement takes place through the depreciation process.

Significant contingent liabilities, represented by the following, are disclosed in the notes to the financial statements:

- possible (but not probable) obligations arising from past events, the existence of which will be confirmed only upon occurrence of one or more uncertain future events not wholly within the group's control;
- present obligations arising from past events the amount of which cannot be reliably estimated, or for which it is probable that settlement will not be onerous.

Provisions for employee benefits

Short-term benefits for employees

Short-term benefits for employees are recognised as a cost at the time the service that gives rise to such benefits is performed. The Group recognises a liability for the amount expected to be paid when there is a present, legal or constructive obligation to make these payments as a consequence of past events and it is possible to make a reliable estimate of the obligation.

Defined contribution plans

Contributions to be paid to defined contribution plans are recognised as a cost in profit or loss over the year in which the employees provide their services; contributions paid in advance are recognised as assets to the extent to which the advances will lead to a reduction in future payments or a reimbursement thereof.

Defined benefit plans

The net obligation of the Group deriving from defined benefit plans is calculated separately for each plan estimating the amount of the future benefit which the employees have accrued in exchange for the service provided in the current year and in the previous years; this benefit is discounted and the fair value of any plan assets are subtracted from the liabilities. The calculation is carried out by an independent actuary using the projected unit credit method. If the calculation generates a benefit for the Group, the amount of the recognised asset is limited to the present value of the economic benefits available in the form of reimbursements from the plan or of reductions of the future contributions to the plan. To establish the present value of the economic benefits, the minimum funding requirements applicable to any plan of the Group are considered.

Actuarial gains and losses, the returns on plan assets (excluding interest) and the effect of the maximum amount of the asset (excluding any interest) that emerge as a result of the revaluation of the net liability for defined benefit plans are recognised immediately in other comprehensive income. The net interest for the year on the net liability/(asset) for defined benefits is calculated by applying to the net liability/(asset) the discount rate used to discount the defined benefit obligation, determined at the start of the year, taking into consideration any changes in the net liability/(asset) for defined benefits occurred during the year as a result of the contributions collected and the benefits paid. Net interest and the other costs relating to defined benefit plans are instead recognised in profit or loss for the year.

When changes are made to the benefits of a plan or when a plan is curtailed, the portion of the economic benefit relating to past service or the gain or loss deriving from the reduction of the plan are recognised in profit or loss for the year at the time when the amendment or the curtailment occurs.

Until 31 December 2006, post-employment benefits ("TFR") of Italian companies were considered as a defined benefit plan. The rules for the liability were amended by Italian Law no. 296 dated 27 December 2006 (the "2007 Budget Law") and subsequent decrees and regulations promulgated in the early months of 2007. In light of these amendments, and in particular with reference to companies with at least 50 employees, the TFR is currently considered a defined benefit plan solely for the portions vested prior to 1 January 2007 and not yet paid as of the reporting date, whereas after said date they are deemed akin to a defined contribution plan. The following is a schematic representation of the cases pertaining to the classification of the post-employment benefits for IAS 19 purposes on the basis of the main types of post-employment benefits in the light of the different regulations in this regard.

Types of Post-employment benefits	Personnel employed in 2006*	IAS 19 classification
Post-employment benefits vested up to 31 December 2006**	>50 employees	Defined benefit plan
	<50 employees	Defined benefit plan
Post-employment benefits accrued since 1 January 2007**	>50 employees	Defined contribution plan
	<50 employees	Defined benefit plan

* for newly established companies, the number taken as a reference relates to the first year of activity
** without prejudice to options to allocate the post-employment benefits to supplemental pension plans

Termination benefits

The benefits due to the employees for the termination of employment are recognised as a cost when the Group has committed without possibility of withdrawal to offer said benefits or, if prior, when the Group recognises the restructuring costs. Benefits entirely due over twelve months from the reporting date are discounted.

Public funding

Grants related to assets are initially recognised at fair value as deferred income if there is reasonable certainty that they will be received and that the Group will comply with the conditions attaching to them and they are then recognised in profit or loss for the year as other income on a systematic basis over the useful life of the asset to which they refer.

Funding that offsets costs incurred by the Group are recognised in profit or loss for the year on a systematic basis, over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Leases

Standards applicable before 1 January 2019 (first-time adoption of IFRS 16 - additional detail on first-time adoption criteria are provided in the note **Standards, amendments and interpretations applied starting on 1 January 2019**).

Determining whether an agreement contains a lease

At the inception of a contract, the Group verifies whether the contract is or contains a lease.

At the inception of agreement contract or upon revision thereof, the Group separates the lease payments and the other consideration provided by the contract classifying them as payments for the lease and payment for other elements on the basis of the related fair value. If, in the case of a finance lease, the Group concludes that it is not feasible to divide the lease payments reliably, an asset or a liability whose amount is equal to the fair value of the underlying asset is recognised. Subsequently, the liability is reduced as the payments are made and a financial expense is recognised on the liability using the Group's incremental borrowing rate.

Leased assets

Leased property, plant and equipment that transfer to the Group substantially all risks and benefits deriving from ownership of the asset are classified as financial leases. The assets acquired through leases are initially recognised at the fair value of the leased asset or, if lower, at the present value of the minimum payments due for the lease. After the initial recognition, the asset is measured in accordance with the standard applicable to said asset.

The other leased assets are included among operating leases and they are not recognised in the statement of financial position.

Lease payments

Payments relating to operating leases are recognised as a cost on a straight-line basis over the lease term. The incentives granted to the lessee are recognised as an integral part of the total cost of the lease over the lease term. The minimum payments due for financial leases are divided between interest expense and reduction of the residual debt. The interest expense is allocated over the lease term in order to obtain a constant interest rate on the residual liability.

Gross operating profit (loss) and Operating profit (loss)

Gross operating profit (loss) and operating profit (loss are determined by the operating activities of the Group that generate continuing revenue and by the other income and costs related to the operating activities. The gross operating profit (loss) does not include net financial expense, the Group's share of the profit of equity-accounted investees, income taxes and depreciation, amortisation and impairment losses on non-current assets (intangible assets and property, plant and equipment).

The operating profit (loss) is equal to the gross operating profit (loss) less amortisation, depreciation and impairment losses on non-current assets (intangible assets and property, plant and equipment).

Revenue recognition

The most innovative aspect of IFRS 15 pertains to the fact that an entity shall recognise the sale of a good or the performance of a service based on a value that exactly reflects the part of a price attributable to each revenue component, with reference to the price paid by the customer who expects to receive that good produced or that service rendered.

The methodological approach that should entail this type of recognition comprises five fundamental steps:

1) Identifying the contract with a customer: in general, a contract exists when the agreement reached with a customer is such as to generate enforceable obligations;
2) Identifying the performance obligations in the contract: an entity shall recognise revenue individually for each good or service as a separate obligation if these assets or services are distinct from each other. The criteria to define whether a good or service can be considered distinct are i) the customer can benefit from the good or service both individually and in combination with other resources and the goods are available and ii) the good or service can be separated from other obligations or promises that are not dependent or connected to other contractual elements;
3) Determine the transaction price: understood as the amount which the entity expects to receive as a result of the sale of the goods or of the services rendered to customers;
4) Allocating the transaction price to the performance obligation(s): ito the entity allocates the price to each distinct good or service. This allocation is based on the stand-alone selling price;
5) Recognising the revenue only when the performance obligation is satisfied.

The Group recognises the sale of a good or the performance of a service based on the value that exactly reflects the portion of the price attributable to each revenue component, with reference to the price paid by the customer who expects to receive that good produced or that service rendered.

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

1. Revenue from sale of commodities
   - Sales of electricity on the electricity exchange
   - Sales of electricity to end customers
   - Sales of electricity, steam and other utilities to the operators of the Priolo site

   The agreements stipulated with customers are generally short-term (up to one year) and their price profiles can be according to the market (spot), fixed or with price formulas only partially correlated with spot or forward prices;
2. Revenue for incentivising tariffs (feed-in tariff, auctions, feed-in premiums, etc.) on electricity;
3. Revenue for energy efficiency certificates, for green certificates (foreign companies) and origin guarantees.

As regards the **sale of commodities**, the agreements stipulated with customers are generally short-term (up to one year) and their price profiles can be according to the market (spot), fixed or with price formulas only partially correlated with spot or forward prices. These promises to sell energy, although fixed term (if in respect of the criteria laid down by the own-use exemption, see **Note 22 - Revenue**) fall within the scope of an agreement/contract to sell energy and represent a promise to transfer a series of distinct goods that are substantially the same, and that have the same pattern of transfer to the customer. The output method is used as the unit of measurement for calculating progress. Revenue is recognised on the basis of direct assessments of the value the goods or services transferred until the date in question have for the customer with respect to the goods or services promised in the contract that remain to be transferred. As a practical measure, the company having the right to a consideration paid by the customer, the amount of which corresponds directly to the value of the services provided to the customer up to the date in question (commodities are generally billed either at a fixed amount or at market price for every quarter of an hour/hour of supply), revenue is recognised for the amount it is entitled to invoice.
As regards revenue for the **sale of capacity or interruptibility services**, these relate to contracts with customers (typically a Regulator, Terna S.p.A. in Italy) to sell the capacity or to interrupt the production of energy (together with the sale of "capacity").
The sale of capacity is therefore considered a distinct performance obligation even if included in energy supply agreements. The performance obligation is to be ready to provide/interrupt the supply of energy (i.e. of underlying commodities) because the customer wishes to ensure it has energy available as a guarantee to meet fluctuations in demand. In this case, the performance obligation is satisfied over time because the customer receives and uses the benefits arising from having capacity available as the latter provides it, the capacity being available every day. The output method is used as the unit of measurement for calculating progress, which corresponds to the expiry of capacity entitlements, with the capacity provided being equal. As a practical measure, the company having the right to a consideration paid by the customer, the amount of which corresponds directly to the value of the services provided to the customer up to the date in question (capacity is generally billed either at a fixed amount or at market price for every day of supply), revenue is recognised for the amount it is entitled to invoice.
As regards revenue for the **feed-in premium**, this may be invoiced to the customer together with the electricity transferred, or applied separately by the Regulators to the company (in Italy typically by the GSE). These agreements are considered to be distinct performance obligations from the supply of energy and, in the event that they are invoiced together with the consideration for energy sold to the customer, the revenue with the customer excludes the incentive fee portion, which is fulfilled at a point in time (when the specific conditions agreed with the Regulator are met/reached: production of electricity from renewable sources), since none of the criteria for fulfilment at a point in time has been met. However, in view of the fact that the electricity is produced and sold at essentially the same time, the accounting of revenue for the feed-in premium corresponds to that of the revenue for the sale of electricity.

As regards revenue for **certificates**, it derives from the fact that the Group has mainly renewable generation assets (wind and solar) or cogeneration assets (ERG Power S.r.l.), for whose production the Regulators assign certificates to the Group. Certificates are therefore instruments to encourage the demand (Certificates of Origin) and supply (Green Certificates) of renewable or cogeneration energy (White Certificates or "EECs" - energy efficiency certificates).

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

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

Note also the following information in relation to the disclosure requirements of IFRS 15:

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

Dividends

Dividends are recognised when, following a shareholders' resolution, the right Group's to receive the payment is established.

Financial income and expense

The financial income and expenses of the Group comprise:

- interest income;
- interest expense;
- dividend income;
- net gains or losses deriving from the sale of debt instruments measured at FVOCI;
- net gains or losses from financial assets at FVTPL;
- foreign exchange gains or losses on financial assets and liabilities;
- impairment losses (gains) on debt securities recognised at the amortised cost or FVOCI;
- income deriving from a business combination transaction for the revaluation at fair value of any equity investment already held in the acquiree;
- fair value losses on the contingent consideration classified as a financial liability;
- ineffectiveness of the hedge recognised in profit or loss for the year; and

Interest income and expense are recognised in profit or loss for the year on an accruals basis, using the effective interest method. Dividends are recognised when, following a shareholders' resolution, the Group's right to receive the payment is established.

The 'effective interest rate' is the rate that exactly discounts estimated future payments or collections over the expected life of the financial asset:

- to the gross carrying amount of the financial asset; or
- to the amortised cost of the financial liability.

When calculating interest income and expenses, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not impaired) or at the amortised cost of the liability. However, in the case of the financial assets that became impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, the interest income is again calculated on a gross basis.

Income taxes

The tax expense for the year comprises the current and deferred tax assets and liabilities recognised in profit or loss for the year, with the exception of those relating to business combinations or items recognised directly in equity or in other comprehensive income.

The Group determined that the interest and the penalties relating to income taxes, including the accounting treatments to be applied to income taxes of an uncertain nature, are recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets because they do not match the definition of income taxes.

Current taxes

Current taxes are accrued based on the estimated tax expense for the year, also taking into account the effects relating to the participation of most Group companies in the tax consolidation scheme.

The amount of the taxes due or to be received, determined on the basis of tax rates enacted or substantially enacted at the reporting date, also includes the best estimate of any portion to be paid or to be received that is subject to uncertainty factors. Current tax assets and liabilities are offset only when determined criteria are met.

Deferred taxes

Furthermore, pursuant to the accrual basis of accounting, the Consolidated Financial Statements include deferred tax assets and liabilities arising from temporary differences deriving from adjustments made to consolidated companies' financial statements to comply with the Group's accounting policies, as well as from temporary differences between the carrying amounts and related tax bases, and on unused tax losses.

Provisions for taxes that may arise from the transfer of undistributed profits of subsidiaries are made only when there is a real intention to transfer such profits.

Deferred tax assets are recognised for tax losses and unused tax credits, as well as for deductible temporary differences, to the extent to which it is probable that future taxable profits will be available, against which these assets can be utilised. Future taxable profits will be defined on the basis of the reversal of the related deductible temporary differences. If the amount of the taxable temporary differences is not sufficient to fully recognise a deferred tax asset, consideration is given to the future taxable profit, adjusted for the reversal of existing temporary differences, provided by the business plans of the individual subsidiaries of the Group. The carrying amount of deferred tax assets is reviewed at each reporting date and is reduced to the extent to which it is no longer probable that the related tax benefit will be realised. These reductions will have to be reversed when the probability of achieving future taxable profit increases.

Since different tax consolidation schemes are currently in existence, the recoverability of the temporary differences and of the tax losses is contextualised within the various expiry dates of the tax consolidation agreements. Lastly, with reference to deferred tax assets related to Italian investees' tax losses, regulations provide for a quantitative limit to the utilisation of prior years' tax losses, i.e., 80% of the profits produced in the following years. The aforesaid quantitative limit of 80% does not apply for tax losses generated in the first three years from the incorporation of the company, provided that they refer to a new productive activity.

Deferred taxes are calculated on the basis of the tax rates that are expected to apply to the years in which the taxable temporary differences will reverse.

Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities.

Discontinued operations

A discontinued operation is a component of the Group whose operations and cash flows are clearly distinguishable from the rest of Group that:

- represents a separate major line of business or geographical operations;
- is a part of a single coordinated plan to dispose of a separate major line of business or geographical aera of operations;
- is a subsidiary acquired solely with a view to resale.

An operation is classified as discontinued at the time of sale or when it meets the conditions for classification in the "held for sale" category, whichever comes first.

When an operation is classified as discontinued, the comparative income statement is restated as if the operation had been discontinued from the beginning of the comparative year.

Available-for-sale assets

Non-current assets or disposal groups comprising assets and liabilities are classified as held for sale when it is highly probable that their carrying amount will be recovered principally through a sale transaction rather than through continng use.

The assets or the disposal group are usually measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liability proportionally, with the exception of inventories, financial assets, deferred tax assets, employee benefits, investment property and biological assets, which continue to be measured in accordance with other standards. Impairment losses deriving from the initial classification of an asset as held for sale or for distribution and subsequent measurement differences are recognised in profit or loss for the year.

Once they are classified as available for sale, intangible assets and property, plant and equipment cease to be amortised and equity investments recognised at equity are no longer recognised with that method.

Earnings per share

Basic earnings per share are calculated by dividing profit for the year attributable to the parent's ordinary shareholders by the weighted average number of the ordinary shares outstanding during the year.

To calculate diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted by assuming the conversion of all dilutive potential ordinary shares.

"Emissions rights"

In relation to the regulatory obligations deriving from CO_2 emissions, the Group procures mainly emissions rights to address its own requirements during the year ("own-use"). For the purposes of the recognition of the expense deriving from these regulatory obligations, the Group applies the "net liability approach". Purchased certificates are recognised at the specific cost on an accruals basis. If the purchased certificates, net of any assigned free of charge, exceed those necessary to address regulatory obligations, this excess is recognised among current assets.

Related parties

Related parties are mainly those that share the same parent with ERG S.p.A., the companies that directly or indirectly, through one or more intermediaries, control, are controlled by, or are subjected to joint control by ERG S.p.A. and those in which ERG S.p.A. has an investment.

The definition of related parties also includes key management personnel and their close relatives, of ERG S.p.A. and of its subsidiaries. Key management personnel are those who have the power and the direct or indirect responsibility for planning, managing, and controlling the activities of the parent and they include its Directors.

NOTE 42 - IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED STARTING ON 1 JANUARY 2019

As from 1 January 2019 the following standards, interpretations and amendments to existing standards, in relation to which no significant effects on the Group's consolidated financial statements are reported, have become applicable:

- IFRS 16 - Leases **has been applied from 1 January 2019**. For additional details, refer to the section **First adoption of IFRS 16 - Leases**.
- Amendment to **IAS 19: Plan Amendment, Curtailment or Settlement**, issued in February 2018.

  The amendments require an entity, in the case of amendment, curtailment or settlement of a defined benefit plan, to use the updated actuarial assumptions arising from the remeasurement of the net defined benefit liability or asset to determine the current service cost and the net interest for the remainder of the year after the change to the plan. In addition, the amendments: (i) clarify the procedures whereby the obligation to account for an amendment, curtailment or settlement of a plan affects the asset ceiling requirements; (ii) do not cover the accounting for "significant market fluctuations" in the absence of amendments to the plan.

- Amendments to **IAS 28 - Long-term interests in Associates and Joint Ventures**, issued in October 2017. The amendments clarify that the entity should apply the provisions of IFRS 9 - Financial Instruments to long-term interests in associates and joint ventures for which the equity method is not applied.
- **IFRIC 23 - Uncertainty over Income Tax Treatments**, issued in June 2017. The interpretation clarifies how to apply the recognition and measurement requirement of IAS 12 in case of uncertainty over income tax treatments. The uncertainty may pertain both to current taxes and to deferred taxes. The interpretation proposes that an entity should recognise a tax liability or asset under conditions of uncertainty, if it is probable that the Tax Authority will accept or not accept a determined tax treatment, examining what it is entitled to examine and having full knowledge of all information.

  In addition, the interpretation requires the entity to reassess its judgements and estimates made in the presence of a change in the facts and circumstances that modify its own expectations on the acceptability of a determined tax treatment, or the estimates made on the effects of the uncertainty, or both.
- As part of the "**Annual improvements to IFRS standards 2015-2017**", issued in December 2017, the following standards were amended:
  - **IFRS 3 and IFRS 11 - Business Combinations**: the amendments clarify that a joint operator that acquires control of a business that is a joint operation, should remeasure the interest previously held in the joint venture at the fair value at the date of acquisition;
  - **IFRS 11 - Joint Arrangements**: the amendments clarify that if a company that has an interest in a joint venture representing a business (in accordance with IFRS 3) without exercising joint control, acquires joint control, it should not remeasure the previously held interest;
  - **IAS 12 - Income Taxes**: the amendments clarify that a company should account for the tax effects of the dividends (defined by IFRS 9) for income tax purposes at the time when the liability relating to the dividend due is recognised, in profit or loss, in Other Comprehensive Income (OCI) or in equity, depending on where the transactions that generated distributable earnings were recognised;
  - **IAS 23 - Borrowing Costs**: the amendments clarify if any borrowings remains outstanding after the related asset is ready for its intended use or sale, becomes as part of the funds that the company borrows generally;
  - **IAS 28 - Equity investments in associates and joint ventures**: the IASB clarified that, while long-term interests in associates or joint ventures represent an extension of the net investment in these investees to which IAS 28 is applied, they are still subject to the provisions for impairment of IFRS 9 Financial Instruments;
  - **IFRS 9**: Amendments to IFRS 9 Prepayment Features with Negative Compensation are directed at allowing measurement at amortised cost or at fair value through other comprehensive income (OCI) of financial assets characterised by an early extinction option with the "negative compensation".

NOTE 43 - STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, NOT YET MANDATORILY APPLICABLE AND NOT ADOPTED EARLY BY THE GROUP AT 31 DECEMBER 2019

Below are the new standards or amendments to the standards, applicable for annual periods beginning on or after 1 January 2019 and for which earlier application is allowed. However, the Group has decided not to adopt them in advance for the preparation of these Consolidated Financial Statements.

- Amendment to **References to the Conceptual Framework** in IFRS Standards;
- Definition of material (amendments to IAS 1 and IAS 8 - entry into force 1 January 2020);
- Interest rate benchmark reform (amendments to IFRS 9, IAS 39 and IFRS 7 - entry into force 1 January 2020)

NOTE 44 - STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

- Definition of business (amendments to IFRS 3 – entry into force 1 January 2020). The Group is assessing the potential impacts of the new standard, which will however be applied prospectively only as from the acquisitions carried out after 1 January 2020;
- **IFRS 17 Insurance Contracts** (entry into force 1 January 2021).

Any impacts of the aforesaid Standards are currently being assessed.

NOTE 45 - PUBLICATION DATE OF THE FINANCIAL STATEMENTS

On 10 March 2020, the Board of Directors of ERG S.p.A. authorised the publication of the Financial Statements together with the reports to the Supervisory Bodies in compliance with the deadlines prescribed by current laws and regulations.

Genoa, 10 March 2020

on behalf of the Board of Directors

The Chairman

Edoardo Garrone

REPRESENTATIONS OF THE FINANCIAL STATEMENTS

IN ACCORDANCE WITH ART. 81-TER OF CONSOB REGULATION NO. 11971 DATED 14 MAY 1999, AS AMENDED

1. The undersigned Luca Bettonte, Chief Executive Officer of ERG S.p.A., and Paolo Luigi Merli, Manager responsible for preparing the financial reports of ERG S.p.A., taking into account the provisions set out in Article 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998, represent as to:
   - suitability in relation to the characteristics of the ERG Group and
   - the actual application of the administrative and accounting procedures for the preparation of the Consolidated Financial Statements in the course of the period between 1 January 2019 and 31 December 2019.
2. In this regard, the following is pointed out:
   - the suitability of the administrative and accounting procedures for the preparation of the Consolidated Financial Statements of ERG Group at 31 December 2019 was verified by the assessment of the system of internal control over Financial Reporting. This assessment was carried out with reference to the criteria established in the model "Internal Controls - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
   - the assessment of the System of Internal Control over Financial Reporting did not uncover any significant aspects.
3. It is furthermore represented that:
   - the Consolidated Financial Statements of the ERG Group:
     - were prepared in accordance with the applicable International Accounting Standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 by the European Parliament and Council, dated 19 July 2002;
     - matches the underlying accounting books and records;
     - is suitable to provide a true and fair view of the consolidated financial position and results of operations of the issuer and of the group of companies included in its consolidation;
   - the Directors' Report comprises a reliable analysis of the performance and of the result of operations, as well as of the situation of the issuer and of the set of companies included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Genoa, 10 March 2020

the Chief Executive Officer	The Manager Responsible for preparing the financial reports
Luca Bettonte	**Paolo Luigi Merli**

INDEPENDENT AUDITORS' REPORT

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
Piazza della Vittoria, 15 int. 11
16121 GENOVA GE
Telefono +39 010 564992
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
ERG S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the ERG Group (the "Group"), which comprise the statement of financial position as at 31 December 2019, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the ERG Group as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of ERG S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of non-current assets

Notes to the consolidated financial statements: Use of estimates – Risks and uncertainties, Impairment testing, note 41 - Main accounting policies - Goodwill

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2019 include goodwill of €221 million, intangible assets with a finite useful life of €890 million, of which €876 million relating to rights and concessions, property, plant and equipment of €2,336 million and right-of-use assets of €78 million. Goodwill is allocated to the various groups of cash-generating units ("CGU") in line with the group's integrated reporting, i.e., according to the technology/country matrix. Specifically, goodwill is allocated to the Wind Italy, Wind France, Wind Germany and Solar Italy groups of CGU (€126 million, €33 million, €6 million and €56 million, respectively). In line with the procedure approved by the parent's board of directors on 21 February 2020, intangible assets with a finite useful life, property, plant and equipment and right-of-use assets are tested for impairment if there is any indicator of impairment (a triggering event), by calculating their recoverable amount. After performing a comprehensive analysis of the triggering events, Group management concluded that it was unnecessary to determine the recoverable amount of intangible assets with a finite useful life, property, plant and equipment and right-of-use assets. Moreover, based on the above procedure, the Group tests goodwill for impairment annually and, in any case, whenever there are triggering events, by comparing the carrying amounts of the groups of CGU, including goodwill, to the related recoverable amounts. On an annual basis, the Group also estimates the recoverable amount of those groups of CGU to which no goodwill is allocated. The recoverable amount is estimated based on the asset's value in use, calculated using the discounted cash flow model by discounting the groups of CGU's expected cash flows. The expected operating cash flows were estimated on the basis of: — the forecasts set out in the update to the 2018-2022 plan that the directors examined on 10 March 2020, excluding	Our audit procedures, which also involved our own specialists, included: — updating our understanding of the process adopted to prepare the impairment tests and the forecasts set out in the update to the 2018-2022 plan, assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of relevant controls; — checking any discrepancies between the previous year forecast and actual figures, in order to understand the accuracy of the estimation process; — analysing the reasonableness of i) the key assumptions used by the directors to identify the CGU, the groups of CGU, the criteria for the allocation of goodwill to the groups of CGU and to determine the related operating cash flows and ii) the valuation models adopted; — checking the sensitivity analysis presented in the notes to the consolidated financial statements in relation to the key assumptions used for impairment testing; — assessing the appropriateness of the disclosures provided in the notes to the consolidated financial statements about impairment testing.

Key audit matter	Audit procedures addressing the key audit matter
the Repowering, Business Development and Merger&Acquisition initiatives, as they are development scenarios; — for the period subsequent to 2022, the projections prepared on the basis of macroeconomic and energy scenario simulations assuming a steady production trend. Impairment testing is complex and entails a high level of judgement, especially in relation to: — the expected operating cash flows, calculated by taking into account the general economic performance and that of the Group's sector, the actual cash flows for recent years and the projected growth rates. In this context, the key assumptions are those about the expected energy and gas prices, the availability of renewable resources, the assets' useful lives and estimated recoverable amount and the evolution of the regulatory framework; — the financial parameters used to calculate the discount rate. For the above reasons and due to the materiality of the relevant captions, we believe that the recoverability of the carrying amounts of goodwill, intangible assets with a finite useful life, property, plant and equipment and right-of-use assets is a key audit matter.	

Measurement of other current and non-current provisions

Notes to the consolidated financial statements: Use of estimates – Risks and uncertainties, 14 - Other provisions and 20 - Contingent liabilities and disputes

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2019 include other current and non-current provisions of €50 million and €139 million, respectively. The other non-current provisions comprise the Provision for disposed businesses of €76 million, which the directors estimated with the support of the relevant corporate departments and their legal and tax advisors. It shows the estimated environmental, legal and tax liabilities relating to the "Oil" coastal refining and integrated downstream businesses	Our audit procedures, which also involved our own tax specialists, included: — updating our understanding of the process for the measurement of the effect of legal disputes and assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of relevant controls; — analysing the discrepancies between past years' estimates of the effect of

Key audit matter	Audit procedures addressing the key audit matter
whose disposal was completed on 10 January 2018 with the sale of the investment in TotalErg S.p.A.. Measuring these provisions is a complex activity, with a high degree of subjectivity, and entails directors' estimates about the outcome of civil, administrative and fiscal disputes, in some cases dating back in time, the risk of losing, the timing for their settlement and the related effects on the consolidated financial statements. For the above reasons, we believe that the measurement of other current and non-current provisions is a key audit matter.	legal disputes and actual figures resulting from their subsequent settlement, in order to understand the accuracy of the estimation process; — sending written requests for information to the advisors assisting the Group and discussing with the internal legal department about the assessment of the risk of losing pending disputes and the quantification of the related liability; — for the main disputes subject to estimate, analysing the assumptions used to determine their effect through discussions with the relevant internal departments and analysis of the supporting documentation; — for the main disputes subject to estimate, discussing assumptions or scenarios alternative to those used to calculate the effect of legal disputes and the reasons for their rejection with the relevant internal departments; — analysing the events after the reporting date that provide information useful for an assessment of the provisions; — assessing the appropriateness of the disclosures provided in the notes to the consolidated financial statements about the other provisions and significant contingent liabilities.

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 23 April 2018, the shareholders of ERG S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2018 to 31 December 2026.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of ERG S.p.A. are responsible for the preparation of the directors' report and the report on corporate governance and ownership at 31 December 2019 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership indicated by article 123-bis.4 of Legislative decree no. 58/98 with the Group's consolidated financial statements at 31 December 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership referred to above are consistent with the Group's consolidated financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of ERG S.p.A. are responsible for the preparation of a consolidated non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such consolidated non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the consolidated non-financial statement separately.

Genoa, 26 March 2020

KPMG S.p.A.

(signed on the original)

Luisa Polignano
Director of Audit

Separate Financial Statements

STATEMENT OF FINANCIAL POSITION(1)

(EUR)	Notes	31/12/2019	of which with related parties	31/12/2018	of which with related parties
Intangible assets	1	2,282,878		2,658,234	
Goodwill		-		-	
Property, plant and equipment	2	10,653,620		11,362,930	
Right-of-use assets(2)	2	2,392,834		-	
Equity investments	3	1,736,127,022		1,736,072,022	
Other non-current financial assets	4	295,010,203	*293,294,424*	106,147,514	*70,093,519*
Deferred tax assets	5	12,232,576		13,157,002	
Other non-current assets	6	2,277,450		*2,311,631*	
Non-current assets		**2,060,976,584**		**1,871,709,331**	
Inventories		-		-	
Trade receivables	7	3,859,155	*1,627,814*	3,506,308	*1,684,458*
Other current assets	8	19,728,357	*5,678,228*	30,388,306	*7,976,642*
Current tax assets	8	22,640,040	*8,888,794*	42,217,990	*35,016,373*
Current financial assets	14	222,430,337	*220,550,070*	19,267,147	*15,726,762*
Cash and cash equivalents	14	480,033,248		598,539,725	
Current assets		**748,691,136**		**693,919,475**	
Assets held for sale		-		-	
TOTAL ASSETS		**2,809,667,720**		**2,565,628,807**	
Share capital	9	15,032,000		15,032,000	
Other Reserves	9	953,803,017		954,644,681	
Retained earnings (accumulate losses)	9	393,089,520		500,658,371	
Profit for the year	9	11,029,960		4,083,589	
Equity		**1,372,954,497**		**1,474,418,640**	
Employee benefits	10	1,549,247		1,455,406	
Deferred tax liabilities	5	13,484		27,515	
Other non-current provisions	11	80,745,871		89,394,774	
Non-current financial liabilities	14	1,276,930,038		739,177,477	
Non-current lease liabilities (2)	14	1,497,253		-	
Other non-current liabilities	12	2,825,000		2,300,000	
Non-current liabilities		**1,363,560,892**		**832,355,172**	
Other current provisions	11	9,102,140		8,134,780	
Trade payables	13	12,432,309	*1,196,870*	11,779,987	*1,226,287*
Current financial liabilities	14	14,311,742		183,680,116	*2,875*
Current lease liabilities (2)	14	905,607		-	
Other current liabilities	15	25,571,988	*14,529,610*	26,104,726	*12,752,003*
Current tax liabilities	15	10,828,545	*10,797,078*	29,155,386	*15,631,020*
Current liabilities		**73,152,331**		**258,854,994**	
Liabilities associated with assets held for sale		**–**		**–**	
TOTAL EQUITY AND LIABILITIES		**2,809,667,720**		**2,565,628,807**	

(1) thenotes commenting on individual items are an integral part of these separate financial statements.
(2) he company adopted IFRS 16 for the first time on 1 January 2019, availing itself of the option to use the modified retrospective method, therefore without restating comparative figures. For additional details, refer to the section IFRS 16 - Leases

INCOME STATEMENT(1)(2)(3)

(EUR)	Notes	31/12/2019	of which with related parties	31/12/2018	of which with related parties
Revenue	19	36,913,190	*36,913,190*	35,696,966	*35,692,553*
Other income	20	10,009,556	*295,380*	3,727,501	*175,512*
Purchases	21	(204,140)		(253,332)	
Services and other costs	22	(34,402,154)	*(319,215)*	(30,163,601)	*(191,109)*
Personnel expense	23	(27,080,292)	*(1,685,933)*	(25,790,579)	*(1,619,108)*
Gross operating loss (EBITDA)		**(14,763,840)**		**(16,783,046)**	
Amortisation, depreciation and impairment of non-current assets	24	**(3,877,665)**		**(2,945,702)**	
Operating loss (EBIT)		**(18,641,504)**		**(19,728,748)**	
Financial income		14,750,036	*9,353,614*	14,759,329	*2,427,486*
Financial expense		(22,531,103)	*(3,036)*	(15,669,897)	*(8,543)*
NET FINANCIAL (EXPENSE)	25	**(7,781,067)**		**(910,568)**	
Net gains on equity investments		34,654,184		20,328,971	
NET GAINS ON EQUITY INVESTMENTS	26	**34,654,184**		**20,328,971**	
PROFIT (LOSS) BEFORE TAXES		**8,231,613**		**(310,344)**	
Income taxes	27	2,798,348		1,642,384	
PROFIT FROM CONTINUING OPERATIONS		**11,029,960**		**1,332,040**	
Profit (loss) from discontinued operations	28	–		2,751,549	
PROFIT FOR THE YEAR		**11,029,960**		**4,083,589**	

(1) in the 2018 income statement in accordance with IFRS 5, the income and expenses tied to the operation and sale of the TotalErg S.p.A. joint venture were posted in profit (loss) from discontinued operations. Please refer to Note 16 - Profit (loss) from assets held for sale

(2) the notes commenting on individual items are an integral part of these separate financial statements

(3) the Group adopted IFRS 16 for the first time on 1 January 2019, availing itself of the option to use the modified retrospective method, therefore without restating comparative figures. For additional details, refer to the section IFRS 16 - Leases

STATEMENT OF COMPREHENSIVE INCOME(1)(2)

(EUR)	2019	2018
PROFIT FOR THE YEAR	**11,029,960**	**4.083.589**
Changes that will not be reclassified to profit or loss		
Net actuarial losses	(38,542)	(9,459)
Related tax	9,250	2,270
Total	**(29,292)**	**(7,189)**
Changes that will be reclassified to profit or loss		
Cash flow hedges - effective portion of the fair value change	(7,260,704)	(3,027,039)
Related tax	1,742,569	726,489
Total	**(5,518,135)**	**(2,300,550)**
Other comprehensive income (expense) net of the tax effect	**(5,547,427)**	**(2,307,738)**
Comprehensive income for the year	**5,482,533**	**1,775,851**

(1) the notes commenting on individual items are an integral part of these separate financial statements.
(2) the company adopted IFRS 16 for the first time on 1 January 2019, availing itself of the option to use the modified retrospective method, therefore without restating comparative figures. For additional details, refer to the section IFRS 16 - Leases

STATEMENT OF CASH FLOWS (1)(2)(3)

(EUR)	Notes	31/12/2019	31/12/2018
CASH FLOWS FROM OPERATING ACTIVITIES (A):			
Profit for the year		11,029,960	4,083,589
Adjustments for:			
- Income taxes		(2,798,348)	(4,393,933)
- Amortisation, depreciation and impairment of non-current assets	24	3,877,665	2,945,701
- Accruals (releases) to provisions	11	(7,681,543)	7,999,667
- Capital gains/losses from realisation of non-current assets		(26)	–
- Dividend income		(35,000,000)	(20,000,000)
- Interest income		(11,834,313)	(8,811,824)
- Interest expense		16,313,869	10,751,239
- Changes in stock option plan and allocation of treasury shares to employees		2,214,799	3,383,937
- Changes in fair value of financial assets measured at FVTPL		(2,251,285)	2,373,284
- Changes in fair value of hedging derivatives (ineffective part)		(1,050,004)	(400,928)
- Changes to post-employment benefits	10	55,298	(173,060)
Other non-monetary changes		(1,862,453)	1,505,461
		(28,986,380)	**(736,867)**
Change in other current assets and liabilities:			
- Change in trade receivables	7	(352,847)	(200,013)
- Change in trade payables	13	652,323	(46,805,335)
- Net change in other receivables/payables and other assets/liabilities	6,8,12,15	10,682,536	(17,095,030)
Dividends collected		35,000,000	20,000,000
Use of provisions		–	–
Taxes (paid to)/collected from national tax consolidation scheme		5,946,273	(16,355,281)
		51,928,285	**(60,455,658)**
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A)		**22,941,905**	**(61,192,526)**
CASH FLOWS FROM INVESTING ACTIVITIES (B):			
Acquisition of intangible assets	1	(1,526,703)	(1,328,336)
Acquisition of property, plant and equipment and right-of-use assets	2	(1,164,429)	(1,850,537)
Acquisition of equity investments	3	–	–
Disposals of intangible assets	1	–	–
Disposals of property, plant and equipment and right-of-use assets	2	96,322	–
Disposal of equity investment in TotalErg	3	–	179,543,276
Disposal of equity investments	3	–	25,917
TotalErg Vendor Loan collection		36,053,995	–
Changes in centralised treasury		(142,801,712)	–
Grant of loans to subsidiaries		(325,757,401)	–
Repayment of loans from subsidiaries		46,500,000	–
Interest collected		9,475,628	7,885,588
Other changes in current financial assets		426,988	–
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B):		**(378,697,313)**	**184,275,908**
CASH FLOWS FROM FINANCING ACTIVITIES (C):			
New loans		217,500,000	190,000,000
Green Bond Issue		500,000,000	–
Repayment of loans		(357,625,000)	(154,750,000)
Changes in other current financial liabilities	14	133	(20,118,396)
Interest paid		(10,785,623)	(10,998,765)
Increase in lease liabilities		718,724	–
Decrease in lease liabilities	14	(906,865)	–
Dividends paid		(111,652,440)	(171,139,320)
Other changes in equity	9	–	(4,325,849)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C):		**237,248,930**	**(186,513,539)**
NET CASH FLOWS FOR THE YEAR (A+B+C)		**(118,506,477)**	**(63,430,156)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	14	**598,539,725**	**661,969,882**
NET CASH FLOWS FOR THE YEAR		(118,506,477)	(63,430,156)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14	**480,033,248**	**598,539,725**
RECLASSIFICATION OF ASSETS/LIABILITIES HELD FOR SALE		–	–
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14	**480,033,248**	**598,539,725**

(1) the notes commenting on individual items are an integral part of these separate financial statements.

(2) for 2018, the statement of cash flows also includes the cash flows of Assets and Liabilities held for sale and associated liabilities, details of which are provided in Note 16 Profit (loss) from discontinued operations.

(3) the company ? adopted IFRS 16 for the first time on 1 January 2019 availing itself of the option to use the modified retrospective method, therefore without restating comparative figures. For additional details, refer to the section IFRS 16 - Leases

STATEMENT OF CHANGES IN EQUITY (1)

(EUR)	Notes	Share capital	Reserves	Profit (loss) for the year	Total Equity
BALANCE AT 31/12/2017		15,032,000	1,603,815,213	23,969,999	1,642,817,211
IFRS 9 Adjustment (2)		–	(3,316,979)	–	(3,316,979)
Allocation of 2017 profit		–	23,969,999	(23,969,999)	–
Equity-settled share-based payments	9		3,383,937		3,383,937
Distribution of dividends	9	–	(171,139,320)	–	(171,139,320)
Increase in capital reserves	9		897,940		897,940
Other changes					
Profit (loss) for 2018	9	–	–	4,083,589	4,083,589
Actuarial gains (losses)	10	–	(7,189)	–	(7,189)
Change in the hedging reserve	9	–	(2,300,550)	–	(2,300,550)
Comprehensive income (expense)		–	(2,307,739)	4,083,589	1,775,850
BALANCE AT 31/12/2018		15,032,000	1,455,303,051	4,083,589	1,474,418,640

	Notes	Share capital	Reserves	Profit (loss) for the year	Total Equity
BALANCE AT 31/12/2018		15,032,000	1,455,303,051	4,083,589	1,474,418,640
IFRS 9 Adjustment(2)		–	–	–	–
Allocation of 2018 profit		–	4,083,589	(4,083,589)	–
Equity-settled hare-based payments	9		1,904,548		1,904,548
Distribution of dividends	9	–	(111,652,440)	–	(111,652,440)
Change in the reserve for treasury shares	9		365,251		365,251
Other changes					
Profit for 2019	9	–	–	11,029,960	11,029,960
Actuarial gains (losses)	10	–	(29,292)	–	(29,292)
Change in the hedging reserve	9	–	(3,082,170)	–	(3,082,170)
Comprehensive income (expense)		–	(3,111,462)	11,029,960	7,918,498
BALANCE AT 31/12/2019		15,032,000	1,346,892,537	11,029,960	1,372,954,497

(1) the notes commenting on individual items are an integral part of these separate financial statements.
(2) the Company adopted IFRS 16 for the first time on 1 January 2019, availing itself of the option to use the modified retrospective method, therefore without restating comparative figures. For additional details, refer to the section IFRS 16 - Leases

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

ERG S.p.A. is the entity that prepares the financial statements.

ERG S.p.A. has its registered office in via De Marini 1, Genoa (WTC Tower)

ERG S.p.A., a company listed on the Stock Market since 1997, operates, also through its investees, as a major independent operator in the production of electricity from renewable sources, differentiated between non-programmable sources (wind and sun) and programmable sources (thermoelectric and hydroelectric), and diversified in terms of its geographical presence, increasing its share of foreign wind market, mainly in France and Germany.

On 10 March 2020, the Board of Directors of ERG S.p.A. authorised the publication of the separate financial statements together with the reports by the Supervisory Bodies in compliance with the deadlines prescribed by current laws and regulations. ERG S.p.A. provides strategic guidance to the Group, is directly responsible for business development processes and ensures the management of all business support processes.

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

BASIS OF PREPARATION

These separate financial statements, expressed in Euro (functional currency of the parent company ERG S.p.A. and presentation currency), were prepared:

- without any departures, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Financial Reporting Standards - IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC). The set of all reference standards and interpretations indicated above shall hereafter be defined as "EU - IFRS";
- on a going concern basis and therefore assuming that the Company will be able to meet the mandatory repayment conditions of the credit facilities granted by the banks and the bond issues as indicated in **Note 31 - Financial instruments**.

These separate financial statements were prepared in accordance with paragraph 3 of Article 9 of Italian Legislative Decree no. 38 of 28 February 2005.

The separate financial statements at 31 December 2019 were audited by the independent auditors KPMG S.p.A. in accordance with the statutory audit engagement for the years from 2018 to 2026, conferred upon it pursuant to Italian Legislative Decree no. 39/2010 by the Shareholders' Meeting on 23 April 2018.

These are the first separate financial statements in which the Company has applied IFRS 16 – Leases. The financial statements in this document therefore reflect the changes required by the first-time adoption of IFRS 16, the effects of which are described in the **Note - Standards, amendments and interpretations applied starting on 1 January 2019**.
The values shown in the accompanying notes to the separate financial statements, unless otherwise specified, are expressed in thousands of Euro.
Further details regarding the accounting standards and measurement criteria adopted by the Group are provided in **Note 36 - Main EU-IFRS standards, amendments and interpretations applied starting on 1 January 2019**.

BASIS OF PRESENTATION

The separate financial statements consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and these Notes.
The company presents its income statement captions by nature, which is deemed more representative than presenting them by function, with separate presentation of the profit or loss from discontinued operations. The form chosen is in fact consistent with internal and management reporting procedures.
With reference to the Statement of Financial Position, the presentation format adopted makes a distinction between current and non-current assets and liabilities, as allowed by IAS 1, with separate indication of assets classified as held for sale and of liabilities included in a disposal group, classified as held for sale. Current assets, which include cash and cash equivalents, are those held to be realised, sold or consumed in the normal operating cycle of the Company or in the 12 months after year end; current liabilities are those expected to be extinguished within the normal operating cycle of the Company or in the 12 months after year end.
The structure of the statement of cash flows is based on the indirect method, with the indication of the cash flows from operating activities, investing activities and financing activities associated with discontinued operations.
Furthermore, as required by CONSOB resolution no. 15519 dated 27 July 2006, in **Note 29 - Non-recurring items** significant income and expense arising from non-recurring transactions or events that do not occur frequently in the ordinary course of business are presented separately. Also pursuant to the aforementioned CONSOB resolution, the amounts related to the positions and transactions with related parties are indicated separately in **Note 30 - Related parties**.

USE OF ESTIMATES - RISKS AND UNCERTAINTIES

Preparation of financial statements and notes pursuant to EU-IFRS requires ERG to make estimates and assumptions that affect the carrying amounts of the assets and liabilities recognised in the consolidated financial statements and disclosures relating to contingent assets and liabilities. Making these estimates involves using information available and subjective assumptions.
By their very nature, estimates and assumptions used may vary from year to year, and it therefore cannot be

excluded that in subsequent years the current carrying amounts may differ as a result of the change in the subjective assessments used.

The main estimates for which subjective assessments are more usually required, in addition to those relating to fair value measurements, described in the specific section, were used, inter alia, for:

- the impairment test of non-financial assets with particular reference to the process of identifying and monitoring the triggering events and to the main assumptions for the determination of recoverable amounts ("Impairment tests on equity investments");
- deferred tax assets, recognised on the basis of the Group's future taxability of profits as forecast by business plans as well as of the expected settlement and renewal of tax consolidation schemes (Note 5 - Taxes);
- the estimates for provisions and for contingent liabilities related to civil, administrative and fiscal disputes; in particular, the valuation processes are based on complex elements that by their nature imply reliance on the Directors' judgement, also taking into account the elements acquired by external consultants, and involve both determining the degree of likelihood of the occurrence of conditions that may entail a cash outlay and hence classification among liabilities or among contingent liabilities, and quantifying the related amount (**Note 11 - Other provisions**). In particular, with reference to the Provision for disposed Businesses, the most complex elements are connected with the measurement process and procedures related to the risks tied mainly to events dating back in time and pertaining to environmental, legal and tax matters tied to the divested "Oil" Coastal Refining and of integrated Downstream businesses;
- loss allowances and impairment of assets (**Note 7 - Trade receivables**).
- the transition to IFRS 16, which introduces some professional judgement elements entailing the definition of some accounting policies and the use of assumptions and estimates in relation to the lease term and to the definition of the marginal rate. For further details, reference is made to the section **First adoption of IFRS 16 - Leases**.

Fair value measurements

Some standards and disclosure obligations require the Company to measure the fair value of financial and non-financial assets and liabilities.

In relation to the fair value measurement, the Company has its own structure of appraisers, responsible in general for all significant fair value measurements, including Level 3 measurements (if present).

Non-observable input data and valuation adjustments are regularly subjected to reappraisal.

When information provided by third parties, such as broker quotes or pricing services, is used to determine fair value, the team of appraisers assesses and documents the evidence obtained from third parties to support the fact that such measurements comply with the provisions of EU-IFRS, including the level of fair value hierarchy in which the related measurement has to be classified.

The significant aspects relating to the measurement are communicated to the Control and Risk Committee company's.

In measuring the fair value of an asset or a liability, the Company uses, insofar as it is possible, observable market data. Fair values are categorised in various hierarchical levels according to the input data used in the measurement techniques, as illustrated below.

- Level 1: quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2: inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (prices) and indirectly (derived from prices).
- Level 3: unobservable inputs for the asset or liability.

If the input data used to measure the fair value of an asset or of a liability are categorised within different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hieararchy as the lowest level input that is significant to the entire measurement.

The Company recognises the transfers between the various levels of the fair value hierarchy of the event or of the change in the circumstances that determined the transfer in which the transfer took place.

Additional information on the assumptions to determine fair value is provided in the following notes:

- **Note 22 - Services and other operating costs** and **Note 23 - Personnel expense**;
- **Note 28 - Profit (loss) from discontinued operations**;
- **Note 31 - Financial Instruments**.

Estimates and assumptions are revised periodically and the effects of any changes are reflected in profit or loss in the period of the change.

FIRST -TIME ADOPTION OF IFRS 16 - LEASES

IFRS 16 - Leases has been applied 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 previous 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 application of the new Standard changes the nature and the presentation in the income statement of costs for operating leases of the Company pertaining to land, warehouses, buildings, equipment, substations and the vehicle fleet. These costs are now recognised as depreciation of the right-of-use asset and as financial expense related to the liability linked to the discounting of future lease payments.

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

At the commencement date, the Company recognises:

- the right-of-use asset and the lease liabilities. The asset is initially measured at cost and subsequently at cost less any accumulated depreciation and any accumulated impairment losses, and it may be adjusted for any remeasurement of the lease liabilities.
- the lease liabilities at the present value of the lease payments not paid at the commencement date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Company uses the incremental borrowing rate (determined as the sum of the Company's credit spread and the forward curve based on Euro area swap rates).

  The liability thus recognised is subsequently increased to reflect interest and decreased to reflect the lease payments made and possibly remeasured in case of changes to future payments in relation to:
  - a change in the index or rate,
  - a change in the amount the Company expects to have to pay under a residual value guarantee,
  - a change in the assessment as to whether a purchase, extension or termination option will be exercised or not.

The Company analysed all lease agreements, defining the lease term, which is the non-cancellable period of the lease.

The Company's leases have an average term of around 3 years, with the inclusion for some leases of a renewable option exercisable at the end of the binding period. Others provide for additional payments tied to the change of the local price indices.

In relation to the renewal options, the Company estimated the term of the related lease agreement taking into account the reasonable certainty that the option will be exercised.

Specifically, for land and buildings, this assessment considered the specific facts and circumstances of each asset. With regard to the other categories of assets, mainly corporate cars and equipment, the Company generally deemed improbable that extension or early termination clauses would be exercised in consideration of the practice usually followed by the Company.

First-time adoption

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

Impacts on the opening balances at 1 January 2019:

EUR thousand	1 January 2019
Lease liabilities	2,591
Other assets (advanced or accumulated payments)	–
Total right-of-use assets	**2,591**

At the date of initial application, the lease liabilities were determined at the present value of the lease payments not yet paid discounted using the incremental borrowing rate of the Company at 1 January 2019. The weighted average of the applied rate is 1.0%.

EUR thousand	1 January 2019
Commitments deriving from operating leases at 31 December 2019 as presented in the consolidated financial statements	2,632
Lease extension options whose exercise is reasonably certain	0
Incremental borrowing rate at 1 January 2019	1%
Values discounted using the incremental borrowing rate at 1 January 2019	2,591

(1) the commitments deriving from operating leases presented in the consolidated financial statements of the Company at 31 December 2018 are already indicated less the future minimum payments of the leases with a term of less than 12 months and commitments having a non-significant amount.

Right-of-use assets are measured at an amount equal to the lease liabilities, rectified by the amount of any advanced or accumulated payments due for the lease.

The Company has used the following practical expedients to apply IFRS 16 to leases previously classified as operating in accordance with IAS 17:

- exempting the recognition of right-of-use assets and of lease liabilities for leases with a term of less than 12 months;
- exempting leases for which the underlying asset is of low value (right-of-use assets of low value, including IT equipment). The Company recognises lease payments relating to the aforesaid contracts as a cost on a straight-line basis over the lease term;
- excluding the initial direct costs from the measurement of right-of-use assets at the date of initial application;
- determining the lease term containing extension/termination options on the basis of the experiences acquired.

No significant impacts are expected for the financial leases of the Company and for the contracts in which the Company is a lessor.

At 1 January 2019 (transition date), the Company, as lessee, therefore recognised new liabilities (EUR 2.5 million) for operating leases and greater right-of-use assets (EUR 2.5 million) related mainly to the Wind business and pertaining to the use of land, warehouses, buildings, equipment, substations and the vehicle fleet.

2019

Adoption of the new standard entailed, as outlined above, the recognition of higher depreciation and interest against the reversal of the lease payments for operating leases.

In particular, in 2019 the following were seen:

- an improvement in gross operating profit (EBITDA) in respect of the lease payments that fall within the scope of IFRS 16, of approximately EUR 0.9 million;
- greater depreciation expense (EUR 0.9 million) and greater financial expense (EUR 0.0 million);
- an increase (EUR 2.4 million at 31 December 2019 of which EUR 1.5 million medium-long term and EUR 0.9 million short term) of the net financial indebtedness and of the net invested capital (EUR 2.9 million increase in the non-current assets) in relation to the application of the liability method indicated by the new standard.

IMPAIRMENT TESTS ON EQUITY INVESTMENTS

ERG Power Generation S.p.A.

In these separate financial statements, the carrying amount of the equity investment in ERG Power Generation S.p.A. is equal to EUR 1,736 million.

For the purposes of the 2017 separate financial statements the Company had tested the carrying amount of the equity investment that showed that the recoverable amount is significantly higher than its carrying amount.

For the purposes of the 2018 separate financial statements, the Group checked the presence of impairment indicators, and did not identify the need to perform the impairment test.

For the purposes of the 2019 separate financial statements, the Group checked the presence of impairment indicators.

In particular, the following were examined:

- changes in the enterprise value of the CGU Groups belonging, directly and indirectly, to ERG Power Generation S.p.A.;
- the distribution of dividends during 2019, amounting to EUR 35 million, from ERG Power Generation to ERG S.p.A.;
- the stock market capitalisation of ERG S.p.A. at 31 December 2019 amounting to EUR 2.9 billion. It is noted in this regard that the fair market value of ERG Power Generation can be derived from that of ERG S.p.A. net of the costs of the corporate structure and of net cash and cash equivalents.

Group management deems the assumptions used to identify and verify the indicators to be reasonable and, on the basis of the aforementioned assumptions, no need to determine the recoverable amount has emerged.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

NOTE 1 - INTANGIBLE ASSETS

	Other intangible assets	Assets under development	Total
BALANCE AT 31/12/2017	2,209	1,025	3,233
Changes for the year:			
Acquisitions	664	664	1,328
Capitalisations/reclassifications	965	(967)	(2)
Disposals and divestments	–	–	–
Amortisation	(1,901)	–	(1,901)
Other changes	–	–	–
BALANCE AT 31/12/2018	1,937	722	2,658
Changes for the year:			
Acquisitions	933	594	1,527
Capitalisations/reclassifications	602	(599)	3
Disposals and divestments	–	–	–
Amortisation	(1,905)	–	(1,905)
Other changes	–	–	–
BALANCE AT 31/12/2019	1,567	716	2,283

To enhance understandability, changes for the year relating to reclassifications, disposals and divestments are shown net of the related accumulated depreciation and impairment losses. "Other intangible assets" consist mainly of software applications and advisory services provided in the implementation phase thereof.

The increase is due mainly to the investments for the year related to new software and improvements on existing ones.

NOTE 2 - PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Other assets	Assets under construction	Total
Historical cost	**16,475**	**818**	**10,711**	**165**	**28,170**
Depreciation and impairment losses	(8,990)	(589)	(8,036)	–	**(17,615)**
BALANCE AT 31/12/2017	**7,485**	**229**	**2,675**	**165**	**10,554**
Changes in the year					
Acquisitions	654	305	852	39	**1,851**
Capitalisations	–	2	12	(12)	**2**
Reclassifications	28	(2)	80	(106)	**(0)**
Disposals and divestments	–	–	(0)	–	**(0)**
Other changes	–	–	–	–	**–**
Depreciation	(497)	(51)	(495)	–	**(1,044)**
Historical cost	**17,242**	**1,040**	**11,655**	**85**	**30,021**
Depreciation and impairment losses	(9,571)	(557)	(8,531)	–	**(18,658)**
BALANCE AT 31/12/2018	**7,670**	**483**	**3,124**	**85**	**11,363**
Changes in the year					
Acquisitions	74	–	257	19	**349**
Acquisitions of right-of-use assets	2,034	–	1,372	–	**3,406**
Capitalisations	–	–	32	(34)	**(3)**
Reclassifications	–	–	–	–	**–**
Disposals and divestments	–	–	–	–	**–**
Disposals and divestments of right-of-use assets	–	–	(96)	–	**(96)**
Other changes	–	–	–	–	**–**
Depreciation	(507)	(64)	(485)	–	**(1,056)**
IFRS 5 reclassification	(581)	–	(336)	–	**(917)**
Historical cost	**19,461**	**954**	**13,300**	**(37)**	**33,678**
Depreciation and impairment losses	(10,743)	(537)	(9,351)	–	**(20,631)**
BALANCE AT 31/12/2019	**8,718**	**417**	**3,948**	**(37)**	**13,046**

To enhance understandability, changes for the year relating to reclassifications, disposals and divestments are shown net of the related accumulated depreciation and impairment. “Land and buildings” includes land on the Priolo Gargallo site. “Other assets” consist mainly of equipment, furniture and furnishings and works of art.

The increase is due mainly to capitalisation resulting from the application of IFRS 16, and mainly therefore buildings and vehicles.

The item Property, plant and equipment includes right-of-use assets, accounted for in accordance with IFRS 16. The change in this item over the year is shown in the following table:

EUR thousand	Land and buildings	Specific plant	Equipment	Other assets	Total
BALANCE AT 1 JANUARY	1,898	–	151	542	2,591
Increase in right-of-use assets	136	–	–	679	815
Derecognition of right-of-use assets		–	–	(96)	(96)
Depreciation for the year	(581)	–	(30)	(306)	(917)
BALANCE AT 31 DECEMBER 2019	1,453	–	121	819	2,393

NOTE 3 - EQUITY INVESTMENTS

	Equity investments				
	Subsidiaries	Joint ventures	Associates	Other companies	Total
BALANCE AT 31/12/2017	1,735,607	–	–	491	1,736,098
Changes for the year:					
Acquisitions/share capital increases/revaluations	–	(179,538)	–	–	(179,538)
Disposals and divestments	–	–	–	–	–
Other changes	–		–	–	–
BALANCE AT 31/12/2018	1,735,607	–	–	465	1,736,072
Changes for the year:					
Acquisitions/share capital increases/revaluations	–	–	–	–	–
Disposals and divestments	–	–	–	–	–
Other changes	55		–	–	55
BALANCE AT 31/12/2019	1,735,662	–	–	465	1,736,127

There were no significant **acquisitions/capital increases**.

Other changes relate to the effect, on subsidiaries, of the introduction of the 2018-2020 long-term incentive plan in accordance with **IFRS 2 - Share-Based Payment Transactions**, as described more in detail in the section "Treasury shares".

The list of equity investments is provided below with the data provided in compliance with Article 126 of the CONSOB Resolution no. 11971 as amended.

(EUR thousand)	Registered office	Share/quota capital	%	Equity (deficit (1)	Investment (1)	Carrying amount
Subsidiaries						
ERG Power Generation S.p.A.	Genoa	100,000	100%	1,961,986	1,961,986	1,735,662
ERG Petroleos S.A.	Madrid (Spain)	3,050	100%	(6,445)	(6,445)	–
Total Subsidiaries						**1,735,662**
Other companies						
CAF Interregionale Dipendenti S.r.l.	Vicenza	276	0%	1,063	0	0
Meroil S.A.(2)	Barcellona (Spain)	19,077	1%	68,722	598	310
R.U.P.E. S.p.A.	Genova	3,058	5%	3,034	148	155
Total Other companies						**465**
TOTAL EQUITY INVESTMENTS						**1,736,127**

(1) data referred to the last financial statements approved at the date of the Board of Directors' meeting for the other companies and associates
(2) data referring to the latest approved financial statements at December 31, 2017

It should also be recalled that in view of the deficit of ERG Petroleos S.A. in liquidation, a provision for risks on equity investments of approximately EUR 6.5 million has been set up, of which EUR 346 thousand allocated in 2019.

For the measurement of the equity investment in ERG Power Generation S.p.A., please refer to the section **Impairment test on equity investments**.

NOTE 4 - OTHER NON-CURRENT FINANCIAL ASSETS

	31/12/2019	31/12/2018
OPENING BALANCE	**106,148**	**98,760**
Changes in the year:		
IFRS 9 transition effect	–	(3,459)
Disbursements and interest	39,270	38,861
Repayments	(82,588)	(29,029)
Reclassifications from current financial assets	228,057	–
Positive fair value on derivatives	1,838	–
Fair Value Adjustment	2,251	1,086
Other changes	34	(72)
CLOSING BALANCE	**295,010**	**106,148**

The balance of "Other non-current financial assets" at 31 December 2019 amounts to EUR 295 million and mainly includes the non-current portion of the loans to subsidiaries.

Disbursements and interest include the increase for the year relative to the loan to the subsidiary ERG Power S.r.l.

Repayments include mainly the partial repayments of the loan to the subsidiary ERG Power S.r.l and the collection of the receivable from api corresponding to the deferred portion of the sale amount of the assets regulated by a vendor loan agreement as part of the TotalErg transaction.

It is noted that in 2019 the Subordinated Support Agreement with the subsidiary ERG Power S.r.l. was terminated following the settlement of the relative project financing for the subsidiary, and at the same time a new unsubordinated loan agreement was concluded. The change in Fair Value includes both the reversal relative to the termination of the previous agreement and the Fair Value measurement of the new loan agreement.

The other changes refer to the change in fair value of the derivatives to hedge interest rates of EUR 1.8 million.

NOTA 5 - TAXATION

Deferred tax assets

	31/12/2019		31/12/2018	
	Temporary differences	**Tax effect**	**Temporary differences**	**Tax effect**
Provisions for risk and charges	36,358	8,726	34,213	9,996
Loss allowance	1,610	386	1,702	408
Derivatives	9,088	2,181	5,033	1,208
Other temporary differences	3,947	939	6,442	1,545
Total		**12,233**		**13,157**

Deferred tax assets are recognised, provided their future recovery is probable, on the taxable temporary differences between the carrying amount of recognised assets and liabilities and their tax base.

The rate used for the calculation of the deferred tax assets is the same as the nominal IRES rate of 24%.

Note that in 2019, deferred tax assets recognised in previous years for both IRES and IRAP purposes were realigned.

The reversal of deferred tax assets recognised previously for IRAP purposes resulted in the recognition in the income statement of EUR 1.8 million, and is justified by the envisaged negative IRAP tax bases in future years, preventing deferred taxes from being recovered in the short term.

Deferred tax assets at 31 December 2019, amounting to EUR 12.2 million (EUR 13.2 million at 31 December 2018) are mainly allocated to the provisions for risks and charges.

Deferred tax liabilities

	31/12/2019		31/12/2018	
	Temporary differences	Tax effect	Temporary differences	Tax effect
Actuarial losses	(33)	(8)	–	–
Unrealised foreign exchange gains	82	20	111	27
Other deferred tax liabilities	15	2	4	1
Total		**13**		**28**

"Deferred tax liabilities" are recognised on taxable temporary differences between the carrying amount of recognised assets and liabilities and their corresponding tax base. The rate used to calculate deferred taxes is the same as the nominal IRES (corporate income tax) rate (24%).

Deferred tax liabilities at 31 December 2019 amount to EUR 13 thousand (EUR 28 thousand at 31 December 2018).

NOTE 6 - OTHER NON-CURRENT ASSETS

	31/12/2019	31/12/2018
Non-current tax assets	1,913	1,913
Other	365	399
Total	**2,277**	**2,312**

Non-current tax receivables amount to EUR 1,913 thousand and refer mainly to VAT receivables.

Other medium to long-term receivables amounting to EUR 365 thousand include mainly security deposits on lease agreements.

NOTE 7 - TRADE RECEIVABLES

Receivables can be summarised as follows:

	31/12/2019	31/12/2018
Receivables from customers	3,681	3,363
Receivables from Group companies	1,628	1,684
Loss allowance	(1,450)	(1,541)
Total	**3,859**	**3,506**

"Receivables from customers" essentially include trade receivables amounting to EUR 3,542 thousand and invoices to be issued amounting to EUR 139 thousand.

The item includes in particular prior trade receivables that derive mainly from dealings with customers in the energy, thermoelectric and petroleum sectors originally due to the companies merged into ERG S.p.A. in 2015 and in previous years. Of note are the receivables pertaining to the activities of ERG Supply & Trading S.p.A. (EUR 658 thousand), receivables related to prior year Refining items (EUR 426 thousand) and receivables relating to the retail electricity selling business sold in 2012 (EUR 2,678 thousand), covered by the loss allowance. The increase in the item is due to the removal of credit notes yet to be received pertaining to prior entries.

"Receivables from Group companies" include mainly receivables from subsidiaries amounting to EUR 1,533 thousand and receivables from associates of EUR 94 thousand. In detail, receivables from subsidiaries include mainly the charge-backs to the subsidiary ERG Power Generation relating to the costs for the acquisition of the special projects completed in 2019.

Lastly, the Company assesses the existence of objective evidence of impairment on individual basis. The impairment tests are checked by the Credit Committee which meets periodically to analyse the situation of past due trade receivables and any critical issues related to their collection.

The loss allowance is deemed to be sufficient to address the risk of potential non-collectability of past due trade receivables.

The loss allowance changed as follows:

	31.12.2019	Accruals	Utilisations	Other Changes	31.12.2018
Loss allowance	1,450	–	(92)	–	1,541
Total	**1,450**	**–**	**(92)**	**–**	**1,541**

Utilisations in 2019 refer to the removal of receivables deemed uncollectable, from parties that are bankrupt or subjected to other insolvency proceedings pertaining to the electricity retail selling business of the former ERG Power & Gas S.p.A., transferred to ERG S.p.A. after the merger of 2010.

	31/12/2019	31/12/2018
Receivables from third parties not past due and intragroup receivables	**1,628**	**1,684**
Past due receivables from third parties:		
within 30 days	61	–
within 60 days	–	–
within 90 days	–	–
after 90 days	2,170	1,822
Total	**3,859**	**3,506**

NOTE 8 - OTHER CURRENT - CURRENT TAX ASSETS

	31/12/2019	31/12/2018
Tax assets	9,944	18,238
Other receivables from Group companies	5,678	7,977
Other receivables	4,106	4,173
Current tax assets	22,640	42,218
Total	**42,368**	**72,606**

Tax assets relate mainly to advances on electricity and gas excise duties (EUR 218 thousand), group VAT asset (EUR 324 thousand) and other tax assets (EUR 9,401 thousand) referred to requests for IRES and IRAP reimbursement and payments of taxes made provisionally, pending final adjudication.

For further details, see **Note 17 - Contingent liabilities and disputes**.

"Other receivables from Group companies" refer mainly to Group VAT assets from subsidiaries, amounting to EUR 4,196 thousand.

"Other receivables" includes mainly the deferrals pertaining to costs for extraordinary transactions not yet completed at the reporting date and the deferred portion of the sale price of ERG Oil Sicilia S.r.l..

The item Current tax assets includes mainly receivables from tax authorities for consolidated IRES (EUR 13,285 thousand), IRES receivables from subsidiaries for tax consolidation (EUR 8,889 thousand) and IRAP receivables (EUR 465 thousand).

NOTE 9 - EQUITY

Share capital

Fully paid-in share capital at 31 December 2019 consisted of 150,320,000 shares with a par value of EUR 0.10 each for a total of EUR 15,032,000 (unchanged since 31 December 2018).

At 31 December 2019, the Company's Shareholders Register, relative to holders of significant investments, showed the following:

- San Quirico S.p.A. holds 83,619,940 shares, i.e. 55.628%;
- Polcevera S.r.l. holds 10,380,060 shares, i.e. 6.905%.

At 31 December 2019, San Quirico S.p.A. and Polcevera S.r.l. were controlled by the Garrone and Mondini families, heirs of the founder of the ERG Group, Edoardo Garrone.

Treasury shares

In accordance with IAS 32, treasury shares are presented as a reduction in equity, through the use of the share premium.

The original cost of treasury shares, impairment losses, and gains and losses deriving from any subsequent sales are presented as changes in equity.

On 17 April 2019, pursuant to Article 2357 of the Italian Civil Code, the Shareholders of ERG S.p.A. authorised the Board of Directors, for a period of 12 months from 17 April 2019, subject to revocation for the period still remaining of the previous authorisation to repurchase and sell treasury shares resolved by the Shareholders on 23 April 2018, to repurchase treasury shares up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 30,064,000 (thirty million, sixty-four thousand) ordinary ERG shares with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.

The Shareholders also authorised the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, for 12 months as from 17 April 2019, to sell, all at once or in several steps, and with any procedures deemed appropriate, in relation to the purposes which the disposal is attempting to achieve, treasury shares at a unit price no lower than 10%

below the closing price of the stock on the day immediately preceding each individual sale.

In accordance with IAS 32, treasury shares are presented as a reduction in equity, through the use of the share premium reserve.

On 20 October 2018, on the occasion of the celebration of ERG's 80th anniversary, the parent San Quirico S.p.A. and ERG S.p.A. signed an agreement that provides for the free allocation of 80 ERG treasury shares to each employee of the Italian companies of the ERG Group, the cost of which (including the value of the ERG treasury shares) were fully repaid by San Quirico S.p.A., a holding company of the Garrone and Mondini families.

The allocation was finalised on 14 January 2019 and involved a total of 664 employees and 53,120 shares held in the portfolio by the Company, for a total of EUR 898 thousand.

As a result of the transaction, ERG holds 1,450,080 ordinary ERG treasury shares at 31 December 2019, equal to 0.965% of the related share capital.

Reserves

	31/12/2019	31/12/2018
Share premium reserve	64,572	64,207
Legal reserve	3,236	3,236
IFRS transition reserve and retained earnings	393,090	500,658
Hedging reserve	(6,907)	(3,825)
Other Reserves	892,902	891,027
Total	**1,346,893**	**1,455,304**

- The **"Share premium reserve"** consists of the share premium paid by the shareholders for the subscription of the shares relating to the share capital increases carried out on 14 October 1997, 2 July and 5 August 2002. This reserve was used for:
  - repurchase of treasury shares in 2006 for EUR 11,210 thousand;
  - repurchase of treasury shares in 2008 for EUR 14,779 thousand;
  - repurchase of treasury shares in 2012 for EUR 25,672 thousand;
  - sale of treasury shares in 2016 for EUR 41,343 thousand as part of an exchange of ERG Renew S.p.A. shares held by the non-controlling investor for ordinary ERG S.p.A. shares,
  - free allocation of 80 ERG treasury shares to each employee of the Italian companies of the ERG Group, finalised on 14 January 2019 for the negative figure of EUR 365 thousand.
- The **"IFRS transition reserve and retained earnings"** consists of the adjustments made to the ERG S.p.A. Financial Statements at the transition date (mainly due to the reversal of dividends recognised on an accruals basis at the end of the year) and retained earnings. In 2018, the effects deriving from transition to IFRS 9 were recorded for a total amount of EUR 3,317 thousand, net of the tax effect, as already described in detail in the section "Standards, amendments and interpretations applied starting on 1 January 2018";

- The "**Hedging reserve**" at 31 December 2019 is negative by EUR 6,907 thousand and reflects the effect of the derivatives hedging ongoing loans.
- "Other reserves" comprise mainly:
  - the **goodwill generated by the 2015 merger by incorporation of ISAB Energy into ERG S.p.A.** amounting to EUR 361,755 thousand;
  - the **monetary revaluation reserve**, which as from 2015 includes the reconstitution of the monetary realignment reserve of the former ISAB Energy S.r.l. as per no. Law 266/05 for an amount of EUR 28,709 thousand. This reserve may be distributed to the Shareholders, in which case it will contribute to form the taxable profit of the Company, or it may be used to cover losses, in which case the Company may not distribute dividends, without first having reconstituted its amount. The Company did not recognise deferred tax liabilities on these reserves because it does not expect any utilisations that may generate taxation.
  - the **goodwill generated by the 2010 merger by incorporation of ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A.** into ERG S.p.A., equal to EUR 446 million, had been partly allocated in the "2010 merger goodwill" reserve (EUR 251 million) and partly to reconstitute the specific equity reserves (EUR 195 million) subject to tax on distribution.

The main changes to "Other Reserves" in the year are listed below:

- increase of the reserve related to the 2018-2020 long term incentive plan in accordance with **IFRS 2 - Share-Based Payment Transactions** as described more in detail in **Nota 22 - Services and other costs** for a total amount of EUR 1,905 thousand;
- change in the share premium reserve following the assignment of shares to employees for the celebration of the 80 years of ERG in accordance with **IFRS 2 - Share-Based Payment Transactions** as described in more detail in the section **"ERG celebrates 80 years of energy history"** for a total amount of EUR 365 thousand, equal to the carrying amount of the treasury shares;
- change in the actuarial reserve by a negative amount of EUR 29 thousand.

The following table lists the equity items and indicates for each the possible destination and any tax constraints.

	Amount	Possible utilisation	Portion available and distributable	Portion subject to tax on distribution
Share capital	15,032	–	–	15,032
Share premium reserve	64,572	A B C	64,572	
Legal reserve	3,236	B	–	
IFRS transition reserve and retained earnings	393,090	A B C	393,090	
Hedging reserve	(6,907)	–		
Other Reserves	892,902	A B C	892,902	255,070
Profit for the year	11,030	A B C	11,030	
Total	**1,372,954**		**1,361,594**	**270,102**

Key
A - for share capital increase
B - for loss coverage
C - for distribution to shareholders

As a result of the off-balance sheet deductions already made in accordance with the previously applicable Article 109, paragraph 4 subsection b) of the Italian Consolidated Income Tax Act, subject to transitional application (including those carried out by the merged companies) in the case of distribution of profits for the year and/or reserves, the amount of equity reserves and of the retained earnings for the year must not decrease below the total residual amount of the negative components deducted off the balance sheet which, net of the provisions for deferred tax liabilities, is estimated at EUR 10.4 million. In this case, the amount of the reserves and/or profit for the year that impacts on the minimum level will contribute to form the taxable profit of the Company. In addition, following the approval of the 2016 Financial Statements, the unavailable reserve recognised in 2015 was released in accordance with Article 6 paragraph 1 subsection a) of Italian Legislative Decree no. 38/2005 for an amount of EUR 11,181,413 equal to the unrealised expense deriving from the zeroing of the value of the option on the minority shares of ERG Renew S.p.A. This release was posted as an increase in the "IFRS transition reserve and retained earnings".

Dividends

The dividends paid by ERG S.p.A. in 2019 (EUR 111.7 million) and in 2018 (EUR 171.1 million), as resolved upon approval of the financial statements for the previous years, amounted respectively to EUR 0.75 and EUR 1.15 (of which EUR 0.40 is the non-recurring component).

On 10 March 2020, the Board of Directors proposed the payment to shareholders of a dividend of EUR 0.75 per share from the profit for the year and, for the remaining part, from "Other Reserves" (**ISAB Energy S.r.l. merger goodwill**). The dividend will be paid starting from 20 May 2020, with coupon date starting on 18 May 2020 and record date on 19 May 2020.

Proposal of the Board of Directors of 10 March 2020

Dear Shareholders, in relation to the results achieved, we invite you to resolve upon the following:

- to approve the Financial Statements of your company for the year ended 31 December 2019, which show a profit of EUR 11,029,960.49;

- to resolve to pay to the Shareholders a dividend of EUR 0.75 per share. The dividend will be payable for each share with dividend rights outstanding at the ex-dividend date, excluding the company's own shares, in accordance with Article 2357-*ter* of the Italian Civil Code, via use of the profit for the year and, for the remaining part, via use of "Other reserves";
- to approve the payment of the dividend as from 20 May 2020, with an ex-dividend date of 18 May 2020 and record date of 19 May 2020.

Supplementary information on capital

The objectives identified by the Company for capital management are to safeguard corporate viability, to create stakeholder value and to support Company development. In particular, the Company aims to maintain an adequate level of capitalisation that allows it to achieve a satisfactory economic return for the shareholders and ensure access to external financing sources, including through the achievement of an adequate rating. In this context, the Company manages its own capital structure and makes adjustments to it, if changes in the economic conditions so require. There were no substantial changes to the objectives, to the policies or to the processes in 2019.

NOTE 10 - EMPLOYEE BENEFITS

	31/12/2019	31/12/2018
OPENING BALANCE	**1,455**	**1,629**
Increases	54	64
Decreases	(229)	(177)
Other changes	268	(60)
CLOSING BALANCE	**1,549**	**1,455**

The item includes the estimate of the liabilities, determined on the basis of actuarial techniques, relating to the post-employment benefits to be paid to employees upon termination of their employment.

The change shown in the table does not include the portion of post-employment benefits accrued and transferred to the INPS Treasury fund.

The main assumptions used in determining the actuarial value of the liability relating to post-employment benefits are shown below. The discount rate was determined on the basis of a panel of corporate securities with maturity of 10 years or more with AAA rating.

	2019	2018
Discount rate	0.8%	1.6%
Inflation rate	0.8%	1.5%
Average turnover rate	3.0%	3.0%
Average rate of increase of remuneration	1.5%	1.5%
Average age	46	46

The following table shows the impact on the liability as a result of a +/-0.5% change in the discount rate.

EUR thousand	2019
+0.5% change in discount rate: lower liability	(52)
-0.5% change in discount rate: higher liability	56

There are no particular risks (either unforeseen or specific) to which the plan exposes the entity, or any other significant risk concentration.

There are no significant contributions to the Plan because they relate almost exclusively to the revaluation of the residual value of the post-employment benefits allocated until 31 December 2006 (the defined benefit plans relate almost exclusively to the post-employment benefits provided by Article 2120 of the Italian Civil Code).

NOTE 11 - OTHER PROVISIONS

Other non-current provisions

	31.12.2019	Increases	Decreases	Reclassifications	31.12.2018
Provision for disposed businesses	75,924	–	(13,237)	–	89,161
Other provisions	4,822	4,591	(3)	–	234
Total	**80,746**	**4,591**	**(13,240)**	**–**	**89,395**

The value of the provisions for non-current risks and charges is equal to EUR 80,746 thousand (EUR 89,395 at 31 December 2017). The item refers mainly to the provision for disposed businesses as explained in more detail in the following section.

The increases for the year relate mainly to the provision for liabilities related to the company reorganisation procedures underway.

The EUR 13,237 thousand decrease in the provision for disposed businesses is mainly due to the definition of certain previous liabilities that resulted in the partial use of the provision for approximately EUR 5 million, and to the partial release of the provision for disposed businesses for EUR 8.2 million, as described in more detail in Note 17 - Contingent liabilities and disputes.

With regard to the Provision for disposed businesses, please refer to **Note 17 - Contingent liabilities and disputes**.

Other current provisions

	31.12.2019	Increases	Decreases	Reclassifications	31/12/2018
Provision to cover losses of investees	6,445	346	–	–	6,099
Provision for legal risks	44				44
Other provisions	2,613	622	–	–	1,991
Total	**9,102**	**967**	**–**	**–**	**8,135**

The value of the provisions for risks and charges at 31 December 2019 is deemed sufficient to address any future risks and charges.

The “provision to cover losses of investees” refers to the provision for the equity investment in ERG Petroleos S.A. and was increased at the end of 2018 by EUR 345 thousand to cover the presumed losses for the deficit of that company.

The increase in Other provisions refers mainly to:

- charges in support of Valpolcevera: On the occasion of the celebration of its 80th anniversary, ERG committed to donate EUR 1 million to the Municipality of Genoa to help with the renovation and sustainable development projects in Valpolcevera following the collapse of the Morandi bridge in August 2018;
- provision for guarantees arisen as a result of the transition to IFRS 9 relating to the commitments made to the subsidiaries of the Group.

NOTE 12 - OTHER NON-CURRENT LIABILITIES

The value at 31 December 2019, equal to EUR 2,825 thousand (EUR 2,300 thousand at 31 December 2018) is represented mainly by payables to employees and Directors.

NOTE 13 - TRADE PAYABLES

	31/12/2019	31/12/2018
Payables to suppliers	11,235	10,554
Payables to Group companies	1,197	1,226
Total	**12,432**	**11,780**

Payables to suppliers derive from commercial dealings with national and foreign suppliers payable within the next year.

Trade payables mainly include payables pertaining to OIL supplies from previous years and to other payables for third party services and consultancy work.

Payables to Group companies include mainly payables for services and consultancy work.

NOTE 14 - NET FINANCIAL POSITION

	31/12/2019	31/12/2018
Non-current loans/borrowings	676,086	795,670
- current portion of loans and borrowings	(7,243)	(162,776)
Non-current bonds	603,688	100,559
- current portion of bonds	(7,065)	(897)
Fair value of hedging derivatives on interest rates	11,464	6,621
Financial liabilities IFRS 16	2,403	–
- current financial liabilities IFRS 16	(906)	–
Non-current financial liabilities	**1,278,427**	**739,177**
NET NON-CURRENT FINANCIAL POSITION	**1,278,427**	**739,177**
Current loans/borrowings	7,243	162,776
Current bonds	7,065	897
Current bank loans and borrowings	–	20,000
Financial liabilities IFRS 16	906	–
Other current financial liabilities	4	7
Current financial liabilities	**15,217**	**183,680**
Loan assets with investees	(220,550)	(15,727)
Other current loa assets	(1,880)	(3,540)
Current financial assets	**(222,430)**	**(19,267)**
Bank deposits	(480,033)	(598,540)
Cash in hand and cash equivalents	–	–
Cash and cash equivalents	**(480,033)**	**(598,540)**
NET CURRENT FINANCIAL POSITION	**(687,246)**	**(434,127)**
NET FINANCIAL POSITION	**591,181**	**305,051**

The net financial position, in line with the provisions of CONSOB communication no. DEM/6064293 of 28 July 2006, totalled EUR 591 million, up by EUR 286 million compared to 31 December 2018 mainly due to the cash flow during the period net of the investments and changes in working capital.

Among the most significant changes of the year, the following are pointed out:

- EUR +500 million Green Bond issue;
- EUR -180 million disbursement of new loans;
- EUR +291 million repayment Tranche B loan;
- EUR -143 million increase in current portion of receivable relative to centralised treasury account with the subsidiary ERG Power Generation S.p.A.

Net non-current financial position

Non-current financial liabilities

Non-current loans and borrowings

Loans and borrowings at 31 December 2019 total EUR 676 million and refer to:

- three bilateral corporate loans with Mediobanca S.p.A. (EUR 150 million) and UBI Banca S.p.A. (EUR 100 million) entered into in the first half of 2016 to refinance the current portion of the corporate acquisition loan entered into for the acquisition of ERG Hydro S.r.l., and with Unicredit S.p.A. (EUR 75 million) for the project financing for the wind farm in Corni (Romania);
- a corporate loan with Mediocredito (EUR 57 million) for the early termination of lease contracts of 5 solar companies acquired at the beginning of the year;
- two medium/long-term Environmental, Social and Governance loans ("ESG Loans") of EUR 120 million with Banca Nazionale del Lavoro and EUR 120 million with Crédit Agricole to support the investment plan of the group and to refinance some corporate credit facilities.
- a corporate loan with Commerzbank (EUR 60 million) in view of the early repayment of the project financing of ERG Power S.r.l. and 5 wholly-owned German companies.

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.

At 31 December 2019, the weighted average interest rate on loans and borrowings amounts to 1.3% (1.0% at 31 December 2018). The rate indicated does not take into account interest rate hedges.

The conditions and repayment plans of non-current loans and borrowings are as follows:

Type	Carrying amount of financial liability	Nominal amount of financial liability	Currency of the loan	Disbursement	Maturity	Hedge
Bilateral corporate loan	145,554	150,000	EUR	2016	2023	IRS: fixed rate 0.2125%
Bilateral corporate loan	100,107	100,000	EUR	2016	2021	IRS: fixed rate -0.045%
Bilateral corporate loan	74,790	75,000	EUR	2016	2021	IRS: fixed rate -0.092%
Corporate loan	56,547	56,875	EUR	2018	2026	–
Environmental, Social and Governance Loan	119,619	120,000	EUR	2018	2023	IRS : fixed rate 0.34%
Corporate loan	59,841	60,000	EUR	2019	2024	IRS : fixed rate 0.0005%
Corporate loan	119,628	120,000	EUR	2019	2023	IRS : fixed rate 0.34%
TOTAL LOANS/BORROWINGS	**676,086**	**681,875**				

The above loan agreements provide for compliance with a Financial covenant. For additional details, please refer to **Note 16 - Covenants and negative pledges**.

Bonds

The liability for bonds, amounting to EUR 603.7 million at 31 December 2019 (EUR 100.6 million at 31 December 2018), includes:

- the liability deriving from the issue of the non-convertible bonds in July 2017, aimed at raising additional funds for new capital expenditure in the renewable energies sector and refinancing the investments made in hydroelectric plants in Italy;
- the liability deriving from the issue of the non-convertible Green Bonds in April 2019, aimed at financing or refinancing ERG Group projects for the generation of energy from renewable sources (wind and solar). More information is available in the following section **ERG places its first Green Bond for EUR 500 million**.

The bonds are presented net of commissions and other borrowing costs with an opening amount of EUR 4.9 million. These costs were recognised in the 2019 financial expense using the amortised cost method for EUR 0.6 million.

ERG places its first Green Bonds for EUR 500 million

On **4 April 2019** ERG S.p.A. completed the placement of a 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 of EUR 1 billion (see Press Release of 19 December 2018), as most recently amended and supplemented on 26 March 2019.

The placement of the bond took place after a roadshow of 4 days on the major European financial hubs (Milan, Amsterdam, Paris, London and Frankfurt), during which the top management of ERG met more than 100 investors.

The issue took the form of Green Bonds, aimed at financing or refinancing renewable sources, wind and solar power generation projects of the ERG Group.

The bond is intended exclusively for Euromarket institutional investors. 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 amount.

The settlement date was set as 11 April 2019. From that date onwards, the bonds will be listed at the regulated market of the Luxembourg Stock Exchange.

Fitch Ratings assigned a rating of BBB- to the issue.

The issue of the first Green Bonds by ERG is consistent with the strategy that foresees the progressive transformation of the Group's financial structure from Project to Corporate Financing, consistently with the prospective change in the industry and with the expected development of the generation portfolio. The placement was handled by Banca IMI, Barclays, BNP Paribas, Crédit Agricole Corporate and Investment Bank, Mediobanca - Banca di Credito Finanziario S.p.A. and UniCredit as Joint Bookrunners and by ING as Co-Lead manager.

The conditions and repayment plans of the bond are as follows:

Type	Carrying amount of financial liability	Nominal amount of financial liability	Currency of the loan	Disbursement	Maturity	Hedge
Bond	100,659	100,000	EUR	2017	2023	Fixed rate loan
Bond	503,029	500,000	EUR	2019	2025	Fixed rate loan
TOTAL BOND	**603,688**	**600,000**				

The carrying amount of the financial liability includes approximately EUR 8 million of interest accrued in the year.

Fair value of hedging derivatives on interest rates

The Fair Value of hedging derivatives, amounting to EUR 11,464 thousand, includes the liabilities deriving from the fair value measurement of the derivatives hedging interest rates, the details of which are provided below.

Issuing bank	Agreement	Maturity	Payable for fair value (EUR thousand)
			31/12/2019
Mediobanca	IRS	15/03/21	(698)
Mediobanca	IRS	30/06/23	(3,422)
UBI	IRS	26/02/21	(255)
UBI	IRS	26/02/21	(210)
UniCredit	IRS	21/04/21	(199)
Unicredit	IRS	31/01/22	(293)
BNP Paribas	IRS	19/11/23	(2,874)
Credit Agricole	IRS	19/11/23	(2,874)
Commerzbank	IRS	02/05/24	(633)
Commerzbank	IRS	30/09/29	(6)
			(11,464)

Non-current lease liabilities

Non-current financial liabilities arisen as a result of the adoption of the new IFRS 16 standard. For additional details, refer to the section IFRS 16 - Leases.

Net current financial position

Current financial liabilities

"Current loans and borrowings" amount to EUR 7,243 thousand and includes the short-term portion of the loans net of the short-term portion of the amortised cost and of IFRS 9 gain on loans.

The decrease in the item is attributable to the closure of the short-term positions referred to current accounts of short-term credit lines.

"Other financial payables" include the payable for interest of the year on the bond and the short-term portion of the related amortised cost.

Current financial assets

Loan assets with investees amount to EUR 220,550 thousand and they consist of the current portion of the receivables deriving from the financial management of ERG Power Generation S.p.A., the current portion of the loan to ERG Power S.r.l. and the loan to ERG Petroleos S.A. (EUR 8,490 thousand). Note that the loan to ERG Power was measured at Fair Value with no significant effects.

"Other current financial assets" consist solely of Accrued financial income and include the accrued portion of interest income on liquidity.

Cash and cash equivalents

The item consists of the cash generated by the activities of the Company and by the non-recurring transactions of previous years and it is deposited on a short-term basis at the banks with which the Company works.

For an analysis of the increase in cash and cash equivalents, please refer to the **Statement of Cash Flows**.

NOTE 15 - OTHER CURRENT LIABILITIES - CURRENT TAX LIABILITIES

	31/12/2019	31/12/2018
Tax liabilities	838	1,012
Payables to employees	5,112	4,240
Payables to pension and social security institutions	2,017	2,236
Tax liabilities to TotalErg	–	6,244
Other current liabilities	17,604	12,373
Current tax liabilities	10,829	29,155
Total	**36,401**	**55,260**

"Tax liabliities" relate mainly to employee IRES deductions for approximately EUR 818 thousand.

"Payables to employees" refer to the accruals for the year not yet paid and include holidays, unused time off "in lieu", productivity bonus and bonuses tied to the Management Compensation Plan. The increase is mainly due to the post-employment benefits accrued during the year.

"Payables to pension and social security institutions" pertain to accrued contributions on wages and salaries of the month of December 2019.

"Other current liabilities" include mainly other short-term payables to subsidiaries (EUR 13,719 thousand) mainly in relation to Group VAT.

Current tax liabilities include mainly other short-term payables to subsidiaries (EUR 10,797 thousand) mainly referred to the "Tax Consolidation scheme", as well as IRES and IRAP payables of insignificant amounts. The decrease is due to the payment of the IRES balance for the 2018 tax year, the ERG tax consolidation scheme having recorded a taxable profit for said year.

NOTE 16 - COVENANTS AND NEGATIVE PLEDGES

ERG S.p.A. has the following outstanding corporate loans:

- syndicated corporate acquisition loan stipulated on 7 August 2015 with a pool of seven banks coordinated by the agent bank Banca IMI S.p.A. (UniCredit, IntesaSanpaolo, Bnp Paribas, Credit Agricole, Ing, Natixis, Barclays);
- bilateral corporate loan with UBI Banca S.p.A., stipulated on 26 February 2016;
- bilateral corporate loan with Mediobanca S.p.A., stipulated on 11 March 2016;
- bilateral corporate loan with UniCredit S.p.A., stipulated on 21 April 2016.

The above loan agreements provide for the following financial Covenant; failure to comply with the Covenant constitutes an “event of default” in accordance with the related loan agreements.

The Ratio of Net Debt/EBITDA referred to the Consolidated Financial Statements of the ERG Group must be no higher than 4.00 at 31 December 2018, with values progressively decreasing to 3.75, according to the following scale on the respective calculation dates:

- 4.00 at 30 June 2019;
- 3.75 at 31 December 2019; 30 June 2020; 31 December 2020.

If the covenants are not fulfilled, the agreements provide for the possibility for the borrower to apply an “Equity Cure” that will be taken into consideration as a reduction of net financial indebtedness.

The agreements also provide a standard Negative pledge for similar loan agreements, with the prohibition to pledge assets securing any other third party lenders.

ERG S.p.A. also has the following new corporate loans::

- Loan Facility Agreement of EUR 120 million with BNL stipulated on 19 November 2018;
- Loan Facility Agreement of EUR 120 million with Credit Agricole stipulated on 19 November 2018;
- Loan Facility Agreement of EUR 60 million with Commerzbank stipulated on 19 March 2019.

These loans do not have actual financial covenants tied to the termination of the agreement, but specify that the interest rates will be raised (20bps-120bps) if the rating of the Company is downgraded.

The agreements also provide a standard Negative pledge for similar loan agreements, with the prohibition to pledge assets securing any other third party lenders.

On 6 February, the syndicated acquisition corporate loan stipulated on 7 August 2015 with a pool of seven banks coordinated by the agent bank Banca IMI S.p.A. (UniCredit, IntesaSanpaolo, Bnp Paribas, Credit Agricole, Ing, Natixis, Barclays), for a residual amount of EUR 291 million, was repaid.

On the reporting date, the covenants of the Company were fulfilled.

NOTE 17 - CONTINGENT LIABILITIES AND DISPUTES

ERG is a party in civil, administrative and tax proceedings and legal actions connected with the normal course of its operations.

Note that, where necessary, appropriate provisions have been allocated for the civil, administrative and tax proceedings and the legal actions described below.

Where no express mention of a provision is made, the Group has assessed the corresponding risk as possible and has provided the relative information.

This note also provides an update on the other civil, administrative and tax proceedings to which the Group is a party, including in cases in which the risk of a negative outcome is considered remote (not likely).

Provision for disposed businesses

In early 2018, the Group completed its industrial transformation, started in previous years, resulting in its definitive exit from the **Oil** business.

This path comprised two fundamental steps:

- the sale of the last stake held in ISAB S.r.l., on 30 December 2013, which marked the exit from the **Coastal refining** business,
- the sale of the Group's interest in TotalErg S.p.A., on 10 January 2018, which determined the exit from the **Integrated downstream** business.

Although the ERG Group is no longer an active operator in the oil industry, there are still remaining liabilities tied to the previous industrial activity and not yet fully defined.

For this purpose it should be recalled that upon drafting the 2013 consolidated financial statements, in view of the uncertainty inherent in disputes, including tax disputes, of the complexity of the Priolo site transactions and in general of the conclusion of the activities connected with the Coastal Refining business, the Group carried out a comprehensive assessment of the risk connected with the issues commented on above, estimating the allocation of a "Priolo Site Provision" of EUR 91 million.

In line with the considerations formulated for the sale of the last shareholding of ISAB S.r.l., also for the more recent sale of the shares within the TotalErg transaction, in 2018 the Group allocated a provision to cover the guarantees provided in favour of the buyer.

On the occasion of the 2018 Financial Statements, for the purposes of a clearer and more consistent representation of the above issues, the management aggregated the abovementioned liabilities in a single provision called "Provision for disposed businesses" considering that while these allocations originate from different contexts (tax, environmental and legal) and at different times, they are in fact of the same nature because they are all tied to discontinued operations and outside ordinary operations.

The provision, thus determined, amounted to EUR 75.9 million at 31 December 2019 (EUR 89.2 million at 31 December 2018) and it is shown in Non-current liabilities.

The main issues underlying the allocation are summarised below:

- regarding the ongoing dispute between ERG Raffinerie Mediterranee (now ERG S.p.A.) and the Italian Tax Authorities over the application of **harbour duties** for embarkation and disembarkation rights at the Santa Panagia jetty, it should be recalled that on 6 April 2011 the Syracuse Provincial Tax Commission partially allowed the Company's appeal and ruled that harbour duties through 2006 are not due, finding them to be due from 2007 onwards. The first instance ruling was challenged within the deadline by the Italian Revenue Agency and by ERG with appeal relative to the period subsequent to 2006. The appeal decision, issued by the Regional Tax Commission and filed on 27 May 2013, amended the first decree decision unfavourably for ERG.

Following a thorough evaluation of the reasons for the appeal decision, the Company decided to appeal before the Court of Cassation, deeming its own arguments to be well grounded (in particular with regard to the notion of "harbour" in accordance with Italian Law no. 84/94 and to the alleged novating or retroactive validity of Article 1, paragraph 986 of the 2007 Italian Budget Law). On 4 November 2013, the Syracuse Regional Tax Commission allowed the request to suspend the effectiveness of the appeal decision, requiring the release of a first demand insurance guarantee in favour of the Customs Agency. In the court order issued on 30 September 2019, the Court of Cassation ruled favourably on the appeal filed by the company and, consequently, rejected - overturning it - the contested decision by the Regional Tax Commission. The proceedings must therefore be continued within the terms prescribed by law before the Regional Tax Commission so that the latter - which has changed in composition since the previous hearing - may once again examine the merits of the case. Starting from 2007, the related taxes had already been recognised in the Income Statement on an accruals basis, while no provision had been made for the years from 2001 to 2006;

- with reference to **environmental risk**, with regard to the South Site the likelihood of exposure to contingent liabilities is deemed remote, as the risk has already been limited by the settlement reached with the Ministry of the Environment in August 2011 and registered by the Court of Auditors on 20 December 2011, and by the Settlement Agreement stipulated on 30 December 2013 between ERG S.p.A. and LUKOIL. With regard to the North Site, depending on the double guarantee scheme deriving both from the agreement executed with ENI (previous owner of the site), and the agreement executed with LUKOIL (new owner), the risk is as follows:

  (i) for potential environmental damages preceding 1 October 2002, ENI shall be liable without limitation; (ii) with reference to the potential damages relating to the 1 October 2002 - 1 December 2008 time frame, deriving from a violation of the environmental guarantees issued by ERG, the latter shall be liable.

  The following limitations apply to ERG's contractual liability to LUKOIL: (a) upper applicable maximum limit equal to the sale price of the equity investment in ISAB S.r.l.; (b) environmental guarantees have a duration of 10 years and expired in December 2018; and (c) in case of uncertain identification of the period to which the potential damage is referred, a time shift that expired at the end of 2018 was applied. The agreement with Lukoil prescribes, for ERG, a liability without time limitations for potential damages connected with events known at the time of execution of the agreement (Known Environmental Matters). The costs shall be divided between ERG and LUKOIL (51% and 49%) up to the ceiling of EUR 33.4 million, while above this amount ERG will pay in full any additional expenses.

  On 9 September 2017, the Ministry for the Environment warned some of the companies of the Priolo site, including ERG Power S.r.l. and ERG Power Generation S.p.A., to clean up the Augusta Roadstead. The request is unlawful and has therefore been contested before the Administrative Courts (the hearing for the presentation of the arguments has yet to be set). ERG S.p.A. is not party to the proceedings, but the environmental issues relating to the Augusta Roadstead arise in the context of the environmental guarantees present in the various contracts with ENI and LUKOIL;
- with reference to the sale of **TotalErg** and in particular to the guarantees connected to the buyer on previous years'

contingent liabilities (retained matters and other previous years' contingent liabilities), the best estimate of the expense was computed on the basis of the information available to management and taking into account the large number of underlying elements and all possible outcomes of the related issues. In 2019, certain previous liabilities were defined, resulting in the partial use of the provision of approximately EUR 5 million.

Lastly, the provision includes allocations relating to minor issues of insignificant amounts tied mainly to as yet undefined commercial dealings.

At the time of preparation of this document, Group Management, assisted by the competent corporate departments and with the advice of its legal and tax counsels, carried out a comprehensive review of the issues described above, and confirming the appropriateness of the measurements made, and taking into consideration in particular the aforementioned positive update by the Court of Cassation with regard to harbour duties and developments with regard to other matters, proceeded to redetermine the overall risk with a subsequent partial release of the provision for disposed Businesses for EUR 8.2 million.

TotalErg

On 3 December 2013, at the offices of TotalErg S.p.A. in Rome and Milan and of ERG S.p.A. in Genoa, the Tax Police - Rome Unit executed the search warrant issued by the Prosecutor's Office at the Court of Rome within the scope of a criminal lawsuit against certain representatives of Erg S.p.A. and of TotalErg S.p.A. (a company arising from the merger of Total Italia S.p.A. into ERG Petroli S.p.A.), subsequently dismissed on 11 November 2019.

The investigation - according to the charge formulated in the aforementioned warrant - pertained to alleged tax irregularities referred to 2010, allegedly carried out by recording, in the accounts of TotalErg S.p.A., invoices for alleged non-existing crude oil purchase transactions, issued for a total amount of EUR 904 million by Bermuda-based companies belonging to the Total Group, whose costs were included in the tax returns of TotalErg S.p.A. and reported by the consolidator ERG S.p.A. in the National Tax Consolidation return of the ERG Group.

As soon as it was informed of the ongoing investigation, the Company started an intensive audit activity, aimed at thoroughly reconstructing the facts and the transactions in question, and at carefully analysing the internal control system.

With regard to tax matters, on 6 August 2014, as a result of the same investigation, ERG S.p.A. received, in its role as tax consolidator, a preliminary assessment report from the Tax Police of Rome, prepared with respect to TotalErg, the contents of which substantially refer to the aforesaid allegations.

Moreover, on the same date TotalErg received a preliminary assessment report for alleged tax irregularities pertaining to Total Italia for the years 2007, 2008, 2009, of a substantially similar nature and amount, for each year, to those referenced above, hence referring to periods prior to the incorporation of the TotalErg joint venture.

In view of the aforementioned preliminary assessment report, in order to further confirm the correctness of their actions ERG S.p.A. and TotalErg S.p.A. submitted their own observations and notes providing further information to the tax authorities.

On 26 June 2015, ERG S.p.A., in its role as the tax consolidator, and TotalErg S.p.A., in its role as the consolidated entity (formerly ERG Petroli S.p.A.), were served an assessment notice for IRES for 2007. TotalErg S.p.A. was served an assessment notice for IRAP and VAT for the same year.

Compared to the specific findings regarding the alleged non-deductibility of the acquisition and service costs for 2007 set forth in the aforementioned assessment notice dated 6 August 2014 of approximately EUR 68 million, the assessment notice reduces the amount considerably to EUR 125 thousand.

On 6 July 2015, assessment notices for IRES, IRAP and VAT referring to 2007, 2008 and 2009 were served to TotalErg S.p.A., in its capacity as the merging entity of Total Italia S.p.A.

ERG S.p.A. and TotalErg S.p.A., in its capacity as the consolidated entity, on 29 November 2016 and 24 November 2016 respectively, were served assessment notices for IRES for 2010. TotalErg S.p.A. was served an assessment notice for Additional IRES, IRAP and VAT for the same year. Compared to the specific comments made in the official tax audit report of 6 August 2014 served to TotalErg S.p.A. which amounted to EUR 3,797 million of non-deductible costs, the assessment notices considerably reduce the amount in this case as well, to approximately EUR 7.5 million.

On 2 March 2017, the Milan Provincial Tax Commission accepted the appeal in relation to IRAP for the years 2007 to 2009 (dispute relating to TotalErg S.p.A. as the merging entity of Total Italia S.p.A.).

The Italian Revenue Agency appealed to the competent Regional Tax Commission within the terms established by law.

On 25 June 2018, the Milan Regional Tax Commission submitted its ruling, confirming the first instance ruling, in favour of TotalErg S.p.A.

The Italian Revenue Agency did not appeal before the Court of Cassation, therefore the favourable decision became definitive.

On 13 March 2017, the Milan Provincial Tax Commission rejected the appeal in relation to IRES, Robin Tax and VAT for the years 2007 to 2009 (dispute relating to TotalErg S.p.A. as the merging entity of Total Italia S.p.A.).

TotalErg S.p.A. appealed to the competent Regional Tax Commission within the terms established by law.

On 22 November 2018, the Milan Regional Tax Commission allowed the appeal filed by the company.

The Italian Revenue Agency may file its appeal with the Court of Cassation in accordance with the law.

On 25 May 2017, the Rome Provincial Tax Commission rejected the appeal in relation to IRES, IRAP and VAT for 2007 (dispute relating to TotalErg S.p.A. as the merging entity of ERG Petroli S.p.A.).

TotalErg S.p.A. appealed to the competent Regional Tax Commission on 27 December 2017 and the merit hearing is set to take place on 20 September 2018.

On 20 November 2018 the Rome Regional Tax Commission rejected the appeal filed by the company (with the exception of IRAP).

The Company filed an appeal to the Court of Cassation against this decision on 20 May 2019.

On 17 May 2018, the merit hearing was held before the Rome Provincial Tax Commission for IRES, Robin Tax, IRAP and VAT for 2010 (dispute relating to TotalErg S.p.A.). With its sentence no. 4129/19 of 22 March 2019, the Rome Provincial Tax Commission rejected the Company's appeal. An appeal will be filed in accordance with the law.

With its sentence no. 4129/19 of 22 March 2019, the Rome Provincial Tax Commission declared the tax claim in relation to IRAP and Robin Tax to be unlawful, confirming, instead, a higher sum for VAT purposes.

Both the Company and the tax office filed an appeal against this decision at the competent Regional Tax Commission for Lazio.

As regards the higher sum for IRES purposes, with its sentence no. 4128/19 of 22 March 2019, the Rome Provincial Tax Commission rejected the Company's appeal. The Company swiftly filed an appeal against this decision.

In relation to the issues described above, the joint venture agreement with Total provides for an adequate mutual system of guarantees that have remained valid even after the sale to API - Anonima Petroli Italiana S.p.A. of the equity investment in TotalErg (the disputes in question have remained the responsibility of the sellers ERG and Total Marketing Services SA, as the so-called Retained Matters, included in the measurement of the **Provision for disposed businesses**).

Notice of adjustment and settlement of registration tax for the sale of the ISAB Energy S.r.l. business unit

With regard to the sale of the business unit consisting mainly of the "IGCC" thermoelectric power plant which took place pursuant to the deed dated 30 June 2014 by ISAB Energy S.r.l. to ISAB S.r.l., on 6 July 2016, the provincial division of the Italian Revenue Agency at Syracuse - Noto office (hereinafter the "Agency") served to ERG S.p.A. as the merging entity on December 2015 of the seller ISAB Energy S.r.l., sent a notice amending the amounts declared for settlement of the registration tax.

This same notice was served on 28 June 2016 to ISAB S.r.l. in its capacity as the jointly and severally liable seller.

Essentially, the Agency demanded the rectification of the amount declared by the parties in terms of the registration tax in relation to each of the components of the business unit that was sold and proceeded to redetermine the value of (just) the real estate component consisting of the IGCC plant, measured at approximately EUR 7 million (net of accompanying liabilities of approximately EUR 7 million), and the carrying amount thereof at 30 June 2014 at approximately EUR 432 million, without considering that the future results of the business unit that was sold could justify the aforementioned value.

The Agency therefore assessed the overall market value of the business unit that was sold at approximately EUR 442 million, instead of the consideration of approximately EUR 25 million declared by the parties, a consideration that is nevertheless higher than the overall market value for the business unit of approximately EUR 13 million, pursuant to a sworn appraisal by a third party appraiser appointed by ISAB Energy.

Based on these assumptions, the Agency assessed a higher registration tax of approximately EUR 37 million, imposing a fine equal to the higher registration tax that was assessed plus interest (total amount EUR 76 million).

Regarding the analysis of this case, we note that with the above the Agency simply expressed a different estimate of "only" the property, plant and equipment component (IGCC plant) of the business unit, and not the business unit overall, in manifest violation of the regulations contained in the Consolidated Registration Tax Law.

In particular, based on the adjustment, the Agency identified only the carrying amount of the IGCC plant, completely disregarding its profitability (whether positive or negative) as part of the business unit in which the plant is expected to be used.

Therefore, the Agency disregarded the assumption and appraisal criteria that led the appraiser to determine the purchase price at approximately EUR 13 million, and particularly the lack of cash flows following the termination of the CIP 6 Agreement, and did not consider at all the ascertained negative future profitability of the sold business unit, or the relative badwill (as fully described in the appraisal compiled by Mr. Pozza, which is already in the hands of the Agency).

As the company believes that it is able to formulate valid arguments in its defence, with the assistance of its own tax consultants, it has submitted an appeal to the competent Provincial Tax Commission and applications for both administrative and judicial suspension of the provisional tax demanded in the course of the proceedings (the amount of the provisional tax is equal to approximately EUR 13 million).

On 10 August 2016, the Syracuse Provincial Tax Commission ordered the judicial suspension of the provisional tax demanded.

The relevant hearing was held on 15 November 2016 before the Syracuse Provincial Tax Commission.

On 16 May 2017, the Syracuse Provincial Tax Commission annulled the contested act, but re-determined the value of the divested business for the purposes of registration tax to be approximately EUR 71 million (compared to the approximately EUR 25 million declared for the purposes of registration tax).

The legal firm following the litigation confirmed the invalidity of the alleged tax as reformulated by the Syracuse Provincial Tax Commission and the subsequent existence of reasonable expectations of its complete rebuttal at the higher court levels.

On 17 July 2017, ERG S.p.A. appealed to the competent Regional Tax Commission, requesting the suspension of the effects of the first instance ruling.

On 9 September 2017, the Regional Tax Commission rejected the application for suspension referred to above.

On 13 October 2017, the Provincial Division of the Revenue Agency at Syracuse issued a specific payment order for higher registration tax of EUR 5.1 million, sanctions of EUR 5.1 million and interest at 10 October 2017 of EUR 0.6 million. This same order was served on 11 November 2017 to ISAB S.r.l. in its capacity as the jointly and severally liable seller.

On 27 October 2017, an appeal was filed against the aforementioned payment order and, at the same time, an application was made for judicial suspension of the tax collection.

On 23 November 2017, the Syracuse Provincial Tax Commission ordered the judicial suspension of the tax collection and fixed the relevant hearing for 17 January 2018.

The merit hearing was held on 15 January 2018, and on 24 January 2018 the Syracuse Regional Tax Commission (sub-office) ordered the appointment of Sebastiano Truglio from Catania as the court-appointed expert.

On 7 March 2018, with decision 1168/04/2018, the Syracuse Provincial Tax Commission repaid approximately EUR 2 million of tax due with sanctions and interest totalling approximately EUR 4.5 million.

Following the decision, a new order was issued by the Italian Revenue Agency.

On 11 May 2018, the Company appealed against this decision and applied for judicial suspension of the tax collection.

The President of the Syracuse Regional Tax Commission set the date for the hearing for the judicial suspension of the tax collection for 17 July 2018; given that the deadline for the payment of the requested amounts with the aforementioned payment order was 15 June 2018 (therefore prior to the hearing for the judicial suspension of the tax collection), ERG S.p.A. was forced to pay approximately EUR 4.5 million (provisional tax demanded in the course of the proceedings). This amount must be repaid by the Italian Revenue Agency in the event that it loses the first level proceeding and it was recorded among the receivables claimed by the company from the Tax Authority.

On 7 December 2018, the meeting was held between the court-appointed Expert Witness Mr. Truglio and the parties in the dispute for the conclusion of the expert witness activities.

On 6 May 2019, the court-appointed expert Mr. Sebastiano Truglio of Catania transmitted to the parties the draft estimate report, which represents a negative value of the business sold, hence a lower value than that declared by the Company.

On 12 June 2019, the court-appointed expert filed his estimate report with the Syracuse Regional Tax Commission and duly addressed the observations presented by the Italian Revenue Agency.

At the hearing on 2 December 2019, the Regional Tax Commission granted the court-appointed expert thirty days within which to respond in writing to the comments made by the Italian Revenue Agency with its letter dated 13 November 2019.

The appeal before the Syracuse Regional Tax Commission, in which the court-appointed expert also took part, took place on 10 February 2020.

The decision is still pending.

At the date of approval of this report, the Directors confirm the risk assessment adopted in previous reports, considering the risk unlikely, and therefore have not recognised a related liability. Accordingly, the Directors confirm the recognition (and the relative value) of the company's tax asset (approximately EUR 4.5 million paid to the tax authorities for provisional tax demanded in the course of the proceedings).

NOTE 18 - GUARANTEES, COMMITMENTS AND RISKS AND FUTURE MINIMUM PAYMENTS OF THE OPERATING LEASES

	31/12/2019	31/12/2018
Sureties in favour of Group companies	447,735	329,657
Sureties provided in favour of third parties	10	2
Our commitment to third parties	6,876	10,376
Total	**454,622**	**340,035**

Sureties in favour of Group companies refer mainly to the guarantees provided to subsidiaries with reference to loan agreements.

Commitments to third parties consist mainly of commitments for the management of information systems, in particular pertaining to the finance department.

Lastly, ERG S.p.A. issued Parent Guarantees in favour of Group Companies relating mainly to the wind business and to Group VAT for approximately EUR 448 million.

INCOME STATEMENT ANALYSIS

NOTE 19 - REVENUE

Revenue from the provision of services amounting to EUR 36.9 million (EUR 35.7 million at 31 December 2018) refers mainly to charges for services provided to subsidiaries.

The structure of the service agreements is based on the allocation of a part of the costs incurred by the Company and on the application of a single weighted driver for the allocation of the totality of the costs identified. The margin of the company is ensured by the application of a mark-up deemed suitable to ensure adequate profitability.

NOTE 20 - OTHER INCOME

	2019	2018
Other income from Group companies	295	176
Reimbursement of expenses	169	176
Other revenue	9,545	3,376
Total	**10,010**	**3,728**

The Other income from Group companies pertain essentially to other reimbursements and charges to Group companies, tied to various consultancy services and special projects.

The item "Other" mainly comprises the partial release of the provision for disposed businesses (EUR 8 million), as described in more detail in **Note 17 – Contingent liabilities and disputes**.

The item also includes the positive effect deriving from the removal of prior entries pertaining to the previous businesses for an amount of approximately EUR 0.9 million

NOTE 21 - PURCHASES

	2019	2018
Purchases	204	253
Total	**204**	**253**

NOTE 22 - SERVICES AND OTHER COSTS

	2019	2018
Services	23,615	22,236
Rental, lease and hire expenses	2,871	3,581
Impairment of receivables	–	–
Accruals for risks and charges	4,591	1,000
Taxes and duties	997	1,014
Other operating expenses	2,327	2,332
Total	**34,402**	**30,164**

Costs for services are broken down as follows:

	2019	2018
Utilities and consumption	1,831	1,002
Insurance	924	930
Consultancy services	4,273	4,690
Advertising and promotions	984	950
Directors' and Statutory Auditors' remuneration	7,136	6,865
Other services	8,468	7,799
Total	**23,615**	**22,236**

The item includes mainly costs for consultancy services, remuneration to Directors and Statutory Auditors.

"Other services" include the services performed by other Group companies, EDP services from third parties, services for personnel, and other services performed.

The 2019 remuneration to Directors includes the related contributions, expenses and the portion of the cost pertaining to the 2018-2020 long-term incentive plan.

For 2018, the charges tied to the aforementioned sale of TotalErg were reclassified in accordance with IFRS 5 under "Profit (loss) from discontinued operations".

NOTE 23 - PERSONNEL EXPENSE

	2019	2018
Wages and salaries	18,089	18,408
Social security expenses	4,858	4,546
Post-employment benefits	1,223	1,180
Other expenses	2,910	1,657
Total	**27,080**	**25,791**

Note that, in accordance with **IFRS 2 - Share-Based Payment Transactions**, following implementation of the 2018-2020 long-term incentive plan, with reference to employees the portion of the cost accrued in 2019 and representing the fair value of the instruments was recognised under "Personnel expense".

The cost for post-employment benefits pertains mainly to the portion of benefits relating to defined contribution plans. The cost also includes the contributions paid to defined contribution plans in favour of key management personnel, for the details of which please see the Related Parties section.

The other costs include additional post-employment benefits.

The following table shows the breakdown of the ERG S.p.A. personnel (average headcount during the year):

	2019	2018
Executives	25	22
Managers	107	103
White-collar staff	101	101
Total	**233**	**226**

At 31 December 2019, the total number of employees of the company was 237.

NOTE 24 - AMORTISATION, DEPRECIATION AND IMPAIRMENT OF NON-CURRENT ASSETS

	2019	2018
Amortisation of intangible assets	1,905	1,901
Depreciation of property, plant and equipment	1,973	1,044
Impairment of non-current assets	–	–
Total	**3,878**	**2,946**

It is noted that as a result of the application of IFRS 16, the depreciation for the year of leased assets increased by EUR 0.9 million compared to the previous year.

NOTE 25 - NET FINANCIAL INCOME (EXPENSE)

	2019	2018
Income		
Exchange gains	1	(5)
Bank interest income	1,916	3,582
Interest income from subsidiaries	9,354	2,427
Effect of loan renegotiations	60	4,285
Change in fair value	2,855	1,111
Other financial income	565	3,360
	14,750	**14,759**
Expense		
Exchange losses	(57)	(21)
From subsidiaries	(3)	(9)
Short-term interest on bank borrowings	(9)	(6)
Medium/long term interest on bank borrowings	(13,768)	(8,849)
Interest rate derivatives	(4,078)	(3,082)
Reversal of effect of loan renegotiation	(858)	(418)
Amortised cost on loans and borrowings	(2,509)	(1,888)
Other financial expense	(1,249)	(1,397)
	(22,531)	**(15,670)**
Total	**(7,781)**	**(911)**

Income

The amount of bank interest income pertains to the use of liquidity available in deposit and current accounts. The decrease is due both to the reduction in the liquidity managed during the year and the reduction in the remuneration paid by banks.

The increase in interest income from subsidiaries is due to the significant increase in the balance of the treasury current account as a result of the repayment of some project financing by subsidiaries.

The effect of the renegotiation of loans, equal to EUR 60 thousand, relates to the positive net income component generated as a result of the application of IFRS 9 during non-substantial modifications of financial liabilities.

The change in fair value refers to the fair value adjustment of the loans to the subsidiary ERG Power S.r.l.

"Other financial income" includes mainly the interest income from the subsidiaries ERG Power Generation S.p.A. and ERG Power S.r.l. and interest income on the deferred component of the price for the sale of TotalErg S.p.A.

Expense

The higher interest on bank borrowings compared to 2018 is mainly due to the increase in the outstanding non-current liability following the issue of the Green Bonds in April 2019.

"Other financial expenses" include mainly the effects of the differentials on the derivatives hedging interest rate fluctuations of approximately EUR 4.0 million and the expenses deriving from measurement at amortised cost of the loans and of the bonds, amounting to EUR 2.5 million.

NOTE 26 - NET GAINS ON EQUITY INVESTMENTS

	2019	2018
Dividends and other income from subsidiaries	35,000	20,000
Dividends and other income from other companies	–	518
Impairment and capital losses from equity investments	(346)	(189)
Total	**34,654**	**20,329**

Dividends and other income from other companies refer to the dividends distributed by ERG Power Generation S.p.A.

Impairments includes the adjustment of the provisions for charges on equity investments for EUR 346 thousand relating to ERG Petroleos S.A., in view of its deficit, as discussed in more detail in the note on Equity Investments.

For 2018, the items relating to the equity investment in TotalErg S.p.A. were reclassified to "Profit (loss) from assets held for sale".

NOTE 27 - INCOME TAXES

	2019	2018
Benefit from tax consolidation and deferred tax assets	(4,848)	(4,510)
Previous year taxes	153	(122)
Changes in deferred tax assets	1,897	6,274
Total	**(2,798)**	**1,642**

The taxes for the year, positive by EUR 2,798 thousand, reflect the net effect between the remuneration of the tax loss transferred to the tax consolidation scheme for 2019 (EUR 4,848 thousand) and the change in deferred tax recognised for IRES/IRAP purposes.

The change in deferred tax is largely determined by the removal of deferred tax assets recognised previously for IRAP purposes (for approximately EUR 1,791 thousand), and is justified by the envisaged negative IRAP tax bases in future periods, preventing deferred taxes from being recovered in the short term.

The statement of financial position entries deriving from the tax consolidation scheme are summarised below:

	31/12/2019	31/12/2018
Receivables from Group companies (to tax liabilities)	8,866	35,016
Payables to Group companies (to tax assets)	(9,716)	(14,550)
Credit (debt) position of ERG S.p.A.	6,550	(13,496)
Total	**5,699**	**6,970**

Reconciliation between effective and theoretical tax expense

The reconciliation between effective and theoretical tax expense before adoption of IFRS 5 is provided below.

	Taxable amount	Tax
IRES (CORPORATE INCOME TAX)		
Profit before taxes	8,232	
Theoretical tax charge (24%)		1,976
Permanent tax changes	**(24,700)**	
Taxable amount	**(16,469)**	
IRES rate (24%)		**(3,952)**
Removal of deferred IRES tax assets/other changes		920
Previous year taxes IRES		152
Gain on transfer of interest expense to tax consolidation scheme		(1,711)
IRAP		
Difference between product costs and revenue	(18,642)	
Costs and revenue without relevance for IRAP purposes	27,080	
Theoretical basis of taxation for IRAP purposes	8,439	
Theoretical tax charge (5.57% rate)		470
Permanent tax changes	-27,896	
Theoretical IRAP taxable amount	**(19,457)**	
Theoretical IRAP in the financial statements		(1,084)
Negative IRAP		1,084
Removal of deferred IRAP tax assets		1,793
TOTAL TAXES IN FINANCIAL STATEMENTS		**(2,798)**

Permanent tax changes consist mainly of dividends from subsidiaries and of impairment losses on equity investments.

NOTE 28 - PROFIT (LOSS) FROM DISCONTINUED OPERATIONS

There are no assets classified as held for sale at 31 December 2019.

With regard to the values at 31 December 2018, please refer to the comments in **Note 16 – Assets held for sale and net profit/(loss)** of the 2018 Financial Statements.

NOTE 29 - NON-RECURRING ITEMS

As required by CONSOB resolution 15519 dated 27 July 2006, significant income and expense arising from non-recurring transactions or events that do not occur frequently in the ordinary course of business are presented below.

Also pursuant to the aforementioned CONSOB resolution, the amounts related to the positions and transactions with related parties are indicated separately in **Note 30 - Related parties**.

(EUR thousand)		2019		2018
Revenue from sales and services		–		–
Other revenue	1)	(8.202)		–
Total revenue - special items		**(8.202)**		**–**
Purchases		–		–
Change in inventories		–		–
Services and other costs	2)	5.522	1)	(2.777)
Personnel expense	3)	2.100	2)	(738)
Adjusted gross operating loss - special items		**(580)**		**(3.515)**
Amortisation, depreciation and impairment of non-current assets		–		–
Operating loss - special items		**(580)**		**(3.515)**
Net financial income	4)	2.931	3)	3.867
Net gains on equity investments	5)	346		–
Profit from ordinary operations		**2.697**		**352**
Income taxes	6)	(139)	4)	(710)
Profit (loss) from continuing operations of special items		**2.558**		**(359)**
Profit (loss) from discontinued operations of special items		**–**		**–**
Profit (loss) of special items		**2.558**		**(359)**
Non-controlling interests		**–**		**–**
Profit (loss) of special items		**2.558**		**(359)**

In **2019**:

1) other revenue relates to the partial release of the provision for disposed businesses;
2) costs for services and other costs refer to costs related to ongoing Group reorganisation procedures and costs related to projects not completed successfully;
3) personnel expense refers to post-employment benefits;
4) net financial income recognised, on the basis of IFRS 9, in reference to refinancing operations completed during the year, net of the reversal effect related to the current year;
5) net gains on equity investments relate to the increase in the loss allowance relative to Petroleos, in liquidation;
6) income taxes refer to the tax effect of the items commented on above;

In **2018**:

1) services and other costs refer to ancillary costs relating to non-recurring transactions and to ancillary costs related to the ERG Group's 80th anniversary celebrations;
2) personnel expense relates to bonuses to employees related to the ERG Group's 80th anniversary celebrations;
3) net financial income recognised, on the basis of IFRS 9, in reference to refinancing operations completed during the year, net of the reversal effect related to the current year;.
4) income taxes refer to the tax effect of the items commented on above.

NOTE 30 - RELATED PARTIES

As required by CONSOB resolution 15519 dated 27 July 2006, the amounts of related party positions and transactions are indicated below.

The transactions carried out by ERG S.p.A. with related parties pertain mainly to:

- the performance of services, the provision and use of financing.
- contributions to non-corporate parties, referred to ERG, that pursue humanitarian, cultural and scientific initiatives. In particular, Edoardo Garrone Foundation, established as a natural evolution of the engagement of the Garrone and Mondini families in the social and cultural fields, dedicated to the memory of Edoardo Garrone who, in 1938, launched the industrial activity of the ERG Group.

Most of these transactions are exempted from the application of the internal ERG regulation **Related party transactions policy and procedures**, issued to implement the CONSOB regulation, because they are ordinary transactions concluded at market or standard conditions, or because they are below the threshold of materiality prescribed by the procedure itself.

All transactions were carried out in the interest of the Company and, with the exception of the transactions with entities pursuing humanitarian, cultural and scientific initiatives, are included under ordinary operations.

The amount paid to the **Edoardo Garrone Foundation** as a contribution for 2019 amounted to EUR 100 thousand.

Lastly, it is noted that ERG S.p.A. renewed the option for the 2019-2021 domestic tax consolidation scheme, with tacit renewal at the end of every three years for a further three years, with the subsidiaries (including indirect) ERG Power Generation S.p.A., ERG Eolica San Vincenzo S.r.l., ERG Eolica Faeto S.r.l., ERG Eolica Fossa del Lupo S.r.l., ERG Eolica Tirreno S.r.l., ERG Hydro S.r.l., ERG Power S.r.l. and ERG Wind Bulgaria S.p.A.

With regard to the terms of the contractual arrangements that could provide for the company or its subsidiaries to provide financial support to a consolidated structured entity, please refer to **Note 18 - Guarantees, commitments and risks**.

Impact of transactions or positions with related parties on the statement of financial position

The most significant dealings with the joint ventures, associates and subsidiaries excluded from the consolidation scope pertain to:

- other current assets from San Quirico S.p.A. relating to tax assets that will be reimbursed by the finance administration to San Quirico and transferred to ERG S.p.A.;
- loan assets with ERG Petroleos S.A. within the scope of the related loan agreement.

The impact of transactions or positions with related parties on the statement of financial position is indicated in the following summary table:

31 DECEMBER 2019 - STATEMENT OF FINANCIAL POSITION – ASSETS

	Other financial assets	Trade receivables	Other current assets and receivables	Current financial assets
ERG Power Generation S.p.A.	288,057	10	15	152,194
Priolo Servizi S.c.a.r.l.		94		
San Quirico S.p.A.			1,409	
ERG Eolica San Vincenzo S.r.l.			382	
ERG Eolica Faeto S.r.l.			54	
Green Vicari S.r.l.			830	
ERG Eolica Basilicata S.r.l.			546	
ERG Eolica Fossa del Lupo S.r.l.			643	
ERG Power S.r.l.	5,237		5,244	60,000
ERG Eolica Adriatica S.r.l.			1,688	
ERG Eolica Campania S.p.A.			2,250	
ERG Eolica Amaroni S.r.l.			12	
ERG Wind Investments Limited			2	
ERG Wind Holdings (Italy) S.r.l.		8		
ERG Wind Sardegna S.r.l.			540	
ERG Wind 4 S.r.l.			890	
ERG Wind Energy S.r.l.		1		
Evishagaran WF Ltd.		29		
ERG Germany GmbH		32	21	
ERG France S.a.r.l.		22	37	
ERG Hydro S.r.l.		91		
Brockahboy (UK)		0		
ERG Wind Bulgaria S.p.A.			0	
ERG Petroleos S.A.				8,356
ERG Eolienne France (New)		1,199		
ERG Solar Holding 1 S.r.l.			4	
Epuron S.a.s.		11		
Andromeda S.r.l.		9		
ERG UK Holding Ltd.		123		
Total	**293,294**	**1,628**	**14,567**	**220,550**
% of total item	*99.42%*	*42.18%*	*34.38%*	*99.15%*

31 DECEMBER 2019 - STATEMENT OF FINANCIAL POSITION – LIABILITIES

	Other non-current liabilities	Trade payables	Current financial liabilities	Other current liabilities
ERG Power Generation S.p.A.		1,197		4,010
ERG Eolica San Vincenzo S.r.l.				132
ERG Eolica San Cireo S.r.l.				654
ERG Eolica Faeto S.r.l.				108
ERG Eolica Ginestra S.r.l.				788
ERG Eolica Tirreno S.r.l.				7
Green Vicari S.r.l.				145
ERG Eolica Basilicata S.r.l.				129
ERG Eolica Fossa del Lupo S.r.l.				392
ERG Eolica Calabria S.r.l.				7
ERG Power S.r.l.				226
ERG Eolica Adriatica S.r.l.				1
ERG Eolica Campania S.p.A.				10
ERG Eolica Amaroni S.r.l.				104
ERG Wind Holdings (Italy) S.r.l.				233
ERG Wind Sardegna S.r.l.				5
ERG Wind Sicilia 6 S.r.l.				148
ERG Wind 4 S.r.l.				105
ERG Wind Leasing 4 S.r.l.				1
ERG Wind 6 S.r.l.				134
ERG Wind Sicilia 2 S.r.l.				30
ERG Wind Sicilia 3 S.r.l.				150
ERG Wind Sicilia 4 S.r.l.				11
ERG Wind Sicilia 5 S.r.l.				11
ERG Wind 2000 S.r.l.				41
ERG Wind Energy S.r.l.				10,400
ERG Hydro S.r.l.				5,861
ERG Wind Bulgaria S.p.A.				17
ERG Solar Holding 1 S.r.l.				3
Calabria Solar S.r.l.				121
ERG Solar Campania S.r.l.				69
ERG Solar Marche 1 S.r.l.				18
ERG Solar Marche 2 S.r.l.				11
ERG Solar Piemonte 1 S.r.l.				30
ERG Solar Piemonte 2 S.r.l.				10
ERG Solar Piemonte 3 S.r.l.				40
ERG Solar Piemonte 4 S.r.l.				8
ERG Solar Piemonte 5 S.r.l.				27
ERG Solar Puglia 1 S.r.l.				46
ERG Solar Puglia 2 S.r.l.				23
ERG Solar Puglia 3 S.r.l.				63
ERG Solar Sicilia S.r.l.				32
Heliospower 1 S.r.l.				94
Longiano Solar S.r.l.				20
SR05 S.r.l.				28
IE Solare (New)				12
Key management personnel				810
Total	**–**	**1,197**	**–**	**25,327**
% of total item	0.00%	9.63%	0.00%	69.58%

Impact of transactions or positions with related parties on the income statement

The most significant dealings with the joint ventures, associates and subsidiaries excluded from the consolidation scope pertain to:

- revenue from the subsidiary ERG Power Generation S.p.A. for the performance of services;
- financial income related to intragroup loans;
- costs to Edoardo Garrone Foundation relating to the contribution for 2019.

The impact of related party transactions on income statement items is indicated in the following table:

2019 - INCOME STATEMENT – INCOME

	Revenue from sales and services	Other revenue and income	Financial income
ERG Power Generation S.p.A.	36,841	70	7,783
San Quirico S.p.A.	22		
ERG Power S.r.l.	27	3	1,570
ERG Wind 4 S.r.l.		2	
ERG Wind Leasing 4 S.r.l.		2	
Evishagaran WF Ltd.		0	
ERG Germany GmbH		89	
ERG France S.a.r.l.		85	
ERG Hydro S.r.l.	4	2	
ERG Solar Holding S.r.l.	1		
ERG Solar Holding 1 S.r.l.	3		
IE Solare (New)		32	
Andromeda S.r.l.	15	9	
Total	**36,913**	**295**	**9,354**
% of total item	100.00%	2.95%	63.41%

2019 - INCOME STATEMENT - EXPENSES

	Purchases	Services and other costs	Personnel expense	Financial expense
ERG Power Generation S.p.A.		219		3
Edoardo Garrone Foundation		100		
Key management personnel			1.686	
Total	**–**	**319**	**1.686**	**3**
% of total item	0.00%	0.93%	6.23%	0.01%

It is specified that, starting from the present financial statements, the data provided on the related parties also include Key management personnel.

Impact of transactions or positions with related parties on cash flows

	2019		
(EUR thousand)	Total	Related parties	Impact %
Cash flows from operating activities	22,942	60,284	263%
Cash flow used in investing activities	(378,697)	–	0%
Cash flow from (used in) financing activities	237,249	(418,673)	-176%
Cash flow for the year	**(118,506)**	**(358,389)**	

(EUR thousand)	2018 Total	Related parties	Impact %
Cash flows from operating activities	(61,193)	16,287	-27%
Cash flow from investing activities	184,276	–	0%
Cash flow used in financing activities	(186,514)	(27,775)	15%
Cash flow for the year	**(63,432)**	**(11,488)**	

NOTE 31 - FINANCIAL INSTRUMENTS

The following table shows, for each financial asset and liability, the carrying amount and the fair value. Information on the fair value of financial assets and liabilities not measured at fair value are excluded, when the carrying amount represents a reasonable approximation of fair value.

31/12/2019

	Fair value – Hedging instruments	FVTPL instruments	FVOCI instruments	Financial assets measured at amortised cost	Other financial liabilities	Total Carrying Amount	Fair value
Equity investments	–	465	–	–	–	465	465
Derivative instruments	1,838	–	–	–	–	1,838	1,838
Current and non-current loan assets		65,237		450,229	–	515,466	65,237
Trade receivables	–	–	–	3,859	–	3,859	n/a
Financial instruments in working capital	–	–	136	–	–	136	136
Other assets	–	–	–	44,646	–	44,646	n/a
Cash and cash equivalents	–	–	–	480,033	–	480,033	n/a
Total assets	**1,838**	**65,702**	**136**	**978,768**	**–**	**1,046,444**	
Loans and borrowings	–	–	–	–	676,086	676,086	683,096
Bonds	–	–	–	–	603,688	603,688	638,181
Other financial liabilities	–	–	–	–	2,407	2,407	2,407
Derivative instruments	11,464	–	–	–	–	11,464	11,464
Trade payables	–	–	–	–	12,432	12,432	n/a
Other liabilities	–	–	–	–	39,226	39,226	n/a
Total liabilities	**11,464**	**–**	**–**	**–**	**1,333,838**	**1,345,303**	

31/12/2018

	Fair value – Hedging instruments	FVTPL instruments	FVOCI instruments	Financial assets measured at amortised cost	Other financial liabilities	Total Carrying Amount	Fair value
Equity investments	–	465	–	–	–	465	465
Loan assets	–	70,094	–	–	–	70,094	70,094
Loan assets	–	–	–	36,054	–	36,054	n/a
Trade receivables	–	–	–	3,506	–	3,506	n/a
Financial instruments in working capital	–	–	136	–	–	136	136
Other assets	–	–	–	88,075	–	88,075	n/a
Cash and cash equivalents	–	–	–	598,540	–	598,540	n/a
Total assets	**–**	**70,559**	**136**	**726,175**	**–**	**796,870**	
Loans and borrowings	–	–	–	–	795,670	795,670	943,043
Current bank borrowings	–	–	–	–	20,000	20,000	20,000
Bonds	–	–	–	–	100,559	100,559	100,559
Ffinancial liabilities	–	–	–	–	901	901	901
Derivative instruments	6,621	–	–	–	–	6,621	6,621
Trade payables	–	–	–	–	11,780	11,780	n/a
Other liabilities	–	–	–	–	57,560	57,560	n/a
Total liabilities	**6,621**	**–**	**–**	**–**	**986,471**	**993,092**	

The following table provides an analysis of the derivative financial instruments measured at fair value, grouped as levels 1 to 3 based on the degree to which their fair value can be observed:

- level 1, the fair value is determined from prices quoted on active markets;
- level 2, the fair value is determined using valuation techniques based on variables which are directly (or indirectly) observable on the market;
- level 3, the fair value is determined using valuation techniques based on significant variables that cannot be observed on the market

	Level 1	Level 2	Level 3
Financial assets			
- FVTPL instruments	–	465	–
- FVOCI instruments	–	136	–
- Fair value – Hedging instruments		1,838	
- Financial assets measured at fair value	–	65,237	–
Total	**–**	**67,676**	**–**
Financial liabilities			
- Fair value – Hedging instruments	–	11,464	–
- Other financial liabilities	532,836	790,848	–
Total	**532,836**	**802,312**	**–**

NOTE 32 - DISCLOSURE ON RISKS

The main risks identified and actively managed by ERG S.p.A. are the following

- the credit risk, which highlights the possibility of default of a counterparty or any impairment of the assigned credit rating;
- the liquidity risk, which expresses the risk that available financial resources are insufficient to maintain payment commitments.

ERG S.p.A. attributes great importance to the identification and measurement of the risks and to the connected control systems, in order to ensure an efficient management of the assumed risks. Consistently with this objective, an advanced Risk Management system was adopted that assures, in compliance with the existing policies on the matter, the identification, measurement and central level control for the entire Group of the degree of exposure to individual risks.

The Group Risk Management & Corporate Finance function ensures consistency with the assigned limits and provides adequate support with its own analyses, both to individual subsidiaries and to the Risk Committee and Top Management of the Parent, for strategic decisions.

Credit risk

Exposure to credit risk, inherent in the probability that a counterparty will not be able to meet its contractual obligations, is managed through appropriate analyses and assessments attributing to each counterparty an internal rating (Internal Rating Based, summary indicator of creditworthiness assessment). The rating class provides an estimate of the probability of default of a given counterparty on which the level of credit assigned depends, which is carefully monitored and which must never be exceeded. The choice of the counterparties in relation both to the industrial business and to financial trades depends on the decisions of the Credit Committee whose choices are supported by the credit rating analyses.

The concentration risk, both by customer and by sector, is monitored continuously but without ever presenting alert situations.

The table below provides information about the exposure of ERG S.p.A. to credit risk at year end by the classification of receivables not past due (see **Note 7 - Trade receivables**) according to the credit rating corresponding to the internal ratings assigned.

(EUR thousand)	2019
AAA Rating	–
AA+/AA- Rating	–
A+/A- Rating	–
BBB+/BBB- Rating	–
BB+/BB- Rating	–
B+/B- Rating	–
CCC- Rating	–
Receivables from Group companies	1,628
Unassigned	–
Total	**1,628**

The risk position at 31 December 2019 is very small because it is represented by exclusively intragroup positions.

Liquidity risk

The liquidity risk is identified with the risk that the financial resources may not be sufficient to cover all maturing obligations. To date, ERG guarantees the adequate coverage of its financial requirements through the generation of flows and availability of credit facilities, provided by different counterparties.

The following tables summarise the time profile of the financial liabilities of ERG S.p.A. at 31 December 2019 and at 31 December 2018 on the basis of non-discounted contractual payments.

31/12/2019	Maturity of liabilities				
(EUR thousand)	On demand	under 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years
Loans and borrowings	–	2,320	22,929	817,389	522,823
Current bank borrowings	–	283	–	–	–
Derivative instruments	–	1,003	2,680	7,777	–
Trade payables	7,273	5,159	–	–	–
Total liabilities	**7,273**	**8,766**	**25,609**	**825,165**	**522,823**

31/12/2018	Maturity of liabilities				
(EUR thousand)	On demand	under 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years
Loans and borrowings	–	61,736	112,631	746,031	22,646
Current bank borrowings	20,000	1,621	–	–	–
Derivative instruments	–	1,057	2,144	3,479	–
Trade payables	6,507	5,250	22	–	–
Total liabilities	**26,507**	**69,665**	**114,797**	**749,511**	**22,646**

EMTN EURO MEDIUM TERM NOTES PROGRAMME

On **19 December 2018** ERG S.p.A. completed a programme for non-convertible medium/long-term bond issues (Euro Medium Term Notes Programme - EMTN) up to the overall maximum amount of EUR 1,000 million, as a result of the approval granted last 13 December 2018 by the Board of Directors.

The programme, with a duration of one year, renewable on expiry, provides for the possibility of issuing non-convertible bonds that will be listed on the Luxembourg Stock Exchange, to be placed with institutional investors operating in Europe.

The Fitch Ratings agency ("Fitch") assigned ERG S.p.A. an Issuer Default Rating of BBB- with stable outlook and the EMTN programme a BBB- rating.

This transaction will enable ERG to optimise its ability to exploit the financing opportunities offered by institutional investors on the Debt Capital Market (DCM), through a timely future issue of bonds.

The Board of Directors postponed to subsequent resolutions the approval of the individual bonds issues within the EMTN Programme, as well as the definition of terms, duration and conditions.

ERG AGREED TWO ENVIRONMENTAL SOCIAL GOVERNANCE LOANS AMOUNTING TO EUR 240 MILLION

On **20 November 2018** ERG S.p.A. ("ERG") signed two senior unsecured medium/long-term Environmental Social Governance loan agreements ("ESG Loans") respectively with Credit Agricole Corporate and Investment Banking ("CACIB") and with BNL BNP Paribas Group, each for EUR 120 million, totalling EUR 240 million.

The two loans have a duration of 5 years, they provide for a single repayment at maturity and they have no financial covenants. The purpose of the loans is to support the substantial investment plan of the Group and to refinance certain corporate credit lines, thus allowing a significant extension of the duration of the debt while improving its financial terms.

The new "ESG Loans" credit facilities provide for the measurement of factors for verifying the sustainability and the ethical impact of an investment and, in the specific case, they introduce a mechanism of rewards tied to the attainment of a target in terms of avoided CO_2 emissions, calculated on the basis of energy generated from renewable sources during the Plan.

ERG is engaged in achieving important decarbonisation targets: the latest Sustainability Report of the Group points out that in 2017, avoided CO_2 emissions amounted to approximately 3 million tonnes during the year, a value expected to grow by approximately 15% in the period of the 2018-2022 Business Plan for a total of approximately 16 million tonnes.

Deloitte was appointed to verify the consistency of the ESG elements present in the Loans with the strategy of the ERG Group and with market practices.

On 20 December 2018, the loan with BNL Gruppo BNP Paribas for an amount of EUR 120 million was granted. Lastly, the loan with Credit Agricole Corporate and Investment Banking was granted on 4 February 2019.

Interest Rate Risk

This is the risk that changes in the future trends of interest rates could determine higher costs for ERG S.p.A. Containment of the interest rate risk is pursued by using derivative contracts such as Interest Rate Swaps and Interest Rate Options (plain vanilla).

The following table presents the impact on profit before taxes (due to changes in the fair value of financial assets and liabilities) and equity of ERG S.p.A. (due to changes to the fair value of the cash flow derivatives) of a +/-1% change in the interest rate, maintaining all other variables fixed.

Impact on profit or loss

(EUR million)	2019
Shock-up (+1% change in interest rate)	2
Shock-down (-1% change in interest rate)	(7)

Impact on equity

(EUR million)	2019
Shock-up (+1% change in interest rate)	38
Shock-down (-1% change in interest rate)	(39)

Derivative instruments used

The main types of derivative instruments adopted in the management of financial risks, with the sole purpose of hedging, are the following:

Options: contract whereby one of the parties, paying a price (premium) to the other, acquires the right to purchase (call option) or sell (put option), at a future date, a certain quantity of financial instruments (underlying assets) at a set price (exercise price).

Forward contracts: these provide for the purchase or sale between two parties of a given asset (underlying asset) at a future date and at a price pre-set at the time of execution of the contract; this category also includes futures contracts, which unlike forward contracts, are standardised, traded in lots and for predetermined maturity dates within regulated markets.

Swap: contract that determines the exchange of payment flows on certain dates by two parties. Payments can be expressed in the same currency or in different currencies and their amount is determined in relation to an underlying asset.

The underlying asset can be of various kinds and significantly influences the characteristics of the contract that can assume various forms in practice.

The derivatives entered into by ERG S.p.A. and designed to hedge the exposure to financial risks existing at 31 December 2018 are:

Interest rate derivatives

- Interest Rate Option instruments that make it possible to set upper limits (cap) and lower limits (floor) to interest rate fluctuations relating to loans indexed to a variable rate;
- Interest Rate Swap instruments to align bank loans with fixed and variable rate to the risk profile deemed most appropriate. IRS contracts provide that the counterparties, with reference to a defined notional value and to pre-set maturities, mutually exchange interest flows calculated in relation to fixed rates or to variable rate parameters agreed previously.

Summary of derivatives used

The derivatives entered into by ERG and designed to hedge the exposure to interest rate risk at 31 December 2018, are the following:

Type	Hedged risk	Reference notional	Fair Value at 31/12/2019
			(EUR thousand)
Cash Flow Hedging instruments			
Interest Rate Swaps and Interest Rate Caps	Interest rate risk	625 million EUR	(11,464)
Total Cash Flow Hedge instruments			**(11,464)**

Cash Flow Hedging instruments

Interest Rate Swaps and Interest Rate Caps and Collars.

Transactions for hedging the "interest rate" economic risk tied to fluctuations in interest rates on loans.

At 31 December 2019, the total fair value was a negative EUR 11,464 thousand. The change is recognised in the hedging reserve.

NOTE 33 - SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Data		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
9 March 2020	Corporate	On 9 March 2020, with reference to the Covid-19 emergency in Italy and around the world, and to the resulting restrictions across the entire country, ERG proactively extended the remote work option to every working day of the week until 3 April 2020. This option has been made available to all employees in the Group's Italian offices where the remote work option is compatible with the effective performance of the duties assigned, ensuring that the greatest attention is given to guaranteeing business continuity and the safety of its production sites.	

NOTE 34 - AUDIT FEES

Based on Article 149-*duodecies* of the Issuers' Regulation, the 2019 costs relating to the services performed by the independent auditor KPMG S.p.A., auditor of the ERG Group, and by the companies belonging to its related network are set out below.

	2019	**2018**
Audit services	266	266
Non-audit services	189	150
Total	**455**	**416**

Non-audit services refer to:

- attestation services for EUR 59 thousand relating to the prospectus on the EMTM for EUR 40 thousand, unbundling for EUR 15 thousand and tax returns for EUR 4 thousand;
- other services for EUR 130 thousand relating to the voluntarily agreed checks required on the quarterly data of the subsidiaries for EUR 100 thousand and relating to the Audit of "non-financial information" and the sustainability report for EUR 30 thousand.

NOTE 35 - OTHER INFORMATION

- Article 1, paragraphs 125-129, of Italian Law no. 124 of 4 August 2017 introduced the obligation for companies that receive contributions from public administrations to publish the amounts received in the notes to the separate financial statements and, where applicable, the notes to the consolidated financial statements. In view of the interpretation difficulties encountered in applying these provisions (Assonime - circular no. 5 of 22 February 2019) the legislator intervened, amending the said regulations several times. More specifically, the legal provisions of Italian Law no. 124/17 were most recently revised by Italian Law Decree no. 34 of 30 April 2019, which set forth urgent economic growth measures to resolve specific crisis situations, converted with Italian Law no. 58 of 28 June 2019, which provided responses to important issues in order to simplify and rationalise the regulations under consideration. The Company has therefore decided to state in its financial statements any financial contributions received from public administrations for use by all the companies and that come under the general scheme of the reference system defined by the State (e.g. feed-in premium, energy efficiency certificates, etc.) with the exception of those belonging to the following categories:
  - tax relief;
  - training contributions received from inter-professional funds (e.g. Fondimpresa), since such funds are a form of partnership governed by private law, financed with the contributions paid by the companies themselves.

  There were no contributions in relation to ERG S.p.A. in 2019. In accordance with the provisions of Article 3-quater of Italian Law Decree no. 135/2018, for the funds received please refer to the indications contained in the National Register of State Aid under Article 52 of Italian Law no. 234 of 24 December 2012.
- During the year, no atypical and/or unusual transactions took place. Atypical and/or unusual transactions are those transactions that due to their significance/relevance, nature of the counterparties, subject of the transaction, procedures for determining the transfer price and timeframe of the event (proximity to the end of the year) can give rise to doubts with regard to: the correctness/completeness of the information in the financial statements, conflicts of interest, wealth preservation and the protection of non-controlling interests.
- No advances were provided and there are no receivables from directors and statutory auditors of ERG S.p.A. for the performance of these functions.

NOTE 36 - ACCOUNTING STANDARDS AND POLICIES

Unless otherwise specified, the accounting policies described below were applied consistently for all periods included in these separate financial statements (with the exception of the first-time adoption of IFRS 16, as explained in more detail in the note **Standards, amendments and interpretations applied starting on 1 January 2019**).

Some amounts of the income statement and the Statement of comprehensive income presented for comparison purposes were reclassified or restated as a result of the classification of one or more operations as discontinued in the current year.

These separate financial statements were prepared using the criterion of measurement at historical cost, with the exception of the following significant items that are measured as indicated below at each reporting date.

Item	Measurement criterion
Derivative financial instruments	Fair value
Non-derivative financial instruments at FVTPL	Fair value
Discontinued operations	Lower value between carrying amount and fair value less cost to sell
Equity instruments at FVOCI	Fair value
Liabilities for cash-settled share-based agreements	Fair value

The main accounting policies adopted for the preparation of the separate financial statements at and for the year ended 31 December 2019, which are unchanged from the previous year, with the exceptions set forth in the section "Standards, amendments and interpretations applied starting on 1 January 2019" are set out below.

INTANGIBLE ASSETS

Intangible assets are recorded as assets, pursuant to IAS 38 (Intangible Assets), wherever they are identifiable, it is probable that their use will generate future economic benefits, and their cost can be measured reliably.

These assets are measured at their purchase or development cost, including all ancillary charges attributable to them, and are amortised on a straight-line basis over their useful life. Useful lives are reviewed annually and any changes, where necessary, are applied prospectively.

In general, intangible assets are amortised over a maximum period of 5 years.

There are no intangible assets with an indefinite useful life or development expenditure.

Research expenditure is expensed directly in the income statement in the period in which it is incurred.

Other intangible assets recognised as part of a business combination are presented separately from goodwill if their fair value can be measured reliably.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised at acquisition or production cost less accumulated depreciation and impairment losses.

If an item of property, plant and equipment comprises various parts with different useful lives, these parts are recognised separately (significant components).

The profit or loss generated by the sale of an item of property, plant and equipment is recognised in profit or oss for the year. Expansion, modernisation and transformation costs and maintenance costs are capitalised only if they increase the future economic benefits of the asset to which they refer.

Capitalised costs are allocated to the income statement via depreciation.

Depreciation is calculated on a straight-line basis over the asset's estimated useful life. When the asset consists of several significant parts having different useful lives, each part is depreciated separately. The depreciable amount is the asset's historical cost less the expected residual value, if material and reliably measurable.

Land is not depreciated, even if acquired together with a building. Freely transferable assets are depreciated over the estimated life of the asset or the concession term, whichever is shorter.

The depreciation rates applied are as follows:

	%
Industrial buildings	2.75 - 5.5
Commercial buildings	25
General plant	10,0
Office furniture and furnishings	12
Electronic machines	20
Equipment	25
Vehicles	25
Incremental expenses	8-25

* average rates

IMPAIRMENT OF NON-FINANCIAL ASSETS (IMPAIRMENT TEST)

At least once a year, the Company measures the recoverable amount of non-financial assets, including equity investments, to determine whether there are indications that they may be impaired (examination of triggering events). If such an indication exists, the company estimates the recoverable value of the asset to determine the amount of the impairment loss.

When it is not possible to estimate the recoverable value of an individual asset, the Company estimates the recoverable value of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, determined as the present value of expected future cash flows.

An asset is impaired when its carrying amount exceeds its recoverable amount. When an impairment loss recognised in prior periods for an asset other than goodwill subsequently no longer exists or may have decreased, the carrying amount of the asset or the cash-generating unit is increased up to the new estimated recoverable amount without exceeding the amount that would have been determined had no impairment loss been recognised.

EQUITY INVESTMENTS - INITIAL RECOGNITION CRITERIA AND SUBSEQUENT MEASUREMENTS

"Subsidiaries" are all the companies over which ERG S.p.A. has control. Control is obtained when the company is exposed or is entitled to the variable returns deriving from its relationship with the investee and has the capability, by exercising its power over the investee, to influence its returns. Such power is defined as the current capability to direct the significant activities of the investee by virtue of existing substantive rights.

"Associates" are the companies over which ERG S.p.A. exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but without having control or joint control.

"Joint ventures" are the companies over which ERG S.p.A. has joint control and over whose net assets ERG S.p.A. has rights. "Joint control" means the contractually agreed sharing of control, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Equity investments in subsidiaries, associates and joint ventures are initially measured at acquisition cost. The cost is subsequently adjusted for any impairment losses, which are subsequently reversed if the assumptions that caused them no longer hold true; the reversal may not exceed the original cost. Additional information on the impairment test is provided in the section **Impairment test on equity investments**.

If the portion of the loss pertaining to ERG S.p.A. exceeds the carrying amount of the equity investments and it is obligated to fulfil legal or construtive obligations of the investee or otherwise to cover its losses, any amount above the carrying amount is recognised in a liability provision within the provisions for risks and charges. In case of transfer, without economic substance, of an equity investment in a company under joint control, any difference between the price received and the carrying amount of the equity investment is recognised under equity.

Dividends from equity investments are recognised in profit or loss when the right of the shareholders to receive the payment is established. Dividends and interim dividends payable to non-controlling interests are presented as a change in equity on the date they are approved, respectively, by the Shareholders' Meeting and by the Board of Directors.

FINANCIAL INSTRUMENTS

i. Recognition and measurement

Trade receivables and debt instruments issued are recognised at the time they are originated. All other financial assets are initially recognised on the trading date, i.e. when the Company becomes a contractual party tothe financial instrument.

With the exception of trade receivables that do not contain a significant financing component, financial assets are initially measured at fair value plus or minus, in the case of financial assets not at FVTPL, transaction costs directly attributable to the acquisition or to the issue of the financial asset. At the time of initial recognition, the trade receivables that do not have a significant financing component are measured at their transaction price.

ii. Subsequent classification and measurement

At initial recognition, a financial asset is classified according to its measurement: amortised cost; fair value through other comprehensive income (FVOCI) – debt security; FVOCI – equity instrument; or at fair value through profit or loss (FVTPL).

Financial assets are not reclassified after their initial recognition, unless the Group changes its business model for the management of financial assets. In this case, all involved financial assets are reclassified the first day of the first year following the change to the business model.

A financial asset is measured at amortised cost if both of the following conditions are met and it is not designated at FVTPL:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if both of the following conditions are met and it is not designated at FVTPL:
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an equity instrument not held for trading, the company can make the irrevocable election to present subsequent changes in fair value through other comprehensive income. This election is made for each asset.

All financial assets not classified as measured at amortised cost or FVOCI, as indicated above, are measured at FVTPL. All financial derivatives are included. At initial recognition, the Group may irrevocably designate the financial asset as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring the financial asset at amortised cost or FVOCI.

Financial assets: assessment of the business model

The Group assesses the objective of the business model within which the financial asset is held at portfolio level because it best reflects the way in which the asset is managed and the information communicated to corporate management. This information includes:
- the specified criteria and the objectives of the portfolio and the practical application of said criteria, including, inter alia, whether the strategy of corporate management is based on obtaining interest income from the agreement, on maintaining a determined interest rate profile, on aligning the duration of the financial assets to that of the related liabilities or the expected cash flows or on the collection of cash flows through the sale of the assets;
- the procedures for measuring portfolio performance and the procedures for communicating performance to the key management personnel;
- the risks that impact the performance of the business model (and the financial assets held within the scope of the business model) and the way in which these risks are managed;
- the procedures for remunerating the executives of the company (for example, if remuneration is based on the fair value of the assets managed or on collected contractual cash flows); and
- the frequency, the value and the time frame of the sale of financial assets in previous years, the reasons for the sales and the expectations for future sales.

Transfers of financial assets to third parties within transactions that do not entail derecognition are not considered sales for the purposes of the assessment of the business model, in line with the Group's maintaining these assets in its financial statements.

Financial assets that meet the definition of financial assets held for trading or whose performance is based on fair value are measured at FVTPL.

Financial assets: test to establish whether the contractual cash flows are solely payments of principal and interest

For the purposes of the test, the 'principal' is the fair value of the financial asset at initial recognition, while the 'interest' is the consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for the other basic lending risks and costs (for example, liquidity risk and administrative costs), as well as for a profit margin.

In assessing whether contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. Therefore, it assesses, inter alia, if the financial asset contains a contractual clause that modifies the time frame or the amount of the contractual cash flows so as not to meet the following condition. For the purposes of the test, the company considers:

- contingent events that would modify the timing or the amount of the cash flows;
- clauses that could adjust the contractual rate of the coupon, including variable rate elements;
- prepayment and extension elements; and
- clauses that limit the requests for cash flows by the company from specific assets (for example, elements without recourse).

The prepayment element is in line with the criterion of the "cash flows that are solely payments of principal and interest" when the amount substantially represents the unpaid amounts of the principal and the interest accrued on the principal amount outstanding, which can include reasonable additional compensation for the early termination of the contract. Moreover, in the case of a financial asset acquired with a premium or a significant discount to the contractual par amount, an element that allows or requires a prepayment equal to an amount that substantially represents the contractual par amount and accrued but unpaid contractual interest) (which may include reasonable additional compensation for the early termination of the contract) is recognised in accordance with said criterion if the fair value of the prepayment element is insignificant at initial recognition.

Financial assets: subsequent measurement and gains and losses

Financial assets measured at FVTPL	These assets are subsequently measured at fair value. Net gains or losses, including dividends or interest received, are recognised in profit or loss for the year.
Financial assets measured at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is decreased by impairment loss. Interest income, exchange gains and losses and impairment losses are recognised in profit or loss for the year as well as any gains or losses on derecognition.
Debt instruments measured at FVOCI	These assets are subsequently measured at fair value. Interest income calculated in accordance with the effective interest method, exchange gains and losses and impairment losses are recognised in profit or loss for the year. Other net gains and losses are recognised in the Statement of comprehensive income. At the time of derecognition, gains or losses accumulated in the Statement of comprehensive income are reclassified to profit or loss for the year.
Equity instruments measured at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised in profit or loss for the year unless they clearly represent a recovery of part of the cost of the investment. Other net gains and losses are recognised in the Statement of comprehensive income and are never reclassified to profit or loss for the year.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses relating to:

- financial assets measured at amortised cost;
- debt instruments measured at FVOCI; and
- contract assets.

The Company measures the loss allowance at an amount equal to the financial asset's lifetime expected credit losses, with the exceptions indicated below, for the twelve following months:

- debt instruments with a low credit risk at the reporting date; and
- other debt instruments and bank current accounts whose credit risk (i.e. the risk of default that manifests throughout the expected life of the financial instrument) did not increase significantly after the initial recognition.

The loss allowances fortrade receivables and contract assets are always measured at an amount equal to the financial asset's lifetime expected credit losses.

When determining whether the credit risk relating to a financial asset has significantly increased since initial recognition in order to estimate the expected credit losses, the Company takes into consideration any reasonable and supportable information that is available without undue cost or effort. Quantitative and qualitative information is included, as are analyses, based on the historical experience of the Company, on an assessment of the financial asset and on forward-looking information.

For the Company, a breach referred to a financial asset occurs when:

- it is unlikely that the debtor will fully meet its obligations to the Company, without any action on the company's part, such as the realisation of a guarantee (if present); or
- the financial asset has been due for more than 90 days.

The maximum period to take into consideration when measuring expected credit losses is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of the expected credit losses

Expected credit losses (ECL) are an estimate of the probability weighted amount of credit losses. Credit losses are the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the financial asset's effective interest rate.

Impaired financial assets

At each reporting date, the Company assesses whether financial assets measured at amortised cost and debt securities at FVOCI are impaired. A financial asset is impaired when one or more events occur that have a detrimental impact on the estimated future cash flows of the financial asset.

Evidence that the financial asset is credit-impaired includes the observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of the contract, such as a default or a past due event;
- the restructuring of a debt or an advance by the Company at conditions that the company would not otherwise have taken into consideration;
- there is a probability that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties.

Presentation of the loss allowance in the statement of financial position

The loss allowance for the financial assets at amortised cost is deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is allocated to profit orloss for the year and recognised in the Statement of comprehensive income.

Write-off

The gross carrying amount of a financial asset is reduced (or written off) to the extent to which there are no real expectations of recovery. For customers, the Company individually assesses the time frame and the amount of the write-off on the basis of the actual expectation of recovery. The Company does not expect any significant recovery of the amount written off. However, the financial assets written off could still be subject to enforcement in order to comply with the debt collection procedures prescribed by the company.

Cash and cash equivalents

Cash and cash equivalents are presented, according to their nature, at their nominal amount.

In accordance with IAS 7, the definition of cash equivalents comprises cash on hand and bank/postal deposits repayable on demand, together with short-term, highly liquid investments that are readily convertible to a known amount of cash. It also includes short-term investments whose reimbursement value is predetermined at the date of initial purchase/recognition.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or at FVTPL. A financial liability is classified at FVTPL when it is held for trading, it represents a derivative or is designated as such at the time of the initial recognition. Financial liabilities at FVTPL are measured at fair value and any changes, including interest expense, are recognised in profit or loss for the year. The other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and exchange gains/(losses) are recognised in profit or loss for the year, as well as any gains or losses deriving from derecognition.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from them expire, when the contractual rights to receive the cash flows within a transaction in which substantially all the risks and benefits deriving from ownership of the financial asset are transferred or when the Company does not transfer or retain substantially all risks and benefits of ownership of the financial assets and does not maintain control of the financial assets.

The Company is involved in transactions that entail the transfer of assets recognised in its own statement of financial position, but retains all or substantially all risks and benefits deriving from the transferred assets. In these cases, the transferred assets are not derecognised.

The Company derecognises a financial liability when the obligation specified in the contract is fulfilled or cancelled or it expires. The Company derecognises a financial liability even in the event of a change in the related contractual terms and when the cash flows of the modified liability are substantially different. In this case, a new financial liability is recognised at fair value on the basis of the amended contractual terms.

The difference between the carrying amount of the extinguished financial liability and the price paid (including the assets not represented by cash transferred or the assumed liabilities) is recognised in the profit or loss for the year.

Derivative financial instruments and hedging transactions

The Company uses derivative financial instruments to hedge its own exposure to interest rate risks and to the price risk. Embedded derivatives are separated from the host contract and recognised separately when the host contract does not constitute a financial asset and when determined criteria are met.

Derivative financial instruments are initially recognised at their fair value. After initial recognition, derivatives are measured at fair value and the related changes are usually reported in profit of loss for the year.
The Company designates some derivative financial instruments as hedging instruments to hedge the variability of the cash flows relating to highly probable expected transactions deriving from the fluctuation of interest rates and of the price risk.
At the start of the designated hedging relationship, the Company documents the risk management objectives and the strategy in implementing the hedge, as well as the economic relationship between the hedged item and the hedging instrument and whether it is expected that the changes in the cash flows of the hedged item and the hedging instrument will offset each other.

When a derivative financial instrument is designated as an instrument to hedge the exposure to the variability of cash flows, the effective portion of the fair value gain or loss on the derivative financial instrument is recognised in other comprehensive income and presented in the hedging reserve. The effective portion of the fair value gain or loss on the derivative financial instrument that is recognised in other comprehensive income is limited to the cumulative change in the fair value of the hedged instrument (at the present value) from the start of the hedge. The ineffective part of the fair value gain or loss on the derivative financial instrument is recognised immediately in profit or loss for the year.
In a hedging relationship, the Company designates only the change in fair value of the spot element of the forward contract as a hedging instrument.

If the hedge ceases to meet the qualifying criteria or the hedging instrument is sold, terminated or is exercised, hedge accounting is discontinued prospectively. When the cash flow hedge transactions cease being reported, the cumulative gain or loss in the hedging reserve remains in equity until, in the case of a hedgeg of a transaction that entails the recognition of a non-financial asset or liability, it is included in the cost of the non-financial asset or liability at initial recognition or, in the case of the other cash flow hedges, it is reclassified to profit or loss for the year in the same year or years in which the hedged expected future cash flows have an effect on profit or loss for the year.
Where cash flow hedges are no longer expected, the amount must be reclassified immediately from the hedging reserve and from the reserve for hedging costs to profit or loss for the year.

When a derivative instrument or a non-derivative financial liability is designated as a hedging instrument within a hedge of a net investment in a foreign operation, the effective portion, in the case of derivatives, of the fair value gain or loss on a derivative instrument or, in the case of a non-derivative item, exchange gains or losses, is recognised in other comprehensive income and presented in equity in the translation reserve. The ineffective portion is recognised immediately in profit or loss for the year. The amount recognised in other comprehensive income is reclassified to profit or loss for the year as a reclassification adjustment on the disposal of the foreign operation.

With reference to hedge accounting, the Company adopted a new model compliant with

IFRS 9, applied prospectively. Based on the new approach, a hedging relationship is effective if and only if it meets the following requirements:

- existence of an economic relationship between the hedging instrument and the hedged item;
- the credit risk is not dominant with respect to the changes in value; and
- the hedge ratio is the same one used for risk management purposes, i.e. the hedged quantity of the hedged element and the quantity of the hedging instrument used to cover the hedged item.

TREASURY SHARES

Treasury shares are presented as a reduction in equity.

The original cost of treasury shares, impairment losses, and gains and losses deriving from any subsequent sales are presented as changes in equity. The shares thus bought back are classified as treasury shares and recognised in the reserve for treasury shares. The consideration received from the subsequent sale or re-issue of treasury shares is recognised as an increase in equity. Any positive or negative difference deriving from the transaction is recognised in the share premium reserve.

Share-based payment transactions

The fair value, at the date of assignment of the incentives recognised in the share-based equity-settled payments, granted to employees, is recognised under costs with a corresponding increase in equity, over the period during which the employees acquire the right to the incentives. The amount recognised as a cost is adjusted to reflect the actual number of incentives for which the service/vesting conditions are met and non-market results were achieved, so that the final amount recognised under costs is based on the number of incentives that meet the aforementioned conditions at the vesting date. In the case of incentives recognised in the share-based payment, the conditions of which are not deemed to be met, the fair value at the date of assignment of the share-based payment is designated in order to reflect said conditions. With reference to the non-vesting conditions, any differences between the assumptions set forth at the assignment date and the actual assumptions will not impact the separate financial statements.

On 23 April 2018, the Shareholdersof ERG S.p.A. approved the 2018-2020 long-term incentive plan, in compliance with the terms and conditions set forth in the related Information Document.

The Plan provides for the assignment of a predefined number of ERG S.p.A. Shares, free of charge (hereafter, “Performance shares”), at the end of a three-year vesting period, subject to the attainment of a minimum predetermined economic performance (non-market condition). The performance parameter approved by the Board of Directors refers to the cumulative 2018-2020 Group EBITDA of the Business Plan.

According to the Regulation, this operating condition may be changed in light of changes in the consolidation scope or other significant events.

The shares allocated represent the conditional rights that are the subject of the Plan, free of charge and non-transferable inter vivos, each of which gives the Beneficiaries the right to be assigned free of charge 1 (one) share according to the terms and conditions contained in the Regulations.

The Plan also provides that if, in addition to the achievement of the economic performance objective, the ERG Stock attains a predetermined market performance (market condition) on the stock market (i.e. the outstanding Price), the number of Shares to be assigned will increase up to a predetermined maximum: the shares assigned shall be equal to the allocated shares (385,000, as resolved upon by the Board of Directors of ERG S.p.A.) if the price of the ERG shares is equal to or less than EUR 16 ("Target Price"); equal to 200% of the shares allocated if the price is higher than EUR 21 ("Cap"). If the price is between the Target Price and the Cap, shares will be allocated proportionally.

The estimate of the Fair Value, which is independent of the non-market activation condition (achievement of the Target EBITDA) as defined by IFRS 2, was carried out by applying the binomial model and the Montecarlo method, thus identifying a range of values and taking their average value into consideration.

The assessment exercise was carried out formulating the following assumptions:

- volatility (22%): average of the 90 days preceding the valuation date of the 180-day historical volatility of the ERG share;
- dividend Yield: estimated on the basis of the dividends forecast in the plan for the 2018-2022 three-year time period, i.e. EUR 0.75 per share, as a percentage of share price
- time to maturity: in accordance with the provisions of the regulation of the financial instrument, the derivative was assumed to have a duration of three years.

Note that for the purposes of calculating the fair value of the incentive plan, a range of values was identified between EUR 6.5 million and EUR 8.4 million with the average value of EUR 7.5 million to be recognised on an accruals basis in the years of the vesting period. At 31 December 2019, the updated number of shares allocated following the addition of a beneficiary, resolved upon by the Nominations and Remuneration Committee in its meeting on 28 February 2019, and the removal of a beneficiary following resignations is 370,000. For further details, reference is made to the Report on the Remuneration Policy and the amounts paid out

FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated using the exchange rate on the transaction date. Foreign currency monetary assets and liabilities are translated using the closing rate. Non-monetary items are maintained at the exchange rate on the transaction date except in the event of a persistently unfavourable trend in the exchange rate. Exchange differences arising on the settlement of items at rates different from those at which they were translated at initial recognition and those relating to monetary items at year-end are recognised in profit or loss under financial income and expense.

Other Provisions

ERG S.p.A. records provisions for risks and charges when:

- there is a present legal or constructive obligation to third parties;
- it is probable that the use of company resources will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

Changes in accounting estimates are recognised in the income statement in the year in which the change occurs.
When the effect of the time value of money is material and the dates of settlement of the obligations can be estimated, the provision is discounted, using a discount rate that reflects the current market assessments of the time value of money. The increase in the provision due to the passage of time is recognised in profit or loss under "Financial income (expense)".
When the obligation relates to tangible assets (for example, dismantling and restoration of sites), the provision is recognised as a balancing entry to the asset to which it refers, and recognition in the income statement takes place through the depreciation process.
Significant contingent liabilities, represented by the following, are disclosed in the notes to the financial statements:

- possible (but not probable) obligations arising from past events, the existence of which will be confirmed only upon occurrence of one or more uncertain future events not wholly within the company's control;
- present obligations arising from past events the amount of which cannot be reliably estimated, or for which it is probable that settlement will not be onerous.

PROVISIONS FOR EMPLOYEE BENEFITS

Short-term benefits for employees

Short-term benefits for employees are recognised as a cost at the time the services that gives rise to such benefits is performed. The Company recognises a liability for the amount expected to be paid when there is a present legal or constructive obligation to make these payments as a consequence of past events and it is possible to make a reliable estimate of the obligation.

Defined contribution plans

Contributions to be paid to defined contribution plans are recognised as a cost in profit orloss along the year in which the employees provide their services; contributions paid in advance are recognised as assets to the extent to which the advance will determine a reduction in future payments or a reimbursement thereof.

Defined benefit plans

The net obligation deriving from defined benefit plans is calculated separately for each plan estimating the amount of the future benefit which the employees have accrued in exchange for the service provided in the current year and in the previous years; this benefit is discounted and the fair value of any plan assets are subtracted from the liabilities. The calculation is carried out by an independent actuary using the projected unit credit method. If the calculation generates a benefit for the Company, the amount of the recognised asset is limited to the present value of the economic benefits available in the form of reimbursements from the plan or of reductions of the future contributions to the plan. To establish the present value of the economic benefits, the minimum funding requirements applicable to any plan of the Company are considered.

Actuarial gains and losses, the returns from plan assets (excluding interest) and the effect of the maximum amount of the asset (excluding any interest) that emerge as a result of the revaluation of the net liability for defined benefit plans are recognised immediately in other comprehensive income. The net interest for the year on the net liability/(asset) for defined benefits is calculated by applying to the net liability/(asset) the discount rate used to discount the defined benefit obligation, determined at the start of the year, taking into consideration any changes in the net liability/(asset) for defined benefits occurred during the year as a result of the contributions collected and the benefits paid. Net interest and the other costs relating to defined benefit plans are instead recognised in profit or loss for the year. When changes are made to the benefits of a plan or when a plan is curtailed, the portion of the economic benefit relating to past service or the gain or loss deriving from the curtailment of the plan are recognised in profit or loss for the year when the adjustment or the curtailment occurs.

Until 31 December 2006, post-employment benefits ("TFR") of Italian companies were considered as a defined benefit plan. The rules for the liability were amended by Italian Law no. 296 dated 27 December 2006 (the "2007 Budget Law") and subsequent decrees and regulations promulgated in the early months of 2007. In light of these amendments, and in particular with reference to companies with at least 50 employees, the TFR is currently considered a defined benefit plan solely for the portions vested prior to 1 January 2007 and not yet paid as of the reporting date, whereas after said date they are deemed akin to a defined contribution plan. The following is a schematic representation of the cases pertaining to the classification of the post-employment benefits for IAS 19 purposes on the basis of the main types of post-employment benefits in the light of the different regulations in this regard.

Types of Post-employment benefits	Personnel employed in 2006*	IAS 19 classification
Post-employment benefits vested up to 31 December 2006**	>50 employees	Defined benefit plan
	<50 employees	Defined benefit plan
Post-employment benefits accrued since 1 January 2007**	>50 employees	Defined c ontribution plan
	<50 employees	Defined benefit plan

* for newly established companies, the number taken as a reference relates to the first year of activity
** without prejudice to options to allocate the post-employment benefits to supplemental pension plans

Termination benefits

The benefits due to the employees for the termination of employment are recognised as a cost when the Company has committed without possibility of withdrawal to offer said benefits or, if prior, when the Company recognises the restructuring costs. Benefits entirely due over twelve months from the reporting dates are discounted.

LEASES

Standards applicable **before 1 January 2019** (first-time adoption of IFRS 16 – additional detail on first-time adoption criteria are provided in the note **Standards, amendments and interpretations applied starting on 1 January 2019**).

Determining whether an agreement contains a lease

At the inception of agreement contract, the Company verifies whether the contract is, or contains, a lease.

At the inception of a contract, or upon revision thereof, the Company separates the lease payments and the other consideration provided by the contract classifying them as payments for the lease and payment for other elements on the basis of the related fair value. If, in the case of a finance lease, the Company concludes that it is not feasible to divide the lease payments reliably, an asset or a liability whose amount is equal to the fair value of the underlying asset is recognised. Subsequently, the liability is reduced as the payments are made and a financial expense is recognised on the liability using the Company's incremental borrowing rate.

Leased assets

Leased property, plant and equipment that transfer to the Company substantially all risks and benefits deriving from ownership of the asset are classified as finance leases. The assets acquired through leases are initially recognised at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. After initial recognition, the asset is measured in accordance with the accounting standard applicable to said asset.

The other leased assets are included among operating leases and they are not recognised in the statement of financial position.

Lease payments

Payments relating to operating leases are recognised as a cost on a straight-line basis over the lease term. The incentives granted to the lessee are recognised as an integral part of the total cost of the lease over the lease term.

The minimum payments due for finance leases are divided between interest expense and reduction of the residual debt. The interest expense is allocated over the lease term in order to obtain a constant interest rate on the residual liability.

GROSS OPERATING PROFIT (LOSS) AND OPERATING PROFIT (LOSS)

Gross operating profit (loss) and operating profit (loss) are determined by the operating activities of the Company that generate continuing revenue and by the other income and costs related to the operating activities. The gross operating profit (loss) does not include net financial expense, the company's share of the profit of equity-accounted investees, income taxes and depreciation, amortisation and impairment losses on non-current assets (intangible assets and property, plant and equipment).

The operating profit (loss) is equal to gross operating profit (loss) less amortisation, depreciation and impairment losses on non-current assets (intangible assets and property, plant and equipment).

REVENUE RECOGNITION

The Company recognises the sale of a good or the performance of a service based on the value that exactly reflects the portion of the price attributable to each revenue component, with reference to the price paid by the customer who expects to receive that good produced or that service rendered.

The most innovative aspect of IFRS 15 pertains to the fact that an entity shall recognise the sale of a good or the performance of a service based on a value that exactly reflects the part of a price attributable to each revenue component, with reference to the price paid by the customer who expects to receive that good produced or that service rendered.

The methodological approach that should entail this type of recognition comprises five fundamental steps:

1) Identifying the contract with a customer: in general, a contract exists when the agreement reached with a customer are such as to generate enforceable obligations;
2) Identifying the performance obligations: an entity shall recognise revenue individually for each good or service as a separate obligation if these assets or services are distinct from each other. The criteria to define whether a good or service can be considered distinct are i) the customer can benefit from the good or service both individually and in combination with other resources and the goods are available and ii) the good or service can be separated from other obligations or promises that are not dependent or connected to other contractual elements;
3) Determine the transaction price: understood as the amount which the entity expects to receive as a result of the sale of the goods or of the services rendered to customers;
4) Allocating the transaction price to the performance obligation(s): is the entity allocates the price to each distinct good or service. This allocation is based on the stand-alone selling price;
5) Recognising the revenue only when the performance obligation is satisfied.

DIVIDENDS

Dividends are recognised when, following a shareholders' resolution, the right of shareholders to receive the payment is established.

FINANCIAL INCOME AND EXPENSE

The financial income and expense of the company:

- interest income;
- interest expense;
- dividend income;
- net gains or losses deriving from the sale of debt instruments measured at FVOCI;
- net gains or losses from financial assets at FVTPL;
- exchange gains or losses on financial assets and liabilities;
- impairment losses (gains) on debt securities recognised at the amortised cost or FVOCI;
- income deriving from a business combination transaction for the revaluation at fair value of any equity investment already held in the acquiree;
- fair value losses on the contingent consideration classified as financial liability;
- ineffectiveness of the hedge recognised in profit or loss for the year; and

Interest income and expenses are recognised in profit or loss for the year on an accruals basis, using the effective interest method. Dividends are recognised when, following a shareholders' resolution, the companys right to receive the payment is established.

The 'effective interest rate' is the rate that exactly discounts estimated future payments or collections over the expected life of the financial asset:

- to the gross carrying amount of the financial asset;
- to the amortised cost of the financial liability.

When calculating interest income and expenses, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not impaired) or the amortised cost of the liability. However, in the case of financial assets that became impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, interest income is again calculated on a gross basis.

INCOME TAXES

The tax expense for the year comprises deferred tax assets and liabilities recognised in the profit or loss for the year, with the exception of items recognised directly in equity or other comprehensive income.

The Company determined that the interest and the penalties relating to income taxes, including the accounting treatments to be applied to income taxes of an uncertain nature, are recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets because they do not match the definition of income taxes.

Current taxes

Current taxes are accrued based on the estimated tax expense for the year, also taking into account the effects relating to the participation of most Group companies in the tax consolidation scheme.

The amount of the taxes due or to be received, determined on the basis of tax rates enacted or substantially enacted at the reporting date, also includes the best estimate of any portion to be paid or to be received that is subject to uncertainty factors.

Current tax assets and liabilities are offset only when determined criteria are met.

Deferred taxes

Furthermore, pursuant to the accruals basis of accounting, the separate financial statements include deferred tax assets and liabilities arising from temporary differences between the carrying amounts and related tax bases, and on unused tax losses.

Deferred tax assets are recognised for tax losses and unused tax credits, as well as for deductible temporary differences, to the extent to which it is probable that future taxable profits will be available, against which these assets can be utilised. Future taxable profits are defined on the basis of the reversal of the related deductible temporary differences. If the amount of the taxable temporary differences is not sufficient to fully recognise a deferred tax asset, consideration is given to the future taxable profit, adjusted for the reversals of existing temporary differences, provided by the business plans. The carrying amount of deferred tax assets is reviewed at each reporting date and is reduced to the extent to which it is no longer probable that the related tax benefit will be realised. These reductions will have to be reversed when the probability of achieving future taxable profit increases.

Since several tax consolidations are currently in existence, the recoverability of the temporary differences and of the tax losses is contextualised within the various expiry dates of the tax consolidation agreements. Lastly, with reference to deferred tax assets related to Italian investees' tax losses, regulations provide for a quantitative limit to the utilisation of prior years' tax losses, i.e. 80% of the profits produced in the following years. The aforesaid quantitative limit of 80% does not apply for tax losses generated in the first three years from the incorporation of the company, provided that they refer to a new productive activity.

Deferred taxes are calculated on the basis of the tax rates that are expected to apply to the years in which the taxable temporary differences will reverse.

Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities.

Discontinued operations

A discontinued operation is a component of the Company whose operations and cash flows are clearly distinguishable from the rest of Company that:

- represents activity separate major line of business or geographical area of operations;
- is a part of a single coordinated plan to dispose of activity separate major line of business or geographical area of operations;
- is a subsidiary acquired solely with a view to resale.

An operation is classified as discontinued at the time of sale or when it meets the conditions for classification in the "held for sale" category, whichever comes first.

When an operation is classified as discontinued, the comparative statement of comprehensive income is restated as if the operation had been discontinued starting from the beginning of the comparative year.

Available-for-sale assets

Non-current assets or disposal groups comprising assets and liabilities are classified as available for sale when it is highly probable that their carrying amount will be recovered mainly with a sale transaction instead of through their continued utilisation.

The assets or the disposal group are usually measured at the lower value between carrying amount and fair value less costs to sell. Any impairment loss of a disposal group is allocated first to goodwill, and then to the remaining assets and liability proportionally, with the exception of inventories, financial assets, deferred tax assets, benefits to employees, investments in properties and biological assets, which continue to be measured in accordance with other accounting standards of the Group. Impairment losses deriving from the initial classification of an asset as held for sale or for distribution and subsequent measurement differences are recognised in the profit/(loss) for the year.

Once they are classified as available for sale, intangible assets and property, plant and equipment cease to be amortised and equity investments recognised at equity are no longer recognised with that method.

RELATED PARTIES

Related parties are mainly those that share the same parent with ERG S.p.A., the companies that directly or indirectly, through one or more intermediaries, control, are controlled by, or are subjected to joint control by ERG S.p.A. and those in which ERG S.p.A. has an investment.

The definition of related parties also includes key management personnel and their close relatives, of ERG S.p.A. and of its subsidiaries. Key management personnel are those who have the power and the direct or indirect responsibility for planning, managing, and controlling the activities of the Company and they include its Directors.

NOTE 37 - STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED STARTING ON 1 JANUARY 2019

As from 1 January 2019 the following standards, interpretations and amendments to existing standards, in relation to which no significant effects for the company are reported, have become applicable:

- IFRS 16 - Leases **has been applied from 1 January 2019**. For additional details, refer to the section **"First-time adoption of IFRS 16 - Leases"**.
- Amendment to I**AS 19: Plan Amendment, Curtailment or Settlement**, issued in February 2018.
- The amendments require an entity, in the case of amendment, curtailment or settlement of a defined benefit plan, to use the updated actuarial assumptions arising from the remeasurement of the net defined benefit liability or asset to determine the current service cost and the net interest for the remainder of the year after the change to the plan. In addition, the amendments: (i) clarify the procedures whereby the obligation to account for an amendment, curtailment or settlement of a plan affects the asset ceiling requirements; (ii) do not cover the accounting for "significant market fluctuations" in the absence of amendments to the plan.
- Amendments to **IAS 28 - Long-term interests in Associates and Joint Ventures**, issued in October 2017. The amendments clarify that the entity should apply the provisions of IFRS 9 - Financial Instruments to long-term interests in associates and joint ventures for which the equity method is not applied.
- **IFRIC 23 - Uncertainty over Income Tax Treatments,** issued in June 2017. The interpretation clarifies how to apply the recognition and measurement requirement of IAS 12 in case of uncertainty over income tax treatments. The uncertainty may pertain both to current taxes and to deferred taxes. The interpretation proposes that an entity should recognise a tax liability or asset under conditions of uncertainty, if it is probable that the Tax Authority will accept or not accept a determined tax treatment, examining what it is entitled to examine and having full knowledge of all information.
- In addition, the interpretation requires the entity to reassess its judgements and estimates made in the presence of a change in the facts and circumstances that modify its own expectations on the acceptability of a determined tax treatment, or the estimates made on the effects of the uncertainty, or both.

- As part of the **"Annual improvements to IFRS standards 2015-2017"**, issued in December 2017, the following standards were amended:
  - IFRS 3 and IFRS 11 – Business Combinations; the amendments clarify that a joint operator that acquires control of a business that is a joint operation, should remeasure the interest previously held in the joint venture at the fair value at the date of acquisition;
  - IFRS 11 - Joint Arrangements; the amendments clarify that if a company that has an interest in a joint venture representing a business (in accordance with IFRS 3) without exercising joint control, acquires joint control, it should not re-measure the previously held interest;
  - IAS 12 - Income Taxes: the amendments clarify that a company should account for the tax effects of the dividends (defined by IFRS 9) for income tax purposes at the time when the liability relating to the dividend due is recognised, in profit or loss, in Other Comprehensive Income (OCI) or in equity, depending on where the transactions that generated distributable earnings were recognised;
  - IAS 23 - Borrowing Costs; the amendments clarify; if any borrowings remains outstanding after the related asset is ready for its intended use or sale, becomes as part of the funds that the company borrows generally;
  - IAS 28 - Equity investments in associates and joint ventures: the IASB clarified that, while long-term interests in associates or joint ventures represent an extension of the net investment in these investees to which IAS 28 is applied, they are still subject to the provisions for impairment of IFRS 9 Financial Instruments.
  - IFRS 9: Amendments to IFRS 9 Prepayment Features with Negative Compensation are directed at allowing measurement at amortised cost or at fair value through other comprehensive income (OCI) of financial assets characterised by an early extinction option with the "negative compensation".

NOTE 38 - STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, NOT YET MANDATORILY APPLICABLE AND NOT ADOPTED EARLY BY THE COMPANY AT 31 DECEMBER 2019

Below are the new standards or amendments to the standards, applicable for annual periods beginning on or after 1 January 2019 and for which early application is allowed. However, the company has decided not to adopt them in advance for the preparation of these Financial Statements.

- Amendment to **References to the Conceptual Framework** in IFRS Standards.
- Definition of material (amendments to IAS 1 and IAS 8 - entry into force 1 January 2020).
- Interest rate benchmark reform (amendments to IFRS 9, IAS 39 and IFRS 7 - entry into force 1 January 2020).

NOTE 39 - IFRS AND IFRIC STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

- Definition of business (amendments to IFRS 3 – entry into force 1 January 2020);
- **IFRS 17 Insurance Contracts** (entry into force 1 January 2021);

Any impacts of the aforesaid Standards are currently being assessed.

NOTE 40 - PUBLICATION DATE OF THE FINANCIAL STATEMENTS

On 10 March 2020, the Board of Directors of ERG S.p.A. authorised the publication of the financial statements together with the reports by the Supervisory Bodies in compliance with the deadlines prescribed by current laws and regulations.

Genoa, 10 March 2020

on behalf of the Board of Directors

The Chairman

Edoardo Garrone

REPRESENTATIONS OF THE FINANCIAL STATEMENTS

IN ACCORDANCE WITH ART. 81-TER OF CONSOB REGULATION NO. 11971 DATED 14 MAY 1999, AS AMENDED

1. The undersigned Luca Bettonte, Chief Executive Officer of ERG S.p.A., and Paolo Luigi Merli, Manager in charge of financial reporting of ERG S.p.A., taking into account the provisions set out in Article 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998, state that the administrative and accounting procedures for the preparation of the separate financial statements:
   - were adequate given the company's characteristics and
   - were effectively applied in the period between 1 January 2019 and 31 December 2019.
2. In this regard, the following is pointed out:
   - the suitability of the administrative and accounting procedures for the preparation of the Financial Statements of ERG S.p.A. at 31 December 2019 was verified by the assessment of the system of internal control over Financial Reporting. This assessment was carried out with reference to the criteria established in the model "Internal Controls - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
   - the assessment of the System of Internal Control over Financial Reporting did not uncover any significant aspects.
3. It is furthermore stated that:
   - the Separate Financial Statements of ERG S.p.A.:
     - were prepared in accordance with the applicable International Accounting Standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, dated 19 July 2002;
     - match the underlying accounting books and records;
     - are suitable to give a true and fair view of the financial position and results of operations of the issuer and of the group of companies included in its consolidation scope;
   - the Directors' Report comprises a reliable analysis of the performance and of the result of operations, as well as of the situation of the issuer and of the group of companies included in the consolidation scope, together with a description of the main risks and uncertainties to which they are exposed.

Genoa, 10 March 2020

the Chief Executive Officer

Luca Bettonte

The Manager Responsible
for preparing the financial reports

Paolo Luigi Merli

REPORT BY THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING, PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/98

To the Shareholders' Meeting of ERG S.p.A.

The Board of Statutory Auditors of ERG S.p.A. (hereafter also referred to as "ERG" or "the Company"), pursuant to art. 153 of Legislative Decree no. 58/98 (hereafter also referred to as TUF) and called to report, to the Shareholders' Meeting convened to approve the Annual Financial Statements, about the supervisory activity performed during the financial year to fulfil its duties, any omissions and objectionable facts detected and the results for the year, as well as to formulate proposals on the Financial Statements, the related approval and any matters falling under its scope of responsibility.

The separate Annual Financial Statements and the Consolidated Financial Statements of ERG have been prepared in accordance with the standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, inclusive of all international standards that have undergone interpretation (International Financial Reporting Standards - IFRS) and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC) as well as in compliance with the measures issued by CONSOB to implement art. 9, paragraph 3 of Italian Legislative Decree no. 38/2005.

The Company's Financial Statements have been prepared in accordance with legal regulations and are presented together with the documents prescribed by the Italian Civil Code and the T.U.F. (Consolidated Finance Act).

During the financial year ended on 31 December 2019 and up to today's date, the Board of Statutory Auditors carried out supervisory activities in accordance with the rules expressed by Articles 149-151 of the TUF and of art. 19 of Legislative Decree no. 39/2010 as amended by Legislative Decree no. 135/2016, complying with the CONSOB provisions on corporate audits and on the activity of the Board of Statutory Auditors and with the indications provided in the Corporate Governance Code, taking into account the standards of behaviour recommended by the Italian National Accounting Board.

In preparing this Report, due consideration was given to Consob communications no. 1025564 of 6 April 2001 and subsequent additions (Communications, no. 3021582 of 4 April 2003 and no. 6031329 of 7 April 2006), pertaining to the content of the reports of the Boards of Statutory Auditors, and rule Q.7.1. of the Rules of Behaviour of the Board of Statutory Auditors of listed companies, promulgated by the Italian National Accounting Board.

Management Body - Appointment, term of office and operation

The Board of Directors in office on the date of this Report was appointed by the Shareholders' Meeting of ERG of 23 April

2018 and the term of office will expire on the date of the Meeting convened to approve the Financial Statements at 31 December 2020.

In the first meeting after appointment, held on 23 April 2018, the Board of Directors verified the fulfilment of the independence requirement for the majority of the Directors, and the results were communicated to the market and indicated in the Report on Corporate Governance and Ownership.

Subsequently, upon the appointment of Director Paolo Lanzoni as non-executive Director of the parent company San Quirico S.p.A. in the first half of 2019, the Board of Directors, first at its meeting of 16 July 2019 and then at the meeting of 31 October 2019, while confirming 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.

On 31 October 2019, the Board of Directors confirmed the previous assessments.

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

The Board of Statutory Auditors has agreed with the positive assessment expressed by the Nominations and Remuneration Committee, endorsed by the Board of Directors as required by application standard no. 1, paragraph 1, letter g) of the Corporate Governance Code, on the size and composition of the board of directors and its operation as well as on the size, composition and operation of the board committees.

Board of Statutory Auditors - Appointment, term of office and operation

Board of Statutory Auditors – Appointment, term of office and operation

The Board of Statutory Auditors in office at the date of this Report was appointed by the Shareholders' Meeting of 17 April 2019 and is comprised of Elena Spagnol (Chairperson), Lelio Fornabaio (Standing Auditor), Fabrizio Cavalli (Standing Auditor); Vincenzo Campo Antico, Luisella Bergero and Paolo Prandi were appointed Alternate Auditors.

In office for three financial years, it will expire on the date of the Shareholders' Meeting convened to approve the Financial Statements for the year 2021.

The appointment was made on the basis of two lists presented respectively by the majority shareholder and by some institutional investors, minority shareholders, in accordance with applicable legal regulations, rules and Articles of Association as well as in accordance with a transparent process that guarantees, inter alia, prompt and adequate information on the personal and professional characteristics of the candidates for the office.

The Chairman of the Board of Statutory Auditors and an alternate auditor were appointed from the minority list.

The composition of the Board of Statutory Auditors is in accordance with the gender balance criterion laid down in art. 148 of the T.U.F.

In the course of the meeting of 9 May 2019, the Board of Statutory Auditors verified and positively assessed the existence of the independence requirement; the verification was made on the basis of the criteria provided in the T.U.F., the Rules of behaviours of the Board of Statutory Auditors of listed companies promulgated by the Italian National Accounting Board and the Corporate Governance Code promoted by Borsa Italiana S.p.A.

The outcome of the verification was communicated to the Board of Directors for all necessary compliance, in accordance with application criterion 8.C.1. of the Corporate Governance Code and, in particular, to allow it to disclose - within the

report on corporate governance - that the members of the supervisory body fulfil the independence requirements prescribed by Article 148 of the T.U.F.
The Board of Statutory Auditors also carried out the self-assessment on its own composition and operation according to the assessment criteria already employed in past years and the results of a self-assessment questionnaire.
The self-assessment highlighted a balanced distribution of the competencies present in the Board of Statutory Auditors, mostly matured through professional experiences.
The results of the self-assessment were communicated by the Board of Statutory Auditors to the Board of Directors that endorsed them so that they, in accordance with art. 123-*bis*, paragraph 2, letter d-*bis*) of the T.U.F. can constitute and integral and substantial part of the policies of the Company.

Adoption by the Company of the Corporate Governance Code

The Company has adopted the Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A. since its first edition in 1999.
On 15 December 2015, the Board of Directors, following the Control and Risk Committee's preliminary assessment of the main amendments made, decided to adopt the Corporate Governance Code (hereafter the "Corporate Governance Code").
On 31 January 2020, the new Corporate Governance Code was published; companies shall apply it starting from the first year starting after 31 December 2020, informing the market thereof in the report on corporate governance to be published in 2022. Therefore, the Board of Directors will be called during 2020 to carry out all appropriate assessments with respect to adoption thereof.

Management and coordination activity

ERG is a subsidiary of San Quirico S.p.A. that does not, however, carry out any management and coordination activity over its subsidiary pursuant to article 2497 and ff. of the Italian Civil Code, also considering that a provision of its Articles of Association expressly prohibits the company from carrying out management and coordination activities with regard to its subsidiaries.
This circumstance is periodically assessed by the Board of Directors also on the basis of a preliminary review carried out by the Control and Risk Committee.
On the contrary, ERG carries out management and coordination activities over its direct and indirect subsidiaries without interfering with the management and operation al autonomy of the subsidiaries.

Supervisory and control activity

As part of its duties, the Board of Statutory Auditors:

- attended the Shareholders' Meetings and the Board of Directors' meetings, supervising compliance with the Articles of Association, laws and regulations that govern the operation of the Company's bodies and the enforcement of proper administration standards;
- more specifically, it attended the 10 meetings held by the Board of Directors, the 9 meetings held by the Control and

Risk Committee and the 6 meetings held by the Nominations and Remuneration Committee;

- during the financial year it carried out 15 verifications of approximately 2.30 hours each;
- held meetings with the Supervisory Body, also on the occasion of the meetings of the and Control Risk Committee and through the participation of a member of the Board in the Supervisory Body;
- oversaw, for matters under its competence, the adequacy of the organisational structure of the Company and its correct operation through meetings with the corporate top management and with the heads of the various functions.

  In this regard it should be recalled that the Board of Directors, in the course of its meeting of 2 August 2019, apointed the Corporate General Manager & CFO and the Human Capital & ICT Organisational Unit was placed within the Administration Finance Control & Procurement Department. Consequently, following the reorganisation, the areas of Group Administration, Planning, Control & Reporting, Finance, Risk Management & Corporate Finance, M&A, Investor Relations, Procurement and Human Capital & ICT report to the Corporate General Manager & CFO with the goal of placing under a single General Management Department the activities pertaining to the main services supporting the Business;
- it assessed and supervised the adequacy of the Internal Control System as well as the administrative and accounting system, but also the reliability of the latter in correctly representing all management events, through information obtained from the officers in charge of the respective functions, the examination of corporate documentation, the Internal Audit report, the analysis of the results of the work performed by the Independent Auditors and participation in the Control and Risk Committee;
- it supervised the adequacy of the mutual flow of information between ERG and its subsidiaries pursuant to art. no. 114, paragraph 2 of the T.U.F., safe-guarded by the instructions issued by the Company's management to the Group;
- it supervised the compliance with information disclosures regarding mandatory and privileged information or information requested by the supervisory authorities;
- it oversaw compliance with the "Market abuse" and "Protection of savings" regulations as well as "Internal Dealing", with particular reference to the processing of relevant and privileged information and the procedure for disseminating notices and information to the public;

  On 16 July 2019 the Board of Directors approved the amendment to the Procedure for managing and processing relevant information and privileged information and for disseminating press release and public disclosures;
- it obtained from the Directors, at least quarterly, adequate information on the activities carried out and the most significant economic, financial and asset-related transactions carried out by the Company and its subsidiaries pursuant to art. 150, paragraph 1 of the Consolidated Law on Finance (T.U.F.) In this regard, both collectively and individually, the Board has placed particular attention on checking that the transactions resolved and carried out were compliant with the law and the Company's Articles of Association and were not imprudent or risky, at odds with the resolutions passed by the Shareholders' Meeting, in potential conflict of interests or such as to compromise the integrity of the company's net worth.

  The Board of Statutory Auditors also supervised compliance with the Policies, Guidelines and procedures in force

at the Group, as well as on compliance with the processes, the outcome of which is brought to the attention of the directors to pass the related resolutions;
- it held meetings with the representatives of the Independent Auditors pursuant to art. 150, paragraph 3 of the T.U.F. and no relevant data and/or information emerged that required to be highlighted in this Report;
- it exchanged information with the Boards of Statutory Auditors of the companies that are directly and indirectly controlled by ERG on the most significant events that concerned the companies of the Group as well as on the internal control and risk management systems pursuant to art. 151, paragraphs 1 and 2 of the T.U.F. In light of the ever more international nature of the Group, the Board requested the Independent Auditors, the Compliance 262 Organisational unit and the Internal Audit department to provide information about the most significant events that involved foreign investees;
- it supervised the methods for the implementation of the corporate governance rules set out in the Corporate Governance Code adopted by the Company as adequately stated in the Report on Corporate Governance and Ownership, in accordance with art. 124-ter of the T.U.F. and art. 89-bis of the Issuers' Regulation;
- it monitored the conformity of the internal procedure concerning Related Party transactions;
- in its capacity as Internal Control and Audit Committee, it carried out the information, monitoring, control and verification activities prescribed by art. 19 Par. 1 of Italian Legislative Decree no. 39/2010;
- it participated, as part of the board's activity, in training sessions intended for Directors and Statutory Auditors.

Financial information disclosure process

The Board of Statutory Auditors has supervised the existence of regulations and procedures concerning the process for compiling and disclosing financial information. In this regard we highlight that the Report on Corporate Governance and Ownership illustrates the method adopted by the Group to define its own Internal Control and Risk Management System in relation to the financial information disclosure process at consolidated level with the objective of significantly mitigate risks and the extent of the reliability of financial information.

The Manager in charge of preparing corporate documents is Paolo Luigi Merli whom the Board of Directors has entrusted with the responsibility of:

- arrange adequate administrative and accounting procedures for the preparation of financial disclosure documents;
- monitoring the application of procedures;
- issuing to the market, jointly with the Chief Executive Officer, the certification of the adequacy and effective application of the administrative and accounting procedures for the purposes of the Group's financial disclosure.

The Manager in charge of preparing corporate documents relies on the support of the Compliance 262 Organizational Unit to verify the operation of the administrative and accounting procedures by testing controls.

The Board of Statutory Auditors acknowledges that it has received adequate information on the monitoring activity performed on corporate processes with administrative-accounting impact within the Internal Control and Risk Management System, carried out both during the year in relation to the periodic management reports and when closing the accounts for the preparation of the Financial Statements, in accordance with the monitoring and certification obligations to which ERG is subject pursuant to Law 262/05.

In particular, the Board of Statutory Auditors has acknowledged the Risk assessment for 2019, carried out by Compliance 262, as well as the half-yearly update of the testing activity pursuant to Law 262/05.

The adequacy of the administrative-accounting system was also assessed through the acquisition of information from the heads of the respective functions and the analysis of the results of the work carried out by the Independent Auditors.

Since no particular critical issues and impeding elements emerged, the Chief Executive Officer and the Manager in charge of preparing corporate documents issued the certification, in accordance with art. 81-*ter* of Issuers' Regulation and subsequent amendments and additions and with article 154-*bis* of the T.U.F.

The Board of Statutory Auditors oversaw compliance with regulations on the preparation and publications of the Half-yearly Financial Report and on Interim Reports on Operations, as well as their manner of drafting and the correct application of accounting standards, using also the information obtained from the Independent Auditors.

The Board acknowledged that the Company has continued, on a voluntary basis, the quarterly Reports complying with the deadlines prescribed by current regulations.

In accordance with Bank of Italy/Consob/Isvap joint Document no. 4 of 3 March 2010, it is acknowledged that on 21 February 2020 the Board of Directors of ERG approved the approach for the impairment test procedure that meets the provisions of IAS 36, autonomously and before the time of the approval of the financial reports.

The Board of Statutory Auditors analysed and discussed the supporting documentation at a joint meeting with the Control and Risk Committee and, having verified the consistency with the previously adopted approach, it deemed the procedure to be correct.

The results of the impairments tests are adequately detailed in the Notes to the Financial Statements.

Considering that the responsibility for auditing the accounts is entrusted to the Independent Auditors, the Board of Statutory Auditors oversaw the general setup of the separate financial statements and of the Consolidated Financial Statements and their compliance with the rules governing their formation and structure.

Effectiveness of Internal Control and Risk Management System

The Board of Statutory Auditors has assessed and overseen the adequacy of the internal control and the effectiveness of the internal control and risk management system.

In performing its supervisory activity, the Board of Statutory Auditors has maintained an ever open channel of communication with the Control Functions.

The Board of Statutory Auditors acknowledges that it has verified the most relevant activities carried out by the overall internal control and risk management System by attending the meetings of the Control and Risk Committee:

- with the Director in charge of the internal control and risk management system;
- with the Internal Audit function;
- with the Supervisory Body (through the presence of a member of the Board of Statutory Auditors in the Body);
- with compliance per Italian Legislative Decree no. 231/2001 and anti-corruption

- with the Group Risk Management & Corporate Finance;
- with the Compliance functions, dedicated to overseeing compliance matters, with particular references to protection against the legal and compliance risk, including the risk of the perpetration of criminal offences to the detriment or in the interest of the ERG Group;
- with the Independent Auditors.

The Internal Control and Risk Management System of the ERG Group complies with the principles set out in the Corporate Governance Code in force and, more in general, it is consistent with domestic and international best practices.

Within the scope of this activity, in particular, the Board of Statutory Auditors received and examined:

- the periodic reports on activities prepared by the Internal Control and Risk Committee and by the Internal Audit Division;
- the reports prepared by the Internal Audit Division, after completing the verification and monitoring activities, with the related findings and recommended actions as well as the controls over the implementation of said corrective actions;
- the periodical updates on the development of the risk management process, the outcome of the monitoring and assessment activities carried out by the Internal Audit Division and Group Risk Management & Corporate Finance as well as the objectives achieved.

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

The current Supervisory Body, appointed, in its current composition, by the Board of Directors on 23 April 2018 is comprised of (i) an external member represented by the Company's Standing Auditor (Lelio Fornabaio), as the Chairman and by (ii) two internal members, identified by the Head of Corporate Affairs (Giovanni Marco Scollo) and the Chief Audit Officer (Gabriello Maggini).

The organisational changes (i.e. appointment of the General Manager of ERG S.p.A.) and the important regulatory changes (including, in particular, the offence of "trafficking unlawful influences" and some tax-related offences) that occurred in 2019 made it necessary to carry out a new risk assessment, which is still ongoing, for the purposes of revising the Model 231. Moreover, in 2019 the Models 231 of 21 companies of the wind sector were revised, while a company adopted a Model 231 for the first time.

The Board of Statutory Auditors has examined the periodic reports on the activity performed by the Supervisory Body every six months and has examined the related activity plan and budget for 2019.

Similarly, the Board took note of the Compliance activity pursuant to Legislative Decree 231/2001 and the anti-corruption activity as well as the related 2020 activity plan.

The Report on Operations lists the main risk identified, monitored and managed.

Following the activity carried out in the period, as detailed above, the Board of Statutory Auditors shared the positive assessment expressed by the Control and Risk Committee with regard to the adequacy of the internal control and risk management system.

Moreover, it is acknowledged that the Independent Auditors KPMG S.p.A., engaged to carry out the Company's statutory audit for the 2018-2026 period, have carried out the verifications prescribed by the legal regulations and, at the periodical meetings with the Board of Statutory Auditors, it did not highlight any exceptions.

Supervisory activity on the statutory audit and independence of the Independent Auditors, fees and non-audit services

In accordance with art. 19 of Legislative Decree no. 39/2010, the Board of Statutory Auditors, identified in that articles as the "Internal Control and Audit Committee", has performed the prescribed supervision on the activity carried out by the Independent Auditors.

The Board of Statutory Auditors monitored the audit of the annual and consolidated accounts by exchanging information and opinions with the Independent Auditors, examining the 2019 audit work plan, verifying its adequacy and promptly exchanging data and information relevant to the performance of the respective tasks without highlighting particular findings to be communicated or facts deemed to be reprehensible that required the drafting of specific reports pursuant to art. 155 paragraph 2 of the T.U.F.

On 26 March 2020 the Independent Auditors, KPMG S.p.A. issued, pursuant to art. 14 of Legislative Decree no. 39/2010 and art. 10 of the EU Regulation, the Audit Report on the Financial Statements at 31 December 2019.

As regards the opinions and representations, in their Report on the Annual Financial Statements and on the Consolidated Financial Statements, the Independent Auditors have:

- expressed an opinion which states that the Financial Statements of ERG provide a true and fair view of the equity and financial position of ERG at 31 December 2019, of the economic result and cash flows for the financial year ended on that date in accordance with the International Financial Reporting Standards adopted by the European Union, as well as to the provisions issued to implement art. 9 of Legislative Decree no. 38/05;
- issued an opinion of consistency and compliance which states that the Reports on Operations and some specific information contained in the "Report on Corporate Governance and Ownership" indicated in article 123-*bis*, paragraph 4 of the T.U.F., whose responsibility falls onto the directors of the Company, are consistent with the financial statements as at 31 December 2019 and were drafted in compliance with the law.
- declared that they had nothing to report with regard to possible significant errors in the Report on Operations, based on the knowledge and understanding of the company and the related context obtained during the audit.

On 26 March 2020 the Independent Auditors also presented the Board of Statutory Auditors with the Additional Report required by art. 11 of the EU Regulation, which reveals that no fundamental issues have emerged during the audit nor are there significant deficiencies in the internal control and risk management system in relation to the financial disclosure process deserving to be brought to the attention of the managers in charge of governance activities. Pursuant to art. 19, paragraph 1 of Legislative Decree 39/2010, this report will be transmitted to the Board of Directors, through its Chairman, by the Board of Statutory Auditors that has made no specific observations.

On the matter of independence, the Board of Statutory Auditors:

- performed its duties per art. 1, par. 1, Letter d) of Italian Legislative Decree no. 39/2010 as amended by Italian Legislative Decree no. 135/2016 verifying and monitoring the independence of the Independent Auditors, in accordance with articles 10, 10-*bis*, 10-*ter*, 10-*quater* and 17 of Italian Legislative Decree no. 39/2010 and art. 6 of Regulation EU no. 537/2014 and the adequacy of the performance of the services other than auditing, in accordance with art. 5 of the aforementioned Regulation;
- reviewed the Additional Report for the Internal Control and Audit Committee prescribed by art. 11 of Regulation EU no. 537/2014 acknowledging the content of the Transparency Report published by the Independent Auditors on its Website as prescribed by the same Regulation;
- received the declaration on their independence, as required by art. 6 of the EU Regulation, which does not highlight situations that may jeopardise their independence.

In this regard the Company, with the Board's support, in 2019 defined a new procedure directed at regulating the assignment of non-audit tasks to the Independent Auditors.

The fees for the non-audit services rendered in 2019 by the Independent Auditors KPMG or by other companies in the network in favour of the companies of the ERG Group are shown in detail in the Accompanying Notes, to which reference is made and in relation to which the Board of Statutory Auditors has no observations.

On the basis of the information acquired and the activities performed, no critical aspects emerged in relation to the independence of the Independent Auditors and the Board of Statutory Auditors has no relevant aspects to be reported to the Shareholders' Meeting.

Consolidated declaration of non-financial nature pursuant to Legislative Decree 254/2016 ("DNF")

Pursuant to art. 2 of Legislative Decree 254/2016, ERG must prepare the DNF for each financial year as it has exceeded the parameters required for its presentation.

This Declaration was prepared by ERG as a separate Report from the Report on Operations and was approved by the Board of Directors on 10 March 2020 and made available to the Board of Statutory Auditors within the deadline set by the law.

The Board of Statutory Auditors is in charge of control in line with the rules governing the consolidated financial statements as regards the adequacy of the organizational, administrative, reporting and control system.

The Independent Auditors in charge of the audit of the Consolidated Financial Statements upon being duly engaged are responsible for verifying the issuance of the DNF as well as verifying the correctness of the information reported and attesting that the requested information complies with the requirements of Legislative Decree no. 254/2016 and in accordance with the principles, methodologies and methods provided for in articles 3 and 4. This certification was issued on 26 March 2020 without exceptions.

The Board of Statutory Auditors, through periodic meetings with the internal function of ERG that deals with the management of the reporting process, during which it received updates on the progress of the process and on the implementation of the data collection and indicators (KPI) system, and meetings with the Internal Audit function, which the Board required to monitor the processes that feed the DNF and the related KPI, has monitored the process of non-financial reporting and therefore compliance with the provisions of the law on the methods and timing of publication of the DNF, the subjective and objective scope of application, compliance with the comply or explain principle in terms of policies implemented, and on the adequacy of the organizational, administrative, and reporting and control system prepared by ERG in order to guarantee a correct and complete representation in the DNF of the business activity, its results and its impacts with regard to the non-financial topics.

The Board reports that, in the course of the checks carried out as specified above, no elements of non-conformity of the DNF emerged with respect to the legislative provisions that regulate its preparation and publication.

Significant transactions and events

On the basis of the information acquired, the analyses carried out as part of the supervisory activity showed that the most significant, financial and asset-related transactions carried out by the Company, also through directly owned companies are those described below and more fully illustrated in the Report on Operations and in the Notes to the Financial Statements and in the DNF:

- Commissioning of two new wind farms in France for a total of 31 MW (Parc Eolien de la Vallée de Torfou - 17.6 MW and Parc Eolien de la Vallée de l'Aa - 13.2 MW), exceeding 300 MW installed in the Country;
- 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;
- Placement of a non-convertible 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;
- 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 authorised capacity of 25 MW;
- Signing of an agreement with Profond Finanzgesellschaft AG, based in Zurich, for the acquisition of 100% of "Les Moulins de Frouges S.a.s.", a French company owning six wind farms with total installed capacity of 52 MW located in the Hauts-de-France region in Northern France;
- Parc Eolien du Pays a Part S.a.r.l. won the auction for a 18 MW wind farm in France;
- The construction and commissioning phase of Wind Park Linda, a wind farm situated in Germany, with a power of 21.6 MW, was completed;
- Execution 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;
- 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;
- 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.

In addition, it is pointed out that 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 rating of BBB-

Furthermore, it is worth noting that at the meetings with the functions and at the meetings of the Board of Directors, the Board of Statutory Auditors was provided information on:

- pending tax and legal disputes;
- the evolution of the complex reference legal framework.

All transactions indicated above have been adequately illustrated at the meetings of the Board of Directors to pass the resolutions required and fully disclosed in the Notes to the Financial Statements as well as in the Report on Operations for the 2019 financial year, which also provides a complete update of the evolution of the complex regulatory framework.

Significant events after the end of the year

The Board observes that at the closing date of the present Report, a massive health emergency has been ongoing as a result of the spread of the COVID-19 virus. In consideration of this emergency, the Italian authorities promulgated rules, maintaining the option of further tightening their restrictions from time to time. These restrictions impose severe limitations to people's circulation and forbid gatherings, as well as strict health care protocols to protect people specifically at their workplace and, most recently, they limited for some sectors the possibility of continuing their production activities until 3 April. ERG's activity is not among those subject to limitation.

In view of the emergency, on 9 March 2020, ERG proactively extended Smart Working to all working days of the week until 3 April 3 2020 (with the possibility of considering a further extension on the basis of the evolution of the situation). This possibility was extended to the employees of all Italian and foreign locations of the Group whenever this mode of working is compatible with the actual performance of assigned duties, assuring the utmost attention in assuring the business continuity and safety of its production sites.

The Chief Executive Officer and the CGM&CFO constantly kept the Board of Statutory Auditors up to date illustrating the initiatives taken, both with reference to the Italian and foreign business and with reference to personnel, highlighting a stable situation that, at this time, did not have any particular impact either in financial or in economic terms.

In relation to the annual Shareholders' Meeting, called for 21 April 21 2020, the Board notes that, with regard to the aforementioned restrictive rules imposed by the Authorities, the ERG Board of Directors, at its extraordinary meeting on 21 March, made an addition to the call for the ordinary and extraordinary Shareholders' Meeting providing for attendance and representation in the Meeting solely through the designated representative and for the possibility for the administration and supervisory bodies of the Company, as well as, when allowed, for the designated representative, through telecommunication media.

The addition is in line with the extraordinary provisions introduced by art. 106 of Italian Legislative Decree no. 18 of 17 March 2020.

The Board assures the utmost attention, in close coordination with the administrative body, to monitor the economic and financial impacts which the COVID-19 pandemic will cause in the market and hence also for the Company.

Atypical and/or unusual transactions and reports pursuant to art. 2408 of the Italian Civil Code

As a result of the supervision and control activity carried out during the year, the Board of Statutory Auditors can certify and note that:

- in the performance of the activity, no such omissions, irregularities or objectionable or otherwise significant facts emerged, that would require to be reported to the supervisory bodies or mentioned herein;
- the Board of Statutory Auditors did not receive any reports in accordance with art. 2408 of the Italian Civil Code or complaints by third parties;
- no transactions were identified, either with third parties or intra-group and/or with related parties, that appeared atypical or unusual by their contents, nature, dimensions and timing.

In August 2019, the company received an information request per Article 115 of the TUF by CONSOB, to which it promptly replied. After the request, no further request were received from the supervisory authority.

Opinions and proposals

The Board of Statutory Auditors also acknowledged that:

- has issued its opinion pursuant to art. 2389 of the Italian Civil Code also in light of the assessments made by the Nominations and Remuneration Committee with regard to the fees proposed for the directors vested with special offices and to the updating of the Remuneration Policy;
- it expressed itself in view of the resolutions to be passed by the Board of Directors, as expressly required by the Corporate Governance Code - art. 7, criterion 7.C.1, 7.C.2 in relation to (i) the remuneration due to the person in charge of the Internal Audit, (ii) the 2020 Internal Audit activity plan and the adequacy of the resources allocated, (iii) the correct use of accounting principles and their uniformity for the purposes of the Report on the separate and consolidated financial statements.

Infra-group and related-party transactions

The Board of Statutory Auditors verified infra-group and/or related-party transactions that mostly relate to transactions carried out with rationalization and economic objectives; they are part of ordinary transactions, are governed by market conditions and are illustrated in the Report on Operations and in the Notes to the Financial Statements.

In particular, the Board of Statutory Auditors examined and shared the document containing the main income data of the infra-group service agreements for the 2019 financial year, considering as adequate the analysis carried out to identify the criteria for allocating costs to the individual companies based on the services used.

Treasury shares

At 31 December 2019 ERG holds 1,450,080 ordinary treasury shares, equal to 0.965% of its share capital.

Remuneration Policy

On 10 March 2020 the Company revised the Remuneration Policy of Board of Directors members and of Key Managers in line with the provisions of the Corporate Governance Code.

The Board of Statutory Auditors verified the adequacy and the compliance with the regulatory framework of the remuneration policies and practices adopted by ERG.

Proposal to the Shareholders' Meeting

Based on the supervisory activity exercised, the Board of Statutory Auditors did not observe specific critical issues, omissions, objectionable facts or irregularities and does not deem it necessary to exercise its authority to formulate proposals to the Shareholders' Meeting in accordance with art. 153, par. 2, of the T.U.F.

Having then acknowledged the results expressed by the financial statements and by the content of the Report on operations, of the content of the certification of the financial statements signed by the Chief Executive Officer and by the Manager in charge of preparing corporate documents and the Report prepared by the Independent Auditors, the Board of Statutory Auditors expresses its favourable opinion to the approval of the Financial Statements as at 31 December 2019 and has no objections to make regarding the proposed resolution presented by the Board of Directors as formulated in the Report on Operations.

Turin, 26 March 2020

The Board of Statutory Auditors

(Chairperson Ms. Elena Spagnol)

(Standing Auditor Mr Lelio Fornabaio)

(Standing Auditor Mr. Fabrizio Cavalli)

INDEPENDENT AUDITORS' REPORT

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
Piazza della Vittoria, 15 int. 11
16121 GENOVA GE
Telefono +39 010 564992
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
ERG S.p.A.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of ERG S.p.A. (the "Company"), which comprise the statement of financial position as at 31 December 2019, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of ERG S.p.A. as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of ERG S.p.A. in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

ERG S.p.A.
Independent auditors' report
31 December 2019

Measurement of other current and non-current provisions

Notes to the separate financial statements: Use of estimates – Risks and uncertainties, 11) Other provisions and 17) Contingent liabilities and disputes

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2019 include other current and non-current provisions of €9 million and €81 million, respectively. The other non-current provisions mainly comprise the Provision for disposed businesses of €76 million, which the directors estimated with the support of the relevant corporate departments and their legal and tax advisors. It shows the estimated environmental, legal and tax liabilities relating to the "Oil" coastal refining and integrated downstream businesses whose disposal was completed on 10 January 2018 with the sale of the investment in TotalErg S.p.A.. Measuring these provisions is a complex activity, with a high degree of subjectivity, and entails directors' estimates about the outcome of civil, administrative and fiscal disputes, in some cases dating back in time, the risk of losing, the timing for their settlement and the related effects on the separate financial statements. For the above reasons, we believe that the measurement of other current and non-current provisions is a key audit matter.	Our audit procedures, which also involved our own tax specialists, included: — updating our understanding of the process for the measurement of the effect of legal disputes and assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of relevant controls; — analysing the discrepancies between past years' estimates of the effect of legal disputes and actual figures resulting from their subsequent settlement, in order to understand the accuracy of the estimation process; — sending written requests for information to the advisors assisting the Company and discussing with the internal legal department about the assessment of the risk of losing pending disputes and the quantification of the related liability; — for the main disputes subject to estimate, analysing the assumptions used to determine their effect through discussions with the relevant internal departments and analysis of the supporting documentation; — for the main disputes subject to estimate, discussing assumptions or scenarios alternative to those used to calculate the effect of legal disputes and the reasons for their rejection with the relevant internal departments; — analysing the events after the reporting date that provide information useful for an assessment of the provisions; — assessing the appropriateness of the disclosures provided in the notes to the separate financial statements about the other provisions and significant contingent liabilities.

Responsibilities of the Company's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Company's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 23 April 2018, the shareholders of ERG S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2018 to 31 December 2026.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of ERG S.p.A. are responsible for the preparation of the directors' report and the report on corporate governance and ownership at 31 December 2019 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership indicated by article 123-bis.4 of Legislative decree no. 58/98 with the Company's separate financial statements at 31 December 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership referred to above are consistent with the Company's separate financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Genoa, 26 March 2020

KPMG S.p.A.

(signed on the original)

Luisa Polignano
Director of Audit

FINANCIAL STATEMENTS OF THE MAIN SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION

(Euro Thousand)	ERG Power Generation S.p.A.	ERG Power S.r.l.	ERG Hydro S.r.l.	Gruppo ERG Power Generation
Intangible fixed assets	3,272	668	1,180	857,762
Goodwill	2,628	–	152,447	220,945
Property, plant and equipment	8,074	261,055	433,728	2,323,282
Equity investments	2,111,047	10,866	–	13,342
Other non-current financial assets	509,113	34	33	39,427
Deferred tax assets	5,644	1,956	3,610	41,495
Other non-current assets	11,816	167	–	40,945
Non-current assets	**2,651,593**	**274,745**	**590,999**	**3,537,200**
Inventories	12,383	5,813	5	22,273
Trade receivables	99,405	17,499	20,786	193,471
Other receivables and current assets	49,736	1,110	14,164	122,340
Current financial assets	17,234	288	242,460	11,797
Cash and cash equivalents	8,892	–	1,694	172,902
Current assets	**187,650**	**24,709**	**279,110**	**522,783**
Discontinued operations	**–**	**–**	**–**	
TOTAL ASSETS	**2,839,242**	**299,454**	**870,109**	**4,059,983**
Group Shareholders'equity	1,987,894	215,403	814,124	2,122,034
Shareholders' equity attributable to the controlling shareholder	**1,987,894**	**215,403**	**814,124**	**2.122.034**
Minorities	–	–	–	11,530
Group Shareholders'equity				**2,133,564**
Employees' severance indemnities	2,811	–	743	4,215
Deferred tax liabilities	–	1,108	41,272	207,459
Provisions for non-current liabilities and charges	25	–	195	58,398
Non current financial liabilities	1,722	4,382	186	829,566
Other non current liabilities	–	–	–	31,891
Non-current liabilities	**4,558**	**5,490**	**42,396**	**1,131,529**
Provisions for current liabilities and charges	3,048	–	276	42,635
Trade payables	89,590	12,128	6,649	78,689
Current financial liabilities	725,414	60,854	173	613,766
Other current liabilities	28,737	5,579	6,493	59,800
Current liabilities	**846,790**	**78,561**	**13,589**	**794,891**
Liabilities held for sale	**–**	**–**	**–**	**–**
TOTAL LIABILITIES AND EQUITY	**2,839,242**	**299,454**	**870,109**	**4,059,983**

INCOME STATEMENT

(Euro Thousand)	ERG Power Generation S.p.A.	ERG Power S.r.l.	ERG Hydro S.r.l.	Gruppo ERG Power Generation
Revenues	661,895	102,619	117,887	1,021,768
Other incomes	6,917	12	4,359	13,089
Costs for purchases	(469,114)	(3,044)	(1,465)	(290,620)
Costs for services and other operating costs	(174,174)	(32,880)	(32,016)	(191,700)
Personnel Costs	(28,628)	–	(5,472)	(40,057)
EBITDA	**(3,103)**	**66,707**	**83,293**	**512,479**
Amortisation, depreciation and write-downs of fixed assets	(3,358)	(33,262)	(23,568)	(300,186)
EBIT	**(6,461)**	**33,445**	**59,725**	**212,293**
Financial expenses	23,401	22	292	43,118
Financial charges	(16,035)	(4,556)	(4)	(171,283)
Net financial income (expeses)	**7,366**	**(4,533)**	**287**	**(128,165)**
Net income (loss) from investments carried at equity	–	–	–	112
Other net income (loss) from equity investment	**134,146**	**–**	**–**	**(312)**
Income (loss) from equity investments	**134,146**	**–**	**–**	**(200)**
Profit (loss) before taxes	**135,051**	**28,911**	**60,012**	**83,928**
Income taxes	2,279	(7,766)	(17,049)	(22,286)
Net profit (loss) from continuing operations	**137,330**	**21,145**	**42,964**	**61,642**
Net profit (loss) from discontinued operations	–	–	–	–
Net profit (loss) for the period	**137,330**	**21,145**	**42,964**	**61,642**
Minority interests	–	–	–	(1,218)
GROUP'S NET PROFIT (LOSS)	**137,330**	**21,145**	**42,964**	**60,424**

ERG S.P.A.

Torre WTC

via De Marini, 1 - 16149 Genoa - Italy

Phone 0102401 - Fax 0102401585

www.erg.eu

REGISTER OFFICE

via De Marini, 1 - 16149 Genoa - Italy

Share Capital EUR 15.032.000,00 fully paid

R.E.A. Genoa n. 354265

Company Register Genoa

and Fiscal Code 94040720107

VAT 10122410151

ERG S.p.A. - March 2020
This publication is available in pdf format at www.erg.eu

Written by: Group Adminstration
erg@legalmail.it

Editing: Corporate Image
communication@erg.eu

www.erg.eu