Tirreno Power

«The commitment and pursuit of continuous improvement has allowed the company to reach excellent levels of plant efficiency and a return to profit.»

Financial Statements as at December 31, 2018

Tirreno Power sites in Italy

TIRRENO POWER SPA

Registered Office: Via Barberini 47, Rome
Share Capital Euro 60,516,142.00 fully paid
VAT no., Fiscal Code and Business Register of Rome n. 07242841000
Administrative Business Registry n. 1019536
Administrative office and Naples facility: Stradone Vigliena 39, Naples
Torrevaldaliga facility: Via Aurelia 2, Civitavecchia (Rome)
Vado Ligure facility: Via A. Diaz 128, Valleggia of Quiliano (Savona)
Renewable Sources Sector: Corso Torino 1, Genoa

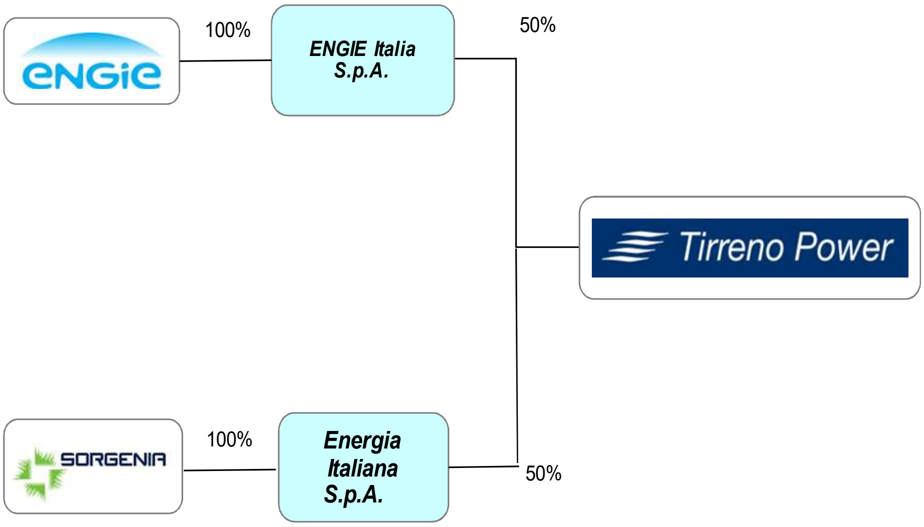
INDEX

MANAGEMENT REPORT

Introduction

Ownership structure

The Company, at December 31, 2018, is jointly owned by Energia Italiana S.p.A. and Engie Italia S.p.A..



Corporate bodies

Board of Directors	
Chairman	Giuseppe Gatti **
Directors	Alberto Bigi Giovanni Chiura Aldo Chiarini Angelica Orlando Jurgen Fryges Antonio Cardani * Roberto Garbati *

Board of Statutory Auditors	
Chairman	Riccardo Zingales
Statutory Auditors	Gianluca Marini Maurizio Lauri
Alternate auditors	Hinna Danesi Goffredo Panagia Giuseppe

Independent Auditors
EY S.p.A.

* *Independent directors, as set forth in the Company's Articles of Association*

** *Appointed by means of shareholders' meeting resolution of 4.16.2018*

Operating structure

The Company is active in the production and sale of electricity through the management, in Italy, of some thermoelectric and renewable plants along the Tyrrhenian Sea area.

The following table summarises the main characteristics of such facilities:

Gross reference capacity - commercial operation (MW)			
Production Units	**as at 12/31/2018**	**as at 12/31/2017**	**Region**
Vado Ligure plant	793	793	Liguria
Torrevaldaliga plant	1,176	1,176	Lazio
Naples plant	401	401	Campania
Thermoelectric total	**2,370**	**2,370**	
Total - Renewable Sources	**75**	**75**	Primarily in Liguria
Total	**2,445**	**2,445**	

With its production plants, the Company is able to generate electricity with high flexibility and competitiveness:

- the thermoelectric production units consist of 4 gas-powered combined-cycle plants;
- the renewable sources include 18 hydroelectric plants (divided equally between "run-of-river" and "power regulation" stations) located along the entire Ligurian Apennines.

As already reported in the previous financial statements, on June 6, 2016, the Company's Board of Directors held that the conditions did not exist to allow a future return to service of coal-fired units 3 and 4 of the Vado Ligure plant, for a total capacity of 660 MW, that were already discontinued since they were subject to a seizure order from the Court of Savona starting from March 2014.

Tirreno Power - fully aware that the definitive cessation of activities in the coal-fired plants in Vado Ligure deprives the area of one of the most important industrial companies and employers - has launched an initiative for the re-industrialisation of the site, aimed at encouraging the installation of new companies with the objective of contributing to the search for solutions that may provide future jobs for workers and growth prospects for the area.

After having segmented the functional areas for operation of the gas-powered plant, the initiative made an area of approximately 30 hectares available, initially divided into five homogeneous lots.

In August 2018, the company Vernazza Autogru had formalised an interest in purchasing - in a lump sum - an area of roughly 27 hectares for a full payment of around Euro 3 million based on the 'as is' proviso, according to which Vernazza Autogru will acquire such areas, also assuming the responsibility for all the necessary demolitions based on a timetable agreed between the parties. If the absence of said discharge, the Company will carry out said demolitions at the expense of Vernazza Autogru.

The parties then agreed on a process for transfer of the areas, whose main stages are: the signing of the binding purchase proposal in Rome on August 8, 2018 and, subsequently, the signing of the preliminary sale agreement, on October 12, 2018, with the simultaneous collection of the agreed down payments.

As set forth in the Preliminary Sale Agreement, the final purchase contract for the building complex will be stipulated by May 31, 2019.

Lastly, in January 2019, the company Vernazza Autogru submitted an additional purchase proposal to the one above, also for the purchase of the areas (around 2 hectares) on which simple structures and buildings have been erected.

This offer was also accepted by the BoD, although subject to conditions precedent connected with any dismantling obligations that could be set forth in the new AIA (integrated environmental authorisation) during the phase of release and cancellation of the order for the seizure of the areas currently pending at the Public Prosecutor of Savona.

The agreed price is Euro 100 thousand, again based on the "as is" proviso, i.e. with dismantling costs borne by the purchaser. Please refer to the explanatory notes for the accounting effects.

For disclosure completeness regarding the events related to coal plants, it should be noted that criminal proceedings were opened in 2013 by the Public Prosecutor at the Court of Savona due to an environmental disaster, which saw some senior management and employees of Tirreno Power as suspects, for the offences set out in article 434, paragraphs 1 and 2 of the criminal code. On November 15, 2018, Tirreno Power was notified of a court summons as the civilly liable party in the criminal proceedings. Some of the main phases of said proceedings are reported hereunder.

- On March 11, 2014 the G.I.P. (Preliminary Judge) of the Court of Savona had ordered the preventive seizure of the VL3 and VL4 coal units.
- On June 18, 2015 Tirreno Power was informed of the notice of conclusion of preliminary investigations, pursuant to art. 415 bis of the Code of Criminal Procedure. In fact, on October 25, 2016, the Public Ministers filed a request to the Office of the Preliminary Judge to postpone the proceedings for 26 defendants charged with culpable disaster pursuant to art. 434, paragraph 2 and art. 449 of the Code of Criminal Procedure. With respect to the previous notice of conclusion of the preliminary investigations, notified on June 17, 2015, inter alia, the charge of multiple manslaughter was removed, with the formation of new proceedings no. 1753/16- 21 R.G.N.R. (General Criminal Records Registry). For the latter proceedings, on October 27, 2018, the Preliminary Judge ordered the dismissal of the case pursuant to art. 409 of the Code of Criminal Procedure.
- On December 23, 2016, the Ministry of Economic Development accepted the Company's request, submitted on October 7, 2016, to disconnect coal-powered units VL3 and VL4 from the National Electricity Network.
- On January 28, 2017, the Preliminary Judge of the Court of Rome issued a judgment of dismissal pursuant to articles 409 and 410 of the Code of Criminal Procedure, upholding the request from the Public Prosecutor at the Court of Rome, in relation to the offence of abuse of office contested in the notice of closing of the preliminary investigations of July 20, 2016

vis-a-vis institutional and technical top management of the Liguria Region, the Province of Savona and the Municipalities concerned, as well as against an executive of Tirreno Power, abuse allegedly committed in order to obtain the AIA for the VL3 and VL4 coal-powered plants.

- At the preliminary hearing notice on January 25, 2018, the Preliminary Judge admitted as civil parties in the proceedings the Environmental Associations (Medicina Democratica-Movimento per la Salute, Greenpeace Onlus – Uniti per la Salute, Legambiente Associazione Onlus, Associazione WWF-O.N.G. Onlus, Associazione A.N.P.A.N.A) that had filed their appearance on October 26, 2017 and the Ministry of Environment and Land and Sea Protection, appearing on November 30, 2017, while it excluded the appearance of three private citizens whose notice of appearance was filed on January 25, 2018. The last preliminary hearing was held on April 12, 2018. The preliminary judge committed all defendants to trial, setting the preliminary hearing for December 11, 2018.
- Tirreno Power was served notice, on November 15, 2018, of the court summons as the civilly liable party in criminal proceedings no. 5917/13. This provision of the preliminary judge upholds the request of the MATTM (Ministry of Environment and Land and Sea Protection) for the summons of the civilly liable party. Subsequently, by means of deed of November 21, 2018, filed at the Court on December 18, 2018, Tirreno Power appeared at the proceedings as the civilly liable party.
- At the hearing on December 11, 2018, the Judge, having ascertained the completion of the notification of a decree of committal for trial, therefore ordered a renewal of the summons, adjourning the proceedings to January 31, 2019. At the same hearing, some defence lawyers present in the courtroom pre-announced the appearance of the new civil parties, namely the ADOC (consumer protection association) associations, Art. 32, Codacons, the Ministry of Health, and an unspecified number of physical persons.
- Five associations and 48 physical persons filed their deed of appearance as civil party on January 31, 2019. The Company still does not have the associated deeds of appearance in its possession, therefore, at present, it has no knowledge of the compensation claims.

Please refer to point 29.2 in the notes to the financial statements for the evaluations regarding the contingent liabilities connected with the provisions that concern the coal units of the Vado Ligure site.

Other events connected to the company's production plants.

It should be noted that, as a result of a flood event that occurred in November 2016, which involved the dam owned by Tirreno Power in the Municipality of Millesimo, the Municipality submitted a complaint to the Public Prosecutor of Savona against unknown persons.

On July 23, 2018, the PM asked the Preliminary Judge at the Court of Savona to dismiss the proceedings. The Municipality of Millesimo filed its opposition to the dismissal by requesting a continuation of investigations. A decision by the Preliminary Judge is pending.

In this regard, it should also be represented that, on November 19, 2018, said Municipality of Millesimo filed an appeal before the Civil Court of Savona, for a preventive technical assessment pursuant to art. 696 and art. 696-bis of the code of criminal procedure, summoning Tirreno Power and asking the Judge to ascertain, among other things, the state of the locations and any dangerousness of the river Bormida of Millesimo in the event of a repeat of the alluvial precipitation similar to that which occurred in

November 2016 and to ascertain and describe any necessary measures to ensure the safety of the Tirreno Power plants, determining the amount of the damages suffered by the Municipality of Millesimo in the aforementioned flood.

By means of measure of December 4, 2018, the President of the Civil Section of the Court of Savona, set the hearing for December 21, 2018 for the appearance parties and, subsequently, by means of measure issued on January 2, 2019, said President of the Civil Section of the Court of Savona completely rejected the appeal of the Municipality of Millesimo, declaring it inadmissible and groundless in merit, owing to the non-existence of any factual elements forming the basis of the appeal. The Judge also sentenced the Municipality of Millesimo to reimburse legal costs.

Vado Ligure Plant

«*Net income of more than Euro 40 million; ROI of 9%; reduction in financial payables of more than 10%.*»

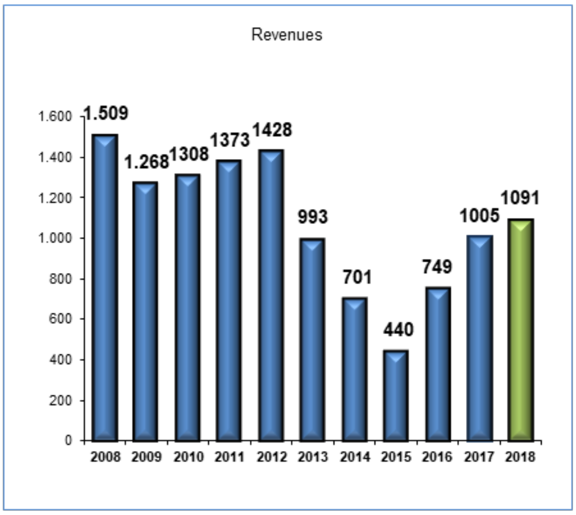
Focus on Results

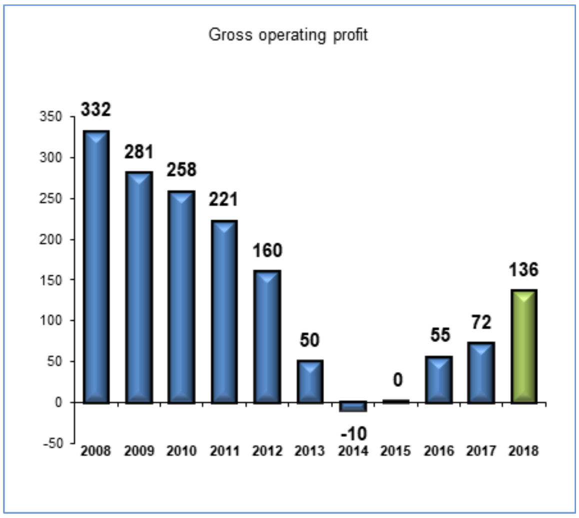
With the objective of presenting the results and analysing the financial structure, the tables below contain some "alternative performance indicators" which management feels are most representative of the economic and financial results that are contained in the reclassified schedules that differ from those set forth in the international accounting standards adopted. In this section we provide the criteria used to calculate these indicators, in line with ESMA recommendation Guidelines on Alternative Performance Measures. The data, unless otherwise specified, may be directly deduced from the financial statements.

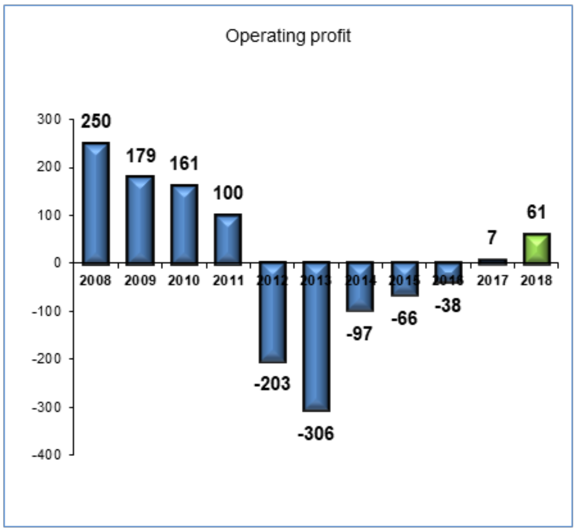
Highlights of the Company

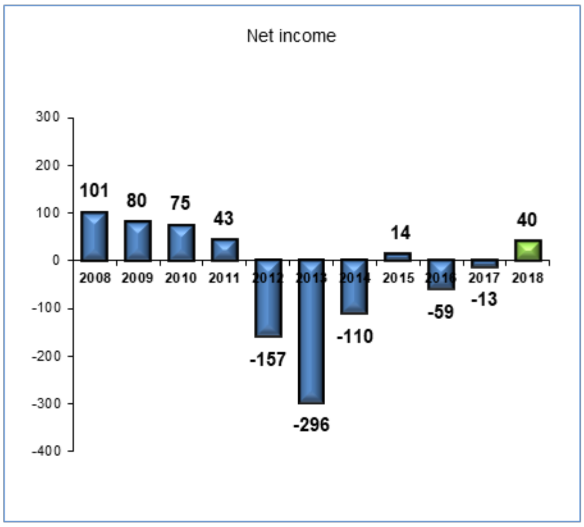
	12.31.2018	12.31.2017	Change %
Income statement data (millions of Euro)			
Total revenues	1,090.7	1,005.0	8.5%
-of which revenues from energy sales	*1,086.5*	*999.1*	*8.7%*
Gross operating profit	136.3	71.9	*89.5%*
EBITDA (include commodity derivatives)	133.2	63.2	110.6%
Operating profit	60.8	7.3	737.5%
Net income for the period	40.2	(13.5)	398.6%
Equity and financial data (millions of Euro)			
Investments in fixed assets	13.5	31.9	-57.7%
Cash flow from operating activities	66.5	53.1	25.4%
Shareholders' equity	226.3	185.6	21.9%
Net capital employed	670.6	682.9	-1.8%
Net financial debt	444.3	497.3	-10.7%
Debt/Equity	2.0	2.7	-26.7%
Operating data			
Energy sold (GWh)	14,601	16,464	-11.3%
Energy Injected (GWh)	5,915	6,579	-10.1%
Average amount (units)	236	332	-28.7%
Economic/financial indicators			
Unit revenue from energy sale (€/MWh)	74.4	60.7	22.6%
ROS (Return on Sales)	5.6%	0.7%	671.7%
ROI (Return on Investment)	9.0%	1.0%	763.9%
Market indicators (annual averages)			
Price of Brent crude oil ($/barrel) (source "Platt's")	71.04	54.27	30.9%
US Dollar/Euro exchange rate *(UIC)*	1.181	1.129	4.6%
1-month Euribor @ 365 average (source *www.euribor-rates.eu*)	-0.37%	-0.37%	0.0%

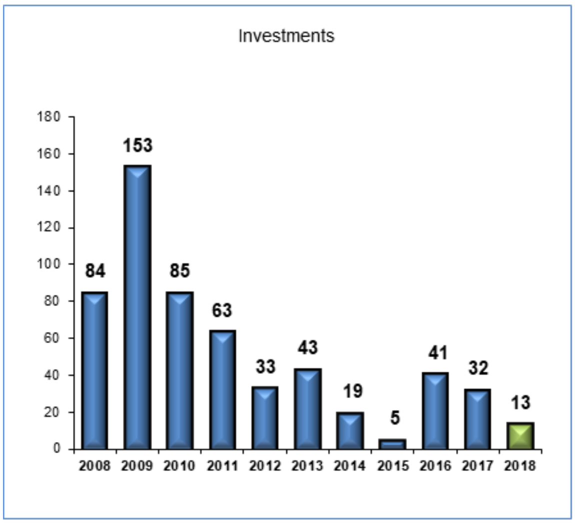
The criteria used for the construction of the indicators listed above are set out in the section Management Performance.

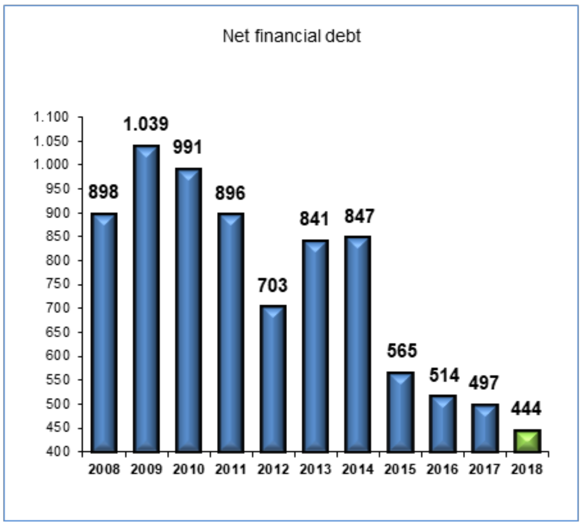

Revenues
1.509
1.268
1308
1373
1428
993
701
440
749
1005
1091
2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018


Gross operating profit
332
281
258
221
160
50
-10
0
55
72
136
2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018


Operating profit
250
179
161
100
-203
-306
-97
-66
-38
7
61
2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018


Net income
101
80
75
43
-157
-296
-110
14
-59
-13
40
2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018


Investments
84
153
85
63
33
43
19
5
41
32
13
2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018


Net financial debt
898
1.039
991
896
703
841
847
565
514
497
444
2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

Macroeconomic scenario

The growth of the global economy continued in the last few months, but signs of a cyclical deterioration materialised in many advanced and emerging economies; the prospects of global trade continued to worsen, after the slowdown in the first part of the previous year. The uncertainties over the economic picture had repercussions on the international financial markets, with a decrease in long-term returns and a fall in share prices. Global prospects were impacted by risks relating to a negative outcome to trade negotiations between the United States and China, the possible heightening of financial tensions in emerging countries and the methods that will be employed to implement Brexit.

Growth weakened in the Euro area; industrial production fell significantly in Germany, France and Italy in November. Inflation, despite remaining at largely positive values, fell due to the slowdown in the prices of energy products. The governing council of the ECB reiterated its intention to maintain a significant monetary stimulus for a prolonged period.

In Italy, after a halt in growth in the third quarter, the available economic indicators suggest that activity could have fallen further in the fourth quarter. The reduction in domestic demand contributed to the weakening in the summer months, in particular in investments and, to a lesser extent, household spending. According to the customary economic survey conducted by the Bank of Italy in collaboration with Il Sole 24 Ore, the investment plans of industrial and services companies will be reduced in scope in 2019 as a result of the political and economic uncertainty and commercial tensions.

Overall inflation reduced by 1.2% in December. Company expectations over the trend in prices were also revised downwards slightly.

Risk premiums on sovereign securities fell, due to the agreement between the Italian Government and the European Commission on budget programmes; the differential between the yields on Italian and German Government bonds in the middle of January was roughly 260 basis points, 65 less than the highs of November. The general conditions in the financial markets, remain, however, more tense than those observed before the summer.

The budget plan increases the deficit in the years 2019-2021 with respect to its trend-based value; according to the official valuations, net debt was at 2.0% of GDP in the current year, putting an end to the decline observed since 2014. In consideration of the amendments made to the budget plan which, in the version presented initially, was consistent with a deficit objective for 2019 of 2.4% of GDP, the European Commission decided not to initiate, in the current phase, an excessive deficit procedure vis-à-vis Italy.

The central projection of GDP growth is equal to 0.6% this year, 0.4% less than the figure evaluated previously. The following were contributors to the revision: more unfavourable data on economic activity observed in the final part of 2018, which reduced the average growth already achieved this year by 0.2%; the downsizing of company investment plans as reported in the latest surveys; the prospects of a slowdown in global trade. By contrast, the effects on growth of the agreement reached by the Government with the European Commission were mildly positive: the favourable impact of the reduction in long-term interest rates fully offsets the effect of the corrective measures taken as regards the plan. The central projections of growth in 2020 and 2021 are 0.9% and 1.0% respectively. The probability distribution is dispersed especially widely around these central values.

Inflation stands to increase gradually from 1.0% this year, to 1.5% on average in the next two-year period, following the increase of private salaries and gradual alignment of inflation expectations.

In addition to the global factors of uncertainty already alluded to, the downside risks for growth are linked to a potential fresh increase in sovereign returns, a more rapid deterioration in the financing conditions of the private sector and a further downturn in companies' propensity to invest. A more marked dissipation of tensions on the yields of Government bonds could, instead, promote higher rates of growth.

(Source: Bank of Italy Economic Bulletin no. 1 2019)

Reference scenario

The energy product markets

In 2018, all energy commodities marked significant increases in value, recording an average above 2017.

In 2018, the price of Brent crude oil (ARA Spot Average), which significantly affects the unit cost of liquid and gaseous fuels purchased, recorded an increase in price, increasing from $ 57.39/barrel in December to $ 81.15/barrel in October; an annual average above that of 2017 was registered, actually increasing from $ 54.27/barrel in 2017 to $ 71.04/barrel in 2018 (*source: "Platt's Crude Oil Marketwire"*).

The average price of coal increased when compared to 2017, rising from $ 84.48 / ton to $ 91.94 / ton in 2018; March recorded the lowest value of $ 79.45 / ton, while the highest of $ 100.81/ ton was recorded in July (source: "Argus" index API#2 Northwest Europe Cif ARA).

The average price of natural gas also rose when compared to 2017, up from 19.60 €/MWh to 24.18 €/MWh in 2018 (*source: "Heren" index PSV*).

The average price of CO2 rose considerably when compared to 2017, up from 5.09 €/ton to 15.92 €/ton in 2018 (source: "ICE" index EUA Futures).

The average US dollar/Euro exchange rate in 2018 was 1.1815 €/$, a drop of -4.4% compared to the same period in 2017, when it stood at 1.1293 €/$ *(source: Italian Exchange Office*).

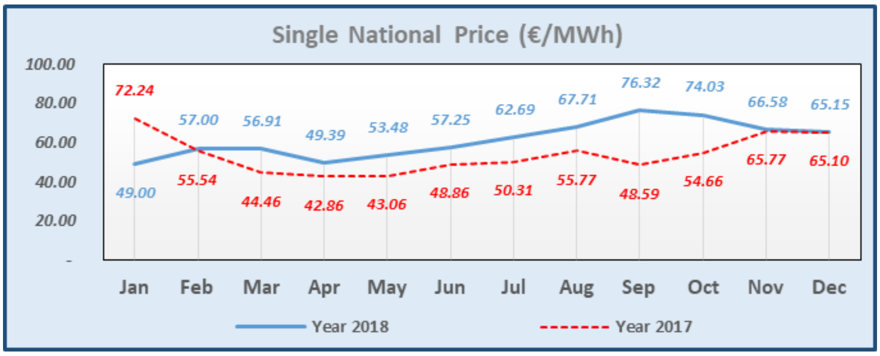
Production and demand for electricity in Italy

In 2018, the aggregate value of net production (280 TWh) fell (-1.8%) compared to 2017, while the value of electricity supply (322 TWh) recorded an increase in the period of 0.4% over 2017. Worthy of note is the significant increase in hydroelectric production (+11.7 TWh, +31.2%), and a simultaneous drop in pumping (-0.25 TWh equal to -9.9%); the foreign balance rose by 6.1 TWh (+16%), especially in the first quarter, while wind power fell slightly (-0.25 TWh, -1.4%); by contrast, photovoltaic production fell considerably by -1.1 TWh (-4.7%); lastly, thermoelectric production fell by -15.3 TWh (-7.6%).

(source: Terna - Monthly Report on the Electricity System - Final balance December 2018).

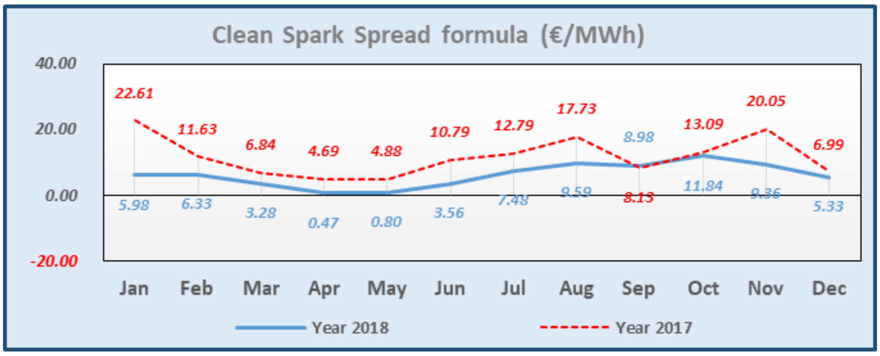
Trend in energy sales prices

In 2018, the arithmetic mean price of energy on the Power Exchange (PUN) amounted to € 61.28 / MWh, up by 14% compared to the 53.94 €/MWh recorded in 2017 (source: GME).



The price was always above 2017, with the exception solely of January.

The higher cost of gas, together with a sizeable increase in the price of CO_2, determined a lower Clean Spark Spread than 2017 (-5.60 €/MWh). This involved a significant reduction in thermoelectric production, cited above.



The presence of a large installed photovoltaic capacity, totalling 17.8 GW (*source: GSE-ATLASOLE*), helps to create a price squeeze in the central hours; the price of the time profile has an average pattern that has a first peak between the hours of 8 and 11 and a second more marked peak between the hours of 18 and 22.

Legislative and regulatory framework

The following notes report the main legislative and regulatory events in 2018, which affect Tirreno Power's reference markets.

European regulations relating to the electricity system

Some European electricity system regulations are in the process of being implemented, regarding balancing in particular. In particular, the European regulation on electricity balancing (Balancing Guidelines) is being implemented, which makes provision for the harmonisation of European balancing markets with the definition of common regulations for the sharing of dispatching resources between the different transmission network operators. At the same time, ACER (Agency for the Cooperation of National Energy Regulators) published two decisions regarding the technical themes of the process of harmonisation of the European electricity markets (day-ahead and intraday markets). The most significant changes for our country concern:

- the full harmonisation at European level of the price caps on electricity markets in the European Union, with the possible introduction of negative price limits; this assumption, already set out in the past in some consultation documents presented by ARERA (Italian Regulatory Authority for Energy, Networks and the Environment), could materialise in the next few months;
- the introduction of market closure times increasingly closer to the moment of delivery of the products (with the structuring of new continuous-trading markets and revision of rules of operation of existing auction markets).

These regulations and their developments are acknowledged in the recent documents published by ARERA and by the Italian electricity grid operator (Terna) as part of the reforms being overseen in relation to electricity balancing (see subsequent notes).

At the end of 2017, after two years of intense negotiations, the European Council, the European Parliament and the European Commission (hereinafter Trilogo) reached an agreement over the reform of the Emission Trading System (ETS) in the post-2020 period (end of the current regulatory period). On conclusion of the process, in February, the Council formally approved the reform, which is considered fundamental for achieving the objectives set out in the Paris Agreement for the reduction of carbon dioxide emissions by 40% in the European Union territory by 2030 (with respect to the 1990 level): for the sectors subject to the ETS, the objective translates to a 43% reduction in emissions with respect to the level registered in 2005.

The agreement includes significant changes to the system in order to accelerate the reduction in emissions and reinforce the stability reserve of the market. In addition, further guarantees were agreed for the European industry against the risk of carbon leakage and some support mechanisms were introduced to help the industry and the electricity sector to tackle the challenges of innovation and investments connected with the transition to a low-carbon economy. In December 2018, the EU Commission put the guidelines for the next regulatory period (2021-2030) up for consultation.

Again in March 2018, the European Parliament's Committee on Industry, Research and Energy (ITRE) approved five measures of Clean Energy for All Europeans (so-called Winter Package) presented by the EU Commission at the end of 2016, including the proposed regulation on the domestic electricity market (market design) which contains, among other things, regulations relating to capacity remuneration mechanisms. Another significant step forwards was taken in June, with the political agreement between the Commission, Parliament and the Council on the proposals considered to be at the core of the initiative: the revision of the renewables, energy efficiency and governance directives. These directives were approved by Trilogo at the start of December.

The Member States are not expected to acknowledge the directives before 2020.

Energy policy: the National Energy Strategy and the National Integrated Energy and Climate Plan

Following a phase of consultation, in November 2017, the Government had published the National Energy Strategy document, which defined the national lines of development regarding energy, updating the first NES document published in 2013.

With the arrival of the new legislature, the NES was replaced by the scheme of the National Integrated Energy and Climate Plan which defines the scenario and Government programme established in 2018 regarding energy policy in respect of horizon 2030. The Plan will be subject to consultations with all stakeholders and has already been sent to the European Commission (as set forth in the Winter Package).

For the electricity sector, the scheme of the Plan confirms some pillars already provided for in the NES. More specifically:

- the potential criticalities in terms of adequacy for the national system from 2025, given the confirmed phase-out of coal (the scenario forming the basis of the document sets out that, at that date, the adequacy threshold calculated on the basis of the levels of demand and available resources including imports could be exceeded);
- the planned launch of the capacity market, which is expected to become operational by 2019 after a phase of notification at the European Commission to supplement some Emission Performance Standard (EPS) mechanisms.

Evolution of the wholesale electricity market regulations

The company monitors the evolution of the reforms referred to in this chapter based on its effects on the dispatching market and on the energy market.

Expected launch of the capacity market

In 2017, the new mechanism for the remuneration of electricity production capacity (already set forth in ARERA resolution ARG/elt 98/11) was formally notified by the Ministry of Economic Development ("MiSE"), with the involvement of the Authority, at the Directorate-General for Competition of the European Commission. In February 2018, the Commission approved the Italian mechanism (and that of the other 5 countries) for 10 years, deeming it necessary for the adequacy and safety of the system. The decision (published in the middle of April 2018), among the many guidelines, required our country to make provision for participation in the foreign capacity and demand mechanism. It also provided indications for the ranges of the price caps for auction offers (expressed in MW/year): 25k€-45k€ for existing plants and 75k€-95k for new entrant plants.

Following the approval, in March 2018, Terna put a new regulation framework up for consultation, which supplements the modifications requested by the Commission and provides a new regulation for scheduled plant maintenance, for guarantees and for the calculation of the unforced capacity (UCAP), as well as the new regulations for the participation of consumption units and foreign resources.

Subsequently, in adjustment and acknowledgement of the European Commission's decision, ARERA published resolution 261/2018/R/eel which updates/supplements the resolution that established the capacity market (ARG/elt 98/2011). The resolution acknowledges both the guidelines of the Commission, and those of the Ministry and also supplements the regulation based on the consultations that took place during 2017 (713/2016/R/eel and 592/2017/R/eel). More specifically, the new resolution makes provision for: the start of the phase of first implementation with the possibility of also establishing planning periods of less than one year, the abolition of the minimum premium that can be recognised on existing capacity, the introduction of the minimum investment threshold requested by the Commission for new entrants, the opening of the capacity market to active participation of demand, of non-programmable renewable generation and foreign resources.

The consultation process for the new regulation in the year did not lead to the issuing of the decree of the Ministry of Economic Development, needed for the launch of the mechanism that is, as of today, expected by 2019. This is the result of some discussions on the basis of which, according to what has been stated, the Government would intend to launch, with the European Commission, the introduction of limits on specific emissions from plants participating in the mechanism.

The electricity dispatching reform (so-called Project RDE)

By means of Resolution 393/2015/R/eel, the Authority launched a comprehensive reform of electricity dispatching (so-called project RDE), which incorporates a series of procedures, some of which have already been in place for some time. The project is in place for the long-term, both because the framework of reference European regulations is still not definitive, and because the development times of some measures and their implementation are fairly broad.

In implementation of this reform project, in 2016, ARERA issued a series of consultation documents targeted at defining the entities authorised to supply resources in the Dispatching Services Market (MSD) and updating the rules for the valuation of imbalances.

The year 2017 saw the continuation of the process of definition of the rules through a series of provisions and consultations. More specifically, as regards the regulation of the authorisation on the MSD (Dispatching Services Market), in June 2017, by means of resolution 300/2017/R/eel, the Authority defined a project for the first-time opening of the market to electricity demand, to production units not already authorised and to storage systems. Within the domain defined by the new regulation, Terna launched a pilot project which makes provision for auctions for the forward procurement of resources provided by consumption units (UVAC - consumption enabled virtual units) for a few months in 2017 (auctions relaunched also in 2018) and some market zones. The resolution was subject to further application, with the start of a pilot project which defines the methods for the authorisation of production units not currently authorised (UVAP - production enabled virtual units - with capacity of less than 10 MW). In addition, Terna put a document up for consultation relating to the remuneration of voltage regulation: the project provides for the forward purchase of the service for a period of 5 years solely for some specific areas of the network.

As part of the process cited, in March 2018, Terna published the Regulation regarding the pilot project for the authorisation of the relevant production units (UPR-power exceeding 10MW) not mandatorily authorised for the dispatching services market. By contrast, in May, it put up for consultation the pilot project for the provision of the frequency primary regulation service through production units integrated with storage systems (UPI), in order to promote the development of electricity storage projects. Lastly, in June, the authorisation for the MSD of the Mixed Aggregate Virtual Units (UVAM) was put up for consultation, which will give the possibility of including in a single aggregate both the Virtual Consumption Enabled Units and Virtual Mixed Aggregate Units. The project was approved by ARERA last September and makes provision for the possibility of aggregation throughout the country. The first annual and monthly auctions for products (January 2019) were held in December 2018.

In addition, again in December, ARERA approved the pilot project on UPIs - integrated production units - (see above). The project provides for the connection of batteries to a productive unit to provide greater flexibility in the release of the Primary Reserve service. The project will last until December 20, 2023 (5 years from publication of the measure for a maximum of 30MW throughout the country). Lastly, again in December, ARERA approved the pilot project proposed by Terna for voltage regulation solely in the Brindisi area. The project aims to resolve network problems in the area by assigning, with a 10-year contract (double the duration of the project with respect to the consultation), the provision of reactive power from dedicated systems.

Amendments to the Terna Network Code

After ARERA approved the new zonal division from 2019, by means of resolution 386/2018/R/eel, which provides for the elimination of the limited hubs of Foggia, Brindisi and Priolo (with the attribution of the associated dispatching points to the adjacent physical zone) and the shifting of the Gissi dispatching point (formerly in the Foggia hub) which will be allocated to the Centre-South zone, in November, Terna modified the Network Code to acknowledge the new zonal configuration of the market.

Again in November, in relation to the application of Regulation (EU) 2017/2196 at national level, containing the network code relating to electricity emergency and restoration - “Network Code Emergency and Restoration”, Terna put up for consultation some amendments to the Network Code for documents regarding power restoration plans in the event of a black-out.

In acknowledgement of the European regulation known as the Balancing Code, in June, Terna deliberated on modifications which make provision for the integration of new continuous-trading electricity markets (both intraday and balancing) and the prospect of adjustment of current auction markets in terms of both hours and products (underpinning the reform is the need to bring the close of the markets closer to the moment of delivery and to standardise the products traded). The modifications also envisage the harmonisation of the national markets with the European balancing markets, which will materialise as part of the TERRE project (Trans European Replacement Reserves Exchange), a plan launched in 2013 as part of ENTSO-E for the design, development, implementation and management of a platform for the replacement reserve (RR) exchange between different countries.

In October, by means of resolution 535/2018/R/eel, ARERA partially approved the modifications proposed last June by Terna, in acknowledgement of the EU Balancing Code (project X-Bid + TERRE). The authority clarified that the discussion of the matter will also be managed through a national “stakeholder group” with operators, which will be established by Terna.

Terna actions for the procurement of reserve capacity

At the end of December 2017, with the objective of procuring reserves for the winter months of 2018 and ensuring the certainty of managing any spikes in requirements, Terna published a regulation for the procurement of electricity reserve resources from Switzerland. Subsequently, for the same period, the procedure of qualification of the replacement reserve (formerly activated in the summer of 2017) was re-proposed, which concerned all dispatching users that own production units located in the North market zone and authorised to supply resources for the power and balancing tertiary reserve.

Incentives for renewable sources

On December 31, 2017, the incentive period regulated by Interministerial decree of June 23, 2016 for non-photovoltaic renewable sources concluded.

For the start of the new incentive period, at the start of March 2018, the Ministry of Economic Development published a draft decree, followed by a new scheme on the subject, presented by the new Government. The draft decree is currently at the approval phase: after having received the green light from the Ministry of the Environment and the positive opinion of ARERA (with some observations), the text received a negative opinion from the State-Regions conference but the Ministry of Economic Development, nonetheless, communicated its intention to proceed with the authorisation process. The next step will be the approval by the European Commission.

The draft decree also makes provision for a first attempt at defining a public platform for Power Purchase Agreements, long-term contracts for energy produced from renewable sources managed by the GME (Electricity Market Operator). The operator must define a consultation document within 180 days of publication of the Ministerial Decree and ARERA must develop a standard contract form.

Evolution of the gas sector legislation

Gas transport service tariffs

In August 2017, the Authority issued a resolution (575/2017/R/gas) in which it confirmed, for the years 2018-2019, what was proposed under consultation in July regarding the distribution of entry and exit fees based on a ratio of 40:60 (with respect to the previous 50:50 model).

Tirreno Power, in filing a complaint about some of its faults, including non-compliance with some primary regulations, challenged the provision before the Regional Administrative Court of Lombardy together with other electricity producers. The discussion of the appeal is set for September 2019.

In May, by means of consultation (182/2018/R/gas), ARERA announced the first guidelines on the reference price methodology and the criteria for the allocation of the costs relating to the natural gas transport service for the fifth regulatory period (5PRT), in which it will be necessary to adopt the provisions of Regulation (EU) no. 460/2017 (TAR Code) into national tariff law. The consultation process was highly structured and, for 5PRT, the following were put up for consultation in order: Initial guidelines regarding the criteria for determining the revenues recognised, initial guidelines on the quality and innovation of the natural gas transport service and tariff regulation criteria. After the consultation phase, ARERA will send the outcomes of the discussions with the operators to ACER. After the Authority has carried out its evaluations, also on the basis of the opinion of ACER, from

February to July 2019, a series of resolutions are expected which will allow the final regulation to be defined.

Gas Emergency Plan

By means of resolution 612/2018/R/GAS, ARERA approved the elimination of the imbalance price which was applied in the event of activation of the Gas Emergency Plan and the so-called “non-market” measures (demand and supply initiatives to rebalance the market).

The authority believes that the critical situations of the gas system identified in the last thermal year - due to adverse weather conditions recorded at the end of the winter in Europe - highlighted potential criticality profiles in relation to the application of the price applied, which could compromise, under given circumstances, the effectiveness of the “non-market” measures and the restoration of the balance of the national transport network.

In addition to eliminating the cap, in order to prevent potential prejudicial effects as regards the safety of the gas system, ARERA established that:

- by means of a subsequent provision, it will define the activation prices for each of the “non-market” measures pursuant to the Emergency Plan, which will also contribute to the definition of the imbalance price applied in the event of activation of “non-market” measures;
- pending the adoption of the aforementioned provision, the prices of each of the “non-market” measures set forth in the Emergency Plan - as well as the imbalance price referred to in the previous point - will be 82.8 €/MW;
- in the same resolution, ARERA introduced additional provisions geared towards the implementation of the Emergency Plan in relation to additional storage capacity provided, under given circumstances, by the leading storage company (gas release price).

The Company considers the evolution of the legislation in question in terms of the impacts on the price of procurement of natural gas under particular market conditions.

Acts directly relating to Tirreno Power and administrative proceedings

Start of proceedings for the evaluation of potential abuse in the wholesale electricity market

In June 2016, by means of resolution 342/2016/R/eel, the Authority launched an investigation relating to alleged abusive behaviour in the wholesale electricity market. The investigation, launched in accordance with the European REMIT Regulation, concerns two separate cases: the first refers to the alleged adoption of consumption unit scheduling strategies and plants powered by non-programmable renewable sources not consistent with the standards established by the Authority in previous measures. The second regards production units authorised to submit offers on the Dispatching Services Market that would not have offered their capacity on energy markets, encouraging Terna to establish units for balancing the system and subsequently increasing its costs. The investigation aims to evaluate the adoption of prescriptive or asymmetric adjustment measures in order to promote competition on the wholesale market.

By means of subsequent resolution (459/2016/E/eel), the Authority extended the scope of the investigation, initiating additional proceedings. Tirreno Power was notified of inclusion in the investigation as regards both situations, and the Company provided the information requested by the Authority regarding its offer conduct.

In relation to the investigation, by means of subsequent measures, the Authority ordered:

- by means of resolution 477/2016/E/eel, the transmission to the Antitrust Authority of the documentation regarding the offer conduct of some operators involved (which do not include Tirreno Power) in the investigation in consideration of potential violations of the competition protection regulations;
- by means of resolution 575/2016/R/eel, the methods of automatic retrocession to end customers of amounts eventually recovered following the proceedings launched;
- by means of resolution 609/2016/E/eel, some asymmetric adjustment measures for plants subject to proceedings (which do not include those of Tirreno Power available) declared to be essential for the safety of the electricity system;
- by means of resolution 813/2016/E/eel, it ordered the first dismissals of the individual proceedings launched against some operators. This was followed by further dismissals or containing prescriptive measures for various operators.

As regards Tirreno Power, in July 2017, by means of resolution 511/2017/E/eel, the dismissal of the proceedings relating to the adoption of consumption unit scheduling was ordered. The outcome of the proceedings has still not been notified in relation to the other strand of the investigation and, at the current state of play, any negative consequences for the Company are considered unlikely.

Expected reimbursements for non-allocation of ETS allowances

As is well-known, Tirreno Power's Napoli Levante plant was excluded from the allocation of free emission allowances envisaged in the second period of the Emission Trading System (ETS 2008-12) due to the depletion of the reserves put at the disposal of production plants that entered into service during the period (so-called new entrants reserve). For such systems, the Legislator has made provision for a mechanism for the purchase with consideration of allowances reimbursed through a procedure established in recent years and based on the collections obtained by the GSE from the allocation of the allowances at auction in the next period (2013-20). In this context, Tirreno Power was the holder of a credit of around Euro 28 million to be paid on the basis of the resources that would be made available for reimbursements by auctions for the allocation of allowances of the new period started 2013.

The 2016 Stability Law introduced regulations that, by increasing the available resources, help speed up the expected reimbursement.

In 2016, the first instalment of the credit was collected for an amount of around Euro 10.5 million (principal and interest) and, at the start of 2017, another instalment of roughly Euro 7.7 million was paid. The payment of the residual credit (Euro 10.2 million) is expected to be subject to the renewal of the Company's anti-mafia disclosure by the Prefecture of Rome: the renewal procedure is still pending from October 2017, when the Ministry of Economic Development inserted all the information provided by Tirreno Power in the database accessible by the Prefecture. The average time that the Prefecture of Rome needs to proceed with the renewal, also in consideration of the management of the queues of activities of all cases, is roughly one and a half years.

The dispute over the recalculation of the capacity payment for the years 2010/2011

Following a complex administrative dispute, by means of Resolution 400/2014/R/eel, the Authority ordered the recalculation the fees to cover the second component for the remuneration of the production capacity for the years 2010 and 2011. In particular, the measure levied costly reimbursements on some operators, including Tirreno Power, which was required to repay a total of around Euro 5.5 million in 2014. Given the seriousness of the situation brought about by the resolution and in consideration of the lack of legitimacy of the measure, Tirreno Power joined other operators penalised by the latter in filing an appeal against the aforementioned resolution before the Lombardy Regional Administrative Court. In 2016, a hearing was held which led to a ruling which cancelled the measure contested and established the need to renew the procedure for determining the fee.

The Authority filed an appeal against the first instance ruling: the Council Chamber met in May 2017 and, at the end of December, the Council of State upheld the requests presented by the appellant, cancelling the first instance ruling, with no economic effects for the company, as it had made no provision in the past for the recognition of any revenue in relation to said provision.

In June, Tirreno Power, together with other operators, appealed the matter before the European Court of Human Rights (ECtHR).

The regulation of imbalances for the period 2012-2014

The regulation of the actual imbalances in the electricity market for the period 2012-2014 was the subject of a long dispute which ended with the second instance cancellation of a number of the Authority's resolutions. In respect of this cancellation, Terna has performed recalculations of imbalances by using the criteria defined by the Authority before the issuing of the acts found to be unlawful. This generated, for Tirreno Power, the billing of negative amounts in relation to the periods covered by the recalculation of approximately Euro 4.5 million in 2015.

Tirreno Power challenged, before the Lombardy Regional Administrative Court, the communication in which Terna acknowledged its desire to perform the recalculations.

Simultaneously, the Authority initiated proceedings for the adoption of a new regulation for the period in which the cancellation judgments determined legislative uncertainty. In that context, following a consultation process, the Regulator issued a new resolution (333/2016/R/eel), which takes account of the confidence generated in operators by the regulation in force at the time of its production planning, although subsequently cancelled. According to the resolution, Terna performed recalculations for the adjustments of the considerations in the month of October 2016, reimbursing an amount of Euro 5.1 million to the company at the end of 2016.

The aforementioned resolution was challenged at the Lombardy Regional Administrative Court by several operators, but the rulings published by the Court confirmed the resolution. Many of the first instance plaintiffs filed an appeal against the ruling: the appeals are currently pending at the Council of State. Tirreno Power objected at both the first and second instance proceedings and in the 2016 financial statements, the company allocated the amount received as adjustment, in respect of the risk of having to repay the amount to Terna, a risk that, also based on the opinion of the legal representative appointed, is still deemed likely at present.

Appeal against resolution 44/2018/R/eel

In February, ARERA published a resolution (44/2018/E/eel) containing adjustments to the remuneration of the quantities handled for the secondary reserve in special situations (revocation in the balancing market of quantities accepted on the MSD on an ex-ante basis). The resolution requires Terna to recalculate some activities on the MSD on an ex-ante basis for the activation of the Secondary Reserve: the rule was corrected with the update of the Network Code in February 2017.

By means of the resolution mentioned, the Authority asked Terna to regulate the adjustments for the years 2011/17, which saw the repayment to Tirreno Power of Euro 969 thousand by Terna. However, the resolution cited does not consider the adjustments for cases of activation of the Secondary Reserve in real time (netting), despite this service situation also, altogether similar to the revocation, being concerned by the same calculation errors that the resolution aims to resolve. Therefore, Tirreno Power challenged the resolution through an extraordinary appeal to the President of the Republic, subsequently transposed to the Regional Administrative Court of Lombardy. The discussion is set for July 2019. This action was promoted to obtain a reimbursement of the netting component.

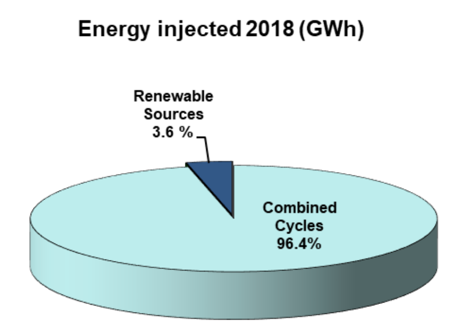
Production scenario

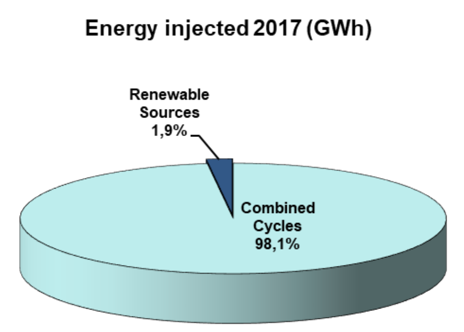
The energy injected in the year amounted to 5.9 TWh, down by 0.7 TWh compared to 6.6 TWh recorded at the end of 2017.

The following table provides details of the energy injected, with respect to the same period last year, broken down by unit and plant:

Energy Injected (GWh)	12.31.2018	12.31.2017	Diff.
By technology			
Combined Cycles	**5,702**	**6,451**	***(749)***
- TV5	1,327	1,788	*(461)*
- TV6	490	591	*(101)*
- VL5	2,519	2,978	*(459)*
- NA4	1,367	1,095	*272*
Renewable Sources	**213**	**128**	***85***
Total	**5,915**	**6,579**	***(664)***
By plant			
Vado Ligure	2,519	2,978	*(459)*
Torrevaldaliga	1,816	2,379	*(562)*
Naples	1,367	1,095	*272*
Genoa	213	128	*85*
Total	**5,915**	**6,579**	***(664)***

(source: Company database)





In particular, the decrease in production in 2018 compared to 2017 of 665 GWh is due mainly to the fall in market margins, especially in the first two months and in the summer months of 2018 with respect to the same months in 2017. In particular, with respect to 2017, the Clean Spark Spread average base load fell by 7.61 €/MWh in the north and 4.59 €/MWh in the centre south.

In 2018, the Vado Ligure Plant injected 2,519 GWh of energy into the network, 495 GWh less than in 2017.

The South Central Torrevaldaliga Plant recorded a decrease in production volumes of 562 GWh compared to the previous year, again attributable to the fall in market margins.

The Napoli Levante Plant recorded production of 1,367 GWh in 2018, an increase in volumes of 272 GWh compared to 2017. The second half of the year saw a reduction in production volumes in the Dispatching Services Market with respect to the first half of 2018, even if the final months of the year registered a fresh increase in supply on this market.

The production from Renewable Sources in 2018 amounted to 213 GWh, an increase of 85 Gwh compared to 2017, benefitting from higher rainfall compared to the previous year.

Plant maintenance

The Vado Ligure Plant carried out scheduled maintenance on the TG51 gas turbine and the associated recovery steam generator, lasting from 2 until 29 April included; the main actions were the minor overhaul of the TG51 alternator, the verification of the calibration of the suspensions of pressure parts, replacement of GVR discharge valves, repositioning of the Profibus line GVR drains, replacement of GVR bottom joints.

From April 7 to 24 included, the scheduled maintenance on the TG52 gas turbine and associated recovery steam generator was carried out; the main actions were the minor overhaul of the TG52 alternator, the verification of the calibration of the suspensions of pressure parts and the replacement of GVR discharge valves.

As regards the steam turbine, new protective devices were installed and the alternator seals were overhauled.

As regards events of accidental unavailability of the VL5 unit, note should be taken of the maintenance shutdown for cleaning of the condensing unit due to an exceptional storm surge which struck the Ligurian sea at the end of October.

The Torrevaldaliga Plant installed Package V on the B and C gas turbines, which involves the replacement of part of the blades of the machine compressor. Maintenance was performed respectively: from February 5 to March 6 (TGB), and from September 24 to October 29 (TGC).

In relation to significant accidental events affecting unit TV5 we report the following: gas turbine B was unavailable for around 3 days in January due to repairs to the GVRB by-passes. Gas turbine A was unavailable for two days due to a fault which occurred on the tunnel of bearing number 2. Some service disruption was registered, caused by the regulators of the excitation system of the steam turbine in the final few months of the year.

The TV6 unit was subject to 7 days of unavailability on May 2 due to the breakage of tie-rod tubes on the AP GVRC by-pass.

No scheduled maintenance was carried out at the Naples plant; however, repair work was carried out on the second compressor of the gas compression station.

Environment and Safety Policy

Introduction

In 2018, the Company's main objective continued to be to reach high levels of environmental protection and worker safety, both internally and with respect to third party companies.

The Environmental Policy is inserted in the Environmental Statements of the sites on which EMAS registered thermoelectric plants are built and constitute one of the means by which the knowledge of corporate conduct in the environmental field is disseminated.

The organisation

In order to effectively achieve the maximum levels of environmental protection and safety, the Company's organisational model provides special powers of attorney with which the General Manager assigns the Heads of the Production units full powers for the fulfilment of the duties related to the protection of the environment, of workplace health safety and of plant safety.

The tools

The main tools used for the implementation of the Company's environmental policy are:

1. *The environmental management systems*

The Company has chosen to adopt the EMAS registration (Eco Management and Audit Scheme) for all of the thermoelectric plant sites.

The EMAS registration is the most prestigious environmental certification in Europe. During 2018 such records were maintained and / or renewed for the Naples and Torrevaldaliga sites.

In 2018, the Naples and Vado Ligure Plants, as already carried out for the Torrevaldaliga Sud Plant, updated the UNI EN ISO 14001 certification to the 2015 version for the combined cycle units.

2. *Training and information*

Environmental training and information are used to improve employees' skills and to increase their professionalism.

In 2018, activities continued aimed at staff training on environmental issues, taking into account the evolution of applicable regulations.

The focus on environmental training has made it possible to increase the number of staff, operating in both the main structure and the production sites, in possession of the title of Qualified Environmental Auditor.

3. *Environmental reporting*

The environment management systems of certified sites provide periodic reports on data and environmental performances that are subject to management review for the analysis of the comments and non-conformities, in order to identify and implement the necessary corrective actions.

For the first time, in November 2018, Tirreno Power published the Sustainability Report, a document which brings together the data and future projects of our company with a view to integrating the relaunch of the business, environmental sustainability and social responsibility.

The main environmental events

By means of memorandum 29231 of 12/24/2018, the MATTM informed all AIA plant operators of the programme of ordinary controls required by the AIA, for the year 2019.

By means of decree no. 430 of 11/22/2018, the MATTM announced the calendar for the presentation of the overall review of the Integrated Environmental Authorisation for large combustion plants. The presentation of the documentation for the renewal by the plant managers is expected by April 30, 2019.

From the moment the new AIAs - integrated environmental authorisations - are issued (the issue times are uncertain owing to the many preliminary investigations that the MATTM must carry out) they will have the following duration: AIA Vado Ligure 12 years; AIA Naples and TorreValdaliga Sud 16 years.

By means of resolution 99 of September 17, 2018 of the National Committee for the management of directive 2003/87/EC, the update (Version 4) of the Greenhouse Gas Monitoring Plan relating to the Naples plant was approved.

For the Naples site, by means of memorandum of July 5, 2018, Certiquality transmitted UNI EN ISO 14001:2015 certification no. 15342. For the Vado Ligure site, which falls under the obligations pursuant to art. 8, paragraph 3 of Regional Law no. 10 of April 9, 2009, by means of memorandum July 10, 2018, Certiquality transmitted UNI EN ISO 14001:2015 certification no. 5399.

Safety

The Company pays special attention to safety-related problems.

The BS OHSAS 18001 (British Standard 18001 Occupational Health and Safety Assessment Series) defines the requirements of the Worker Health and Safety Management System. These requirements are verified by a qualified body, which, in the event of a positive outcome, issues the relevant Certificate.

In 2018, the company’s sites confirmed the certification on the following dates:

- Napoli Levante: 01/22-23/2018 (surveillance audit); expiry 02/06/2020
- Ligure Hub - Hydroelectric Plants: 03/26-27/2018 (surveillance audit); expiry 03/24/2019
- Ligure Hub - Thermoelectric plants: 07/9-11/2018 (renewal audit); 03/11/2021
- Torrevaldaliga: 11/8-9/2018 (surveillance audit); expiry 11/09/2019
- Rome (Central Office): 10/16/2018 (surveillance audit); expiry 10/20/2020

The checks are performed by the Certification Body Certiquality.

The new standard regarding workplace health and safety was published on 03/18/2018, the technical regulation UNI ISO 45001:2018, which will replace the previous standard OHSAS 18001:2011 over the next three years. The certifications of the individual sites are expected to be adjusted into line with the new standard in the times provided; in particular, the adjustment of the Napoli Levante plant is expected in the first half of 2019.

The Vado Ligure Plant was no longer subject to art. 13 (lower threshold) of Legislative Decree 105/2015 (so-called Seveso III law) from July 2018, as a result of the emptying and demolition of fuel oil dump 1.

In 2018, 4 accidents occurred involving Tirreno Power employees, 2 which while travelling, i.e. travelling from home to work or vice versa, and 3 accidents involving personnel from outside firms, all classified as minor.

Training, information and education

In 2018, training was provided on safety in order to ensure the necessary continuity of training, as required by Legislative Decree 81/08 and the State-Regions Agreements; training was completed as planned.

Risk Assessment Documents (DVR)

In 2018, the various sites renewed the risk assessment documents to be updated, in compliance with the provisions of Legislative Decree 81/08 and subsequent amendments.

Investments and demolitions

During 2018, the Company made investments totalling Euro 13,498 thousand, of which Euro 13,219 relating to tangible fixed assets and Euro 280 thousand to intangible fixed assets.

With regard to intangible fixed assets, investments are attributable to new licenses and the development of software applications.

With regard to tangible fixed assets, the investments mainly concerned:

- the Napoli Levante plant for Euro 1,672 thousand and, in particular, the repairs and spare parts of the Gas Compressor, the advance relating to the upgrade of the DCS, auxiliary remote control activities, completion of the access roads and new porter service and the expenses incurred for the thirty-year concession;
- for Euro 6,016 thousand, the Vado Ligure plant and, more specifically, the planned maintenance on unit VL5, the advance on the next HGPI, segmentation and protection activities, the advance

relating to the upgrade of the DCS, the supply and installation of new protective devices and extraordinary maintenance of the pier;

- for Euro 2,419 thousand, the Torrevaldaliga Sud plant and, in particular, activities relating to Package V, the replacement of the gas turbine suction filters, replacement of batteries and the overhaul of GVR valves.
- for Euro 2,695 thousand, the investments in the hydroelectric power plants which mainly concerned the initiatives prescribed for the Zolezzi dam and safety works and extraordinary maintenance works at the Cairo plant.

As regards demolition activities, it should be noted that, in the second half of 2018, the tender was called for the demolition of the disused Vigliena plant and all buildings standing on the areas to be redelivered to the Port Authority.

Demolition works were completed at the Vado Ligure site on the chimney stack of the VL1 and VL2 units, which was communicated to the competent authorities. Fuel oil dump dismantling activities continued, with the complete remediation and demolition of all tanks and metallic structures located within the perimeter of fuel oil dump 1.

It should also be noted that, on May 15, 2018, the demolition site for tanks 3 and 4 at Torrevaldaliga was closed.

Vado Ligure plant – chimney stack demolition activities

Human resources and organisation

Legislation and Personnel Administration

In the first few months of 2018, the administrative obligations relating to the closing of the mobility procedure commenced on December 6, 2016 were fulfilled, with the last dismissals of 3 staff in January and April 2018.

With reference to the redundancy management plan forming the object of the trade union agreement of December 2, 2016, it should be noted that the 6 workers dismissed on December 18, 2017, opted for the outplacement process, with a maximum duration of two years, at the end of which, in the event they are not relocated, the company is committed to paying a redundancy incentive, calculated in accordance with the rules set out in the agreement. In the first half of 2018, 3 former employees were effectively relocated to other companies (sector and non-sector) and, therefore, provision was made for the disbursement to said employees of the incentive set forth in the trade union agreement, duly allocated, for a total value of Euro 76,000.

It should also be noted that, in the first few months of 2018, two appeals against dismissal were received in December 2017 from workers dismissed, the only ones from a total of 140 who left the company, who chose not to sign up to any of the initiatives offered by the redundancy plan. These contingent liabilities were already considered in the previous financial statements under allocations for redundancy incentives.

In one case, in the second half of 2018, a legal dispute was initiated and concluded, with a settlement which determined the acceptance by a former employee of the dismissal provision imposed and the use of the relevant provision to pay the agreed redundancy incentive.

As regards the second appeal against dismissal, in December 2018 notice was served of a judicial appeal filed, involving a declaration of the illegitimacy of the dismissal and the subsequent reinstatement, with related compensation for damages or, secondarily, solely compensation for damages up to a maximum of 24 months' pay.

As regards performance-related pay, a trade union agreement was signed which defined the structuring of the bonus for the 2018-2020 three-year period, superseding the transitory management that had characterised this instrument in the last few years. The basic portion relating to the contractual framework of the BSS, for the year 2018 amounts to Euro 2,600 and also acknowledges the increase envisaged at the time of the contractual renewal of Euro 490 (years 2017-2018).

The bonus is structured into two typical profitability situations, measured by an indicator of economic-company performance of the Company identified on an annual basis, and of productivity, measured by two separate indicators (results of the relevant company area and average of the results of the entire company). The payment for company productivity is, nonetheless, subject to the achievement of a threshold profitability value which will be defined annually in relation to the economic indicator identified. This value for 2018 refers to gross operating profit equal to or higher than Euro 47.7 million and was therefore achieved.

The new agreement also makes provision for the possibility for workers to allocate an amount, up to a maximum of 60% of the total available bonus, to company welfare initiatives or supplementary company pension, both decisions which allow employees and the company to benefit from tax and contribution reliefs set forth by the applicable legislation.

As confirmation of the importance company welfare is taking on in the field of HR management, June 2018 also saw the definition of the company allocation dedicated to the concession of loans to employees in the event of serious family-related needs (death of a family member, wedding, birth of a baby etc.) and in the case of the purchase and/or renovation of a home owned (loan reason re-introduced after a suspension of around three years).

The total sum available came to Euro 300,000 and the beneficiaries may be recipients of an individual amount of up to Euro 10,000 for serious family-related needs and Euro 30,000 for the purchase and/or renovation of a home.

With a view to incentivising the work-life balance times, smart working was trialled between July 1, 2018 and June 30, 2019. The new way of working set out in the trade union agreement signed on June 14, 2018 is mainly involving the personnel in staff departments and can last up to two days per month.

It should be noted that, in the trade union domain, following the activities launched during the year to review the contractual regulations relating to the discount on electricity tariffs, both for personnel who have stopped working for the company and the employees who are the recipients of said benefit, the trade unions were informed of the formal termination of the collective regulation on concessions on the tariffs for the sale of electricity for personnel whose service has ended and the surviving spouses of the former employee, with extinguishment of the benefit as at July 31, 2018.

In order to manage the consequences of the termination of this benefit, consistent with the approach already adopted by other companies in the electricity sector regarding the discount on electricity tariffs for former employees/surviving spouses of the former employee, a trade union agreement was signed on July 13, 2018 which makes provision, in summary, for:

1. lump-sum management of the discount to be applied for the first 7 months of 2018 with the payment of a one-off amount;
2. the payment of a lump sum, replacing the terminated contractual benefits, determined on the basis of the age of the former employee on July 31, 2018, the date of extinguishment of the contractual concession, based on prior definitive waiving of the right to the discount to be clarified through the signing of an individual conciliation report;
3. the provision of an additional lump-sum amount based on the transmission to the company, by December 31, 2018, of an expression of interest in signing up to the agreement in question by the former employee.

Lastly, the agreement reached requires the individual reports to be signed no later than June 30 of 2019.

Approximately 700 former employees will be involved in this operation.

As at December 31, 2018, a total 30 individual reports were signed, equating to an amount of Euro 135 thousand withdrawn from the provision for the electricity discount allocated according to the actuarial criteria of IAS 19.

It should also be noted that, in 2018, based on the methods of management of the electricity discount in force prior to the termination for former employees, the discount accrued in 2017 for both employees in service and those who had left the company was reimbursed, for a total value, respectively, of Euro 58 thousand for employees and Euro 215 thousand for former employees, for which the amount already allocated to the provisions for risks and charges in the previous financial statements was utilised.

Lastly, it should be noted that, in application of the National Collective Labour Agreement for workers in the electricity sector, renewed on January 25, 2017, payment was made, effective of April 1, 2018, of the first increase in the minimum total salary of an average of Euro 37 (average calculated on the values disbursed, equal to +1.5%).

The effect on personnel costs for 2018 amounted was around Euro 130 thousand.

The year 2018 was characterised by a significant focus on the development of Tirreno Power personnel, both in the technical/professional and managerial areas.

In the first place, safety and environment training initiatives were launched in accordance with the legislative obligations, intended primarily for technical personnel, for a total value of Euro 36,700 which will be fully financed by Fondimpresa.

As regards managerial training, continuing on with the approach adopted in previous years, the usual three outdoor dates were organised during the year, targeted at the company's middle management, in order to strengthen the managerial conduct considered fundamental for achieving the company objectives.

Another individual development process was also launched, which concerned some managerial staff, in consideration of the significant change that occurred and the need to ensure the sustainability of the company performance, in the short and medium-term, and consolidate the process of strengthening the sense of belonging and company identity.

The initial screening and assessment phase was carried out in 2018, which involved around 20 managers, and initiatives are planned for 2019 (coaching, mentoring, team building etc.) in support of the process launched.

Information & Communication Technology

In the application domain, the processes of digitalisation of purchase requests were consolidated in 2018, and an analysis was performed for the dematerialisation of contracts and purchase reports, whose implementation will commence in 2019. As regards ERP, the necessary tools for the large-scale management of the movements of the materials in the warehouses of the Torrevaldaliga and Naples plants were implemented. A procedure was also developed for the management of maintenance interferences; this solution is able to track and notify the maintenance activities performed by the different entities operating in the same area.

In order to meet the obligation of e-billing, the necessary solutions were implemented, needed for the transmission and receipt of invoices according to the requirements of the new provisions.

For aspects related to the new European regulation, EU 2016/679 "GDPR", regarding personal data protection, the Tirreno Power applications concerned by the new regulation were analysed and evaluated, in order to ensure their compliance. To this end, the Company identified the Data Protection Officer (DPO).

As regards infrastructure, the replacement of personal computers in all sites was completed in 2018. The integration of the new fixed telephone service based on VOIP technology was completed.

Note should also be taken of the start of the single help desk service, whose new perimeter integrates and amalgamates the activities previously handled by several suppliers.

Purchases, Services and Security

A plan of updates to the main company procedures was implemented, relating to purchase processes and supplier qualification and evaluation processes, including the issuing of the contract management procedure.

The updates and the issuing of the documentation were accompanied by dissemination and training activities that involved company personnel, with dedicated sessions for the individual productive site and for staff.

The Security management and coordination function was established. This function was placed organisationally in the Purchasing Department structure, therefore creating the Purchasing, Services and Security Organisational Unit.

An action plan was defined in 2018 targeted at outlining the guidelines for company security, with the identification of the processes and the assets to be monitored.

Obligations regarding Legislative Decree no. 231/01

The Model was updated in 2018 in order to acknowledge:

a) The changes of the corporate organisational structure which led to an overall review of the system of flows of information to the Supervisory Body.
b) The relevant regulatory developments effective as from the last update which occurred in 2016, in particular: the introduction of new offences (so-called ‘*caporalato*’ - lit. ‘gangmaster’, system of exploitation of farm labourers in Italy -, some crimes regarding immigration, racism and xenophobia), the insertion of new provisions governing corruption between private individuals and the new legislation on whistleblowing.
c) The principles inferable from the case law rulings issued from the last update.

The updated Organisational and Management Model was approved by means of resolution of the Board of Directors of April 18, 2018.

Obligations for compliance with Regulation EU 679/16 regarding personal data processing, (“GDPR”)

The GDPR - General Data Protection Regulation entered into force on May 25, 2018, i.e. the European privacy regulation approved on April 14, 2016, directly applicable to EU member states, which rolled out a new regulatory framework governing personal data protection. In Italy, the regulation was completed with Legislative Decree no. 101/2018, adjusting the Italian legislation into line with the European regulations.

In order to comply with the regulatory obligations governing personal data protection set forth in the GDPR, the company, among other things:

- appointed, pursuant to art. 37 of the GDPR, on May 25, 2018, Ivan Rotunno, from Studio Orrick, Herrington & Sutcliffe, as Data Protection Officer, who was assigned the task of ensuring that the personal data are processed correctly;
- conducted an analysis of the gaps with respect to the GDPR;
- prepared a summary document and a set of disclosures and appointments of entities authorised for data processing and of external managers;
- adopted a privacy manual that summarises the contents of the GDPR;
- prepared a data processing register.

Operating performance during the year

The chart below shows, in line with ESMA Recommendation on Guidelines on Alternative Performance Measures, the criteria used for the construction of the reclassified statements that contain alternative performance indicators with respect to those obtained directly from the financial statements:

Gross operating profit: an operating performance indicator, calculated as "Operating profit" plus "Depreciation, amortisation and write-downs" and "Provisions".

EBITDA: an operating performance indicator, calculated as "Operating profit" plus "Depreciation and amortisation."

Net fixed assets: calculated as the difference between the "Non-current assets" and "Non-current liabilities" with the exception of:

"Payables for loans";

"Provisions for risks and charges";

"Post-employment and other employee benefits";

"Liabilities for deferred taxes."

Net working capital: defined as the difference between "Current assets" and "Current liabilities" with the exception of:

"Payables for loans";

"Cash and cash equivalents";

"Provisions for risks and charges";

the bank current account advances and bank current account debt exposures included in "Other current financial liabilities".

Net capital employed: calculated as the algebraic sum of "Net current assets", "Net working capital" and funds.

Net financial debt: defined as the sum of “Payables for loans”, bank c/a advances and debt exposures on bank current accounts included in “Other current liabilities”, net of “Cash and cash equivalents” not previously considered in the definition of other balance sheet indicators.

Return on Investment (ROI): defined as the ratio between Operating profit and net average capital employed (opening and closing).

Return on Sales (ROS): defined as the ratio of Operating profit to total revenues.

Equity yield: defined as the ratio between the net profit and the share capital plus the share premium reserve.

Unit revenue from energy sales (€/MWh): calculated as the ratio of revenues from energy sales for the period and energy sales in the period.

Incidence of financial expenses on total revenues: defined as the percentage ratio between the financial expenses in the period and the total revenue for the period.

Reclassified Income Statement

The values of the reclassified income statement are reported in Euros, without decimals. For a better disclosure, comments on the individual items are expressed in thousands of Euro.

(Euro)	Dec-31-18	Dec-31-17	difference
Revenues	1,087,197,400	1,000,623,626	86,573,775
Other revenues	3,545,071	4,358,038	(812,967)
Total revenues	**1,090,742,471**	**1,004,981,663**	**85,760,808**
Own work capitalised	562,467	1,021,551	(459,084)
Consumption of raw materials	(877,358,165)	(864,001,876)	(13,356,289)
Personnel costs	(20,341,852)	(20,113,720)	(228,132)
Service costs	(16,386,930)	(24,358,344)	7,971,413
Other costs	(40,874,340)	(25,586,041)	(15,288,300)
Total costs	**(954,398,821)**	**(933,038,429)**	**(21,360,391)**
Gross operating profit	**136,343,650**	**71,943,234**	**64,400,416**
Provisions	(3,141,494)	(8,693,754)	5,552,260
EBITDA	**133,202,156**	**63,249,480**	**69,952,676**
Amortisation, depreciation and write-downs	(72,357,186)	(55,984,631)	(16,372,555)
Operating profit	**60,844,970**	**7,264,849**	**53,580,121**
Financial expenses	(19,027,944)	(21,735,372)	2,707,427
Financial income	172,815	382,027	(209,212)
Pre-tax profit	**41,989,840**	**(14,088,496)**	**56,078,337**
Taxes	(1,793,844)	625,354	(2,419,198)
Net income for the period	**40,195,996**	**(13,463,142)**	**53,659,138**

Energy sold in 2018 totalled 14,601 GWh, a decrease of 1,863 GWh compared to the previous year, due primarily to a worsening in market margins, attributable to a higher cost of gas and Co2 registered in the year, not offset by a modest recovery in energy prices.

Energy sold in the open market amounted to 7,260 GWh (of which 4,982 GWh sold to Edison to guarantee gas purchases), marking a decrease of 1,165 GWh compared to the previous year. The energy sold on the power exchange recorded a decrease of 698 GWh.

The energy balance is presented below with a reconciliation of the quantity of energy purchased and unbalanced that makes it possible to reconcile the volumes sold with the actual energy injected to the grid.

Energy injected, purchased and sold (GWh)	12.31.2018	12.31.2017	Diff.
Energy injected	**5,915**	**6,579**	***(664)***
Energy purchased	**8,684**	**9,888**	***(1,205)***
Energy sold	**14,601**	**16,464**	***(1,863)***
-on free market	7,260	*8,426*	*(1,165)*
-on Power Exchange	7,340	*8,038*	*(698)*
Imbalances	**2**	**(4)**	***6***

Revenues amounted to Euro 1,087,197 thousand, an increase of Euro 86,574 thousand compared to the previous year (+8.7%).

Revenues - (thousands of Euro)	12.31.2018	12.31.2017	Diff.
Free Market	448,232	462,468	*(14,236)*
Power Exchange	638,234	536,592	*101,642*
Other	731	1,563	*(832)*
TOTAL	**1,087,197**	**1,000,624**	***86,574***

The increase relates to the higher revenues attributable to trading on the Dispatching Services Market included in revenues achieved on the Power Exchange (up Euro 98,533 thousand), thanks in particular to the excellent performances of the NA4 and TV5 units. This increase was partially offset by the fall in sales on the free market, due to the decrease in sales volumes, offset by an increase in prices.

The item "other" refers mainly, for Euro 592 thousand, to the revenues achieved from the sale to third parties of materials and scrap iron deriving from the demolition of Vado Ligure tanks.

Other revenues amounted to Euro 3,545 thousand, compared to Euro 4,358 thousand in 2017 and refer to the accounting of income attributable primarily to:

- the adjustment of revenues, amounting to Euro 969 thousand, recognised by Terna as a result of the recalculation of 2011-2016 Dispatching Services Market sales;
- the settlement with the Italian Revenue Agency relating to ICI (municipal property tax)/TASI (tax on indivisible services) for the years 2008- 2015 of the Vado Ligure plant amounting to Euro 1,141 thousand;

- the legal settlement with the company Betoncem for Euro 303 thousand;
- the adjustment of revenues for GSE incentives for former green certificates for Euro 183 thousand.

In 2017, other revenues mainly referred, for Euro 3,492 thousand, to the repayment of the redundancy surplus of the voluntary redundancy provision, following the completion of the personnel restructuring procedure in December 2017, plus the release of the provisions for risks for Euro 382 thousand, mainly due to the repayment of the Escrow security deposit of Tirreno Solar for Euro 112 thousand and the adjustment, for Euro 270 thousand, of the layoff provision and the provision disputes and litigation.

The **cost of raw materials consumption** amounted to Euro 877,358 thousand, an increase of Euro 13,356 thousand compared to the previous year.

The cost of fuel consumed in the period amounted to Euro 352,966 thousand, up by Euro 22,387 thousand compared to the cost incurred in 2017. The increase in the cost was determined by the gas price effect (PMP - weighted average price - increased by about 20.6%), more than offset by the resulting lower production volume of CCGT (gas consumption decreased by about 11.5%).

Charges related to the purchase of energy and trading on the power exchange amounted to Euro 522,026 thousand, a decrease of Euro 8,235 thousand compared to 2017.

A decrease of Euro 26,310 thousand was recorded in purchases of energy on the power exchange made to cover bilateral sales, which registered a decrease of 14% compared to 2017 (-1,165 GWh).

Purchases in the Dispatching Services Market (Euro 50,815 thousand) recorded a sizeable increase of Euro 12,231 thousand compared to the previous year, due to more trading on said market in 2018.

Energy purchases for imbalances stood at Euro 9,232 thousand, up by Euro 3,172 thousand compared to 2017 (Euro 6,060 thousand), due primarily to higher imbalance volumes and higher unit imbalance costs which, due to a higher PUN value and in particular prices on the MSD in particular, rose by roughly 19%.

Personnel costs amounted to Euro 20,342 thousand, essentially in line with the previous year.

Note that, in 2017, the company made use of the Cassa Integrazione Straordinaria (Extraordinary Wages Guarantee Fund), which saw all Company employees involved.

The average headcount in the period decreased by 94 units, from 331.8 in 2017 to 237.8 in 2018.

Average amount	12.31.2018	12.31.2017	Diff.
Executives and Middle Managers	44.0	43.3	*0.7*
Employees	157.9	208.3	*(50.3)*
Workers	35.8	80.2	*(44.3)*
TOTAL	**237.8**	**331.8**	***(94.0)***

The headcount at December 31, 2018 amounted to 233 employees, compared to 240 employees at December 31, 2017

Service costs in the period amounted to Euro 16,387 thousand, a decrease of Euro 7,971 thousand compared to the previous year, essentially due to the renegotiation of the LTSA contracts for the Naples and Vado Ligure plants (Euro 4,472 thousand), and the lower impact of extraordinary events, which made it possible to reduce the expenses of accidental maintenance (Euro 2,705 thousand). In this regard, note that service costs in 2017 included Euro 2,150 thousand in expenses for the demolition of the Torrevaldaliga tanks, in respect of which a demolition provision had been allocated which proved to be insufficient. Additional general savings were also made possible by a thorough analysis of all the contracts in place, with subsequent initiatives involving new contracts and efficiency drives.

Other costs amounted to Euro 40,874 thousand, an increase of Euro 15,288 thousand compared to the previous year.

In particular, higher expenses were recorded for emissions rights (Euro 17,021 thousand).

The negative price effect of the increase in the PMP (weighted average price) of valuation of CO_2, which went from 5.95 €/ton. in 2017 to 14.21 €/ton. in 2018, was only partially offset by a positive volume effect as a result of lower emissions (around 299 Kton).

In relation to the item “Other costs”, contractual penalties were registered due to a late GME payment (Euro 196 thousand), capital losses from disposal of assets deriving from sale at a price lower than the book value or from scrapping (Euro 855 thousand), as well as contingent liabilities relating to negative adjustments to the economic items of previous years (Euro 435 thousand).

Gross operating profit came to Euro 136,344 thousand, compared to Euro 71,943 thousand realised in 2017.

Provisions amounted to Euro 3,141 thousand, and mainly related to:

- Euro 1,344 thousand for the adjustment to dismantling provisions included under provisions for risks and charges in relation to adjustment works of the Napoli Vigliena demolition projects;
- Euro 1,135 thousand for the adjustment of the demolition works of chimney stacks (Euro 875 thousand), tanks (Euro 150 thousand), plus 2015-2018 ecotax expenses (Euro 110 thousand) regarding the Vado Ligure Plant.

EBITDA stood at Euro 133,202 thousand, marking an increase of Euro 69,953 thousand compared to the previous year. The substantial improvement in the year is due mainly to the higher market margins, especially in the Dispatching Services Market, a general reduction in all operating costs and lower provisions in the year compared to the previous year. It should be noted that the allocations in 2017 primarily concerned the adjustment to the value of the inventories of Torrevaldaliga and Naples (Euro 2,242 thousand), the adjustment to the provision for the dismantling of the oil and fuel oil tank tanks at the Torrevaldaliga Sud (Euro 1,980 thousand) and Vado Ligure (Euro 1,189 thousand) plants, as well as the adjustment of the estimates relating to the ICI/IMU (municipal property tax/single municipal tax) for previous years of the Naples Plant (Euro 1,190 thousand).

Amortisation, depreciation and write-downs (Euro 72,357 thousand) increased by Euro 16,372 thousand compared to the previous year.

In particular, the increase is primarily attributable to the write-downs of tangible fixed assets in the year, amounting to Euro 16,204 thousand, regarding part of the common works of the Vado Ligure plant, also as a result of the sale of the areas to the company Vernazza Autogru, and the demineralisation system of the Torrevaldaliga plant no longer in use. For more details, please refer to note no. 1.

Amortisation/depreciation in the year amounting to Euro 56,153 thousand was essentially in line with that of 2017 (Euro 55,985 thousand).

The **Operating Profit** therefore amounted to Euro 60,845 thousand, compared to an Operating profit of Euro 7,265 thousand in the previous year.

In 2018, **financial expenses** of Euro 19,028 thousand recorded, a decrease of Euro 2,707 thousand compared to the previous year.

The change in the period is due mainly to the effect of the accelerated repayment of the line Term Loan Tranche A, which took place as a result of the "Cash sweep" mechanism in February and July 2018.

Financial income amounted to Euro 173 thousand, compared to Euro 382 thousand in 2017, and refers primarily to the interest accrued on VAT credits for which a refund was requested.

Net profit amounted to Euro 40,196 thousand, compared to a net loss of Euro 13,463 thousand in the previous year.

Taxes of Euro 1,794 thousand were recorded in the year, due:

- to the recognition of current income **taxes** for IRAP purposes of Euro 2,700 thousand as the company closed the year 2018 with a tax gain;
- the reversals of **deferred tax liabilities** of Euro 906 thousand resulting from the completion, for IRES purposes, of the time period of the tax depreciation of the tangible fixed assets with respect to the economic-technical depreciation (statutory depreciation).

Analysis of the capital structure

Reclassified Balance Sheet

The values of the reclassified income statement are reported in Euros, without decimals. For a better disclosure, comments on the individual items are expressed in thousands of Euro.

(Euro)	Dec-31-18		Dec-31-17		difference
Net fixed assets					
Tangible and intangible assets	700,909,639		746,647,118		(45,737,479)
- of which CO2 rights	*35,005,693*		*19,342,720*		*15,662,973*
Other net non-current assets/(liabilities)	47,906,325		34,793,595		13,112,729
Total	**748,815,963**		**781,440,713**		**(32,624,750)**
Net working capital					
Inventories	14,413,398		14,501,991		(88,593)
Trade receivables	92,771,007		91,956,711		814,296
Tax (payables) /receivables	(2,680,725)		-		(2,680,725)
Trade payables	(74,398,495)		(88,026,342)		13,627,847
Other net current assets/(liabilities)	15,297,645		16,974,898		(1,677,253)
Total	**45,402,830**		**35,407,257**		**9,995,572**
Non-current assets held for sale	**898,000**		-		**898,000**
Gross capital employed	**795,116,793**		**816,847,971**		**(21,731,178)**
Other provisions					
Provisions for risks and charges	(76,208,581)		(83,267,221)		7,058,640
Post-employment and other employee benefits	(12,934,493)		(14,284,952)		1,350,459
Deferred tax liabilities	(35,409,317)		(36,386,724)		977,407
Total	**(124,552,392)**		**(133,938,897)**		**9,386,505**
Net capital employed	**670,564,401**	**100%**	**682,909,074**	**100%**	**(12,344,673)**
Shareholders' equity	**226,286,106**	**34%**	**185,583,009**	**27%**	**40,703,097**
Net financial debt	**444,278,295**	**66%**	**497,326,065**	**73%**	**(53,047,770)**

Tangible and intangible assets recorded a decrease of Euro 45,737 thousand, mainly due to the amortisation/depreciation of Euro 56,153 thousand for the period and write-downs of Euro 16,204 thousand, exceeding the increases, amounting to Euro 13,498 thousand, deriving from investments in the period, as well as the higher value of emission rights acquired (Euro 15,663 thousand), deriving from the notable increase in the weighted average price on purchases in the year compared to those of the previous year.

For details of investments made in 2018, please refer to the appropriate section **"Investments and Demolitions".**

Other net non-current assets/(liabilities) recorded an increase of Euro 13,113 thousand, primarily due to the increase in the 2018 VAT credit for which a refund of Euro 31,500 thousand will be requested, partially offset by the decrease in the ETS credits following the collection of Euro 18,212 thousand from Banca Intesa in February 2018.

Inventories, amounting to Euro 14,413 thousand, remained essentially unchanged with respect to December 31, 2017, given offset by purchases made for the replenishment of stocks with uses of materials for maintenance work performed in 2018.

For more details, please refer to the comments on inventories in note no. 7;

Trade receivables are in line with the previous year. Lower receivables for bilateral sales were offset by higher receivables due from Terna for higher revenues achieved in the MSD market in November and December 2018, compared to revenues recorded in November and December 2017.

Tax payables came to Euro 2,681 thousand, relating to IRAP taxes on income for the period given that the company estimated a tax profit position at the close of the year.

The balance of **Trade payables** fell by Euro 13,628 thousand compared to December 31, 2017.

This change is attributable to the decrease in purchases of energy on the power exchange connected with lower bilateral sales.

Less payables were also recorded for the purchase of fuels as a result of lower production in December 2018 compared to that recorded in December 2017.

Other net current assets/(liabilities) registered a decrease of Euro 1,677 thousand compared to December 31, 2017. This variation is a result of the combined effects of:

- the increase in current assets of Euro 12,426 thousand compared to the previous year, mainly attributable to the VAT credit of the 3rd quarter of 2018 (Euro 11,900 thousand) for which a refund was requested;
- the increase of Euro 14,103 thousand in current liabilities compared to the previous year, attributable mainly to the increase of Euro 17,021 thousand in payables for the delivery of CO2 quotas for fulfilment of the 2018 emissions obligation, offset by the decrease in payables for IRPEF withholding taxes on severance indemnities (Euro 2,253 thousand), the decrease in payables due to the MATTM (Euro 760 thousand), and as a result of the amount paid in the year.

Non-current assets held for sale, standing at Euro 898 thousand, refer to the value attributed to the areas of land (about 29 hectares) of the Vado Ligure site subject to sale to the company Vernazza Autogru Srl, a transaction described previously in the section "Operating structure", pursuant to IFRS 5, as assets held for sale, considering that the transaction was realised within 12 months of the close of the year.

The **Provision for risks and charges** decreased by Euro 7,059 thousand as a result of the movements better described in note 11.

The **Net capital employed** therefore amounted to Euro 670,564 thousand (Euro 682,909 thousand at December 31, 2017).

Shareholders' equity stood at a positive Euro 226,286 thousand, and essentially changed when compared to December 31, 2017, due to the net profit in the period, amounting to Euro 40,196 thousand, as well as the net increase of Euro 507 thousand in IAS 19 and IFRS 9 reserves.
For more details, please refer to note no. 9.

Net financial debt, amounting to Euro 444,278 thousand, related primarily to the bank loan renegotiated in 2015 as a result of the debt restructuring agreement reached with the banks. For more details, please refer to the explanatory notes.

Research and Development Activities

The Company did not carry out research and development in 2018 nor are there, as at December 31, 2018, deferred costs related to this type of activity.

Own shares and shares of the parent

At the date of the financial statements, the Company does not own treasury shares or shares of parent companies, either direct or indirect.

Relationships with subsidiaries, affiliates, parent companies and companies controlled by the latter

No significant transactions were carried out in 2018 with related parties. For more details, please refer to the notes to the financial statements.

Financial Risks, Market Risks and Other Risks

Please refer to the notes to the financial statements.

Business outlook

After a 2018 characterised by an increase of approximately 0.9% in Italian GDP, in its last monthly bulletin, the Bank of Italy predicted GDP growth of around 0.6% in the current year (0.4% less than the previous estimate), 0.9% in 2020 and 1.0% in 2021.

Total electricity requested in Italy amounted to 321.9 billion kWh in 2018, a slight increase (+0.4%) compared to 2017. Electricity demand in 2018, 35% of which was met by renewable energy sources (compared to 32% in 2017), accounts for its highest share of the total since 2013.

At regional level, the trend-based change in December 2018 was negative everywhere: -1.5% in both the North and South and -1.3% in the Centre. The profile of the trend, however, remained on a gently decreasing trajectory.

In 2018, despite operating in an increasingly more competitive market context, the company bolstered its economic and financial results, with growth of more than 50% in EBITDA compared to 2016, generating cash flows which enabled it to accelerate the repayment of the financial debt set out in the agreement with banks and fully implement the strategies identified in the Business Plan. Management actions will continue to target protecting profitability through a constant focus on seizing all the opportunities in the electricity market, increasing process efficiency, and personnel training and motivation. Consistent with the aspects presented in the Business Plan and, in particular in the year 2019-2020, the company will be committed to achieving an increasingly higher level of plant performance, through investments in plants targeted at guaranteeing the necessary flexibility to best cater for the volatility of demand on the electricity market.

Special attention will be focused on maintaining the levels of company costs recorded and monitoring them.

The approval, in 2018, of the Italian capacity remuneration mechanism by the European Commission represents a positive step, which should continue to stabilise and develop the role of combined cycle gas plants on the market. As regards 2019, although the proposed integrated national plan for energy and climate presented by the Ministry of Economic Development sets forth that the capacity market system will become operational in 2019, the company prudentially made provision for the launch of the auctions by 2019 but deliveries starting from 2020.

Significant events after the close of the period

In January 2019, the company Vernazza Autogru submitted an additional purchase proposal to the one above, also for the purchase of the areas (around 2 hectares) on which simple structures and buildings have been erected.

This offer was also accepted by the BoD, although subject to conditions precedent connected with any dismantling obligations that could be set forth in the new AIA (integrated environmental authorisation) during the phase of release and cancellation of the order for the seizure of the areas currently pending at the Public Prosecutor of Savona.

The agreed price is Euro 100 thousand, again based on the “as is” proviso, i.e. with dismantling costs borne by the purchaser.

PROPOSALS OF THE BOARD OF DIRECTORS

Dear Shareholders,

We invite you to approve the financial statements at December 31, 2018, both as a whole and the individual items.

Taking account of the above in this Management Report, as well as the provisions of Article 2430 of the Italian Civil Code and the provisions of the company Articles of Association, it is proposed to allocate the net profit of Euro 40,195,996 as follows:

1. Euro 2,009,800, equal to one twentieth of net profits, to the legal reserve;
2. the remainder, of Euro 38,186,196 as retained earnings.

Rome, February 22, 2019

For the Board of Directors

(Chairman)

Naples Plant

FINANCIAL STATEMENTS SCHEDULES

Balance Sheet

(Euro)	Note	Dec-31-18	Dec-31-17
Assets			
Property, plant and equipment	1	665,266,737	726,576,723
Intangible assets	2	35,642,901	20,070,395
Non-current financial assets	3	6,788,225	25,142,789
Deferred tax assets	4	621,042	589,833
Other non-current assets	5	41,710,882	10,210,882
Derivative financial instruments	6	410,534	1,234,889
Total non-current assets		**750,440,322**	**783,825,511**
Inventories		14,413,398	14,501,991
Trade receivables		92,771,007	91,956,711
Other current assets		53,609,003	40,153,221
Derivative financial instruments		125,104	-
Other current financial assets		133,251	1,287,832
Cash and cash equivalents		24,925,567	11,675,541
Total current assets	**7**	**185,977,329**	**159,575,295**
Non-current assets held for sale	**8**	**898,000**	**-**
Total assets		**937,315,651**	**943,400,806**
Liabilities			
Share capital		60,516,142	60,516,142
Other reserves		124,742,410	138,530,009
Accrued gains (losses)		831,557	-
Profit (losses) for the period		40,195,996	(13,463,142)
Shareholders' equity	**9**	**226,286,105**	**185,583,009**
Payables for loans	10	416,237,721	470,519,874
Provisions for risks and charges	11	65,679,454	68,793,380
Post-employment and other employee benefits	12	12,934,493	14,284,952
Deferred tax liabilities	13	35,409,317	36,386,724
Other non-current liabilities	14	1,624,359	2,384,797
Total non-current liabilities		**531,885,344**	**592,369,727**
Payables for loans	10	52,966,140	38,481,732
Provisions for risks and charges	11	10,529,128	14,473,841
Trade payables		74,398,495	88,026,342
Payables for income taxes		2,680,725	-
Other current liabilities		38,464,468	24,466,155
Derivative financial instruments		99,021	-
Other short-term financial liabilities		6,225	-
Total current liabilities	**15**	**179,144,202**	**165,448,070**
Total shareholders' equity and liabilities		**937,315,651**	**943,400,806**

Income Statement

(Euro)	Note	Dec-31-18	Dec-31-17
Revenues	16	1,087,197,400	1,000,623,626
Other revenues	17	3,545,071	4,358,038
Total revenues		**1,090,742,471**	**1,004,981,663**
Own work capitalised	18	562,467	1,021,551
Consumption of raw materials	19	(877,358,165)	(864,001,876)
Personnel costs	20	(20,341,852)	(20,113,720)
Service costs	21	(16,386,930)	(24,358,344)
Other operating costs	22	(44,015,835)	(34,279,795)
Amortisation, depreciation and write-dc	23	(72,357,186)	(55,984,631)
Operating profit		**60,844,970**	**7,264,849**
Financial expenses	24	(19,027,944)	(21,735,372)
Financial income	25	172,815	382,027
Pre-tax profit		**41,989,840**	**(14,088,496)**
Taxes	26	(1,793,844)	625,354
Net income		**40,195,996**	**(13,463,142)**
Earnings per share - basic and diluted	**27**	**0.66**	**-0.15**

Statement of Comprehensive Income / (loss)

(Euro)	Note	2018	2017
Net income for the period		**40,195,996**	**(13,463,142)**
Other components of comprehensive income:			
Change in fair value of financial instruments on POWER	9	(75,256)	0
Change in fair value of financial instruments on GAS	9	95,079	0
Change in fair value IAS 19 - Post-employment and other benefits	*12*	513,444	624
Change in fair value of Interest Rate Cap	*9*	(317,181)	320,704
Change in fair value - IFRS 9 - Time Value	*9*	(540,543)	
Total other components of comprehensive income		**(324,457)**	**321,328**
Total comprehensive income		**39,871,539**	**(13,141,814)**

Statement of cash flows of cash and cash equivalents

(Euro)	Note	Dec-31-18	Dec-31-17
OPERATING ACTIVITIES			
Net income for the period	9	40,195,996	(13,463,142)
Amortisation, depreciation and write-downs	23	72,357,186	55,984,631
Net provisions for deferred taxes and other provisions		(9,386,505)	(22,384,448)
(Purchase) repayment of CO2 quotas		(15,662,973)	(11,618,354)
Increase (decrease) in IAS 39 and IAS 19 reserve		507,100	624
Other non-monetary changes		1,643,196	(3,333,602)
Change in other non-current assets and liabilities		(13,112,729)	21,726,987
Change in Net working capital		(9,995,572)	22,076,612
Cash flow from operating activities		**66,545,699**	**48,989,308**
of which:			
- Interest income collected		-	-
- Interest expenses paid		*(994,885)*	*(828,662)*
- Income taxes paid		-	-
INVESTMENT ACTIVITIES			
Investments in tangible assets		(13,217,449)	(31,493,526)
Investments in intangible assets		(280,480)	(395,381)
Cash flow from investment activities		**(13,497,930)**	**(31,888,907)**
FINANCING ACTIVITIES			
Increase in share capital		-	-
Increase (decrease) in payables for non-current loans		(54,282,153)	(88,817,249)
Increase (decrease) in payables for current loans		14,484,409	30,398,416
Equity instruments		-	-
Changes in other short-term financial liabilities		-	(23,154)
Cash flow from financing activities		**(39,797,744)**	**(58,441,987)**
Increase (decrease) in cash and cash		**13,250,026**	**(41,341,587)**
Opening cash and cash equivalents		**11,675,541**	**53,017,128**
Closing cash and cash equivalents		**24,925,567**	**11,675,541**

Statement of changes in Shareholders' Equity

(Euro)	Note	Share capital (a)	Other reserves (b)	Accumulated gains (losses) (c)	Profit (loss) for the period (d)	Total (a+b+c+d)=e
Balance at January 1, 2017		**60,516,142**	**183,702,563**	**13,195,857**	**(58,689,739)**	**198,724,823**
Allocation of profit for 2016			(45,493,882)	(13,195,857)	58,689,739	-
Comprehensive profit/loss December 2017			321,328		(13,463,142)	(13,141,814)
of which:						
Income/losses booked directly to shareholders' equity	*9*		*321,328*			321,328
Profit/losses December 2017					*(13,463,142)*	*(13,463,142)*
Balance as at January 1, 2018		**60,516,142**	**138,530,009**		**(13,463,142)**	**185,583,009**
Allocation of profit for 2017			(13,463,142)		13,463,142	-
Adjustment of opening balances in application of IFRS 9				831,557		831,557
Comprehensive profit/loss December 2018			(324,457)		40,195,996	39,871,539
of which:						-
Income/losses booked directly to shareholders' equity	*9*		*(324,457)*			(324,457)
Profit/losses December 2018					*40,195,996*	40,195,996
Balance as at December 31, 2018		**60,516,142**	**124,742,410**	**831,557**	**40,195,996**	**226,286,105**

EXPLANATORY NOTES

Declaration of conformity

This Report is prepared in accordance with IFRS international accounting standards and provides complete information on the basis of IAS 1.

IFRS means all the "International Financial Reporting Standards", all International Accounting Standards ("IAS"), all of the interpretations of the International Financial Reporting Standards Committee ("IFRIC"), all the interpretations of the Standing Interpretations Committee ("SIC"), adopted today by the European Union and contained in the EU Regulations published on G.U.C.E. (Official Journal of the European Union) up to today's date, in which the Board of Directors of Tirreno Power S.p.A. authorised the publication of these financial statements. Lastly, still on the subject of interpretation, account was also taken of the documents on IAS / IFRS in Italy prepared by the Italian Accounting Board (OIC).

Structure and content of financial statements

These financial statements consist of the Balance Sheet, Income Statement, Statement of comprehensive income/loss, Statement of Cash Flows, Statement of changes in shareholders' equity, as well as the explanatory notes.

As for the financial statements that the Company has chosen to adopt it should be noted:

- In the "Balance sheet" assets and liabilities are sorted by due date, separating current and non-current items by expiry, respectively, within or after 12 months;
- The "Income statement" is presented in a scalar form by nature;
- The "cash flow statement" is prepared using the indirect method, as allowed by IAS 7;
- The "Statement of comprehensive income / loss" is prepared separately in accordance with IAS 1 Revised.
- The "Statement of Changes in Shareholders' equity" is prepared in accordance with IAS 1 Revised.

The functional currency used for the presentation of financial statements is the euro and all amounts are expressed in thousands of Euros unless indicated otherwise. For disclosure purposes, the values are reported without decimals.

This document is subject to auditing by the auditing firm *EY S.p.A.*, a company which was also entrusted with the legal auditing of accounts.

Evolution of the Restructuring Agreement, of the Business Plan and going concern assumption

As is well-known, the critical financial and equity situation of the Company, as highlighted in the previous financial statements, had implied the need for the Company to reach a Debt Restructuring Agreement in 2015 with the main creditors (the Lenders) for payables pursuant to art. 182-bis of the Bankruptcy Law, aimed at structurally resolving the existing financial and equity imbalances. In this regard, note that the Debt Restructuring Agreement and the financial measure agreed with the lenders were negotiated on the basis of a Business and Financial Plan (hereinafter the “Plan”) definitively approved by the Board of Directors on July 8, 2015. In addition, on the same date, Mr. Enrico Laghi, as an independent expert, had issued the certification on the accuracy of company data and the viability of the “Plan” and the Debt Restructuring Agreement, with particular reference to its suitability to ensuring full payment of the foreign creditors in accordance with the terms of art. 182-bis, first paragraph of the Bankruptcy Law. This plan assumes from 2015 and in the following three years (2016-2018) modest profitability, because the electricity market will be characterised by overcapacity on the production side, by weak demand and a growing supply of energy from renewable sources, likely to increasingly reduce both achievable volumes on the market and the difference between Peak and Off-Peak prices. The plan also made provision for the introduction of the Capacity Market from 2018 and the recovery of electricity demand which will enable a gradual return to higher profit margins.

On March 13, 2018, the Board of Directors approved an update to said Business Plan based on the economic, equity and financial results achieved in the 2015-2017 three-year period, which incorporates all the introductions, adjustments and updates, in regulatory and industrial terms, verified in the three-year period that will have repercussions in future years.

Subsequently, the Board of Directors approved the impairment test for 2018 based on the data of the above-mentioned Business Plan, updated with the final data for 2018 and, for subsequent years, with the data of the 2019 budget approved by the BoD of 12/18/2018 and with the effects of the main actions taken by management in 2018 regarding the modification of some contracts (gas supply and plant maintenance) and the introduction of the Capacity Market mechanism from 2020.

The approval in February 2018 by the European Commission of the Capacity Market mechanism in Italy gives concrete shape to the assumption, set out in the Business Plan, of this important and expected regulatory development which, together with a recovery in the electricity demand, will allow a gradual return to higher and consolidated profit margins. The proposal of the integrated national plan for energy and climate presented by the Ministry of Economic Development sets forth that the capacity market system will become operational in 2019.

The updates indicated above, on the whole, did not lead to substantial changes with respect to the original plan.

On completion of all the actions contained in the Debt Restructuring Agreement, the company’s shareholders’ equity, as at the date of these financial statements, also based on the results achieved in 2018, came to Euro 226,286 thousand, deemed suitable by the Directors to ensure adequate capitalisation of the Company with respect to the future objectives set out in the Plan.

As regards the result for 2018, Tirreno Power recorded significantly improved economic results with respect to the previous year. In fact, in addition to having recorded a positive net result of Euro 40,196 thousand, the Gross operating profit came to Euro 136,344 thousand, compared to Euro 71,943 thousand realised in 2017. In addition, at operating level, the result achieved, which in the financial statements of 2017, totalled Euro 7,265 thousand, also recorded a significant improvement, amounting to Euro 60,845 thousand.

«Reduction of debt: 48% of Tranche A repaid compared to the 13% envisaged in the original repayment plan.»

These results highlight an operating performance, also in 2018, better than the expectations included in the Business and Financial Plan, updated in February 2018, and are attributable to the opportunities seized on the market in the time brackets with higher remuneration and the excellent results achieved on the Dispatching Services Market, despite an essentially stable market scenario and the increase in the cost of CO_2 issue rights. The result, albeit better than expected, was characterised by a lack of trading on the Day-Ahead Market, providing little stability to the economic performance, stability which is expected to arrive with the launch of the Capacity Market.

It should also be noted that, in 2017, the payable due to lenders was reduced significantly thanks to the cash generated by the company, which allowed the early repayment of Tranche A with respect to the maturities established beforehand in the Restated Facility Agreement. In fact, the latter made provision for the first repayment of Tranche A of Euro 5 million in December 2017, while during 2017, the company repaid an amount of Euro 72,236 thousand in principal and capitalised interest and, in the first few months of 2018, a further Euro 29,862 thousand, augmented by Euro 21,708 thousand in relation to the cash sweep determined as at June 30, 2018 and, lastly, Euro 24,904 thousand based on the cash sweep determined as at December 31, 2018 and paid at the end of January 2019.

In relation to Tranche A of the financial debt, originally amounting to Euro 300.0 million, these repayments allowed Tirreno Power to reach a total repayment percentage of 48% (Euro 142.9 million). It should be noted that the original repayment plan, at the same date, made provision for a total repayment of Euro 40.0 million, equal to 13% of Tranche A.

It is also worth underlining that, on February 1, 2018, as better detailed in note 10, an additional agreement ("Amendment Agreement") was reached with the lenders, through which the Company requested and obtained an extension of existing guarantees and the issuing of the new guarantees needed for company operations on the Electricity Market, therefore stabilising and securing participation on both the Daily Market and the Capacity Market.

Again as regards the stability and safety of the productive process, it should be noted that, at the end of 2018, the contract was successfully renegotiated for the supply of gas for plant operation, on the one hand, obtaining the best contractual conditions and, on the other, a notable reduction in the demand for guarantees for the payment of supplies, based on Tirreno Power's improved credit rating. Furthermore, in 2018, the Company obtained the issuing of new commercial guarantees and the opening of credit lines for commodities, which made it possible to expand the group of counterparties for the finalisation of bilateral hedging contracts.

On the whole, the Company's position had been characterised, over the last few years, by events and circumstances that have raised significant doubts over its capacity to continue to operate as a going concern, however:

- the economic results achieved in previous years, and in 2018 in particular, which confirmed the better performances than those forecast in the Business and Financial Plan and subsequent updates;
- the realisation, up until the present day, of the actions set out in the aforementioned "Plan" in terms of increasing the efficiency of resources, which led to a reduction in structure costs;
- the verification of the capacity to generate cash, which allowed a faster repayment of the loan than envisaged originally;

confirmed the reasonableness of the assumptions used by the directors to draft the "Plan" and its updating, installing confidence in them regarding the company's ability to be able to reach the results expected in the "Plan" also in future years, despite being fully aware that the results envisaged in the aforementioned Plan may only materialise if the assumptions contained therein are satisfied. These assumptions are primarily related to the market trends and regulatory developments which are subject, owing to their nature, to uncertainties in terms of the methods and timing of their realisation.

Based on these assumptions, the directors reasonably expect the company to continue to operate in the foreseeable future as an operating entity, therefore, drafting these annual financial statements on the basis of the going concern assumption.

Accounting policies and valuation criteria

The accounting policies and valuation criteria adopted are summarised below. The accounting policies are adopted on a going concern basis as described above and with the principles of competence, relevance and materiality of accounting information and the prevalence of substance over form.

The general principle used in preparing these financial statements is the cost method with the exception of any derivatives for which IFRS 9 requires the fair value measurement.

Current/non-current classification

Assets and liabilities are classified in these financial statements according to the current/non-current criterion.

An asset is current when:

- it is expected to be realised, or held for sale or consumption, during the normal course of the operating cycle;
- it is held primarily for trading purposes;
- it is expected to be realised within twelve months of the date of year-end; or
- it is composed of cash or cash equivalents unless it is prohibited to exchange or use it to extinguish a liability for at least twelve months of the date of year-end.

A liability is current when:

- it is expected to be extinguished during its normal operating cycle;
- it is held primarily for trading purposes;
- it must be extinguished within twelve months of the date of year-end; or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months of the date of year-end.

Use of estimates

The preparation of financial statements and related notes requires the application of accounting principles and methods that sometimes are based on complex judgments and estimates, linked to historical experience, and assumptions that are from time to time considered reasonable and realistic based on the associated circumstances. The application of these estimates and assumptions affects the information provided and the amounts reported in the balance sheet, income statement and cash flow statement, and consequently in the statement of changes in equity, due to the uncertainty that characterises the assumptions and conditions on which the estimates are based.

A change in the assumptions underlying conditions used could have a potentially significant impact on the financial statements, on recoverability and on depreciation and amortisation of non-current assets, risk provisions, some regulatory credits, the fair value of financial instruments; particularly the recoverability assessments of major asset items, such as tangible and intangible assets and deferred tax assets, are based on significant estimates related to the determination of future cash flows and taxable income. Estimates and assumptions are reviewed periodically and the effects of each change are simultaneously recognised in the income statement.

Translation of foreign currency items

The functional and presentation currency is the euro.

Foreign currency transactions are recorded at the exchange rate prevailing at the transaction date. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at the balance sheet date. Exchange differences arising from the conversion operations are reflected in the income statement and recorded under financial income and expenses. Non-monetary assets and liabilities denominated in foreign currencies and valued at cost are translated at the exchange rate prevailing at the date of initial transaction.

Tangible assets

Property, plant and equipment are stated at acquisition or production cost, less accumulated depreciation and any impairment losses. The cost includes expenditure directly incurred to prepare the assets for use, as well as any charges for dismantling and removal (as provided by IAS 37), recorded at the present value of the future expense which is estimated will be incurred. The cost also includes any interest paid on the purchase or construction of property, plant and equipment incurred to bring these into operation.

Also included are the costs for the strategic spare parts of the plants.

Depreciation commences when the asset is available for use and is recognised systematically over the remaining useful life of the same, i.e. on the basis of the estimated useful life.

The useful life of property, plant and equipment and their residual value are reviewed and adjusted if appropriate, at least at the end of each year. The presumed realisable value which is deemed recoverable at the end of its useful life, if determined, is not depreciated.

Where the asset subject to depreciation is composed of separately identifiable elements whose useful life differs significantly from that of the other parts that make up the asset, depreciation is calculated separately for each of these parts, in application of the component approach.

Ordinary maintenance costs are fully expensed in the year they are incurred.

The costs incurred for the maintenance performed at regular intervals (so-called Major Inspection) are recorded as assets in the balance sheet and are amortised on the basis of the intervention cycle, as planned by management.

The depreciation of freely transferable assets outside the scope of IFRIC 12 is calculated on a straight-line basis over the shorter of the remaining life of the concession and the estimated useful life of the same.

Land, whether free of constructions or annexed to civil and industrial buildings is not depreciated as it has an unlimited useful life.

The estimated useful lives of property, plant and equipment is as follows:

Buildings	25/40 years
Equipment; steam generator; mech. mach.; hydraulic works	20 years
Combined cycle plants	30 years
Maintenance	from 2 to 8 years
Electronic calculators; office machines; IT equipment	5 years
Transport lines	35 years
Long distance transmission systems and industrial equipment	10 years

If there are signs of deterioration, tangible assets are subject to a recoverability test (so-called “impairment test”) which is illustrated in the following paragraph “Impairment of Assets”.

Intangible assets

An intangible asset is an identifiable non-monetary, identifiable and without physical substance, controllable and capable of generating future economic benefits. They are carried at cost of purchase and / or production cost, including directly attributable costs of preparing the asset for use, net of accumulated amortisation, in cases where there is an amortisation process, and any impairment. Depreciation commences when the asset is available for use and is recognised systematically over the remaining useful life of the same, i.e. on the basis of the estimated useful life.

Research costs are expensed in the year they accrue. Development costs are capitalised if the cost can be measured reliably and it is shown that the asset is able to generate future economic benefits.

With regard to so-called emission rights as well as economic situations similar to them, following the IASB’s non-approval of IFRIC 3 (Emission Rights) and then its subsequent withdrawal, there is currently no specific international accounting standard on the issue. Pending a new principle, Tirreno Power, given that it procures the above environmental bonds to meet its own requirements in the performance of its industrial activities (so-called own use), has decided to adopt, on the basis of market benchmarks, the gross method, which involves booking the emission rights as intangible assets at their fair value, which is equal to the historical cost, and registration of emission rights to be delivered as a liability. Quotas allocated freely shall be entered at a zero value. This item is not amortised, but tested for impairment. Costs incurred for purchase on the market (or, nonetheless, with consideration) of the green certificates and missing CO_2 quotas to fulfil the obligation of the reporting period are recognised in the income statement on an accrual basis, under other operating expenses, given that expenses represent the fulfilment of a legal obligation.

Impairment of Assets

At each balance sheet date, property, plant and equipment and intangible assets with indefinite lives are tested in order to establish whether there are indicators of impairment. When the presence of these indicators is identified, the recoverable amount of the assets is estimated and any impairment loss recognised in the income statement. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, where the latter is the present value of estimated future cash flows of the asset. In determining the value in use, future cash flows are discounted with a discount rate before tax that reflects the assessment of the cost of money for the company, the time value and the specific risks. An impairment loss is recognised in the income statement when the asset's carrying amount exceeds its recoverable amount.

In the case of goodwill and other intangible assets with indefinite useful life or assets not available for use, this test is performed at least annually.

For tangible and intangible assets (but not for goodwill), should the reasons for a write-down effected previously no longer exist, the carrying value is reinstated by an entry in the income statement, in accordance with the limits of the net book value that the asset would have had if it had not been written down and depreciation had been charged.

Inventories

Raw materials, consumables and supplies are valued at the lower of cost determined using the weighted average method, and net realisable value based on market trends.

The purchase cost is determined for the reference period, in respect of each inventory item. The weighted average cost includes the relevant accessory charges relating to purchases in the period.

The value of obsolete and slow-moving inventory is written down in relation to the risk of use or sale, through the allocation of risk in a specific provision for the write-down of inventories.

Financial instruments

Financial instruments include financial assets and liabilities whose classification is determined at the time of their initial recognition, depending on the purpose for which they were purchased. Purchases and sales of financial instruments are recognised on the trade date.

The financial instruments include not only investments available for sale, but other non-current financial assets, receivables and non-current loans, trade receivables, other receivables originated by the enterprise as well as other current financial assets such as cash and equivalents or bank deposits and financial receivables due within three months. Fall also under financial instruments, financial liabilities, trade payables, other payables and other financial liabilities and derivative instruments.

Their initial assessment takes into account the transaction costs directly attributable to the acquisition or the issuance costs that are included in the initial measurement of financial instruments. The fair value of instruments quoted on public markets is determined with reference to quoted prices (bid price) at the balance sheet date. The fair value of unquoted instruments, including those related to electricity, is instead measured with reference to the financial valuation techniques or using major financial counterparties. In particular, the fair value of interest rate swaps is measured by discounting the expected cash flows, the fair value of foreign exchange forwards is determined on the basis of market exchange rates at the balance sheet date and the rate differentials between the relevant currencies, while the fair values of derivatives related to commodities are calculated using models based on industry best practices.

In general, in applying those models, market data are used rather than internal company data.

Trade receivables

Trade receivables which accrue within the normal commercial terms are not discounted and are recognised at cost (identified by their nominal value) net of related impairment losses.

Whenever there is objective evidence of impairment, the asset's value is reduced to such an extent as to be equal to the discounted value of future cash flows: impairment determined on the basis of impairment tests is booked to the income statement. Significant financial difficulties of the debtor, probability that the debtor is subject to insolvency proceedings, or the natural delay in meeting payments (amounting to at least 30 days) are indicators of impairment.

If in subsequent periods, the reasons for the write-down no longer apply, the value of the assets is restored up to the value that would have resulted from the amortised cost if the impairment had not been effected. As for trade receivables and, in general, the assets and liabilities with a residual term not exceeding 12 months, the fair value is reasonably assumed to approximate their book value.

Cash and cash equivalents

Cash and cash equivalents include cash, i.e. assets that meet the requirements of availability on demand or at short notice, successful outcome and absence of collection expenses and are measured at fair value.

Cancellation (derecognition) of financial assets

Financial assets are derecognised when the rights to receive cash flows from the instrument expires and the entity has transferred substantially all the risks and rewards relating to the instrument and the relative control.

Non-current assets held for sale

Non-current assets held for sale include any disposed assets if their carrying value will be recovered primarily through sale rather than their continuous use.
These non-current assets classified as held for sale are measured at the lower of their carrying value and their fair value less costs to sell. Costs to sell are additional costs directly attributable to the sale, excluding financial expenses and taxes.

Trade payables

The trade payables which accrue within the normal commercial terms are not discounted and are recognised at cost (identified by their nominal value).

Financial liabilities

Financial liabilities, including borrowings, trade payables and other payment obligations, are initially recognised at cost corresponding to the fair value of the liability net of costs incurred to secure loans (transaction costs). Following initial recognition, financial liabilities are measured at amortised cost using the effective interest rate. They are consequently restated net financial charges on the basis of the effective interest rate method.

If there is a change in expected cash flows and the possibility exists to reliably estimate the value of the loans is recalculated to reflect this change on the basis of the present value of expected future cash flows and the internal rate of return originally determined. Financial liabilities are classified as current liabilities unless the entity has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

Financial liabilities are removed from the balance sheet when the specific contractual obligation is extinguished.

Derivative financial instruments

The Company uses derivative financial instruments including: interest rate swaps and forward commodity purchase contracts to hedge interest rates and commodity price risks respectively. These derivative financial instruments are initially recognised at fair value on the date in which the derivative contract is signed and, subsequently, are measured at fair value again. Derivatives are accounted for as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. For hedge accounting purposes, there are three types of hedge:

- fair value hedge in the event of hedging of the exposure to changes in the fair value of the asset or liability recognised or unrecognised irrevocable commitment;
- cash flow hedge in the case of hedging of exposure to changes in cash flows attributable to a particular risk associated with all assets or liabilities recognised or a highly probable forecast transaction or foreign currency risk on an unrecognised firm commitment;
- hedge of a net investment in a foreign operation.

At the start of a hedging transaction, the company designates and formally documents the hedging relationship, to which it intends to apply hedge accounting, its risk management objectives and the strategy pursued.

Before January 1, 2018, the documentation included the identification of the hedging instrument, the hedged element or transaction, the nature of the risk subject to hedging and the way in which the company will evaluate the effectiveness of fair value changes in the hedging instrument in offsetting the exposure to changes in the fair value or the cash flows of the hedged element attributable to the risk hedged. These hedges are expected to be highly effective in offsetting the changes in the fair value or the cash flows and are measured on a continuing basis in order to determine whether these hedges have actually proved to be highly effective in the years for which they were designated as hedging transactions.

As from January 1, 2018, the documentation includes the identification of the hedging instrument, the hedged element, the nature of the risk and the methods the company will use to evaluate whether the hedging relationship satisfies the hedge effectiveness requirements (including an analysis of the sources of hedge ineffectiveness and the way in which the hedging relationship is determined). The hedging relationship satisfies the hedge accounting eligibility criteria if it meets all the following hedge effectiveness requirements:

- there is an economic relationship between the hedged element and the hedging instrument;
- the effect of the credit risk does not dominate the changes in value resulting from the aforementioned economic relationship;
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

The transactions that satisfy all the criteria to qualify for hedge accounting are accounted for as follows:

(i) Fair value hedges

The fair value change in hedging derivatives is recognised under other costs in the statement of profit/(loss) for the year. The fair value change in the hedged element attributable to the hedged risk is recorded as part of the carrying value of the hedged element and it is also recognised under other costs in the statement of profit/(loss) for the year.
As regards fair value hedges relating to elements accounted for using the amortised cost method, each adjustment of the carrying value is amortised in the statement of profit/(loss) for the year over the residual period of the hedge, using the effective interest rate method. Amortisation determined in this way may start as soon as adjustment exists but cannot extend beyond the date in which the element subject to hedging ceases to be adjusted due to the fair value changes attributable to the risk subject to hedging.
If the hedged element is cancelled, the fair value not amortised is recognised immediately in the statement of profit/(loss) for the year.
When an unrecognised firm commitment is designated as an element subject to hedging, subsequent cumulated changes in its fair value attributable to the hedged risk are accounted for as assets or liabilities and the corresponding profits or losses booked to the statement of profit/(loss) for the year.

(ii) Cash flow hedge

The portion of the profit or loss on the hedged instrument, relating to the effective part of the hedge, is recognised in the statement of comprehensive income, under the "cash flow hedge" reserve, while the ineffective part is booked directly to the statement of profit/(loss) for the year. The cash flow hedge reserve is adjusted to the lower of the cumulated profit or loss on the hedging instrument and the cumulated variation in the fair value of the hedged element.

From January 1, 2018, the Company only designates the spot component (intrinsic) of forward contracts as hedging instrument. The forward component (time) is cumulatively recognised in a separate item of the statement of other comprehensive income.

The amounts accumulated under other comprehensive income are accounted for depending on the nature of the underlying hedged transaction. If the transaction subject to hedging subsequently involves the recognition of a non-financial component, the amount accumulated under shareholders' equity is removed from the separate component of shareholders' equity and included in the cost value or other book value of the hedged asset or liability. This is not considered a reclassification of the items recognised in other comprehensive income for the period. This also applies in the event of a planned hedge of a non-financial asset or non-financial liability that subsequently becomes a firm commitment to which the accounting of fair value hedging transactions is applied.

For any other cash flow hedge, the cumulated amount in other comprehensive income is reclassified to the income statement as a reclassification adjustment in the same period or in periods during which the hedged cash flows impact the income statement.

If the accounting of the cash flow hedge is suspended, the cumulated amount in other comprehensive income must remain as such if the future hedged cash flows are expected to materialise. Otherwise, the amount must be reclassified immediately to profit/(loss) for the year as a reclassification adjustment. After the suspension, once the hedged cash flow is verified, any accumulated amount remaining in other comprehensive income must be accounted for depending on the nature of the underlying transaction as described previously.

As regards the new standard IFRS 9 - Financial Instruments which replaced IAS 39, please refer to the paragraph “Changes in International Accounting Standards”.

Embedded derivatives

Embedded derivatives included in other financial instruments or in other contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the latter are not stated at fair value with recognition of gains and losses in the income statement. The Company verifies the existence of any embedded derivatives, analysing the facts and circumstances which could have originated them, including, for example, any contracts regarding the receipt or sale of “non-monetary” assets according to specific company purchase, use or sale requirements.

Employee Benefits

The short-term benefits are recognised in the income statement in the period in which the working activity is performed.

It is noted that, in connection with the pension reform of 2007, the provision for Post-employment benefits was restated, by adopting the new methodological approach, or considering that the amounts accrued as of January 1, 2007 are a defined contribution benefit and, therefore, not included in the calculation of liabilities. Where the provision accrued at December 31, 2006 is treated as a defined benefit plan, the benefits granted to employees are recognised over the vesting period, as well as other long-term benefits (Additional months' salaries, Tariff Incentives and Loyalty Bonuses).

The cost of providing benefits under the various plans is determined separately for each plan, using actuarial assumptions to estimate the amount of future benefits that employees have accrued at the reporting date.

The valuation of the liabilities in question is determined on the basis of independent actuarial assumptions. Gains and losses resulting from actuarial calculations are recognised in the income statement.

For defined contribution plans, contributions are only recorded when the employees have carried out their activities and therefore those contributions are accrued. In the latter case Tirreno Power pays fixed contributions into a separate entity (e.g. a Fund) and will have no legal or constructive obligation to pay further contributions if the fund is not solvent.

Provisions for risks and charges

Provisions are recorded to cover losses and charges of a specific nature, certain or probable, in respect of which, however, the amount and/or date of occurrence cannot be determined.

Provisions for risks and charges are recognised when, at the reporting date, in the presence of a present obligation (legal or constructive) to third parties arising from a past event, it is likely that, to fulfil the obligation, an outflow of resources whose amount can be estimated reliably will be required.

When the financial effect of time is significant, the provision is discounted using a yield curve that reflects the time value of money expressed by the market and the risks associated with the liability.

If the provision is estimated taking into account the discounting process, the increase in provisions, due to the passage of time is recognised in the income statement as a financial charge. If the liability relates to tangible assets (e.g. dismantling and restoration of sites), the provision is recorded against the asset to which it relates; the expense is recognised in the income statement through the depreciation of the tangible asset to which the expense relates, as well as through the measurement of the financial expenses of the revaluation of the liability.

The estimate of the costs of future dismantling and remediation works is reviewed annually. Changes in the estimates of future costs or the discount rate applied increase or decrease the cost of the asset if they refer to the portion of the asset that will depreciate in subsequent periods.

The allocation of restructuring expenses takes place when the general criteria for allocation of a provision are respected. The Company has an implicit obligation when a detailed and formalised plan identifies the business unit concerned, the location and number of employees forming the object of the restructuring, the detailed estimate of costs and the implementation timescales. In addition, the personnel concerned must be informed of the main characteristics of the restructuring plan.

Revenue recognition

Revenue is recognised to the extent that it is possible to reliably determine its value (fair value) and it is probable that the associated economic benefits will be enjoyed by taking into account any discounts and reductions linked to quantities.

Revenues related to the sale of electricity are recognised at the time of delivery of supply, even if not invoiced, based on the actual sales prices on the Power Exchange or the conditions set forth contractually, taking into account the existing legislation.

Revenues from services are recognised when they can be reliably estimated, on the basis of the percentage of completion method.

Other revenues are determined according to the terms and conditions which take account of the risks and benefits transferred.

Recognition of costs

Costs are recognised in the periods in which the related revenues are recorded and, in general, in accordance with the accrual principle. Costs that cannot be associated with revenues are immediately recognised in the income statement. For the criteria for recognition and measurement of specific costs, the Company considers their nature and the reference accounting legislation.

Financial income and expenses

The financial income and expenses are recognised according to the accrual method, based on the interest accrued on the amount of the related financial assets and liabilities using the effective interest rate.

Dividends

Dividends distributed to shareholders are reported as changes in shareholders' equity on the date on which they are approved by the shareholders' meeting.

Government grants

Government grants, in the presence of a formal resolution by the disbursing entity, are recognised on an accruals basis in direct correlation with the costs incurred. In particular, the operating grants are credited to the income statement under "Other income", while public capital grants that relate to property, plant and equipment are recorded as deferred revenue in balance sheet liabilities. The deferred income is recognised in the income statement as income on a straight-line basis over the useful life of the asset to which it directly relates.

Income taxes

Current income taxes are recognised as tax payables and calculated based on the estimated taxable income determined in accordance with the provisions in force at the reporting date.

Deferred taxes are calculated on temporary differences between the carrying amounts and the corresponding amounts recognised for tax purposes applying tax rates that are expected to apply in the period when the asset is realised or the liability settled.

Deferred tax liabilities are recognised without exception for all taxable temporary differences. Deferred tax assets are only recognised if it is likely that, within a reasonable timeframe, taxable income emerges of a sufficient amount to absorb the deductible temporary differences and the underlying IRES losses to such deferred taxes.

Current and deferred taxes are recognised in the income statement, except those relating to items charged or credited directly to equity; in which case, the tax effect is recognised as a separate item in equity.

New accounting standards, interpretations and amendments adopted by the Company

The company adopts IFRS 15 and IFRS 9 for the first time. The impact and nature of the amendments following the adoption of these new accounting standards is described below. Various other amendments and interpretations apply for the first time in 2018, but have no impact on the Company's financial statements. The Company did not arrange for the early adoption of any other standard, interpretation or amendment published but not yet in force.

IFRS 15 - Revenues from contracts with customers

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenues and the associated interpretations and applies to all revenues from contracts with customers, unless these contracts fall under the scope of other standards. The new standard introduces a new 5-step model that applies to revenues deriving from contracts with customers. The new standard applies to all contracts with customers with some exclusions, such as leases and insurance contracts and those regarding financial instruments. IFRS 15 requires revenues to be recognised for an amount that reflects the consideration to which an entity expects to be entitled in exchange for the transfer of goods or services to the customer.

The standard requires entities to exercise judgment that takes into consideration all relevant facts and circumstances in the application of each phase of the model to contracts with their customers. The standard also specifies the accounting of incremental costs linked to the obtainment of a contract and the costs directly related to the completion of a contract.

The company has completed an analysis of the quantitative impacts that the new IFRS 15 has on Tirreno Power's accounts from January 1, 2018 and, therefore, on the interim financial statements as at June 30, 2018 and annual financial statements for the year ended as at December 31, 2018.

IFRS 15 is applied retrospectively from January 1, 2018. In this regard, the qualitative analysis showed that there was no need to recognise impacts on shareholders' equity at the time of re-opening of the balances as at January 1, 2018.

The new revenue recognition model envisaged in IFRS 15 actually produces effects, especially in the case of "bundle" offers, making provision for the allocation of the Transaction Price (the total expected consideration) to each Performance Obligation (or each separate good or service that the entity has promised to transfer to the customer) based on the relative stand alone selling price.

Tirreno Power's sales revenues, by contrast, are essentially attributable to electricity sold as wholesaler:

• on the Power Exchange, through transactions concluded on the "Day-Ahead Market", the "Intra-Day Market" and, lastly, on the "Dispatching Services Market";

• outside the Power Exchange, i.e. on an "Over The Counter" (OTC) platform through a bilateral contract with an electricity trader/wholesaler, at a sale price negotiated directly with said counterparty.

Based on the latest assumptions, starting from 2020, provision was also made for the launch of a new mechanism for the remuneration of the electricity production capacity (so-called Capacity Market). Therefore, when the regulatory framework for said mechanism is defined, it will be possible, as well as necessary, to perform an evaluation of the impacts of the new IFRS 15 on the recognition of revenues recorded on the Capacity Market.

As required by the new accounting standards, the company disaggregated revenues deriving from contracts with customers into categories that represent how the nature, the amount, timing and uncertainties of revenues and cash flows are conditioned by economic factors.

The company's performance obligations relating to revenues from the sale of energy are fulfilled "Over Time", while the residual part of revenues (less than 1% and relating to accessory sales of materials) qualifies as "At a certain point in time".

IFRS 9 - Financial Instruments

The standard was developed by the International Accounting Standard Board (IASB) to replace IAS 39 - Financial Instruments, providing its response to the financial crisis. The IASB completed IFRS 9 in July 2014, by publishing a standard whose final version incorporates the requirements of all three phases of the financial instruments project, i.e.:

• classification and measurement;
• adoption of a new method for the evaluation of expected losses (impairment);
• recognition of hedging instruments (hedge accounting).

The new rules will be applied from January 1, 2018.

As regards the effects for the company at the start of 2018, it should be noted that, as at December 31, 2017, an amount of Euro 1,235 was booked to the item "Derivative financial instruments", which included the mark-to-market value of the interest rate hedge stipulated in May 2017, as better described in note no. 6.

Continuing on with the approach adopted according to IAS 39, the Company decided to exclude the time value of the derivative from the hedging relationship. In compliance with the provisions of IFRS 9, starting from January 1, 2018, the fair value changes attributable to the time value are recognised in a specific shareholders' equity reserve (distinguished from the cash flow hedge reserve).

At the opening of 2018, the company therefore carried out a shareholders' equity reclassification of Euro 831 thousand from retaining earnings (positive), to a new reserve for time value changes (negative), gross of the associated tax effect, to take account of the value that would have been recorded in the income statement in 2017 by applying the new rules of IFRS 9 retroactively.

It should be noted that said amendment only applies prospectively from the date of first-time application of IFRS 9 but has no impact on the presentation of comparative data.

This reclassification is actually equal to the difference between the time value change of the option booked to the Income Statement in 2017 pursuant to IAS 39 (negative Euro 1,213 thousand) and the value that, by contrast, would have been recorded in the income statement in 2017 by retroactively applying the new rules of IFRS 9 for the accounting of option premiums (negative Euro 382 thousand and equal to the financial amortisation of the value of the initial premium pertaining to 2017).

Standards issued but not yet in force

The standards and interpretations that, at the reporting date, had been issued but were still not in force, are illustrated hereunder. The Company intends to adopt these standards and interpretations, if applicable, when they enter into force.

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and replaces the standards IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 is effective for years beginning on January 1, 2019.

IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases in the financial statements based on a single accounting model similar to the one used to account for finance leases in accordance with IAS 17.

The standard includes two exemptions to recognition for lessees - leasing of assets with a "low value" and short-term leases (i.e. lease agreements with a rental period of 12 months or shorter). At the lease start date, the lessee will recognise a liability relating to rental fees and an asset that represents the right to use the underlying asset during the term of the lease. Lessees will be required to separately recognise interest expense on the leasing liability and amortisation on the right of use.

Lessees will also be required to reconsider the amount of the liability relating to the lease on verification of given events. Generally speaking, the lessee will recognise the difference from remeasurement of the amount of the leasing liability as an adjustment of the right of use.

The accounting method for the lessor in respect of IFRS 16 remains essentially unchanged with respect to the current accounting policy according to IAS 17. Lessors will continue to classify all leases using the same classification principle set forth in IAS 17 and by distinguishing between the two types of lease: operating and finance lease.

The Company decided to make use of the two exemptions set out in the standard, indicated above.

The company expects to adopt IFRS 16 retrospectively for each previous reference period. However, as a result of the qualitative analysis carried out, the new standard should not, nonetheless, involve significant impacts on the Company's assets, liabilities and shareholders' equity.

With specific reference to public concessions, owing to the unique nature of the subject, the analyses of any effects are still in the process of being identified.

Type of risks and management of hedging activities

Risk management is an integral and fundamental part of the strategies of every organisation and the process through which companies tackle the risks connected with their activities, with the objective of obtaining long-lasting benefits.

The basis of good risk management consists of identifying and dealing with risks in order to allow an understanding of the potential positive and negative aspects of all factors that can influence the organisation. Risk management, a continuous and gradual process that involves the entire organisation strategy and its implementation, must be engrained in the company culture through an effective policy and a project managed by the company's top management, in order to turn the strategy into objectives and assign responsibilities at all levels of the organisation, making every person responsible for risk management.

For Tirreno Power S.p.A., in general, risk-taking is limited, in nature and extent, to those which, according to principles of sound and prudent management, are the risks considered ordinary.

In 2017, the Board of Directors approved a new version of the "Risk Management Manual", which set out, on the one hand, the general principles for managing the company's main risks, consistently with the strategic objectives identified and, on the other, the methods of coordination between the entities involved in order to maximise the effectiveness and efficiency of the Internal Control and Risk Management System.

The Manual sets forth that the General Manager, as the company's Risk Owner, has the responsibility and ownership for the management of company risks, with the exclusion of "Environmental risk" and "Health and safety risk" for which the responsibility falls to the "Employer" of the various Organisational Units. The Risk Owner and the Employer are supported by Management in identifying and assessing risks, as well as defining the risk management policies.

The company distinguishes two risk macro-categories: **Financial and Market Risks** and **Other Risks**. Financial and Market Risks mean those deriving from the impact they could have on margins and expected cash flows and, more specifically: future fluctuations in one or more specific interest rate or exchange rates, financial instruments, prices of energy and raw materials, prices of CO_2 emission rights. Other types of risk that are also associated to the category of financial risks, and in particular credit and liquidity risk, are dealt with separately.

Financial and Market Risks include ***Market Risk, Interest Rate Risk*** and ***Exchange Rate Risk***. By contrast, the following sub-categories are also included in Other Risks: ***Counterparty Risk, Liquidity Risk, Environmental Risk, Legal Risk, Legislative/Regulatory Risk, Image Risk and Health and safety risk.***

The different types of risk are monitored in order to assess the potential adverse effects and take the appropriate actions to mitigate them. The optimisation and the reduction of the level of risk is pursued through an adequate organisational structure, the adoption of rules and procedures, the implementation of certain trade and procurement policies, the use of insurance coverage and hedging derivative financial instruments.

For the monitoring and management of Financial and Market Risks, the Risk Owner is supported by the Risk Committee, with advisory functions in relation to the risk management process. The Committee, composed not only of the General Manager, but beyond the Head of Energy Management and Production and the Head of Administration, Finance and Control, meets once a month and is responsible for supporting the Risk Owner in analysing and preparing the necessary documentation for implementing the hedging strategies, as well as proposing the "Hedging Policy" and the quarterly updates to be submitted to the BoD for approval.

We focus below on the risks, from those listed, with the biggest impact for the Company.

Market Risk

Market risk is the risk that the value of a financial instrument, as defined by IAS 32, will fluctuate because of changes in market prices or exchange rates.

Owing to the nature of its business, the Company is exposed to changes in the prices of electricity, fuel and environmental costs (CO_2 emission rights) that can significantly influence the financial results.

To mitigate this exposure, it has developed a strategy of stabilising margins by means of the early negotiation of fuel supply. Through formulas or indexing, the company pursues, as far as possible, a policy of standardisation between sources and physical uses.

The Company has also implemented a formal procedure that provides for the measurement of the residual price/commodity risk and the implementation of hedging operations. Hedging transactions may have the objective of stabilising the margin on an individual transaction or a group of similar transactions, or to limit overall exposure to price risk. Tirreno Power does not adopt speculative positions in financial instruments.

As at December 31, 2018, the Mark to Market value of the instruments in place totalled Euro 125 thousand in relation to electricity price hedging transactions, and Euro -99 thousand in relation to gas price hedging transactions.

Interest rate risk on cash flows

The exposure to risk of changes in the Company's interest rate is linked primarily to the financial debt, part of which is at floating rate. The Company, taking into account the contractual obligations, regularly assesses its exposure to the risk of changes in interest rates and manages these risks through the use of non-speculative derivative financial instruments.

The Hedging Policy aims to stabilise cash outflows relating to financial expenses, reducing the effects of increases in interest rates and at the same time retaining some of the benefits associated with a reduction of the same through a combination of debt between fixed and floating rate.

In 2017, in order to hedge part of Tranche A, the company subscribed an Interest Rate Cap, with a level equal to 0.5% on the 6-month Euribor for an initial notional value of Euro 196,800 thousand, with expiry and amortisation in proportion to the repayment plan of Tranche A. The value of this instrument, paid on the subscription date, came to Euro 1,880 thousand. As at December 31, 2018, the mark-to-market value of the instrument stood at Euro 411 thousand.

Counterparty Risk

Counterparty risk, or more commonly known as credit risk, represents the Company's exposure to potential losses arising from the default of a counterparty.

Credit risk is limited due to the characteristics and the creditworthiness of the customers served. The portfolio of accounts receivable is constantly monitored by the relevant departments. Tirreno Power also pays particular attention to the selection of prime counterparties (both commercial and financial), the evaluation of supplier references in terms of the customers served and respect for supply/service obligations, in the definition of contractual penalties in cases where the non-fulfilment of the obligation by the third party may have economic consequences for the company in the issue and request for guarantees, especially financial, for entering into derivative contracts according to ISDA standards.

As for the payment terms applied by most customers, deadlines are mostly concentrated within thirty or sixty days from billing, normally monthly and is carried out within the month following the month of the supply.

The monitoring and analysis of counterparty risk is entrusted to the Internal Credit Risk Committee, composed of the Risk Committee (mentioned above), with the addition of the Head of Legal and Corporate Affairs, which evaluates existing exposures on a monthly basis per individual counterparty and deliberates on credit facilities. The main monitoring tool used is the weekly statement of exposure for each individual counterparty, also containing alert mechanisms when given exposure thresholds of attention are reached.

The table below shows that, at the reporting date, the credit risk is reduced given that the trade receivables relate either to counterparties with a high credit rating, and/or with whom supply contracts are also in place, for which the credit exposure is offset with the associated trade payable, substantially reducing the credit risk.

Information on counterparty quality (Thousands of Euro)	12.31.2018	%	12.31.2017	%
Receivables for sale of energy				
State-owned company [1]	56,693	61%	23,325	*25%*
Related parties	4,811	5%	4,811	*5%*
Other operators	30,969	33%	63,512	*69%*
Total receivables for sale of energy	**92,473**	**100%**	**91,648**	***100%***
Other counterparties	298	0%	309	*0%*
Total trade receivables	**92,771**	**100%**	**91,957**	***100%***

(1) Gestore del Mercato Elettrico S.p.A. (GME) e Terna S.p.A.

Liquidity Risk

The liquidity risk is related to the possibility that the Company is in a situation of difficulty in meeting the financial obligations arising from contractual commitments and, more generally, from its financial liabilities.

This risk is closely related to the phase of refinancing that the company is experiencing, as described in note no. 10 “Payables for Loans”. The following table summarises the contractual expiry date for the financial and trade assets and liabilities at the date of these financial statements.

Expiry of financial assets and liabilities (Thousands of Euro)	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	After 5 years	Total
Cash and cash equivalents	24,926				24,926
Derivative financial instruments	125	-	411		536
Trade receivables and other assets	146,513	41,711	6,788		195,012
Total financial assets	**171,564**	**41,711**	**7,199**	**-**	**220,474**
Trade payables	52,972	27,716	112,506	276,015	469,210
Trade payables and other liabilities	115,544	869	755	-	117,168
Derivative financial instruments	99				99
Total financial liabilities	**168,615**	**28,585**	**113,262**	**276,015**	**586,477**
Total net exposure	**2,949**	**13,126**	**(106,063)**	**(276,015)**	**(366,004)**

Legal risk

This is the risk of the Company suffering negative repercussions from violations of laws or regulations and contractual and non-contractual liability.

Through the Legal and Corporate Affairs Department, the company monitors the risks identified through:

- verification of compliance with the regulatory provisions;
- an analysis of the legal documents and contracts, by verifying, in particular, the clauses of acceptance of the Code of Ethics and of the Organisational and Management Model pursuant to Legislative Decree 231/01;
- monitoring of the contractual standards in use.

In the event of the signing of international contracts, the Legal and Corporate Affairs Department verifies that they are consistent with the frameworks set forth in international conventions or approved by international trade associations.

Legislative/Regulatory risk

This risk identifies the eventuality that the Company may suffer negative consequences, in economic or capital terms, or damage to its reputation, as a result of the issuing of primary legislation or resolutions of the regulatory authorities. For the analysis of legislative and regulatory risk, and the monitoring of the activities impacted, Tirreno Power has, through the following functions, implemented the following instruments:

- Institutional and Regulatory Affairs Work Group – The work group meets monthly and the General Manager and Heads of the main functions exposed to risk (Energy Management, AFC and Production) take part. In this area, based on a document prepared by the Regulatory, Institutional and Communication Organisational Unit, all the main regulatory and legislative events which could have an impact on Tirreno Power are discussed and any actions to be taken are evaluated (if necessary, also through the launch of specific studies, also assigned to specialist advisors). Closer coordination has been initiated between the Energy Management Department and the Regulatory, Institutional and Communication Organisational Unit, which periodically meet to discuss matters of reciprocal interest.
- Regulatory Dashboard - On a four-monthly basis, the Regulatory, Institutional and Communication Organisational Unit prepares a document that summarises all the regulatory and legislative issues that, during the reference period, have determined potential impacts for the company. The document is published on the company intranet and made accessible to all employees. In addition, a periodic newsletter, for use by the functions most impacted, contains a specialist press review on the regulatory, institutional and market issues.
- Association activities - Tirreno Power participates in some trade associations (for example, Energia Libera and Unione Industriali di Savona), with the objective of monitoring the legislative-regulatory framework, promoting the reporting and exchanging of information with the institutions, and promoting and participating in initiatives to protect the company's position.

Image risk

Image risk is the risk of the Company suffering negative repercussions on its reputation, with particular regard to the management of institutional communications.

Control of the activities exposed to risk through the constant monitoring of the perception of the Tirreno Power brand by stakeholders and specific communication and information activities, targeted at maintaining an excellent brand reputation.

The Corporate Affairs Department is responsible for the actions targeted at the correct implementation of the risk management policies, which ensures the development of relational capital and the identity of the company, the definition of the corporate image and brand identity strategies and strengthening of the company's reputation.

The Company monitors and manages the risk through the following non-exhaustive list of analyses and instruments:

- Press Review – The company is equipped with a press review service which, through a daily newsletter, reports the news that appears in the press in relation to the Company, its shareholders, the reference areas and some important themes.
- Media relations – The Regulatory, Institutional and Communication Organisational Unit deals with the press office functions, supported by an advisor who handles relations with the local and national press publications.

- Practice of management of critical events – The Company has defined a communication flow dedicated to the management of emergency situations, in order to monitor any particularly urgent or relevant cases.

Environmental risk

This risk identifies the eventuality that the Company may suffer negative consequences, in economic or capital terms, or damage to its reputation, or in terms of the safety of personnel, as a result of environmental pollution resulting from the operation of thermoelectric plants.

The company policy consists of the prevention of all forms of environmental pollution or environmental damage connected with the operation of its thermoelectric plants; of the prevention of possible risky events through the development and implementation of plant management and maintenance procedures certified according to ISO 14001 standards, of the development of regular technical-operating training programmes for personnel in the field and in the mapping and analysis of near accidents; as well as of the transfer of risks through the stipulation of adequate insurance policies to cover any damages and civil liability connected with accidents.

The Company monitors and manages the risk through the following non-exhaustive list of analyses and instruments:

- stipulation of adequate insurance policies to cover any damages and civil liability connected with accidents;
- implementation of an appropriate Environment Management System for the company and for thermoelectric assets, regulated by the proper Manual which conforms to the UNI ISO 14001 standards;
- development of regular technical-operating training programmes for personnel in the field and the mapping and analysis of near accidents;
- plants in line with the Best Available Techniques.

Notes to the Balance Sheet

ASSETS

Non-current assets

1. PROPERTY, PLANT AND EQUIPMENT

Details of tangible assets are provided below, by individual category, along with the changes in the period:

(Thousands of Euro)	FIXED ASSETS IN OPERATION				FIXED ASSETS IN PROGRESS AND ADVANCES	BOOK VALUE
	Land and buildings	Plant and and equipment	Industrial and commercial equipment	Other assets		
-historical cost at 12.31.2017	227,729	2,026,682	9,067	4,306	17,139	2,284,923
-write-downs (-) at 12.31.2017	0	(113,738)			0	(113,738)
-accumulated depreciation (-) at 12.31.2017	(134,984)	(1,297,329)	(8,464)	(3,832)		(1,444,609)
Opening values at 01.01.2018	**92,745**	**615,615**	**603**	**474**	**17,140**	**726,577**
Changes						
-acquisitions	202	6,694	36	466	5,821	13,219
-reclassifications	(898)				0	(898)
-disposals (-)						
of which:						
historical cost	(476)	(17,828)	(228)			(18,532)
accumulated depreciation	184	16,510	195			16,889
use of write-down provision						0
-amortisation	(7,701)	(47,789)	(129)	(162)		(55,781)
-write-downs (-)	(10,895)	(5,309)				(16,204)
-commissioning	159	10,155			(10,314)	0
-other changes						
Total changes (B)	**(19,425)**	**(37,567)**	**(126)**	304	**(4,494)**	**(61,309)**
Changes at 12.31.2018	**73,319**	**578,048**	**476**	**779**	**12,646**	**665,267**
Of which						
-historical cost	226,716	2,025,703	8,875	4,772	12,646	2,278,712
-write-downs (-)	(10,895)	(119,047)			0	(129,942)
-accumulated depreciation (-)	(142,501)	(1,328,608)	(8,398)	(3,994)		(1,483,502)
Net value	**73,319**	**578,048**	**476**	**779**	**12,646**	**665,267**

As of December 31, 2018 the value of property, plant and equipment amounted to Euro 665,267 thousand. During the year, the Company reported investments totalling Euro 13,219 thousand, of which Euro 5,821 thousand related to "fixed assets in progress and advances" and Euro 7,398 thousand relating to the "fixed assets in operation".

Investments relating to fixed assets in operation (Euro 17,712 thousand including commissioning) primarily concerned:

- the assembly of the first and second set of the so-called Package 5;
- safety and environmental adaptation measures of the plants in operation;
- costs relating to the Minor Inspections of combined cycle unit VL5, carried out at the time of the planned shutdown for the checking of the pressure parts;
- the purchase of IT equipment.

By contrast, as regards investments in fixed assets in progress and advances, amounting to Euro 5,821 thousand, note should be taken of the segmentation works (Euro 1,705 thousand) to make the combined cycle autonomous from the decommissioned coal units of the Vado Ligure plant, of the environmental adjustment and safety works at the hydroelectric plants (Euro 1,414 thousand), an amount of Euro 570 thousand, equal to 25% of the contracts for UPGRADE of the distributed control system (DCS) installed at the Naples and Vado Ligure plants, as well as Euro 600 thousand as an advance for the inspection of the Vado Ligure gas turbines to be carried out in 2019.

It should also be noted that the item ‘reclassifications’ concerns solely the value attributed to the areas of land of the Vado Ligure Plant (around 29 hectares) subject to sale to the company Vernazza Autogru Srl, as a result of the project for the reindustrialisation of the site, as outlined previously in the paragraph “Operating structure”.

These fixed assets were therefore reclassified to the item “Non-current assets held for sale” as required by IFRS 5 as assets held for sale, considering that the transaction is carried out within twelve months of the reporting date.

Disposals, amounting to Euro 1,643 thousand, refer mainly to the disposal of industrial equipment and machinery at the Vado Ligure Plant, no longer used in the productive process following plant segmentation activities.

Write-downs, totalling Euro 16,204 thousand, concerned:

1. assets relating to the areas made available as part of the project to reindustrialise the Vado Ligure site (Euro 14,836 thousand), after having segmented the functional areas for operation of the gas plant. In fact, simple structures and buildings stand on these areas which are of special technical significance (so-called Common Works), for which the Company had considered the value recoverable, given that it believed they retained a consistent realisable value in the event of sale of the areas to companies operating in sectors that could have had concrete interest in using the infrastructures standing thereon. In relation to the economic offers of Vernazza Autogru, of which details were already provided in the section “Operating structure”, the company was able to confirm that the realisable value connected to these areas showed itself to be lower than the reference carrying amount, generating the need to write down these assets as at December 31, 2018.
2. for Euro 1,368 thousand, the write-down of the residual value of the multi-stage evaporator used for the production of demineralised water at the Torrevaldaliga Sud plant. In fact, this plant was replaced by a new more efficient reverse osmosis plant with lower running costs.

The impairment test as at December 31, 2018 was performed on the sole CGU of Tirreno Power, using the cash flows relating to the 2018-2039 period, the period in which the useful life of the production plants will come to an end, extrapolated from the updated Business Plan, which acknowledges the market scenario requested from REF-E with the forecast curves of the energy markets in December 2017, updated to take account of both the additions and changes in regulatory and industrial terms, and the main actions taken as of today by management whose effects will be felt in future years.

The flows are also updated with the final data reported for 2018 and with the data of the 2019 budget approved by the BoD on December 18, 2018.

The impairment test showed a recoverable amount exceeding the net book value; therefore, there was no need for further write-downs of corporate assets. In fact, the recoverable amount at December 31, 2018 amounted to Euro 1,046 million, while net invested capital amounted to Euro 687 million.

Operating cash flows are stated net of taxes and the post-tax discount rate of operating cash flows (Wacc) used was 6.48%. This value is the result of the update in December 2018 of the rates and prospective returns forming the basis of the calculation of said perimeter. The updated Wacc does not deviate significantly from the one used for the impairment test in December 2017 (6.16%).

The sensitivity analyses carried out on the recoverable amount to a change of +/- 100 bps in the WACC and on the Risk scenario, with a 10% reduction in margins, confirm the results of the impairment test.

The **Depreciation** of tangible fixed assets charged to the period mainly affected the combined cycle thermoelectric production sites (Euro 41,424 thousand), the relevant Major Inspections (Euro 10,758 thousand) and restoration costs (Euro 441 thousand), and are calculated using the economic-technical rates representative of the useful life of each component.

As for freely transferable assets, depreciation is proportional to the duration of the associated concession if shorter than the useful life.

Tangible assets at December 31, 2018, classified according to their use, are divided as follows:

Production plants	Original cost	Accumulated depreciation	Net value	Write-down provision	Net reported value
Thermoelectric plants	2,125,217	(1,408,557)	716,660	(129,942)	586,718
Freely transferable assets	2,132	(2,128)	4		4
Total	**2,127,349**	**(1,410,685)**	**716,664**	**(129,942)**	**586,722**
Renewable Sources Plants	88,396	(41,069)	47,327		47,327
Freely transferable assets	30,503	(14,804)	15,699		15,699
Total	**118,899**	**(55,873)**	**63,026**		**63,026**
Total production plants	**2,246,248**	**(1,466,558)**	**779,690**	**(129,942)**	**649,748**
Other plants and machinery, equipment, other assets	19,817	(16,944)	2,873		2,873
Total operating assets	**2,266,065**	**(1,483,502)**	**782,564**	**(129,942)**	**652,622**
Fixed assets in progress and advances	12,646		12,646		12,646
Total	**2,278,712**	**(1,483,502)**	**795,210**	**(129,942)**	**665,267**

As at December 31, 2018 there are no tangible assets for which any collateral securities have been granted to third parties.

2. INTANGIBLE ASSETS

A table is provided below, which details the original values and changes:

(Thousands of Euro)	Industrial patents and software applications	Emission rights and other assets	Fixed assets in progress and advances	BOOK VALUE
-historical cost at 12.31.2017	8,930	19,386	130	28,446
-accumulated amortisation (-) at 12.31.2017	(8,344)	(32)		(8,376)
Opening values at 01/01/2018(A)	***586***	***19,354***	***130***	***20,070***
Changes at 31.12.2018				
-acquisitions	182	30,997	98	31,277
-reclassifications	130		(130)	0
-amortisation (-)	(370)	(1)		(371)
-write-downs (-)				
-other changes		(15,334)		(15,334)
Total changes (B)	**(58)**	**15,662**	**(32)**	**15,573**
Values at 12.31.2018 (A+B)	***528***	***35,017***	***98***	***35,643***
Of which				
-historical cost	9,242	35,049	98	44,390
-write-downs (-)				
-amortisation (-)	(8,714)	(33)		(8,747)
Net value	***528***	***35,017***	***98***	***35,643***

The item concessions and emissions and other assets essentially refers to 2,463,423 CO_2 emission rights for an amount of Euro 35,006 thousand.

The increase in CO_2 quotas relates to the purchase of 1,790,000 emission rights for a total of Euro 30,997 thousand. The decreases instead relate to the delivery of 2,575,649 CO_2 certificates for Euro 15,334 thousand, in compliance with the Company's obligations for 2017.

The significant increase in the value of CO_2 rights refers to the higher price recorded for the purchase of rights in 2018 with respect to 2017, as better detailed previously in the Report.

3. NON-CURRENT FINANCIAL ASSETS

This item refers to financial receivables due after 12 months.

(in thousands of Euro)	12.31.2018	12.31.2017	Changes
- loans to personnel	417	559	(142)
- security deposits	6,371	24,584	(18,213)
Total non-current financial assets	**6,788**	**25,143**	**(18,355)**

Security deposits mainly include, for Euro 6,056 thousand, the deposit in favour of Terna SpA for the dispatching contract for the injection and withdrawal points issued in 2015.

It should be noted that, in relation to the provisions of the Restructuring Agreement and in the "Amendment Agreement" of February 1, 2018, the first half of 2018 saw the collection of the security deposit, amounting to Euro 18,212 thousand, of the part of the credit relating to the free emission quotas for the Naples Plant paid by the Ministry of Economic Development in December 2016 and February 2017 to Intesa Sanpaolo S.p.A., as assignee of the aforementioned credit transferred by the Company during the phase of refinancing as collateral to the credit line available for guarantees.

It should be noted that "loans to employees", remunerated at current market rates and guaranteed by post-employment benefits, were granted for the purchase of a first home or to meet important family needs.

As at December 31, 2018, there were no financial assets carried at a value greater than their fair value.

4. DEFERRED TAX ASSETS

The item, amounting to Euro 621 thousand, includes exclusively the tax effect of the fair value change booked to shareholders' equity in application of IAS 19, relating to Post-employment benefits and personnel benefits and IFRS 9 relating to hedging derivative financial instruments.

The Company, in relation to the well-known criticalities that it faced in the last few years with the finalisation of the Restructuring Agreement pursuant to art. 182 bis of the Bankruptcy Law, and the fact that the positive result achieved in 2018, also owing to the volatility of the electricity market, still cannot be considered to be stable, decided not to proceed, as from the financial statements as at December 31, 2018, with the registration of deferred tax assets, mainly relating to the tax losses accrued in previous years and on deductible temporary differences.

Net of amounts used to offset taxable income of 2018, the deferred tax assets non recognised amounted to roughly Euro 83 million as at December 31, 2018.

5. OTHER NON-CURRENT ASSETS

The item, amounting to Euro 41,711 thousand, includes:

- for Euro 31,500 thousand, the VAT credit accrued in 2018 for which the company will submit a refund request and which is expected to be collected in 2020;
- for Euro 10,211 thousand, the residual credit for ETS quotas due, for the years 2010-2012 for the Naples plant. It should be noted that, in relation to the terms of the Restructuring Agreement, the credit of the ETS quotas indicated as at December 31, 2017, was transferred to Intesa Sanpaolo S.p.A. (as Issuer Bank), as guarantee for the obligations deriving from the new endorsement loan agreement. These credits were subject to retrocession in February 2018 by the bank in relation to the signing of the "Amendment Agreement".

6. DERIVATIVE FINANCIAL INSTRUMENTS

The item, amounting to Euro 411 thousand, includes the mark-to-market value as at December 31, 2018, of the interest rate hedge stipulated in May 2017. In particular, in order to hedge part of Tranche

A, the company subscribed an Interest Rate Cap, with a level equal to 0.5% on the 6-month Euribor for an initial notional value of Euro 196,800 thousand, with expiry and amortisation in proportion to the repayment plan of Tranche A.

7. CURRENT ASSETS

(in thousands of Euro)	12.31.2018	12.31.2017	CHANGES
Inventories	14,413	14,502	(89)
Trade receivables	92,771	91,957	814
Other current assets	53,609	40,153	13,456
Derivative financial instruments	125	0	125
Other current financial assets	133	1,288	(1,155)
Cash and cash equivalents	24,926	11,676	13,250
Total current assets	**185,977**	**159,575**	**26,402**

Details of the individual items are outlined below:

Inventories

Inventories of fungible goods, as regards the method for determining the purchase price, show a balance sheet valuation based on the weighted average cost method.

However, as a result of events that occurred and the decisions taken in relation to the Vado Ligure site, it was considered necessary, as already done in previous financial statements, to eliminate the value of the inventories related to the coal units, given that they are no longer usable in the production process.

In 2017, activities commenced to dispose of these tangible assets, via competitive auctions for homogeneous groups. In 2018, activities commenced to dispose of these tangible assets, again by homogeneous groups. In particular, goods were written off for a total of Euro 983 thousand, already fully written down.

In addition, as indicated in the financial statements as at December 31, 2017, in relation to tangible assets whose possibility of use and/or sale appears to be doubtful, stocks present in the warehouses of the Torrevaldaliga plant were written off during the year for Euro 320 thousand, already fully written down.

Details of inventories are provided below by type:

(in thousands of Euro)	12.31.2018	12.31.2017	CHANGES
Tangible inventories	14,354	14,324	30
Fuel inventories	0	93	(93)
Other inventories	60	85	(25)
Total inventories	**14,413**	**14,502**	**(89)**

Trade receivables

This item, amounting to Euro 92,771 thousand, mainly includes trade receivables for the sale of energy and other materials.

(in thousands of Euro)	12.31.2018	12.31.2017	Changes
Receivables for sale of energy:			
-GME	10,763	4,977	5,786
-Terna S.P.A.	45,930	18,348	27,582
- Other operators	35,780	68,323	(32,543)
Total receivables for sale of energy:	**92,473**	**91,648**	**825**
Other trade receivables	298	309	(11)
Total trade receivables	**92,771**	**91,957**	**814**

It should be noted that almost all of these receivables arose over the last two months of the year and to the date of this note is essentially fully collected or collectible, given that the relevant expiries are in 30/60 days.

Other current assets

The item, amounting to Euro 53,609 thousand, mainly includes tax credits. The latter, at the balance sheet date, amounted to Euro 48,086 thousand and mainly include the receivable due from the tax authorities for the VAT for which a refund was requested, and more specifically the year 2017 (Euro 33,000 thousand) and the 3rd quarter of 2018 (Euro 11,900 thousand); plus the associated interest accrued (Euro 146 thousand).

The item also includes loans to shareholders, amounting to Euro 2,351 thousand, relating to IRES (corporate income tax) refund requests for non-IRAP deductions, presented when the Company signed up to the tax transparency regime in accordance with art. 115 of the Consolidated Law on Income Tax. The monitoring and management of the collection of these receivables subject to the transparency regime were handled directly by the Shareholders.

Lastly, receivables due from social security institutions were booked for a total of Euro 1,112 thousand relating essentially to sums paid in advance to employees for social shock absorbers relating to the Cassa Integrazione Guadagni Straordinaria (Extraordinary Wages Guarantee Fund) and previous solidarity contracts.

Derivative financial instruments

The item includes, for Euro 125 thousand, the fair value of the financial derivative contracts in place as at December 31, 2018 to hedge fluctuations in the price of natural gas for a notional 44 MWh and expiring in 2019.

Other current financial assets

Other current financial assets, amounting to Euro 133 thousand, refer essentially to shares of commissions for sureties paid and not yet accrued for Euro 104 thousand.

Cash and cash equivalents

The item, amounting to Euro 24,926 thousand includes, essentially, the positive balances of accounts held with leading banks.

8. NON-CURRENT ASSETS HELD FOR SALE

The item includes, for Euro 898 thousand, the value attributed to the areas of land (approximately 29 hectares) of the Vado Ligure site subject to sale to the Company Vernazza Autogru Srl, as already indicated in note no.1.

LIABILITIES

9. SHAREHOLDERS' EQUITY

For information on changes in shareholders' equity, please refer to the statement of changes in shareholders' equity in these financial statements.

The item "Other reserves", amounting to Euro 124,742 thousand, is composed as follows:

- The reserve from contribution of subscription of Junior PFIs amounting to a nominal Euro 284,386,754, approved at the Extraordinary Shareholders' Meeting on December 16, 2015 and recorded at fair value, amounting to Euro 204,000,000. This reserve was also reduced for the coverage of losses resolved at the same extraordinary shareholders' meeting amounting to Euro 88,735 thousand. The amount of this reserve at December 31, 2018, is therefore Euro 115,265 thousand;
- Legal reserve for Euro 695 thousand;
- Available reserve for coverage of losses for Euro 9,243 thousand;
- IAS 19 Reserve - Post-employment and other benefits, for Euro 57 thousand;
- CFH reserve for hedging of gas supplies and energy sale for Euro 20 thousand;
- IFRS 9 Reserve - negative Interest Rate CAP of Euro 537 thousand.

The latter reserve includes both the intrinsic value and the time value (net of the related tax effect) of the derivative financial instrument described in note 6; the IAS 19 reserve includes gains and losses on discounting (again net of the associated tax effect), determined as indicated in point 12 and, lastly, the CFH Reserve includes the fair value changes in the financial derivative contracts described in notes 7 and 15.

It should be noted that, on April 16, 2018, the Shareholders' Meeting approved the financial statements of Tirreno Power S.p.A. as at December 31, 2017, also resolving to cover the net loss of Euro 13,463,142, through the use of the available reserve for the coverage of losses.

The share capital at December 31, 2018 is represented by 60,516,142 ordinary shares with a nominal value of Euro 1.00 each, fully paid up and held by ENGIE Italia S.p.A. (50%) and ENERGIA ITALIANA S.p.A. (50%).

Details of items of shareholders' equity and an indication of their possibility of use and distribution, as well as their use in previous years, is provided below:

Nature/description	Amount	Possibility of use	Amount available	Summary of uses made in previous three years	
				To cover losses	For other reasons
Share capital:	60,516				
Capital reserves:					
Reserve from contribution of subscription of SFP Junior	115,265	B			
Available reserve for coverage of losses	9,243	B		58,957	
Profit reserves:					
Legal reserve	695	B			
IFRS 9, CFH and IAS 19 reserves	-460	B			
TOTAL RESERVES	**124,742**				

Key:
A: for share capital increase
B: to cover losses
C: for distribution to shareholders

The Participating Financial instruments (PFIs), as defined in art. 2346, paragraph 6 of the Italian Civil Code, are financial instruments with equity or administrative rights, excluding voting rights at the shareholders' meeting. The articles of association govern their methods and conditions of issue, the rights of entitlement, sanctions for non-performance of the services and, if permitted, the methods of circulation. The PFIs are therefore included in the so-called hybrid financial instruments. This definition means instruments with similar characteristics, both shares and obligations in relation to the characteristics outlined for the instrument, but with their own identity.

Each financial instrument is measured according to its own characteristics, from which is also derived the valuation method that is better able to define the value. The features of the PFIs can be identified by their own regulation.

The Junior PFIs are fully regulated by the Articles of Association of the Company, and more precisely, Annex 1 "Regulations of the participating financial instruments of the Senior and Junior categories of Tirreno Power S.p.A.".

PFIs do not, under any circumstances, entitle holders the right to attend or to vote at the ordinary and extraordinary shareholders' meeting of the Company.

NON-CURRENT LIABILITIES

10. PAYABLES FOR LOANS

"Payables for loans" refer to the Restated Facilities Agreement signed with the financial institutions on December 15, 2015.

The credit lines that compose it are indicated below:

- "Tranche A" of Euro 300,000 thousand, to be repaid based on a repayment plan starting from a date no earlier than June 30, 2017, remunerated at the Euribor rate + 2.07%, maturity in December 2022 (+ optional extension for another 2 years);
- "revolving credit facility" of Euro 50,000 thousand remunerated at the Euribor rate + 2% with the possibility of repayment and drawdown up to the maturity date set for December 2022 (+ optional extension for another 2 years);
- Tranche B of Euro 250,000 thousand ("convertible" credit line), remunerated at a rate of 3.42% PIK, maturity in December 2024 (with the possibility of optional extension for another 2 years);
- Hedging credit line of Euro 2,309 thousand repaid with repayment plan comprised of 6 semi-annual instalments starting from June 30, 2017, remunerated at the Euribor rate + 2%.

As for the Convertible credit line, the Company will have the right to arrange for its full or partial conversion to Senior PFIs up to a limit of Euro 230 million, to meet capital / financial requirements for operations, or to remedy capital deficiencies or, lastly, address violations of the leverage ratio.

As at December 31, 2018, capitalised interest totalled Euro 37,325 thousand, of which Euro 11,310 thousand relating to the "term loan A" and Euro 26,015 thousand relating to the Convertible credit line.

As at December 31, 2018, the residual debt relating to the above credit lines, net of repayments made and including capitalised interest, was composed as follows:

- Euro 191,803 thousand "Tranche A";
- Euro 276,015 thousand Tranche B ("Mandatory convertible bond" credit line);
- Euro 1,385 thousand as hedging credit line.

The Restated Facilities Agreement requires, at the end of each half, the cash and cash equivalents (including the "revolving credit facility" line) exceeding Euro 50,000 thousand, to be used for the early repayment of the credit lines, starting with Tranche A and on a pro-rata basis on the expiries of the repayment plan, together with interest capitalised on the principal portion repaid early.

On February 1, 2018, the "Amendment Agreement", negotiated with the financial institutions became effective, partially modifying the contracts known as the "Guarantee Facility Agreement" and "Restated Facility Agreement", both signed on December 16, 2015.

In short, the Amendment Agreement confirms the existing guarantees for supporting the company's operations up until December 2022 and the issuing of additional guarantees by the financial institutions in order to operate, at the time of its entry into force, in the Capacity Market. As a result of the agreement, the company arranged for the early repayment of Tranche A, in application of the so-called Cash Sweep mechanism of the cash and cash equivalents exceeding Euro 50,000 thousand as at December 31, 2017, amounting to Euro 11,650 thousand, together with the payment of an extraordinary cash sweep, equal to Euro 18,212 thousand, comprised of the amount of ETS credits transferred as guarantee in due course to the banks and which were, in the meantime, collected by Banca Intesa as assignor of the credits. It should be noted that, in this regard, based on the agreement, the remaining amount of ETS credits, transferred in due course and still not collected, amounting to Euro 10,211 thousand, was retroceded by the company by means of a notarial deed.

The agreement also modifies the default and conversion covenants, making provision for their suspension in 2018 and 2019, and their modification following the suspension with an increase of 5% in the conversion ratios and 10% on the default ratios in the 2020-2022 period, and conversion and default ratios maintained flat at 3.00 and 3.33 respectively from 2022 to 2024.

Lastly, the parties agreed a reduction of Euro 20 million in the amount of Tranche B (mandatory convertible bond) to meet the capital requirements for access to the Capacity Market (from Euro 250 million to Euro 230 million, excluding interest), if said requirement should be confirmed in the final regulation of Terna.

Based on the cash and cash equivalents as at December 31, 2018 and in consideration of the instalments falling due in the next 12 months, the company reclassified to current liabilities a portion of the payable for Euro 52,964 thousand, of which Euro 24,904 thousand as Cash sweep on cash and cash equivalents as at December 31, 2018. This additional prepayment of Tranche A will help to reduce the residual instalments from the one expiring in December 2019.

11. PROVISIONS FOR RISKS AND CHARGES

The provisions for risks and charges amounted to Euro 76,209 thousand, a decrease of Euro 7,058 thousand compared to December 31, 2017.

The size of the provision and the changes are summarised below:

(in thousands of Euro)	12.31.2017	Allocations	Uses	Other changes	12.31.2018	of which current	of which non-current
Dispute provision	**1,411**	**72**	**(693)**		**790**		**790**
Provision for expenses for redundancy incentives	**1,279**		**(593)**	**(43)**	**643**	**643**	
Provision for expenses for mobility incentives	**100**		**(72)**	**12**	**40**	**40**	
Provision for sundry risks:	**80,478**	**5,821**	**(11,085)**	**(477)**	**74,736**	**9,846**	**64,889**
- site dismantling and restoration	*66,576*	*5,182*	*(6,550)*	*(54)*	65,154	6,379	58,775
- other	*13,903*	*639*	*(4,535)*	*(423)*	9,582	3,467	6,115
Total provisions for risks and charges	**83,267**	**5,893**	**(12,443)**	**(508)**	**76,209**	**10,529**	**65,679**

The **allocations** in the period, amounting to Euro 5,893 thousand, increased the provisions, mainly owing to the following:

- Euro 2,813 thousand for the recognition of financial costs on dismantling provisions connected to the discounting of the estimate of future dismantling costs, using the discount rate of 5%;
- Euro 1,344 thousand for the adjustment of the estimates relating to the dismantling of the extra combined cycle area of the Naples Plant;
- Euro 1,025 thousand for the adjustment of the estimated costs of dismantling the chimney stacks and oil tanks of coal plants.

As regards **uses**, in relation to payments made during the year, the following should be noted in particular:

- Euro 5,731 thousand for the demolition of some parts of the coal plants and first of the two chimney stacks;
- Euro 1,563 thousand for MBO bonuses relating to results achieved by the assignees in 2017, as well as performance bonuses for 2018 for employees;
- Euro 930 thousand for the definitive issuing of the new state concession for the areas of the Naples Plant;
- Euro 651 thousand for the judicial settlement agreement for ICI 2008÷2010 with the Municipalities of Vado Ligure and Quiliano;
- Euro 258 thousand for the Ponte Vizzà settlement.

The **Other changes** refer not only to some reclassifications, but the write-off of the excess of the provision allocated for the ICI/IMU dispute with the Municipalities of Vado Ligure and Quiliano, due to the fact a settlement was reached with the Municipalities themselves.

The provision for other risks includes Euro 65,208 thousand for the estimated discounted costs expected to be incurred at the end of production activities of the Torrevaldaliga, Naples and Vado Ligure sites due to abandonment of the area, dismantling, removal of structures and restoration of the site in the presence of current obligations. Part of these provisions relate to the Vado Ligure areas subject to sale to the company Vernazza Autogru and may only be subject to revision after the agreement is finalised.

The item “Provisions for other risks - Other”, amounting to Euro 9,530 thousand, mainly includes Euro 5,055 thousand for imbalance charges of previous years, Euro 1,221 thousand for the risk of non-recognition of receivables relating to the wages guarantee fund and Euro 1,377 thousand for ICI/IMU disputes.

The most significant outlays related to the dismantling and restoration works will be incurred over a period between 2020 and 2039.

The "dispute" provision includes liabilities that are estimated could result from ongoing legal disputes (mainly related to supply relations, work and the operation of the plants), according to the recommendations of the Company's internal and external legal representatives.

As for the asbestos dispute, for which Euro 575 thousand was allocated, the following should be noted:

1. As regards the proceedings in which the Company is the defendant, together with Enel S.p.A. and Enel Production S.p.A., for the compensation for all non-pecuniary damages under art. 2087 of the Italian Civil Code that would have been suffered by a former employee based on the contraction of lung cancer attributable to occupational exposure to asbestos, the Judge, on May 23, 2018, following the hearing for the presentation of closing remarks, issued a judgment which, among other things:

    - rejected the appeal filed against Enel Production;
    - sentenced Enel S.p.A. to pay Euro 530 thousand to the plaintiffs, plus legal interest and the monetary revaluation from January 1, 2018 to the date of the judgment, plus additional interest on the amount calculated from today to the actual payment;
    - sentenced the defendant Tirreno Power to release Enel S.p.a. from the obligation to pay the above amount;
    - rejected the claim to the third party insurance companies;
    - sentenced Tirreno Power to pay legal expenses.

    As a result of the request received from Enel s.p.a. regarding the request for release from the obligation of payment made by the latter to the heirs of a former employee, as per the operative part of the judgment, in December 2018, the Company made the payment of Euro 565 thousand to Enel.

    The company filed an appeal at the Court of Appeal of Naples against ruling no. 3774/2018, issued by the Court of Naples.

    At the current state of play, it appears likely that Tirreno Power will be the losing party in these legal proceedings, also with reference to the first instance petitum.

2. In relation to the case for compensation for alleged damages suffered as a result of professional exposure to asbestos, brought by the heirs of a former employee, the Company filed an appeal against the ruling issued by the Civil Court of Civitavecchia. By means of order of March 26, 2018, issued following the hearing held on the same day, the Court ordered the appointment of a new medical-legal CTU (court-appointed expert) to address the same questions already presented at the first-instance proceedings to the CTU, in order to the re-examine the case in light of the well-known criticism of Tirreno Power's defence counsel, putting the assignment of the engagement to the CTU back to the hearing of April 16, 2018. At the hearing on April 16, 2018, the Court ordered the CTU to send his draft technical report to the parties within 120 days of the start of the expert's operations, set for May 16, 2018.

With the court-appointed expert witness having given evidence, the case was adjourned by the bench of the Rome Court of Appeal to the hearing on December 3, 2018 for a decision.

On December 14, 2018, the aforementioned bench filed the operative part of the judgment, in which it rejected the appeal and sentenced TP to reimburse the first instance court costs to the counterparty, settled at Euro 27 thousand.

Pending the full publication of the judgment issued by the Rome Court of Appeal, Tirreno Power is evaluating the opportunity to challenge it before the Court of Cassation. There is a possible risk of a negative outcome for Tirreno Power of any proceedings before the Court of Cassation regarding the appeal of the judgment issued by the Rome Court of Appeal. In any case, in the event of a negative outcome, Tirreno Power would risk being sentenced to pay exclusively legal expenses.

3. In May 2018, the company received another request for compensation for damages for exposure to asbestos from the heirs of a former employee. Pending any legal proceedings that should be initiated, the risk of being the losing party in the claim for compensation is possible, but any liability cannot be quantified at present, given that, among other things, the amount of damages claimed was not stated.

   As of today, the Company has not been notified of any appeal from the heirs.

4. TP filed an appeal against judgment 7271/12 issued by the Civil Court of Rome, in relation to case RG (general registry) 10031/10 lodged by the heirs of a former employee, to obtain compensation for all damages, financial and non-financial, both iure hereditatis in accordance with art. 2087 of the Italian Civil Code and iure proprio pursuant to art. 2043 of the Italian Civil Code, for exposure of the deceased to asbestos, who died because of a pleural mesothelioma. TP's appeal was targeted at ENEL in order to hear it declare its exclusive capacity to be sued. The Court of Appeal rejected the appeal submitted by Tirreno Power, compensating legal costs. Subsequently, TP submitted an appeal to the Court of Cassation, filing the paperwork of the party and of the previous instances of the proceedings. On November 28, 2018, the hearing was held at the Court of Cassation for the appeal against the judgment of the Court of Appeal; we await the publication of the judgment.

   At the current state of play, it appears likely that there will be negative outcome to the appeal for Tirreno Power, limited to the expenses of these legal proceedings.

5. TP appealed at the legal proceedings together with INPS (national social security institute) and INAIL (national institute for insurance against accidents at work) for compensation for damages suffered by a former employee, deriving from the occupational illness reported by the plaintiff. The request for the completion of the CTU (court-appointed expert witness) was rejected by the judge. The proceedings were deferred to the hearing of May 23, 2019 for discussion and closing remarks. At the current state of play, it appears likely that Tirreno Power will be the losing party in the proceedings.

12. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

They amounted to Euro 12,934 thousand and reflect the severance pay and other benefits accrued at year-end by employees that are valued according to actuarial criteria of IAS 19 laid out for defined benefit plans. In particular, as regards the economic and financial scenario, the parameters used for the evaluation are as follows:

Post-employment benefits	2018	2017
Annual technical discount rate	1.57%	1.30%
Annual inflation rate	1.50%	1.50%
Annual rate of increase in post-employment be	2.63%	2.63%
Other employee benefits	**2018**	**2017**
Annual technical discount rate	1.30%	1.30%
Annual rate of salary increase	0.50%	0.50%

The following table illustrates the changes:

(in thousands of Euro)	Post-employment benefits	Energy discount for retirees	Substitute indemnity Electricity discount	Additional months' pay	Loyalty bonuses	BOOK VALUE
Values at 12.31.2017 (A)	**4,841**	**7,904**	**562**	**553**	**424**	**14,285**
Curtailment		-324				***-324***
-Provisions				9	17	26
-Financial expenses (+)	64	106	7	8	5	190
-Gains (losses) from discounting (-/+)	-119	(523)	-1	(32)	3	(672)
-Uses (-)	(365)	(160)	(38)		(7)	(570)
Total changes (B)	(420)	(901)	(32)	(15)	18	**(1,350)**
Values at 12.31.2018 (A+B)	**4,421**	**7,003**	**530**	**538**	**442**	**12,934**

The Curtailment reflects the effects of the termination, in accordance with the trade unions, of the collective regulation on concessions on the electricity tariff sales for personnel that have left the company and the surviving spouses of the former employee. For details, please refer to the information already outlined the Management Report. The reduction in liabilities, amounting to Euro 324 thousand, was partly used for the replacement compensation paid to subscribers to the agreement and, for the surplus portion, recognised under other revenues.

Costs for employee benefits were also recognised in the year, amounting to Euro 216 thousand, of which Euro 190 thousand for interest recorded under financial expenses and Euro 26 thousand recorded under personnel costs.

Lastly, losses from discounting amounted to Euro 672 thousand and are recognised in the shareholders' equity reserve (net of taxes), excluding those relating to loyalty bonuses which are booked directly to the income statement.

As a result of the issuance of the new IAS 19 revised, the additional information is summarised in the tables below:

Sensitivity analysis of the main valuation parameters on data as at 12.31.2018

	Post-employment benefits	Additional months' pay	Energy discount	Energy discount Indemnity
Inflation rate +0.25%	4,478,036	N/A	N/A	N/A
Inflation rate -0.25%	4,365,318	N/A	N/A	N/A
Discount rate +0.25%	4,331,744	526,524	7,116,255	519,184
Discount rate -0.25%	4,513,445	549,892	7,546,827	542,024

	Post-employment benefits	Additional months' pay	Energy discount	Energy discount Indemnity
Pro future service cost	-	8,771	-	-
Duration of the plan	10	10	12	10

The number of employees by category is shown in the following table:

(units)	12.31.2017	Entries	Exits	Other /Reclassifications	12.31.2018
Executives and Middle Managers	44		1		43
Employees	157		6	5	156
Workers	39			-5	34
Total	**240**	**0**	**7**	**0**	**233**

13. DEFERRED TAX LIABILITIES

The item includes deferred taxes relating to costs not charged to the income statement, but deducted from taxable income in the tax return, as detailed in the following table:

(in thousands of Euro)	SITUATION AT 12/31/2017	SITUATION AT 12/31/2018			
	Balance	Provisions	Uses	Other changes	Balance
Deferred tax liabilities					
Amortisation	36,216		(906)		35,310
FV IAS 19 to shareholders' equity reserve	69				69
FV of derivative financial instruments to shareholders' equity	101	120	(191)		30
Total deferred tax liabilities	**37,389**	**120**	**(906)**		**35,409**

The uses of the item "Amortisation" refer to the completion of the time period of tax amortisation for IRES purposes, with respect to the economic-technical one (statutory amortisation).

14. OTHER NON-CURRENT LIABILITIES

The item, amounting to Euro 1,624 thousand, includes the non-current portion of the debt to the MATTM resulting from the settlement act signed in 2011 by means of which Tirreno Power was expressly and definitively freed from any obligation or liability in connection with the design and implementation of measures for the safety, environmental remediation and restoration of groundwater, surface water and marine sediments overlooking the site of Naples.

15. CURRENT LIABILITIES

(in thousands of Euro)	12.31.2018	12.31.2017	Changes
Payables for loans	52,966	38,482	14,484
Provisions for risks and charges	10,529	14,474	(3,945)
Trade payables	74,398	88,026	(13,628)
Payables for income taxes	2,681	0	2,681
Other current liabilities	38,464	24,466	13,998
Derivative financial instruments	99	0	99
Short-term financial liabilities	6	0	6
Total current liabilities	**179,144**	**165,448**	**13,695**

Details of the individual items are outlined below:

Payables for loans

The item Payables for loans refer to the Restated Facilities Agreement signed with the financial institutions on December 15, 2015, as detailed in note 10.

Provisions for risks and charges

This item includes current liabilities for industrial expenses and risk, commented on in detail in Note 11.

Trade payables

“Trade payables”, amounting to Euro 74,398 thousand, relate to fuel supplies, materials and equipment, tenders and services, as well as debts to TERNA and GME for supplies and activities carried out by December 31, 2018. The maturities of these debts are generally comprised between 30 and 120 days.

The decrease of Euro 13,628 thousand is due primarily to lower purchases of energy and fuels in the last two months of the period compared to the last two in 2017.

Payables for income taxes

The item includes payables for IRAP determined by applying the applicable rate to the taxable income of 2018.

Other current liabilities

Other current liabilities, amounting to Euro 38,464 thousand, mainly refer to the payable relating to the to the expense pertaining to the year for CO_2 emissions rights (Euro 32,357 thousand) valued at weighted average purchase price.

The item also includes payables to employees and payables to social security, welfare and insurance institutions.

The table below provides a breakdown:

(in thousands of Euro)	12.31.2018	12.31.2017	Changes
Payables for CO2 emission rights	32,357	15,336	17,021
Other taxes	781	3,049	(2,268)
Payables due to social security institutions	1,384	1,168	216
Payables due to personnel	2,025	3,765	(1,740)
Other	1,917	1,148	769
Total other current liabilities	**38,464**	**24,466**	**13,998**

The increase in payables for emissions rights is attributable to the increase in payables owing to the higher cost of purchase of CO_2 quotas as a result of the increase in the price of rights to be delivered in 2019, to comply with the 2018 obligations, based on the higher quota purchase prices compared to the previous year.

The items “Payables due to employees” and “Other taxes” as at December 31, 2017, included the fees to be paid in the first few months of 2018, and the associated withholding taxes, to employees who left the company in December 2017 as a result of the trade union agreement of December 2, 2016.

The item “Other” mainly includes the current portion of the payable due to the Ministry of the Environment and for Land and Sea Protection, as better specified in note no. 14, amounting to Euro 917 thousand.

Derivative financial instruments

The item includes, for Euro 99 thousand, the fair value of the financial derivative contracts in place as at December 31, 2018 to hedge fluctuations in the price of electricity for a notional 22 MWh and expiring in December 2019.

COMMITMENTS AND GUARANTEES

Commitments to suppliers are detailed below:

(in thousands of Euro)	12.31.2018	12.31.2017	Changes
Tenders and miscellaneous supplies	67,210	68,230	(1,020)
Purchase of thermal fuel	21,503	22,219	(716)
Total commitments to suppliers	**88,713**	**90,449**	**(1,736)**

Commitments for the purchase of thermal fuel relate exclusively to the term fixed on natural gas purchase contracts.

The sureties requested in favour of third parties, amounting to Euro 82,815 thousand, concern policies issued by banks and insurance companies, at the request of the Company, and relate mainly to the guarantee of the VAT credit (Euro 68,484 thousand), the participation in the energy markets (Euro 11,500 thousand), as well as the guarantee for state concessions (Euro 2,227 thousand).

Notes to the Income Statement

16. REVENUES

The table below provides a breakdown of sales revenues:

(in thousands of Euro)	12.31.2018	12.31.2017	CHANGES	CHANGES %
Sale of energy:				
-Power Exchange	628,326	530,945	97,381	18%
-Free market	448,751	462,468	(13,717)	-3%
-incentivised contributions - ex Green Certificates	9,390	5,648	3,742	66%
-photovoltaic contributions	30	30		0%
Total energy sales:	**1,086,497**	**999,091**	**87,406**	9%
Other sales and services	700	1,533	(833)	-54%
Total revenues from sales	**1,087,197**	**1,000,624**	**86,573**	**9%**

Tirreno Power's commercial portfolio consists of two types of customers, customers that operate in the free market and those, instead, that operate on the Power Exchange. Revenues from Power Exchange sales include the results of trading on the dispatching services market. Sales on the free market instead refer to physical bilateral contracts.

The increase relates to the higher revenues attributable to trading on the Dispatching Services Market (Euro 98,533 thousand), thanks in particular to the excellent performances of the Naples and Torrevaldaliga plants. This increase was partially offset by the fall in sales on the free market.

The item “Other sales and services” refers mainly, for Euro 592 thousand, to the revenues achieved from the sale of materials stored in the warehouses, relating to the decommissioned coal plants and scrap iron from the demolition of Vado Ligure tanks.

17. OTHER REVENUES

“Other revenues” amounting to Euro 3,545 thousand refer primarily:

- the settlement with the Italian Revenue Agency relating to ICI (municipal property tax)/TASI (tax on indivisible services) for the years 2008- 2015 of the Vado Ligure plant amounting to Euro 1,141 thousand;
- the adjustment of revenues, amounting to Euro 969 thousand, recognised by Terna as a result of the recalculation of 2011-2016 Dispatching Services Market sales;
- the legal settlement with the company Betoncem for Euro 303 thousand;
- the adjustment of revenues for GSE incentives for former green certificates for Euro 183 thousand.

As regards the changes with respect to December 31, 2017, please refer to the Management report.

18. OWN WORK CAPITALISED

The item totalled Euro 562 thousand, relating primarily to the capitalisation of materials taken from the warehouse (Euro 405 thousand) and the capitalisation of internal resources at the time of the Minor Inspections of the VL5 unit of Vado Ligure (Euro 157 thousand).

19. CONSUMPTION OF RAW MATERIALS

(in thousands of Euro)	12.31.2018	12.31.2017	CHANGES	CHANGES %
Energy purchased on the Electricity Market	522,027	530,261	(8,234)	-2%
Purchase of fuel for heat production	352,964	330,575	22,389	7%
Purchase of materials and other equipment	2,371	2,799	(428)	-15%
Change in fuel stocks	2	4	(2)	n.s.
Change in other stocks	(4)	363	(367)	n.s.
Total consumption of raw materials	**877,358**	**864,002**	**13,356**	**2%**

The increase relates primarily to the higher costs for fuel determined by the gas price effect (PMP - weighted average price - increased by about 20.6%), partially offset by the resulting lower production volume of CCGT (gas consumption decreased by about 11.5%).

The purchase of fuels is related, exclusively, to the natural gas supply contracts.

For more details, please refer to the Management report.

20. PERSONNEL COSTS

Labour costs amounted to Euro 20,342 thousand, an increase of Euro 228 thousand compared to the figure recorded in 2017.

The headcount at December 31, 2018 amounted to 233 employees, compared to 240 employees at December 31, 2017

21. SERVICE COSTS

Service costs, amounting to Euro 16,387 thousand, are detailed below:

(in thousands of Euro)	12.31.2018	12.31.2017	CHANGES	CHANGES %
Costs of services and tenders	7,564	14,240	(6,676)	-47%
Expenses for transactions on the Electricity Market	1,448	1,456	(8)	-1%
Insurance costs	2,430	2,433	(3)	0%
Security, cleaning and other building costs	302	571	(269)	-47%
Waste disposal	470	460	10	2%
IT services	1,358	1,564	(206)	-13%
Telephone and data transmission expenses	412	722	(310)	-43%
Other services	2,404	2,912	(508)	-17%
Total costs for services	**16,387**	**24,358**	**(7,971)**	**-33%**

The decrease is essentially attributable to the effect of the renegotiation of the LTSA contracts for the Naples and Vado Ligure Plants; to the lower impact of the extraordinary events that reduced accidental maintenance expenses; as well as further savings obtained through the renegotiation of contracts in place and increase in efficiency of resources.

“Other services” mainly relate to costs for studies, consulting and professional services (Euro 1,359 thousand), expenses for travel and training (Euro 606 thousand), the fees of the Statutory Auditors (Euro 182 thousand), as well as the remuneration to the auditing firm (Euro 108 thousand).

22. OTHER OPERATING COSTS

Other operating costs amounted to Euro 44,016 thousand, up by Euro 9,736 thousand compared to December 31, 2017.

The following table shows a breakdown of other operating costs:

(in thousands of euro)	12.31.2018	12.31.2017	CHANGES	CHANGES %
Contributions and fees	3,641	3,418	223	7%
Provisions for risks and charges	3,080	6,408	(3,328)	-52%
Adjustment of value of materials and raw materials	62	2,286	(2,224)	n.a.
Expenses for green certificates and CO2 rights	32,357	15,336	17,021	111%
ICI (municipal property tax) and other taxes and duties	3,200	3,507	(307)	-9%
Other expenses	1,676	3,325	(1,649)	-50%
Total operating costs	**44,016**	**34,280**	**9,736**	**28%**

In particular, higher expenses were recorded for emissions rights (Euro 17,021 thousand). The negative price effect of the increase in the PMP (weighted average price) of valuation of CO_2, which went from 5.95 €/ton. in 2017 to 14.21 €/ton. in 2018, was only partially offset by a positive volume effect as a result of lower emissions (around 299 Kton).

As regards provisions for risks and charges, please refer to note no. 11.

23. AMORTISATION, DEPRECIATION AND WRITE-DOWNS

The item refers to the depreciation/amortisation in the period, calculated on the basis of economic-technical rates, totalling Euro 56,153 thousand and write-downs, as better described in note 1, regarding part of the common works of the Vado Ligure plant (Euro 14,836 thousand) and the demineralisation system of the Torrevaldaliga plant no longer in use (Euro 1,368 thousand).

The table below sets out the depreciation by type of asset compared with data for the previous year:

(in thousands of Euro)	12.31.2018	12.31.2017	CHANGES	CHANGES %
Depreciation of buildings	7,701	7,706	(5)	0%
Depreciation of plant and equipment	47,789	47,365	424	1%
Depreciation of industrial equipment	129	171	(42)	-25%
Depreciation of other assets	162	220	(58)	-27%
Amortisation of intangible fixed assets	371	521	(150)	-29%
Write-downs of tangible fixed assets	16,204	0	16,204	n.a.
Total	**72,357**	**55,985**	**16,372**	**29.24%**

24. FINANCIAL EXPENSES

Financial expenses amounted to Euro 19,028 thousand, a decrease of Euro 2,707 thousand compared to 2017.

The following table shows a breakdown:

(in thousands of Euro)	12.31.2018	12.31.2017	CHANGES	CHANGES %
Interest expenses and charges on loans	13,800	15,015	(1,215)	-8%
Financial expenses/income on Interest CAP	527	1,214	(687)	-57%
Interest expenses for decommissioning, post-employment and ot	3,156	3,130	26	1%
Other financial expenses	1,545	2,376	(831)	-35%
Total financial expenses	**19,028**	**21,735**	**(2,707)**	**-12%**

The decrease is due to the effect of the accelerated repayment of the line Term Loan Tranche A, which took place as a result of the “Cash sweep” mechanism in February and July 2018.

“Interest expense and charges on loans” relate exclusively to interest and fees accrued on the new loan.

“Financial expenses on Interest CAP” relate to the hedging contract (Interest Rate CAP) on “Term Loan A”, described in note no. 6.

“Interest expense for decommissioning”, amounting to Euro 2,813 thousand, was mainly offset by the site dismantling and restoration provisions, while the “interest on post-employment and other benefits” recognised in application of IAS 19, stood at Euro 186 thousand.

The item “Other financial charges” refers essentially to the commissions on sureties of Euro 1,533 thousand.

25. FINANCIAL INCOME

Financial income amounted to Euro 173 thousand, a decrease of Euro 209 thousand compared to December 31, 2017, and refers essentially to interest accrued from the tax authorities on VAT credits for which a refund was requested (Euro 146 thousand).

26. INCOME TAXES

Taxes recognised as at December 31, 2018, totalled Euro 1,794 thousand and refer:

1. for Euro 906 thousand, to the positive effect relating to the use of the deferred tax liabilities generated on previous excess and early tax amortisation;
2. for Euro 2,700 thousand to the estimate of current IRAP (regional business tax) taxes calculated on taxable income for 2018.

As regards IRES (corporate income tax), the 2018 tax rate stood at zero. In fact, taxable income was eliminated, firstly by the recovery of previous tax losses (to the maximum extent permitted by the applicable legislation, i.e. 80%) and for the remainder by the recovery of the excess ACE (aid for economic growth) deduction deriving from previous years.

As for the changes in deferred tax assets and liabilities, please refer to the comments on the respective balance sheet items.

27. EARNINGS PER SHARE

For the calculation of earnings per share, the net profit attributed to shareholders was considered. The denominator used in the calculation is the number of shares issued, in the calculation of both basic and diluted earnings per share, as there are no dilutive effects as at December 31, 2018 or December 31, 2017.

(values in euro)	Period ended 12.31.2018	Period ended 12.31.2017
Net income for the period	40,195,996	(13,463,142)
Average number ordinary shares (units)	60,516,142	60,516,142
Earnings per share - basic and diluted	0.66	-0.22

28. NET FINANCIAL POSITION

The net financial position at December 31, 2018 is detailed as follows:

	Thousands of Euro	as at 12/31/2018	as at 12/31/2017	difference
A	Cash at bank and in hand	21	25	*(4)*
B	Bank deposits	24,904	11,650	*13,254*
C	Securities	-	-	-
D	**Total cash and cash equivalents (A+B+C)**	**24,926**	**11,676**	***13,250***
E	**Current financial receivables**	**-**	**-**	**-**
F	Current bank payables			-
G	Current portion of non-current debt			-
H	Other current financial liabilities	(52,966)	(38,482)	*(14,484)*
I	**Total short-term financial liabilities (F+G+H)**	**(52,966)**	**(38,482)**	***(14,484)***
J	**Net current financial position (D+E+I)**	**(28,041)**	**(26,806)**	***(1,235)***
K	**Non-current financial receivables**	**-**	**-**	**-**
L	Non-current bank payables	(416,238)	(470,520)	*54,282*
M	Other non-current payables	-	-	-
N	**Non-current financial debt (L+M)**	**(416,238)**	**(470,520)**	***54,282***
O	**Net non-current financial position (K+N)**	**(416,238)**	**(470,520)**	***54,282***
P	**OVERALL NET FINANCIAL POSITION (J+O)**	**(444,278)**	**(497,326)**	***53,048***

29. OTHER INFORMATION

29.0 Cash flows

Thousands of Euro	Dec-31-18	Dec-31-17	difference
Opening cash and cash equivalents	**11,676**	**53,017**	**(41,342)**
Cash Flow from operating activities	66,546	48,989	17,556
Cash Flow from investment activities	(13,498)	(31,889)	18,391
Cash Flow from financing activities	(39,798)	(58,442)	18,644
Closing cash and cash equivalents	**24,926**	**11,676**	**13,250**

The cash flow from operations stood at a positive Euro 66,546 thousand, marking an increase of Euro 17,556 thousand compared to the previous year. No collections of VAT credits for which a refund was requested were registered in 2018, while in 2017, VAT credits collected came to Euro 61,600 thousand.

The cash flow from operations allowed the coverage of investment activities (Euro 13,498 thousand) as well as a reduction in net financial debt of Euro 53,048 thousand.

The cash flow from financing activities is the result of the amount of tranche A repaid in the year in terms of principal and interest (Euro 52,464 thousand), partially offset by the increase deriving from the capitalisation of financial expenses in the year totalling Euro 12,666 thousand.

Cash and cash equivalents amounted to Euro 11,676 thousand at December 31, 2017, an increase of Euro 13,250 thousand as a result of the aforementioned changes and amounted to Euro 24,926 thousand at December 31, 2018.

Net financial debt decreased from Euro 497,326 thousand at December 31, 2017 to Euro 444,278 thousand at December 31, 2018.

29.1 Relationships with subsidiaries, affiliates, parent companies and companies controlled by the latter

Any transactions carried out with other related parties, as described below, were carried out under normal market conditions and in the interest of each company:

(thousands of Euro)	Receivables 12/31/2018	Payables 12/31/2018	Costs 12/31/2018	Revenues 12/31/2018
Financial:				
ENGIE ITALIA S.p.A.				
Tax transparency	1,210			
ENERGIA ITALIANA S.p.A.				
Tax transparency	1,141			
Trade:				
Sorgenia S.p.A.				165
Sorgenia Trading Spa	1,834		4,890	24,274
Tractebel Engineering Suez		7	28	

Loans to shareholders, amounting to Euro 2,351 thousand, relate to IRES (corporate income tax) refund requests for non-IRAP deductions, presented when the Company signed up to the tax transparency regime in accordance with art. 115 of the Consolidated Law on Income Tax.

Commercial items due to Sorgenia Trading S.p.A. instead relate to the sales of energy.

29.2 Contingent assets and liabilities

There are no additional contingent assets and liabilities to be highlighted arising from events that occurred during the year 2018, in addition to what has already been reported in the Management Report and in the notes.

As regards contingent liabilities deriving from the proceedings pending at the Public Prosecutor of Savona, note that the criminal proceedings do not directly involve the company, given the Prosecutor has not challenged any of the predicate offences set forth strictly in Legislative Decree 231/2001, therefore no pecuniary sanction or ban can be imposed on Tirreno Power, based on the current charge.

As indicated in the paragraph of the management report "Operating structure", the Company was cited as the civilly liable party and therefore held, in the case of sentencing with a definitive judgment, to be jointly and severally liable with the defendants for the damages caused to the civil parties as a result of the culpable disaster (environmental and health) they are charged with.

In this regard, it should be noted that Tirreno Power has also always been equipped, accompanying its Third-Party Civil Liability Insurance Policy, with a specific Pollution Civil Liability policy to cover the risk of "gradual pollution", where the Third-Party Civil Liability Policy only covers damages stemming from "accidental" pollution.

As of today, also taking into account the opinion of the legal advisors assisting the Company, it will only be possible to obtain consolidated information on the number of civil parties appearing and the amount of financial and non-financial damages they have requested, after the parties have filed an appearance in court. Therefore, the compensation for which the Company is liable, deriving from the pending criminal proceedings, cannot be forecast, and the risk of being the losing party must be considered possible.

29.3 Atypical and unusual transactions

There were no atypical or unusual transactions, or outside normal company operations or able to significantly impact the Company's financial position.

29.4 Significant events after the close of the period

Please refer to the relevant section of the Management report.

29.5 Proposed allocation of profit for the year

Please refer to the section "Proposals of the Board of Directors" of the Management report.

CONTACT INFORMATION

"Corporate Social Responsibility, transparency and collaboration with the local community are the bedrock values of Tirreno Power's relations.

Our objective is to contribute to debate on energy and constantly engage in dialogue with the local community."

Registered Office:
Via Barberini, 47 – 00187 Rome – Italy
Tel. 39 06 83022810 – Fax 39 06 83022828
Mail: *info@tirrenopower.com*
PEC (certified e-mail address): *tirrenopower@pec.tirrenopower.com*

Web: www.tirrenopower.com Seguici su LinkedIn

Tirreno Power is an associate of Energia Concorrente.

Press Office – External Relations
Mail: *ufficiostampa@tirrenopower.com*

Purchasing Department
Via A. Diaz, 128 – 17047 – Valleggia di Quiliano (SV) – Italy
Tel. 0197754000 – Fax 39 019 7754827
PEC (certified e-mail address): *acquisti@pec.tirrenopower.com*

Personnel
PEC (certified e-mail address): *personale@pec.tirrenopower.com*

Environment, Safety and Authorisations
PEC (certified e-mail address): *ambientesicurezzaeautorizzazioni@pec.tirrenopower.com*

Administration, Finance and Control:
PEC (certified e-mail address): *amministrazionefinanzaecontrollo@pec.tirrenopower.com*

Napoli Levante Thermoelectric Plant:
Stradone Vigliena, 39 – 80146 Naples – Italy
Tel. 39 081 3455858 – Fax 39 081 3455830
PEC (certified e-mail address): *centralenapoli@pec.tirrenopower.com*

Vado Ligure Thermoelectric Plant:
Via Diaz, 128 – 17047 Valleggia di Quiliano (SV) – Italy
Tel. 39 019 7754111 – Fax 39 019 7754785
PEC (certified e-mail address): *centralevadoligure@pec.tirrenopower.com*

Torrevaldaliga Sud Thermoelectric Plant:
Via Aurelia Nord, 32 – 00053 Civitavecchia (RM) – Italy
Tel. 39 0766 742111 – Fax 39 0766 25877
PEC (certified e-mail address): *centraletorrevaldaliga@pec.tirrenopower.com*

Renewable Sources Sector:
Corso Torino, 1 – 16129 Genoa – Italy
Tel. 39 010 5374600 – Fax 39 010 5374601
PEC (certified e-mail address): *settorefontirinnovabili@pec.tirrenopower.com*

Building a better
working world

Tirreno Power S.p.A.

Financial statements as at December 31, 2018

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

Building a better
working world

EY S.p.A.
Via Po, 32
00198 Roma

Tel: +39 06 324751
Fax: +39 06 32475504
ey.com

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
Tirreno Power S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Tirreno Power S.p.A. (the Company), which comprise the balance sheet as of December 31, 2018, the income statement, the statement of comprehensive income/(loss), the statement of cash flows, the statement of changes in shareholders' equity for the year then ended, and the explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.
We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matters

We draw the attention to:

a. the explanatory note "Evolution of the Restructuring Agreement, of the Business Plan and going concern assumption" which includes the Directors' assessments on the reasonabless of the going concern assumption of the Company in a foreseeable future;

b. the paragraph "Operating Structure" of the Management Report and to the explanatory note "Contingent assets and liabilities", which describe the events and the Directors' assessments on the criminal proceeding started by the Prosecutor's Office of Savona, concerning the plant of Vado Ligure, in which, during 2018, the Company was cited as the civil liable party.

Our opinion is not qualified in connection with these aspects.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, within the terms provided by the 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, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 International Standards on Auditing (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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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;
- we have obtained 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;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Tirreno Power S.p.A. are responsible for the preparation of the Report on Operations of Tirreno Power S.p.A. as of December 31, 2018, including its consistency with the related financial statements and its compliance with the applicable laws and regulations.
We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the financial statements of Tirreno Power S.p.A. as of December 31, 2018 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.
In our opinion, the Report on Operations is consistent with the financial statements of Tirreno Power S.p.A. as of December 31, 2018 and comply with the applicable laws and regulations.
With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Rome, March 8, 2019

EY S.p.A.
Signed by: Beatrice Amaturo, Partner

This report has been translated into the English language solely for the convenience of international readers.