



**ERG S.p.A.
Ordinary Shareholders' Meeting
20/21 April 2017**

Remuneration Report

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LETTER OF THE CHAIRMAN OF THE NOMINATIONS AND REMUNERATION COMMITTEE



Paolo Francesco Lanzoni

Dear Shareholders,

I am pleased to present the annual Remuneration Report published by ERG and submitted to the vote of the Shareholders' Meeting.

The ERG Group has always given a great value to the quality of its remuneration policies as key instruments to attract the best professionals and ensure the best coverage of all management and strategic positions. The Committee is committed to propose to the Board of Directors constant developments of the remuneration model to ensure the constant alignment with the strategic targets of the ERG Group, the best market practice, the expectations of our shareholders and Italian and European legislation. A special attention has always been paid to the alignment of the interests of the Management to those of the Shareholders, in the full respect of the "pay for performance" principle.

Among the most significant activities carried out by the Committee in 2016, in its support of the Board of Directors, I would like to mention the monitoring of the performance indicators for the short- and long-term incentive systems, and the support provided to the set-up and review of the retribution structure for Executive Directors and Executives with strategic responsibilities. These structures were specified in compliance with the 2016 Remuneration Policy and best market practice, monitored through benchmarks provided by independent Companies.

To prepare the 2017 Remuneration Report, the Committee followed the guideline requiring the full disclosure of the information provided and a more effective presentation in the document. An introductory section, "Executive Summary", was therefore added, which provides summary information on:

- the elements of the compensation package of the Chief Executive Officer and the Executives with strategic responsibilities,
- the performance of share prices and the dividend policy implemented in the last five years, to show that ERG has constantly created value for its shareholders,
- the use of workplace safety indicators as on/off condition for the short-term variable incentive system, to testify of the extent to which social responsibility is one of the key values in the corporate culture of ERG.

I want to thank the Committee members, Mara Anna Rita Caverni and Silvia Merlo, for making available to the Committee their experience and professionalism; many thanks are also due to the units and the people of ERG that provided their specialist knowledge.

I deliver this Report in the hope that it may successfully represent and fully describe ERG's remuneration system and its contribution to the creation of sustainable value in the medium-long term, which the Company constantly pursue. Thanks for the support given to the 2017 Remuneration Policy.

Sincerely,

Paolo Francesco Lanzoni

EXECUTIVE SUMMARY

Guidelines of the 2017 Remuneration Policy

Specified to set a retribution mix consistent with the management position held.

Chief Executive Officer

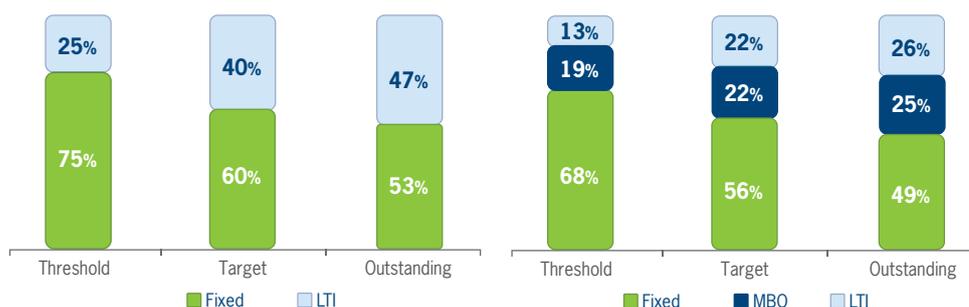
(ref. Policy 2017 3.1)

Executives with strategic responsibilities

(ref. Policy 2017 3.2)

Fixed remuneration <ul style="list-style-type: none"> Assigns value to the responsibilities, skills and contribution required by the role. Ensures retention through continuous market benchmarking. Remunerates activities performed in the event that the variable component is not disbursed. 	Compensation Annual, as member of the Board of Directors Remuneration Annual, for the office of Chief Executive Officer	Annual compensation
	Benefit Car, health insurance Pension or similar Termination indemnity	Benefit Car, health insurance Pension or similar Termination indemnity, Supplementary pension plans
Variable Remuneration <ul style="list-style-type: none"> Aimed at the achievement of predetermined economic-financial and strategic targets that can be measured and are consistent with the budget. Aimed at improving performance in creating sustainable value for the Company and aligning the interests of management to those of Shareholders. 	Short term	Short term MBO – 100% cash Targets: 30% EBT ¹ threshold 50%, target 100%, cap 150% 70% Individual threshold 80%, target 100%, cap 120% (e.g. EbitDa, PFN, Opex, ...) Target ON/OFF on EBT: Sustainability clause ²
	Long Term 2015-2017 LTI - three years - 100% cash Targets: 60% Δ EVA threshold 50%, target 100%, cap 130% 40% TSR threshold 50%, target 100%, cap 150%	Long Term 2015-2017 LTI - three years - 100% cash Targets: 60% Corporate Resources Δ EVA threshold 50%, target 100%, cap 130% 80% Business Resources Δ EVA 40% Corporate Resources ^{TSR} threshold 50%, target 100%, cap 150% 20% Business Resources ^{TSR}

Pay mix

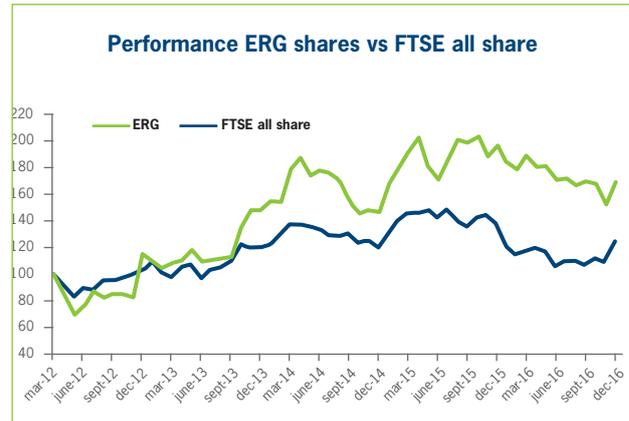
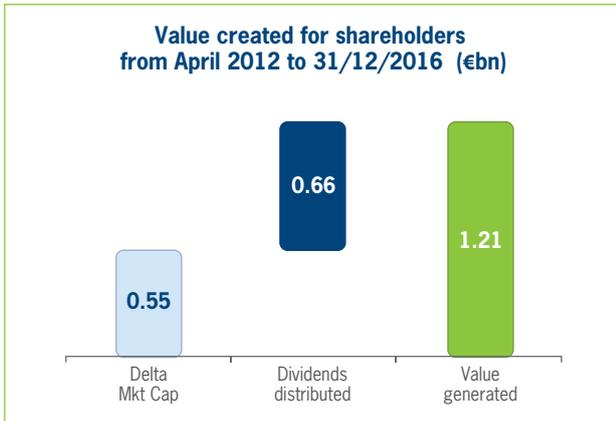


1 Consolidated pre-tax IAS result at adjusted replacement cost excluding proceeds (charges) deriving from the investment in TotalErg S.p.A.

2 A fatal accident, or an accident that causes a degree of permanent disability greater or equal to 46% to an employee of the Group.

Pay for Performance (ref. Policy 3.1.3)

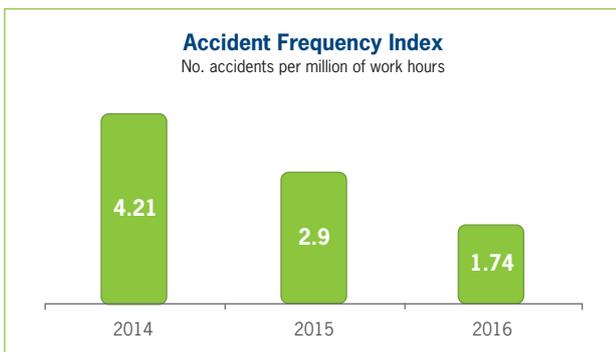
In the period April 2012 – December 2016, ERG rewarded its Shareholders with dividends for a total of €495.9 million, with a TSR equal to 123%, thanks to the growth strategy adopted by the ERG Group and the extraordinary transactions that have made it possible³.



Sustainability indicators (ref. Policy 2017 3.2.1)

ERG believes that the full compatibility of its activities with the health and safety of the workers, the community, the natural resources and the environment is an essential requirement to make its plants and operations acceptable and to achieve its growth objectives.

Therefore, ERG is committed to ensure that all Companies of the ERG Group operate with the highest respect for the health and safety of employees and of third parties, as well as for the environment, defined in the broadest sense⁴. Consistently with the provisions of the Code of Ethics of the ERG Group, a sustainability clause based on workplace accidents was associated to the *MBO System.



No. of days lost per thousand of work hours	
Year	Index
2014	0.04
2015	0.12
2016	0.03

³ For these transactions, the Remuneration Policy also envisages the possibility of awarding non-recurring remuneration (ref. Policy Par. 3.1.3).
⁴ Code of Ethics of the ERG Group, approved by the Board of Directors on 14 May 2014.

INTRODUCTION

In accordance with Article 123-ter of the Consolidated Finance Act (CFA), the Report is composed of two sections.

I. Section one

The first section illustrates the 2017 Remuneration Policy and the procedures used for its adoption and implementation.

II. Section two

The second section provides, individually for each of the members of the Board of Directors and the Board of Statutory Auditors, as well as, in aggregate form⁵, for Executives with strategic responsibilities, the following information:

- a) an adequate description of each of the items making up the remuneration, including the benefits envisaged in case of retirement from office or termination of the employment relationship, drawing attention to the consistency thereof with the 2016 Remuneration Policy.
- b) a detailed account of the fees paid in 2016, for whatsoever reason and in any form, by ERG and its subsidiaries or associated companies.

⁵ Pursuant to the provisions of Table 7-bis of Annex 3A to the Issuers' Regulations, the fees will be illustrated for Executives with strategic responsibilities, naming those Executives who received during 2016 total compensation (obtained by summing the monetary fees and compensation based on financial instruments) that are higher than the highest total compensation assigned to the members of the Board of Directors and the Board of Statutory Auditors in the same year.

SECTION I: 2017 Remuneration Policy

1. Evolution of Approach

In line with the provisions of the Corporate Governance Code⁶, the Board of Directors of ERG, *adopted*, with resolution dated 20 December 2011, upon a recommendation from the NRC⁷, its own Remuneration Policy, effective from 2012. The Policy's structure was independently defined by ERG at the time, without using as reference remuneration policies pertaining to other companies.

The Policy underwent an *initial revision* by the Board of Directors, on a proposal from the NRC, on 18 December 2012, to take account of the powers assigned by the Board of Directors – appointed by the Shareholders' Meeting of 20 April 2012 – and the adoption of the 2012-2014 LTI System. For such purpose, ERG used the services of the consulting firm The European House – Ambrosetti.

As part of the said revision of the Policy, several remuneration policies of non-financial FTSE MIB index companies were used as reference, since these were considered most representative of Italian best practices, as well as a peer group of parties (comparable to ERG based on their size and operating in sectors where the ERG Group is active) proposed by the consulting firm The European House – Ambrosetti.

On 11 March 2015, the Policy was subject to a *second revision* by the Board of Directors, upon a recommendation from the NRC, to take account, effective from 2015, of the Company's acceptance of the version of the Corporate Governance Code in force at that time and the general principles of the 2015-2017 LTI System, with a view to ensuring greater alignment of management's interests to the priority goal of creating value for Shareholders over the medium/long-term, in keeping with the strategic guidelines of the ERG Group. For such purpose, the Company used the services of the consulting firm The European House – Ambrosetti.

For the second revision of the Policy, in line with the previous actions, the Company used as reference some remuneration policies of non-financial FTSE MIB index companies, since these were considered most representative of Italian best practices, together with a peer group of parties comparable to ERG based on their size and operating in sectors where the ERG Group is active, again as proposed by the consulting firm The European House – Ambrosetti.

- *Changes deriving from acceptance of the Corporate Governance Code*

In line with the provisions of the Corporate Governance Code currently in force, which the Company has accepted, the Policy sets forth a clause expressly recognising the Company's right to request the return of variable remuneration (or to withhold deferred amounts) where said remuneration is found to have been disbursed based on data that was subsequently found to be clearly incorrect (*clawback clause*).

- *Changes deriving from the 2015-2017 LTI System*

The main changes deriving from the 2015-2017 LTI System, developed according to a logic of continuity with respect to the 2012-2014 LTI System, include the introduction of a performance target linked to the trend in ERG's share during the three years of the reference period and the amount of dividends for share paid during the same period (Total Shareholder Return), in order to align the interests of the related beneficiaries with the interests of Shareholders, which is then added to the performance target expressed using the EVA (Economic Value Added) indicator, a parameter already used in the 2012-2014 LTI System.

The 2015-2017 LTI System was approved by the Board of Directors, upon a proposal from the NRC and having heard the favourable opinion of the Board of Statutory Auditors, on 11 March 2015 and subjected to the approval of the Shareholders' Meeting held on 24 April 2015 – which issued a favourable resolution to this effect – in consideration of the introduction of a performance objective connected to ERG's share. On 15 December 2015, the Board of Directors – in line with the Remuneration Policy 2015 and in the light of the 2015-2018 Business Plan approved at the same time – upon a proposal from the NRC and having heard the favourable opinion of the Board of Statutory Auditors, has specified the necessary conditions to implement the 2015-2017 LTI System.

⁶ This refers to the version of the Corporate Governance Code published in December 2011.

⁷ Further information regarding bodies and persons involved in the preparation and approval of the Policy and the NRC's composition, competences and working procedures is set out in the Report on Governance and Ownership drawn up pursuant to Article 123-bis of the Consolidated Finance Act (CFA).

The Policy was updated, upon a proposal from the NRC,

- on 22 March 2016, for the sole purpose of acknowledging the resolution of the Board of Directors dated 15 December 2015, which defined the conditions necessary to implement the 2015-2017 LTI System, in line with the said Policy and in view of the 2015-2018 Business Plan;
- on 9 March 2017 for the purpose of implementing the organisational changes following the reorganisation of the risk management, compliance and internal control processes of the ERG Group and the “ONE Company”⁸ Project, as well as the introduction of a clause to which the deferred payment of any non-recurring remuneration is subordinated, after assessment of the NRC and resolution of the Board of Directors.

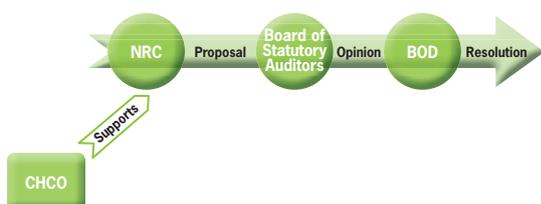
2. Parties involved

In keeping with relevant legislative and regulatory provisions in force and the recommendations of the Corporate Governance Code, the decisions behind the implementation of the 2017 Remuneration Policy and the responsibility for its correct application are the result of a joint process involving numerous parties:

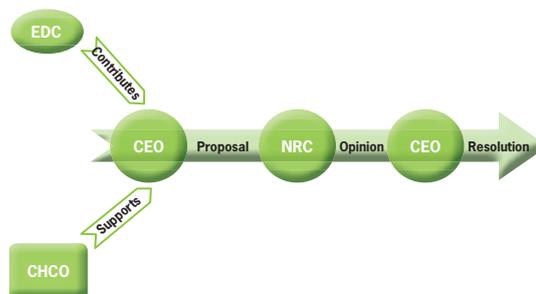
- a) The Shareholders’ Meeting, as regards the Directors’ fees and those of the Directors called upon to sit on the NRC or the CRC



- b) The Board of Directors, upon a recommendation from the NRC, with the support of the CHCO and having consulted the Board of Statutory Auditors, as regards the remuneration of Executive Directors or Directors holding specific offices as well as, if necessary, the directors called upon to sit on the Strategic Committee, where these are not employees of the Group and do not hold offices on the Board of Directors



- c) The Chief Executive Officer, jointly with the Executive Deputy Chairman and with the support of the CHCO, having consulted the NRC, as regards the remuneration of Executives with strategic responsibilities⁹



- d) The Board of Directors, upon a proposal from the Director in charge of the Internal Control and Risk Management System, subject to the favourable opinion of the CRC and the support of the CHCO, having consulted the Board of Statutory Auditors, for the remuneration of the Chief Audit Officer, who is also an Executive with strategic responsibilities



- e) The Board of Directors, upon a proposal from the Chief Executive Officer, jointly with the Executive Deputy Chairman and supported by the CHCO, having consulted the NRC and the Board of Statutory Auditors, for the remuneration of the Manager Responsible for preparing the Company’s financial reports, who is also an Executive with strategic responsibilities



⁸ See Press Release of 10 November 2016.

⁹ Subject to the provisions of point (d) below for the Chief Audit Officer and point (e) for the Manager Responsible for preparing company’s financial reports.

2.1 Nominations and Remuneration Committee

The Nominations and Remuneration Committee comprises three non-executive directors, mostly independent, qualified as such pursuant to both the related provisions set forth by the Consolidated Finance Act (CFA) and those set forth by the Corporate Governance Code¹⁰, who have adequate financial and remuneration policy experience¹¹.

The Committee meets at least once a quarterly. All members of the Board of Statutory Auditors take part in the Committee proceedings; in addition, the Chairman of the Board of Directors, the Executive Deputy Chairman and the Chief Executive Officer may participate, by invitation, insofar as they are entitled to intervene on the matters being considered and to identify suitable interventions to address situations, even if potentially critical. Directors do not take part in the meetings of the NRC where proposals are made to the Board of Directors in connection with their own remuneration. Employees of ERG Group companies, representatives of the independent auditor and, in general, persons whose presence is deemed necessary or appropriate for the discussion of the agenda items may be invited to attend Committee meetings.

As regards the remuneration of members of the **Board of Directors**, the Committee:

- periodically assesses the adequacy, overall consistency and concrete application of the Remuneration Policy, reporting to the Board of Directors
- submits recommendations or expresses opinions to the Board of Directors concerning the remuneration of Executive Directors or Directors holding specific offices as well as, if necessary, the remuneration of the Directors called upon to sit on the Strategic Committee, where the same are not employees of the

Group and do not hold offices on the Board of Directors

- submits proposals or expresses opinions to the Board of Directors on the setting of performance targets linked to the variable component of the medium/long-term incentive systems
- monitors implementation of the decisions taken by the Board of Directors, verifying the actual achievement of the performance targets.

As regards the remuneration of **Executives with strategic responsibilities**, the Committee:

- periodically assesses the adequacy, overall consistency and concrete application of the Remuneration Policy
- expresses opinions to the Chief Executive Officer on their remuneration
- submits proposals or expresses opinions to the Chief Executive Officer on the setting of Group performance targets linked to the variable component of the short-term incentive system
- submits proposals or expresses opinions to the Board of Directors on the setting of performance targets linked to the variable component of the medium/long-term incentive systems
- verifies the actual achievement of Group performance targets.

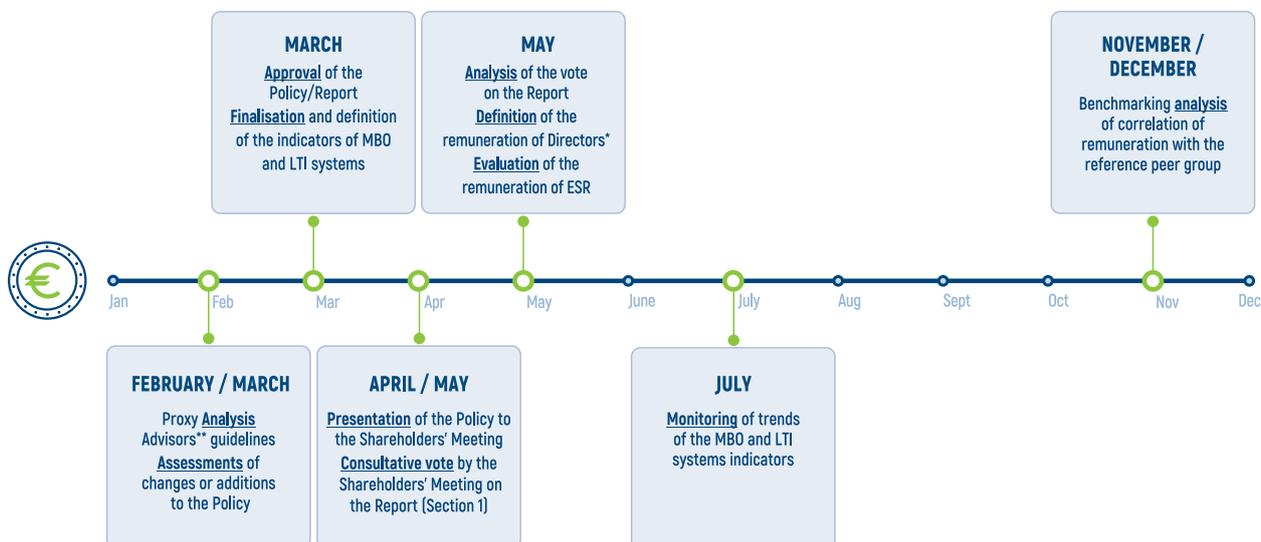
The Committee actively participates in defining the short and medium/long-term variable incentive systems.

In particular, the Committee was actively involved in the process of preparation and subsequent adoption of the MBO System, the 2012-2014 LTI System and the 2015- 2017 LTI System.

¹⁰ It should be mentioned that the Committee Chairman, who is a non-executive director, was qualified by the Board of Directors of 24 April 2015 as an independent director pursuant to the Consolidated Finance Act (CFA) and not also within the meaning of the Corporate Governance Code exclusively in consideration of his long term in office. Said features were also evaluated by the Board of Directors during the meeting of 13 July 2016.

¹¹ Said features were also evaluated by the Board of Directors during the meeting of 24 April 2015.

Nominations and Remuneration Committee work schedule and significant events concerning the Remuneration Policy



* Executive or entrusted with special powers

** Relating, inter alia, to ISS and Glass Lewis

3. Structure of the 2017 Remuneration Policy

The 2017 Policy sets general guidelines for determining the remuneration of Board of Directors members and Executives with strategic responsibilities, in the course of their business, with a view to attracting, retaining and motivating highly qualified managers and aligning their interests to the pursuance of the priority objective of creating sustainable value for Shareholders over a medium/long-term horizon.

In the 2015-2018 Business Plan, the Company defined its policy for managing the risk associated with the targets given, whose achievement is linked to the portion of incentive comprising the 2015-2017 LTI System, which is an integral and essential part of the 2017 Policy.

Where, in exceptional cases, the Board of Directors considers it necessary to deviate from the Policy previously approved and subjected to the vote of the shareholders' meeting, any decisions on the matter will be fully submitted to the Procedure for Related Party Transactions and information on such decisions will be disclosed to the market, pursuant to regulations and the said Procedure.

The 2017 Policy is structured differently according to whether the remuneration in question is intended for Board Members or Executives with strategic responsibilities.

3.1 Board of Directors

3.1.1 Fees

The Shareholders' Meeting is called upon annually, on a proposal from the Shareholders, to pass resolution on the assignment of fixed annual compensation for all members of the Board of Directors.

The Shareholders' Meeting is also called upon annually, on a proposal from the Shareholders, to pass resolution on the assignment of additional fixed annual compensation for independent directors called upon to sit on the NRC or the CRC.



The Board of Directors recommends that these fees be consistent with the professional commitment required by the office, as well as with the related responsibilities.

The Board of Directors also recommends that the fee proposals be presented by the Shareholders (where appropriate, also pursuant to Art. 126-bis of the Consolidated Finance Act - CFA) in such a way as to allow disclosure to the public sufficiently in advance with respect to the Shareholders' Meeting called upon to approve them.

In this connection, it should be mentioned that starting from 2013 the main shareholder has submitted proposals in line with the above recommendations, which were therefore communicated to the public suitably in advance of the Shareholders' Meeting called upon to approve them.

3.1.2 Remuneration

The remuneration paid to Executive Directors or Directors holding specific offices shall be suitable to attracting, retaining and motivating highly qualified individuals and aims at assigning a value to their skills, in line with the contribution required by the role.

Fixed component

The Board of Directors, upon a proposal from the NRC, with the support of the CHCO, having consulted the Board of Statutory Auditors, approves the allocation of fixed annual remuneration to Executive Directors or Directors holding specific offices.

The Board of Directors, again on a proposal from the NRC, with the support of the CHCO and having consulted the Board of Statutory Auditors, may assign fixed annual remuneration to the Directors called upon to sit on the Strategic Committee, where these are not employees of the Group and do not hold offices on the Board of Directors. Their remuneration is thus not linked to the Company's business performance.



The Board of Directors may, in the Company's interest, provide for the fixed component to be established still using the same criteria but on a three-year basis.

The amount of the annual fixed remuneration is measured proportional to the commitment required of each beneficiary for their respective offices, and is defined (based on the opinion of specialised consulting firms) through market benchmarking with listed companies. The comparison is made considering, within the ambit of the reference stock market, firms that are similar in terms of their type, size and complexity and by comparing individual roles.

Variable component

The Board of Directors, on a proposal from the NRC, with the support of the CHCO, having consulted the Board of Statutory Auditors, approves the allocation of variable remuneration to the Chief Executive Officer in the form of a monetary incentive linked to the achievement of specific performance targets correlated to the creation of sustainable value over the medium/long-term period, indicated in advance and determined based on the principles of the 2015-2017 LTI System.

The beneficiaries do not include Executive Directors whose interests are deemed to be intrinsically aligned with the pursuit of the priority objective of creating value for all Shareholders. As at the approval date of this Report, the individuals in question are the Chairman and the Executive Deputy Chairman.

The target value bonus is determined taking account of external salary benchmarks (relating to the long-term variable component of the salary) and the forecast value creation.

2015-2017 LTI System

The aim of the 2015-2017 LTI System is to encourage maximum alignment, in terms of objectives, between the interests of the related beneficiaries and pursuit of the priority goal of creating sustainable value for Shareholders over a medium/long-term horizon.

The performance indices concurrently applied for each plan beneficiary are the Economic Value Added - meaning the cumulative Δ EVA of the Group - and the absolute Total Shareholder Return.

- the **Economic Value Added** is a performance target that represents the "residual" economic value after all production factors have been remunerated, including

the cost of capital employed. Thus by expressing income net of the cost of capital, the EVA considers the equity and financial components alongside the income component. The Δ EVA represents the improvement with respect to the target, over the reference period, as regards the creation of value. From a methodological point of view, the cumulative Δ EVA is calculated as the sum of Δ EVAs pertaining to the year 2014: $(EVA_{2015} - EVA_{2014}) + (EVA_{2016} - EVA_{2014}) + (EVA_{2017} - EVA_{2014})$

- the **Total Shareholder Return** is a performance target linked to the performance of ERG's share in the reference three-year period and the amount of dividends for share paid in the same period. The opening reference price is the daily average of prices over a six-month period prior to 16 December 2015, the date of presentation of the 2015-2018 Business Plan to the market. The closing reference price is the daily average of prices over a three-month period prior to 15 February 2018 (15 November 2017 – 15 February 2018).

The performance indices are differentiated based on the role covered by the beneficiary within the ERG Group and in relation to the scenario of the 2015-2018¹² Business Plan approved and disclosed to the financial community.

Objective	Weight	Level of achievement of Performance Indicator	Incentive Paid
Δ EVA	60%	= Threshold Indicator	50% Target value
		\geq Outstanding Indicator	130% Target value
TSR	40%	= Threshold Indicator	50% Target value
		\geq Outstanding Indicator	150% Target value

The incentive strategy, namely the algorithm that links the EVA and TSR Performance to the bonus accrued, is as follows:

- below the Threshold Indicator, the bonus accrued is null;

- equivalent to the Threshold Indicator, the bonus accrued is equal to 50% of the Target Bonus (Threshold Bonus);
- equivalent to the Target Indicator, the bonus accrued is equal to the Target Bonus;
- for performance scenarios included between the Threshold and Target, the bonus accrued varies linearly;
- equivalent to the Outstanding Indicator, the bonus accrued is equal to 130% of the Target Bonus (Outstanding Bonus) for the component linked to EVA, while it is equal to 150% of the Target Bonus for the component linked to TSR;
- for performance scenarios included between Target and Outstanding Indicators, the bonus accrued varies linearly.

For each individual objective, the compensation recognised, in the case of **overshooting** of the corresponding **outstanding indicator** will not exceed a **predetermined cap**.

For each individual objective, in the case of **failure to achieve** the corresponding **threshold indicator**, **no compensation** will be recognised.

The entire compensation, where accrued, will be fully **paid at the end of the 2015-2017 LTI System**



The System also envisages the following:

- clawback clause**, namely, the Company has the right to exercise the option to request the partial or total return of the LTI compensation paid (or to withhold deferred amounts), within 3 years of its accrual, where the incentive is found to have been determined based on data that was subsequently deemed clearly incorrect;
- clauses** that govern the consequences of the termination of the mandate while the LTI System is in force¹³.

¹² For the related reference period.

¹³ Details are provided in the information document available to the public at the Company's registered office in Via De Marini 1, Genoa, on the Company's website (www.erg.eu), in the section "Governance/Remuneration Reports", at Borsa Italiana S.p.A. and on the authorised storage platform eMarket Storage (www.emarketstorage.com).

3.1.2 Balancing remuneration

The balancing of fixed and variable remuneration components aims to align the interests of the related beneficiaries with the Company's medium/long-term strategic objectives and the sustainable creation of value for Shareholders in compliance with the ERG Group risk management policy.

The weight of the fixed component of remuneration of the Chief Executive Officer, on an annual basis, corresponds on average to 60% of his overall target remuneration. The weight of the variable component of the Chief Executive Officer's remuneration, on a three-year basis, considering its annualised amount, is equal to 40%¹⁴ of his total target remuneration.

The fixed component of remuneration is sufficient to remunerate the services of the Chief Executive Officer in cases where the variable component is not paid owing to failure to achieve the performance targets.



3.1.3 Pay for Performance

In the last few years, the ERG Group has been able to radically modify its business portfolio anticipating long-term energy scenarios and completed its transformation from industrial operator active in the refining sector, to leading independent producer of electricity predominantly from renewable resources.

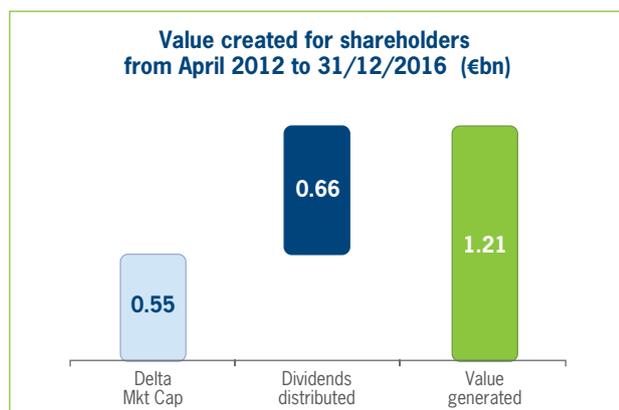
It should be mentioned that the transformation process, which began in 2008 with the sale of 49% of the ISAB refinery in Sicily, and the Group's gradual repositioning in more profitable activities with less exposure to market

volatility, has resulted in a notable creation of value for the Company and Shareholders and was made possible by the completion of the following extraordinary operations:

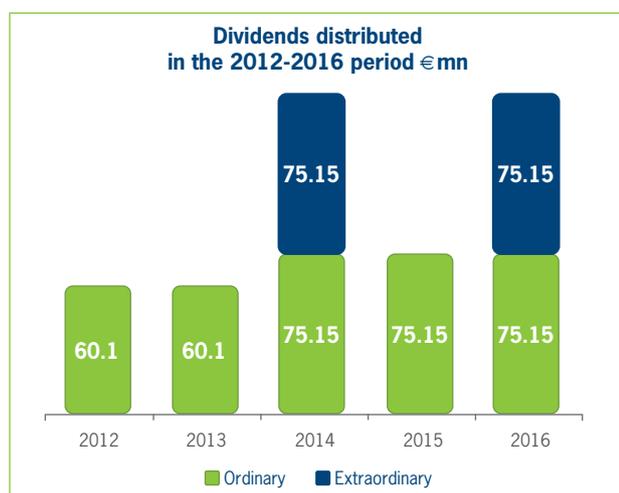
- **Progressive exit from refining:** this commenced in 2008 and was completed in 2013, with the sale of the remaining 20% stake.
- **Acquisition of IP Maestrale Investments:** in February 2013, ERG Renew acquired an 80% equity interest in IP Maestrale Investments Ltd, thereby increasing its installed power by 636 MW, of which 550 MW in Italy and 86 MW in Germany, and, consequently, becoming the leading wind power operator in Italy and among the top ten in Europe. ERG Renew thus reached a suitable industrial size and financial level to pursue autonomously its growth process.
- **Sale of the ISAB Energy IGCC plant:** in June 2014, ERG sold to ISAB (LUKOIL) the ISAB Energy and ISAB Energy Services business units, mainly comprising the IGCC generation plant. The operation, in line with the definitive exit from refining, is an additional fundamental step forward in the strategy to reposition the asset portfolio, at the same time strengthening the Group's capital structure to support future development plans.
- **Acquisition of E.ON Produzione's entire hydroelectric business:** in November 2015, ERG entered the hydroelectric sector with notable dimensions through the acquisition of an integrated hub of power plants located in the regions of Umbria, Marche and Lazio, with an overall capacity of 527 MW. This acquisition, of paramount strategic importance for the Group, offered the opportunity to diversify the production sources, by assuming a significant prominence in the Italian renewables panorama and procuring new high quality assets for the ERG Group.

During the period between April 2012 and December 2016, the trend in price of the shares and the dividend distribution policy ensured outstanding value creation for Shareholders, with a TSR (Total shareholders return) equal to 123% thanks to the growth path undertaken by the group and the extraordinary transactions that made it possible.

¹⁴ This refers to the target value of the bonus.



During the period 2012-2015, the Company remunerated Shareholders with dividends totalling €495.9 million.



In order to ensure an increasing alignment between the interests of Shareholders and Management, in full compliance with the pay for performance principles, the ERG Group has decided to use also **non-recurring remuneration**. In particular, the Board of Directors, upon a proposal from the NRC, with the support of the CHCO, having consulted the Board of Statutory Auditors, in the event of extraordinary transactions that:

- imply a significant transformation of the Group's long-standing assets
- generate strong value creation for the Company and Shareholders over the long term;
- entail, for management involved in the transactions, extraordinary work, on top of objectives considered in the systematised incentive plans;

may pass a resolution for the payment of non-recurring remunerations to the Executive Directors who participated in the transaction.

The amount of said remuneration is proportional to:

- the economic benefit and strategic weight of the transaction in question
- the contribution effectively given by each individual Director.

The non-recurring remunerations may provide for **deferral mechanisms** for retention purposes, based on which disbursement is conditional upon the continued existence, at the scheduled disbursement dates, of a collaboration relationship with ERG or with one of the Group companies, subject to dismissal/revocation for just cause, in keeping with the provisions set forth by the LTI System. They can also provide for a mechanism that (i) gives to the NRC, with the support of the CHCO, the verification of the existence of the conditions that have originally resulted in them being awarded and (ii) asks the Board of Directors for a resolution on the resulting payment.

3.1.4 Non-monetary benefits

The Shareholders' Meeting may decide, on a proposal from the Shareholders, that all members of the Board of Directors are entitled to receive certain non-monetary benefits (health and life insurance policies) the amount of which is withheld from the fixed annual compensation also approved by the Shareholders' Meeting.

The Board of Directors, upon a proposal from the NRC, with the support of the CHCO, having consulted the Board of Statutory Auditors, may resolve to assign benefits such as cars and living accommodation to Executive Directors or Directors holding specific offices, which are not withheld from the fixed annual compensation or remuneration.

3.1.5 Indemnity for early termination or non-renewal of office

The Board of Directors, upon a proposal from the NRC, with the support of the CHCO, having consulted the Board of Statutory Auditors, may resolve to assign¹⁵ to the Chief Executive Officer, as a non-employee of the Company, an indemnity in the event of early termination or non-renewal of his office subject to the following conditions:

¹⁵ See paragraph 4.2.2 under the item "Termination indemnity".

- the amount of said indemnity usually and save for exceptional cases, may not exceed the total amount of related fixed remuneration paid to the same under the relationship over a period of 24 months
- the indemnity must be determined in advance along with the overall remuneration
- the indemnity must not be paid in cases where termination of the relationship is due to the achievement of objectively inadequate results, subject to extraordinary events not attributable to the actions of the CEO
- the related resolution must be adopted in accordance with the medium/long-term strategy, values and interests of the ERG Group.

3.1.6 Termination indemnity

The Board of Directors, upon a proposal from the NRC, with the support of the CHCO, having consulted the Board of Statutory Auditors, may resolve to assign a termination indemnity to the Chief Executive Officer, as a non-employee of the Company, subject to the following conditions¹⁶:

- the amount of the indemnity, as a rule and save for exceptional cases, may not exceed the sum corresponding to 35% of the related total fixed remuneration paid to the same over his term of office;
- the payment must be determined in advance along with the overall remuneration
- the indemnity may not be paid in cases where, at the time of termination of office, objectively inadequate results have been achieved;
- the related resolution must be adopted in accordance with the medium/long-term strategy, values and interests of the ERG Group.

3.2 Executives with strategic responsibilities

3.2.1 Remuneration

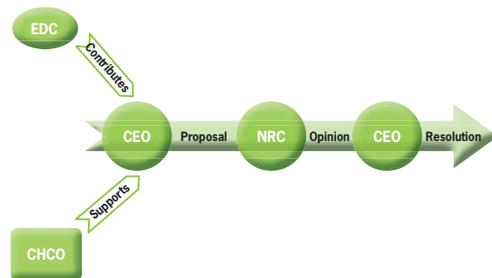
The remuneration paid to Executives with strategic responsibilities shall be suitable for attracting, retaining and motivating highly qualified individuals and is intended to assign a value to their skills, in keeping with the contribution required by their role, as well as to align their interests with the priority objective of creating sustainable value for Shareholders over the medium/long-term horizon.

¹⁶ See paragraph 4.2.2 under the item "Termination indemnity".

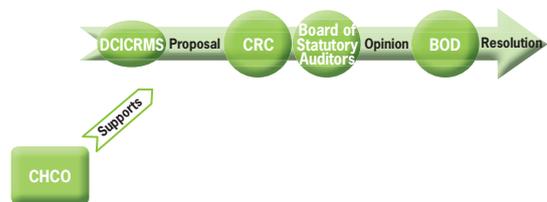
The remuneration is broken down into two components, a fixed and a variable component; the variable remuneration is, in turn, broken down into two components, in the form of a monetary incentive linked to the achievement of specific performance targets, indicated and determined in advance, correlated to the creation of value in the short-term based on the rules of the MBO System and in the medium/long-term according to the principles of the 2015-2017 LTI System.

The following parties are involved in defining the overall remuneration of Executives with strategic responsibilities (as previously indicated in Chapter 2.):

- The Chief Executive Officer, jointly with the Executive Deputy Chairman and with the support of the CHCO, having consulted the NRC, determines the remuneration to be assigned to Executives with strategic responsibilities¹⁷;



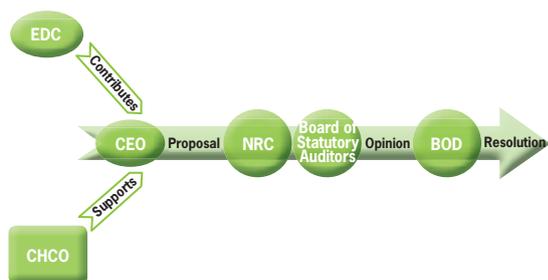
- The Board of Directors, based on a proposal from the Director in charge of the Internal Control and Risk Management System and subject to the favourable opinion of the CRC¹⁸ and the support of the CHCO, having consulted the Board of Statutory Auditors, determines the remuneration of the Chief Audit Officer;



¹⁷ Subject to the provisions set forth below concerning the Chief Audit Officer and the Manager Responsible for preparing the Company's financial reports.

¹⁸ This being the body set up pursuant to the Corporate Governance Code to monitor the independence, adequacy, effectiveness and efficiency of the internal audit function.

- The Board of Directors, on a proposal from the Chief Executive Officer, jointly with the Executive Deputy Chairman and supported by the CHCO, having consulted the NRC and the Board of Statutory Auditors, determines the remuneration of the Manager Responsible for preparing the company's financial reports.



Fixed component

The amount of the fixed remuneration is measured proportional to the commitment required of each beneficiary for their respective offices, and is defined (based on the opinion of specialised consulting firms) through market benchmarking with listed companies. The comparison is made considering, within the ambit of the reference stock market, firms that are similar in terms of their type, size and complexity and by comparing individual roles.

Short-term variable component

The short-term variable component concerns the achievement of predetermined economic/financial and strategic targets and is governed by the MBO System. The variable component assigned to the Chief Audit Officer is linked to targets not correlated to economic performance indicators and is parametrised on the implementation of the annual audit plan.

The target value bonus is determined taking account of external salary benchmarks.

Main characteristics of the MBO System

The MBO System is designed to encourage participants to achieve annual objectives.

The system provides for participants to be assigned performance targets structured as follows:

- one Group target, identical for all participants, with a weight corresponding to 30% of the incentive target amount and measured using the indicator EBT ("Con-

solidated pre-tax IAS result at adjusted replacement cost")

- additional individual targets (maximum of 3) associated with the role held, with a weight corresponding to 70% of the incentive target amount and measured according to quantitative indicators linked to economic/financial (EBITDA, PFN, Opex, ...) and/or project parameters.

Associated with each target is a weight and a relative share of the overall monetary incentive.

Type	Weight	Definition	Performance Indicator Attainment Level	Incentive Paid
Company target	30%	EBT (consolidated pre-tax IAS result at adjusted replacement cost) ¹⁹	= Threshold Indicator	50% target value
			≥ Outstanding Indicator	150% target value
Individual target	70%	Divided in: - Business - Development - Organisation	= Threshold Indicator	80% target value
			≥ Outstanding Indicator	120% target value

Consistently with the high level of attention always and constantly paid by the Group to workplace safety a **Sustainability clause** was associated to the MBO system, according to which the bonus referred to the company target will not be paid, for the reference year, regardless of the company performance recorded, to the participants in the MBO system in the case of a fatal accident, or an accident that causes a degree of permanent disability greater or equal to 46% to an employee of the Group.

The compensation recognised in the event of overshooting the outstanding indicator cannot exceed a **predetermined cap**, namely 150% of the target value for the company target and 120% of the target value for individual targets.

In the case of **failure to achieve the threshold indicator**, namely 80% of the target value for individual targets and 50% of the target value for the company target, **no compensation is paid**.

¹⁹ Excluding proceeds (charges) deriving from the investment in TotalErg S.p.A.

The system provides for the Company to have the right to exercise the **clawback clause**, namely the option to request the partial or total return of the MBO compensation paid (or to withhold deferred amounts), within 3 years from its accrual, where the incentive is found to have been determined based on data that was subsequently deemed clearly incorrect.

Medium/long-term Variable Component

The medium/long-term variable component is structured in such a way as to align the interests of the beneficiaries with pursuit of the priority goal of creating sustainable value for Shareholders over the medium/long-term horizon. The Chief Audit Officer does not participate in the 2015-2017 LTI System.

The target value bonus is determined taking account of external salary benchmarks (relating to the long-term variable component of the salary) and the forecast value creation.

2015-2017 LTI System

The aim of the 2015-2017 LTI System is to encourage maximum alignment, in terms of objectives, between the interests of the related beneficiaries and pursuit of the priority goal of creating sustainable value for Shareholders over a medium/long-term horizon.

The performance targets simultaneously applied for each plan beneficiary are the Economic Value Added – intended as the Group's cumulative Δ EVA for the so-called corporate resources and the cumulative Δ EVA pertaining to the related Business Unit for the so-called business resources - and the absolute Total Shareholder Return.

- the **Economic Value Added** is a performance target that represents the “residual” economic value after all production factors have been remunerated, including the cost of capital employed. Thus by expressing income net of the cost of capital, the EVA considers the equity and financial components alongside the income component. The Δ EVA represents the improvement with respect to the target, over the reference period, as regards the creation of value. From a methodological point of view, the cumulative Δ EVA is calculated as the sum of Δ EVAs pertaining to the year 2014: $(EVA_{2015} - EVA_{2014}) + (EVA_{2016} - EVA_{2014}) + (EVA_{2017} - EVA_{2014})$.

- Total Shareholder Return** is a performance target linked to the performance of ERG's share in the reference three-year period and the amount of dividends for share paid in the same period. The opening reference price is the daily average of prices over a six-month period prior to 16 December 2015, the date of presentation of the 2015-2018 Business Plan to the market. The closing reference price is the daily average of prices over a three-month period prior to 15 February 2018 (15 November 2017 – 15 February 2018).

The performance indices are differentiated based on the role covered by the beneficiary within the ERG Group and in relation to the scenario of the 2015-2018²⁰ Business Plan approved and disclosed to the financial community.

Type	Corporate Resources Weight	Business Resources Weight	Performance Indicator Attainment Level	Incentive Paid
Δ EVA	60%	80%	= Threshold Indicator	50% target value
			\geq Outstanding Indicator	130% target value
TSR	40%	20%	= Threshold Indicator	50% target value
			\geq Outstanding Indicator	150% target value

The incentive strategy, namely the algorithm that links the EVA and TSR Performance to the bonus accrued, is as follows:

- below the Threshold indicator, the bonus accrued is null;
- equivalent to the Threshold Indicator, the bonus accrued is equal to 50% of the Target Bonus (Threshold Bonus);
- equivalent to the Target Indicator, the bonus accrued is equal to the Target Bonus;
- for performance scenarios included between the Threshold and Target, the bonus accrued varies linearly;
- equivalent to the Outstanding Indicator, the bonus ac-

²⁰ For the related reference period.

crued is equal to 130% of the Target Bonus (Outstanding Bonus) for the component linked to EVA, while it is equal to 150% of the Target Bonus for the component linked to TSR;

- for performance scenarios included between Target and Outstanding Indicators, the bonus accrued varies linearly.

For each individual objective, the compensation recognised, in the case of overshooting of the outstanding indicator, will not exceed a **predetermined cap**.

For each individual objective, in the case of failure to achieve the related **threshold** indicator, **no compensation is recognised**.

The entire compensation, where accrued, will be fully paid at the end of the 2015-2017 LTI System.



The System also envisages the following:

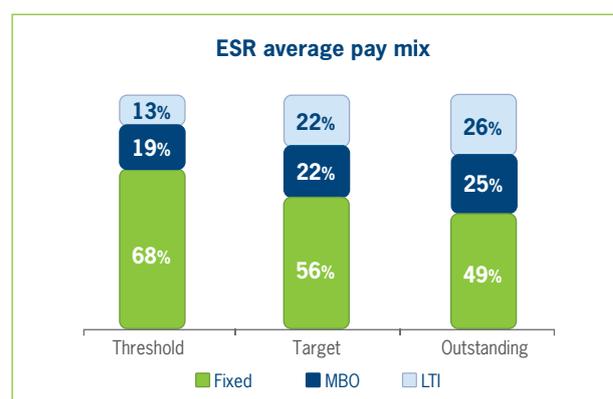
- **clawback clause**, namely, the Company has the right to exercise the option to request the partial or total return of the LTI compensation paid (or to withhold deferred amounts), within 3 years of its accrual, where the incentive is found to have been determined based on data that was subsequently deemed clearly incorrect.
- clauses that govern the consequences of termination of employment while the LTI System is in force²¹.

3.2.2 Balancing remuneration

The balancing of fixed and variable remuneration components aims to align the interests of the related beneficiaries with the Company's medium/long-term strategic objectives and the sustainable creation of value for Shareholders in compliance with the ERG Group risk management policy.

The weight of the fixed component of remuneration for

each Executive with strategic responsibilities, on an annual basis, corresponds on average to 56% of his overall target remuneration. The weight of the annual variable component (MBO) of remuneration corresponds on average to 22%²² of the related total target remuneration, while the medium/long-term variable component (LTI), considering its annualised amount, has an average weight of 22%²³ of the related total target remuneration.



The fixed component is sufficient to remunerate the services of the Executive with strategic responsibilities in cases where the variable component is not paid owing to failure to achieve the performance targets.

3.2.3 Pay for Performance

In order to ensure an increasing alignment between the interests of Shareholders and Management, in full compliance with the pay for performance principles, the ERG Group has decided to use also **non-recurring remuneration**. In particular, the Chief Executive Officer, jointly with the Executive Deputy Chairman and with the support of the CHCO, having consulted the NRC, in the event of extraordinary transactions that:

- imply a significant transformation of the Group's long-standing assets;
- generate strong value creation for the Company and Shareholders over the long term;
- entail, for management involved in the transactions, extraordinary work, on top of objectives considered in the systematised incentive plans;

²¹ Details are provided in the information document available to the public at the Company's registered office in Via De Marini 1, Genoa, on the Company's website (www.erg.eu) in the section, "Governance/Remuneration Reports", at Borsa Italiana S.p.A. and on the authorised storage platform eMarket Storage (www.emarketstorage.com).

²² This refers to the target value of the bonus.

²³ This refers to the target value of the bonus.

may resolve the recognition of non-recurring remuneration to the Executives with strategic responsibilities who participated in the transaction.

The amount of said remuneration is proportional to:

- the economic benefit and strategic weight of the transaction in question
- the contribution effectively given by each individual Executive with strategic responsibilities.

The non-recurring remunerations may provide for **deferred mechanisms**, based on which disbursement is conditional upon the continued existence, at the scheduled disbursement dates, of a collaboration relationship with ERG or with one of the Group companies, subject to dismissal/revocation for just cause, in keeping with the provisions set forth by the LTI System. They can also provide for a mechanism that (i) gives to the NRC, with the support of the CHCO, the verification of the existence of the conditions that have originally resulted in them being awarded and (ii) asks the Chief Executive Officer, jointly with the Executive Deputy Chairman, for a resolution on the resulting payment.

3.2.4 Non-monetary benefits

The Chief Executive Officer, jointly with the Executive Deputy Chairman and with the support of the CHCO, having consulted the NRC, may decide to assign benefits such as insurance policies (health and life insurance), pension benefits, cars and living accommodation to Executives with strategic responsibilities, which are not withheld from remuneration²⁴.

The Board of Directors, on a proposal from the Director in charge of the Internal Control and Risk Management System, having obtained the favourable opinion of the CRC and the support of the CHCO, and having consulted the Board of Statutory Auditors, may decide to assign benefits such as insurance policies (health and life insurance), pension benefits, cars and living accommodation to the Chief Audit Officer, that are not withheld from remuneration.

The Board of Directors, on a proposal from the Chief Ex-

ecutive Officer, jointly with the Executive Deputy Chairman, with the support of the CHCO, having consulted the NRC and the Board of Statutory Auditors, may decide to assign benefits such as insurance policies (health and life insurance), pension benefits, cars and living accommodation to the Manager Responsible for preparing the Company's financial reports, which are not withheld from remuneration.

3.2.5 Resignation from office or termination of the employment relationship

The terms and conditions of the national collective agreement for industrial managers of companies producing goods and services shall apply to Executives with strategic responsibilities, due to their status as employees, in the event that employment is terminated for justified motive or just cause. In accordance with the provisions of Italian Law – Article 2120 of the Italian Civil Code – Executives with strategic responsibilities who for whatsoever reason tender their resignation, receive termination indemnity, which on average is equal to 7% of their gross annual remuneration. The payment of Termination indemnity is not subject to the achievement of any minimum performance condition.

3.3 Incentive plans based on financial instruments

The 2015-2017 LTI System (monetary incentive system), with the adoption of the TSR, introduced a performance target linked to the performance of ERG's share, meaning that the same is attracted by the provisions set forth by Art. 114-bis of the Consolidated Finance Act (CFA) for plans that envisage assignment of financial instruments, insofar as applicable.

The calculation of the TSR, presupposes determination of the share's opening price on the reference stock exchange and reference closing price. The opening reference price is the daily average of prices over a six-month period prior to 16 December 2015, the date of presentation of the 2015-2018 Business Plan to the market. The closing reference price is the daily average of prices over a three-month period prior to 15 February 2018 (15 November 2017 – 15 February 2018).

²⁴ Subject to the provisions set forth below concerning the Chief Audit Officer and the Manager Responsible for preparing the Company's financial reports.

SECTION II: 2016 Fees and Remuneration

4. Implementation of the 2016 Remuneration Policy

The remuneration policy enacted by the Company during the year 2016, with particular regard to the Members of the Board of Directors and Executives with strategic responsibilities, was consistent with the 2016 Remuneration Policy, approved by the Board of Directors on 22 March 2016, which received the favourable vote of the Shareholders' Meeting held on 3 May 2016.

The remunerations paid during the year 2016 are reported separately below.

4.1 Board of Directors

4.1.1 Fees

The Shareholders' Meeting of 3 May 2016, on a proposal from the Shareholder Polcevera SA pursuant to Art. 126-bis of the Consolidated Finance Act (CFA), approved the allocation of a **fixed annual remuneration**, *pro rata temporis*²⁵, of €60,000 in favour of all members of the Board of Directors.

The Shareholders' Meeting of 3 May 2016, on a proposal from the Shareholder Polcevera S.A. pursuant to Article 126-bis of the Consolidated Finance Act (CFA), also resolved to assign an additional **fixed annual compensation**, *pro rata temporis*, to the independent directors called upon to sit on the NRC (€35,000) or the CRC (€45,000).

These proposals, according to the statement made by the Shareholder Polcevera S.A., were formulated in keeping with the professional commitment required by the offices, as well as the related responsibilities.

4.1.2 Remuneration

Fixed component

On 12 May 2015, the Board of Directors, upon a proposal from the NRC, having consulted the Board of Statutory Auditors, approved the allocation of a fixed remuneration of €1,440,000 to the Chief Executive Officer, for each year of his term of office, *pro rata temporis*.

On 12 May 2016, the Board of Directors, again on a proposal from the NRC, with the support of CHCO, having consulted the Board of Statutory Auditors, approved the allocation, *pro rata temporis*, of a fixed annual remuneration in the amount of €800,000 for the Chairman, of €1,140,000 for the Executive Deputy Chairman and the Director in charge of the Internal Control and Risk Management System, of €300,000 for the Deputy Chairman, and of €100,000 for the Directors not employed by the Group and who do not hold offices on the Board of Directors, called upon to sit on the Strategic Committee.

Variable component

On 12 May 2015, the Board of Directors, on a proposal from the NRC, having consulted the Board of Statutory Auditors, approved the allocation of a variable monetary remuneration linked to value creation in the medium/long-term, determined according to the rules laid down by the 2015-2017 LTI System, in favour of the Chief Executive Officer, for the annualised target amount of €975,000.

The Chairman and the Executive Deputy Chairman – although holders of executive powers – were not included among the LTI System participants, since the interests of the latter are intrinsically aligned with the priority objective of creating value for all Shareholders.

Quantification of Remuneration

The amount of the above target remunerations was established proportional to the commitment required of each beneficiary for their related aforesaid offices and was defined, using the services of The European House - Ambrosetti, through a benchmark based on a sample of Italian companies, compatible in terms of market capitalization, whose shareholder structure is comparable to ERG and where the Chief Executive Officer does not normally coincide with the main shareholder.

Non-recurring remuneration

In 2016, the Board of Directors did not resolve non-recurring remunerations.

Non-monetary benefits

For the Directors who chose to take advantage of the option to receive certain non-monetary benefits (such as health and life insurance policies), the amount of the benefits in question was deducted from the annual remuner-

²⁵ Valid until the date of the Shareholders' Meeting convened for approval of the Financial Statements at 31 December 2016.

ation approved by the Shareholders' Meeting on 3 May 2016.

As regards the Executive Directors or Directors appointed to specific offices who made use of certain benefits such as a car and living accommodation, the amount of such benefits was not deducted from the fixed component

Termination of office or discontinuation of the employment relationship

The Board of Directors' Meeting held on 12 May 2015, on a proposal from the NRC20 and having consulted the Board of Statutory Auditors, recognised for the Chief Executive Officer the right to receive compensation for termination of office of €2,750,000, payable in the event of resignation for just cause or revocation without just cause, as well as in certain cases of supervening impossibility of performance, non-renewal or modification of mandate, also due to changes in ownership. The said indemnity will not be paid whenever the termination, revocation or non-renewal are due to just cause.

The indemnity for termination of office is not paid if the termination is due to the attainment of results less than 1/3 of the target set in the 2015-2017 LTI plan, subject to the occurrence of extraordinary events that are not attributable to the actions of the Chief Executive Officer. We report that there are no further agreements in favour of Executive Directors providing for compensation in the case of termination of office or discontinuation of employment relationships.

Termination indemnity

On 12 May 2015, the Board of Directors, on a proposal from the NRC,²⁶ having consulted the Board of Statutory Auditors, recognised for the Chief Executive Officer the right to receive a termination indemnity, which will mature in keeping with the duration of his office, to be accrued annually of €525,000.00 for year. This indemnity will not be payable in the case that, at the time of termination of the mandate, the results achieved are less than 1/10 of the targets set by the 2015-2017 LTI plan.

4.2 Executives with strategic responsibilities

Fixed component

The fixed remuneration of Executives with strategic responsibilities was defined by the Chief Executive Officer jointly with the Executive Deputy Chairman and with the support of the CHCO, in observance of the 2016 Policy, on the basis of market compensation surveys provided by specialised companies.

The fixed (and variable) remuneration for the Chief Audit Officer was determined by the Board of Directors on 12 May 2016, on a proposal from the Director in charge of the Internal Control and Risk Management System, subject to the favourable opinion of the CRC and the support of the CHCO, having consulted the Board of Statutory Auditors.

The objectives pertaining to the variable component allocated to the Chief Audit Officer are not tied to economic performance indicators.

Variable component

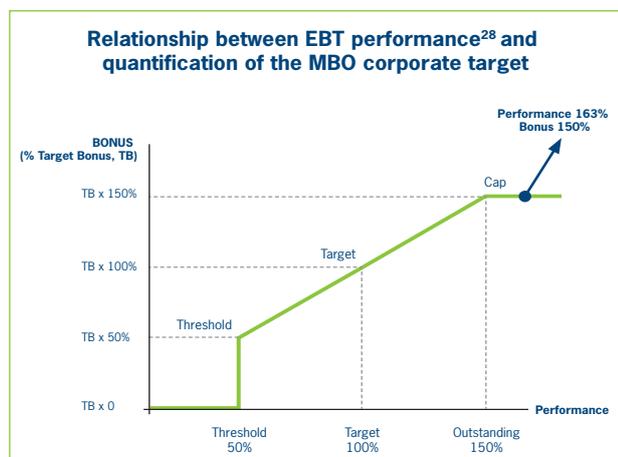
The variable component of the compensation for Executives with strategic responsibilities, divided between short-term incentive (MBO) and medium/long-term incentive (2015-2017 LTI)²⁷, was defined by the Chief Executive Officer jointly with the Executive Deputy Chairman and with the support of the CHCO, having consulted the NRC, in observance of the 2016 Policy.

The final balance as regards the Company's 2016 target of the MBO system is shown in the table and chart below:

Type	Definition	Final total incentive
Company target	Consolidated IAS pre-tax result at adjusted replacement cost	150%
Sustainability clause	Accident indicator	ON

²⁶ Also taking into account the Procedure for Related Party transactions.

²⁷ The Chief Audit Officer does not participate in the LTI System. His remuneration package is guided, among other things, by the performance of the annual audit plan.



Quantification of Remuneration

The size of the aforesaid target remunerations was established proportional to the commitment required of each party for their respective aforesaid offices, and was defined (using the Hay Executive Italy Survey) through a benchmark based on a market that includes the top management and their first reports of listed and / or independent companies operating on the Italian market. The panel is composed of 245 companies on a sample examined of 1,400 top executives.

Non-recurring remuneration

In 2016, non-recurring remuneration was not recognised to Executives with strategic responsibilities.

Non-monetary benefits

During the course of 2016, the Executives with strategic responsibilities received some non-monetary benefits including, without limitation, insurance policies (health and life), social security benefits, car and accommodation.

Termination of office or discontinuation of the employment relationship

In 2016, Executives with strategic responsibilities tendering their resignation received amounts specified in compliance with the conditions set by law and collective labour agreements for industrial managers of companies producing goods and services. The aggregate gross value of the amounts paid for the terminations carried out in 2016 and their effects on the current Incentive Plans are reported in the chapter “Fees paid in 2016”, respectively in Table 1 under “Indemnity for termination of office or discontinuation of the employment relationship” and in Table 2 under “Bonuses of previous years - no longer payable” (note 4).

4.3 Incentive plans based on financial instruments

We report that, in keeping with the 2016 Policy, no incentive plans based on financial instruments were adopted. The 2015-2017 LTI System (monetary incentive system) provides for a performance indicator linked to the performance of ERG shares during the reference three-year period and the amount of dividends per share paid in the same period (TSR), meaning that the same is attracted by the provisions set forth by Art. 114-bis of the Consolidated Finance Act (CFA) for plans that envisage assignment of financial instruments, insofar as applicable.

4.4 Board of Statutory Auditors

The Shareholders' Meeting of 3 May 2016, as well as appointing the new Board of Statutory Auditors, on a proposal from the Shareholder San Quirico SpA, passed a resolution to assign an annual compensation, valid until the Shareholders' Meeting called to approve the Financial Statements at 31 December 2018, in the amounts of €60,000 for the Chairman of the Board of Statutory Auditors and €40,000 for each for the other two standing auditors.

²⁸ Consolidated pre-tax IAS result at adjusted replacement cost excluding proceeds (charges) deriving from the investment in Total-Erg S.p.A.

5. Compensation paid in 2016

The following tables set out details of the remuneration paid during the year in question, for whatsoever reason and in any form, by the Company and by subsidiary and associated companies.

Table 1. Fees paid to administrative body members, General Managers and other Executives with strategic responsibilities

(A) Name and Surname	(B) Office	(C) Period during which the office was held	(D) Termination of office	(1) Fixed fees	(2) Fees for participation to committees	(3) Variable non-equity fees Bonus and other incentives	(4) Non monetary benefits	(5) Other fees	(6) Total	(7) Fair Value of equity fees	(8) Severance indemnities for end of office or termination of employment
Edoardo Garrone	Chairman	01.01.2016 31.12.2016	04.2018								
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				914,733	-	-	-	11,933	926,667	-	-
(II) Fees from subsidiaries and associated companies				-	-	-	-	-	-	-	-
(III) Total				914,733	-	-	-	11,933	926,667	-	-
Alessandro Garrone	Executive Deputy Chairman	01.01.2016 31.12.2016	04.2018								
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				1,104,703	-	-	-	15,200	1,119,903	-	-
(II) Fees from subsidiaries and associated companies				66,667 ⁽¹⁾	-	-	-	-	66,667	-	-
(III) Total				1,171,370	-	-	-	15,200	1,186,569	-	-
Giovanni Mondini	Deputy Chairman	01.01.2016 31.12.2016	04.2018								
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				349,371	-	-	-	14,406	363,778	-	-
(II) Fees from subsidiaries and associated companies				-	-	-	-	-	-	-	-
(III) Total				349,371	-	-	-	14,406	363,778	-	-
Luca Bettonte	Chief Executive Officer	01.01.2016 31.12.2016	04.2018								
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				1,474,476	-	-	-	32,425	1,506,901	-	525,000 ⁽²⁾
(II) Fees from subsidiaries and associated companies				15,000 ⁽³⁾	-	-	-	-	15,000	-	-
(III) Total				1,489,476	-	-	-	32,425	1,521,901	-	525,000
Massimo Belcredi	Director	01.01.2016 31.12.2016	04.2018								
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				55,847	45,000 ⁽⁴⁾	-	-	4,153	105,000	-	-
(II) Fees from subsidiaries and associated companies				-	-	-	-	-	-	-	-
(III) Total				55,847	45,000	-	-	4,153	105,000	-	-
Mara Anna Rita Caverni	Director	01.01.2016 31.12.2016	04.2018								
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				60,000	78,333 ⁽⁵⁾	-	-	-	138,333	-	-
(II) Fees from subsidiaries and associated companies				-	-	-	-	-	-	-	-
(III) Total				60,000	78,333	-	-	-	138,333	-	-
Alessandro Chieffi	Director	01.01.2016 31.12.2016	04.2018								
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				60,000	-	-	-	-	60,000	-	-
(II) Fees from subsidiaries and associated companies				-	-	-	-	-	-	-	-
(III) Total				60,000	-	-	-	-	60,000	-	-
Barbara Cominelli	Director	01.01.2016 31.12.2016	04.2018								
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				60,000	45,000 ⁽⁶⁾	-	-	-	105,000	-	-
(II) Fees from subsidiaries and associated companies				-	-	-	-	-	-	-	-
(III) Total				60,000	45,000	-	-	-	105,000	-	-
Marco Costaguta	Director	01.01.2016 31.12.2016	04.2018								
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				60,000	100,000 ⁽⁷⁾	-	-	-	160,000	-	-
(II) Fees from subsidiaries and associated companies				-	-	-	-	-	-	-	-
(III) Total				60,000	100,000	-	-	-	160,000	-	-
Luigi Ferraris	Director	01.01.2016 31.12.2016	04.2018								
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				60,000	100,000 ⁽⁸⁾	-	-	-	160,000	-	-
(II) Fees from subsidiaries and associated companies				-	-	-	-	-	-	-	-
(III) Total				60,000	100,000	-	-	-	160,000	-	-

(A) Name and Surname	(B) Office	(C) Period during which the office was held	(D) Termination of office	(1) Fixed fees	(2) Fees for participation to committees	(3) Variable non-equity fees Bonus and other incentives	Share of profit	(4) Non monetary benefits	(5) Other fees	(6) Total	(7) Fair Value of equity fees	(8) Severance indemnities for end of office or termination of employment
Paolo Francesco Lanzoni	Director	01.01.2016 31.12.2016	04.2018									
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				53,079	33,333 ⁽⁹⁾	-	-	6,515	-	92,927	-	-
(II) Fees from subsidiaries and associated companies				-	34,000 ⁽¹⁰⁾	-	-	-	-	34,000	-	-
(III) Total				53,079	67,333	-	-	6,515	-	126,927	-	-
Silvia Merlo	Director	01.01.2016 31.12.2016	04.2018									
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				60,000	33,333 ⁽¹¹⁾	-	-	-	-	93,333	-	-
(II) Fees from subsidiaries and associated companies				-	-	-	-	-	-	-	-	-
(III) Total				60,000	33,333	-	-	-	-	93,333	-	-
Mario Pacciani	Chairman Board of Statutory Auditors	01.01.2016 03.05.2016	05.2016									
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				20,000	-	-	-	-	-	20,000	-	-
(II) Fees from subsidiaries and associated companies				2,500 ⁽¹²⁾	-	-	-	-	-	2,500	-	-
(III) Total				22,500	-	-	-	-	-	22,500	-	-
Elena Spagnol	Chairman Board of Statutory	03.05.2016 31.12.2016	04.2019									
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				40,000	-	-	-	-	-	40,000	-	-
(II) Fees from subsidiaries and associated companies				-	-	-	-	-	-	-	-	-
(III) Total				40,000	-	-	-	-	-	40,000	-	-
Lelio Fornabaio	Standing Auditor	01.01.2016 31.12.2016	04.2019									
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				40,000	-	-	-	-	-	40,000	-	-
(II) Fees from subsidiaries and associated companies				90,000 ⁽¹³⁾	-	-	-	-	-	90,000	-	-
(III) Total				130,000	-	-	-	-	-	130,000	-	-
Elisabetta Barisone	Standing Auditor	01.01.2016 03.05.2016	05.2016									
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				13,333	-	-	-	-	-	13,333	-	-
(II) Fees from subsidiaries and associated companies				2,667 ⁽¹⁴⁾	-	-	-	-	-	2,667	-	-
(III) Total				16,000	-	-	-	-	-	16,000	-	-
Stefano Remondini	Standing Auditor	03.05.2016 31.12.2016	04.2019									
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				26,667	-	-	-	-	-	26,667	-	-
(II) Fees from subsidiaries and associated companies				-	-	-	-	-	-	-	-	-
(III) Total				26,667	-	-	-	-	-	26,667	-	-
Executives with Strategic Responsibilities⁽¹⁵⁾	Directors in subsidiaries and division managers											
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				491,667	-	259,800	-	18,222	-	769,689	-	-
(II) Fees from subsidiaries and associated companies				175,000	-	-	-	2,980	-	177,980	-	950,000
(III) Total				666,667	-	259,800	-	21,202	-	947,668	-	-

Notes Table 1

- (1) Fee for the office of Chairman in ERG Renew S.p.A. until 21 April 2016
- (2) Portion accrued in the year of the termination indemnity, which will accrue according to the duration of the office and may not be paid if, upon termination of the mandate, the results achieved are less than 1/10 of the targets set by the 2015-2017 LTI plan
- (3) Fee for the office of Director in ERG Renew S.p.A.
- (4) Fee for the office of Chairman of the Risks and Control Committee
- (5) Fee for the office of Nominations and Remuneration Committee Member and for the office of Control and Risk Committee Member
- (6) Fee for the office of Control and Risk Committee Member
- (7) Fee for the office of Strategic Committee Member
- (8) Fee for the office of Strategic Committee Member
- (9) Fee for the office of Chairman of the Nominations and Remuneration Committee
- (10) Fee for the office of Chairman of the Supervisory Committee of ERG Renew S.p.A., ERG Power Generation S.p.A. and ERG Services S.p.A.
- (11) Fee for the office of Nominations and Remuneration Committee Member
- (12) Fee pro rata for the office of Chairman of the Board of Statutory Auditors in ERG Power S.r.l.
- (13) Fee for the office of Chairman of the Board of Statutory Auditors in ERG Renew S.p.A., TotalErg S.p.A., ERG Power Generation S.p.A., ERG Hydro and ERG Services S.p.A.
- (14) Fee pro rata for the office of Statutory Auditor in ERG Services S.p.A.
- (15) Include No. 5 Executives with strategic responsibilities

6. Monetary incentive plans

Table 3B: Monetary incentive plans in favour of administrative body members, General Managers and other Executives with strategic responsibilities

A Name and surname	B Office	(1) Plan	(2) Bonus of the year			(3) Bonuses of previous years			(4) Other bonuses
			(A) Payable/ Paid	(B) Deferred	(C) Deferment period	(A) No longer payable	(B) Erogabili/ Erogati	(C) Ancora Differiti	
(I) Fees in the company preparing the financial statements									
Alessandro Garrone	Executive Deputy Chairman		-	-	-	-	-	-	-
Luca Bettonte	Chief Executive Officer	2015-2017 LTI System (BoD Resolution of 15/12/2015)	-	975,000	Year 2015-2017 ⁽²⁾	-	-	975,000 ⁽²⁾	-
Executives with strategic responsibilities	Directors in subsidiaries and division managers	2015-2017 LTI System (BoD Resolution of 15/12/2015)	-	270,000	Year 2015-2017 ⁽¹⁾	-	-	270,000 ⁽²⁾	-
Executives with strategic responsibilities	Directors in subsidiaries and division managers	MBO System	259,800	-	Year 2016 ⁽³⁾	-	-	-	-
(I) TOTAL			259,800	1,245,000		-	-	1,245,000	
(II) Fees from subsidiaries and associated companies									
Executives with strategic responsibilities	Directors in subsidiaries and division managers	2015-2017 LTI System (BoD Resolution of 15/12/2015)	-	-	Year 2015-2017 ⁽²⁾	150,000	⁽⁴⁾	-	-
(II) TOTAL			-	-		150,000	-	-	-

Notes table 3B

- (1) Variable component of 2016 remuneration pertaining to the 2015-2017 LTI System, payment of which will be made, subject to achievement of performance targets, in May 2018
- (2) Variable component of 2015 remuneration pertaining to the 2015-2017 LTI System, payment of which will be made, subject to achievement of performance targets, in May 2018
- (3) Variable component of 2016 remuneration pertaining to the MBO System, payment of which will be made in May 2017
- (4) An Executives with strategic responsibilities has forfeited participation to the 2015-2017 LTI System, consistently with the provisions of the 2015-2017 LTI Regulation, as a result of termination of employment

7. Equity investments held in 2016

Table 7-ter: Table relating to the information on equity investments of administrative and control body members, General Managers and other Executives with strategic responsibilities

Name and Surname	Office	Investee company	Number of shares held at the end of the previous year	Number of shares bought	Number of shares sold	Number of shares held at the end of the current year
Alessandro Garrone ⁽¹⁾	Executive Deputy Chairman	ERG S.p.A.	2,000	–	–	2,000
Marco Costaguta ⁽¹⁾	Director	ERG S.p.A.	–	50,000	–	50,000
Executives with strategic responsibilities ⁽¹⁾⁽²⁾	–	ERG S.p.A.	1,400	20,000	–	21,400

(1) Direct shareholders - title for possession: ownership

(2) An Executives with strategic responsibilities resigned in 2016

8. Annex pursuant to Art. 84-bis of CONSOB Issuers' Regulations

Implementation in 2015 of the 2015-2017 Long-term Incentive (LTI) Plan

With reference to the 2015–2017 LTI System approved by the Ordinary Shareholders' Meeting on 24 April 2015, subject to the conditions and illustrative purposes contained in the Information Document, available to the public on the Company's website (www.erg.eu), details of the plan allocation are set out in the following table, pursuant to Art. 84-bis (Annex 3, Schedule 7) of the CONSOB Issuers' Regulations.

Table 1. of the schema 7 of Enclosure 3° of the Regulation No. 11971/1999

Compensation plans based on financial instruments

PANEL 1 FINANCIAL INSTRUMENTS OTHER THAN STOCK OPTIONS Section 2 Newly awarded instruments based on the decision of the body responsible for implementation of the shareholders' resolution								
First and last Name or Category	Office	Date of shareholders' resolution	Type of financial instruments	Amount awarded	Date of award	Purchase price of financial instruments, if any	Market price on award	Vesting period
Luca Bettonte	Chief Executive Officer	24/04/2015	Cash	2,925,000	15/12/2015	n/a	n/a	3 years
Pietro Tittoni	Managing Director ERG Power Generation	24/04/2015	Cash	450,000	15/12/2015	n/a	n/a	3 years
Paolo Luigi Merli	Chief Financial Officer	24/04/2015	Cash	360,000	15/12/2015	n/a	n/a	3 years
Altri Dirigenti	no. 3 executives	24/04/2015	Cash	789,000	15/12/2015	n/a	n/a	3 years

GLOSSARY

In addition to the definitions set out in other articles, capitalised terms and expressions used in the Report have the meaning assigned to them herein. Said meaning shall be valid for both the singular and the plural:

CEO: Chief Executive Officer

DCICRMS: Director in Charge of the Internal Control and Risk Management System

Shareholders' Meeting: Shareholders' Meeting of ERG S.p.A.

CAO: Chief Audit Officer

CRC: Control and Risk Committee; a board committee comprising 3 non-executive directors, mostly independent, appointed by the Board of Directors in the meeting of 24 April 2015

CHCO: Chief Human Capital Officer

Committee or **NRC:** Nominations and Remuneration Committee; a board committee comprising 3 non-executive directors, mostly independent, appointed by the Board of Directors in the meeting of 24 April 2015

Corporate Governance Code: the current version (published in July 2015) of the Italian Corporate Governance Code for listed companies as promoted by Borsa Italiana S.p.A., which the Board of Directors resolved to comply with on 15 December 2015

Board of Statutory Auditors: the Board of Statutory Auditors of ERG S.p.A.

Board of Directors or **BD:** the Board of Directors of ERG S.p.A.

Executives with strategic responsibilities or **ESR:** parties that hold the functions/ offices indicated in Annex 1 to the ERG Group Procedure for Related Party Transactions currently in force (except for the members of the ERG S.p.A. Board of Directors and Board of Statutory Auditors) available on the Company's website (www.erg.eu) in the section "Corporate governance/Governance documents"

ERG or the **Company:** ERG S.p.A.

EBT: Consolidated IAS pre-tax result at adjusted replacement cost net of the proceeds (charges) deriving from equity investment in TotalErg.

EVA: Economic Value Added, namely the "residual" economic value after all production factors have been remunerated, including the cost of capital employed

Policy or **Remuneration Policy:** the Policy for the remuneration of members of the Board of Directors and Executives with strategic responsibilities

2016 Remuneration Policy or **2016 Policy:** ERG's Policy for the remuneration of members of the Board of Directors and Executives with strategic responsibilities for the year 2016

2017 Remuneration Policy or **2017 Policy:** ERG's Policy for the remuneration of members of the Board of Directors and Executives with strategic responsibilities for the year 2017

Procedure: Procedure for Related Party Transactions, as adopted by the Board of Directors with resolution dated 11 November 2010, subject to the favourable opinion of the Control and Risk Committee and with the approval of the Board of Statutory Auditors, most recently updated on 1 January 2017

IR: Regulations implementing Legislative Decree no. 58 dated 24 February 1998, as amended (Issuers' Regulations)

Report or **Remuneration Report:** Report on remuneration of the members of the Board of Directors and Executives with strategic responsibilities, approved by the Board of Directors on 9 March 2017

2012-2014 LTI System: Medium/Long-Term Monetary Incentive System, referred to the period 2012-2014

2015-2017 LTI System or **LTI System:** Medium/Long-Term Monetary Incentive System referred to the period 2015-2017

MBO System: Short-Term Monetary Incentive System

TSR: Total Shareholder Return, namely the overall return on investment for shareholders, which is calculated by summing the increase in the share's price over a specific time interval with the effect of dividends for share paid during the same period

Consolidated Finance Act (CFA): Legislative Decree No. 58 dated 24 February 1998, as amended (Consolidated Finance Act)

EDC: Executive Deputy Chairman

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