



SUSTAINABILITY REPORT 2016



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LETTER TO THE STAKEHOLDERS

We have chosen to transform the energy of nature into energy for people

Our Sustainability Report celebrates its 10th birthday. A decade of change and sustainability, combining business development with the broader requirements of the system in terms of the climate and energy, in complete harmony with the economic and social evolution of Italy.

What is ERG today? With almost 80 years of experience in the energy sector and a past as an operator in the oil business, in the space of a few years we have transformed into an independent power producer from renewable sources, leader in the Italian wind power sector and with significant presence across Europe.

A challenging path, in which we have been guided by our intuition and our desire to grow and improve, at a time of significant change which has seen us become a leading company in the clean energy industry.

Today ERG is one of the main operators in the power sector, capable of producing over 7.5 TWh of electricity every year, satisfying the needs of 3 million families and avoiding the emission of almost 3 million tonnes of CO₂ [the equivalent of 800,000 return flights from Rome to New York].

A business that focuses closely on workplace safety and that invests in training - in 2016 alone we carried out over 400 audits in the field and 96% of the company population participated in internal and external courses for a total of around 5.6 days per capita. A business that lays the emphasis on the quality of its work, adhering to international standards and best practices as demonstrated by the HSE certification awarded to our operating sites and workplaces.

A business that actively supports technological innovation and regional development, incentivising and supporting the world of start-ups. Two specific projects illustrate our commitment in this area: XEI (eXtended Enterprise Innovation), which puts European companies in contact with innovative "ready to market" start-ups, and ERG Re-generation Challenge, which is focused on the development of enterprising ideas in the renewable energy and "green economy" sectors, to be implemented in the areas in which we are present with our hydroelectric assets.

Through the One Company project, in 2016 we reviewed our entire organisational structure, bringing it more into line with our new business model. A process that has enabled us to acquire a greater

understanding of our current role: not just that of a producer but also that of a genuine operator in the Italian economy that provides a public service and is an integral part of the national electricity industry. In fact, through our daily work and thanks to all of our people, we contribute to satisfying a greater goal, that of the continuity and stability of the Italian energy sector.

The issue of Sustainability continues to be a key element of the ERG culture: every goal established for the 2016-2018 three-year period has been analysed and compared with the UN's SDGs (Sustainable Development Goals) for 2030 as defined by the United Nations. A way of measuring ourselves and ensuring we remain consistent with our planet's biggest sustainable development issues, from combating inequality to the right to education and access to clean energy.

Of the various acknowledgements we have received during this highly successful year, there is one we are particularly proud of: the "Best Newcomer Italy" award from the CDP (Carbon Disclosure Project) in collaboration with Borsa Italiana, a tangible recognition of our commitment to combating climate change and the transparency of our communications.

With this tenth Report we want to continue to tell people about how our present and future are increasingly connected with renewable sources and about our determination to move in this direction, even going beyond the national borders, making investments and implementing quality projects.

We will therefore be able to take advantage of the opportunities that arise thanks to the solidity of our business structure and the experience and passion of our people who are, today as they were yesterday, the driving force of ERG.

Enjoy

Edoardo Garrone

Chairman

A stylized, handwritten signature in black ink, consisting of a series of fluid, connected loops and strokes.

Luca Bettonte

Chief Executive Officer

A stylized, handwritten signature in black ink, featuring a prominent, sweeping initial 'L' followed by several connected, fluid strokes.

OUR HISTORY: 1938-2016

1938

Edoardo Garrone
founds ERG
in Genoa.



1947

Production
begins at
the Genoa
San Quirico Refinery.

1975



Production begins
at the ISAB refinery
in Priolo.

1997



ERG is listed on the
Italian Stock Exchange.

2000



ISAB Energy begins to
produce and market
electricity.

2002

Acquisition of the
ISAB Nord refinery
from ENI



2006



ERG enters the renewable
energy sector by acquiring
Enertad.

2008

ERG sells 49%
of the ISAB Refinery
to LUKOIL





ERG Power's combined cycle power plant starts up (480 MW), fuelled by natural gas.

2010



Launch of TotalErg, a joint venture to market petroleum products.



ERG sells its ISAB Refinery and completes its exit from refining.

2013

ERG Renew becomes the first wind operator in Italy with 1,087 MW of installed capacity, and among the top ten in Europe (1,340 MW).



Launch of ERG Renew Operations & Maintenance for the operation and maintenance of the wind farms.



ERG Renew sells a 714% stake to UniCredit.

2014

ERG sells its ISAB Energy plant and its ERG Oil Sicilia fuel network.



ERG acquires E.ON's hydroelectric business in Italy, with plants in Umbria, Marche and Lazio (527 MW).

2015

ERG Renew acquires 6 wind parks in France (64 MW) and builds three wind farms totalling 82 MW in Poland.

1,506 MW of installed power in Europe as at 31 December 2015.



ERG enters the UK wind power market. ERG acquires a project to build a wind farm (47.5 MW).

2016

ERG purchases 11 wind farms in France and 6 in Germany for a total of 206 MW. Our installed power in Europe reaches 1,721 MW.

2016: THE CONSOLIDATION OF OUR "GREEN" BUSINESS MODEL

Once again, 2016 was a year of growth and strong consolidation of our position as leading operator in the field of power generation from renewable sources.

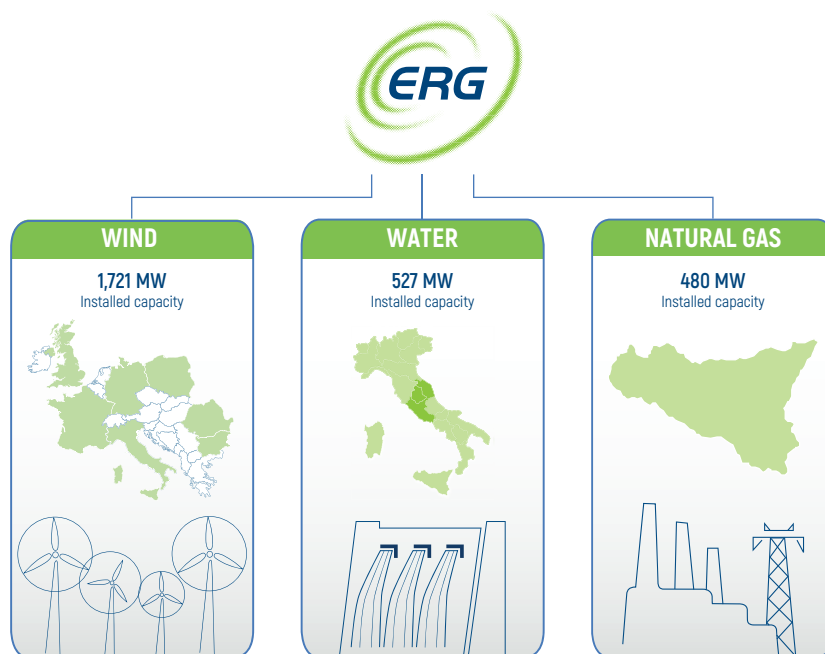
We enhanced the features that make us a unique operator amongst the Clean Energy Industry companies:

- a portfolio for power generation from renewable sources with a good balance between programmable and non-programmable assets;
- a production structure based on three

technologies (wind, hydro and high-yield thermoelectric generation) that are complementary and integrable;

- a considerable geographical diversification, with wind energy generation being widely present abroad, in six European countries.

A consolidation, in the name of renewable energy, that was further confirmed in 2016 by our ranking on Italian Stock Exchange, where ERG switched from Oil & Gas to the Utility Sector. Thanks to our One Company Project, an important



The ERG Group is also present in fuel distribution through its investment in the TotalErg JV (51% ERG).

organisational and operational evolution took place in 2016, aiming at ensuring consistency between our Group's current structure and the outlook for our business.

The holding is in charge of strategic guidance and business development, while a single operational company carries out all electricity generation, marketing and energy management. The resulting operational structure is lean and better integrated for inter-functional activities, more adaptive to quick changes in the scenario and capable of promptly seizing the opportunities offered by continuously-evolving electricity market.

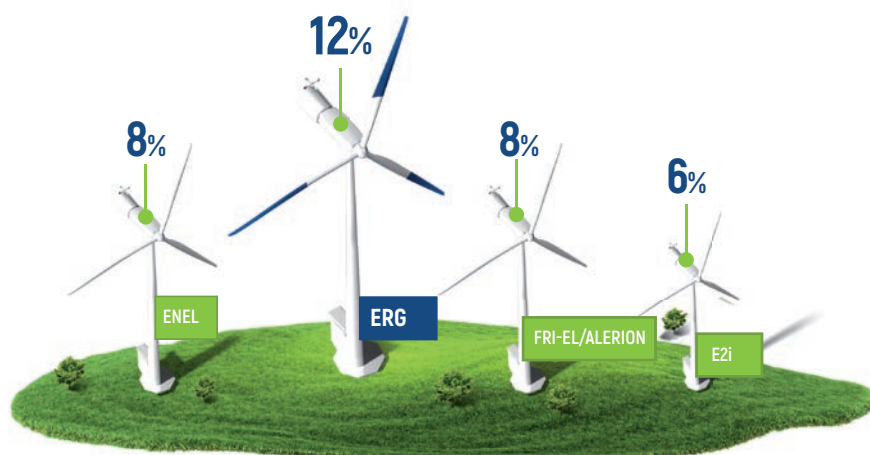
In 2016, we further increased our wind farm business in France, reaching 252 MW of installed capacity, after acquiring eleven new farms, for a

total capacity of 124 MW. We also strengthened our presence in Germany, purchasing six wind farms, for a total of 82 MW: our capacity in Germany is now 168 MW.

Lastly, we acquired two companies that provide technical, operational and commercial support to wind farm operators in France, Germany and Poland, both captive and of third parties, for a total of about 800 MW.

In the wind energy sector, we rank first in Italy and amongst the first ten in Europe; in the hydroelectric sector, we are one of the most important national players and we are also involved in the thermoelectric sector, with a high-yield and low-environmental impact plant fuelled by natural gas.

ERG RENEW: ITALIAN MARKET SHARE



WIND

In the wind energy sector, after reaching a capacity of 1,095 MW in Italy, we implemented a geographical diversification strategy and now have plants in six European countries, so as to continuously grow in the most promising areas for the development of renewables.

We are amongst the top ten operators in France in terms of installed capacity and we doubled our presence in Germany, which is the largest wind energy market in Europe and the third worldwide. We are also present in Poland

(82 MW), Romania (70 MW) and Bulgaria (54 MW). We are currently building a new wind farm in Northern Ireland (47.5 MW), which will be put into service towards the end of 2017.

In 2016, we further developed the in-sourcing process for Operation & Maintenance, adding 242 MW, 76 of which in France.

This is bringing great benefits in terms of higher plant productivity and increased cost-effectiveness. At present, we are directly managing approx. 1,000 MW out of the 1,700 MW of our total portfolio.



HYDROELECTRIC POWER

With a capacity of 527 MW, we are producing hydroelectric power in the Terni Complex: an integrated system which includes 16 power plants, 7 dams, 3 reservoirs and a pumping station, located in the regions Umbria, Marche and Lazio.

NATURAL GAS

We are present in Sicily, at the Priolo Gargallo industrial estate, with a 480 MW, modern and flexible combined-cycle thermoelectric power plant. It is a high-yield cogeneration power plant for the production of electricity and steam, fuelled by natural gas.

ENERGY MANAGEMENT

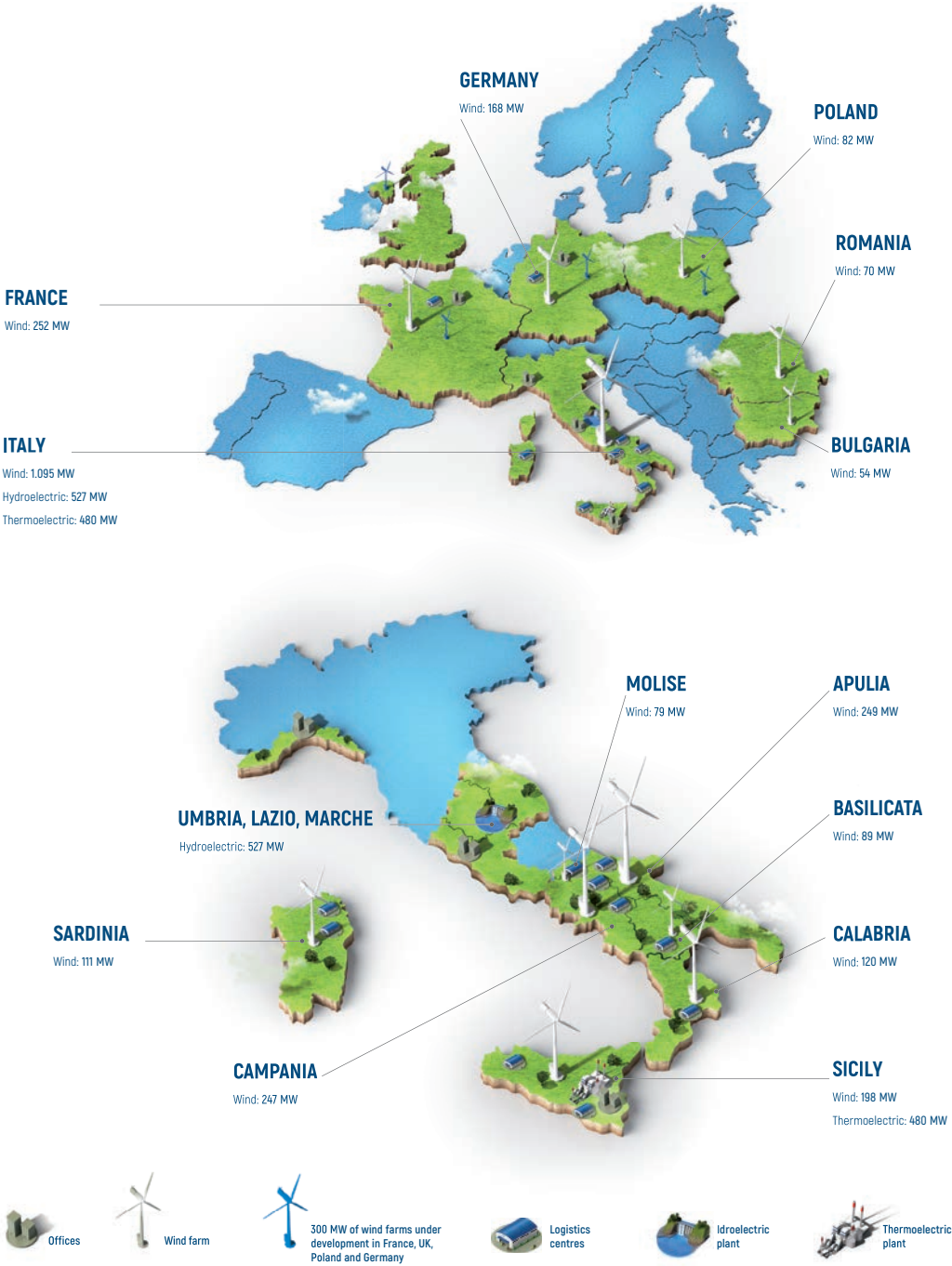
We manage and sell a total of approx. 12 TWh/year, 6 TWh of which are produced by our plants, and we optimise the production according to the demand of the electricity market.

TOTALERG

The ERG Group also has a 51% investment in TotalErg, a company in the downstream oil sector, which is no longer considered strategic in the new Group's structure.



ERG LOCATIONS



ERG'S SUSTAINABILITY IN NUMBERS

13

**1,041** € million

Total consolidated revenues

**748** € million

Economic value distributed

**2,728** MW

Group total installed capacity

**2,248** MWInstalled capacity from
renewable sources**7,552** GWh

Electric power generation

**3.1** millionEquivalent households supplied
with our electrical production**2,993** ktCO₂ avoided by renewables**800** thousandEquivalent Rome - New York
roundtrip flights**100** %ISO 14001 and/or OHSAS 18001 certified Italian
companies consistent with their activities**424**

Safety checks in the field

**715** employees**5.6** days/year

Training per employee

THE GOVERNANCE OF SUSTAINABILITY

We decided to entrust the CEO with sustainability management, as a concrete example of our Group's approach to business.

In order to coordinate the operations and monitor all sustainability activities, we established a Sustainability Committee (President, CEO, Executive Deputy Chairman, CFO, Managing Director of the company in charge of power generation and distribution, Chief Human Capital Officer, Chief Public Affairs and Communication Officer) to:

- define the Group's sustainability directions and promote consistent practices in the context of corporate social responsibility;
- approve, monitor and evaluate sustainability objectives and priority areas for actions related to CSR;
- approve the timing and media for the Sustainability Report and for CSR initiatives.

In its activities, the Committee receives support from the Sustainability department, which, in line with the operational functions defined by

the CSR Working Groups, is tasked with:

- collecting all the inputs coming from the lines, representing them in the Sustainability Report set up according to international benchmark standards;
- supporting the Committee in carrying out its tasks, in particular in monitoring, reporting and operations (via the CSR Working Groups);
- operationally implementing the CSR-related actions identified by the Sustainability Committee within the Group.

The CSR Working Groups are transversal to the organisation units. Their task is to implement and integrate sustainability into everyday activities, identifying issues that are potentially relevant to top management. These Working Groups are tasked with:

- identifying initiatives and collecting requests from the main stakeholders, so that they are given the right value, also in the Sustainability Report;
- identifying the areas to report on in the Sustainability Report;
- drafting, proposing and monitoring the sustainability goals;
- defining the KPIs, also with reference to the continuous improvement processes for the Group's certification systems;
- proposing internal sustainability initiatives to raise awareness among the personnel.

The Sustainability management system also includes the Supervisory Committee, set up in each of the Group's companies pursuant to Model 231, and the CSR Initiatives Evaluation Committee at group level, made up of representatives from the operating companies, the Communications Department and the Sustainability Department.

CSR IN THE GROUP'S ORGANISATION CHART

"The CEO of ERG S.p.A. is responsible for Institutional and International Relations concerning [...] Corporate Social Responsibility": the CEO's direct report line ensures that CSR principles permeate the Group's organisation and activities.

BoD Resolution of 12 May 2016.

SUSTAINABILITY GOVERNANCE

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BOARD OF DIRECTORS

Defines the Group's principles of conduct summarized in the Code of Ethics and approves the Sustainability Report.



SUSTAINABILITY COMMITTEE

Comprises the Chairman, the Deputy Chairman, the CEO and the CFO of ERG S.p.A., the Managing Directors of the operating companies, the Chief Human Capital Officer and the Chief Public Affairs and Communication Officer.
Defines the Group's directions on sustainability; approves, monitors and assesses the sustainability-related objectives and the priority action areas relating to CSR; approves the timing and media for the Sustainability Report and for CSR initiatives.



SUPERVISORY BODY

It is tasked with:

- monitoring the effectiveness of the Model and compliance with the Code of Ethics;
- verifying the adequacy of the Model to prevent the commission of the crimes specified in Italian Legislative Decree 231/01;
- overseeing the updating of the Model;
- providing training on the Code of Ethics and 231 issues;
- assessing the information received.



SUSTAINABILITY DEPARTMENT

Has the responsibility to implement the guidelines and to periodically monitor their performance.
The set of inter-functional monitoring actions result in drafting the annual Sustainability Report that is initially reviewed by the Sustainability Committee and subsequently approved by the Board of Directors.



CSR WORKING GROUP

Working groups which cross the organizational units, and focus on:

- identifying the areas to report on and collecting the KPIs;
- developing and proposing sustainability objectives and monitoring their achievement;
- identifying CSR initiatives and collecting CSR-related concerns from key stakeholders;
- proposing CSR-related initiatives to raise the Group staff's awareness.



CSR INITIATIVES EVALUATION COMMITTEE

Working group composed of personnel of the operating companies, of the Communication department and of the Sustainability department.
Analyses all the initiatives coming from the community, based on the values they express and the positive impact expected over time in that area.

THE SUSTAINABILITY POLICY

The Sustainability Policy, in line with the principles set out in the Code of Ethics, directs the Group's activities, combining the objective of creating sustainable value with environmental responsibility and attention to internal and external stakeholders. It was approved in 2015, and in 2016 we worked to make it one of the key elements of the Group's corporate culture: we shot an easy and engaging video to be published on our website and Intranet and we organised induction courses for newly-hired employees, so that they are "in sync" with the same principles.

The Sustainability Policy aims at defining values, commitments, goals and organisation in the field of sustainability and must be applied together with law provisions and regulations of the Countries where ERG is present or that have been adopted by the Group. Among the Sustainability Goals for the 2016-2018 period, the Sustainability Committee has added its commitment to a wider dissemination of the principles contained in the Policy, both internally and externally.



DISSEMINATING SUSTAINABILITY WITHIN ERG

To pursue the "internal dissemination of the Group's principles described in the Code of Ethics and in the Sustainability Policy", in 2016, the Sustainability Department organised a focus meeting called "#futurosostenibile". The focus meetings are reserved to employees (those from the Genoa offices were present in the room, while the others attended via video conference); during these meetings, each Department describes its work. We briefly explained to our colleagues the Group's benchmark standards and our way of doing business, consistently with full respect for the environment and people and we went over our reporting process, which started in 2007, and this year celebrates its tenth issue.

ERG GROUP'S CERTIFICATIONS

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The environment and workplace safety are two essential topics for us, and this is why we decided to go beyond legal requirements: we decided to implement certified management systems, in compliance with international standards and we refined them by adding of best practices and following the continuous improvement principle, to ensure that the main issues are tackled. To this end, all operating sites and workplaces are ISO 14001 or OHSAS 18001-certified, depending on the activities they carry out.

We decided to share the benchmark standards and working methods with our suppliers, in the fields of health, safety and minimisation of the environmental impact of our business, these aspects being part of our Code of Ethics and representing some of the key elements in the selection and qualification process of our partners.

Another principle we have extensively adopted is being open and transparent with our stakeholders: this is why our Power and Hydro production plants are EMAS registered (Eco-Management and Audit Scheme, in compliance with the Regulation (EC) 1221/2009). This registration implied drawing up Environmental

Statements, which must be updated every year and renewed every three years and are an important communication tool.

We are convinced that only active dialogue and a sustainable development model can ensure continuity and high-quality results, in full respect of the environment and the community.

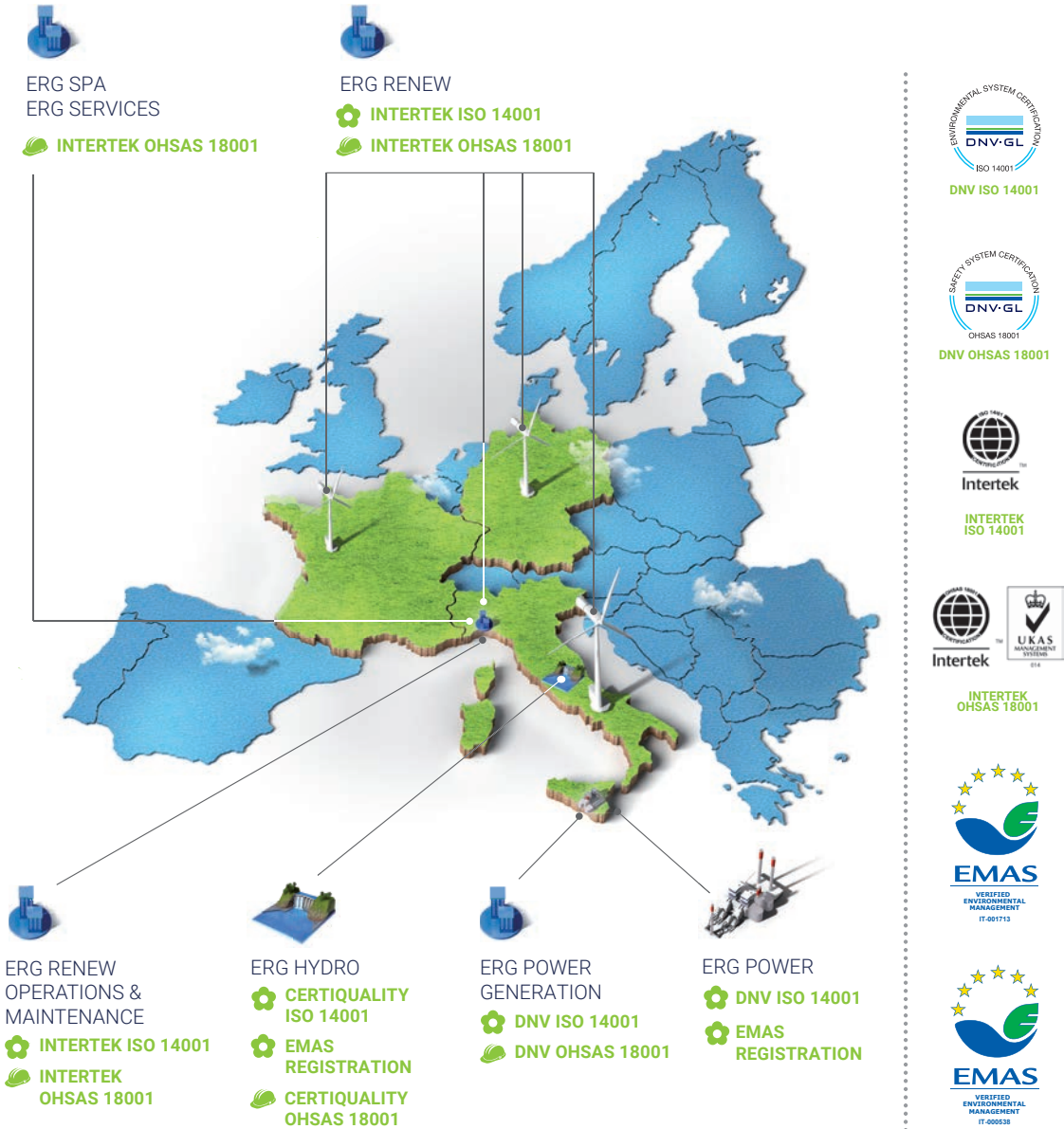
Lastly, we added to our commitments for the 2016-2018 period, the extension of our existing certifications to our affiliates abroad. In this perspective, we will also consider the possibility of certifying our sustainability management system according to the SA8000 standard.

100%

ITALIAN SITES CERTIFIED ACCORDING
TO THEIR ACTIVITIES



ERG GROUP'S ENVIRONMENTAL AND SAFETY CERTIFICATION



THE EVOLUTION OF CERTIFICATIONS AFTER THE ONE COMPANY PROJECT

The "One Company" project led to significant changes to the organisational and corporate structure of our Group, to adapt it to our new business model. The project included the centralisation of sales activities and the management of the three complementary production technologies (wind, water and natural gas) within ERG Power Generation (which in late 2016 incorporated ERG Renew and ERG Renew Operations & Maintenance).

From the beginning of 2017, after the centralisation process was completed, a certification review process was started to optimise the existing certificates on the basis of the new organisational set-up.

The initial analysis identified the following actions:

- the environmental (ISO 14001) and safety (OHSAS 18001) certifications held by the wind energy companies will be merged to become ERG Power Generation certifications for the Wind Energy Business management;
- the ISO 14001 and OHSAS 18001 certifications for ERG Power Generation for the management of the Power and Hydro businesses have not been modified, so they will keep their current form;
- the EMAS registrations held by ERG Power and ERG Hydro will be maintained and renewed by the two companies.

The OHSAS 18001 certifications held by ERG Services and ERG will be absorbed by ERG itself after the centralisation of the staff functions.

In 2017, further analytical work will be carried out to define a final restructuring plan by the end of the year.

DIALOGUE WITH OUR STAKEHOLDERS

From the Code of Ethics to daily life: this is how our principles are applied every day. Lawfulness, honesty, fairness, equality, integrity, transparency, responsibility and sustainability are at the basis of our way of doing business. They are values that are highly representative of our work ethics and on which we have based our relationship with all stakeholders: from central authorities to local bodies, from customers to suppliers, from shareholders to employees.

Over the years we have modulated our policies of engagement and communication to stakeholders to better respond to their needs

and to the change of our business.

We are now one of the most important electricity producers (mainly from renewable sources) and we operate in a regulated market.

We have plants in 10 Italian regions and we carefully manage our relations with the institutions and with local communities to share our strategies and CSR initiatives in the area where we work.

The change of our business model provided the opportunity to improve our communication with the financial community and with the media to share our development plans.



Finally, compliance with GRI-G4 standards, which are at the basis of the Sustainability Report, supported our commitment to meet and discuss with our stakeholders and to include their requests and expectations.

Here below is an overview of the main stakeholder engagement activities that we implemented in 2016.

ERG AND ITS INSTITUTIONAL STAKEHOLDERS

The electricity sector where we operate is strongly influenced by European and national legislative provisions and regulations.

Therefore, we constantly monitor provisions being approved or drafted. This requires a constant and transparent dialogue with Institutions, with Business Associations and

ASSOCIATIONS IN WHICH ERG HAS A PRESENCE IN THE GOVERNANCE BODIES AND/OR TECHNICAL GROUPS

Association	Purpose	ERG participation
Assoelettrica	National Association of Electricity companies bringing together around 120 companies operating in the free market that provide about 90% of the electricity generated in Italy.	Governance Bodies and Technical Groups.
AssoRinnovabili	Association representing renewable energy manufacturing and service companies, with over 1,000 associates. Since 1987, it has represented producers of electricity from renewable sources and providers of professional services, technologies and components in the renewable energy supply chain to protect their rights and promote their interests at national and international levels.	Governance Bodies and Technical Groups.
ANEV	The National Wind Energy Association that brings together about 70 companies in the wind power sector and more than 5,000 parties, including producers and traders of electricity and technology, installers, designers, engineering and environmental offices, electricity traders and developers who operate in compliance with the rules and regulations of the association.	Governance Bodies and Technical Groups.
AIGET	Associazione Italiana di Grossisti di Energia e Trader (The Italian Association of Energy Suppliers & Traders) is an association of about 50 companies which operate in the sale of electricity and gas. It aims to promote competition and transparency in the energy markets, supporting the development and standardisation of tradable energy products and contracts, including derivatives, and the related markets. It represents its members before national, European and international organisations and institutions related to the energy sector, to safeguard common interests.	Governance Bodies and Technical Groups.
Assonime	Association of Italian Joint Stock Companies that works towards improving industrial, commercial, administrative and tax legislation in Italy.	Governance Bodies.
Confindustria	Together with the local associations, national trade associations, regional Confindustria federations and regional and national trade federations, Confindustria is the main association representing manufacturing and service companies in Italy.	Governance Bodies and Technical Groups.
Confindustria Energia	Federation of associations representing companies that produce and distribute energy (ANEV, ANFIDA, ANIGAS, Assocarboni, Assocostieri, Assogasliquidi, Assomineraria, Assosolare and Unione Petrolifera).	Governance Bodies and Technical Groups.
EWEA	European Wind Energy Association, the body representing the interests of the wind industry in Europe and the European branch of the WWEA, the World Wind Energy Association.	Governance Bodies.
IEFE	The Research Centre at Bocconi University, dedicated to the study of energy economics and policy, also focusing on technology issues	Technical Groups.
Fondazione Civita	Organisation established by a group of public and private companies, public research institutions and universities which, with over 160 members is engaged in the "promotion of culture" through research, conferences, events, publications and projects.	Governance Bodies.
Fondazione Magna Carta	Foundation dedicated to scientific research, cultural reflection and the development of proposed reforms on the main themes of political debate.	Governance Bodies.
WEC Italia	A multi-energy network of industrial, institutional and academic members in Italian energy sector: from research to production, from transformation to the distribution and marketing of all energy sources, from nuclear and fossil to renewables.	Governance Bodies.
Unione Petrolifera	Association of the major oil companies involved in petroleum refining and the distribution of petroleum products in Italy.	Governance Bodies and Technical Groups.

with other operators. The advocacy activities are carried out by ERG "first hand", cooperating with the main players of this sector or

through associations, such as Confindustria, Assoelettrica, Anev, AssoRinnovabili, AIGET, WindEurope, foreign associations of the wind

OUR STAKEHOLDERS: EXPECTATIONS AND TERMS OF ENGAGEMENT

Stakeholder	Stakeholder expectations
Institutions European Union, Governments, Ministries, Regulatory bodies, Public Administration, Trade associations	Collaboration, technical support and sharing of information. Participation in the territorial planning of activities. Respect for the legislation in force in all countries in which the Group operates
Shareholders	Creation of value. Corporate Governance and Risk Management. Representation of minorities. Transparency and timeliness with regard to economic and financial information.
Financial community	Creation of value. Corporate Governance and Risk Management. Transparency and timeliness with regard to economic and financial information.
People and trade union organisations Workers with employee contracts, workers without employee contracts, trade unions.	Equal opportunities. Workplace safety. Professional development for all employee categories. Participation in company life and all related initiatives. Work-life balance. Stability.
Local communities Cultural, religious and research associations, health service, NGOs, Committees of citizens, residents close to production plants.	Consideration of their requirements. Contribution to and support for local initiatives and local communities. Access to information. Safeguarding of assets and environment. Health and safety.
Future generations Schools and Universities.	Prevention and environmental respect. Training and sharing expertise. Business strategy aimed at reducing the consumption of natural resources.
Media	Complete, timely and transparent information.
Suppliers	Respect for all competition and antitrust laws in the countries of operation. Accessibility to the "vendor list". The safety of in-field activities.
Partners	Creation of value. Acceptance of common values in the development of the strategy and business management.
Customers	Maximising value for the consumer. Quality and continuity in the supply of electricity and steam (site customers).

energy sector, etc.). More specifically, our presence within the Governance Bodies, relevant commissions and technical working groups

allows us to take an active part in the work of the associations and to suitably represent the Group's interests. In this framework, our

Terms of engagement	2016 engagement activities
Dedicated meetings, round tables and conferences.	ERGLab. WindEurope event held in Hamburg. Institutional presentation of the Sustainability Report. Wind Power Renewal Charter (Rimini 2016). Participation in events and round tables on the topics of energy and environment Accreditation by central and local institutions.
Webcasts. Press releases. Roadshows. Events related to the presentation of the business plan.	Webcast to present quarterly results. Press releases. CEO and CFO on a road show in the main European financial centres.
Webcasts. Press releases. Roadshows. Events related to the presentation of the business plan.	Webcast to present quarterly results; Press releases. CEO and CFO on a road show in the main European financial centres.
Activities and tools for training, measurement and internal communication. Events during the year. Team building.	Training for 96% of ERG's people. Internal communication events for employees and their families. Collective bargaining for the renewal of the 2 nd level contract.
Relational activities with local communities in line with our businesses. CSR initiatives on the territory for "environment and health", "promotion of culture", "youth and sports". Events with the local press.	Support to social, cultural and health activities in the areas served, by means of donations. Call for ideas at a local and international level (XEI and ERG Re-Generation challenge). Activities with the local communities for our development projects in Ireland.
Training and information projects. CSR initiatives on the territory concerning "promotion of culture", and "youth and sports".	Vai col Vento, Progetto Scuola 2016, Electricity Day. Design of the new educational project "A tutta Acqua".
Events with the financial press, press releases to disclose our financial statements, business plan and corporate transactions.	Event with the financial press after the acquisition of hydroelectric plants. Relations with the press office
Web platform. Involvement and monitoring on "occupational safety" issues.	Integration of hydro suppliers into the Group's platform. On-site HSE audits and activities for the control of suppliers' performance.
Specific mini relational events.	-
-	-

position as a green business, urges us to give priority to the development of renewable energy sources and of decarbonisation policies.

Over recent years, we have been involved in several working groups: the reform of the

Energy Market, the consultations to implement the Capacity Market, the incentive schemes for renewable sources, the proposals on the Emission Trading reform, and the debate on the Clean Energy Package, which was presented

WIND POWER RENEWAL CHARTER

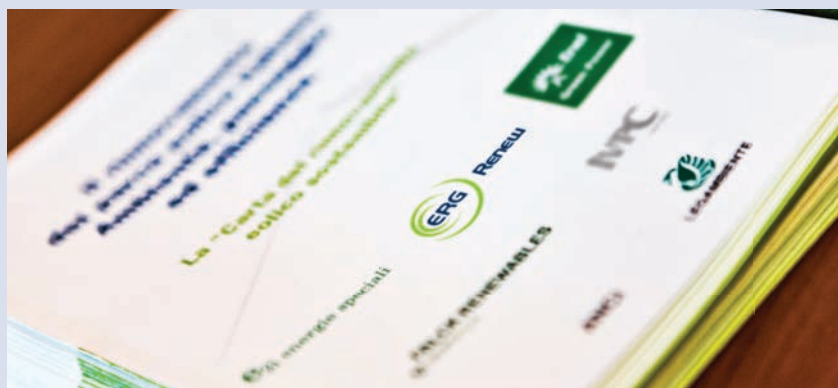
Together with the main wind energy operators, such as E2i, Enel Green Power, Falck Renewables, IVPC, the representatives of environmentalist associations (Legambiente) and institutions (ANCI), in 2015 ERG drew up the "Charter for Sustainable Wind Power Renewal". This initiative aims at promoting the renewal of the existing Italian wind farms, in full respect of natural and social ecosystems, thus ensuring a better "green" production capacity with a lower impact on the environment and on the landscape.

In 2016, the signatories of the Charter (which later also included E.ON) focused on identifying rules and application criteria, standards, procedures and best practices to make the renewal projects for existing Italian wind farms more sustainable, both for the operators and for the communities involved.

It would be possible to improve the environmental and land integration of wind farms, thus enhancing the areas and the municipalities where wind farms are located. Many of these areas boast a great vocation for tourism, culture and agriculture.

Implementing the "Charter" means taking actions and involving national and local institutions to define a regulatory framework to:

- simplify the procedures for the authorisation of "renewal" interventions in the sites where the wind power vocation is higher, in line with the landscape protection criteria;
- integrate the projects with the initiatives to expand the electrical networks;
- increase the production of "green kilowatt hours" in a satisfactory and sustainable way, for both the operators and the community.



to the European Commission in late November. These are issues on which the discussions with the institutions, but also within associations and among the various players, have been very complex.

These discussion opportunities helped us establish an "active" cooperation with the various stakeholders, institutions in particular, based on sharing know-how and specific expertise, enhancing the Group's reputational capital, which stems from the values of technical know-how, transparency, ethics and independence.

In order to guarantee the utmost transparency

in the management of reports, we adopted an internal control system based on procedures integrated into the Organisational Model (formerly Legislative Decree 231/01 as amended) and a specific disciplinary sanctions system.

We also adopted a special policy, under which no direct or indirect contributions are paid, in any form, to political parties, movements, committees, political organisations or trade unions, nor to their representatives or candidates (with the exception of cases set by specific regulations).

ERGLAB

ERGLab is the ERG think-tank designed to study in depth the energy and environmental challenges which Europe and Italy will have to face in the near future.

It is a "workshop" open to selected stakeholders from the energy world, where it is possible to exchange different points of view, seeking to imagine and agree upon the sector's potential development paths and evolution.

In 2016, ERGLab started its third year of activity with the same well-tested format as the previous editions.

We organised four events during the year, focusing on current issues of the energy sector: from the market liberalisation for end users, to the new market perspective offered by digitisation, the long-term contracts to favour the development of renewable sources, their role in the implementation of the COP21 Agreement.

This initiative helped to consolidate further the relationship of mutual trust with the most influential players of our sector's institutions and the business world.

It is also thanks to this initiative, that over the years ERG has reached a leading position and has strengthened its green position with institutions, players and other stakeholders of the power sector.



ERG AND INTERNATIONAL RELATIONS

The presence of the European Institutions makes Brussels a privileged observatory of changes in legislation, in particular on energy and on the environment. We are aware of this, so we constantly participate in the main European institutional and association working groups. The follow-up of regulatory and legislative change in the Member States where we are present (France, Germany, Bulgaria, Poland, Romania and the UK) is ensured by our presence at business associations and through direct contacts with the national institutions.

ERG AND THE FINANCIAL COMMUNITY

ERG has been listed on the Italian Stock Exchange since 1997 and our relations with analysts and investors at all levels are very important. We are committed to report all the information that can help to assess investment opportunities in our shares, in a transparent and timely manner, in full compliance with the applicable provisions on the dissemination of price sensitive information.

The clarity of communication on development strategies and the information updates on the status of our business commitments help maintain the trust confidence of the markets and are essential elements that support the valuation of ERG.

After entering the hydroelectric energy sector, our Group has become the leading electricity producer from renewable sources: thanks to this new position, our shares were reclassified on the Stock Exchange, switching from the Oil & Gas sector to the Utilities sector.

Our new business plan and financial communication tools

The presentation of our latest business plan 2015-2018 boosted interest in our Group's activity. The market appreciated the strategic

guidelines contained in our plan and that led to an increase in our meetings with analysts and investors, during 2016 the Investor Relations department and the top management held an important roadshow in all major financial centres in Europe and America, where they met various investors, of whom many managed ethical funds. In addition to these one-to-one meetings, we reached investors in other markets via many conference calls.

Investor Relations' communication is addressed not only to large financial players but also to small investors. All (actual or potential) private investors wishing to invest in the ERG Group can easily find all the needed information materials on our www.erg.eu website.

Website visitors can watch live webcasts and conference calls to present financial reports, and download their full script and slides: these are all public events, so as to reach all stakeholders.

ERG ENTERS THE UTILITY SECTOR

When the ICB Indexes (Industry Classification Benchmark) of the Italian Stock Exchange were reviewed in the last quarter of 2016, we were included in the Utility - Alternative Electricity sector of the FTSE Italia All-share Index.

This switch to a new classification is the final acknowledgement of the profound change of our Group's business model. Thanks to this, we will be able to have more contacts with ethical investors and those who are highly focused on CSR issues.

OUR SUSTAINABILITY RATINGS

We are fully open for discussion and disclosure of detailed information on specific areas of expertise, not only to shareholders but also to companies that assess ERG according to ESG parameters (Environmental, Social, and Governance). In this respect, it is important to point out that, in November 2015, the ECPI upgraded its rating of the Group by assigning it an EE+ score, proving that it has "a clear long-term strategy, an efficient operational management and a positive contribution to the environment and the society as a whole". In 2016, Vigeo's rating of ERG was also updated on the basis of the 2015 figures. The total result is not available yet, but we recorded a 55% improvement of the areas assessed, compared to 2014.

ERG AND THE COMMUNITY

Our activities in the areas where we work are based on clear principles aimed at supporting the development of local communities, with constant involvement and a transparent, open cooperation.

When starting a new investment project, we always try to adapt it to the relevant area. We strive to involve local communities as much as possible: from the design phase to the construction work, for which we prefer to

select local contractors. Our goal is to add value to the area, supporting its development.

All our initiatives include an assessment on the basis of the values they express and the positive results they can achieve over time. This activity is carried out by a "CSR Initiative Assessment Committee", which includes operational staff, the Communication Department and the Corporate Social Responsibility Department.

This is the approach we used to the third edition of "Vai col Vento!", an environmental education



project that involved students from the third year of middle school (stakeholders playing a double role as "future generation" and "local communities") from the areas where our wind farms are present.

These initiatives engaged the students in multi-topic meetings (energy production from renewable sources, focusing in particular on wind energy, energy saving, the protection of resources and reduction of the impact on the ecosystem) and in an on-site visit to the nearest wind farm.

This successful format led to the creation, in 2017, of a similar training course for secondary schools in the areas where our hydroelectric plants are located.



The "A tutta acqua!" project will include both theory and practice, with an on-site visit. Also in the areas where our hydroelectric plants are located, in 2016 we launched the "ERG Re-Generation Challenge", to promote

activities aiming at generating value for the area.

A "call for ideas" for projects to be implemented in the area, specifically related to renewable energy and innovation in the field of energy production, in cooperation with local institutions and the Universities of Perugia and Macerata.

In Sicily, where our natural gas thermoelectric plant is located, we are implementing the "Progetto Scuola", a set of initiatives for students of all ages, with high social value (training on the respect of the environment, on road safety and sports initiatives); in addition, thanks to the activities carried out at the "Riccardo Garrone" ERG Sport Centre, we involved many students in special projects for the dissemination of sport values among young people.

ERG AND THE MEDIA

The "media" are very important stakeholders, as they spread all the news about our sector and the information and important events of the life of our company such as periodic financial

CSR WORKING GROUPS

We participate in the following working groups:

- CSR Manager Network Italia is a working group covering Corporate Social Responsibility issues.
- EticLab is a working group for the promotion of the culture of Corporate Social Responsibility in Liguria.

results, our business plan and extraordinary operations.

They must be able to meet the information needs of both an audience of specialists, and of a broader and more diversified audience, which increasingly demands guarantees on the quality and truthfulness of information and facts that are published.

This category of stakeholders includes journalists, traditional and on-line local, national and international publications, press agencies, and private and public radio and TV broadcasters.

They enable us to report our position on the market clearly and effectively, as a leading player in the green revolution.

2016 CDP: ERG BEST NEWCOMER ITALY

Transparency with our stakeholders and respect of the environment are at the basis of our way of doing business.

These two principles and the growing requests from our (current or potential) investors on the Company's environmental performance has led us to participate in the Carbon Disclosure Project (CDP) and to our first reply to the "Climate Change" questionnaire.

This questionnaire includes quantitative and qualitative figures on the Group's strategies and is focused on "climate change governance", on the basis of internationally-recognised standards.

ERG was awarded as Best Newcomer Italy, with an initial "B" rating (on a scale ranging from A - the best - to D - the worst).

This is an important acknowledgement of the actions and strategies we adopted to enhance the transparency of our communication. It also highlights our continuous commitment to sustainable development, aiming at combining economic performance with the reduction of CO₂ emissions: our position as a green company and as a leader in the generation of electricity from renewable sources helps us actively support the decarbonisation of the economy.

This commitment is in line with the results of COP 21, stipulated in the Paris Agreement, which sees the development of renewable energy as a fundamental element to fight climate change.



In this context, in spring 2016, after completing our transformation process and presenting our business plan, we met journalists specialised in the energy sector, who follow ERG, to tell them about our evolution through direct meetings with our top management.

We organised an event for the representatives of the national financial press to focus our

attention on our position as an industrial operator and to present to the press our hydroelectric business and outline our plans for the future.

During the meeting, the journalists visited the Galleto hydroelectric power plant and the Marmore waterfalls, which is part of the Terni hydroelectric complex.

ERG WINS THE "OSCAR DI BILANCIO" AWARD FOR FINANCIAL STATEMENTS

ERG's commitment to ensuring transparency and completeness in its communication activities was further acknowledged by the 2016 "Oscar di Bilancio" Award by FERPI (the Italian Public Relations Federation), in the "Large Enterprises" category. The reason for the attribution of this award perfectly describes our *modus operandi*: *"The management report clearly shows the transformation from industrial operator in the energy sector to independent producer of electricity mainly from renewable sources. The most important events which took place during the year are described in detail as is the chapter on risks. The current structure of the Group is also specified. The Sustainability Report includes not only economic but also environmental and social responsibility, and provides suitable performance data and indicators, among those required by GRI G4."*



METHODOLOGICAL NOTE

With the 2016 edition, we have reached the tenth edition of the Sustainability Report: this document confirms that the Group is willing to communicate with its stakeholders transparently, in the fields of economic, environmental and social responsibility.

In these ten years we have explained how we transitioned from being an oil sector operator into an independent energy producer specialised in the generation of electricity from renewable sources. This is why our reports can be viewed as a continuum which outlines the evolution of our business and its continuous technical, methodological and organisational change.

Whenever possible, we try to add figures and indicators in our texts, so as to make them easier to understand and compare and to assess the actions taken.

In this report we focus on the "strictly CSR-related" aspects of our Group; economic and governance issues, of which we provide an overview herein, are covered in depth in other official documents, published and available on the Group's website www.erg.eu [Group Consolidated Financial Statements, Corporate Governance and Ownership Report and other public documents].

Again, this year, we wanted "an independent third party" to check both the information contained in the document and the processes underlying their preparation: we believe this step is essential to ensure we give our readers high quality, reliable information.

The gathering of data and information is carried out under the supervision of the Sustainability Committee through the Corporate Social

Responsibility Department and involves all the Group's companies and departments.

The Report is approved by ERG's Board of Directors together with the Consolidated Financial statements.

ACCOUNTING PRINCIPLES

The 2016 Sustainability Report was drafted in accordance with the most recent GRI-G4 Sustainability Reporting Guidelines, published by the GRI (Global Reporting Initiative) in 2013, and includes the information required by the "Electric & Utilities" sector disclosure of the GRI, specifically for companies in the utilities sector. The report has been prepared in compliance with the GRI G4 "in accordance - core" criteria. The Report also provides a set of indicators far greater than the minimum required by the benchmark standards: this gives more visibility to the Group's performance in its various areas.

Unless otherwise noted, the data and information contained herein refer to ERG's activity until 31 December 2016: in general "operational significance" mainly refers to activities in Italy. This year, for the first time, indicators regarding the hydroelectric power business have been added, with reference to the whole year.

The data regarding wind farms installed abroad are however included – particularly in the economic section – in order to provide a complete picture of the Group's activity.

The information and the financial data of the document refer to subsidiaries as at 31 December 2016 and reflect the Group's consolidation scope

in accordance with the IAS-IFRS accounting standards: the economic/financial values are based on the Group's Consolidated Financial Statements, which have already been audited.

To provide a proper three-year comparison with the years 2015 and 2016, the "2014 proforma" column was maintained to show the 2014 data with the same scope.

Data on the personnel and work organisation refer to the workforce as at 31 December 2016. Any other exceptions are described below the tables.

Data on personnel training refer to managerial, technical-specialist and HSE training (Health, Safety and Environment) organized, managed and provided during the year in Italy by the "Talent Management" department of the holding company or by the respective Business Units.

The main atmospheric emissions are determined by continuous measurements at emission points and, where necessary, by spot measurements combined with estimates that take into account both the combustion systems and the types of fuel used. CO₂ emissions are certified by an independent third party, as required by law.

The "CO₂ avoided" - an indicator used to show the positive contribution of the production from renewable sources to the environmental improvement - was defined using a conversion factor for grams of CO₂/KWh, which is different from the factor used in the previous years and aligned with the common practice: we used the emission factor of the specific thermoelectric plants in the country of reference and published by Terna in the "electricity/statistics/international comparisons" section of their website.

The operating parameters of plants are taken from their management and reporting systems.

MATERIALITY ANALYSIS

For the identification of the most important issues to be addressed in the 2016 Sustainability Report, the same materiality analysis (provided for in the GRI G4 and AccountAbility 1000 standards) was used as was for the 2015 Report.

In order to better assess the local stakeholders' perception of ERG entering the hydroelectric business areas, a period of observation lasting more than one year was deemed necessary. A new analysis will be carried out in 2017 and the results will constitute the basis for the next report.

During an initial documentary analysis phase, the Corporate Social Responsibility Department mapped the aspects that were considered relevant for the Group's sustainable development, on the basis of: the Company Top Management's judgement, the instructions provided by the GRI (both in the general principles and in industry specific documents), questions collected in ESG (Environmental, Social, Governance) assessments during the year and benchmarks with other companies from the same sector.

The topics identified by that process (about 60) were then grouped into 23 "relevant topics": of these, 19 were assessed by internal and external stakeholders while 4 ("Profile of the ERG Group and its activities", "Group Governance", the "respect of diversities and equal opportunities", and the "protection of the health and safety of employees") were considered prerequisites to properly portray the ERG Group and therefore were not subject to assessment.

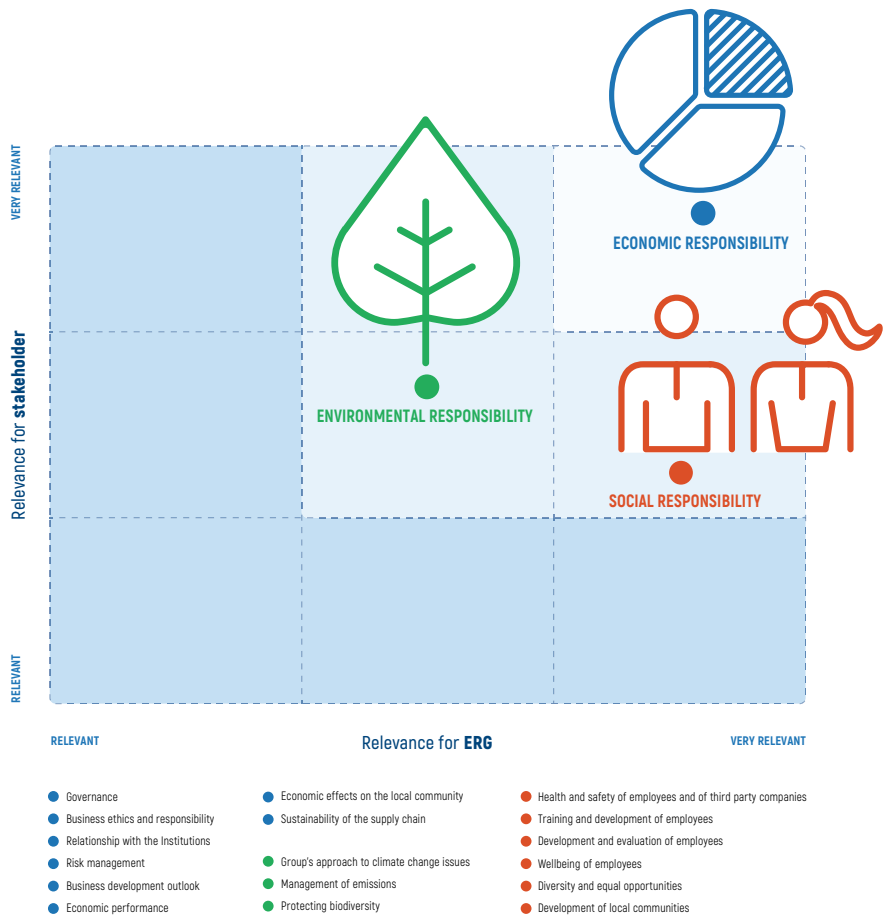
The assessment by 12 Top Managers of the Group

and by 12 categories of external stakeholders was carried out by means of direct interviews or questionnaires handed out during public events: our stakeholders were asked to list 5 topics they considered priorities.

The final scores were calculated as the arithmetic mean of the assessments expressed by the stakeholders (number of times each issue

was assessed as relevant) weighted in relation to the number of members in each category of stakeholders.

The joint rating by Top Managers and Stakeholders was the basis for the materiality analysis and the identification of the most important issues addressed by the Sustainability Report at Group level.



MATERIAL ASPECTS: SCOPE

GROUP PROFILE AND GOVERNANCE	Internal	External*
Governance	Group	Shareholders
Business ethics and responsibility	Group	Institutions
Relationship with the Institutions	Group	Institutions
Risk management	Group	Shareholders
Outlook and business development	Group	Shareholders, Financial community
ECONOMIC RESPONSIBILITY		
Economic performance of the Group	Group	All
Economic effects on the local community	Group	Local communities
Sustainability of the supply chain	Group	Suppliers
ENVIRONMENTAL RESPONSIBILITY		
The Group's approach to climate change issues	Group	All
Management of emissions	Thermo	All
Protecting biodiversity	Wind, Hydro	All
SOCIAL RESPONSIBILITY		
Health and Safety		
Health and safety of employees	Group	Employees
Health and safety of third party companies	Group	Suppliers
Human Capital		
Diversity and equal opportunities	Group	Employees, Future generations
Development and evaluation of employees	Group	Employees, Future generations
Training and development of employees	Group	Employees
Wellbeing of employees	Group	Employees
Area		
Development of local communities	Group	Local communities

* External scope* means the stakeholders that are affected by the topic being reported.

OUR SUSTAINABILITY COMMITMENTS

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2015 ended a period of commitments related to the 2012-2015 business plan: year after year, through the Sustainability Report, we reported their evolution and, in the 2015 Report, we made sure that all our goals had actually been achieved. It was an important result, that showed that our Group was able to suitably identify its strategic and CSR goals and to achieve them.

In early 2016, the Sustainability Committee approved the Group's new sustainability commitments for the 2016-2018 period. These commitments stem from the 2015-2018 Business Plan, from the continuous improvement goals

contained in the certifications, the new issues raised after entering the hydroelectric sector, so as to ensure the development strategy is in line with sustainability principles.

Our new commitments were also analysed in the light of the SDGs (Sustainable Development Goals), which represent the sustainable development goals defined by the United Nations in 2015. This is a way to show that the development of our Group can concretely contribute to achieving objectives to improve the world we live in.



1 NO POVERTY
End poverty in all its forms everywhere.



2 ZERO HUNGER
End hunger, achieve food security and promote sustainable agriculture.



3 GOOD HEALTH AND WELL-BEING
Ensure healthy lives and promote well-being for all at all ages.



4 QUALITY EDUCATION
Ensure inclusive and quality education for all and promote lifelong learning.



5 GENDER EQUALITY
Achieve gender equality.



6 CLEAN WATER AND SANITATION
Ensure access to sustainable water, and sanitation for all.



7 AFFORDABLE AND CLEAN ENERGY
Ensure access to affordable, reliable and sustainable energy for all.



8 DECENT WORK AND ECONOMIC GROWTH
Promote inclusive and sustainable economic growth, employment and decent work for all.



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
Promote sustainable industrialization and foster innovation.



10 REDUCED INEQUALITIES
Reduce inequality within and among countries.



11 SUSTAINABLE CITIES AND COMMUNITIES
Make cities and human settlements inclusive, safe and sustainable.



12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Ensure sustainable consumption and production patterns.



13 CLIMATE ACTION
Take urgent action to combat climate change and its impacts.



14 LIFE BELOW WATER
Conserve and sustainably use the oceans, seas and marine resources.













15 LIFE ON LAND
Promote sustainable use of terrestrial ecosystems, halt land degradation and biodiversity loss.












16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Promote peaceful societies, ensure access to justice for all and build effective and responsible institutions.



17 PARTNERSHIP FOR THE GOALS
Strengthen the means of implementation and revitalise the global partnership for sustainable development.

UN SDGs	Areas of commitment - 2016-2018	Status as at 31/12/2016
 	GOVERNANCE AND SUSTAINABILITY APPROACH	
	Pursuing the internal and external dissemination of the Group's principles expressed in the Code of Ethics and the Sustainability Policy.	Producing and releasing a Sustainability Policy video on the website and social network.
 	Implementing a new Enterprise Risk Management (ERM) system.	Implementing the Group's ERM methodology, performing the risk assessment activity, defining the Group's new risk management policy; implementing a reporting system for the Control and Risk Committee and the Board of Directors.
 	Continuously updating the 231 Models and Anti-corruption Guidelines of the Group's companies and organising training sessions for the personnel	Released the Model 231 for ERG Hydro. Updated and simplified the model for ERG S.p.A.
	Expanding and integrating the existing certifications in the field of environment, health, safety and sustainability.	Starting the integration procedure for the existing certifications following the One Company project.
 	BUSINESS STRATEGY	
	Consolidate the Group's business leadership in the production of electricity from renewable sources.	Continue the increase in installed power: in 2016 new wind farms were acquired for a total of 215 MW and a new wind farm is Under construction in Northern Ireland.
	Support the Group's strategies through scouting activities, while identifying and assessing innovative technologies/new business opportunities.	Start a start-up scouting activity at international (XEI project) and local level (Re-Generation Challenge project).
	Enhance the partnerships with Universities, Foundations, think-tanks and Research Institutes.	Start and consolidate the cooperation with Universities and associations to organise post-degree master courses (Master SAFE, Master Mager). Set up cooperation projects for industrial development with the CIMA Foundation, Politecnico di Milano.
 	OPTIMISATION AND ENERGY EFFICIENCY	
	Meet the Group's needs with Green energy.	Energy consumption of the auxiliary services of the ERG Group in Italy have been covered by green energy since 2016.
	Implement energy efficiency projects in the Group's plants and offices.	Actions reducing indirect CO ₂ emissions have been implemented. Installation of micro-hydro plants downstream of the dams is being assessed.
	Support programmes to favour the access to energy by disadvantaged peoples.	Currently being evaluated.
	SUPPLIERS	
	Consolidate a supplier qualification and assessment system, with particular attention to Health, Safety, Environment and Sustainability.	Increased the number of qualified vendors. Reduced the qualification time for new suppliers, while keeping HSE standards among the qualification elements.
 	EMISSIONS AND WASTE	
	Avoid CO ₂ emissions for 9,000 kt in the plan period, for a total of approx. 13 million t from entry into the renewable energy sector (baseline 2006).	2,993 kt avoided CO ₂ emissions during 2016, adding up to more than 7.3 Mt avoided since 2006.
	Implement activities to protect biodiversity in areas which are particularly important from the environmental point of view, in the areas where our plants are located.	Support the activities performed at the Oasis of Alviano (WWF). Bird monitoring within our wind farms.
	Consider suitable initiatives to increase the percentage of waste to be recycled.	A recovery procedure for the waste produced by the grate cleaners in the Hydroelectric plants has been implemented.

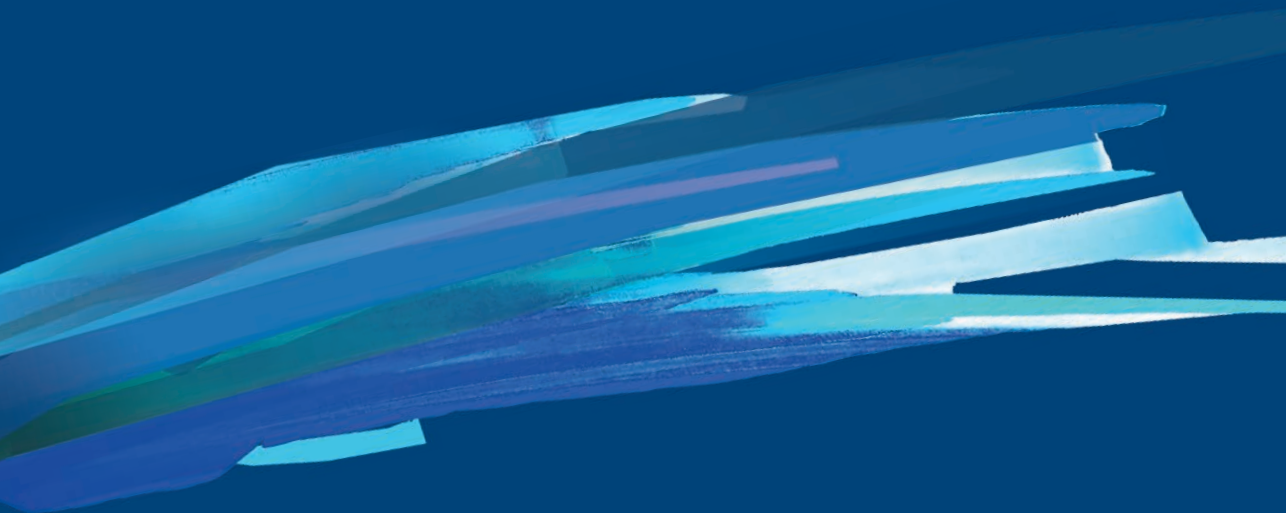
UN SDGs	Areas of commitment - 2016-2018	Status as at 31/12/2016
	SAFETY	
	Consolidate the safety culture inside and outside the company, pursuing the goal for zero accidents caused by safety deficits in plants and offices.	No injuries resulting from a failure to comply with operating procedures or a lack of plant safety were recorded during the year.
	Consolidate the system to check suppliers' performance.	On-site supplier auditing procedure implemented at the Hydroelectric energy plants, in accordance with Group standards. Significant decrease in third-party's Injury Index.
	PEOPLE	
		Facilitate the dissemination of ERG's culture and values through inclusion and awareness initiatives.
		Implemented onboarding and inclusion process for new colleagues.
	Spread a self-empowerment culture to build and maintain professional and managerial skills.	The training path "Boost your Energy" is up to speed. In 2016, over 31,000 hours of training provided at an average of 5.6 days per employee.
	Favour the growth of a sustainability and green culture within the Group.	Module in the training plan for the newly-employed staff focusing on Sustainability. Realised a sustainability "focus group" for colleagues.
	Consider the inclusion of CSR elements into the MBO/IQ system.	The MBO/IQ system includes safety targets.
	COMMUNICATION	
		ERG won the "Oscar Di Bilancio" award for financial reporting. ERG awarded as "Best newcomer Italy" by CDP. ERG awarded the Potentialpark prize for the "careers" section of its website. Improvement in the "Webranking" and "CSR on line awards" position.
		Support the ESG rating companies which are interested in the ERG Group.
		In 2016, we answered 6 questionnaires sent by ESG rating companies or investors of the Group.
	COMMUNITY	
		Contribute to the development of local communities through social responsibility initiatives at a local level.
		Carried out activities in the communities in compliance with the Sustainability Policy principles. Started the design phase of the "A tutta Acqua" project in the areas where our hydroelectric energy plants are located.

1 GOVERNANCE

The values and ethical principles that guide our Group and our business approach are rooted in a legacy that has been consolidated over time.

Robust corporate governance thanks to the work of the board and internal committees.

A structured system of procedures and an integrated risk management system for better business practices and the protection of the rights of minority shareholders.



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RESOLUTIONS
ADOPTED IN 2016

6

INTERNAL COMMITTEES
SUPPORTING THE CEO

25%

WOMEN PARTICIPATING
IN THE BOARD OF DIRECTORS

THE GROUP'S CORPORATE GOVERNANCE

The values and ethical principles that guide the Group in the fulfilment of its business activities are a corporate heritage that we have accumulated over time.

Our Code of Ethics is based on five pillars:

- moral integrity, personal honesty and fairness in internal and external relationships;
- transparency towards shareholders, stakeholders and the market;
- respect for employees and the commitment to

enhance their professional skills;

- social commitment;
- the protection of health, safety and the environment.

Our organisational and managerial model implies total compliance with laws and behavioural and procedural regulations that apply within the company. This is why we reject any behaviour that is incompatible with this model.

THE STRUCTURE OF THE BOARD OF DIRECTORS AND THE BOARD COMMITTEES AS AT 31 DECEMBER 2016

Office	Members	List (M/m) *	Executive/ non- executive	Independent from Code and Italian Consolidated Finance Act	% partici- pation **	No. other positions ***	Date of first appointment ****	Risk and Control Committee		Nominations and Remuneration Committee	
								****	**	****	**
Chairman	Edoardo Garrone	M	Executive		100%	2	16/10/1997				
Vice Chairman	Alessandro Garrone	M	Executive		88%	2	16/10/1997				
Vice Chairman	Giovanni Mondini	M	Non Executive		88%	1	16/10/1997				
Chief Executive Officer	Luca Bettonte	M	Executive		100%		15/12/2009				
Director	Massimo Belcredi	M	Non Executive	Italian Consolidated Finance Act	100%	1	29/04/2003	Yes	100%		
Director	Mara Anna Rita Caverni	M	Non Executive	Code Italian Consolidated Finance Act	88%	2	24/04/2015	Yes	92%	Yes	100%
Director	Alessandro Chieffi	m	Non Executive	Code Italian Consolidated Finance Act	100%	2	24/04/2015				
Director	Barbara Cominelli	M	Non Executive	Code Italian Consolidated Finance Act	100%		24/04/2015	Yes	100%		
Director	Marco Costaguta	M	Non Executive		100%	5	20/04/2012				
Director	Luigi Ferraris	M	Non Executive	Code Italian Consolidated Finance Act	75%	1	24/04/2015				
Director	P. Francesco Lanzoni	M	Non Executive	Italian Consolidated Finance Act	100%	1	29/04/2003	Yes		Yes	100%
Director	Silvia Merlo	M	Non Executive	Code Italian Consolidated Finance Act	100%	3	24/04/2015			Yes	83%

* This column indicates M/m according to whether the member was elected from the majority list (M) or the minority list (m).

** This column indicates the percentage participation of Directors at the Board of Directors and Committee meetings (no. appearances/ no. meetings held during period in which the member has held their position).

*** This column indicates the number of Director or Auditor positions held by the relative subject in other companies listed on regulated markets, including foreign markets, in financial, banking and insurance companies of significant size, different to those held in ERG Group companies.

**** This column indicates participation by a member of the BoD in the Committee.

***** This column indicates the date of the first appointment of the Directors as of 16 October 1997, the date the company was listed on the stock exchange.

CORPORATE BODIES AND BOARD COMMITTEES



SHAREHOLDER'S MEETING

Approves the Financial Statements, appoints the Board of Directors, the Board of Auditors, the independent auditors and decides on statutory changes and extraordinary transactions such as mergers, demergers and share capital increases.



BOARD OF DIRECTORS

Approves periodic financial reports, sets strategic guidelines, the guidelines of the organizational structure, and the corporate governance system, decides on significant transactions, assesses the company's performance.

Composed of 12 members, 7 of which are independent*, held 8 meetings during 2016 which lasted on average approximately 2:30 hours.



BOARD OF STATUTORY AUDITORS

Monitors compliance with laws and with the Articles of Association, with the principles of sound management, the adequacy of the CIGR System** and the independence of the Independent Auditors.

Composed of a chairman, 2 standing auditors and 3 alternate auditors, held 8 meetings during 2016 which lasted on average approximately 2:30 hours.



Independent Auditors

Carries out audits of financial statements and the limited accounts audit of the half-year financial report, and ensures the proper keeping of accounting records.



INTERNAL CONTROL AND RISK COMMITTEE

Supports the Board of Directors in decisions on the approval of periodic financial reports, those related to Group Governance, to the CIGR System**, to the obligations pursuant to Legislative Decree no. 231/01 and to the Finance Area.***

Composed of a chairman and 2 members chosen among the Independent Directors, held 13 meetings during 2016 which lasted on average approximately 2 hours.



NOMINATIONS AND REMUNERATION COMMITTEE

Makes recommendations for the remuneration of Directors with powers or specific duties and for the definition of remuneration policies and Group's management incentive schemes.***

Composed of a chairman and 2 members chosen among the Independent Directors, held 6 meetings during 2016 which lasted on average approximately 40 minutes.



STRATEGIC COMMITTEE

Supports the CEO and the Board of Directors in the definition of strategic business guidelines, portfolio guidelines, and strategic finance guidelines and decision making related to long-term strategic plans, investment budgets of the Group as well as significant capital expenditures.

Consisting of a chairman and 4 members, held 7 meetings during 2016 which lasted on average approximately 3 hours.



* 5 independent pursuant to Italian Consolidated Finance Act and Corporate Governance Code and 2 independent pursuant only to Italian Consolidated Finance Act.

** Internal Control and Risk Management System.

*** May issue opinions for the purposes of the procedure for transactions with related parties.

The current corporate governance structure includes board committees and internal committees and was established over time, through the adoption of behavioural rules that meet the latest principles of Corporate Governance.

The focus on the proper relationship between Management and Shareholders and ensuring that business operations are directed towards the creation of value have always been crucial to our Company; since 1997, the presence on the stock market further confirmed the company's focus on making the principles of transparency and correctness a key part of its communication with our stakeholders.

BOARD OF DIRECTORS

As at 31/12/2016, the Board of Directors of ERG S.p.A. is composed of 12 members, including three women.

The average age of members is about 54 years. 2 members (17%) are less than 50 years old.

SIGNIFICANT INVESTMENTS AS AT 31/12/2016

Direct shareholder	% share of ordinary capital and voting capital
San Quirico S.p.A.	55.628
Polcevera S.A.	6.905
UniCredit S.p.A.	4.001
FincoBank Banca Fineco S.p.A.	0.045
UniCredit Bank AG	0.032

- there are no securities conferring special control rights;
- there are no employee stock option plans.

The current Board of Directors, elected in April 2015, is now made up of 12 members, 11 of which were elected by the majority shareholder while one was elected from a list filed by some minority institutional investors.

For further information on the role played by each body, see the "Report on Corporate Governance" section on the www.erg.eu website.

THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Internal Control and Risk Management System (SCIGR) consists of internal rules and organisational structures designed to protect the Company's assets, the efficient and effective management of the company, the trustworthiness and accuracy of its financial reporting and, more in general, the compliance with applicable laws and regulations.

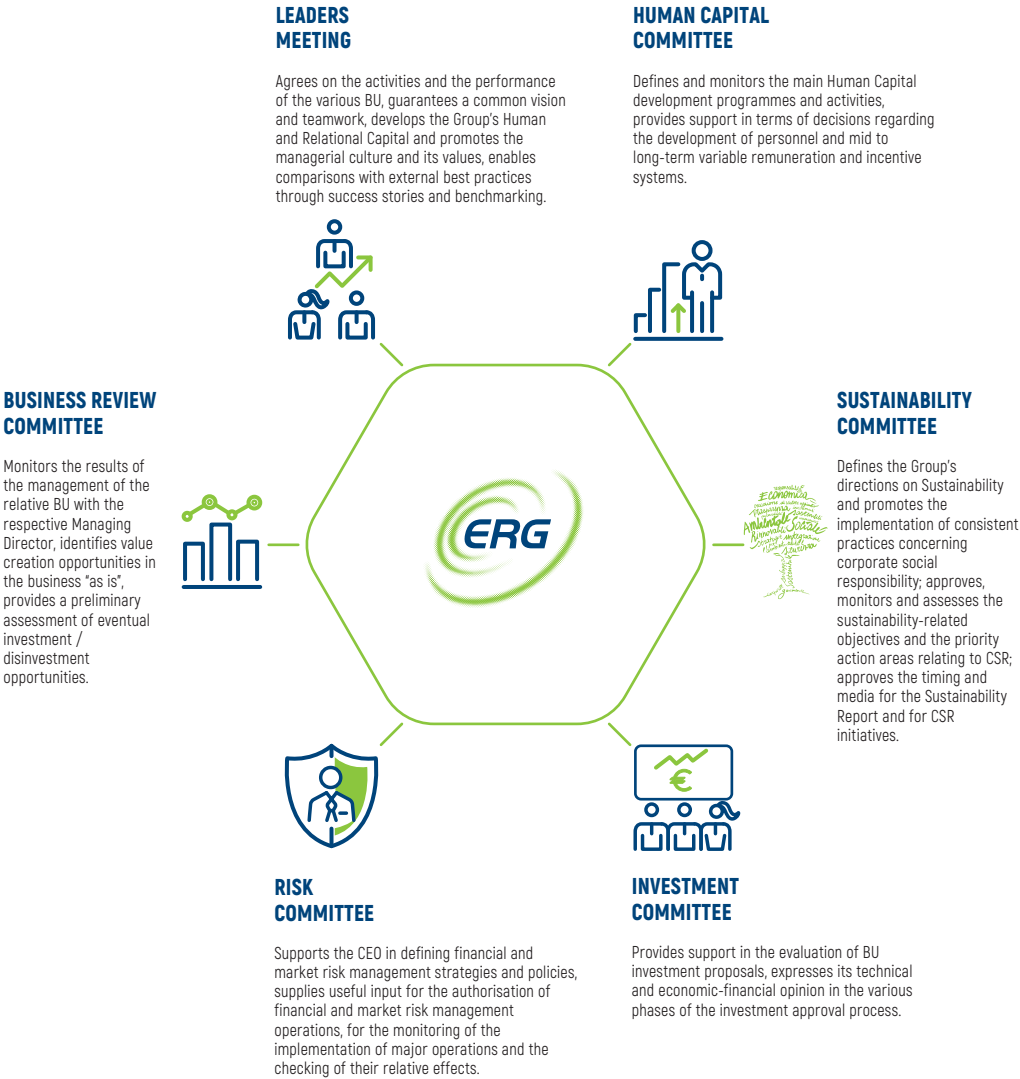
From the perspective of proper risk management and mitigation, senior management has defined a "Risk Management Policy" which relates the risk management process with the business strategy definition processes, assigning objectives to management and resulting in preparing and implementing operational plans.

This has entailed setting up, on one hand, an organisation able to clearly attribute the governance, monitoring and reporting responsibilities, on the other hand to institute an inter-relationship between the Organisational Units and the bodies assigned to carry out risk management and control activities.

More specifically, this Corporate Governance system requires setting up:

- board committees, e.g. the Control and Risk Committee, the Nominations and Remuneration Committee and the Strategic Committee;

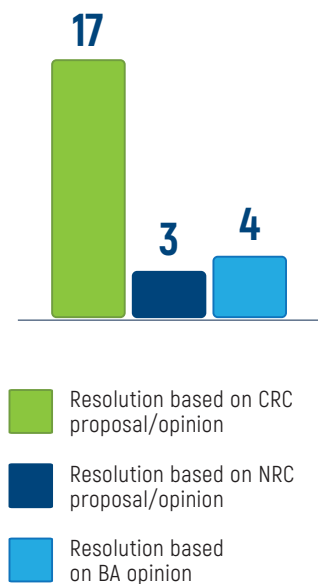
INTERNAL COMMITTEES



- internal Committees, such as the Leaders Meeting, Human Capital Committee, Investment Committee, Risk Committee, Business Review Committee, Sustainability Committee.

In order to exchange opinions and perform useful checks for the Board of Directors to take informed and clearly represented decisions, these committees play a consultative role and provide proposals on the most relevant economic, financial and strategic issues.

During the meetings held in 2016, the Board of Directors adopted 48 resolutions, 24 of which were based on a proposal or opinion provided by the Board Committees.



In addition to this, the committees also define risk assessment methodologies, their identification, rating and control. They also play a consultative role and provide proposals towards the Chief Executive Officer in relation to:

- definition of risk management strategies and policies;

- assessment of the most relevant transactions and analysis of the associated risks;
- monitoring the progress of the most relevant transactions and verification of the enforcement of risk management policies.

THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM: GENERAL PRINCIPLES AND PARTIES INVOLVED

The Internal Control and Risk Management System, as an integral part of the company's business, concerns and hence applies to the entire organisational structure of the Group: from the Boards of Directors of ERG and its Subsidiaries, to the Company's personnel.

According to their skills, as defined by the Internal Control and Risk Management System Guidelines, and the recommendations provided by the Corporate Governance Code, in compliance with the Law, the main parties involved are:

- Board of Directors, which orients and assesses the adequacy of the Internal Control and Risk Management System;
- the Chief Executive Officer, who identifies the main corporate risks;
- the Executive Vice President in charge of the Internal Control and Risk Management System, responsible for verifying the correct functionality and the overall adequacy of the Internal Control and Risk Management System;
- the Control and Risk Committee, tasked with supporting, through an adequate preliminary analysis, the assessments and decisions of the Board of Directors pertaining to the Internal Control and Risk Management System, as well as those pertaining to the approval of periodic financial reports;
- the Chief Internal Audit Officer, in charge of verifying the viability and suitability of the Internal Control and Risk Management System.

The Chief Financial Officer, the Manager responsible for preparing the company's financial reports, the Board of Statutory Auditors, and the Supervisory Committee round out the group of relevant players with specific Internal Control and Risk Management duties.

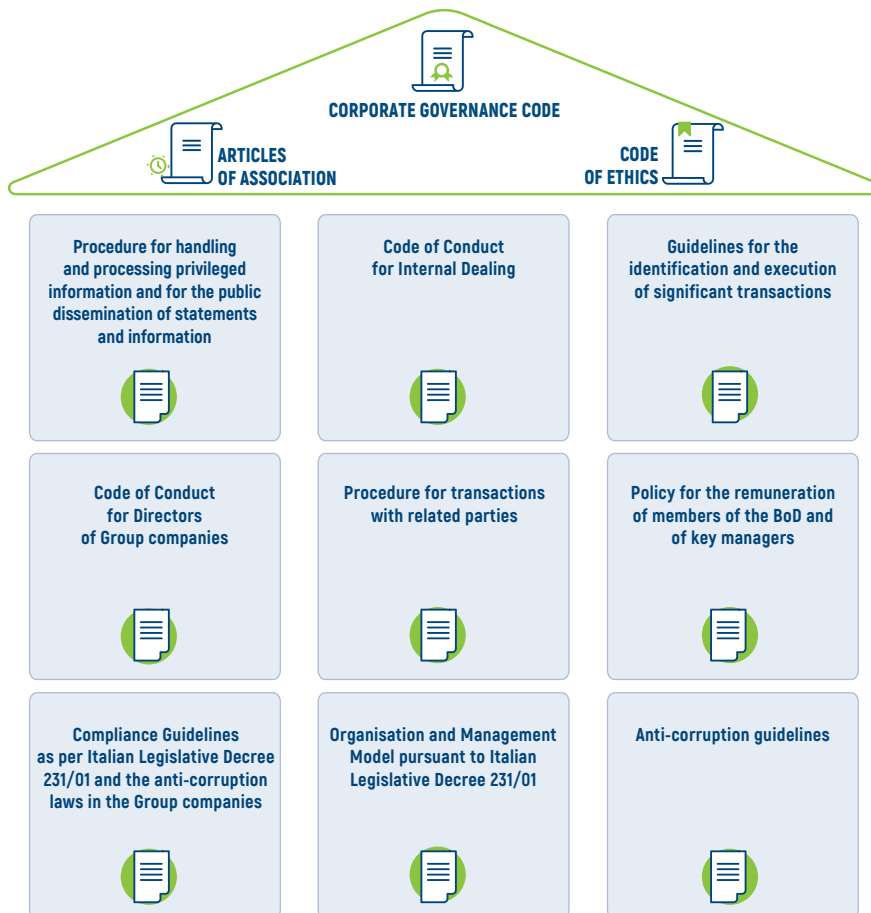
An important role is played by the set of procedures at the basis of our Internal Control and Risk management system, a document-based framework inspired by:

- the Code of Ethics (adopted by all the Companies of the Group in its last edition, published in 2014), which represents the tool to explain the

principles to be respected by all employees and collaborators;

- ERG's Articles of Incorporation, which contain the main operating rules of the corporate bodies;
- the Corporate Governance Code established by the Italian Stock Exchange, which contains recommendations constituting a best practice model for the organisation and the operation of Italian listed companies.

For further information, see the Guidelines of the Internal Control and Risk Management System and Report on Corporate Governance and Shareholdings available on the Group's www.erg.eu website.



ENTERPRISE RISK MANAGEMENT

An adequate and timely risk management is strategically important to protect our activities and our ability to create value for shareholders and all the stakeholders while ensuring long-term business sustainability.

Therefore, the goals of our approach to Integrated Risk Management (RMI), inspired by the International Framework of Reference ERM CoSO (Enterprise Risk Management Committee of Sponsoring Organisations of the Treadway Commission) are:

- obtaining an integrated and dynamic view at a Group level of the main corporate risks, which may affect the achievement of the objectives of the Business Plan;
- strengthening the corporate culture at all levels and the awareness that a correct assessment and risk management positively affects achieving goals, creating value for the company and the medium-long term business sustainability.

To this end, the RMI model is developed by means of:

- identifying and assessing the main risks, which may affect the achievement of the goals set out in the Business Plan, and defining control tools and the necessary strategies to mitigate the risks;
- continuously checking smooth operation and effectiveness of the risk management process.

More specifically, the Integrated Risk Management methodology includes:

- the integration between risk management and corporate strategies and, in particular, the annual "Plan and Budget" process;
- the enhancement of synergies between the Company's Departments and the specific risk assessment functions (e.g. HSE, ICT) to share methodologies and results;
- the introduction of specific quantitative and

qualitative Key Risk Indicators (KRIs) to monitor the state of associated risks in a structured manner.

At an operational level, the Managers - coordinated by the organisational unit Enterprise Risk Management - identify the risks under their responsibility and provide advice to mitigate the risks of current actions/projects. Within the Group, the results of this process are consolidated through risk mapping for integrated management and the definition of priorities.

In the second quarter of 2016, the benchmarking activity on the most important international Groups using the ERM approach helped draw up a standard catalogue of homogeneous risk classes (Risk Universe). The classification of risks according to specific classes made it possible to assess the risks in a more consistent manner, with particular reference to those belonging to the same category, and to provide a more effective and consistent reaction to the different categories.

The **Risk Universe** can also be used:

- in the risk assessment phase, as it is possible to include all areas where risks may be present;
- in the consolidation phase, as it allows to check whether some risk areas have not been analysed/covered and, if need be, to examine them more in depth.

The Risk Universe is periodically updated by the ERM structure, by means of analysis and benchmarking activities, in order to also include emerging risks.

In the third quarter of 2016, we reviewed the "Risk Management Policy", which identifies the risks run by all the Group's activities, allocates the relevant responsibilities (risk owner), defines their suitable management and the monitoring and reporting activities.

This review adapted the document to the new Integrated Risk Management approach and updated some of the risk response strategies to make them more effective in the extremely dynamic context in which the ERG Group operates.

The results of the ERM process are subject to a periodic and structured reporting activity:

- the Management / Chief Executive Officer (CEO) / Chief Financial Officer (CFO) assess the appropriateness of the risk profile in relation to the goals set and the actions taken to mitigate the risks;

- the Board Committees are tasked with the assessment of the overall effectiveness of the Integrated Risk Management process.

More specifically, the main risks run by the ERG Group are listed in the "Risk and Uncertainties" chapter of the Report on Operations.

A brief description of the main risks identified in the ERM process follows.

RISK	DESCRIPTION	MANAGEMENT STRATEGY IMPLEMENTED BY THE ERG GROUP
1 - Natural variability of renewable sources	The production volumes are subject to variability due to the natural mutability of renewable sources (water and wind), which may negatively affect the production by renewable energy plants.	<ul style="list-style-type: none"> Technological and geographical diversification of renewable energy plants. Scheduling the plant downtime according to the periods when renewable sources' contribution is lower. Use of accurate forecasting systems to draw up a plan for production and short-term operational activities.
2 - Price Risk	Risk caused by the volatility of the market price of commodities (EE/Gas in particular), which may significantly affect the Group's results.	<ul style="list-style-type: none"> Definition of exposition and monitoring limits. Use of financial instruments to cover the price risk, if this exists. Contractualisation of indexed sales formulas, if possible, to transfer risks to customers.
3 - Regulatory modifications	Possible regulatory modifications in the Countries where the Group operates, which may negatively affect achieving business objectives.	<ul style="list-style-type: none"> Regulatory monitoring through institutional relations, association channels, comparison with operators of the sector, specialised press. Active participation in the consultations to protect the Group's interests. Sensitivity Analysis to assess the effect of the main regulatory evolutions on the Group's results.
4 - Breach of the Covenants on Corporate funding	Risk due to the possibility of not respecting the covenant obligations of the corporate financing agreements.	<ul style="list-style-type: none"> Thorough assessment of each investment initiative and check of their sustainability with reference to the impacts on the covenant. Monitoring the expected and final results and the main financial risks, which may directly or indirectly affect the covenant.
5 - Failure to protect the reputational capital	Internal/external events which may negatively affect the reputation of the ERG Group (amongst the different factors: the financial performance, Ethics and Integrity, Social Responsibility, HSE Policies, ICT Security, crisis management, etc.).	<ul style="list-style-type: none"> Specific communication and information activities to maintain a high level of the Group's reputation by stakeholders, which also includes a structured process of Corporate Social Responsibility with specific social responsibility initiatives and dissemination of the Sustainability Report. Active relationships with all the main stakeholder and media and monitoring of the perception by the stakeholders. Structured process of Reputational Crisis Management, which allows to timely manage and limit the effects of the crisis, in order to protect the reputation of the ERG Group.
6 - Business risks and HSE	Risks due to the malfunctioning of plants, which may cause problems in production processes and/or negatively affect HSE.	<ul style="list-style-type: none"> Implementation of a Business Continuity Management process guaranteeing the correct maintenance of production assets, by means of specific risk assessment activities, business impact analysis. adoption of certified Management systems (ISO 14001 and OHSAS 18001) and continuous training for all the staff performing activities inside the plants. Specific coverage levels for business interruption, property damage and accidents to the personnel.

ANTI-CORRUPTION: ONE OF THE GROUP'S FUNDAMENTAL PRINCIPLES

ANTICORRUPTION GOVERNANCE IN ITALY AND ABROAD

We have chosen to conduct our business according to the highest national and international Corporate Governance standards: we are therefore committed to apply and rigorously respect the principles of lawfulness, integrity, impartiality and transparency. These principles are even more important when we must deal in practical terms with the problem of corruption. This is a global phenomenon, which irreparably destroys the integrity of companies, both public and private, and against which national and supranational institutions increasingly concentrate their preventive and repressive efforts.

Amongst the Anti-corruption tools, the Model 231 (for companies under Italian law) and the Anti-corruption Guidelines (for companies under foreign laws) are the most important; both documents were drafted according to the guidelines of the Group's Code of Ethics.

In 2016, in view of the Group's increasing operations abroad and the growing need to prevent corruption, we carried out a study on the anti-corruption regulations applied in the countries of interest, to assess the advisability of improving our current Anti-corruption Guidelines.

In 2017, we will carry out a new risk assessment to update the activities performed by the companies that do business abroad, and which expose them to corruption risk and on that basis we will consider changes and/or additions to the above-mentioned Guidelines. After completing the analysis, we will set up specific training for our personnel.

MODEL 231 AND ANTI-CORRUPTION GUIDELINES

The principles of this Model are based on our Code of Ethics and ensure that our day-to-day business is managed in a correct, transparent and traceable manner.

The general part:

- defines the overall structure of the Model in relation to the content of the decree and the specific aspects of the company's business;
- describes the offences and sanctions set out in the decree;
- identifies the Supervisory Committee of the Company and defines its responsibilities and powers;
- defines the training and information activities and the system of sanctions to be applied in case of violations.

The special part defines the rules to be followed in the context of the sensitive activities carried out.

The Supervisory Committee is tasked with overseeing the observance of the Code of Ethics and guaranteeing the implementation of the Model (for example by implementing specific information flows and on the basis of the outcome of Model 231 and audit monitoring programmes), as well as identifying the need for subsequent updates.

In this context, during 2016, ERG Hydro (the owner of hydroelectric assets) adopted its Model 231 and the Models 231 of some of the Group's companies were updated, also in order to simplify their structure and make it easier for the risk owners to apply them and comply with them.

THE CODE OF ETHICS

The Code of Ethics contains all of the values that guide our Group's business and acts as a tool to encourage all employees and associates to respect the highest standards of transparency and honesty when carrying out their roles, and is binding for all those who work within the Group (directors, employees, suppliers and third parties in general). It was adopted in 2004 and then updated - most recently in May 2014 - to take into account all new regulations and business provisions.

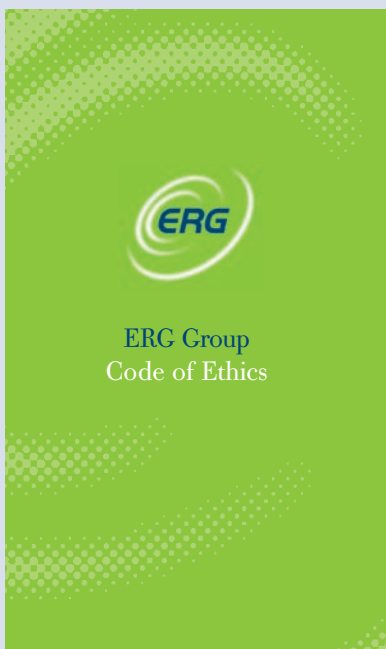
This document is a fundamental element and an integral part of the Model 231 and was adopted by all the governing bodies of the Group's companies, both in Italy and abroad.

In order to guarantee that all those who work with the Group respect the same principles and behaviours, we disseminate the Code of Ethics with third parties, so as to work under the same supply contract clauses. The Code of Ethics is available on our website (www.erg.eu) in Italian, English, French and German.

Employees, newly-recruited ones in particular, must attend an e-learning course on the Code of Ethics and relevant behavioural principles.

To further emphasise how all aspects of our business are carried out in strict compliance with national and international laws and regulations, that concern, among others, anti-corruption matters, and as further proof of our respect for the values stated above, we decided to adopt Anti-Corruption Guidelines, in addition to our Code of Ethics.

Whereas for all the Group's companies under Italian law, Model 231 also concerns the checks done to prevent corrupt behaviour, those same checks are contained in the Anti-corruption Guidelines that all our companies under foreign law must adopt.



ERG GROUP'S PRINCIPLES AND INTERNATIONAL DEVELOPMENT

As a result of the continuous international development of ERG Group, we felt that it was necessary to simplify the communication of the Group's principles to companies abroad and to local counterparties: our Code of Ethics was therefore translated into English, German and French and all our foreign companies have adopted it. The Model 231, instead, has been translated into English and then posted on the Group's website www.erg.eu. All our companies under foreign law have also endorsed the Anti-corruption Guidelines issued by ERG, that reflect the principles of conduct, in line with what is already covered on those issues by Model 231. In particular, the management of ERG's business activities must comply with the principles of conduct that apply to:

- the separation of duties;
- the transparency and traceability of processes;
- the training of employees;
- the allocation of powers;
- the appropriateness of internal rules;
- job rotation.

The above-mentioned behavioural principles apply to all activities performed, in particular in the following areas:

- gifts and representation expenses;
- sponsorships and event funding;
- management of financial resources;
- staff recruiting;
- donations;
- purchase of goods and services, consultancies and services;
- sales;
- selection of business partners.

PROCEDURES TO PROTECT MINORITY SHAREHOLDERS

The Group's main procedures for the protection of minority shareholders are summarised below.

Code of Conduct for Internal Dealing

The Code aims to ensure transparent financial transactions carried out by relevant persons, namely those persons who, by virtue of their roles within the Group, have significant decision-making powers or considerable knowledge of corporate strategies.

Guidelines for the identification and execution of significant transactions

The Guidelines set out the criteria to be used to identify the most significant transactions, consisting of quantitative and qualitative criteria and criteria deriving from the

specific requirements of the parties involved (related-party transactions and intra-group transactions).

The document also sets out the behavioural principles to be followed to carry out the above-mentioned operations.

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

The procedure for handling and processing privileged information and for public dissemination of statements and information aims at ensuring that all statements and information intended for the market are the outcome of an accretion process that ensures that it is both timely and accurate. It defines the tasks and responsibilities of the functions involved, identifies the criteria, methods and

timing of the various procedural stages, and establishes the appropriate decision-making levels for disseminating the statements and information. For further details, see the Corporate Governance Report, available on the www.erg.eu website.

SUPERVISORY COMMITTEE AND REPORTING

The Supervisory Committee (SC) required by Legislative Decree 231 is vested with independent powers to act and monitor, on the respect and updating of the Organisation and Management Model and the Code of Ethics. Specifically, the Supervisory Committee of ERG S.p.A. consists of 3 members, of whom one is an external member and two are members from within the Company (of which one is the head of Internal Audit). The Supervisory Committee is chaired by the external member, who is chosen among individuals that can contribute their specific legal, economic, financial or technical experience. The presence of an external member and of the head of Internal Audit ensures the Supervisory Committee's effective independence from the corporate hierarchy. When the Board of Directors appoints the SC, it must provide the grounds of the independence, autonomy, the reputation and professionalism of

its members. The term of office of its members is no more than three years; the SC's term expires in any case when the term of the Board of Directors that has nominated the Committee expires, and its members can be confirmed in their positions.

The Subsidiaries under Italian Law, that are directly or indirectly controlled by ERG S.p.A. also have their own SCs.

The compliance activities of the Supervisory Committees, and the Law 231 Compliance structure that supports it, abide by the Confindustria Guidelines and by the recommendations of the Supervisory Committee Association that, by issuing position papers, provides methodological guidelines and best practices.

Each Supervisory Committee has its own email address, set up to receive any reports from both inside and outside the organisation. Such reports may include, without limitation, violations of the Code of Ethics, of the Model 231 or of the internal procedures on topics related to controls that are relevant to the prevention of the offences covered by the decree. The Supervisory Committee must keep confidential all reports received and protect the reporting party against any possible retaliation.

TRAINING ON MODEL 231

In 2016, we implemented on-line training for newly-recruited staff, focusing on the Code of Ethics and the Model 231 adopted by the Company to which they belong. Both training modules include a final test which must be passed.

In 2016, we organised training sessions on the Code of Ethics and on the 231 compliance issues for all the hydroelectric business personnel (approx. 110 people, managers included). The training programme included a final test.

2 ECONOMIC RESPONSIBILITY

The creation of sustainable value added over time is possible thanks to a series of actions aimed at improving our way of doing business, transforming them into a competitive advantage.

Improving processes, technology and business practices for increasingly reliable and high-performance plants.

An eye on technological innovation to prepare our path towards the future.



748 EUR million
ECONOMIC VALUE DISTRIBUTED

2,728 MW
GROUP TOTAL INSTALLED CAPACITY

7,552 GWh
OF ELECTRICITY PRODUCED

88%
INVESTED CAPITAL
IN PLANTS FEEDED WITH
RENEWABLE SOURCES

ECONOMIC VALUE GENERATED AND DISTRIBUTED

REPLACEMENT COST (MILLIONS OF EURO)

	2016	2015	2014
Production value	1,041	958	3,957
Economic value distributed	(748)	(759)	(3,708)
Production costs	(463)	(484)	(3,292)
Compensation of personnel	(76)	(71)	(129)
Compensation of public administration	(39)	(44)	(97)
Compensation of debt capital ⁽¹⁾	(97)	(87)	(96)
Compensation of risk capital ⁽²⁾	(71)	(71)	(93)
Compensation for the community	(1)	(1)	(1)
Economic value withheld by the Group	293	199	249
Amortisation and depreciation	254	171	242
Compensation of the company	39	28	7

(1) Interest paid and other financial charges to service debt.

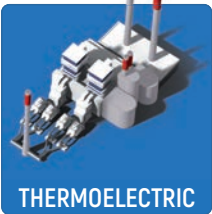
(2) Overall dividends distributed by the Group.

	2016	2015	2014
Net value added	1,041	958	3,957
Production costs	(463)	(484)	(3,292)
Compensation of personnel	(76)	(71)	(129)
Compensation of public administration	(39)	(44)	(97)
Compensation of debt capital	(97)	(87)	(96)
Compensation for the community	(1)	(1)	(1)
Amortisation and depreciation	(254)	(171)	(242)
Result before third party interests	110	99	101
Result of third party shareholders	(3)	(3)	(25)
Net Group result	107	96	76

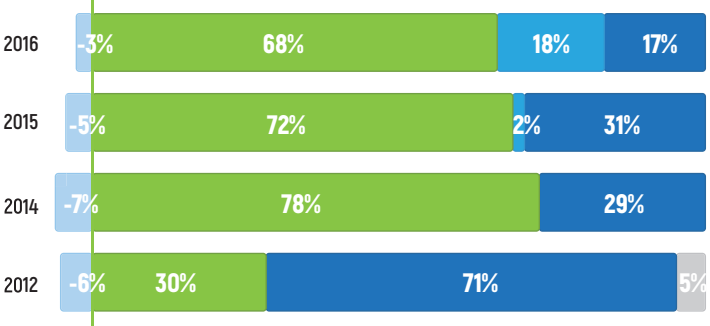
ERG AND ECONOMIC RESPONSIBILITY

ERG's growth strategy is strongly oriented towards renewable energy sources, with particular focus on wind and hydroelectric power. Our main goal is the creation of value that is sustainable over time, by growing our profitability and carefully balancing our production portfolio.

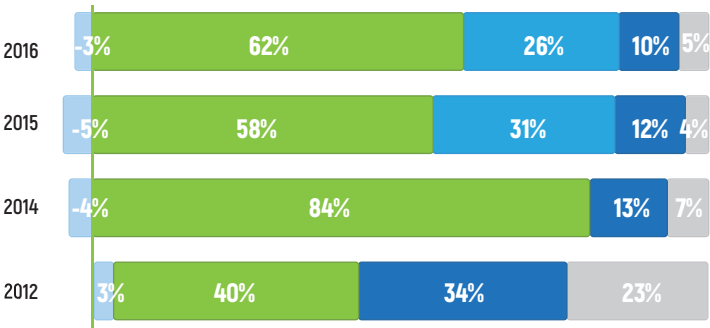
KEY ECONOMIC INDICATORS



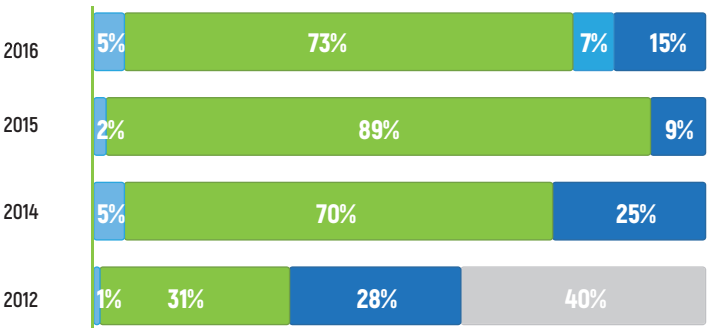
EBITDA



INVESTED CAPITAL

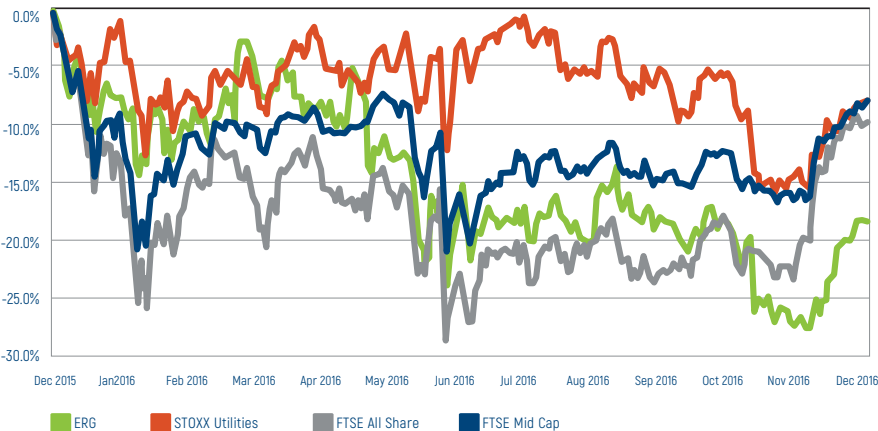


INVESTMENTS IN THE YEAR

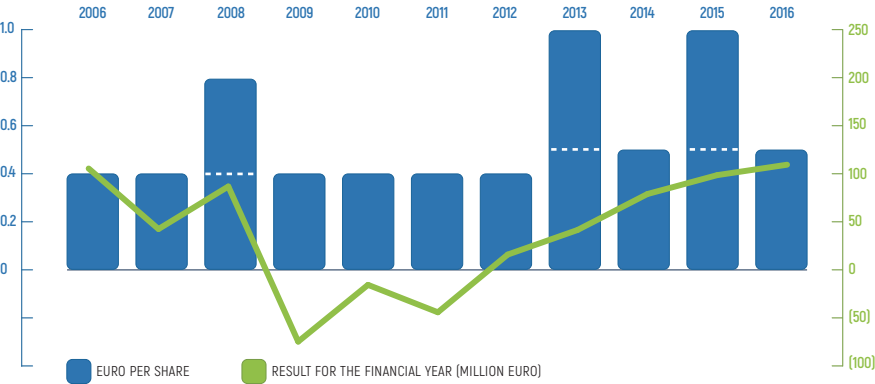


ERG'S STOCK MARKET PERFORMANCE

ERG VS. EURO STOXX UTILITIES, FTSE ALL SHARE AND FTSE MID CAP
CHANGE % FROM 31/12/2015 TO 30/12/2016



SHAREHOLDER COMPENSATION IN COMPARISON WITH ANNUAL FINANCIAL RESULTS



SHAREHOLDER COMPENSATION

Our Group has always maintained a careful asset management policy in order to guarantee the long-term continuity of the company. An analysis of the financial results over the years and related distributed dividends provides further evidence of the success of this approach.

In recent years, ERG has been able to satisfactorily remunerate the capital invested by its shareholders. In 2016, an ordinary dividend of € 0.50 per share was paid out.

ERG GROUP'S PLANTS

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	Installed capacity in MW	Production in GWh			Wind farm load factor ⁽¹⁾ technical availability thermal power plants			Regime/ Allocations CO ₂
		2016	2015	2014	2016	2015	2014	
WIND								
Campania	247	503	414	453	23%	20%	22%	Green certificates
Calabria	120	256	240	249	24%	23%	24%	Green certificates
Apulia	249	529	472	502	24%	22%	23%	Green certificates + CIP 6
Molise	79	167	155	163	24%	22%	23%	Green certificates
Basilicata	89	190	164	173	24%	21%	22%	Green certificates
Sicily	198	342	274	313	20%	16%	18%	Green certificates
Sardinia	111	233	192	198	24%	20%	20%	Green certificates
Other	2	-	-	-	n.a.	n.a.	n.a.	Green certificates
Total Italy	1,095	2,220	1,910	2,051	23%	20%	22%	
Germany	168	240	156	144	16%	21%	19%	Feed-in tariff
France	252	499	206	122	23%	24%	22%	Feed-in tariff
Poland	82	213	68	-	30%	37%	-	Certificates of Origin
Bulgaria	54	148	74	67	31%	31%	28%	Feed-in tariff
Romania	70	181	201	196	29%	30%	29%	Green certificates
Total Overseas	626	1,281	705	529	23%	26%	22%	
Total Wind	1,721	3,501	2,614	2,580	23%	21%	22%	
HYDRO								
ERG Hydro	527	1,358	84	-	-	-	-	Green certificates (for 40% of production)
POWER								
ERG Power	480	2,693	2,632	2,623	92.5%	92.5%	92.4%	(2)
ISAB Energy ⁽³⁾	-	-	-	2,042			-	-
Total thermoelectric	480	2,693	2,632	4,665				
Total electricity production		7,552	5,330	7,245				

¹ The total value is calculated based on the actual production values in relation to the theoretical maximum production values (calculated taking into account the actual commissioning of each individual wind farm).

² ERG Power does not have any free CO₂ allowances under the EU-ETS regulation.

³ ISAB Energy's plant was sold on 30 June 2014.

IN-SOURCING OF MAINTENANCE

One of the actions defined by ERG Group's Strategic Plan for 2015-2018 is focused on the gradual in-sourcing of maintenance activities in the wind power sector, while expanding our skills on the technologies we deal with (the different brands and types of turbines in our portfolio) and the scope of activities (the range of maintenance operation that we are able to perform).

In-sourcing lets us optimise our maintenance activities and is actually fostering a greater "machine availability" (number of hours the machine is active and capable of producing) and a greater production.

Thanks to the Sustainability Report, over the past years we have described the expansion of our know-how, and the tools and processes that we implemented and coordinated.

All these actions help us plan maintenance interventions more efficiently, taking into account expected wind conditions (so that we can work when the machine would in any case be stopped due to lack of wind), and be more

effective and rapid in performing the jobs, thanks to our planning models.

The main indicator to measure the effectiveness of our approach to maintenance management is the "energy-based technical availability", i.e. the percentage of time, on an annual basis, when the turbine is ready to produce and conditions are suitable for production: we started the in-sourcing process in 2014 and after three years, in late 2016, we can boast an increase of 2% in this indicator if compared with the past when third-party companies were tasked with the maintenance, its value being 98%.

MAINTENANCE OF WIND ENERGY PLANTS

The 2015 Report also describes how our approach to turbine maintenance has changed over time: from a "maintenance on breakdown" after sudden stops, to "predictive maintenance" under which servicing is scheduled according to the signals collected by prediction systems rather than being triggered by failures.

Predictive maintenance, together with ordinary scheduled maintenance, has significantly strengthened our approach, as it seeks to identify faults at their origins, thus making it possible to schedule operations well in advance.



One of the most effective tools used to implement this approach is the CMS (Condition Monitoring System), a set of sensors installed on the power train of the turbine (generator and gearbox), the part which is the most subject to wear.

It helps the monitoring departments to promptly identify upcoming problems and prepare corrective measures in advance, thus avoiding propagation to other parts, long downtimes

and disassembly, re-assembly and transport of components for repair.

We identified a set of maintenance activities to be carried out independently up-tower (directly in the nacelle "on top of the tower"), so as to decrease downtime, management and handling costs and waste (as the only machine parts to be disposed of are those actually broken).

These operations are mainly focused on components of the gearbox, generator, blades and slewing rings (the geared bearing fitted on the tower which allows the nacelle to rotate thanks to geared motors).

In cooperation with the Companies producing these components, our operators have attended specific technical training sessions, so as to be able to manage maintenance activities to the best.

SLEWING RING MAINTENANCE

When a section of a slewing ring has damaged teeth that prevent the nacelle from rotating, it must be repaired, installing a replacement section to restore the continuity of the gear's teeth.

The previous method used to handle similar cases, involved completely replacing the slewing

TRAINING COURSES FOR THE MAINTENANCE STAFF

The professionalism of our maintenance staff guarantees we operate safely and implement the best practices of the sector. To ensure this approach is applied, we prepared a specific training programme, in accordance with the European Regulation on "Maintenance staff qualifications".

Approx. 5,500 hours of (specialised and general) technical training will be delivered to all our maintenance staff. They will be certified as "maintenance specialists" during the 2017-2018 period.

ring; it required dismantle blades and nacelle before replacing it.

Our new maintenance technique significantly reduces the downtime needed (from several weeks to just a few days) and the maintenance costs, since cranes and lifting devices are no longer needed to completely dismantle the turbine, and the only part to be disposed of is the damaged slewing ring section.



BLADE MAINTENANCE

A specialised team is in charge of blade maintenance: blades are periodically inspected and any damage identified on their surface is classified on a 5 level scale. The priority of maintenance interventions is defined according to the different damage severity levels, in compliance with corporate standards which are based on specific know-how.

In general, activities deal with the repair of

possible damage on the surface, caused by wear or lightning.

These maintenance operations are usually performed with the blade installed and involve repairing the surface using gel-coated fibreglass, so as to fully restore the fluid-dynamic efficiency. In case of serious damage, the blades must be dismantled, removed and repaired at a workshop, using specific equipment.



THE CENTRALISATION OF LOGISTICS

Having in-sourced maintenance requires that we carefully manage spare part stocks, to ensure that main components are rapidly available.

This is why we carried out a study to optimise the model of our Logistic Network, where the main variables are the extension of internally-managed farms, the rationalisation of transport time and the proximity to on-site activities.

The analysis made it clear that we needed to

build two storage facilities: a logistics centre for the main components (spare parts with a low rotation index and whose size and weight require special handling equipment) and a new spare part warehouse located so as to cover an area of sites which are now being supplied by operational centres located outside our usual field of action.

For the storage of main components, we chose a new warehouse near Catanzaro as it is located in

a pivotal position with respect to our Italian wind farms and near some important infrastructures for transport by land, air and sea (Gioia Tauro harbour).

The new logistics centre stores the materials needed for the maintenance activities scheduled for the nearest plants, but also the main components for turbines and substations with a low rotation index or with a rather high handling index, but which are stored in the same

warehouse for different reasons, in Italy or abroad.

The second warehouse, located in Vallata (near Avellino), no farther than 25-30 km from the plants, was supplied with all the fast-rotation spare parts and consumables for all the nearby plants: 132 turbines for a total of 114 MW.

This centre provides ample space, such as training rooms for the staff in charge of maintenance.



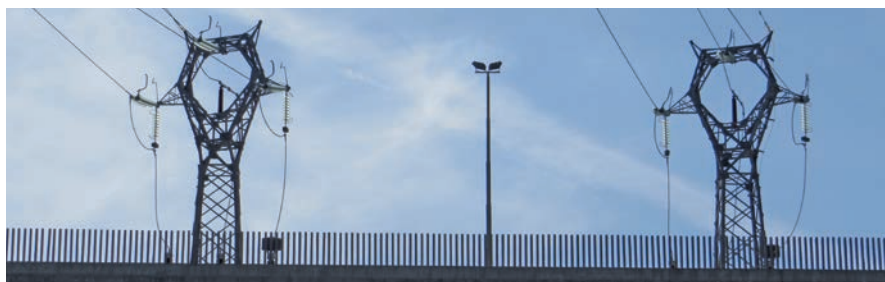
MANAGEMENT OF NETWORK LIMITATIONS

In our 2015 Sustainability Report, we described our process to renew, computerise and unify the technologies in the control rooms of our wind farms in Carlentini (Siracusa) and Montefalcone (Avellino). We installed a SCADA 2 system in these offices, which allows us to remotely monitor and manage all the turbines in our wind farms in Italy. Since the beginning of 2016, thanks to real-time monitoring performed by a single system, we completely in-sourced the management of dispatching orders sent by Terna (RTN). Dispatching orders are operational instructions given by the Transmission Network Operator, which set out rules or limitations for the production of electricity, in order to balance the network balancing producers' intake and users' consumption.

The objective of the "centralised" management is to improve our reliability index, the parameter that expresses how closely each operator executed the dispatching orders. The index goes from 0, for a poor performance, to 1, for an excellent performance, with a minimum acceptability threshold of 0.6. This indicator depends on several variables: the index is 1 when the limitation is applied within 15 minutes from the request and the power limit is respected. After this time limit, it decreases rapidly and reaches

0 if the time exceeds 30 minutes. The algorithm which determines the score is designed to attribute a significantly negative impact for poor performance and a lower positive impact for good performance, thus making "recovery" quite demanding. Abiding by these limits may seem easy, but it is possible only if the operator reacts promptly and no technical problems occur: this ideal situation is quite difficult to maintain and repeat regularly. Over ten months of centralised activity, the maximum reliability index was reached for 25 production units (twice compared to the initial situation), with an average increase of 23% of the indicator value for 36 production units. A number of technological and professional factors contributed to achieving this target.

The largest investments were used to develop specific software (to stop and restart all the wind turbines of a production unit by activating a single control) and to install and commission one or more back-up tools, in the case of temporary unavailability of the main one. From a professional point of view, the commitment of the control room's operational staff was important, since they are in charge of the management of all the wind farms; they played a significant role in the analysis of events and the identification of corrective actions.



THE CMS SYSTEM (CONDITION MONITORING SYSTEM) – A REAL CASE

The integration of Operation & Maintenance interventions on our turbines implies operation and repair activities, but also the in-sourcing of monitoring and the identification of reasons why faults occurred, so as to prevent them.

At the end of 2016, ERG has 240 systems installed in the largest turbines in Italy and France (i.e. the "multimegawatt" units), which allow to constantly monitor the drive-train operation, to avoid sudden failures and downtime, thus increasing the availability of our plants.

In 2015, we started the deployment, with 110 systems. After having monitored them for more than one year, we can state: "It works and we can prove it!".

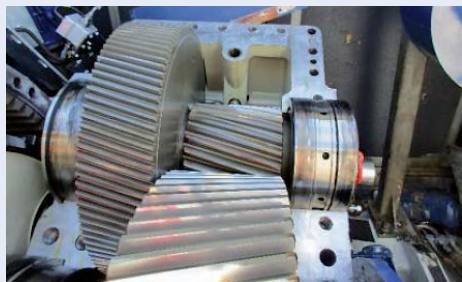
The first alarm rang in January 2016, when a lubricant particle counter fitted on a gearbox started to record an increasing trend (indicating slight damage to the gearbox).

In March 2016, the increase in the particle counter values and in the vibrations recorded by the CMS installed on the gearbox intermediate stage clearly showed that the intermediate shaft was damaged.

The availability of this data led to the decision to perform an on-site measurement of the damage level of the component, to choose the most suitable repair method (by fully replacing the part using a crane or by performing the maintenance directly inside the turbine).



The visual assessment was made using an endoscope fitted with optical fibre and a camera: one of the gear teeth on the secondary shaft of the rotor was damaged, while the bearings were in good conditions. After the inspection, we sourced the spare part needed and then performed the repair up-tower, thus reducing the costs by 80%.



MAINTENANCE OF WIND FARMS ABROAD

In 2015 and 2016, our geographical diversification strategy led to a rapid and significant growth in the number of our wind farms abroad. ERG's current portfolio abroad includes 317 WTG for a total of 625 MW of installed power.

In detail:

- France: 123 turbines - 252 MW installed;
- Germany: 91 turbines - 168 MW installed;
- Romania: 35 turbines - 70 MW installed;
- Bulgaria: 27 turbines - 54 MW installed;
- Poland: 41 turbines - 82 MW installed.

PLANT MANAGEMENT SYSTEMS

To be able to monitor the performance of our foreign assets, in line with what we did in Italy, we integrated our entire fleet - from several countries and using different technologies - using a specific remote management IT tool: Level 2 SCADA.

Level 2 SCADA receives the data from Level 1

SCADA in each wind farm and shows the status of the turbines almost in real time. The system is updated with frequencies that vary according to the connection with each wind farm and the turbine technology used. However, it is always updated several times a day.

The data is recorded, thus making it possible to monitor the most important variables, to record the alarms detected on the turbines and to carry out statistical analysis, which is essential to identify recurrent problems on the turbines.

In July 2016, the Scada 2 system started operation at wind farms abroad and we completed installation at all farms by the end of the year. In 2017, the consolidation of the system will allow us to rationalise analysis and monitoring and to calculate new KPIs (e.g. energy loss caused by downtime) and, more generally, to adopt a more consistent approach to all our wind energy assets abroad.

OUR TECHNICIANS' KNOW-HOW LETS US IN-SOURCE PRE-DELIVERY AUDITS

Before we take charge of maintenance activities, accepting them to be handed over from the manufacturer, a technical assessment of the plants must be made, to make sure their conditions meet the criteria set out in the contract.

In 2016, we in-sourced the maintenance of 7 wind farms in France (for a total of 33 turbines): at that time, our technical managers and the manufacturer carried out inspections to define and agree upon the detailed conditions of the equipment for counterclaim purposes.

We also performed the same activity in three wind farms in Italy, where in-sourcing operations had started in October.

By analysing the data, discussing it internally and sharing experience, we are now able to promptly tackle common problems and find solutions and improvements.

This will increase the availability and productivity of the equipment.

of problems are not enough to improve the reliability of our plants. In 2016, we consolidated our presence in France and Germany by recruiting specialised local personnel and setting up logistics centres located near our plants.

OUR GROWTH ABROAD

A good technical knowledge of turbines and the availability of IT tools to identify the causes

MAINTENANCE TIME: CASES AND EXPERIENCES LEADING TO MAINTENANCE 4.0

The headquarters of Naples' Unione Industriali hosted a conference on industrial maintenance, which is more and more characterised by the digital component. The conference also addressed the strategies leading to maintenance 4.0 in order to improve the safety and efficiency of manufacturing activities.

Representing the energy sector, we spoke about the in-sourcing process for our wind power asset, from turbines to substations. We also explained how we succeeded in managing maintenance in-house, thus obtaining substantial economic benefits as well as improvements in terms of availability, sustainability, reliability and maintenance of our assets.

We focus on training our technical staff through continuous training courses and through the use of technologies that are strongly characterised by control and monitoring instruments such as CMS (Condition Monitoring System) and "SCADA 2": these tools support effective supervision of in-sourced systems.

Lastly, another crucial element is the sound partnership developed with the turbine manufacturers. Since we started this project, we have managed to increase the availability of our systems, which is the first confirmation of the effectiveness of our strategy. In-sourcing means directly controlling assets as well as having the right levers to develop know-how thus improving the systems efficiency, reliability and their life cycle.

VI EDIZIONE
iMAINTENANCE TIME!
**CASI ED ESPERIENZE PER
COSTRUIRE LA MANUTENZIONE 4.0**
23 Novembre 2016
ore 9.00 - 17.00
Unione Industriali Napoli
Piazza dei Martiri, 58, 80121 Napoli
Per la registrazione all'evento maintenancetime.it/academy.com

POWER MAINTENANCE

ERG POWER'S GENERAL SHUTDOWN

From 22 April to 20 May 2016, we performed extraordinary maintenance on module 2 of ERG Power's CCGT (Combined Cycle Gas Turbine). Together with the work that took place in 2015 for the first power train, this activity completed the CCGT's first multi-annual maintenance cycle. The 2016 shutdown was the second most important shutdown in the system's history (the first one was for the first power train and is described in the 2015 sustainability report). It was scheduled to be done after 48,000 hours of operation and consisted in the maintenance of all the systems as well as in the opening and overhaul of the turbine (the so-called Major Overhaul).

Shutdown activities consisted in the complete inspection of the main components of the system, especially:

- gas turbines: the machines were opened, burners were replaced, the rotor was taken out and the turbine blades were checked.
- generator: the rotor was taken out and checks and electrical tests were performed on its windings;
- steam turbines: the housings were opened and the control equipment and the lubrication and cooling systems were checked;
- balance of plant (plant's general systems): inspections and maintenance of electrical and fire-fighting systems.

Over 1,300 operations were performed. They involved over 200 people. Thanks to the experience acquired during the first shutdown, we managed to optimise the process. Thus, the whole module returned to operation three days earlier than scheduled.



EFFICIENCY IMPROVEMENT OF THE CCGT'S CONNECTION TO THE NATIONAL POWER TRANSMISSION GRID

ERG Power's CCGT system produces electricity to be sold on the market. Part of such electricity is used to feed the plants located in the multi-company site of Priolo where the plant is located.

Electricity is transported through a transmission, conversion and control system that conveys the electricity produced to its users.

Over the years, due to changes to the plant and to the changes to the assets of the plants of the clients in the Site, we have identified the possibility to make some changes to the high voltage internal network configuration in order to improve the stability conditions of the site transmission system.

Currently, the distribution network is connected to the National Transmission Grid (NTG) on two voltage levels, 150 kV and 380 kV.

In the project, which we have developed over two years and which will soon be implemented, we focussed on a new configuration of the system that involves a complete electrical integration as well as a single connection to the NTG through the 380 kV connection, thus eliminating the two different voltage levels and the two different accesses to the national network.

Thanks to the technical/electronic management of possible detachments from the national network, this system is able to feed all the users of the site, thus limiting the impacts exclusively to the production destined to the high voltage network.



ERG AND OPEN INNOVATION

In the current phase of transformation of the energy sector, research and development play an increasingly important role. With this in mind, in 2016 our Group decided to embrace the innovation created by the world of start-ups.

The goal is to find solutions that facilitate both the management and the operability of our assets. We want to be ready to welcome disruptive ideas that can offer us a competitive advantage over our competitors in the energy sector.

It is the so-called open innovation: outsourcing technological innovation offers the company specialist skills that have already been developed by other young companies. Thanks to technological, commercial and/or financial partnerships, we can develop the most interesting solutions.

During 2016, we created two projects that are both different and complementary:

- the XEI (eXtended Enterprise Innovation) project, mainly focussed on international start-ups;
- the ERG Re-generation Challenge project, focussed on developing entrepreneurial ideas to be implemented in the Terni region.

XEI [EXTENDED ENTERPRISE INNOVATION]

Promoted by SAFM, the Scuola di Alta Formazione al Management (established by

the Garrone Foundation, Pirelli Foundation, Agnelli Foundation, Association du Collège des Ingénieurs of Paris) with headquarters in Turin, Paris, Munich and Tel Aviv, XEI is an international project that aims at keeping well-established European companies and innovative "market-ready" start-ups in touch.

Europe and Israel, which in terms of innovative entrepreneurial initiatives is second only to the Silicon Valley, are the two main scouting areas for start-ups participating in the project.

Thanks to the activities implemented during the year, we had the chance to meet about 50 start-ups. They all suggested innovative solutions for the whole energetic value chain: out of these, nine got to meet our Business supervisors for further assessment.

Out of nine, two were selected to evaluate the possibility to develop a trial phase and to verify the actual value of their proposed solutions.

The first start-up developed a structural monitoring system for wind turbines based on the use of optic-fibre sensors. The second implemented a web platform that allows end-users to source their supplies from the producers of renewable energy located on their territory.

At the end of the trial stage, we will assess the possibility to develop a stable commercial and technological relationship with the selected start-ups.

The project is divided into three annual cycles characterised by the repetition of scouting, selection and trial activities for each year.



ERG RE-GENERATION CHALLENGE

The project, which is part of the broader project "Terni Urban Re-Generation" developed by the Terni municipality for the redevelopment of the urban area, was designed to offer students, start-uppers and companies the chance to develop entrepreneurial initiatives in the Terni area in the fields of Energy saving, Infrastructure, Renewable energy, Smart grid, Green economy, Social innovation and Sharing economy.

ERG Re-Generation Challenge started in October 2016 and is divided into three stages: projects selection, training, awarding.

During the selection stage, a team of experts selected 40 start-ups collecting their ideas in

Terni, Perugia, Macerata, Viterbo and Rieti.

In 2017 people behind the ideas that have been selected will attend two training days for an initial evaluation of the projects. After the evaluation, 20 initiatives will be selected. They will thus take part in a one-week workshop to develop the business plan.

A group of tutors and experts will work with the start-ups staff in order to help them prepare their project to access the final stage, scheduled for March 2017. Here, the 10 most interesting entrepreneurial ideas will be evaluated by a panel of managers, funders and institutional representatives. After the panel's evaluation, the three best ideas will be awarded € 60,000 to implement the project.

BUSINESS PLAN COMPETITION ON SUSTAINABLE ENERGY AND URBAN RE-GENERATION

with the support of



WIND POWER TECHNOLOGICAL DEVELOPMENTS

In order for a wind turbine to fully exploit its potential, it must be as perpendicular as possible to the direction of the wind. Its position is adjusted by a series of motors that interact with an anemometer that detect the wind's direction.

However, the misalignment between the actual wind direction and the position of the turbine can reach up to 15° in the most critical cases.

This is mainly due to the turbulence caused by the rotor blades movement, which can affect the proper operation of both speed and direction sensors installed on top of the nacelle.

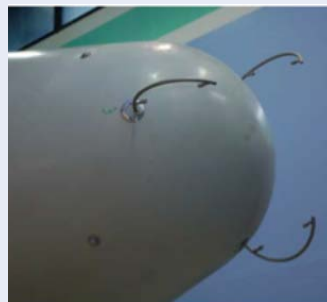
Other elements can also contribute to such misalignment such as particular geographic conditions of the site or ghosting due to other turbines located nearby (the so-called upwind turbines).

This leads to losses of production as well as to increased loads on both the blades and on the whole system.

To solve this problem, we tested two different technologies using suitable tools in order to detect the wind direction without it being "influenced" by turbulent motion triggered by the rotor.

The first one (spinner anemometer) involved installing 3 sensors on the spinner (the "nose") of the turbine:

- if the rotor is positioned perpendicularly to the wind, all the sensors read the same speed during the entire rotation
- if the rotor's position is not correct, the speed provided by the sensors varies cyclically during the rotation. The amplitude of the cyclical speed variation is proportional to the angle between the wind direction and the rotor's axis.



The second system we tested is based on LiDAR technology (Light Detection And Ranging), which is characterised by the emission of laser rays that, due to the Doppler effect, are reflected by particles in the air (pollen, dust, water droplets), thus making it possible to assess the movement of the air mass.

The system emits two horizontal laser rays at a 60° angle, 80 meters away from the source. Wind direction and speed are measured on each ray, making it possible to determine the misalignment angle of the nacelle.

The information provided by such detection systems is used to adjust the turbines direction on the basis of the wind direction, thus optimising production.

ENERGY MANAGEMENT

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The acquisition of the hydroelectric plants of the Terni Complex, which took place in December 2015, allowed us to enrich our generation portfolio, entering the hydroelectric segment with a significant presence. The hydroelectric plants we acquired also included a bidding centre: the activity carried out in order to offer the electricity produced by the plants to the electricity market. The bidding centre is specialised in scheduling the operation of hydroelectric plants. The centre is in addition to our existing one, used to schedule operations of both thermoelectric and wind plants. During 2016, we completed the unification of these two centres, centralising our energy management activities.

We are now able to manage all the Group's production assets in a coordinated manner. We can also implement an integrated strategy related to electricity sales and exploit the synergies among the assets, thus seizing new market possibilities to make our investments as sustainable as possible.

The staff employed in the new centre is specialised in our three production technologies (hydro, thermal and wind), so as to integrate different technical skills and working experiences. This results in the optimisation of our supply strategies.

The centre currently operates on all institutional platforms in order to send market offers and the technical data of our plants. It integrates the production activities of 11 hydroelectric plants, 39 wind farms in Italy and Priolo's combined-cycle plant in the different sessions of the energy markets (DAM - Day Ahead Market / IM - Intra-day Market) and services markets (DSM - Dispatching Services Market / BM - Balancing Market).

In order to support bidding activities, the market analysis areas have been strengthened through the creation of Middle Office and Short Term Analysis structures:

- the Middle Office is specialised in the medium and long term analysis and deals with the planning of the plants, maintenance procedures, market prices forecast in order to support the management of the production integrated portfolio;
- Short Term Analysis is a direct support function that provides short term market analyses, which are crucial for the optimisation of the integrated offer strategy.

To complete the energy management activities, it is important to mention the role of our back office, which checks the operations performed on the electricity exchange on a daily basis.



VENDOR MANAGEMENT WITHIN THE ERG GROUP

The selection, monitoring and management of the relationship with suppliers, in all its aspects, is becoming more and more important within the ERG Group, for which it is a key element for competitive success.

Its processes, in line with business evolution and with the sector's best practices, are updated in order to reflect our Group's set of values as well as the most recent regulations, especially the ones regarding the implementation of ERG's Model 231. We want all the people who work for

us or on our behalf to accept our guidelines and to implement them when doing business. We believe that being recognized internationally as a serious, transparent and reliable partner, is the basic requirement for any relationship.

The current qualification procedure, also through the use of Vendor Management on-line portals, lets us assess the skills, and the legal, economic-financial and technical-organisational compliance of aspiring suppliers. We pay great attention to the assessment of

ERG AND SUPPLIERS

ERG considers its suppliers a primary source of competitive success, thus, it strives to base its relations with suppliers on principles of sustainability, integrity and confidentiality. Our relations with current and potential suppliers are based on the principles of legality, transparency, correctness and loyalty.

In line with the aforementioned principles and in managing its purchasing processes, ERG requires that recipients:

- *base their objective selection and the technical, financial, organisational and ethical qualification of potential suppliers on the Group's best interests;*
- *[...]*
- *require all suppliers to comply with all regulations specifically relevant at the time, with particular reference to the topic of safety and environmental protection;*
- *request compliance with the principles of the Code of Ethics, reporting to the Supervisory Committee any conduct of a supplier that appears to be contrary thereto.*
- *[...]*
- *demand observance and observe contractual conditions, with particular reference to health, safety and environmental topics;*
- *avoid suppliers with whom they have a family relationship or affinity;*
- *clearly and transparently show the evaluation criteria adopted and the reasons for the selections made.*

From the ERG Code of Ethics

environmental, health and safety aspects in order to minimise risks and to spread values such as sustainability and value creation.

The companies that have environmental and/or safety certifications, authorisations and accreditations issued by International Bodies can access a simplified process. When possible, we try to favour the local work force in order to give back value to the areas we serve.

Our standard supplier qualification process also takes into account the respect of employees' rights, working conditions, minimum pay and insurance contributions.

With regard to subcontractors, we issued guidelines that set out the conditions under which this type of collaboration can exist,

and introduced documentary checks on subcontractors in line with those provided in the standard qualification process.

Suppliers are periodically assessed on technical and compliance factors regarding safety in the production sites. Inspection & expediting visits as well as documents evaluation are also carried out periodically.

The General Regulations related to Works/Services tenders provide the suppliers with the information and measures to be adopted regarding safety. They are also stimulated to achieve the set targets.

The correctness and transparency values by which the Group is guided imply the selection of suppliers through competitive processes, thus

AS A COMPETITIVE ELEMENT IN RELATIONS WITH SUPPLIERS

According to our Code of Ethics we are tasked with *"... managing relations with suppliers according to principles of legality, transparency, honesty and loyalty. [...] respecting and demanding respect for contractual conditions"*.

In a difficult economic climate, we believe that guaranteeing our suppliers payment timeframes consistent with those established in our contracts helps them to optimise the management of their activities, guaranteeing their long-term sustainability. For this reason, as of this year we want to monitor the respect for the payment timeframes established contractually, taking account of the fact that the Group's administrative procedures, which involve two large payments a month, generate an average delay of around 7 working days.

The analysis carried out showed that around 93% of our purchases (calculated according to value) are paid for in accordance with the timeframes established in the contracts.

Another important aspect that sets us apart is our development and cultivation of direct contacts with our suppliers: we respond to their calls directly, maintaining a privileged relationship with them, our day-to-day partners.

EXPEDITING AUDIT: QUALITY AND SAFETY OF SUPPLIES

Expediting checks are procedures required by supply contracts. According to their provisions, during the manufacturing of ordered components, the client can carry out audits at the supplier's site in order to ensure that production is compliant with the required technical/quality parameters. More precisely, in order for a project to be managed in compliance with quality standards, it must go through several stages that are monitored according to predefined parameters. This makes it possible to ensure the compliance of supplies, thus making sure they are in line with quality targets and delivery times.

Audits related to the manufacturing process of material performed by ERG Power Generation staff, regarding the supply of electrical switchboards, consists of two steps: an inspection carried out during the manufacturing process at the supplier's factory and one performed during installation.

The checks during production are conducted in line with the contract provisions as well as with quality control plans. They focus on both the electro-technical aspects and the electro-mechanical ones (insulations, operating mechanisms, mechanical parts), also using specific technological tools provided by the manufacturer.

Further checks are performed during delivery and installation: the first step ensures that the components have not been damaged during transport and that they are compliant with the content of the delivery. The second inspection is conducted during the installation in order to check its proper operation.



using bids and tenders to assign contracts as much as possible.

From an operational point of view, we use a portal that makes it possible to track all the stages of the award process.

All related variables are taken into account in order to award the project according to the most advantageous offer and not considering merely the economic aspect.

The main goal is to limit the condition of "single supplier" or exclusive supplier to the specific cases characterised by technical reasons or limitations and constraints that can be objectively identified.

One of the principles that guide our relationship with suppliers is the respect of the agreements made, both in terms of contractual terms and payment, compatibly with the need to simplify and standardise them.

In order to maximise the creation of value as well as the procurement efficiency and

effectiveness, ERG is looking for the best solutions available on the market also in terms of technical and processes innovation, seizing all the possibilities they offer.

We are implementing actions aimed at supporting the evolution of procurement activities, from the optimisation of purchase processes and suppliers management to the most advanced aspects of sourcing, also strategic, and of optimisation of both the supply chain and the demand.

Scouting is also supported by the cooperation with internal players and through pre-qualification portals where every potential supplier can upload their application.

In both cases, they are dynamic processes that require the contribution of other corporate functions aimed at managing our suppliers' information assets, dealing with risk situations and seizing new opportunities in line with the evolution of both the market and of our Group.

3 ENVIRONMENTAL RESPONSIBILITY

Around 5 TWh of electricity produced from renewable sources that have enabled us to save almost 3 million tonnes of CO₂ a year, a cogeneration plant with very low emissions, certified management systems, development projects always managed with a close eye on the environment.

In this way we contribute to combating climate change and safeguarding biodiversity.





2,993_{kt}

CO₂ AVOIDED
BY RENEWABLES

4,859_{GWh}

ELECTRICITY PRODUCED
USING RENEWABLE SOURCES

2,610_t

MATERIAL REMOVED FROM
RIVER BEDS AND SENT FOR RECOVERY

0.41_{kt/GWheq}

CO₂ EMISSIONS INDEX
THERMOELECTRIC PLANT

THE EUROPEAN AND GLOBAL APPROACH TO CLIMATE CHANGE

Climate change is a threat to future generations. The direct link between "greenhouse gas" emissions and global warming has impacted economic and energy policy choices of the most sensitive nations for some time, increasingly spreading a culture of sustainability.

In both Italy and Europe, the current energy policy guidelines are defined by the "20-20-20 Climate and Energy Package" within the "Europe 20-20-20" strategy, which defined the following three objectives:

- 20% reduction of greenhouse gas emissions compared to the levels recorded in 1990;
- 20% of energy requirements covered by renewable sources;
- 20% improvement of energy efficiency.

In 2011, the European Commission defined and shared the "Roadmap 2050" that tackles long-term world economic development. The new trend aims at the almost total decarbonisation of production systems in order to provide EU Member States with safe, sustainable and economically accessible energy.

With this in mind, in October 2014 the European Council reached an agreement on the environmental and energy policy for 2030, defining:

- a binding target to reduce national greenhouse

gas emissions by at least 40%, compared to 1990 levels;

- a binding target at EU level, but not for the individual Member States, for 27% of the final gross consumption of electricity to be produced from renewable energy sources (the Commission will define the operational aspects to set targets at a national level);
- an indicative target of a 27% increase in energy efficiency, which is not binding for the EU, nor for its Member States.

At the end of 2015, the Paris Agreement signed during the UN COP 21, gathered the consensus of 195 States besides the European Union for a concrete commitment in the fight against climate change. During 2016, the Agreement was made enforceable and, therefore, binding for the signatories.

After the ratification of over 94% of signatory countries including European States, the USA and China, last November the Agreement formally entered into force. It commits almost all greenhouse gas emitters to adopting concrete plans to monitor and reduce such emissions, in order to keep the Earth's average temperature increase "well below" 2 °C (and making all possible efforts to limit its increase to 1.5 °C).

	Outlook to 2020	Proposals for 2030
Reduction in climate-changing gas emissions	20% with respect to 1990 levels	40% with respect to 1990 levels
Portion of energy produced from renewable sources	20% of final consumption	27% of final consumption (binding only at EU level, not for individual Member States)
Reduction of consumption	20% with increased energy efficiency	improvement of 27%, non-binding

The Agreement calls upon the signatory Countries to adopt climatic-energetic plans and to revise them every 5 years in case of deviations from the forecasts.

EU-ETS SCHEME

THE MARKET STABILITY RESERVE

In Europe, the fight against climate change relies on the Emission Trading System (EU-ETS) operational tool. It is a market for the trading of emission allowance developed by the European Union with a view to reduce greenhouse gas emissions produced by companies at the lowest cost for both businesses and society.

The EU-ETS is an economic environmental policy tool of the "cap and trade" type applied to greenhouse emissions. It establishes an emission cap for companies and consists of a market for emission permits. The maximum cap is expressed as the number of permits to be issued (EUA, European Union Allowances) that

are either auctioned or allocated for free to the plant operators.

It started in the first half of the last decade with quotations amounting to 10-20 Euros/t. It should have ensured an increasing growth of allowances thus favouring decarbonisation through economic signals.

On the contrary, because of the recession, the decrease of consumption and its inability to adapt to this new situation, the value of emission allowances increasingly shrank.

Therefore, in 2015, the European Parliament decided to adopt some corrective measures to prevent it from failing. It thus adopted the so-called ETS Market Stability Reserve (MSR), which temporarily removes from the market a predefined number of allowances, thus balancing the demand and offer ratio. MSR will be finalised in 2018 and will become operational in 2019.

However, the ETS mechanism requires an

WINTER PACKAGE / CLEAN ENERGY PACKAGE

In November 2016, in line with the Energy Roadmap for 2050 and the commitments under the Paris Agreement, the European Commission presented the Clean Energy Package, which includes 11 legislative initiatives for the achievement of the European climate-energy goals for 2030.

This initiative encompasses both new provisions and the revisions of existing directives or regulations and will be finalised in 2018:

The key topics are:

- the rules to draft and check the national energy plans to achieve climate-energy goals for 2030;
- the structural revision of the ETS system for the management and limitation of greenhouse-gas emissions;
- the revision of directives to promote the use of renewable energies and their unlimited participation in electricity markets;
- the revision of electricity markets at a transnational level, in order to homogenise and favour the energy transition towards low - or zero-impact energy sources;
- a further development of energy efficiency in both the industrial and the civil sector.

effective review for the transition towards a cleaner energy mix and to meet the goals for 2030. To this end, the European Commission proposed an ETS structural reform for the period beyond 2020.

The aim is to review the ETS regulations for the period 2021-2030, whilst maintaining the MSR with a more significant annual reduction of quotas auctioned and incentives for the transition towards cleaner fuels and renewable energies based on the compliance with the "emission performance standard - EPS".

In the EPS, provisions could be made for the payment of penalties or the purchase of additional emission allowances by those plants where emission standards are not met. At a national level, further methods to support the ETS quota values through the definition of a floor price are being discussed.

THE ROLE OF RENEWABLES

In order to reach full independence from fossil fuels halfway through next century, electric power generation will require an increasingly massive use of clean sources available, such as water, wind and sun.

The energy production sector worldwide is already following this direction:

- during the next decade, the investments for electric power generation will reach almost 50% of the total amount invested in the energy supply sector (production and transmission);
- according to the figures, in 2015, investments for the production of electricity from renewable sources exceeded the total amount invested in the production from other sources for the first time and the generation capacity from renewable sources exceeded the capacity from coal.

2016 figures

2,993_{kt}

OF CO₂ PRODUCTION
AVOIDED

4,859_{GWh}

OF ELECTRICITY PRODUCED
FROM RENEWABLE SOURCES

62.4%

INDEX OF "FIRST PRINCIPLE
OVERALL PERFORMANCE"
(DM 5/9/2011 - CAR)

OUR ROLE

Our process to change our business to electricity from renewable sources perfectly fits into the energy transition described above; we are at the forefront and our process shows our interest in seizing new business opportunities, while improving the environmental context we operate in.

In the second half of the 2000s, we changed our energy business and abandoned our role as oil

operator to start producing fully sustainable and clean energy from wind, water and high-yield co-generation fuelled with natural gas.

This metamorphosis led to the adoption of a business model, which is able to produce electric energy with significantly lower CO₂ emissions, thus improving all our corporate social responsibility indicators between 2008 and 2015. In particular, because of the gradual decrease in "oil" activities and the subsequent

increase in the use of renewable sources, the CO₂ emissions avoided in the period 2008-2015 increased 15-fold and reached over 1 million tonnes of CO₂ avoided per year.

The acquisition of the hydroelectric plant in Terni and the new wind energy initiatives in Europe are the new steps of our business evolution, which will further improve our performance in terms of avoided CO₂ emissions.

We strongly focus on both increasing the energy efficiency of ERG Power's plant and the implementation of the Best Available Techniques (BAT), so as to reduce the consumption of natural gas and the emission of greenhouse gases, while keeping constant the production of electric power.

ERG AND ENVIRONMENTAL PROTECTION

ERG believes that the complete compatibility of its activities with [...] the health and safety of workers, the local area, natural resources and the surrounding environment is an essential condition both for the acceptability of its plants and its operational activities, and to achieve its growth objectives.

ERG thus constantly works to ensure that the business operations of all Group companies are carried out with full respect [...] for the environment, intended in the broadest sense, carefully considering these factors as part of the long-term planning process and encouraging the adoption of environmentally-friendly and energy efficient technologies.

As a socially responsible business, which also counts on the active contribution of all Recipients, ERG aims to:

- [...] ensure constant attention and commitment to improving its performance in the environmental field, monitoring and reducing energy use, minimising waste production, complying with the legal limits for atmospheric, water and ground emissions, responsibly and carefully using natural resources and protecting local ecosystems and biodiversity;*
- assess the environmental and social impacts before undertaking new activities or introducing modifications and innovations to processes and products;*
- establish dialogue and constructive collaboration, marked by the highest transparency and trust, with institutions and all stakeholders, with the goal of developing its activities while respecting local communities;*
- maintain elevated levels [...] of safety and environmental protection by implementing management systems that are developed, periodically verified and certified according to internationally recognised standards and introducing means and procedures for management and intervention, based on a careful analysis and evaluation of risks, designed to deal with possible emergencies;*
- continuously strive to enhance information, awareness and training aiming to strengthen [...] environmental protection principles as a shared asset throughout all levels of the company.*

Finally, as confirmation of the huge importance ERG gives to [...] environmental protection, the evaluation of each employee's individual performance takes into account whether or not their conduct is in line with company policies, and particularly those referred to above.

From the ERG Code of Ethics

MANAGEMENT OF WEATHER-RELATED EVENTS

The new hydroelectric business requires suitable monitoring and forecast of weather conditions in the water catchment area of our interest (Nera-Turano-Velino system) to be able to best manage flood events and hydro-geological risks, in close cooperation with the local authorities (Prefecture and Civil Protection Service).

To this end, we are working with the CIMA Foundation (International Centre for Environmental Monitoring)* to develop a "Forecasting model of flows and volumes in the main water basins used for hydroelectric power generation and detention of overflows in the Hydroelectric Plant in Terni".

The study aims at:

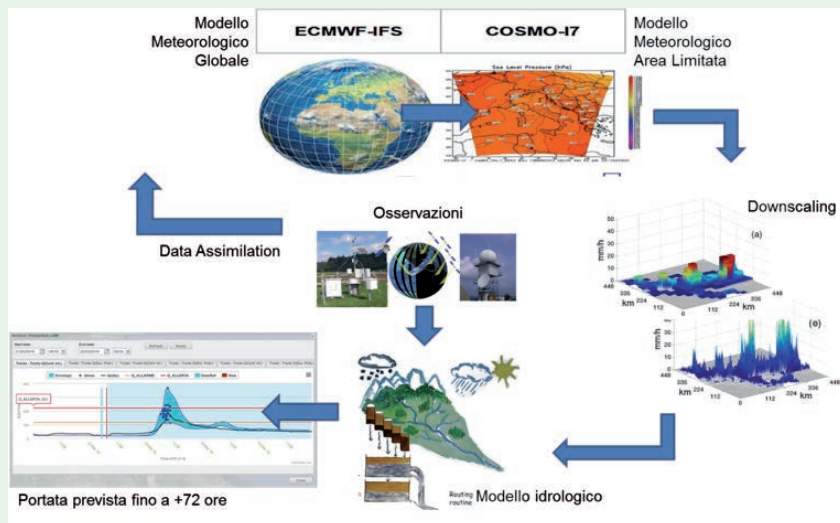
- forecasting severe hydrometeorological events;
- providing information for overflow detention through optimised dam management;
- providing information on flow and volumes to plan the production of the Terni hydroelectric power plant over the subsequent 72 hours.

More specifically, this foundation runs the "Flood-PROOFS", a three-day forecasting tool which helps decision-makers forecast flood events and provide an estimate of probability to overcome critical levels in different areas along river-beds.



* The CIMA foundation is a research body aiming at promoting and supporting training, research activities and technological development in the fields of Civil Protection, Disaster Risk Reduction and Biodiversity. The Forecasting study model has been adopted by the Civil Protection National Department and the Functional Centres in the Regions Valle d'Aosta, Liguria and Marche.

HOW DOES THE FORECASTING SYSTEM WORK?



Based on a global-scale quantitative forecast (model ECMWF-IFS) it creates a more detailed level, where models are focused on limited areas (COSMO-17).

Rainfall forecasts are further processed by a downscaling statistical procedure to increase the resolution and provide inputs for the hydrological model.

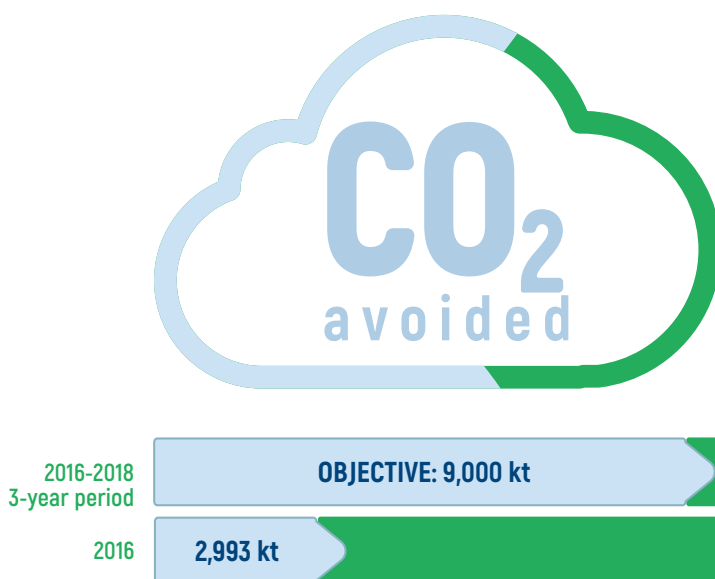
This shows the expected flow in each part of the basin and estimates the probability of reaching a certain flow in the river-bed, according to forecasts.

The information on weather variables provided by land control units, meteorological radars and satellites is used to determine the conditions in the basin, in terms of humidity in the area, and to improve the precision of weather forecasting.

CO₂ AVOIDED DURING 2016

	Installed capacity (MW)	GWh produced up to 31/12/2016	CO ₂ avoided up to 31/12/2016 (kt)
Wind power – Italy	1,095	2,220	1,268
Wind power – Germany	168	240	188
Wind power – France	252	499	318
Wind power – Poland	82	213	185
Wind power – Bulgaria	54	148	126
Wind power – Romania	70	181	133
Hydroelectric	527	1,358	775
TOTAL		4,859	2,993

CO₂ AVOIDED: 2016-2018



To calculate CO₂ avoided, we have used the gCO₂/kWh conversion factor published by Terna in its annual report and referred to the thermo-electrical output of each country.

MINI-HYDRO DEVELOPMENT

85

After entering the hydro business in late 2015, with the acquisition of the Terni Hydroelectric Complex, ERG started an intense evaluation and study activity to optimise the use of water resources.

This activity identified some new opportunities for the use of water released in the areas downstream of the dams of the existing power plants (this flow is usually called Minimum Vital Outflow and is essential to "keep the river alive" and ensure a minimum flow).

In the past, this significant energy potential was not collected nor used for energy purposes.

In order to make better use of natural resources, we decided to consider the possibility to build

small power generation plants near the water release point.

In a sector where technological levels are quite high, these investments represent an opportunity to maximise the value of resources available, while aiming at the highest possible energy efficiency in our plants, in full respect of the environment.

Power in the plants being studied will be between 50 kW and 250 kW max.: a small value allowing to make excellent use of all the energy potential of natural resources available and to avoid any waste.



WASTE AND EMISSIONS: MINIMISATION-ORIENTED MANAGEMENT

Common waste and emissions are important issues in production processes: ERG's management system aims at meeting all regulatory compliance requirements, but also at optimising, minimising and monitoring the different process phases in detailed and precise manner.

The common starting point for all our plants is the ISO 14001 environmental certifications (wind, hydro and power) and the EMAS registrations, for ERG Power's thermoelectric energy plant and Erg Hydro's plants.

We also implemented initiatives to minimise the production of waste and to favour recycling instead of disposal, whenever possible. IT systems for reporting and production control activities have also been updated.

GRATE CLEANING RESIDUES FROM HYDRO PLANTS: FROM WASTE TO RESOURCE

Before being used in the turbines, water is

sieved to remove all solid residues carried by the river current.

In the past, wood recovered from the Corbara lake used to be recycled, while all the waste from grate cleaning was sent to landfill.

Given the nature of the residue trapped in the screening systems (mainly wood and leaves and a small part of human-produced waste, e.g. plastic), we believed that it could be recovered. Thanks to specific systems, we can process and separate the matter collected from the riverbed and then recycle the "selected" materials: we can recycle approx. 77% of waste from grate cleaning, compared to a percentage of 45% before the project was launched (2014).

Removing these residues from our rivers is useful for the industrial sector, but also for the environment, as this helps keep both water and banks clean, for the benefit of the water system and hygiene and to minimise the hydro-geological risk.



EMISSION DETECTION SYSTEMS

As for the management of emissions into the atmosphere from industrial plants, our first objective is to minimise the environmental impact and to guarantee legal limits are always respected. The Continuous Emission Monitoring System (SME) is a tool of utmost importance in the monitoring process of gaseous effluents.

It is made up of:

- a fumes sampling system near the chimney;
- a system for the acquisition and file backup of all signals;
- a data processing software (validation, processing and filing).

The SME continuously measures the concentration of pollutant emissions, the flue gas flow and mass flows.

ERG Power's thermoelectric plant (CCGT) is fitted with a Monitoring System (certified as required by the European regulation EN 14181:2015), which ensures a constant and effective monitoring of the respect of limit values set by authorities.

RETYLING OUR MANAGEMENT SOFTWARE FOR EMISSIONS AND WASTE

After approximately 6 years, the software system which continuously acquires and processes atmospheric emission data for the CCGT plant was updated with the most recent and cutting-edge version of the program.

New functionalities and a brand-new user-friendly graphic design offer better usability and provide control-room operators with a clearer reading of the real-time emission status, while maintaining their level of reliability and precision. The new interface makes it possible to carry out data analysis and reporting to clearly summarise the development of activities.

As for waste management, this new application software improved and optimised the usability of the process, thanks to its new characteristics: the whole of the waste management process - even the drawing up of forms and declarations - is included in the same corporate system, which can be managed from any fixed or portable device through an Internet link.

THE EMISSIONS OF ERG POWER'S CCGT

ERG Power's plant started running at the end of 2010. It is a latest generation combined-cycle high-efficiency cogeneration plant recognized as high-yield cogeneration - CAR.

Built according to the latest technology and powered exclusively by natural gas, thanks to continuous technological updates and management methods/software, it has achieved very low emission levels that are constant over time.

The emission indicators (that correlate the emissions to unit of output - MWheq) are fairly constant over the years and for the 2016 showed the following values:

- CO₂ index: 0.41 kt/GWheq
- NO_x index: 0.13 t/GWheq
- SO₂ index: 0.016 t/GWheq
- particulate matter index: 0.002 t/GWheq

THE REDUCTION IN CO₂ EMISSIONS “SCOPE 2”

One of the methods to reduce emissions implies an increase in energy efficiency, i.e. the actions allowing the production process to reduce losses and energy consumption; another line of action is based on energy supplied by renewable sources.

Consistently with its environmental sustainability commitments, the ERG Group follows both directions, through the replacement of its supply sources and the improved efficiency of its lighting solutions.

Since 2016, the utilities of all of our Companies within the Group in Italy, used to provide energy to plants' auxiliary services and for civil use, are supplied with electricity produced from renewable sources. This is how we achieved one of the sustainability commitments for the 2016-2018 period during the first year, thus avoiding approx. 9,000 t of CO₂ emissions/year.

We also selected new low-environmental impact lighting technologies: in 2016, we replaced the old lighting equipment in our offices in Genoa and within the ERG Power plant with modern LED-technology lamps. It is estimated that:

- consumption was reduced by approx. 60%;
- CO₂ emission saving is approx. 241 t/year;
- special waste from the replacement of lighting systems are almost zero, thanks to the complete recyclability of the LED technology and the absence of heavy metals.

7 kt
CO₂ EMISSIONS
SCOPE 2
2016

11 kt
CO₂ EMISSIONS
SCOPE 2
2015

-36 %
CHANGE
CO₂ EMISSIONS
SCOPE 2

1.1 kt
CO₂ EMISSIONS
SCOPE 3

In order to improve the information provided to stakeholders and the increasingly comprehensive environmental impact assessment of the Group's activities, in 2014 we established a method for reporting “SCOPE 2” emissions (Indirect GHG emissions from energy consumption) and “SCOPE 3” emissions (Other indirect GHG emissions, according to the international GHG protocol classification). The data related to SCOPE 2 emissions pertaining to the Group's entire scope were extracted from the technical reports for plant purchases, invoices from the distributor for the energy consumption of the office space, and reports supplied by the property administrators for consumption generated by the centralised heating and cooling services.

Final data on SCOPE 3 emissions were determined thanks to reports provided by the travel agencies and relate to business travel by employees (calculated according to a certified methodology).

WIND TURBINES: FULLY SUSTAINABLE PLANTS

ANEV conducted an analysis of the energy pay back time (EPBT), i.e. the time needed to reach a balance between energy used during the extraction, production, design, transportation, installation, future dismantling and recycling phases and the energy produced during the operation.

For a 2 MW wind turbine, the most common type installed in Italy, the estimated average EPBT is 9 months. After this time, wind turbines have already produced the amount of energy needed for its entire life cycle, from the extraction of raw materials to its complete dismantling.

As for the disposal phase, it is to be noted that the portion to be landfilled is very limited.

Material	Origin	Scenario
Steel	Tower and other components	90% re-usable
Cast iron	Foundations and other components	90% re-usable
Copper	Electrical components	95% re-usable
Aluminium	Electrical components and structure	90% re-usable
PVC plastic	Other components	100% landfill
Fibreglass	Blades and nacelle structure	100% landfill
Lubricating oils	Turbine's mechanical parts	90% re-usable

Source ANEV



ENVIRONMENT-FRIENDLY BUILDING ACTIVITY

When designing and building new plants, we carefully assess the environmental and social impact of our activities by implementing one of the most important principles expressed in our Code of Ethics and the Sustainability Policy.

Thanks to our know-how and to the application of best practices, we are able to best manage the environmental, archaeological and technical-urban aspects, in cooperation with local authorities, so as to find the best solution to build and operate our plants.

For example, during the design and development phases for our wind farm in Brockaghboy, Ireland, particular attention was paid to nesting and reproduction of birds living in the area around the farm, with the help of experts [ornithologists].

We identified and registered all ground nests

in the area, this preliminary activity being necessary to determine whether it is possible to start building operations. No nests were found, so we started ground scraping activities in order to prevent birds from nesting in the area.

The site was then monitored to identify any bird couples seeking a reproduction site. If need be, the protocol adopted provides for the suspension of operations until the end of the mating period.

We also organised the monitoring of resident bat colonies to assess the impact of wind farms and identify possible issues.

Finally, we implemented other protection activities based on the best practices of the sector, such as:

- the construction of pools to favour the sedimentation of water from the working



site and protect the biodiversity under these circumstances;

- the use of biological filters made of bales of straw to filter the drainage water from the working site, clarify it and restore proper pH levels;
- the storage of peat (plant residues deposited and waterlogged) from excavations, which will be used within the site to prevent the biodiversity of soil from being altered.

In cooperation with local institutions, we agreed upon an activity plan for the work-site in order to minimise the impact on local road

networks: on the one hand, vehicles keep out from inhabited areas, so as not to affect the public transport system, on the other, ordinary road networks were improved to allow the transportation of special loads.

The "least possible impact" philosophy does not only concern the realisation and operation of the plant, but also the dismantlement of the whole wind farm at the end of its life; the areas will be returned to the ante operam state, thus ensuring the highest possible level of sustainability of the project.

CROSSING THE WATERWAYS

Local waterways had to be crossed to complete the construction of road networks.

In order to protect biodiversity along the banks of the river and the animal species living in the streams, we decided, together with local authorities, not to excavate the river bed and its buffer zone and we proposed the construction of arch bridges.

The foundations of these bridges are located far from the banks, so that excavation works do not affect water quality.

In order to cross minor waterways, where various species of fish live, "traditional" piping of suitable size was built to allow flood discharge.



THE OASIS OF ALVIANO

In the Eastern part of the Alviano lake, slightly upstream of the dam, an oasis was created (400 hectares out of a total of 900 hectares for the whole lake) to host various resident bird species and, thanks to its characteristics and geographical position, it became a stopping point for migratory birds.

The area's characteristics are typical of humid areas with fresh water: marsh, pond, swamp, water-meadow, hydrophilic wood, one of the largest in central Italy, where a huge number of bird species live, e.g. great white egrets, stilt birds and ospreys, in addition to many different amphibians, such as crested newts and agile frogs.



Among the mammals living in the Oasis: foxes, boars, badgers, porcupines and hedgehogs.

The WWF has taken care of the Oasis of Alviano since its establishment, in 1990: our support contributed to ensure the maintenance of the environment and better reception of species.

The park also hosts a large Environmental Education Centre, where school classes can get to know nature and observe bird species, whilst carrying out scientific research activities in the educational pond.

A laboratory has been set up where the microscopic life of the marsh can be studied: using microscopes, cameras and screens,

students can observe all the research phases “live”.

7 sheds are used for bird watching activities, they are equipped with noticeboards and explanatory panels to help visitors recognise the different species. A tower was built to observe bird species.

In 2016, the WWF focused on “maintenance” activities in the flooded prairies, such as cutting weeds, pruning trees in the areas in front of observation posts, which are very important for birds to build nests and have some rest. Birds are attracted to this area and can be observed. Reception activities in the Oasis were also improved and enhanced.



4 SOCIAL RESPONSIBILITY

Safety and certified management systems as a key condition for the management of the business and our assets.

Training, the enhancement of talent and inclusion are the principles of our approach to people.

Suitable remuneration for attracting talent and motivating managers.

We support the development and promotion of the local areas in which we operate by providing training activities for youths and incentivising the launch of new businesses.



100%

ISO 14001 AND/OR OHSAS 18001
CERTIFIED ITALIAN COMPANIES
CONSISTENT WITH THEIR ACTIVITIES

21.0%

FEMALE EMPLOYMENT

99.1%

EMPLOYEES ON PERMANENT
EMPLOYMENT CONTRACTS

5.6 days/year

OF TRAINING PER EMPLOYEE

SAFETY WITHIN THE ERG GROUP

After some time, we consolidated all individual and corporate values of reference for our daily activities to be collected in our Code of Ethics. Guaranteeing workplace safety is one of our most frequent and strong values.

As regards workplace safety, the Group adopts procedures in line with the OHSAS 18001 international standards.

In the field of safety, we strongly believe that the awareness and active participation of our people are prerequisites for an efficient application of our principles: we carry out a constant training activity on different levels, with rewarding mechanisms for those effectively implementing measures on environmental impact reduction, risks for workers' health and safety or those

proposing new ideas for improvement.

In 2016, despite the respect of operational standards, two minor accidents occurred and involved two members of the Group's staff. As required by the management system procedure, these two cases were carefully analysed.

The analysis revealed that both events were caused by the so-called "risks inherent in the jobs" and not by failure to respect the safety provisions of the operational procedures or by unsafe conditions within the plants.

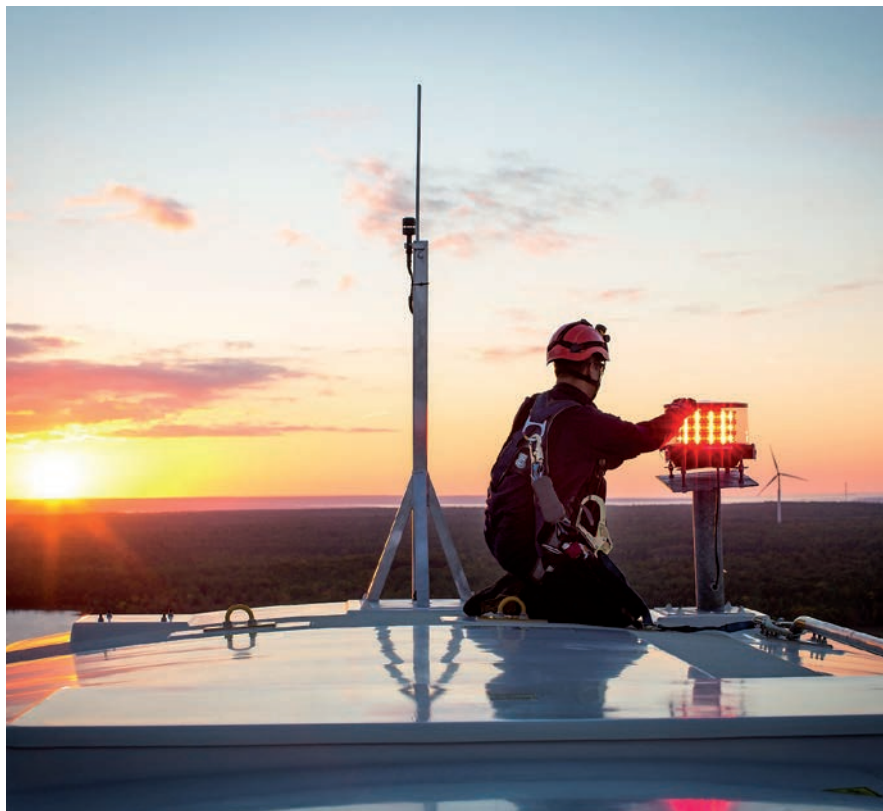
In this context, the experience of our Group is particularly useful to promote "Safety contests" in the different corporate divisions, for both the internal personnel and third-party companies working in the operational sites.

ERG AND SAFETY

ERG believes that the full compatibility of its activities with the Health and Safety of its workers is a primary factor for the management of its plants and of its business in general. Therefore, it is committed to ensuring that all the Group's companies perform their activities safeguarding their workers' and third parties' Health and Safety, as well as the Environment in its broader sense. Such factors are taken into account starting from when annual and multiannual budgets and investments are defined, by carefully considering the use of technologies capable of ensuring high safety and protection standards.

According to the safety procedures in force, employees, third parties and occasional guests are informed and trained on what to do if an emergency occurs. Emergency management simulations and evacuation drills are carried out periodically.

The Group actively collaborates with the workers' safety representatives and constantly involves them to analyse the risk related to organisational changes and organizes systematic meetings in order to discuss and evaluate any improvements that could be made.



Last year, we pursued the promotion of "continuous improvement" activities:

- the "Safety First" project for the wind farm personnel;
- the "Safety and Environment Contest";
- the in-field assessment of ERG Power's contractors' safety performance.

THE "SAFETY FIRST" PROJECT

The "Safety First" project was created in 2014, developed in 2015 and concluded in 2016. It was aimed at enhancing the safety culture for the management of wind farms.

The initiative focused on all the issues relating to the protection of workers' health and safety,

protection of the environment and attention to quality, thus proving to be a project that spans Quality, Environment and Safety.

The plan included developing projects to improve technical areas of the plant (turbines, substations and operating centres), on-site safety and emergency coordination aspects and the waste management process within the operating centres.

We worked on 26 sub-projects which included 129 specific measures: by completely implementing them by the end of the year we improved our safety standards.

The first result: in 2016, just one accident took place in the wind sector, compared to 4 accidents in the previous year.

6,621hours

HSE TRAINING FOR THE GROUP'S
EMPLOYEES

THE "SAFETY AND ENVIRONMENT CONTEST"

After an initial positive experience in 2015, we repeated the contest for wind energy personnel,

to raise their awareness on the protection of health and safety in the workplace. This contest took place in the second semester and was divided into three categories:

Creativity

The staff was asked to express their "personal perception on safety issues".

The most creative part of the contest revealed our artistic side: 16 people participated with their drawings, pictures and other documents addressing workplace safety topics. These works were collected and published in a brochure, which was distributed to all the staff after the contest.



Reports

Safety reports (for near accidents and non-conformities) were required for all working activities or events in which the staff was directly or indirectly involved.

Reports received during the period of validity of the contest were given a score by the Organising Committee, according to the type of report.

Improvement

Participants were required to present a project to improve workplace safety: from the assessment of the current situation, to possible solutions, up to the definition of timing, costs and responsibilities for the measures and a description of the expected result. The proposals for improvement could be based on any workplace topic, such as technical, organisational, communication, procedures or creativity aspects, etc.

The "Contest" in Siracusa

The Siracusa site also organised a "Safety and Environment Contest" for all the personnel of ERG Power's plant.

The staff (ERG employees and third-party companies) was asked to participate under two different calls for proposals, which required the presentation of reports/suggestions to improve our integrated HSE management systems.

The final event, when the most deserving entries were awarded a prize, was organised to involve all the people, teams and companies, whose behaviours and ideas brought about significant improvements in the management of Safety and Health issues.

The competition between different corporate groups or different contractors was an interesting incentive for on-site suggestions and reports to improve the HSE standards.

The event ended with a prize-giving ceremony: besides delivering the prizes, this was the

perfect chance to share and analyse our main results, and to exchange ideas with our partners on these important issues.

THE HSE PERFORMANCE OF OUR SUPPLIERS

ERG POWER'S SITE

In order to keep safety standards high at ERG Power's OHSAS 18001-certified plant, we work mainly on raising awareness on that fact that safety mainly depends on the behaviour of the internal staff and on that of contractors that work at our site.

This is why we pay great attention to training for our technical personnel and to the continuous and careful supervision of the performance of the contractors that work on the site, while identifying, if need be, the most suitable corrective actions to improve their performance.

On a monthly basis, the on-site HSE department monitors the suppliers and carries out operational audits based on a check-list of approx. 40 items concerning the most important aspects to ensure that the activity is carried out safely.

If non-compliant behaviour is detected, we immediately react to correct it and prevent it from continuing (usually through specific training sessions for the personnel).

The audits help us assess our contractors: if they repeat their negative performance, we may apply penalties, and even delete them from ERG's vendor list, in cooperation with the Group's Procurement department, for the most serious cases.

Taking into account the results of the previous year, the following HSE performance indicators

AUTOMATIC EXTERNAL DEFIBRILLATOR (AED) WITHIN WIND POWER OPERATIONAL CENTRES

The winning proposal of the 2015 Safety Contest suggested the installation of an AED in all wind power operating centres. As a result, we updated our first-aid courses, adding a module on the use of defibrillators, so that workers can use them, if needed, at both our operating centres and at our wind farms.

have been identified:

- number of accidents resulting in absence from work lasting at least one day;
- number of working days lost due to the accident;
- number of inspections performed;
- number of surveys with a "non-compliant" result;
- percentage of surveys with a "non-compliant" result out of all the surveys carried out;
- number of suggestions and reports on safety.

The rating scale used to assess suppliers' HSE performance is as follows:

Assessment	Minimum	Maximum
Lacking	0	70
Sufficient	71	90
Good	91	97
Excellent	98	100

Global results for 2016 show that most of the companies achieved a good (39%) or excellent (52%) rating, showing a markedly improved result compared to 2015 (28% and 48% respectively), thus confirming the effectiveness of our approach.

A similar activity was organised by ERG Hydro, the company that owns our hydroelectric assets.

In 2016, we started the implementation of a similar discussion and assessment system: to this end, we prepared a video presentation that shows all the specific risks for each site; it will be used for safety induction courses for contractors. In addition, we organised meetings with representatives of contractors to discuss ERG's approach to safety.

SAFETY WALKS AND IN-FIELD HSE AUDITS

During the year, the HSE Organisational Units of the ERG Group carried out many in-field checks to monitor the compliance of contractors with Health, Workplace Safety and Environment principles and regulations. In addition, the standards set by the OHSAS system help monitor workplaces and processes.

271

WIND POWER CHECKS

125

THERMAL POWER CHECKS

28

HYDRO POWER CHECKS

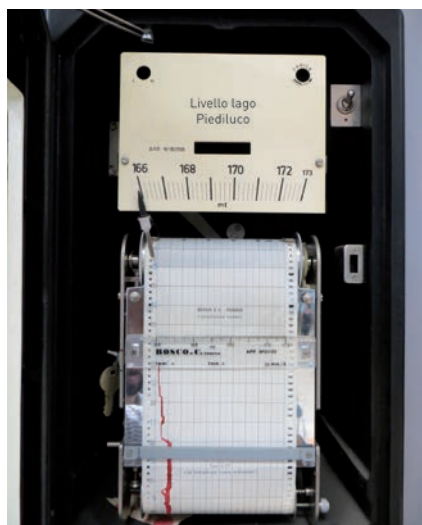
ERG HYDRO: THE LARGE DAMS

101

ERG Hydro, the company that owns our hydroelectric assets, operates seven "large dams" (Aia, Alviano, Corbara, La Morica, Marmore, Salto and Turano), with a total reservoir volume of approx. 600 million m³ of water.

These dams are supervised 24/7 by a "dam custodian", whose job is to perform the daily measurements of the water (water level in the reservoir) and of the weather (measurement of rainfall and/or snowfall, air and water temperature).

In addition, the water level in the reservoir is continuously measured by an automatic instrument and data are transmitted in real time to the Terni remote control room.



A team of engineers performs the structural monitoring of the dams, and at certain periodic intervals they measure the horizontal and vertical movements of the dam, its rotations, deformations, etc.

The main reasons why dams may be subject to minor movements are:

- general heating or cooling of the structure;
- temperature difference between the external side exposed to the surrounding environment and the side in contact with the water;
- higher or lower water pressure depending on the level in the reservoir.
- Special attention is paid to upstream and downstream displacements, carried out using two different and redundant measurement methods: pendulums and collimations.

The first detection system, called a "pendulum" is used to detect movements by means of a plumb line and a specific optical instrument called "coordinometer".

The lower end of the plumb line is fixed to the ground under the structure and is held vertical by a float at the upper end. The measurement instrument is located on a plinth anchored to the structure and registers all movements with respect to the line.



The second auxiliary checking system is the "collimation": starting from external points of reference located on the surrounding hills, it monitors the movements of the dam using a mobile target located on the reinforced-concrete pillars along the dam crowning.



In addition to these monthly checks, efficiency and reliability tests are carried out on:

- the monitoring system;
- the operating mechanism of the locks, which are needed to regulate the water flow;
- the communication system;
- the power supply continuity systems (the



generator must guarantee power supply to all control devices if power from the external grid is not available).

All data recorded are sent to the Control Authority every month and a specific "report on the state of the works" is drawn up every six months, and includes all measurement data from the previous five years.

Twice a year, the Control Authority performs "supervisory visits", during which they test the operation of all the equipment installed in the dam and carry out sampling measurements of the structural monitoring system of the works.

DAM MANAGEMENT IN THE EVENT OF AN EARTHQUAKE

Particular attention is paid to handling earthquake emergency actions: control procedures are activated, on the basis of consolidated protocols established by the Supervisory Authority for earthquakes with a magnitude higher than 4 (Richter scale).

In the hours immediately after an earthquake, the Group's technical and operational departments - coordinated by the Chief Engineer (a technical position provided for by the specific regulation) - carry out a careful inspection of the dam and of the load-bearing structures of the complementary facilities (guardhouse, generator building, buildings where the operating equipment of the locks is located), and they also implement all measures needed to check the structural condition of the dams, operation tests for drainage equipment, power supply systems and telephone phone connections.

The results of these checks are promptly sent to the Supervisory Authority as an "Extraordinary Certification of the condition of the works".

INTEGRATION OF ERG HYDRO'S HSE PROCEDURES INTO THE ERG GROUP

After ERG's acquisition of the Terni hydroelectric complex, in 2015, it was necessary to integrate its procedures and organisational aspects into ERG's HSE Management System. Among the main actions, we:

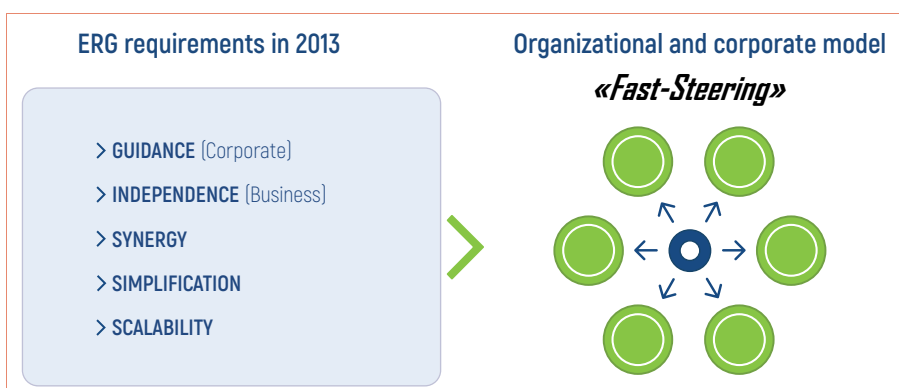
- re-issued and homogenised all the procedures of ERG Hydro's OHSAS 18001 management system, particularly as concerns training, accident definitions and management methods, and health monitoring;
- standardised the "Safety and Environment Specifications" - an important document that sets out safety rules for all third parties that work in ERG's assets;
- significantly intensified on-site checks, to improve the supervision of operating centres;
- standardised the HSE performance indicator system with the Group's equivalent system;
- standardised health monitoring for the personnel by means of a coordination system with all our medical personnel in Italy, thus making the staff health protocol standardised and applicable.



ONE COMPANY: THE GROUP'S NEW ORGANISATION MODEL

In 2016, under the pressure of the challenging goals of our new business plan 2015-2018, our Fast Steering Organisational Model (launched in late 2013 and completely implemented in 2015)

started to show its intrinsic limits, which are closely linked to the strengths at the basis of its design and implementation during a different business phase.



During the three previous years, the flexibility and scalability of this model allowed to effectively support the implementation of a total business turnaround, where important businesses were acquired and sold, together with their assets and staff.

In our new business structure, the organisational focus and segregation by production technology started proving antithetical and potentially unable to effectively support the implementation of the business plan.

Thanks to the Fast Steering organisational model, we have recently:

- put together a renewable-based power generation asset portfolio with a good balance between programmable and non-programmable sources;
- based our production structure on three

complementary and integrable technologies (wind, hydroelectric and high-yield thermoelectric);

- achieved considerable geographical differentiation, with wind power facilities in six European countries.
- developed skills and tools to create a sales portfolio capable of making the most of our assets, while seizing the opportunities offered by an increasingly competitive and changing power market;
- developed skills and tools to handle operation and maintenance activities in house;
- developed skills and tools for project engineering and development engineering;
- received tangible acknowledgement of our role as leading operator in the field of renewable energy in Italy and among the top ten in Europe, in terms of installed power in the wind sector;

- received tangible acknowledgement of the high value we attribute to Corporate Social Responsibility and of the Group's commitment in that field;
- received tangible acknowledgement of the results we have obtained in creating know-how and tools, methods and standards used for the development and growth of our people;
- built a solid financial structure based on a reliable annual cash flows, to support further development and industrial growth.

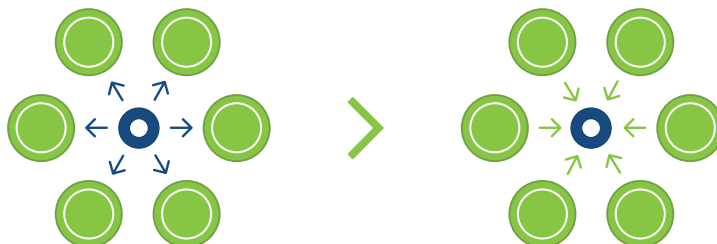
At present, with a new business structure, we aim at generating value for our shareholders, for our personnel and for the community in general. As a green Independent Power Producer, with a single Energy Management structure to access the electrical power market, with requirements and outlooks that are totally different from that we had just 5 years ago as a multi-business operator, we have defined a new vision in which:

- our industrial assets must pursue effectiveness and efficiency, and strive to continuously meet the power market's demand;
- there must be a single access to the power market, in order to maximise corporate profitability and optimise the management of risk, and of financial and regulatory aspects;

- the value of Human Capital must be further developed and increased by creating innovative and dynamic organisations and processes, which are strongly supported by the technological evolution;
- ERG's Relational Capital must be increasingly considered an element that supports a business model that operates in a regulated market, in which corporate development and sustainability work together;
- the optimisation of capital structure and a traditionally careful financial policy must continue to be deemed essential for development;
- the solidity of administrative processes, procedures and working methodologies must continue to be the foundation of the Group's operations.

In mid 2016, we therefore launched an internal, direct project, implemented by our Human Capital Committee to deal with the topic of analysis and organisational planning, in line with the work done in 2013 to develop Fast Steering. This important team work resulted in the launch of the new organisational structure in late 2016 (and starting in January 2017), which is strongly process logic-oriented and that aims at

«Fast-Steering»



"regrouping" the entire organisation to have a single and common vision.



This new organisation, whose name refers to the unity and cohesion of the Group, is characterised by two main roles:

- Corporate ERG, which provides strategic guidance, is directly responsible for business development processes and for managing all the business support processes;
- ERG Power Generation, that deals with all the Group's industrial and commercial processes.

In this new context, to achieve the goals of operational effectiveness and efficiency defined in the re-organisation project, we

launched a change management programme, aiming at realigning operational processes and clearly defining organisational roles within all processes and resources involved.

With its new organisational structure, ERG Group aims at creating the suitable conditions to:

- be focused on the new dimension of its business and on the related goals of creating value;
- have a streamlined and nimble operational structure, which is consistent with the change of its industrial structure;
- be able to respond to sudden changes in the conditions and in the market;
- to be more integrated in the implementation of inter-functional activities, in order to promptly seize the opportunities arising from the constant evolution of the power market;
- be able to attract, motivate and foster the development of our people.



HUMAN CAPITAL COVERAGE: WHAT HAPPENED IN 2016?

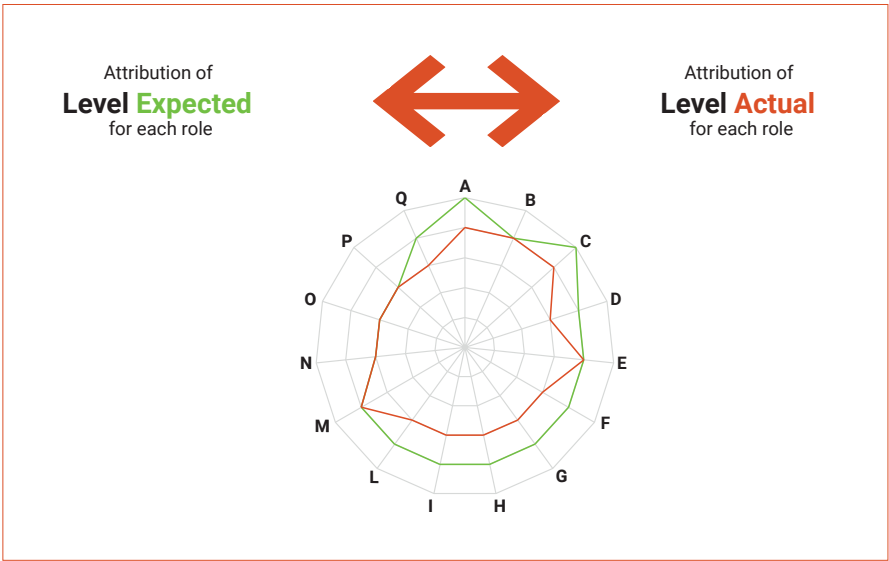
In a period of deep organisational transformation, as was the implementation of the One Company project in 2016, it was essential for the Group to get to know the skills and expertise of its Human Capital.

In 2015, we developed an algorithm to measure Human Capital Coverage (HCC), in order to identify organisational areas where skills were missing and subsequently allocate the right people to positions in these areas. In 2016, this tool became more concrete and realistic, making it possible to make use of its potential within the development/reorganisation processes of the Group's Human Capital.

The main target has not changed: it involves comparing the "expected" level of expertise with the "real" level of expertise of people in different roles.

HUMAN CAPITAL

One of the best definitions of "Human Capital" is that provided by the OECD (Organisation for Economic Co-operation and Development), which identifies it as *"The knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being"*.





- training based on clear principles also taken from the analyses developed with the HCC.

Competence, expertise, know-how and ability to learn are fundamental characteristics for individuals and to shape our company's future.

Some figures about the year 2016:

- the entire corporate population was assessed, except for the first line reporting to the CEO;
- 379 skills were included in the "skills catalogue";
- 230 roles were defined within the company.

In 2016, our "Human Capital Coverage" index was 86%, with an increase of approx. 2% compared to 2015.

The main factors which brought about this increase are due to the following elements:

- identification of the company's organisational areas where measures were needed;
- suitable development of organisational processes to improve productivity within some specific action areas;

The HCC index is also a tool used by our employees to continuously adapt to changes of the labour market and to continue their professional development along a specific direction, that of self employability.

According to ERG's industrial development plans, we will reach 90% of our Human Capital Coverage in 2018. This is a very challenging goal, given the extremely dynamic organisational change initiated in the late 2016 and officially launched in January 2017 as the One Company project.

KPIS OF THE PROCESS FOR DEFINING THE "ROI"

2015	91%	365	147	84%
	COMPANY EMPLOYEES	COMPETENCIES IDENTIFIED	ROLES DEFINED	ROI COVERAGE
2016	100%	379	230	86%
	COMPANY EMPLOYEES	COMPETENCIES IDENTIFIED	ROLES DEFINED	ROI COVERAGE

TALENT AND HOLISTIC VIEW OF PEOPLE

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At ERG everybody is considered from multiple points of view. We try to have a holistic vision.



By implementing the HCC tool, we have adopted processes and tools that help people perform a structured analysis of themselves, of their professional and training experience, of the value they generated for the companies they have worked for and currently work for, but also helps them identify and express their motivation and desire for professional development.

In addition to traditional processes, such as performance management, training and skill and potentiality development and analysis, ERG strives to identify the talent that lies within people.

This kind of vision helps people avoid a “fossilised” vision, but a dynamic opinion about their collaborators and, more generally, their colleagues.

This means it is possible and desirable to keep working to develop and update the knowledge

of ourselves, of our personal assets and of our energies and motivations.

The Talent Management approach is not exclusively a Human Capital asset, nor is the approach recommended to People Managers to empower their collaborators: first of all, it is a responsibility that everybody has towards themselves, consistently with the self-accountability drive that ERG launched in 2012 under the People Project.

In 2016, we set up innovative training programmes specifically to develop, on the one hand, the ability to recognise other people's talents by means of a structured observation of daily activities and, on the other, by interviews, workshops and self-observation in the field.

Being able to use these talents means going beyond standards and is extremely motivating, since it helps people not only overcome challenges, but also express their full potential and achieve their “personal missions”.

TALENT

Talent is an intrinsic characteristic, which, when expressed, helps people address tasks that are usually considered difficult, effortlessly. When mastered, this ability makes it possible to consistently achieve extraordinary results.

PILLARS TO CREATE VALUE THROUGH NEW ENTRIES IN THE COMPANY

Our vision of Human Capital focused on talent and management tools such as the HCC helps us respond to most of our professional needs by fostering the growth of our people.

Therefore, people who are already part of our organisation can be deployed to cover vacancies that arise due to changes to our business or to new organisational models or to the need to replace colleagues whose career growth has led them to move on, within the company or elsewhere.

SUCCESSION PLAN: COVERING HIGH-LEVEL VACANCIES

Being able to replace a person with a high level of know-how and that is pivotal to corporate processes is one of the main challenges that a structured Group such as ours needs to be ready to face vis-à-vis the labour market.

This is why we have identified certain positions as having a high "retention risk". There may be many different reasons to do so, such as career expectations, personal reasons, logistic aspects and age.

After identifying the positions, we have also defined the profile of the "ideal successor" for each one, trying to define career paths, capabilities, seniority and potential key skills needed to take up that role. On this basis we have extended the list of internal candidates and therefore identified possible career paths.

In addition, we asked all of ERG's people to analyse their career expectations and use the People Portal to design multiple alternative growth paths, including information on their willingness to relocate, and their degree of preference and motivation for each path.

By performing an integrated analysis of possible needs, capabilities useful for that position, personal expectations and characteristics, we outlined Succession Plans for the first 2 levels of our organisation and identified the candidates who could cover the various roles:

- in case of emergency;
- immediately;
- within one year;
- within 3 years.

This process makes us ready for the future and

THE EFFECTS OF ONE COMPANY

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PEOPLE CHANGED
ROLE

74%

OF NEW ROLES IN LINE WITH
EXPECTATIONS EXPRESSED
THROUGH THE PORTAL

89%

OF GROWTH OPPORTUNITIES
HAD BEEN IDENTIFIED
AT THE TIME OF THE
SUCCESSION PLANS

to promptly and efficiently handle the situation when colleagues leave our company.

In 2016, we carried out our career & succession plan cycle a few months earlier than in the past, to contribute to the One Company programme more effectively, more rapidly and with greater quality.

RECRUITING: THE USE OF EXTERNAL RESOURCES

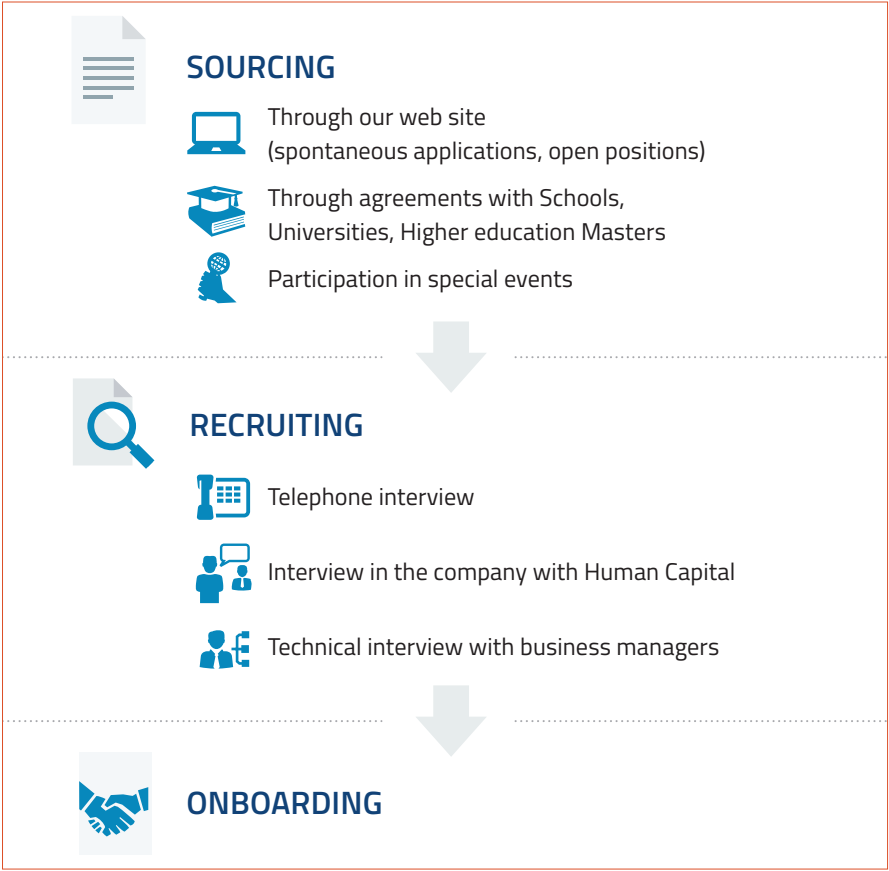
We access the market when we believe that an external professional or manager could significantly increase the quality of our skills and be an advantage for our Group. We follow a three-step process to recruit external resources.

Sourcing

Our sourcing process puts us in contact with people that are interested in working at ERG. The tools available to us to do so include our website, our LinkedIn profile where we list open positions and which can be used to send spontaneous applications, agreements signed with schools, Universities and Master courses, and events organized specifically for the purpose.

Recruiting

The next step in the process includes a series of interviews and aptitude tests and to identify the most suitable people, in terms of technical and managerial skills. We also use practical



troubleshooting tests to assess the technical skills of candidates.

Onboarding

To create the conditions for new colleagues to quickly become independent and turn their talents, skills and motivation into concrete results: this is the goal of our onboarding process.

To favour the addition of a new resource, the Human Capital team and the People Manager

design a process to help discover our Company, the tools available and our main stakeholders, based on formal (meetings, interviews and shadowing) and informal meetings (business lunch, sport activities, etc.).

A person's first day at ERG is fundamental to us: we explain our induction plan, but, more specifically, we try to make our new colleagues feel a part of a team, and to get to know each other not only professionally, but also personally.

ERG HYDRO - ONBOARDING & INTEGRATION ROAD MAP

During 2016, we promoted several initiatives to help integrate the people that joined ERG as a result of our acquisition of hydro power assets. Our goal was to go beyond the "welcoming" phase, to get to know each other quickly during special events, so as to be able to work together fruitfully as soon as possible. Besides the operational management of plants, we implemented various initiatives to work at both an individual and collective level: initially, we exchanged information and data and collated the knowledge acquired. This gives all colleagues the opportunity to introduce themselves and tell about their professional history on the People Portal, a useful tool to manage all the Group's human resources development processes. CVs made this way were used as the basis for individual onboarding interviews. The training process designed and realised by the Human Capital department was particularly interesting: 24 speakers told about their experience, to introduce ERG, the way we work, our values and our culture.



After classroom sessions, the final phase of the project included a visit to the Terni hydroelectric complex, to ERG's Power's thermoelectric plant in Priolo Gargallo (Siracusa) and to the wind farm in Carlentini (Siracusa).

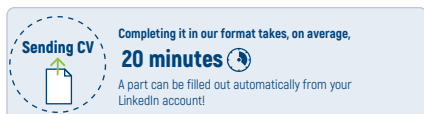
Our careers website

The "Careers" section of our website is a very important showcase and a fundamental tool for our sourcing. It is set up not only to receive applications, but also to tell our story, by describing our business, our achievements, our values and our employer value proposition.

We are very attentive to these pages and have decided to use them to provide a realistic image of all of us to our future colleagues.

The "Work with us" section has:

- information on the Group's professional "families";
- the details of open positions and job descriptions;
- a direct link to our data base with timeframes for completing applications.



- suggestions on how to write a CV and prepare for a job interview;

- information on the Group, also in mp3 format;
- many interviews with colleagues that explain their jobs.



Introducing ourselves - part 1
Listen to the audio recording



Introducing ourselves - part 2
Listen to the audio recording



Get ready for the interview
Listen to the audio recording



We are ERG
Listen to the audio recording

The section for new hires includes a "Steer your career" section, which offers a general overview and description of the future professional family they could become part of, according to their educational certifications.

The quality of information we provide is high and, in addition to the extremely positive feedback that candidates give us during job interviews, we were #1 in the Italian Career Website ranking for Talent Communication by Potentialpark.

ERG: ITALY'S BEST CAREERS WEBSITE

Potentialpark is a Swedish company that is specialised in Employer Branding for young people who are entering the labour market: every year, it publishes the results of its national and European rankings.

Online communication was assessed according to 340 criteria by 8279 young Italian talents and compared with 81 other Italian companies.



After the excellent result we achieved in 2015, when ERG ranked 14th in Italy, in 2016 we reached an even better result: we ranked 4th in the Italian "global" ranking and hit first place in the Career Website Italy ranking (we were 18th in 2015).

For the first time, we were included in the European general ranking, where we ranked 20th out of 128 companies.

CREATING GROWTH OPPORTUNITIES FOR UNIVERSITY STUDENTS ABOUT TO GRADUATE AND THOSE WHO HAVE ALREADY GRADUATED AND JUNIOR PROFILES

Our Group cooperates actively with Universities and postgraduate schools to offer opportunities to guide professional development. These partnerships include success stories, visits to plants, internships, cooperation and career days.

In 2016, ERG took part in the initiative "I want to be a Manager", sponsored by Confindustria, Federmanager and AIDP. University students about to graduate and those who have already graduated worked with some managers for three days, participating in their activities, relationships, meetings and normal day-to-day business. To complete and enhance this orientation system, at the end of this experience, we organised an individual debriefing sessions and professional orientation interviews.

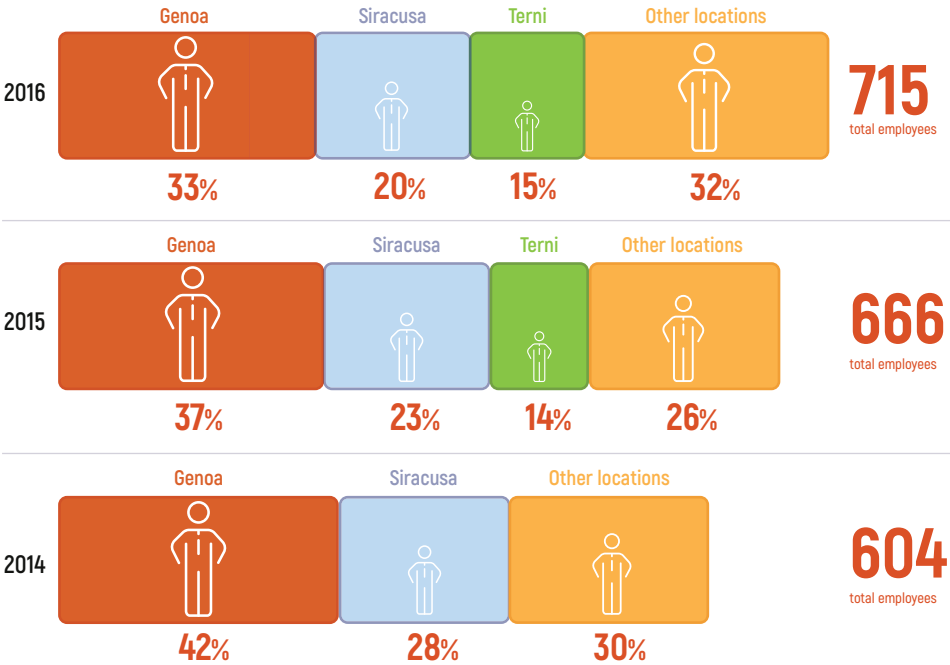
In 2016, the first edition of NEXT Generation ended. This is a development programme that aims at selecting and supporting international leaders capable of disseminating ERG's culture and taking it beyond the Italian borders. In order to support the Group's development abroad, we prepared a programme that includes design experience that after one month of onboarding to familiarize with ERG and with the Italian employment culture, included Energy Managers, assets, project managers, institutional and international relationships. The experience was not only diversified because it was linked to several organisational areas, but also because it concerned many geographical areas and the history of ERG's acquisition of the organisational area of interest. At the end of this programme, the new colleagues joined the Country Management of France, of Germany, and Institutional and International Relations.

28TH EDITION OF THE MARISA BELLISARIO PRIZE "WOMEN AT HIGH ALTITUDE": ERG AWARDS A PRIZE TO A NEW GRADUATE

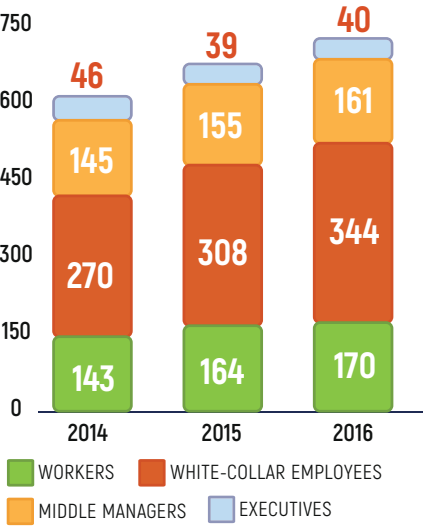
Created in 1989 to celebrate the Italian entrepreneur Marisa Bellisario, every year a qualified jury awards the "Golden Apple" prize to women who stood out in their professional activity, in management, science, economics, social and cultural activities, at national and international level.

For the New Graduate section, this year the "Golden Apple" prize was awarded to a young and brilliant young lady - newly-graduated cum laude in Civil and Environmental Engineering at the University of Genoa.

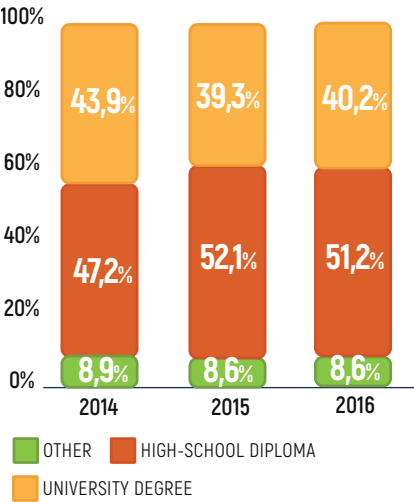
ERG GROUP: PEOPLE AND ORGANISATION



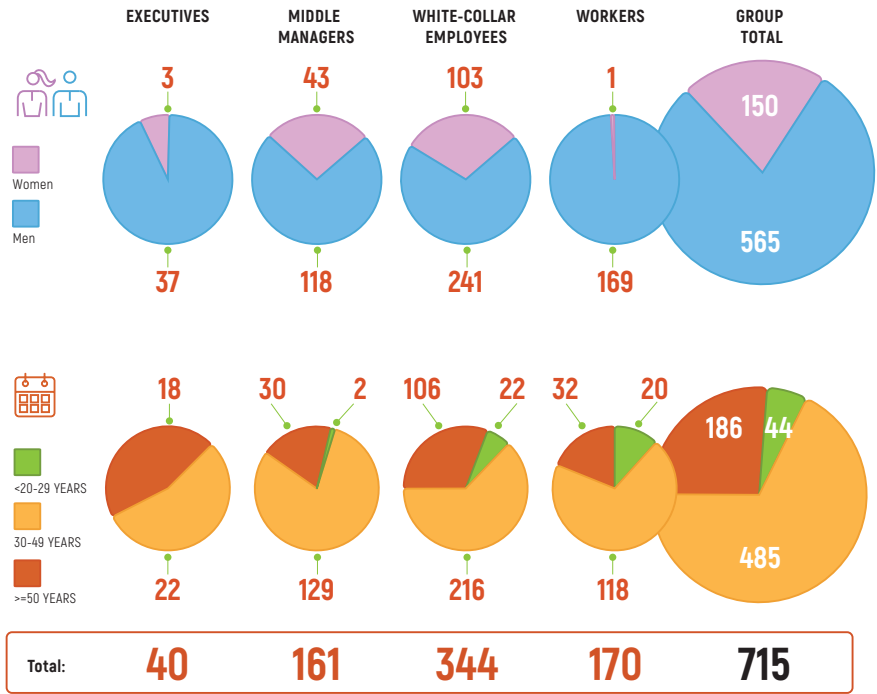
CHANGES IN POSITION



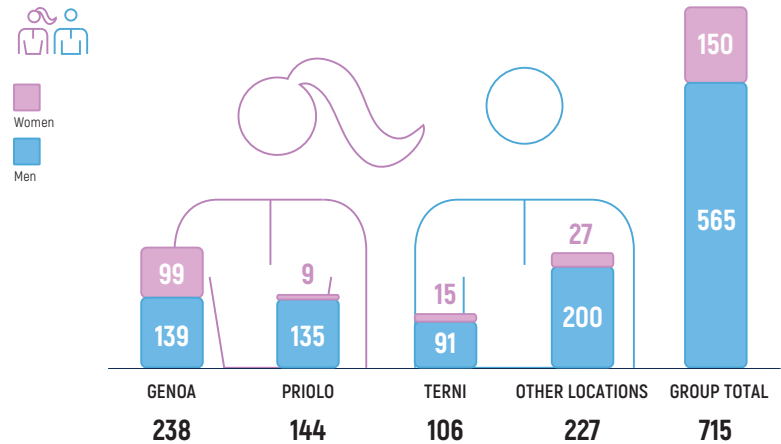
EDUCATION



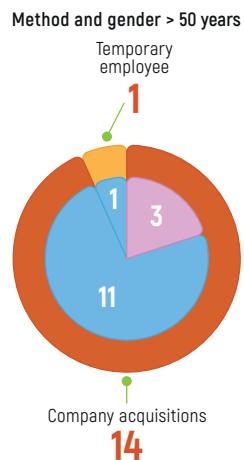
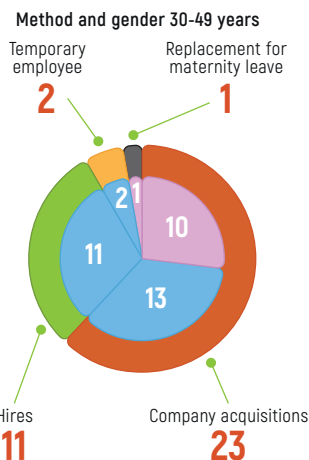
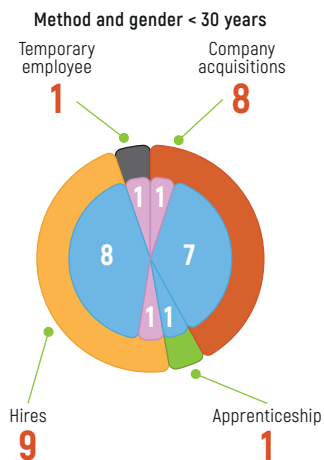
ROLES BY AGE AND GENDER



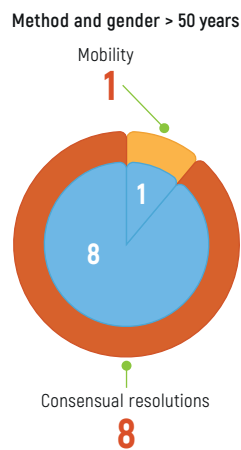
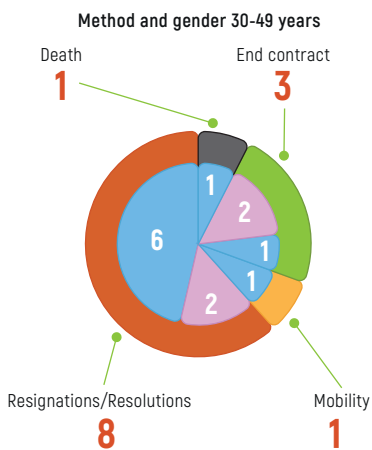
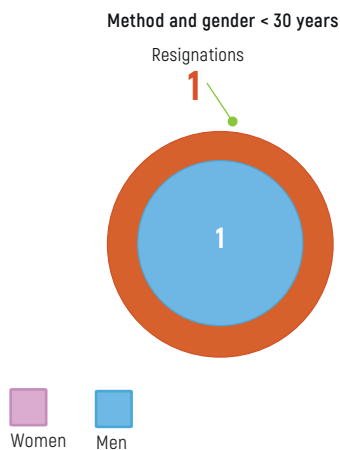
GENDER BY SITE



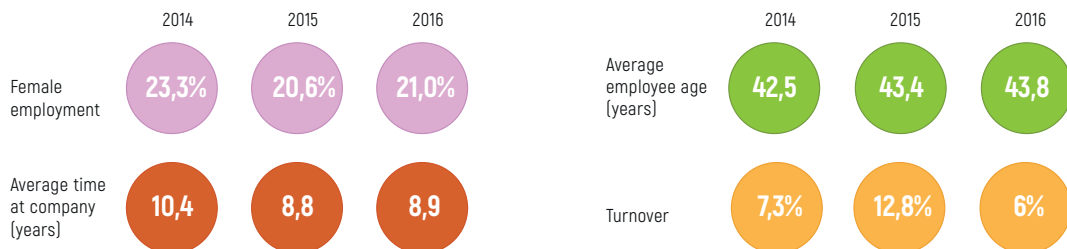
INBOUND TURNOVER: 71 PEOPLE



OUTBOUND TURNOVER: 23 PEOPLE



OTHER INDICATORS



* Turnover data does not include staff that has joined/left the Group as a result of acquisitions/disposals of companies, so as to show the real change in staff during the year.

LET'S SHAPE OUR FUTURE

Training represents a fundamental investment for the present and future of our Group.



Our many different training programmes include conceptual and operational tools to be able to handle corporate roles and more.

These same training programmes also encourage:

- disseminating our values;
- experimenting new approaches to achieve our goals;

- integrating people and our work culture;
- bringing people together as teams;
- using a common language.

Self-accountability is the key word that for years has identified the high level of accountability concerning the growth path of each of us. Every year, ERG updates its training programmes and asks everyone to define their own plan to develop value as professionals and managers, to increase their employability and effectiveness.

The You Learn activities were designed to increase people's value and are updated according to specific needs, gradually adding more and more in depth on many topics.

All our training programmes are designed in cooperation with the best teachers on the market and include a range of hands-on activities, by exchange of feedback, tutorship,

KPIs IN OUR TRAINING			
2015	27,584 HOURS OF TRAINING PROVIDED	5.7 DAYS OF TRAINING PROVIDED PER PERSON	92% PEOPLE WHO PARTICIPATED IN THE TRAINING
2016	31,787 HOURS OF TRAINING PROVIDED	5.6 DAYS OF TRAINING PROVIDED PER PERSON	96% PEOPLE WHO PARTICIPATED IN THE TRAINING

coaching and naturally in-classroom seminars. In brief, our training programmes help people develop a greater awareness of their resources and set up a concrete, short-term action plan to consolidate their skills and expertise.

We believe that to be effective, training must "make something happen", so, both before and after the seminars, participants are encouraged to apply to their daily work the goals and action plans defined during the seminars: 650 hours were dedicated to individual tutorship activities, pre-class interviews, discussions, coaching or feedback after the seminars. And since classroom training is only part of the whole, we also provided 861 hours of remote training, as webinars, tutoring and group coaching.

Intentionally, the classes were made up of people of different ages and genders, with a range of professional backgrounds and roles, and coming from various places, since diversity is one of our key resources.



ERG AND TRAINING

"People are key to the existence, development and success of every business; ERG therefore pays particular attention to promoting, protecting and developing the abilities and skills of all its employees, so that they can realise their full potential and professionalism and, as a result, contribute to achieving the Group's objectives in accordance with the commitments to social and environmental responsibility established by the management."

(ERG Group's Code of Ethics)

With this approach, we define our training programmes, so that everybody can enhance their value.

BEFORE AND AFTER TRAINING

We believe that to be truly effective, training must "make something happen", so, both before and after the seminars, participants are encouraged to apply to their daily work the goals and action plans defined during the seminars: 650 hours (5% of the total offered) were dedicated to individual tutorship activities, pre-class interviews, discussions, coaching or feedback after the seminars. And since classroom training is only part of the whole, we also provided 861 hours (7% of the total offered) of remote training, as webinars, tutoring and group coaching.

HUMAN CAPITAL AND REWARDING

The Group's rewarding system was designed to generate a sense of belonging, motivation and drive towards improvement by optimally balancing monetary factors and non-monetary benefits.

The cornerstones of our rewarding system are:

- selectivity: the recognition of the value of high performers, while treating normal contributors according to market conditions;
- fairness: the ability to ensure that everybody's basic remuneration is consistent with the cost of living in their country;
- sustainability: the optimum balance between the aspirations of the individual and the company's financial resources.

This system makes it possible to adapt the elements that make it up and to align the interests of the individuals with the company's

need to attract and motivate resources, with the goal of optimising labour costs.

For all of ERG's people, the reward system is made up of a number of components:

FIXED ECONOMICAL COMPONENTS

We abide by the National Employment Contract for each category (Energy and Oil, Electricity, Private Metalworking and Mechanical Engineering, Executives of companies producing goods and services, foreign-law contracts applied to our companies abroad), which ensure remuneration and contract standards, in accordance with national employment regulations.

Workers who are employed temporarily on supply contracts are also granted the same remuneration conditions as the contracts applied to employees on permanent contracts.

TREND OF THE RATIO BETWEEN MINIMUM AND AVERAGE SALARY IN RELATION TO THE NCLA

Position	2016		2015		2014	
	Minimum	Average	Minimum	Average	Minimum	Average
Managers	110%	166%	110%	164%	111%	168%
Middle managers	110%	143%	109%	141%	103%	136%
Administrative staff	100%	158%	107%	159%	102%	154%
Workers	110%	138%	112%	121%	114%	125%

On average, the minimum salary within the Group is 7% above that of the minimum of the National Collective Labour Agreement.

In defining our remuneration policy, one of our priorities is to protect gender equality: the analysis we carried out during the year showed that the difference in average pay levels for women is 4%

for middle managers and administrative staff. The main reason for these differences lies in the proportion of men to women in each category.

MEN/WOMEN SALARY RATIO ACCORDING BY POSITION

Position	2016	2015	2014
Managers	83%	97%	99%
Middle managers	96%	97%	96%
Administrative staff	96%	97%	93%

VARIABLE ECONOMICAL COMPONENTS

It is based on systems that directly correlate corporate performance and individual performance (MBO – Management By Objectives, LTI – Long Term Incentive), on collective bonus schemes (Productivity Bonus) to ensure that all the staff, including temporary workers on supply

contracts, is involved in achieving corporate performance, and is also based on the Group's profitability and productivity goals, and on discretionary mechanisms that reward working performance and behaviour by paying one-off bonuses.

THE CORPORATE PRODUCTIVITY BONUS

Sector-level collective bargaining uses productivity bonuses to engage employees to create value in terms of sustainability of the business. The productivity bonus for the period 2015/2017 was defined to provide our people with new incentives for improvement. The productivity bonus applied to all the non-management employees is based on profitability and productivity indicators and the reference target value is 4.4% on average of the annual contractual salary. The profitability indicators are represented by the EBITDA of the business units the employees belong to, while for staff is represented by the Group's EBITDA. Productivity indicators are linked to the specific parameters of each business.



The Corporate Productivity Bonus is calculated on the Corporate Productivity Index (IPA) by means of a linear function which puts in relation the trend of the IPA (with a variability between 80% and 120%) and the productivity bonus payment levels (with values between 0% and 150% of the target value 100%).

BENEFITS AND WORK-LIFE BALANCE

Health and Social Security Insurance, projects and initiatives for employees and their families, various promotions and facilitations.

Overall, our employee welfare services follow four general guidelines:

Supplementary pension schemes

In the face of the constantly changing pension scenarios, our Group has decided to support the second pension pillar, which requires the payment of an additional fee to the contractual integrative pension funds, which were chosen by about 66% of the population.

Contractual fund	NCLA	% participation
Previndai	Industrial Managers	98%
Fondenergia	Energy and Oil	79%
Fopen	Electric	79%
Open funds	Miscellaneous	3%
Weighted average		66%

Health benefits

Supplementary healthcare is offered by participating in contractual funds, taking out

supplementary insurance policies covering professional and non-professional accidents and other specific initiatives of the Group.

Contractual fund	NCLA	% participation
Fasi	Industrial Managers	98%
Fasie	Energy and Oil	75%
Fisde	Electric	99%
Metasalute	Metalworking and Mechanical Engineering	2%
Weighted average		64%

In 2016, besides the usual opportunity to receive free flu vaccinations, we again offered a "Secondary Tumour Prevention Programme". It gives all women over the age of 40 and all men over the age of 50 the chance to have ultra-sound scans to identify the most frequent forms of cancer, such as breast cancer and prostate cancer.

A medical office is always present at all our locations so that, during working hours, all employees can access health and medical

specialists. Besides providing first aid, these offices offer counselling on health problems unrelated to work, and check-ups for workers who are exposed to specific risks. The medical offices also support health promotion campaigns that are developed according to local programs, and promote prevention.

Work-life balance

We support a balance between work and personal activities by offering flexible working hours and part-time, family leaves, contributions

for pre-school costs, paid medical leaves for employees and their minor children.

Free time
The company's investment to improve the internal climate is clearly shown by a series of

USE OF WORK-LIFE BALANCE

Position	Total	Women	Men
Part-Time	3.8%	100%	0%
Medical leaves	60%	75%	49%

recurring events, which reinforce the sense of belonging to the "ERG community": Family Days, Christmas parties, Welcome events, Group Meetings.

Complementary to ERG's green vision, we support sports activities and have sponsored the participation in national (energy championship) and international sports events (marathon and half marathon).

SMART MAINTENANCE:
A NEW OPERATIONAL TOOL TO INCREASE OUR EFFICIENCY

Our in-sourcing of maintenance activities made it necessary to identify a specific tool to record the presence of travelling personnel (characterised by a high level of travel in the area, 24/7) at the workplaces they are called to work at from time to time.

Thanks to the installation of over 1000 QR Codes within the turbines, in the substations and the warehouses, maintenance activities are supported by an app, available on the portable systems used by all technicians; it also made it easier to clock in/out.

In the past, the personnel needed to check into the local office to clock in/out, so employees had to travel more and use more time when called for at night, on holidays, etc. Now everything can be done on site, since workers can clock in /out from a mobile device, using the geolocation system and a "blind" clocking system. In addition, the management of transfers to reach the workplace has been significantly simplified.

Why is all this sustainable? Because it supports and helps our colleagues' work. Being able to go from home to the worksite directly when on duty allows the personnel reduce the number of kilometres travelled to reach the workplace and contributes to a more sustainable, easy and effective management of their work and time (in particular when interventions are needed at night or in bad weather conditions).

In the future, this application will be optimised so that it can support technicians on-site if needed: automatic alerts will be sent to the central office to provide a further contribution to avoid possible accidents.

PAY FOR PERFORMANCE

The remuneration of managers and middle managers attracts, retains and motivates qualified managers, makes the most of their skills and aligns personal goals with those of the Group to create sustainable value in the medium and long run.

We have different bonus schemes according to the roles. Specifically, they are the MBO (Management By Objectives) and LTI (Long Term Incentive) systems which aim at achieving certain economic, financial and strategic goals, linked to value generation for the company.

In the recent years, the number of people involved in the system has increased: in 2016, 100% of managers and 45% of middle managers participated.

SHORT TERM

The MBO system helps the participants achieve annual goals on the basis of a three-year business plan. The system sets a number of performance goals for the participants, structured as follows:

- a Group-level goal for all participants, which accounts for 30% of the total bonus and is based on the "Consolidated income before IAS tax at current values" indicator;

- additional individual goals (up to three) depending on the person's role, for the remaining 70% of the bonus, on the basis of quantitative indicators linked to economic and/or project related parameters.

Each goal has a certain weight and share of the total bonus.

The amount paid for outstanding performance cannot exceed a certain threshold, which is 150% of the target value for the corporate objective and 120% of the target value for individual goals. If minimum performance is not reached – 80% of the target value for individual goals and 50% of the target value for the corporate objective – no bonus is paid.

Sustainability Clause

Consistently with the close attention that the Group has always paid to the safety of its workers, and regardless of the final corporate performance, no corporate objective-related bonus will be paid to participants in the MBO systems of a specific work site in a year in which an accident occurs that results in the death or in permanent invalidity of a Group's employee that is 46% or more.

Type	Weight	Definition		Level of achievement of the performance indicators	Incentive paid
Corporate objective	30%	Consolidated income before IAS tax at current adjusted values		= Threshold Indicator	50% target value
				≥ Outstanding Indicator	150% target value
Individual goal	70%	Divided in:	Economic Development	< Threshold Indicator	80% target value
			Organisational	≥ Outstanding Indicator	120% target value

LONG-TERM INCENTIVE SCHEME (2015 – 2017)

In 2015 we started applying a new long-term incentive scheme for the Group's CEO and Top Managers.

The LTI System was designed as both an incentive and a retention system, to tie together as much as possible, the beneficiary's interests and the sustainable generation of value within the business plan.

In particular, it strives to:

- encourage its recipients to support an improvement of value creation performance for the Group and for its operating companies;
- empower its recipients on the organisational levers in play by modulating the EVA (Economic Value Added) performance index depending on their organisational role (corporate resource or business asset);

- increase the recipients' desire to achieve – and possibly to exceed– the value creation objectives laid down for the 2015-2017 period;
- focus the recipients on the ability to propose and implement investment projects that foster the growth of ERG's market value; all resources are also motivated, in different ways, based on the TSR (Total Shareholder Return) parameter;
- retain the recipients that are deemed critical to improve ERG Group's performance.

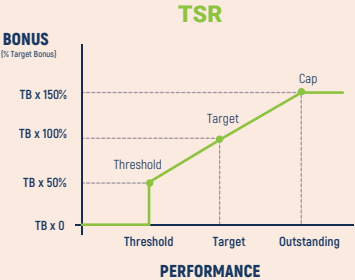
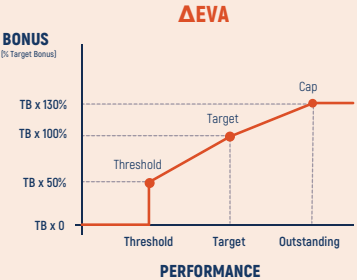
The target performance indices are differentiated depending on the role of the beneficiary within the Group, in relation to the scenario in the 2015-2017 business plan.

Any possible accrued amount will be fully paid in 2018, at the end of the three-year accrual plan (2015-2017).

EVA AND TSR

ERG Group's Economic Value Added (EVA) is a performance target that represents the "residual" economic value after having paid all production-related factors, including the cost of the capital used. It expresses, therefore, an income net of the cost of capital. EVA considers the asset and financial components alongside the income.

Total Shareholder Return (TSR) is a performance objective linked to ERG's share price in the three-year reference period and the amount of dividends per share paid during the same period.



INDUSTRIAL RELATIONS: CONTINUITY AND INNOVATION

For the Group's Industrial Relations system, 2016 was a year of both continuity and change.

We maintained our relational model based on continuous participation and exchange with all stakeholders at a national and local level.

Despite our specific type of production being particularly complex and geographically widespread, this approach made it possible to consolidate our industrial relations system without causing internal conflict, and keeping our stakeholders involved in all the fundamental discussions required by the contracts and by standard practice.

We had several opportunities for discussion and exchange of ideas with the Trade Union Representatives both in Genoa and Priolo Gargallo in order to:
monitor the half-yearly trends of the Corporate Productivity Bonus parameters for 2016 and to stress the importance of properly planning annual holidays.

2016 was also a year of innovation and inclusion, both geographically (in Italy and abroad) and in terms of businesses managed.

As for internal activities, after acquiring our hydroelectric plants in 2015, the traditional trade union representatives in Siracusa and Genoa were joined by a local player: the trade union representatives from the Hydroelectric Plant in Terni.

In addition, the national representatives of the Power sector have become a permanent stakeholder in our Group, thus giving their contribution to the fruitful industrial relations with the representatives of the Energy and Oil sector.

From the very beginning, our relations with the new stakeholders aimed at the creation of incentive and inclusion policies for the personnel on site, through the extension and reorganisation of consolidated governance models.

We have had several opportunities for discussion and exchange of ideas with the local representatives, in particular concerning the immediate stipulation of agreements to include new colleagues into an individual productivity model, which is already used by ERG, in order to provide new incentives and motivation to the personnel in Terni to improve business performances.

During the year, we paved the way for the development of a suitable industrial relations model in the countries where we operate.

It is worth mentioning the experience of a French company acquired by ERG early last year, where the personnel decided, for the first time, to elect "délégués du personnel": corporate representatives for industrial relations and the exchange of collective information, in full respect of the French labour law tradition.

2016 Industrial relations	
Internal conflicts	0 strike hours
National Labour Contracts Applied in Italy	3
Trade Union Representatives (Italy)	3
Délégués du personnel (Francia)	1
Sick leaves	1.76%
New personnel litigation	1

To summarise, we can say that the geographical and business complexity in the Group increased in 2016, but this did not cause problems in terms of industrial relations or labour law provisions. We will certainly have to face new challenges and we will behave ethically, with our usual transparency and respect of the participation model with all representatives.

ERG AND THE UNIVERSAL DECLARATION OF HUMAN RIGHTS

The recognition of Human Rights is considered by the Group to be one of the fundamental bases for conducting business to the point that reference is made to the principles of the 1948 Universal Human Rights Declaration in the Normative References of the new edition of the Code of Ethics approved in May 2014.

The Company has analysed the issue in its business and economic influence environment: we believe that the issue of human rights is not currently a concern.

ERG AND PEOPLE

“ERG offers equal working opportunities to all, on the basis of individual professional profiles and potential performance levels, without any discrimination, disapproving of all harmful behaviour against individuals and pledging to adopt the most suitable supervisory measures to this end.

For this reason ERG, in accordance with all laws, regulations and company policies in force, pledges to:

- select, hire, pay, train and assess people according to merit and professional expertise, without any political, trade union, religious, racial, language or sexual discrimination;*
- [...]*

(ERG Group's Code of Ethics)

COMMUNICATION WITHIN ERG

For ERG sharing information is fundamental to make our strategies known and increase our reputational capital: over the past few years, we have chosen to develop and implement a digital communication system to reach as many stakeholders as possible, to provide targeted content as directly as possible.

Our approach is based on transparency, quality and timeliness, so as to:

- build reliable and long-lasting relationships with our internal and external stakeholders;
- keep discussion alive, proactive and two-way;
- strengthen the Group's reputation and identity.

We use three main channels to get our word out:

- our corporate website www.erg.eu, for the public, the media, for investors and those seeking employment;
- the social media, with our @ergnow Twitter account and our profiles on LinkedIn and YouTube;
- the ERGate intranet site that – on multiple levels – updates employees about the Group's news, involves them with internal events and

sports/recreational initiatives and updates them on the use of knowledge-sharing and collaboration tools that are available.

OUR CORPORATE WEBSITE

The main aim of our website is to provide clear and up-to-date information about the Group. We launched our new website in the summer of 2014, with a different look and content, focusing on more visual communication and a more attention to people, which we place at the heart of our web communication strategy.

We also added a "Twitter box" to our homepage, so as to strengthen our commitment and the success of our @ergnow channel. We have also added new videos, interviews and contents for our website to be more usable and up to date.

Communicating means involving: we decided to not publish only documents and technical details, but also stories on our company, on its employees and the evolution of its business through images, videos and infographics.

We will keep this approach in the future: a



functional website is not enough, we want to tell about our experience and to involve people that show interest in our Company and in our business.

Last summer, we developed the "About us" and "Our business" sections with great care, so as to be able to describe our Company and its business in detail and engage people more.

We decided to customise the "What we do" section as much as possible, for example by replacing the common section naming, "Our business", with "Our energy".
Along the years, corporate governance, ethics

and sustainability have become increasingly significant, since they show how much our business proves to be sustainable in the long term.

We added to our homepage a specific area for sustainability-related news, in order to relate Corporate Social Responsibility activities day by day.

SOCIAL MEDIA

In May 2015, we launched a communication strategy on Twitter, LinkedIn and YouTube, based on timeliness and dynamism and focused on different aspects of our corporate life.

ERG IN THE TOP 10 OF DIGITAL COMMUNICATION IN ITALY

In November 2016, the 2016 Italian Webranking was published: our corporate web site ranked eighth (out of 70 listed Companies) - 6 positions higher than the 2015 edition- with the very good result of 67.7 points, the Italian average being 43.5 points.

Webranking is a real stress test on the transparency of digital information, as it rates communication according to increasingly stringent standards of stakeholders.

The selection method is updated every year and each year become more detailed; it is based on 237 criteria and sub-criteria (for a total of 100 points), defined on the basis of the questionnaires sent to analysts and investors, financial journalists, web managers and millennial (for the Careers section). The websites of the selected companies were assessed twice by two different experts and the first 10 websites in the ranking were examined for a third time.

According to the analysis, the most appreciated and effective areas of our corporate website are:

- the homepage, for its visual approach and the clear presentation of all the information by means of direct links;
- the "About us" section is detailed and exhaustive and includes a detailed description and images and infographics to explain our business;
- the "Media" section includes various content (videos, images, Social Media Room), which can be easily shared;
- the "Working at ERG" section provides useful information for people seeking jobs and those wishing to discover more about life at ERG, thanks to the cooperation with many colleagues who accepted to tell about their professional experience, our values and our approach to talent enhancement.

In 2016, we consolidated our position as green energy operator on social media, producing content on our activities, publishing a selection of news on the world of renewable energy and innovation posted by other operators, associations or press agencies.

In particular, through our @ERGNOW Twitter account and our LinkedIn page, in Italian and English we described our business operations, financial results and our social responsibility activities and the projects we support.

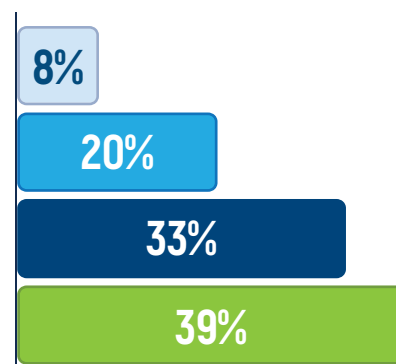
On social media, we also published the speeches of our managers at a number of events and conferences; with the hashtag #weareERG, we used YouTube to publish corporate videos to strengthen our corporate identity by the enhancement of our human capital.

A strong commitment in terms of communication to provide high quality and reliable information to our followers.

The figures resulting from our social communication strategy are gratifying: our @ERGNOW Twitter account has reached over 7,700 followers by the end of 2016 and the number is continuously increasing, thanks to our information activities and over 574 tweets.

On LinkedIn, we had more than 10,300 followers at the end of 2016, with 258 posts published. In

2016, we published 20 videos on YouTube, for a total of 4,297 view minutes and 4,204 total views by single users.



Social identity tweets



ERG Corporate tweets



Sustainability tweets



Renewable energy tweets

INTERNAL COMMUNICATION

Last year, we also organised many events and initiatives to inform and involve ERG people on current corporate issues and topics such as sustainability and green economy.

Our main initiatives are described below.

CSR ON LINE AWARDS

In March 2017, the seventh Lundquist CSR On Line Awards (Italy) research was published: it analyses the sustainability-related content of the corporate websites of listed and non-listed companies. Our score was 47.75 points out of 100 and we ranked eighth (6 places higher than in the 2014 edition, when we scored 40.5 points). One of the most appreciated aspects is the way we tell our stakeholders about sustainability, in particular through our social channels.

The Group Meeting

For the first time, our annual meeting of Top Managers and ERG's key leaders was not held in Genoa. The venue was the Galleto plant in Terni; this location was chosen to stress the importance and the central role of ERG's operational sites and to show that we support the people affected by the recent earthquake.

During this event, important guest speakers were invited to speak about topics of social

and economic interest. Last year, Paolo Frankl, Head of the Renewable Energy Division at the IEA (International Energy Agency) talked about the future perspectives of renewable energy and described the costs and benefits of their development in the long term.

All the speeches of the Group Meeting were published on the Intranet portal and are available to the entire company.



ERG's Green Side

This contest was designed to develop ERG's new renewable and sustainable culture. We were all asked to tell about the green behaviours in our professional and private lives. These stories were published and shared on our corporate Intranet.

ERG Power's Leaders Meeting

The first team building activity that involved both Hydro and Thermo people, due to

be integrated over the coming year, saw participants (management and key people) sharing their experience and cooperating fruitfully, regardless of their roles, seniority and work location.

The working group proved to be proactive during both the operational team-building phase and the discussion phase, capable of analysing relational and behavioural mechanisms and focusing on the elements which can improve

active listening, planning and integration amongst people.

The Family Day

A new partner has joined the annual event for employees' children between 3 and 12 years of age and their families (approx. 120 participants): Legambiente, that supported us in designing the event and in organising workshops on green energy in Genoa, Terni and Siracusa.



The Munich Marathon

The greenest of sports is an annual event for the 27 ERG athletes, who took part in the Munich

Keen Bikers

The BIKERGS group gathers all motorcycle enthusiasts, who organised and participated in the first tour to discover our hydroelectric plants.

Different groups from Genoa, Rome and Siracusa met at the plant in Galleto (Terni) to visit the plant, have a lavish meal and enjoy the bends up the Valnerina mountains to reach the Salto and Corbara dams.



Marathon in 2016: our logo crossed the finishing line in the prestigious Olympic Stadium.

In 2016, a new tool was created to analyse



in depth the degree of satisfaction for our internal communication projects promoted in the "ERGate" Intranet portal and the "TeamERG" corporate house organ.

The statistical analyses on the web pages define the "level of interest" for the various sections/articles and provide important data to make these communication tools more effective and functional for the users' benefit.

ERGate

Our internal portal makes it easy to obtain all information one can need for "corporate life". It is user-friendly, thus being an excellent tool to share and exchange opinions.

Users are increasingly taking advantage of this tool, designed to promote information sharing (documents, images, projects, etc.) and this further confirms the success of the initiative. In 2016, it was visited by everybody in the company, with a monthly average of approx. 60,000 page views.

In the first months of 2017, we will release the English version of ERGate. This important step will make it easier for colleagues from our offices abroad to get in touch with the Group's values.

TeamERG

TeamERG is a house organ where real facts, events and stories are told from the plants and offices located in the areas where ERG is present: for many years, it has been the "voice" of the Group for all our colleagues.

In recent years, TeamERG has turned from paper to digital, in tune with the dematerialisation process that the ERG Group is implementing in all its sectors.

This year, we took another important step forward: from being a browsable PDF document it became a totally digital and interactive e-magazine.

This technical improvement increased its usability and interactivity for users.



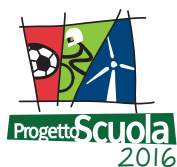
THE MAIN COMMUNITY INITIATIVES

ENVIRONMENT, HEALTH AND SOCIAL DEVELOPMENT



Vai col Vento!

The third edition of the environmental education project "Vai col Vento" took place from March to May. It was promoted by ERG and involved students of the third year of middle school in the municipalities where our wind farms are located. Since its first edition, this project has been sponsored by the Ministry of the Environment and by the Carabinieri police since 2016. It involved 1,500 students from the Regions Sicily, Calabria, Basilicata, Campania, Molise, Apulia and Sardinia. Classroom lectures were held on renewable energy sources, wind in particular, on environment topics, climate change and energy efficiency. After the lectures, the students were taken on guided tours of wind farms, where our technicians explained how wind farms are built, managed and operated and how they generate electricity.



Progetto Scuola

Starting in 2010, we created the "Progetto Scuola", to support activities within schools of all levels in the province of Siracusa. In 2016, in particular, we supported the "Progetto Legalità", organised by Siracusa's provincial Carabinieri division, through the competition entitled "Un casco vale una vita" for third-year secondary school pupils. We also supported the "Icaro 2016" road safety education project, organised by Siracusa's provincial Traffic Police division, which involved approximately 2,000 secondary school students.



Electricity Day

In the framework of "Progetto Scuola", we organised the "Giornata dell'Energia Elettrica" (Electricity Day). This event involved the last-year students from the technical schools of the areas where our plants are located. We have held this event several times in Siracusa and, in 2016, also in Terni and Viterbo. In November, over 150 students from four different technical schools visited the Galletto hydroelectric power plant. Other students from Siracusa, Augusta, Palazzolo and Carlentini were offered a visit to ERG Power's combined-cycle power plant in Melilli and to ERG Renew's Carlentini control centre. Our managers and engineers explained the technical characteristics of these two plants to the students, while pointing out the importance for ERG of the energy efficiency and sustainability of the production.



ERG
Re-Generation
Challenge

Last October, we launched the first edition of the ERG Re-Generation Challenge. This business plan competition was created to provide students, start-uppers and companies with the opportunity to develop business initiatives in the area around Terni. The project was a part of the "Terni Urban Re-Generation" initiative, developed by the Terni municipality for the redevelopment of the urban area. It is divided into three phases: project selection, training, awarding. Project selection is carried out by a team of experts, who drive their "Barcamper" mobile office to the city where the initiative is being held: Terni, Perugia, Macerata, Viterbo and Rieti. During the first phase, 40 start-ups are selected and attend a two-day training course; after this, 20 initiatives are selected to attend a one-week workshop. The three best ideas are awarded a sum of money which they can use to develop their projects.



The Oasis
of Alviano

The WWF has been taken care of the Oasis of Alviano since its establishment, in 1990, and contributes to the maintenance of the environment and to better reception facilities. An Environmental Education Centre is located inside the park, which also includes seven bird-watching hides equipped with noticeboards and explanatory panels to help visitors recognise the many species. A tower was also built to help visitors watch the birds.



Umbria Jazz Assist

We supported the "Umbria Jazz Assist" initiative, organised by the "Fondazione Umbria Jazz" in cooperation with the Umbria Region. In September and October, two concerts took place and all the money collected was donated to the people affected by the earthquake in the Umbria, Marche and Lazio regions.



Fondazione Gaslini
and Fondazione
Mus-e Onlus

We support the Istituto G. Gaslini in Genoa - a centre of excellence for the treatment of childhood diseases at international level - and the Fondazione Mus-E Onlus, which organises projects for primary school children from socially-depressed areas to involve pupils in art creation initiatives for school integration.

CULTURE AND KNOWLEDGE



CSR IS – Sustainability and Social Innovation Expo

Spreading the culture of Sustainability is very important to us: this is why we support the "CSR IS – Sustainability and Social Innovation Expo", whose key words for the 2016 edition were "Change, cohesion, competitiveness". We attended the edition held in Genoa and the final nation-wide event at the Università Bocconi in Milan. This initiative was significant not only to showcase our best practices for Corporate Social Responsibility, but also to stimulate networking among some of the most important CSR players.



Explora and the Museum for Children

In 2016, we once again cooperated with Explora and the Museum for Children in Rome providing the "Watch out for the wind!" exhibit on wind energy. Our goal was to help children understand one of the most important and widespread renewable sources developed in Italy, and help them discover what wind energy is, in a playful experience.

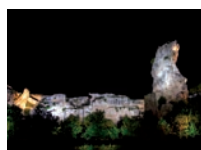


Communications Festival

We supported the third edition of the "Communications Festival", held in Camogli in September.

Boot Camp

We supported the fifth edition of the "Boot Camp", an education event provided to the members of the Young Entrepreneurs Group of the Genoa Confindustria. Theory and practice merge to create useful skills to tackle the difficult scenario that Italian companies are currently operating in.



Light shows at Siracusa's stone quarries

We supported the initiative of Siracusa's Cultural Heritage Agency called "Un Paradiso da riscoprire", which opened the Archaeological Park of Siracusa's Neapolis to night visits, installing a light show system. It is one of the most inspiring locations of the city's cultural and natural heritage.

INDA Foundation

We support the Istituto Nazionale del Dramma Antico (INDA, National Institute of Ancient Drama) foundation, which has been organizing and staging festivals of classical works at the Greek Theatre of Siracusa since 1914, and which promotes classical culture in Italy and throughout the world.

CIVITA

We are members of CIVITA, an association that promotes and manages Italy's cultural heritage and which protects, promotes and uses its artistic assets also by organising shows, movie screenings and European projects.



YOUNG PEOPLE AND SPORTS



Torneo Ravano

Again in 2016, we sponsored the "32° Torneo Ravano – 23° Coppa Mantovani", the most important school tournament in Europe. This event took place at the Fiera di Genova fairgrounds and included football, rugby, volleyball and basketball matches and a new event: team cycling races. This record edition involved over 5,000 children, who played and, above all, had fun during this 10-day sports event.

The "Archimede and Electra" Trophy

In 2016, the 25th edition of the "Trofeo Archimede ed Elettra" was held: this event is the traditional school sports competition in the Province of Siracusa. The venue for the event was the "Riccardo Garrone" ERG Sports Centre in Siracusa. 800 students were involved, from different schools in Siracusa and its Province.



NPC Cares

In 2016, we became partners of "NPC Rieti Pallacanestro" to support the "NPC Cares" project: this initiative was created by the Rieti-based sports team to support the healthy mental and physical development of young people through sports and the success stories of well-known champions.



Sports Stars

In our role as Gold Sponsor, we took part in the 17th edition of "Stelle nello Sport" - a project designed to promote the values of sports in a broader sector of the population in the Liguria Region, particularly focusing on young people and students and on to the least-known sports, the support paralympic sports and fundraising for the Gigi Ghirotti Association in Genoa and the Fondazione Areo non-profit organisation.



ERG's Sports Centre in Siracusa

Renovation work at ERG's "Riccardo Garrone" Sports Centre in Siracusa started in 2007. It has now become an important sports centre that supports the community and the region, with a strong emphasis on young people.

ERG FOR YOUNG PEOPLE

For ERG, students, teachers and schools are crucial stakeholders for the social responsibility activities it carries out in the Italian regions where it does business.

Our activities are designed jointly with schools and are addressed to students of many age groups and with diverse education backgrounds: thanks to sports and school activities we help students understand the culture of sustainability and learn to respect regulations and laws.

The third edition of the environmental education project **"Vai col vento!"**, promoted by ERG, was held in 2016. It was designed for students attending the last year of middle schools in the municipalities that host our wind farms. The project, sponsored by the Ministry of Environment as well as by the Carabinieri, involved about 1,500 students who live in Sicily, Calabria, Basilicata, Campania, Molise, Apulia and Sardinia.

The initiative consists in class lessons focussed on renewable energy sources, especially wind energy, as well as on environmental issues, climate change and energy efficiency. The lessons are complemented by guided visits to wind farms during which our specialised technicians show how a wind farm is built, managed and operated for the production of electricity.

Inspired by the success of "Via col vento", during the 2016-2017 school year, a new project was designed: **"A tutta Acqua!"**. The project was addressed to all the high schools located in Terni, Perugia, Rieti, Viterbo and Macerata where our hydroelectric assets are located. The activities,

which involve about 600 students, consist in a lesson on climate change and on the production of energy using renewable sources. Students also get to visit the Galleto hydroelectric plant, one of the most important and representative of the Terni hydroelectric complex. The training day ends with a visit to the Marmore waterfalls park where the Galleto plant is located.

The **"Giornata dell'Energia Elettrica"** (Electricity Day) is another initiative set up for high school students, which has already reached its tenth edition in Sicily. In 2016, due to the acquisition of hydroelectric assets, the event was also held in Terni, Rieti, Viterbo and Perugia.

Last November, over 150 young people from four technical schools of those cities visited the Galleto hydroelectric power plant.

The following week, 150 more young people from Siracusa visited ERG's natural gas-powered, combined-cycle power plant in Melilli as well as our wind farm control centre at Carlentini.

Our managers and engineers showed them the technical features of the two structures, highlighting the aspects related to energy efficiency and to sustainability of ERG's plants.

**GIORNATA
DELL'ENERGIA
ELETTRICA 2016**



The **"Progetto Scuola"**, which we have been organising since 2010, is dedicated to the students of Siracusa: a set of several training initiatives in many fields.



The first project is **"Un casco vale una vita"**, dedicated to third-year secondary school pupils and organised as a partnership with the Carabinieri. The activity is split into two days: a workshop during which about 200 students talked about road safety issues and a closing event where the 250 winners of the contest linked to the Carabinieri's Progetto Legalità contest were awarded the prize (a customised motorcycle helmet).

The second project is **"Icaro 2016"**, a road safety education project organised by Siracusa's provincial Traffic Police division. The project involved about 2,000 secondary school students.

Another set of activities that involve students is centred on sports: ERG's "Riccardo Garrone" sports centre in Siracusa hosted the 25th edition of the **"Trofeo Archimede ed Elettra"** as well as the fourth edition of the **"Trofeo Riccardo Garrone"**, dedicated to the students of the area and sponsored by the Italian Football Federation. The 2016 edition involved over 800

young male and female footballers from 16 primary and secondary schools in the province of Siracusa, who took part in both 5-a-side and 7-a-side tournaments.

In Genoa we contributed to the organisation of the **Trofeo Ravano**, the biggest European school football, rugby, basketball and volleyball competition for boys and girls. The 2016 edition involved over 5,000 children, who played and, above all, had fun during this 10-day sports event.

As for university and post-university education, we were involved in the seventh edition of the SAFE Master Course on Energy Sources Management. We talked about our business evolution: the transition that from an "oil" operator led us to become an important independent producer of electricity using especially renewable sources. We also talked about sustainability and climate change. We also organised a visit to the Galleto hydroelectric power plant where our engineers explained how the plant works.

We also cooperated with several Universities (Genoa, Milan Cattolica and Bocconi, Rome) where we told the students attending different courses about our approach to renewable energy.

BEST SITE VISIT AWARD

Thanks to the organisation of the Master course SAFE, ERG was awarded with the "Best Site Visit 2016" award, for the best visit made to an operating site during which its technical staff presented the operating dynamics of the site, thus stimulating the students' interest.

THE EDOARDO GARRONE FOUNDATION

In 2016, the Foundation confirmed its social commitment creating interesting and free projects, also in conjunction with the scientific support of professionals. The topics have changed but the approach and the main goals have stayed the same: involving and training the young generations while enhancing the territories' social and cultural resources.

We created **ReStartAlp®** thanks to the partnership with Cariplo Foundation to continue the work we had started in the Apennines in 2014 with the **ReStartApp®** Campuses. The new Campus is addressed to young aspiring entrepreneurs that live in the mountains. Its main goals are:

- to concretely support the mountain-based businesses throughout Italy;
- to strengthen a new "economy of the Italian mountain territory";
- to stimulate synergies and the exchange of good practices between the Alps and the Apennines;
- to focus on the development of the local excellences while leveraging the identity of "made in Italy" that is a common feature of local production.

In the artistic and cultural field, the Foundation created a very important project, together with the Municipality of Genoa and the Fondazione per la Cultura Palazzo Ducale: the "**Villa Croce Master Course**". Under the project, graduates or professionals compete to manage the Villa Croce Contemporary Art Museum for a period of three to four years. To start off, they must attend an internationally-oriented, intensive course. This Master course is innovative for the training it offers as well as for the cooperation between public and private sector upon

which it is based. The experience acquired in the previous years in the field of advanced managerial training for cultural assets has been completely reconsidered and renovated in order to meet the recent needs of the sector and to be an innovative protagonist of the national debate on the enhancement of our cultural heritage.

Other well-established training projects kept up with the social and economic evolution. **Genova Scoprendo**, for example, thanks to the dialogue with the Regional School Office Administration as well as with the teachers and students involved in the project, further developed the main topics of Sustainable Development and of Active and Responsible Citizenship. Such topics were introduced in 2014 and now are essential in the growth of young people who would like to actively participate in both the evolution and the future of their area.

RESTARTALP® FOR AN ECONOMY OF THE ITALIAN MOUNTAIN TERRITORY

The construction of the first Campus on the Alps represented an important step forward for the Foundation towards the consolidation of a pragmatic and concrete action plan addressed to young companies and to the relaunch of the Italian mountain territories. ReStartAlp, promoted and organised thanks to the partnership between the Edoardo Garrone Foundation and Cariplo Foundation, is a temporary business incubator addressed to the aspiring entrepreneurs under 35 who live



RESTARTALP®
IDEE CHE MUOVONO MONTAGNE

in the Alpine territory. The project is designed to facilitate the growth and development of companies and start-ups, and is focused on the enhancement, promotion, development, protection and productive sustainable utilisation of the Alps and their resources.

The residential Campus, which lasts 10 weeks, was held in Premia, in the Verbano Cusio Ossola province, in the North-West Alps, from 20 June to 30 September 2016. The 15 ideas that were selected through a Call for Ideas came from 9 young men and 6 young women, between 20 and

34 years old, coming mainly from Piedmont, but also from Lombardy, Liguria, Friuli Venezia Giulia and Valle d'Aosta.

The programme, led by professors, experts and professionals, consisted in teaching activities, business creation and development workshops, mentorships, case studies and success stories, visits to production communities and Alpine destinations that have affirmed themselves both in Italy and internationally thanks to initiatives to relaunch the areas economically, environmentally and socially.

THE RESTARTALP AWARD WINNERS

At the end of Restartalp, during which 13 business plans were presented, the Evaluation Committee selected the best three projects that were given a monetary prizes by the Edoardo Garrone Foundation:

1st prize - "La Langhette" by Sara Armellino, 30 years old, Saliceto (Cuneo)

Multifunctional agricultural undertaking specialised in sheep and goat rearing (native breeds) and in the production of dairy products. The main feature of this undertaking is how the cheese is matured: it takes place inside a "Grutta", a 70 meter-deep cave dug into the marlstone. The undertaking is also specialised in horticulture, production of herbs, bee-keeping and breeding small animals.

2nd prize - "La Chanvosa" by Evelina Felisatti, 28 years old, Domodossola (Verbano Cusio Ossola)

This business deals with the organic and biodynamic cultivation of hemp for food, and of other local crops such as red and blue potatoes, rye and saffron. Such crops are grown on terraced land so as to make the best possible use of the area, thus preventing it from becoming wild, and the mountain landscape being forgotten. The business also includes manufacturing, processing and producing naturally-leavened organic baked products using hemp and rye flour.

3rd prize - "Alpine-Bike", by Rosa Valentina Bonfanti, 27 years old, Turin

Alpine-Bike is a franchise in which the franchisor provides to accommodation facilities, upon request, a standard package of services and equipment for cycling tourists, such as maps and descriptions of routes, a workshop, e-bikes, bike rental, equipment for maintenance, partnerships with guides and mountain bike instructors and a branded van. The intent is to offer cycling tourists the chance to explore the routes of the *Giro d'Italia* and of the *Tour de France* while promoting the cultural heritage of the areas by offering customised packages.

PROGETTO APPENNINO®

APPENNINOLAB

AppenninoLAB has made a name for itself as an authentic experimental workshop for those who love the mountains, nature and sports.

25 students (18 years old or older) from high schools in Liguria and Piedmont were selected in 2016 to attend an adventurous and educational Camp that took place from 18 to 23 July in the wonderful Parco delle Capanne di Marcarolo (Alessandria).

Group activities, orienteering in the woods, excursions, kayaking, team building activities, mountain bike rides, internal contests are only some of the activities that students took part in. They were guided by two outstanding guests: Luca Mercalli - a famous climatologist - and Davide Cassani - the coach of the Italian Cycling Team.

The project, now in its second year, presented the opportunities offered by green jobs as well as by the mountain economy thanks to the development of sports, tourism, culture and food tradition.



VILLA CROCE PROJECT

MUSEUM ASSETS MANAGEMENT MASTER COURSE

In 2016, the "Villa Croce Master Course" took place as a partnership with the Genoa Municipality and the Fondazione per la Cultura Palazzo Ducale. Its objective is to assign the management of the Villa Croce Contemporary Art Museum.

The training course involved 17 young people, mainly women under 35, divided into seven groups, selected from the 500 and more applications received. The Master course took place from 19 January to 24 March 2016 within the Museum Asset at the centre of the experimental managerial management. It consisted of ten weeks of training, a total of 280 hours of teaching activities that included lessons, case histories, excursions, design workshop and the creation of a management and development plan for the Museum.

Considering the specificity of the topics being tackled, the Scientific Coordination of the project and, especially, the teaching plan, it was awarded to Ms Paola Dubini, Director of the Course of Studies in Economics for the Arts, the Culture and the Communication (CLEACC) of Bocconi University.

At the end of the Master course, an Evaluation Committee, which included the Municipality of Genoa, the Edoardo Garrone Foundation, Genoa's Palazzo Ducale Fondazione per la Cultura and the Scientific Coordinator of the Master course, selected the best project according to the criteria of innovation, technical feasibility and economic sustainability in the medium term.

On 16 September, at a press conference that took place at the Villa Croce Museum, Alessandro Garrone, the Mayor of the Municipality of Genoa Marco Doria, Carla Sibilla Councillor for Culture

and Tourism, Luca Borzani President of the Palazzo Ducale Fondazione per la Cultura and Paola Dubini scientific coordinator of the Master course in Management of Museum Assets officially presented the new management team for the next four years: Paola Inconis (from Genoa, 36 years old), Elena Piazza (from Palermo, 31 years old) and Alessia Moraglia (from Imperia, 30 years old), entrepreneurs and owners of Open

Your Art, the first innovative and social start-up in Liguria.

Paola, Elena and Alessia can boast a variety of skills developed in several fields - international cooperation, third sector, tourism, law as well as studies on how to make the most of public heritage through an economically sustainable business model that is fully integrated in a urban cultural project.



TRAINING

Sustainable growth: seminars with Luca Mercalli

On 22 March 2016, with the support of the Regional School Office, we organised two training meetings, which took place in the reception hall of the Foundation. These meetings were dedicated to the teachers of Genoa's schools and were led by Luca Mercalli. On the World Water Day, we wanted to offer the teachers innovative and high-quality content. In light of the success in terms of number of participants and commitment, we decided to

organise these meetings again in the autumn, this time addressed not only to teachers but also to high school students.

Discovering Genoa (Genova Scoprendo)

The concept introduced in 2014 and centred on sustainability and active citizenship continues to be very appreciated by both teachers and students. The 2016 edition paid great attention to actions concerning sustainable development undertaken in Genoa, as well as to the organisation of a greater number of meetings with the classes and, therefore, to training and

recreational activities for the students and to the development of new support materials with

ideas to be used during the entire academic year.



Reading at School (Scuola Leggendo)

The 2015/2016 school year was the second year for the on line version of the Scuola Leggendo project, an innovative teaching-playing-doing format devised to develop the reading skills of first grade children. Compared to last year, more regions were involved, increasing from three to five: Liguria, Emilia-Romagna, Campania, Lazio and Piedmont. The fully satisfactory results have encouraged us to work to obtain accreditation for the project among MIUR's Good Practices so that it can be used for free by all Italian schools.

Scuola di Alta Formazione al Management (Advanced Management Training School)

In 2016, we once again supported the MBA programme provided by the Scuola di Alta Formazione al Management (SAFM). It is the first initiative of the Associazione per la Formazione d'Eccellenza (Association for Training Excellence), championed and promoted by the Edoardo Garrone Foundation in partnership with the Giovanni Agnelli Foundation, the Pirelli

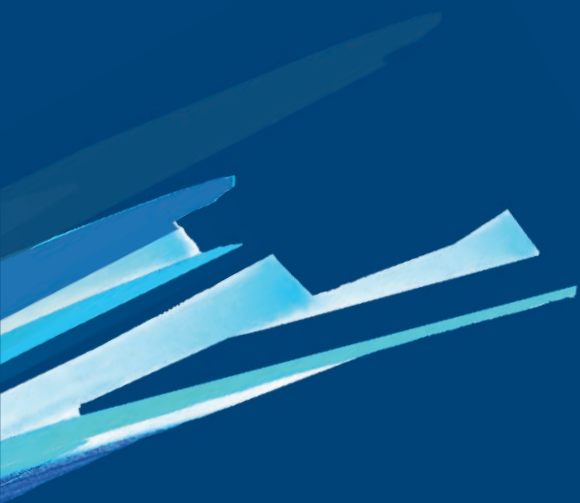
Foundation, and the Association du Collège des Ingénieurs of Paris. The training program has been designed for young adults with degrees in engineering, scientific or economic disciplines, offering them a Master in Business Administration.

Social Commitment

As is the case each year, we supported the Mus-e project in Genoa, in its fight against marginalisation and social malaise in elementary schools, by means of art projects.

Furthermore, we provided the Foundation's reception hall to host cultural events, donating all the proceeds to Muse-e as well as to four non-profit associations involved in highly relevant community projects: Comunità di Sant'Egidio, Emozioni Giocate Onlus, A.B.E.O. Liguria and Flying Angels. In 2016, the Foundation started a fundraising activity in order to increase its financial support of the initiatives that it had already started thanks to the direct help of the Garrone-Mondini families.

5 DATA AND INDICATORS



PERFORMANCE DATA AND INDICATORS

ECONOMIC AND FINANCIAL RESULTS

		2016	2015	2014 proforma
Revenues from ordinary operations	million EUR	1,025	944	1,021
EBITDA at replacement cost ⁽¹⁾	million EUR	455	350	343
EBIT at replacement cost ⁽¹⁾	million EUR	202	179	175
Net Profit	million EUR	125	24	(16)
of which Group Net Profit	million EUR	122	21	(19)
Group net profit [loss] at adjusted replacement cost ⁽²⁾	million EUR	107	96	60
Cash flow from operations	million EUR	402	192	344
Total net financial indebtedness ⁽³⁾	million EUR	1,557	1,448	409
Net invested capital	million EUR	3,286	3,124	2,049
Investments ⁽⁴⁾	million EUR	60	106	53
Financial leverage		47%	46%	16%

⁽¹⁾ For the definition and reconciliation of results at adjusted replacement cost, please refer to the chapter "Alternative performance indicators" of our 2015 Financial Statements.

⁽²⁾ Does not include profits (losses), non-recurring items and related applicable theoretical taxes.

⁽³⁾ In 2014 it included, at adjusted level only, the contribution, to the extent attributable to ERG, of the net financial position of the LUKERG Renew joint venture.

⁽⁴⁾ In investments in tangible and intangible fixed assets. Not including M&A investments for 306 million EUR in 2016.

Total revenues in 2016 include 166 EUR thousand in grants from Public Administration or the European Community for employee training.

ERG Group does not donate to political parties.

ERG SHARES

		2016	2015	2014
Year-end reference price	EUR	10.20	12.47	9.26
Maximum price	EUR	⁽¹⁾ 12.45	13.65	12.69
Minimum price	EUR	⁽¹⁾ 8.88	8.91	8.06
Average price	EUR	10.61	11.79	10.52
Average volume	no.	244,424	251,434	242,967

⁽¹⁾ Maximum price recorded on 4 January 2016, lowest price recorded on 9 November 2016.

OPERATING DATA AND INDICATORS

		2016	2015	2014 proforma
Total electricity production	GWh	7,552	5,330	5,202
of which from renewable energy sources	GWh	4,859	2,698	2,580
Market share of power generation in Italy		2.7%	2.0%	1.7%
Sales of electricity	GWh	12,303	10,113	8,823
Market share of power sales in Italy		3.9%	3.2%	2.8%

PERSONNEL, ORGANISATION OF WORK AND INDUSTRIAL RELATIONS

		2016	2015	2014
Employees at 31/12	no.	715	666	604
Managers	no.	40	39	46
at Genoa site		70%	74%	72%
Middle managers	no.	161	155	145
Administrative staff	no.	344	308	270
Workers	no.	170	164	143
Other external collaborators	no.	⁽⁴⁾ 35	21	11
Sick leave rate		1.94%	⁽²⁾ 2.2%	2.0%
Part time employees		3.8%	3.9%	4.5%
Percentage of overtime		4.95%	⁽²⁾ 5.0%	5.1%
Unionisation rate		26.9%	30.6%	23.2%
Ongoing labour disputes	no.	⁽¹⁾ 4	2	6
Strike ⁽³⁾	hours	272	⁽²⁾ 48	70

(1) Two acquired by ERG Hydro. (2) The figure does not include ERG Hydro. (3) Hours of Italy-wide strikes. (4) The 2016 figure includes 24 men and 11 women.

TRAINING

		2016	2015	2014
Total training	hours	31,787	27,584	26,456
Average training per employee	days/emp	5.6	5.7	4.8

	Men h/emp	Women h/emp	Men hours	Women hours	Total 2016
Managers	29.5	54.6	1,092	164	1,256
Middle managers	52.2	36.2	6,166	1,557	7,723
Administrative staff	47.5	41.8	11,438	4,310	15,748
Workers	41.6	37.0	7,023	37	7,060
Total			25,719	6,068	31,787

DETAILED ANALYSIS OF PERSONNEL - 2016 (NO. OF EMPLOYEES)

NATIONAL COLLECTIVE LABOUR AGREEMENTS APPLIED	2016	2015	2014
Energy and Oil	378	379	399
Metalworking and Mechanical Engineering	147	144	136
Tertiary	-	8	23
Electric	105	90	-
Foreign contracts	45	6	-
Industrial managers	40	39	43
Tertiary managers	-	-	3
Total	715	666	604

LOCATION OF PERSONNEL	Men	Women	Totale
Genoa	139	99	238
Siracusa	135	9	144
Rome	15	9	24
Terni	91	15	106
Abroad	37	11	48
Other locations	148	7	155

TYPE OF CONTRACT	Men	Women	Total
Fixed-term contract - Full time	4	2	6
Fixed-term contract - Part-time	-	-	-
Permanent contract - Full time	561	121	682
Permanent contract - Part-time	-	27	27
Group Total	565	150	715

JOB CLASSIFICATION	Employee	Protected category	Total
Managers	40	-	40
Middle managers	157	4	161
Administrative staff	324	20	344
Workers	169	1	170
Group Total	690	25	715

PARENTAL LEAVE	Men	Women	Total
Employees that used parental leaves	2	24	26
Persons returning from parental leave	2	24	26
Personnel still employed after 12 months	2	24	26
Personnel resigning due to maternity	-	-	-

RETIREMENT	Employee	% of total employees
Employees that will retire within 5 years ⁽¹⁾	1	0.1%
Employees that will retire within 10 years ⁽¹⁾	26	3.6%

(1) Employees (male or female) are considered pensionable at age 70 regardless of the date of their first employment (a simplified application of the Fornero - old-age pension insurance reform).

SAFETY

INJURIES (NO.)	Men	Women	Total 2016	Total 2015	Total 2014
Genoa	1	-	1	-	-
Siracusa	-	-	-	-	1
Rome	-	-	-	-	-
Terni	-	-	-	-	-
Abroad	-	-	-	-	-
Other locations	1	-	1	3	3
Total	2	-	2	3	4

			2016	2015	2014
Frequency index <i>no. of accidents per million hours worked</i>			1.74	2.90	4.21
Severity index <i>total days lost per thousand hours worked</i>			0.03	0.12	0.04
Working days lost		no.	40	121	35
Work-related deaths		no.	-	-	-
Third-party company injuries		no.	1	3	1
Frequency index – third party companies			2.14	6.56	1.21
Severity index – third party companies			0.06	0.3	0.11
Man days worked by third-party companies		no.	58,524	57,168	103,558

SUPPLIERS

		2016	2015	2014
Active suppliers (at least one order)	no.	1,553	1,454	1,683
with registered offices or a billing address in Italy		86%	89%	90%
with registered offices or a billing address in the areas where our plants are located		33%	32%	34%
Qualified suppliers	no.	2,055	1,813	1,672
of which: number of qualified suppliers based on HSE parameters	no.	442	308	555
Average qualification time	days	110	114	58
% of tenders (of total value of purchases)		52%	45%	42%
% of tenders (of total number of purchases)		29%	24%	39%

CUSTOMERS

		2016	2015	2014
Industrial customers	no.	⁽¹⁾ 34	16	15

⁽¹⁾ 20 of which being supplies to the Group.

WIND – ENVIRONMENT AND COMMUNITY

		2016	2015	2014
Production	GWh	3,501	2,614	2,580
Indirect energy consumption	GWh	10.9	10.0	9.3
CO ₂ avoided	kt	2,217	947	1,021
Indirect CO ₂ emissions ^[1]	kt	5.5	4.1	3.8
SF ₆ contained in switchboards	kg	896	896	893
F-GAS present in air conditioning systems	kg	90	n.d.	n.d.
Waste produced	t	80	89	97
of which hazardous waste	t	20	37	27
of which non-hazardous	t	29	21	6
of which sent for recycling		38%	35%	70%

[1] The 2016 figure includes the green energy supply for Italian plants (not generating emissions): it is calculated keeping into account the new conversion factor (used since 2016) with reference to the thermoelectric power generation in each Country.

Calculated according to 2015 parameters, this figure would be 3.4 kt (of which 1.7 kt referred to Italy, -3 kt in 2015).

The increase recorded abroad in 2016 is linked to the increase of active plants.

HYDROELECTRIC POWER – ENVIRONMENT AND COMMUNITY

		2016	2015	2014
Production	GWh	1,358	84	n/a
Energy consumption from primary sources - Diesel fuel ^[1]	litres	28,700	18,033	n/a
Indirect energy consumption	GWh	7.7	n.d.	n/a
CO ₂ avoided	kt	775	31	n/a
Indirect CO ₂ emissions ^[2]	kt	0	n/a	n/a
SF ₆ contained in switchboards	kg	894	894	n/a
SF ₆ in extra tanks	kg	326	326	n/a
F-GAS present in air conditioning systems	kg	174	173	n/a
Waste produced	t	2,747	n/a	n/a
of which hazardous waste	t	3	n/a	n/a
of which non-hazardous	t	2,744	n/a	n/a
of which sent for recycling		74%	n/a	n/a
of which waste removed from rivers and water basins (wood and grate cleaning residues) ^[3]	t	2,610	n/a	n/a
of which sent for recycling ^[4]		77%	n/a	n/a
Waste produced by third-party companies	t	71	n/a	n/a
of which hazardous waste	t	1	n/a	n/a
of which non-hazardous	t	70	n/a	n/a
of which sent for recycling		99%	n/a	n/a

[1] The diesel fuel is used to fuel power supply continuity systems and for office heating, emissions are not calculated for this consumption, as no final balance is drawn up.

[2] The 2016 figure is zero, as all the electric power used was produced from renewable sources, which do not generate any emission.

[3] Wood and grate cleaning residues removed from the rivers represent a portion of the total waste produced. They are reported separately to point out the contribution given by the activities for the territory and the hydro-geological safety of river beds.

[4] Transfer activities to the recycling facility started in May 2016.

THERMOELECTRIC POWER – ENVIRONMENT AND COMMUNITY

		2016	2015	2014
Production	GWh	2,693	2,632	2,623
Energy consumption (primary sources)	TJ	21,258	21,499	22,072
of which natural gas	TJ	21,258	20,689	21,271
of which other primary sources	TJ	–	810	801
Indirect energy consumption ⁽¹⁾	TJ	5.7	6.2	8.0
ERG Power performance index ⁽²⁾		62.4%	61.8%	60.3%
Direct CO ₂ emissions	kt	1,216	1,230	1,259
Indirect CO ₂ emissions ⁽¹⁾	kt	0.8	0.6	0.9
NO _x emissions ⁽³⁾	t	394	386	399
SO ₂ emissions ⁽³⁾	t	48	46	42
Particulate emissions	t	5	5	4
SF ₆ contained in switchboards	t	13.1	13.1	12.9
F-GAS present in air conditioning systems	kg	9.6	n.d.	n.d.
Thermoelectric CO ₂ index	kt/GWheq	0.414	⁽¹⁾ 0.418	⁽¹⁾ 0.432
Thermoelectric NO _x index	t/GWheq	0.13	0.11	0.12
Thermoelectric SO ₂ index	t/GWheq	0.016	0.015	0.014
Thermoelectric particulate index	t/GWheq	0.002	0.002	0.001
Seawater withdrawals for plant cooling systems	million m ³	217	226	238
Well water withdrawals	million m ³	6	8	9
Water returned to the natural cycle	% of withdrawals	97.1%	96.8%	96.7%
Waste produced	kt	3.7	1.8	4.0
of which hazardous waste	kt	0.4	0.1	0.5
of which non-hazardous	kt	3.3	1.7	3.5
of which sent for recycling		32%	39%	22%

⁽¹⁾ Updated figure with respect to the 2015 Sustainability Report

⁽²⁾ Index of "1st principle overall performance" calculated in accordance with the procedures laid down by Ministerial Decree of 5 September 2011 [CAR].

⁽³⁾ The atmospheric emissions data for NO_x and SO₂ are consistent with the annual data reported for the E-PRTR Register. Only fully operational plants are considered, therefore the SAIN/1 group was not included in the report as it was in a transitional start-up phase for part of 2014 as the result of its adaptation according to Best Available Techniques.

WIND – HSE ECONOMIC AND ADMINISTRATIVE RESOURCES

		2016	2015	2014
Total HSE expenditure	thousands of Euro	1,100	1,222	838
Level of ISO 14001 and OHSAS 18001 certification		100%	100%	100%
On-site safety checks	no.	271	366	230
HSE Audit	no.	71	35	n/a

HYDROELECTRIC POWER – HSE ECONOMIC AND ADMINISTRATIVE RESOURCES

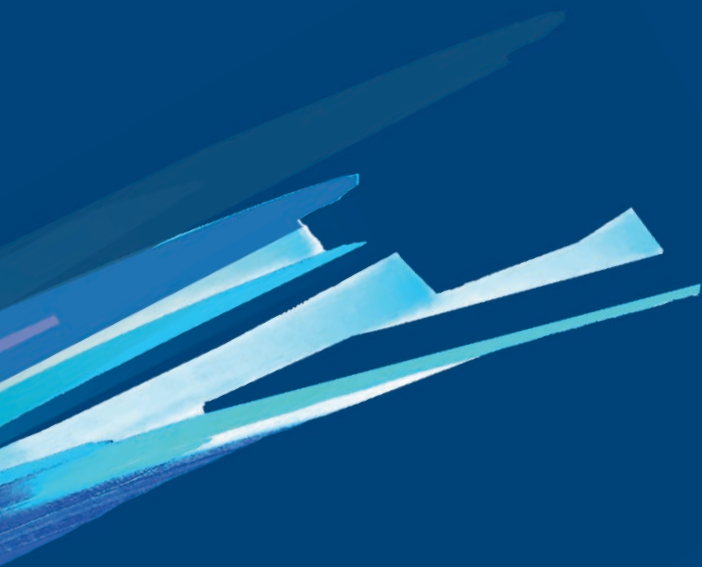
		2016	2015	2014
Total HSE expenditure	thousands of Euro	892	n/a	n/a
of which investments	thousands of Euro	444	n/a	n/a
of which current expenses	thousands of Euro	448	n/a	n/a
Level of ISO 14001 and OHSAS 18001 certification of organisations operating on industrial sites		100%	n/a	n/a
Safety checks and HSE audits in the field	no.	28	n/a	n/a

THERMOELECTRIC POWER – HSE ECONOMIC AND ADMINISTRATIVE RESOURCES

		2016	2015	2014
Total HSE expenditure	million EUR	13	11	13
of which investments	million EUR	3	3	3
of which current expenses	million EUR	10	8	10
Level of ISO 14001 and OHSAS 18001 certification of organisations operating on industrial sites		100%	100%	100%
Safety checks and HSE audits in the field	no.	125	142	⁽¹⁾ 487

⁽¹⁾ Includes checks carried out at ISAB Energy (plant sold in 2014).

AUDIT REPORT



INDEPENDENT AUDITORS' REPORT ON THE SUSTAINABILITY REPORT

**To the Board of Directors of
ERG S.p.A.**

We have carried out a limited assurance engagement on the Sustainability Report of the ERG Group (the "Group") as of December 31, 2016.

Directors' responsibility on the Sustainability Report

The Directors are responsible for the preparation of the Sustainability Report in accordance with the "G4 Sustainability Reporting Guidelines" and the "Electric Utilities Sector Disclosures", both issued in 2013 by GRI – Global Reporting Initiative, as stated in the paragraph "Methodological note" of the Sustainability Report, and for such internal control as they determine is necessary to enable the preparation of a Sustainability Report that is free from material misstatement, whether due to frauds or unintentional behaviours or events. The Directors are also responsible for defining the ERG Group's objectives regarding the sustainability performance and the reporting of the achieved results, for the identification of the stakeholders and the significant aspects to report.

Auditors' responsibility

Our responsibility is to issue this report based on the procedures performed. We conducted our work in accordance with the criteria established in the "International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board for limited assurance engagements. The standard requires the compliance with ethical principles, including independence requirements, and that we plan and perform the engagement to obtain limited assurance whether the Sustainability Report is free from material misstatement.

These procedures included inquiries, primary with Company personnel responsible for the preparation of Sustainability Report, analysis of documents, recalculations and other evidence gathering procedures as appropriate.

The procedures performed on the Sustainability Report consisted in verifying its compliance with the principles for defining report content and quality set out in the "G4 Sustainability Reporting Guidelines", and are summarised as follows:

- comparing the economic and financial information and data included in the paragraph "Economic responsibility" of the Sustainability Report with those reported in the ERG Group Annual Report as of December 31, 2016, on which Deloitte & Touche S.p.A. issued the auditors' report (pursuant to articles 14 and 16 of Legislative Decree no. 39 of January 27, 2010), dated March 28, 2017;
- analysing, through interviews, the governance system and the management process of the matters related to sustainable development regarding the strategy and operations of the Group;

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- analysing the process relating to the definition of material aspects disclosed in the Sustainability Report, with reference to the methods used for the identification and prioritization of material aspects for stakeholders and to the internal validation of the process results;
- analysing how the processes underlying the generation, collection and management of quantitative data of the Sustainability Report operate. In particular, we have performed:
 - interviews and discussions with the management of ERG S.p.A. to gather information about the accounting and reporting systems used in preparing the Sustainability Report, as well as on the internal control procedures supporting the gathering, aggregation, processing and transmittal of data and information to the department responsible for the preparation of the Sustainability Report;
 - analysis, on a sample basis, of the documentation supporting the preparation of the Sustainability Report, in order to gather the evidence of processes in place, their adequacy, and that the internal control system correctly manages data and information in connection with the objectives described in the Sustainability Report;
- analysing the compliance and the internal consistency of the qualitative information disclosed in the Sustainability Report in relation to the guidelines identified in the paragraph "Directors' responsibility on the Sustainability Report" of this report;
- analysing the stakeholders engagement process, in terms of methods applied, through the analysis of the minutes of the meetings or any other available documentation about the main topics arisen in the discussion with them;
- obtaining the representation letter signed by the Chief Executive Officer of ERG S.p.A., on the compliance of the Sustainability Report with the guidelines identified in the paragraph "Directors' responsibility on the Sustainability Report", as well as the reliability and completeness of the data and information disclosed.

The procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with *ISAE 3000 Revised*, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the Sustainability Report of the ERG Group as of December 31, 2016 is not prepared, in all material respects, in accordance with the "G4 Sustainability Reporting Guidelines" and the "Electric Utilities Sector Disclosures", both issued in 2013 by GRI – Global Reporting Initiative, as stated in the paragraph "Methodological note" of the Report.

DELOITTE & TOUCHE S.p.A.

Franco Amelio
Socio

Milan, Italy
April 12, 2017

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

GRI G4 CONTENT INDEX

	Indicator	References	Notes	Omission
GENERAL STANDARD DISCLOSURE				
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G4 - 4	Primary brands, products and/or services.	8-11		
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G4 - 7	Nature of ownership and legal form	40-44	See the "Major shareholders" section of the corporate website www.erg.eu	
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G4 - 13	Significant changes in the size, organisation or company structure during the reporting period.	7-11, 40, 31-34		
G4 - 14	Application of the prudential approach to risk management	42-44		
G4 - 15	Externally developed economic, social and environmental charters, principles, or other initiatives to which the organisation subscribes or endorses.	20-26		
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G4 - EU1	Installed capacity	8-13, 57		
G4 - EU2	Net energy produced	13, 57, 146, 147		
G4 - EU3	Number of residential, industrial, institutional and commercial customers	8-11, 149		
G4 - EU4	Length of transmission and distribution lines	n/a	ERG does not manage electricity transmission and distribution activities	
G4 - EU5	Allocation of CO ₂ emission quotas	57		

	Indicator	References	Notes	Omission
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G4 - 30	Reporting cycle	31-32		
G4 - 31	Contact persons and addresses	Back cover	See the "Contacts" section of corporate website www.erg.eu	
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	Indicator	References	Notes	Omission
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G4 - 40	Nomination and selection processes for the highest governance body	40	See the "Governance" section of the corporate website www.erg.eu	
G4 - 41	Processes to ensure conflicts of interest are avoided	48-51		
G4 - 42	The highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	14-15, 43	See also the Code of Ethics available on the corporate website www.erg.eu	
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G4 - 51	The remuneration policies for the highest governance body and senior executives	120-125		
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G4 - 56	The organisation's values, principles, standards and norms of behaviour	40-45, 48-51		
G4 - 58	The internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organisational integrity	40-45, 48-51		
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ECONOMIC INDICATORS				
Material aspect: Economic performance				
G4 - DMA	Generic disclosure on management approach			
G4 - EC1	Direct economic value generated and distributed.	54		
G4 - EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	18-21		
G4 - EC3	Coverage of the organisation's defined benefit plan obligations.	122	ERG does not manage an independent company pension plan	

	Indicator	References	Notes	Omission
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G4 - EC4	Significant financial assistance received from government	146		
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Material aspect: market presence

G4 - DMA	Generic disclosure on management approach			
G4 - EC5	Ratios of standard entry level wage by gender compared to local minimum wage in most significant sites	120-121		

Material aspect: indirect economic impacts

G4 - DMA	Generic disclosure on management approach			
G4 - EC7	Development and impact of infrastructure investments and services provided primarily for public benefit	134-144		
G4 - EC8	Understanding and describing significant indirect economic impacts, including the extent of impacts	134-144		

Material aspect: procurement practices

G4 - DMA	Generic disclosure on management approach			
G4 - EC9	Proportion of spending on local suppliers in most significant sites	149		

Research & development

G4 - EU - DMA	Generic disclosure on management approach			
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Availability and reliability

G4 - EU10	Planned capacity	8-12	The information required refers to the corporate strategy available on the company website www.erg.eu	
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System efficiency

G4 - EU11	Average generation efficiency of thermal plants	80, 151		
G4 - EU12	Transmission and distribution losses as a percentage of total energy		ERG does not manage electricity transmission and distribution activities	

ENVIRONMENTAL INDICATORS

Materials

G4+EU - EN1	Materials used	150 - 151		
G4 - EN2	Percentage of materials used that are recycled input materials		ERG's activities do not involve the use of recycled materials	

Material aspect: energy

G4 - DMA	Generic disclosure on management approach			
G4 - EN3	Energy consumption within the organisation	151		
G4 - EN6	Reduction of energy consumption	88, 150-151		
G4 - EN7	Reductions in energy requirements of products and services	88, 150-151		

	Indicator	References	Notes	Omission
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Water

G4+EU - EN8	Water withdrawal	151		
G4 - EN9	Water sources significantly affected by withdrawal of water	85,151		
G4 - EN10	Water recycled and reused	151	Water withdrawals mainly consist of sea water used to cool the plants and equipment. Once the drawdown cycle is terminated, the water is returned to the water source after its quality has been suitably monitored.	

Material aspect: biodiversity

G4 - DMA	Generic disclosure on management approach	81, 90-93		
G4 - EN11	Location and size of operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	81, 90-93	ERG neither owns nor manages lands in natural areas with high biodiversity values	
G4+EU - EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	81, 90-93		
G4 - EN13	Habitats protected or restored	81, 90-93	ERG neither owns nor manages lands in natural areas with high biodiversity values	

Material aspect: emissions

G4 - DMA	Generic disclosure on management approach			
G4+EU - EN15	Direct greenhouse gas emissions (Scope 1)	80-81, 84, 150-151		
G4+EU - EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	88, 150-151		
G4 - EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	88, 150-151		
G4 - EN18	Greenhouse gas (GHG) emissions intensity ratio	151		
G4 - EN19	Reduction of greenhouse gas emissions	80-81, 84, 150-151		
G4 - EN20	Emissions of ozone-depleting substances (ODS) by weight		ERG does not emit substances that are harmful to the ozone layer as part of its industrial activities	
G4+EU - EN21	NO _x , SO _x , and other significant air emissions	151		

Discharges and waste

G4+EU - EN22	Water discharge	150-151		
G4 - EN23	Waste disposal	150-151		
G4 - EN24	Significant spills		No spills occurred during the year	
G4 - EN25	Hazardous waste	150-151		
G4 - EN26	Biodiversity and habitats affected by the organisation's discharges	90-93		

	Indicator	References	Notes	Omission
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Material aspect: products and services

G4 - DMA	Generic disclosure on management approach			
G4 - EN27	Mitigation of environmental impacts of products and services	81, 86-91		
G4 - EN28	Percentage of products sold and their packaging materials that are reclaimed.		Fuels are marketed via the ERG Oil Sicilia network and sold as "bulk" products.	

Material aspect: compliance

G4 - DMA	Generic disclosure on management approach			
G4 - EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		There were no fines or non-monetary sanctions for failure to comply with environmental regulations and laws	

Material aspect: overall

G4 - DMA	Generic disclosure on management approach			
G4 - EN31	Total environmental protection expenditures and investments by type	58-61, 64-67		

Material: environmental assessment of suppliers

G4 - DMA	Generic disclosure on management approach			
G4 - EN32	Percentage of new suppliers that were screened using environmental criteria	72-75, 149		
G4 - EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	99-100		

Material: environmental grievance management mechanisms

G4 - DMA	Generic disclosure on management approach			
G4 - EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms		No claims were recorded in 2016	

SOCIAL INDICATORS

SUB-CATEGORY: LABOUR PRACTICES AND WORKING CONDITIONS

Material aspect: employment

G4 - DMA	Generic disclosure on management approach			
G4+EU - LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	117		
G4 - LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by main business area	120	All employees enjoy the same benefits in relation to their professional position	
G4 - LA3	Return to work and retention rates after parental leave	148		
G4 - EU15	Percentage of employees eligible to leave the organisation in the next five years	148		

	Indicator	References	Notes	Omission
G4 - EU17	Days worked by contractor and subcontractor employees involved in construction & maintenance	149		
G4 - EU18	Contractor and subcontractor employees that have undergone health and safety training	149		
Material: industrial relations				
G4 - DMA	Generic disclosure on management approach			
G4 - LA4	Minimum notice periods regarding operational changes (organisational changes), including whether these are specified in collective agreements		Regulatory and compensation-related aspects are compliant with the National Labour Agreement	
Material aspect: health and occupational safety				
G4 - DMA	Generic disclosure on management approach			
G4+EU - LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	149		
G4 - LA7	Workers with high incidence or high risk of diseases related to their occupation			
G4 - LA8	Health and safety topics covered in formal agreements with trade unions	96	Subject to the provisions of the Italian collective labour agreements for the Energy and Oil sector	
Material aspect: training and education				
G4 - DMA	Generic disclosure on management approach			
G4 - LA9	Average hours of training per year per employee by gender, and by employee category	112, 118-119, 147		
G4 - LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	118-119		
G4 - LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	108		
Material aspect: diversity and equal opportunity				
G4 - DMA	Generic disclosure on management approach			
G4 - LA12	Composition of governance bodies and breakdown of employees by age and other indicators of diversity	115-117		
Material aspect: equal pay for men and women				
G4 - DMA	Generic disclosure on management approach			
G4 - LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	121		

	Indicator	References	Notes	Omission
SUB-CATEGORY: HUMAN RIGHTS				
Investments				
G4 - HR1	Agreements and contracts that include human rights clauses or that underwent human rights screening	127	ERG carries out its activities at Italian/European level, where such aspects are protected by law	
G4 - HR2	Employee training on human rights relevant to operations		ERG carries out its activities at Italian/European level, where such aspects are protected by law	
Material aspect: non-discrimination				
G4 - DMA	Generic disclosure on management approach			
G4 - HR3	Total number of incidents of discrimination and corrective actions taken		No incidents were recorded in 2016	
Material aspect: Freedom of association and collective bargaining				
G4 - DMA	Generic disclosure on management approach			
G4 - HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights		ERG carries out its activities at Italian/European level, where such aspects are protected by law	
Child labour				
G4 - HR5	Operations having significant risk for incidents of child labour		ERG carries out its activities at Italian/European level, where such aspects are protected by law	
Forced labour				
G4 - HR6	Operations having significant risk for incidents of forced labour		ERG carries out its activities at Italian/European level, where such aspects are protected by law	
Security practices				
G4 - HR7	Security personnel trained in the organisation's human rights policies		ERG carries out its activities at Italian/European level, where such aspects are protected by law	
Indigenous rights				
G4 - HR8	Violations involving rights of indigenous peoples		No violations were recorded in 2016	
Assessment				
G4 - HR9	Operations that have been subject to human rights impact assessments		ERG carries out its activities at Italian/European level, where such aspects are protected by law	
Human rights grievance mechanisms				
G4 - HR12	Grievances about human rights impacts filed, addressed, and resolved		No claims were recorded in 2016	

	Indicator	References	Notes	Omission
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SUB-CATEGORY: COMPANY

Material aspect: local communities

G4 - DMA	Generic disclosure on management approach			
G4 - S01	Operations with implemented local community engagement, impact assessments, and development programs		New constructions and substantial changes to our plants are subject to Environmental Impact Assessment (EIA) procedures which require the involvement of the interested parties (the local communities) to analyse the related environmental, landscape and territorial issues	
G4 - S02	Operations with significant actual or potential negative impacts on local communities		New constructions and substantial changes to our plants are subject to Environmental Impact Assessment (EIA) procedures which require the involvement of the interested parties (the local communities) to analyse the related environmental, landscape and territorial issues	

Material aspect: anti-corruption

G4 - DMA	Generic disclosure on management approach			
G4 - S03	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.	48-51		
G4 - S04	Percentage of employees that have received training on anti-corruption policies and procedures	51		
G4 - S05	Actions undertaken in response to incidents of corruption		No incidents of corruption were recorded in 2016	

Material aspect: political contributions

G4 - DMA	Generic disclosure on management approach			
G4 - S06	Value of political contributions	25	The activities of the ERG Group do not include loans to political parties	

Material: anti-competitive behaviour

G4 - DMA	Generic disclosure on management approach			
G4 - S07	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes		No cases were recorded in 2016	

Material aspect: compliance

G4 - DMA	Generic disclosure on management approach			
G4 - S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws or regulations		No sanctions were recorded in 2016	

	Indicator	References	Notes	Omission
SUB-CATEGORY: PRODUCT RESPONSIBILITY				
Health and safety of consumers				
G4 – PR2	Incidents of non-compliance with regulations concerning the health and safety impacts of products and services during their life cycle		No cases of non-compliance were recorded in 2016	
Labelling of products and services				
G4 – PR3	Product and service information		ERG mainly markets 'bulk' products in compliance with the laws in force through the sales outlets of the ERG Oil Sicilia network	
G4 – PR4	Incidents of non-compliance with regulations concerning product and service information and labelling		No cases of non-compliance were recorded in 2016	
G4 – PR5	Results of surveys measuring customer satisfaction		No specific customer satisfaction analyses were carried out during the year. ERG Oil Sicilia was sold at the end of 2014.	
Marketing activities				
G4 – PR6	Sale of banned or disputed products		The company does not adhere to voluntary codes with regard to marketing activities	
G4 – PR7	Incidents of non-compliance with regulations concerning marketing communications		No cases of non-compliance were recorded in 2016	
G4 – PR8	Substantiated complaints regarding breaches of customer privacy and losses of customer data		No complaints were recorded in 2016	
Compliance				
G4 – PR9	Fines for non-compliance with laws and regulations concerning the use of products and services		No sanctions were recorded in 2016	

GLOSSARY

ACCOUNTABILITY

An organisation practices accountability when it periodically reports and discloses the results of its activities in a transparent manner.

ALTERNATOR

Electric machine that converts mechanical energy into electrical energy. Alternators are protected against malfunctions by special switchgear that connects it to the electricity grid.

ALTITUDE DIFFERENCE

Height difference between the elevation of the water surface upstream and that of the downstream turbine, also called drop, measured in meters.

AM

Adjustment Market – enables operators to introduce changes to the programmes defined in the Day-Ahead Market (DAM) by way of additional purchase or sale offers.

ANEMOMETER

Instrument for measuring wind speed. Anemometers are installed on measurement masts and measure wind speed in real time. They are also installed on the top of wind turbine's nacelles, so as to monitor the production of energy in relation to the amount of wind present on site.

ARCH DAM

Barrage made of reinforced concrete, in which the forces to hold the water bear almost totally on the slopes of the valley, because of the curvature of the structure and the forces applied on the sides of the mountains where the dam is supported.

BLADE

Blades are the components that interact with the wind and are designed with an aerofoil that maximizes aerodynamic efficiency. Most turbines use blades made of composite materials such as fiberglass.

CCGT - COMBINED CYCLE GAS TURBINE

A system to maximize the efficiency of power plants by combining gas and steam turbines. The steam is obtained as a by-product of the electricity generation process using gas turbines.

CIP 6 FEED-IN TARIFF

The rate paid by the GSE (Gestore dei Servizi Elettrici – National Grid Operator) to producers of electricity from sources similar to renewable sources that qualify under the provisions of CIP 6/92.

CODE OF ETHICS

The "Constitution of the organisation". The Code of Ethics is an official document representing the company's highest commitment and approval, which describes the values and principles that inspire and guide the decisions and activities of the company. It is the primary basis of corporate behaviour.

CORPORATE GOVERNANCE

The set of rules and organisational structures which ensure proper and efficient management of the company by governing the relationships among directors, management, shareholders and stakeholders.

DAM

Day-Ahead Market – trading session on the IPEX (Italian Power Exchange) during which blocks of hours of electricity for the following day are traded.

DERIVATION

Flow diverted from a water flow to be used by a hydroelectric plant.

DISCHARGE

Waterworks to return water to the receptor, after passing through a turbine.

DSM

Dispatching Services Market – the instrument used by Terna S.p.A. to procure the resources required to manage and monitor the system (resolution of inter-zone congestion, creation of power reserve, real-time balancing).

**ECONOMIC VALUE GENERATED AND
DISTRIBUTED**

The measure of the increase in value generated by the production and distribution of final goods and services through the intervention of the productive factors of a company (capital and labour). It shows how the value generated is distributed among the main stakeholders.

EIA (Environmental Impact Assessment)

Preliminary procedure by means of which the environmental consequences of a project are assessed prior to implementation.

EMAS

An Eco-Management and Audit Scheme is an instrument developed by the European Community for voluntary participation by organisations (companies, public institutions, etc.) to evaluate and improve their environmental performance and provide information to the public and other interested parties on their environmental management.

ENVIRONMENTAL IMPACT

Any positive or negative, total or partial change to the environment as the result of the activities, products or services of an organisation.

ESS

Electrical substation.

ETHICAL RATING

An ethical rating, or sustainability rating, is a qualitative measure attributed to an issuer and refers to topics other than financial aspects: it examines matters relating to governance, transparency, environmental impact, and other aspects of corporate social responsibility.

EUROSTAT

Eurostat is the statistical office of the European Union, it is a Directorate-General of the European Commission. It provides accurate official statistics for Member States and their regions, other countries of the European Economic Area and Switzerland and, in certain sectors, statistics for the United States and Japan. Eurostat is not directly involved in the collection of statistical data, but receives them from the Member States. The statistical information is distributed through printed publications and electronic media.

FEED IN TARIFF

Incentive mechanism that pays for electricity produced under a comprehensive rate (which includes the incentive component and the component of development of electricity fed into the grid).

FINANCIAL LEVERAGE

Net financial debt/Net invested capital.

FLOW RATE

Amount of water, normally expressed in m³/s (1,000 litres per second) used by a hydroelectric plant or by an individual turbine to generate power.

FRANCIS TURBINE

A reaction turbine that uses not only the speed but also the pressure of the water flow: when the water reaches the rotor, its pressure is higher than atmospheric pressure. This turbine is used in streams with heads from 10 to 3-400 meters and medium flow rates.

FREQUENCY INDEX

Together with the severity index, it is one of the typical performance indicators of health and occupational safety: with reference to a given timespan, it expresses the ratio between the number of accidents that have occurred and the number of hours worked.

GEARBOX

Mechanical device made up of multiple interlinked toothed slewing bearings attached to a shaft. Its purpose is to increase the rotation speed from the rotor to adapt it to the speeds required by the generators.

GRAVITY DAM

Masonry barrage of stones and mortar or concrete, in which the forces to hold the water bear only against the structure of the dam, and the construction supports the thrust of the water with its weight and due to its specific trapezoid-shaped section.

GREEN CERTIFICATES

Certificates attributed on a yearly basis to energy produced from renewable sources by installations put into operation after 1 April 1999. The certificates are issued by the National Grid Operator, Gestore dei Servizi Elettrici S.p.A. (GSE) on the basis of production from renewable sources for the year (estimate based on expected or final production) and can be used to comply with the requirement to feed renewable energy to the grid in relation to the year to which it relates.

GRI - (Global Reporting Iniziative)

A network/organisation that has defined the world's most widely used guidelines for sustainability reporting. For more information, see the GRI website.

GRIT SEPARATION TANKS OR GRAVEL TRAPS

Small basins in which the speed of derived water is lowered and the suspended and transported material settles, cleaning up the water before it releases its energy to the turbine.

HSE - (Health, Safety, Environment)

An internationally recognised acronym for Health, Safety and Environment.

HSE AUDIT

The set of activities carried out in order to systematically and objectively assess performance in terms of Health, Safety and Environment.

HSE POLICY

A document that outlines a company's intentions and principles in relation to its overall performance in terms of Health, Safety and Environment. It provides a framework for action and sets goals and targets.

HUB

In a wind turbine, a hub is the component that connects the blades to the main shaft, to transmit the power taken from the wind. It is usually made of steel and is protected by its nose cone.

HUMAN CAPITAL

The entire body of knowledge/skills and characteristics of a worker.

IAS/IFRS

International Accounting Standards – International Financial Reporting Standards.

IDM

Intra-Day Market - Place for trading offers for the purchase and sale of electricity for every hour of the day in order to modify the electricity input and output programmes defined on the DAM.

IMPELLER

The rotating part of the turbine, that receives the water energy and converts it into mechanical rotation energy. An impeller is a component of a turbine and is the active part that inside its housing receives the water from the intake and is held in place by its mounts.

INTAKE STRUCTURE

The location in which water is drawn upstream of a dam, from which the tunnel or derivation channel departs.

ISO 14001 CERTIFICATION FOR ENVIRONMENTAL MANAGEMENT

The certificate of conformity which an organisation obtains from an accredited certification body called upon to assess the compliance of its environmental management system with the ISO 14001 environmental management standard. Certification is voluntary.

ITALIAN CONSOLIDATED FINANCE ACT (T.U.F.)

The Italian Consolidated Finance Act.

KAPLAN TURBINE

A reaction water turbine which is efficient in low head applications, up to a few tens of meters, but with high flow rates (from 200/300 m³/s up). Structurally, it is a propeller placed along the water flow, in which the angle of the blades can be adjusted to optimize the turbine's efficiency.

KEY PERFORMANCE INDICATORS (KPI)

Commonly known as KPIs, these are specific indicators to identify and measure the achievement of the company's key objectives.

KILOWATT-HOUR (kWh) - MWh, GWh and TWh

A unit of measurement of electrical energy equivalent to 1,000 watts delivered or absorbed in one hour. Electrical energy is also expressed as: Megawatt-hours (MWh) equivalent to 1,000 kWh, Gigawatt-hours (GWh) equivalent to one million kWh, and Terawatt-hours (TWh) equal to one billion kWh.

LIFT

Aerodynamic force generated in a direction perpendicular to the direction in which a fluid flows. Due to the specific profile of their blades, wind flows at different speeds on either side of the blades of wind turbines. This creates a pressure difference between the two areas and a force perpendicular to the "back of the blade" that thus begins to rotate about the axis of the hub.

LOAD FACTOR

The measurement used to assess a plant's level of use; it is derived from the ratio between the actual production in a given time period and the plant's maximum theoretical output in the same period.

LOAD TANK

A small basin at the end of the derivation tunnel or channel, from which the penstock starts; the water incoming to the load tank that is not used by the turbine is returned to the water flow through a dedicated spillway channel.

MANAGEMENT SYSTEM

The organisation, planning, responsibilities, procedures, operating practices, processes and resources to develop, implement, achieve, review and maintain control of all internal and external variables.

NACELLE

The main part of the wind turbine, located on the top of a wind tower. It contains the generator, the gearbox, brakes, the pitch control and yaw control actuators.

NON-RECOURSE PROJECT FINANCING

The financing of a project where no guarantees are required from the shareholders of the company being financed.

OHSAS 18001 CERTIFICATION HEALTH AND SAFETY

The certificate of conformity which an organisation obtains from an accredited certification body called upon to assess the compliance of its occupational health and safety management system with the OHSAS 18001 standard [Occupational Health & Safety Assessment Series]. Certification is voluntary.

OTC

Over the counter contracts. Contracts to buy/sell electricity agreed between parties outside the trading sessions.

PELTON WHEEL

A turbine that is optimized to generate power by harnessing high hydraulic head (over 300 m) at low flow rates (less than 50 m³/s). It is typically used for power stations fed by Alpine hydroelectric reservoirs.

PENSTOCK

Metal conduit that connects the load tank or the surge tank with the turbine of the hydroelectric plant, which converts the water's elevation-based energy potential into pressure energy. The penstock is protected by an automatic damper that deviates the water flow in the event of a malfunction.

**PEOPLE FULL-TIME EQUIVALENTS
FTE (FULL TIME EQUIVALENT)**

The estimated number of people working on a specific activity, as the ratio between the total number of hours worked on those activities and the annual working hours of a single person.

PITCH ANGLE

The angle between the blade of a wind turbine and the nacelle (which in turn should be parallel to the wind). As a result, it describes the angle of the blade relative to the wind, thus identifying the resistance it opposes and therefore the ability to exploit the wind to generate mechanical energy.

REMOTE OPERATION

Remote management and control system of a hydroelectric plant; the remote control room normally manages and controls all the company's plants.

REVAMPING

Significant work to modernise a facility in order to improve or change the technology used.

SEVERITY INDEX

With reference to a given time period, it expresses the ratio between the number of days of short-term disability as a result of an accident and the number of hours worked.

SHAREHOLDER

The owner of shares in a company.

SM³

Standard cubic metres.

STAKEHOLDER

Each clearly identifiable subject who may influence or be influenced by an organisation.

STAKEHOLDER ENGAGEMENT

The systematic involvement of stakeholders. Its goal is to discuss the organisation's mission with the various stakeholders in order to align the company's goals with their expectations.

SUSTAINABILITY

The ability of an organisation to generate long-term value.

SUSTAINABILITY REPORT

A voluntary document that combines the financial reporting of an organisation with environmental and social aspects.

SUSTAINABLE DEVELOPMENT

The UN's Brundtland Report defined it as: "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

TRANSFORMER

A device used to transform electricity to different voltages (high voltage 220,000 V or 132,000 V, medium voltage 15,000 V or 10,000 V, low voltage 220 V or 380 V).

TRIPLE BOTTOM LINE

A framework that links together financial, environmental and social performance, in order to measure the sustainable value produced by an organisation.

TUNNEL OR BY-PASS

Open or closed conduit; a closed conduit can be under pressure, or open-surface such as open channels. Diversion tunnels and by-passes have a minimum slope and significant size to carry water from the dam, basin or locks through the intake structure, to the surge tank or to the load tank. Tunnels and intake channels are protected by valves or bulkheads which intercept the water flow in the event of malfunctions.

UNDERGROUND CABLE

Power cable, with specific technical and constructive characteristics, used to transport electricity.

VISION

Highlights what and where an organisation wants to be in the future. The vision determines the criteria that inspire the entire strategic planning process of the company.

WATER TURBINE

A machine that converts the energy of water into mechanical rotation energy. A water turbine can be connected directly to machine tools, to pumps or to generators to produce electricity.

WIND TOWER

The structure that supports the mechanical parts of the wind turbine. Its purpose is purely static. It can be a trellis or be tubular.

WIND TURBINE GENERATOR - WTG**(Wind Turbine Generator)**

Plant capable of transforming the kinetic energy of wind into mechanical energy, which is used in turn to generate electricity.

YAW

Yaw angle: the angle between the direction of the wind and the direction of the wind turbine's nacelle. A zero degree yaw angle denotes perfect alignment.

YAW CONTROL SYSTEM

Control and movement system that rotates the nacelle relative to the tower. It ensures that the nacelle itself and therefore also the blades are always perpendicular to the wind.

6 TOTALERG



AN ONGOING COMMITMENT TO HEALTH, SAFETY, ENVIRONMENT AND QUALITY

When it was formed, TotalErg defined its ethical principles and rules of conduct, setting them out in a Code of Conduct, as a means to ensure and safeguard the assets and the reputation of the Company and of the Group.

The Code is addressed to the corporate bodies, employees at all levels, and third parties involved for any reason (companies of the Group, agents, proxies, brokers, consultants, dealers and suppliers).

Health, Safety, Environment and Quality, the fundamental bases that express our approach to these issues, are an integral part of the Code, as an expression of our high level of commitment in this area.

As proof of this deep commitment, TotalErg created a specific department, initially called "Sustainability and Operating Risks", and later re-organised it in mid-2016, renaming it "HSSE". The department's mission is to ensure the sustainability of the Group's activities and to manage HSSE (Health Safety Security and Environment) risks, in accordance with corporate strategies and by guiding, coordinating and supervising measures taken to protect the health and safety of employees and third parties, of the environment and of the company's assets.

HEALTH AND SAFETY

Safety performance and related actions

In 2016, only one minor accident took place within the TotalErg Group. A careful analysis of its causes was carried out, leading to identify

corrective action to be taken; all the staff was extensively informed on the event and on the preventive measures needed to avoid another similar event.

Education, information and awareness

The training programme on health and safety continued as planned. In addition to basic training and training on the specific risks for new hires, it also included updated training on specific roles and risks.

TotalErg has periodically held Health, Safety and Environment Committees, with the participation of its management.

These meetings are important to assess the results obtained and define the directions the activities should follow.

The company has also organised regular meetings with HSE Representatives of the Group's various business areas and subsidiaries in order to discuss and share the main issues relating to Health, Safety and Environment.

The usual information and awareness-raising campaigns for our employees on Health, Safety and Environment issues continued, through internal communication systems such as intranet, screens in the main offices in Rome and Milan, which show videos about safety, billboards (Safety Points), internal magazines (TotalErg-News), and by organising corporate events (World Safety Day).

In 2016, the Company launched an initiative to study one of the most complex activities: the road transportation of petroleum products.

This activity was performed by qualified suppliers. During this project, called "Truckers on the road", all of TotalErg's Managers accompanied our truck drivers for a day, travelling and observing loading and unloading operations. This experience was very useful from a professional standpoint and to understand the difficulties of this kind of activity.

In 2016, we updated our "Safe driving" procedure. As part of the "hazard reporting" initiative, the staff was asked to pursue the company's objective of reporting potentially dangerous situations. The personnel participated very actively in this initiative and reported many issues, most of which were solved by corrective measures.

TRUCKERS ON THE ROAD

Last year, an initiative took place that involved all of TotalErg Group's managers. They participated in all the phases of road transportation of petroleum products: loading operations at the starting depot, travelling in the truck to reach the various service stations; unloading operations at the stations. The managers accompanied the drivers during the entire workday.

This initiative was aimed at raising the managers' awareness of the problems linked to this activity, which is considered one of the most dangerous corporate operations. 10 loading bases and 200 sales outlets were involved throughout Italy and 7 transport companies participated in the initiative.



SECURITY

Protection of the Company's assets

Because of the increasing frequency of crimes that occur in the sales outlets, depots and pipelines, TotalErg Group's companies implemented a Protection Plan to drastically reduce the probability of these events. This plan included training and communication initiatives for the personnel (Employees/Partners/cashiers of depots) through behavioural courses. At the same time, minimum protection measures were defined to be enacted during the design phase of each sales outlet (standard protection).

To protect Depots and Pipelines, in 2016, other prevention measures were finalised, such as

linking the alarm systems (video and burglar alarms) to a Central Control Room, independent of the contractor that supplies guard services. In this context, we set up strong and fruitful relationships with law enforcement agencies.

Reporting of hazards

Reporting hazardous conditions and "near accidents" was one of the annual HSE goals for all of the TotalErg Group's personnel.

The outcome was very positive and these reports helped us set up corrective actions, reduce the probability of accidents and train the personnel to identify hazards, thus avoiding undesirable consequences.

LAWFULNESS AND SAFETY OF TANKERS

During the 2016 "Oil & non Oil" Expo, TotalErg organised the seminar "Road transportation of fuel: Lawfulness and Safety of Tankers". Operators, Representatives of the Tax Police and Business Associations took part in this event. The Lawfulness and Safety of Tankers project was supported by TotalErg and developed by a transport company specialised in petroleum products and involves installing technical devices on the tankers to reduce the risks of tampering with its mechanical/electronic components to steal or alter the products it carries.



TOTALERG GROUP'S DATA AND INDICATORS

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OPERATING RESULTS

		2016	2015	2014
Total revenues	million EUR	7,600	8,373	9,466
EBITDA	million EUR	169.3	82.3	(42.5)
EBIT	million EUR	93.5	(12.7)	(129.2)

PROCESSING

		2016	2015	2014
Refinery processing	kt	1,627	1,609	1,275
Refinery processing	thousands of barrels/day	33	33	26

SALES OUTLETS

		2016	2015	2014
Sales outlet network	no.	2,585	2,608	2,701
Market share (gasoline + diesel)		10.9%	10.6%	10.6%
Average network throughput	m ³ /outlet at period end	1,191	1,151	1,100
Wholly-owned sales outlets	no.	1,660	1,675	1,676
Outlets offering LPG and/or natural gas*	no.	53	42	52
Car wash facilities*	no.	9	82	91
of which equipped with water recycling systems	no.	7	65	72

*Data only for owned and directly operated plants.

PERSONNEL AT 31/12/2016

	Men	Women	Total
Executives	47	1	48
Middle Managers	183	41	224
Administrative staff	343	274	617
Workers	133	–	133
Group Total	706	316	1,022

	Total
Permanent contract - Full time	914
Fixed-term contract - Full time	8
Permanent contract - Part time	59
Fixed-term contract - Part time	41
Group Total	1,022

PHOTOVOLTAIC ENERGY

		2016	2015	2014
Sales outlets with photovoltaic installations	no.	2	2	3
Installed capacity	MWp	0.019	0.019	0.028
Electricity produced	MWh	30	30	33.7
Other photovoltaic plants	no.	5	5	5
Installed capacity	MWp	0.45	0.45	0.45
Electricity produced	MWh	523	508	435

ENVIRONMENT AND COMMUNITY

		2016	2015*	2014*
Waste produced from site reclamation and new constructions sent for recycling non-hazardous	kt	34.1 94% 93% 98%	45.8 93% 89% 94%	38.0 91% 78% 85%
Petroleum product losses	no. of events	1	1	4
Petroleum product losses	m ³	5	9.6	0.4

* Data refers to wholly-owned, directly managed plants only, excluding the Rome refinery.

SAFETY

		2016	2015*	2014*
Employee accidents	no.	1	4	2
Frequency index <i>no. of accidents per million hours worked</i>		0.61	2.33	1.05
Severity index <i>total days lost per thousand hours worked</i>		0.002	0.107	0.018
HSE Training	hours	7,170	6,506	7,821

* Data refers to wholly-owned, directly managed plants only, excluding the Rome refinery.

TOTALERG S.P.A. PERFORMANCE DATA AND INDICATORS

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ECONOMIC RESULTS*

		2016	2015	2014
Total revenues	million EUR	7,375	8,096	9,155
EBITDA	million EUR	133	50	(77)
EBIT	million EUR	75	(25)	(144)

* Values calculated according to Italian accounting principles.

SALES

		2016	2015	2014
Total sales	kt	5,881	5,846	6,747

PERSONNEL

	2016	2015	2014
Employees	481	493	492

DETAILED ANALYSIS OF PERSONNEL - 2016

	Men	Women	Total
Executives	45	1	46
Middle Managers	132	36	168
Administrative staff	151	100	251
Workers	16	–	16
Total	344	137	481

	Total
Permanent contract - Full time	467
Fixed-term contract - Full time	2
Permanent contract - Part time	12
Total	481

ERG S.p.A. - April 2017

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