



**EVOLVING ENERGIES**

## **ORDINARY SHAREHOLDERS' MEETING OF 23/24 APRIL 2018**

### **BOARD OF DIRECTORS REPORT**

pursuant to Article 125-*ter* of Legislative Decree No. 58 of 24 February 1998 ("Consolidated Finance Law" or "T.U.F.") and Articles 73 and 84-*bis* of the Regulations implementing the Consolidated Finance Law, adopted by CONSOB with resolution No. 11971 of 14 May 1999 as amended ("Issuers' Regulations")

## ORDINARY SHAREHOLDERS' MEETING OF 23/24 APRIL 2018

### AGENDA

1. Financial Statements at 31 December 2017 and Report on Operations; resolutions related and consequent thereto. Presentation of the Consolidated Financial Statements and Consolidated Non-Financial Statement at 31 December 2017
2. Allocation of net result for the financial year; resolutions related and consequent thereto.
3. Appointment of the Board of Directors
  - 3.1. Determination of the number of members of the Board of Directors
  - 3.2. Appointment of members of the Board of Directors
  - 3.3. Appointment of Chairman of the Board of Directors
  - 3.4. Determination of the remuneration payable to members of the Board of Directors for financial year 2018
  - 3.5. Determination of the remuneration payable to members of the Control and Risk Committee for financial year 2018
  - 3.6. Determination of the remuneration payable to members of the Nominations and Remuneration Committee for financial year 2018
4. Appointment of independent auditors within the meaning of regulation (EU) No. 537/2014
5. Authorisation for the purchase and sale of treasury shares
6. 2018-2020 Long-Term Incentive Plan
7. Remuneration report within the meaning of Article 123-ter of Legislative Decree No. 58 of 24 February 1998

Dear Shareholders,

We submit for your attention the following considerations.

**1. FINANCIAL STATEMENTS AT 31 DECEMBER 2017 AND REPORT ON OPERATIONS; RESOLUTIONS RELATED AND CONSEQUENT THERETO. PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED NON-FINANCIAL STATEMENT AT 31 DECEMBER 2017**

Reference is made to the Annual Financial Report at 31 December 2017 of ERG S.p.A., which contains the Financial Statements of ERG S.p.A., the Consolidated Financial Statements, the Report on Operations - together with the Report on Corporate Governance and Ownership - and the certification referred to in Article 154-bis, paragraph 5, of the Consolidated Finance Law, as well as the reports of the Independent Auditors and of the Board of Statutory Auditors that, together with the consolidated non-financial statement at 31 December 2017, will be fully available to the public at the registered office of the company in Genoa, Via de Marini 1, on the website of the company ([www.erg.eu](http://www.erg.eu)) in the section "Corporate Governance/Shareholders' Meeting 2018", at Borsa Italiana S.p.A. and on the authorised storage mechanism eMarket Storage ([www.emarketstorage.com](http://www.emarketstorage.com)) by 2 April 2018.

Dear Shareholders,

We invite you to take the following decision:

*"The Ordinary Shareholders' Meeting,*

*resolves*

- *to approve the Financial Statements at 31 December 2017 of ERG S.p.A. which closes with profit of EUR 23,969,998.60."*

**2. ALLOCATION OF NET RESULT FOR THE FINANCIAL YEAR; RESOLUTIONS RELATED AND CONSEQUENT THERETO**

Dear Shareholders,

With regard to the results achieved, you are invited to adopt the following resolution:

*"The Ordinary Shareholders' Meeting,*

*resolves*

- *to pay the Shareholders a dividend of EUR 1.15 per share, including a non-recurring component of EUR 0.40 per share, which it is proposed be distributed following the completion of the process to change the structure of the Group by exiting the Oil business and entering the Solar Power business. The dividend will be paid in respect of each share having dividend rights outstanding as of the ex-date, excluding the company's treasury shares, in accordance with Article 2357-ter of the Italian Civil Code, by distribution of the year's earnings and for the residual part by use of retained earnings;*
- *to release part of the unavailable portion of the "Reserve for first-time adoption of IAS/IFRS*

*and retained earnings" for an amount equal to EUR 20,216,282.00 corresponding to the change in value of the equity investment in TotalErg S.p.A. for the purposes of the application of IFRS 5, net of the related tax effects. It should be mentioned, in fact, that at the time of approving the 2010 Financial Statements, an unavailable reserve was allocated pursuant to Article 6, paragraph 1(a) of Legislative Decree No. 38/2005, using a part of the profit amounting to EUR 346,403,569.83 corresponding to the unrealised portion, net of tax charges, of the capital gain deriving from incorporation of the TotalErg Joint Venture, and that part of the unavailable portion of the Reserve, for a total of EUR 229,450,160.55, had already been released at the time of approving the 2012 Financial Statements and the 2013 Financial Statements as a result of the write-down of the shareholding performed in the corresponding financial years;*

- *to make the dividend payable starting from 23 May 2018, with an ex-dividend date as of 21 May 2018 and record date of 22 May 2018."*

### **3. APPOINTMENT OF THE BOARD OF DIRECTORS**

Dear Shareholders,

The Shareholders' Meeting held on 24 April 2015 appointed the Board of Directors of the Company, with its term ending on the date of the Shareholders' Meeting called to approve the financial statements of their last year in office, coinciding with the next Meeting of the Shareholders of ERG S.p.A.

The Director Alessandro Careri, appointed on 11 May 2017, at the proposal of the Nominations and Remuneration Committee, within the meaning of Article 2386 of the Italian Civil Code and Article 15 of the Articles of Association, following the resignation, on 20 April 2017, of the Director Luigi Ferraris, will remain in office until the next Meeting of the Shareholders of ERG S.p.A.

Consequently, the term of office of the current Board of Directors shall expire on the date on which this Shareholders' Meeting, called to approve the Financial Statements at 31 December 2017, is held.

#### **3.1 Determination of the number of members of the Board of Directors**

Dear Shareholders,

Pursuant to Article 15, paragraphs 1 and 2, of the Articles of Association "1. *the Company is managed by a Board of Directors which, in compliance with the gender balance criterion prescribed by current law and regulatory provisions, consists of no fewer than 5 and no more than 15 members.*

2. *The Shareholders' Meeting shall establish, within the aforesaid limits and until superseded by a further resolution, the number of members of the Board."*

It is thus necessary, on this occasion, to determine the number of members of the Board of Directors.

This Shareholders' Meeting is therefore called, within the meaning of the aforesaid Article 15 of the Articles of Association, to determine the number of members of the Board of

Directors on the basis of the proposals formulated in accordance with applicable legislative, regulatory and statutory provisions.

### 3.2 Appointment of members of the Board of Directors

Dear Shareholders,

Pursuant to Article 15, paragraphs 3, 4, 5 and 5-bis of the Articles of Association "3. *Members of the Board of Directors are elected on the basis of lists submitted by shareholders, in which the candidates shall be listed with a progressive number. The lists submitted by shareholders, accompanied by information about the personal and professional characteristics of the candidates, must be filed at the registered office of the Company - since this can be done using the means of distance communication which will be indicated in the notice convening the Shareholders' Meeting called to elect the Board of Directors - within the term established by current laws and regulations.*

*The lists may only be presented by shareholders who, either individually or with other shareholders, represent the minimum percentage of share capital established in accordance with the CONSOB regulation in force on the date of the Shareholders' Meeting and which will be indicated in the notice convening the Shareholders' Meeting called to elect the Board of Directors.*

*In order to prove ownership of the number of shares necessary for the presentation of lists, Shareholders must submit and/or deliver to the registered office of the Company - since this can be done using the means of distance communication which will be indicated in the notice convening the Shareholders' Meeting called to elect the Board of Directors - within the term established by current laws and regulations, a copy of the certification issued by the respective intermediaries, within the meaning of the laws and regulations in force.*

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

*Each list shall contain a number of candidates not exceeding the maximum number of directors set out in the first paragraph of this article and, with the exception of those that present fewer than three candidates, it shall comply with the gender balance criterion prescribed by current laws and regulations.*

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

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

*Together with each list, by the deadline indicated above, each candidate must file the statement accepting his/her candidacy and declaring under his own responsibility that there are no causes for ineligibility and incompatibility and that the requirements prescribed by*

*applicable regulations are met, and indicating whether (s)he qualifies as independent.*

*For the purposes of the allotment of the Directors to be elected, no consideration is given to the lists that did not obtain votes representing a percentage of the share capital equal to at least half of the percentage required for the presentation of the lists.*

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

*The election of the Directors shall take place as follows:*

*a) from the list that receives the majority of the votes cast shall be drawn, in the progressive order in which they are listed, a number of Directors equal to the number of members to be elected minus one, subject to the provisions of paragraph 5 for the appointment of independent Directors and paragraph 5-bis for compliance with the gender balance criterion in the composition of the Board of Directors;*

*b) the remaining Director shall be drawn from the minority list that received the highest number of votes;*

*c) if a single list is presented, or if the required quorum is not reached by the other lists, all Directors shall be elected from the presented list or from the list that reached the quorum, subject to the provisions of paragraph 5-bis with respect to compliance with the gender balance criterion in the composition of the Board of Directors.*

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

*Independent Directors who, subsequent to their appointment, lose the independence requirements prescribed by Article 147-ter, paragraph 4, of the Consolidated Finance Law must immediately inform the Board of Directors and, in any case, shall forfeit their office.*

*5-bis. In the event that the number of candidates of the less represented gender drawn - depending on the circumstances - from the two lists within the meaning of the preceding paragraph 4(a) and (b) or from the single list within the meaning of the preceding paragraph 4(c) is lower than that provided for by the applicable laws and regulations, the candidate drawn for the purposes of appointment - depending on the case - from the list referred to in the previous paragraph 4(a) or from the single list referred to in the previous paragraph 4(c) with the highest progressive number from among those belonging to the most represented gender, shall be replaced with the candidate belonging to the less represented gender who has the lowest progressive number, included on the same list and not previously drawn for the purposes of appointment.*

*This replacement procedure may, where necessary, be repeated for multiple candidates. In the event that it is not possible to draw the necessary number of candidates from the less represented gender, the missing directors are appointed by the Shareholders' Meeting by means of a majority vote in such a way as to ensure that the composition of the Board of Directors complies with current laws and regulations and with the Articles of Association."*

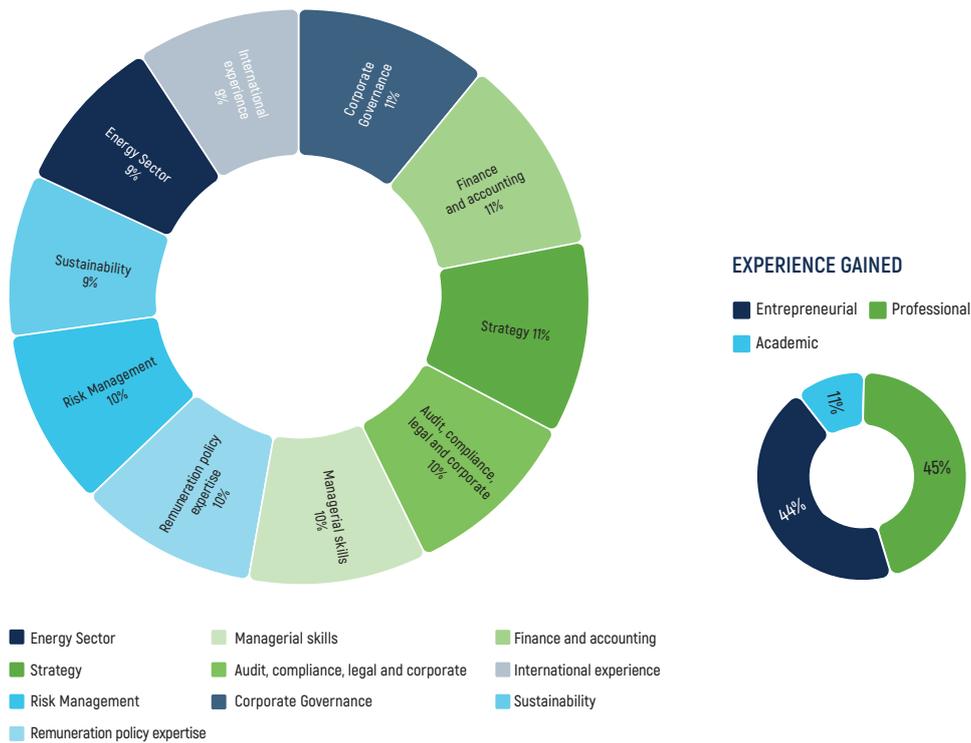
This Shareholders' Meeting is therefore called, within the meaning of the aforesaid Article 15 of the Articles of Association, to appoint the members of the Board of Directors on the basis of the lists submitted in accordance with the applicable legislative, regulatory and statutory provisions.

The filed lists of candidates for the office of Director will be made available to the public at the registered office of the Company in Genoa, Via de Marini 1, on the website of the company ([www.erg.eu](http://www.erg.eu)) in the section "Corporate Governance/Shareholders' Meeting 2018", at Borsa Italiana S.p.A. and on the authorised storage mechanism eMarket Storage ([www.emarketstorage.com](http://www.emarketstorage.com)) by 2 April 2018.

**Educational and professional background**

The Board of Directors, having also noted that the 2017 Board Performance Review process showed a balanced allocation of skills within the Board of Directors, gained mainly through entrepreneurial and professional experiences,

**SKILLS CURRENTLY PRESENT IN THE BOARD OF DIRECTORS**



in the light of the recommendations of application criterion 1.C.1(h) of the Corporate Governance Code, considers it necessary to indicate that the skills represented in the current Board of Directors have been confirmed as being present in the Board of Directors

which will be appointed by the Shareholders' Meeting called to approve the Financial Statements at 31 December 2017, with the possibility that there will be an increase in the weight of international experience in the energy sector and that specific skills in the field of administrative and regulatory law will be introduced, in line with developments in the existing and future portfolio of activities of the Group.

### SKILLS THAT OUGHT TO BE PRESENT IN THE BOARD OF DIRECTORS



### Gender composition

With reference to the gender balance, the Board of Directors, in view of the 2017 Board Performance Review process, does not consider it necessary to recommend more stringent requirements than those laid down by legislation.

It is recalled that in appointing the Board of Directors, a share equal to at least one third of the Directors elected should be reserved to the less represented gender.

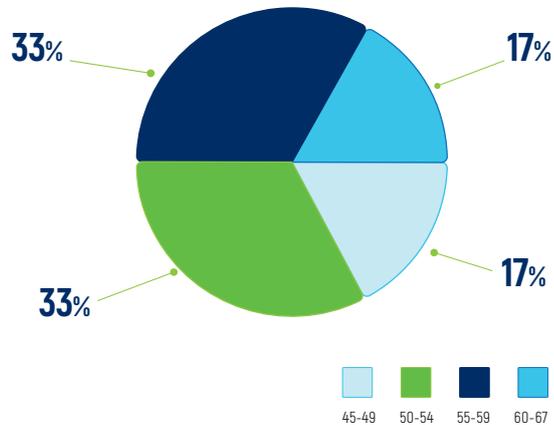
Self-assessment did, however, show that the skills and experience necessary for the purposes of the composition of the new Board of Directors are present across both genders.

### Age

With reference to age, in view of the 2017 Board Performance Review process, it was not considered necessary to make specific recommendations.

The current composition of the Board of Directors, divided according to age group, was however considered balanced.

**BOARD OF DIRECTORS  
COMPOSITION BY AGE GROUP**



### 3.3 Appointment of Chairman of the Board of Directors

Dear Shareholders,

Pursuant to Article 17 of the Articles of Association *"The Board appoints a Chairman from among its members, if not already appointed by the Shareholders' Meeting (omissis)"*.

This Shareholders' Meeting is therefore called, where Shareholders consider it appropriate to apply such option, within the meaning of the aforesaid Article 17 of the Articles of Association, to appoint the Chairman of the Board of Directors from among the members of the Board nominated by the Shareholders' Meeting, on the basis of the proposals formulated in accordance with the applicable legislative, regulatory and statutory provisions.

### 3.4 Determination of the remuneration payable to members of the Board of Directors for financial year 2018

Pursuant to Article 2389, paragraph 1, of the Italian Civil Code, the remuneration payable to members of the Board of Directors is established at the time of appointment or by the Shareholders' Meeting.

This Shareholders' Meeting is therefore called upon to decide on the remuneration to be allocated to each member of the Board of Directors, who will be appointed until the date of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2018, on the basis of the proposals formulated in accordance with the applicable legislative, regulatory and statutory provisions.

It is in fact worth mentioning that, as a general rule, the Shareholders' Meeting determines on an annual basis, for each financial period, the remuneration for each member of the Board of Directors.

For financial year 2017, the Shareholders' Meeting approved a fee of EUR 60,000.00 for members of the Board of Directors.

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

The Board of Directors also recommends that the relevant proposals on remuneration are presented by the Shareholders (where applicable also pursuant to Article 126-*bis* of the Consolidated Finance Law) so that they can be communicated to the public sufficiently in advance with respect to the Shareholders' Meeting called to decide on the same.

### **3.5 Determination of the remuneration payable to members of the Control and Risk Committee for financial year 2018**

This Shareholders' Meeting, in compliance with the provisions of the Company's Remuneration Policy, on the assumption that the new Board of Directors decides, in line with the Company's governance, to appoint a Control and Risk Committee, is also called to decide on the remuneration to be allocated to Directors, who are not employees of the Group and who do not hold positions in the Board of Directors, who shall be appointed members of the Control and Risk Committee of ERG S.p.A. until the date of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2018, on the basis of the proposals formulated in accordance with the applicable legislative, regulatory and statutory provisions.

It is in fact worth mentioning that, as a general rule, the Shareholders' Meeting determines on an annual basis, for each financial period, the remuneration relating to participation in the aforesaid Committee.

For financial year 2017, the Shareholders' Meeting approved a fee of EUR 45,000.00 for each of the members of the Control and Risk Committee.

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

The Board of Directors also recommends that the relevant proposals on remuneration are presented by the Shareholders (where applicable also pursuant to Article 126-*bis* of the Consolidated Finance Law) so that they can be communicated to the public sufficiently in advance with respect to the Shareholders' Meeting called to decide on the same.

### **3.6 Determination of the remuneration payable to members of the Nominations and Remuneration Committee for financial year 2018**

This Shareholders' Meeting, in compliance with the provisions of the Company's Remuneration Policy, on the assumption that the new Board of Directors decides, in line with the Company's governance, to appoint a Nominations and Remuneration Committee, is called to decide on the remuneration to be allocated to Directors, who are not employees of the Group and who do not hold positions in the Board of Directors, who shall be appointed members of the Nominations and Remuneration Committee of ERG S.p.A. until the date of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2018, on the basis of the proposals formulated in accordance with the applicable legislative, regulatory and statutory provisions.

It is in fact worth mentioning that, as a general rule, the Shareholders' Meeting determines

on an annual basis, for each financial period, the remuneration relating to participation in the aforesaid Committee.

For financial year 2017, the Shareholders' Meeting approved a fee of EUR 35,000.00 for members of the Nominations and Remuneration Committee.

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

The Board of Directors also recommends that the relevant proposals on remuneration are presented by the Shareholders (where applicable also pursuant to Article 126-*bis* of the Consolidated Finance Law) so that they can be communicated to the public sufficiently in advance with respect to the Shareholders' Meeting called to decide on the same.

#### **4. APPOINTMENT OF INDEPENDENT AUDITORS WITHIN THE MEANING OF REGULATION (EU) NO. 537/2014**

Dear Shareholders,

The mandate granted to the auditing firm Deloitte & Touche S.p.A. for the financial years 2009-2017 will expire on the date scheduled for the Shareholders' Meeting called for the approval of the financial statements for the year ended 31 December 2017.

The Company has followed a selection procedure pursuant to art. 16, paragraph 3 of EU Regulation 537/2014. Upon completion of said procedure, the Board of Statutory Auditors prepared a documented recommendation as required by art. 16, par. 2 of EU Regulation 537/2014, the text of which is attached to these presents, for your examination and to assist you in your decision regarding the appointment of the independent auditors for the years from 2018 to 2026 and the determination of the relative consideration payable to them pursuant to Legislative Decree 39/2010.

#### **5. AUTHORISATION FOR THE PURCHASE AND SALE OF TREASURY SHARES**

In previous years the Shareholders' Meeting has made detailed resolutions regarding the purchase and sale of treasury shares, the last of which is valid for the 12 months starting from 20 April 2017 and therefore expires on 20 April 2018.

In preparing for this Shareholders' Meeting, the Board of Directors has compiled a proposal for a new resolution authorising the purchase and sale of treasury shares.

Now therefore, we set forth below the reasons supporting a new authorisation resolution from the Shareholders' Meeting.

##### **Purchase of treasury shares**

We feel it is necessary to purchase ordinary ERG shares for maximising value for our shareholders by optimising the capital structure, including as regards the available liquidity and for coverage of any other necessity as allowed by the applicable legislative and regulatory provisions.

### Sale of treasury shares

We consider it necessary to be able to sell treasury shares held in our portfolio in order to optimise financial leverage and for any other circumstance where the administrative body considers that selling the shares is in the best interests of the Company and the Shareholders.

Now therefore, we submit for your approval the proposal authorising both the purchase and the sale of treasury shares, as follows:

- 1) authorisation to purchase treasury shares, pursuant to art. 2357 of the Civil Code, for a period of 12 months from the date of the relative resolution, up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 30,064,000 (thirty million sixty four thousand) ordinary ERG shares with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, no lower than 30% below and no higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.

The purchase shall be in compliance with art. 132 of the Consolidated Finance Act (T.U.F.) and according to the terms and conditions set forth under art. 144-*bis*, paragraph 1, letter b) of the Issuers' Regulations and therefore shall take place *"on regulated markets or multilateral trading systems according to the procedures of operation established in the regulations for the organisation and the operation of these markets, which do not allow direct combination of the proposals for purchases with specific proposals for sales"*;

- 2) authorisation for a period of 12 months from the date of the relative resolution and in compliance with the provisions of art. 2357-*ter* of the Italian Civil Code, to sell, in a single or through several transactions, treasury shares at a unit price that is no lower than 10% below the closing price of the stock on the day immediately preceding each individual transaction.

For the sale of treasury shares, we propose that the authorisation allows adoption of any procedures that are appropriate in relation to the achievement of the objective that the sale intends to achieve.

\* \* \*

Dear Shareholders,

We therefore suggest that you make the following resolution:

*"the Ordinary Shareholders' Meeting,*

- *has examined the Explanatory Report submitted by the Board of Directors;*
- *has examined the last approved financial statements,*

*and hereby resolves*

- 1) *to authorise the Board of Directors, pursuant to Article 2357 of the Italian Civil Code, to purchase treasury shares for a period of 12 months from the date of the related*

*resolution, up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 30,064,000 (thirty million, sixty-four thousand) ordinary ERG shares with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction, for the purpose of maximising value for the shareholders by optimising the capital structure, including as regards the available liquidity and for coverage of any other necessity as allowed by the applicable legislative and regulatory provisions.*

*The purchase must be made using distributable profits and available reserves from the last approved financial statements, in compliance with art. 132 of the Consolidated Finance Act (T.U.F.) and according to the terms and conditions set forth under art. 144-bis, paragraph 1, letter b) of the Issuers' Regulations and shall therefore take place "on regulated markets or multilateral trading systems according to the procedures of operation established in the regulations for the organisation and the operation of these markets, which do not allow direct combination of the proposals for purchases with specific proposals for sales;*

- 2) to authorise the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, for 12 months from the date of this resolution, to sell, all at once or in several steps, and with any procedures deemed appropriate, in relation to the purposes which the disposal is attempting to achieve, treasury shares at a unit price no lower than 10% below the closing price of the stock on the day immediately preceding each individual sale;*
- 3) to authorise the Board of Directors to delegate, including to authorised operators, the authority to carry out the purchase and sale of treasury shares."*

## **6. 2018-2020 LONG-TERM INCENTIVE PLAN**

Dear Shareholders,

The Board of Directors of ERG S.p.A. has resolved to submit for the approval of this Shareholder's Meeting, the 2018-2020 Long Term Incentive Plan (the "Plan"), which it approved on 7 March 2018 on the recommendation of the Nominations and Remuneration Committee which was in turn submitted on 1 March 2018, after the opinion of the Board of Statutory Auditors was secured.

This Plan replaces the 2015-2017 Long-Term Monetary Incentive System which expired on 31 December 2017 and provides for the assignment, free of charge, of a specific number of ERG shares, upon fulfilment of a pre-set minimum performance level (the "Performance Share"). This Plan will be applied as an incentive and as an instrument for retention to the directors and/or employees of ERG and the Subsidiaries with significant strategic value insofar as achieving the objectives of the 2018-2022 Business Plan (for the relative period of the Plan, in line with the mandate to be given to the new Board of Directors by this Shareholders' Meeting), including several Executives with Strategic Responsibilities. The Plan is therefore of "particular significance" pursuant to art. 84-bis, par. 2 of the Issuers' Regulations.

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

A more detailed description of the objectives and features of the Plan is provided in the Information Document prepared by the Board of Directors pursuant to art. 114-*bis* of the Consolidated Finance Law (T.U.F.) and art. 84-*bis* of the Issuers' Regulations, available to the public from the Company's headquarters at Via De Marini 1, Genoa and from the Company's website ([www.erg.eu](http://www.erg.eu)) in the "Corporate Governance/Shareholders' Meeting 2018" section, at Borsa Italiana S.p.A. and the authorised storage device eMarket Storage ([www.emarketstorage.com](http://www.emarketstorage.com)) together with this Explanatory Report.

Dear Shareholders,

We therefore suggest that you make the following resolution:

*"Pursuant to article 114-bis of the Consolidated Finance Law (T.U.F.), the Ordinary Shareholders' Meeting,*

*hereby resolves*

*to approve the Plan under the terms and conditions set forth in the Information Document provided together with the Explanatory Report, granting to the Board of Directors the necessary powers for the implementation of the Plan, including through delegated individuals and comprising the powers to: (i) approve the Plan Regulation; (ii) identify the benefits on the basis of specified criteria; (iii) determine the economic performance conditions and ERG share performance conditions, identify the price of the ERG share in order to define the number of shares to be assigned to each beneficiary, upon completion of the vesting period; (iv) make the necessary and appropriate changes to the Plan to ensure compliance with amendments to the regulations and corporate governance, as well as any changes that are necessary or appropriate insofar as ensuring coherence with the incentive strategy in the event of a) a change in the perimeter of ERG or ERG Group and/or extraordinary corporate and/or financial transactions (including those involving capital); b) a significant change in the macroeconomic and/or business scenario or in the event of other extraordinary factors; (v) define any other term and condition for implementation of the Plan to the extent that this does not contravene the provisions set forth in this resolution."*

## **7. REMUNERATION REPORT WITHIN THE MEANING OF ARTICLE 123-TER OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998**

Pursuant to art. 123-*ter* of the Consolidated Finance Law (T.U.F.), the Board of Directors is required to approve a Remuneration Report, a) the first section of which in particular: (i) defines the company's remuneration policy for members of the administrative bodies, general managers and officers with strategic responsibilities at least with regard to 2018 and (ii) defines the procedures used for the adoption and implementation of this policy;

b) in the second section: (i) provides an adequate description of each of the items comprising 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 remuneration policy approved for the previous year; (ii) provides an analytical break down of the remuneration paid for the year in question (i.e. 2017).

In its meeting of 7 March 2018, the Company's Board of Directors approved the Remuneration Report, which you are referred to and which will be available to the public from the Company's headquarters at Via De Marini 1, Genoa, the Company's website ([www.erg.eu](http://www.erg.eu)) under the section "Corporate Governance/Shareholders' Meeting 2018", Borsa Italiana S.p.A. and the authorized storage device eMarket Storage ([www.emarketstorage.com](http://www.emarketstorage.com)) by 2 April 2018.

Pursuant to the aforementioned regulations, this Shareholders' Meeting is called upon to resolve in favour or against the first section of the Remuneration Report.

Dear Shareholders,

We therefore suggest that you make the following resolution:

*"The Ordinary Shareholders' Meeting,*

*hereby resolves*

*in favour of the first section of the Remuneration Report, which defines the policy of the Company in relation to the remuneration of the members of the administration bodies, the general managers and the officers with strategic responsibilities and the procedures that were followed for the adoption and implementation of this policy."*

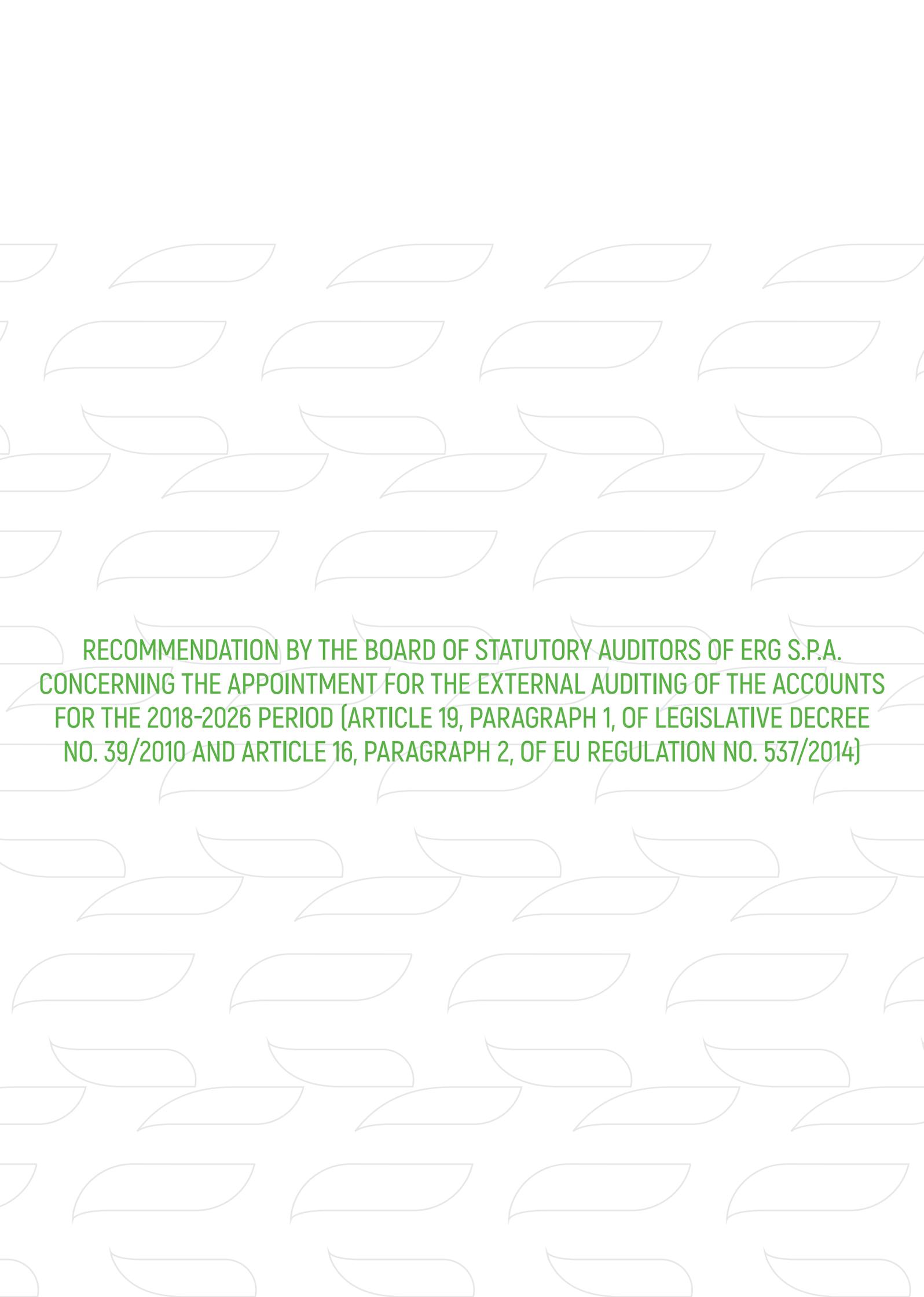
Genoa, Italy, 14 March 2018

ERG S.p.A.

The Chairman of the Board of Directors

Edoardo Garrone



The background of the page is a repeating pattern of stylized, light green leaves. Each leaf is a simple outline with a pointed tip and a curved bottom edge, arranged in a grid-like fashion across the entire page.

**RECOMMENDATION BY THE BOARD OF STATUTORY AUDITORS OF ERG S.P.A.  
CONCERNING THE APPOINTMENT FOR THE EXTERNAL AUDITING OF THE ACCOUNTS  
FOR THE 2018-2026 PERIOD (ARTICLE 19, PARAGRAPH 1, OF LEGISLATIVE DECREE  
NO. 39/2010 AND ARTICLE 16, PARAGRAPH 2, OF EU REGULATION NO. 537/2014)**

Dear Shareholders,

The mandate of the auditing firm Deloitte & Touche S.p.A., the statutory auditors for ERG S.p.A. (hereinafter also referred to as "ERG"), appointed by the Shareholders' Meeting on 23 April 2009 for the years 2009 to 2017, shall expire upon approval of the Financial Statements at 31 December 2017.

This mandate, as noted, can no longer be renewed or granted again to Deloitte & Touche S.p.A., its nine-year engagement, as provided for by Article 17 of Legislative Decree No. 39/2010, concluding with financial year 2017.

Pursuant to Article 13 of Legislative Decree No. 39/2010, the Shareholders' Meeting *"on the basis of a reasoned proposal submitted by the control body, shall grant the appointment for the external auditing of the accounts and set the fees to be paid to the statutory auditor or independent auditor for the entire duration of the assignment and the possible criteria for adjusting such fee during the mandate"*.

## 1. REGULATORY FRAMEWORK

The Community legislation concerning external auditing was last modified:

- by Directive No. 2006/43/EC, as amended by Directive No. 2014/56/EU concerning the external auditing of annual accounts and consolidated accounts, transposed by Legislative Decree No. 135 of 17 July 2016, which modified Legislative Decree No. 39 of 27 January 2010; and
- by European Regulation No. 537/2014 (the "EU Regulation"), relating to public-interest entities and audit activities on public-interest entities.

In particular, pursuant to paragraph 1 of Article 19 of Legislative Decree No. 39/2010: *"In public interest entities, the Committee for Internal Auditing and Statutory Auditing supervises:" ... f) the procedure to select statutory auditors or independent auditors and recommend statutory auditors or independent auditors to be appointed within the meaning of Article 16 of the European Regulation and pursuant to paragraph 2 of the same decree "the Committee for Internal Control and Audit identifies with: a) the Board of Statutory Auditors."*

Article 16, paragraph 2, of the EU Regulation has therefore reinforced the role of the Board of Statutory Auditors as "audit committee", stating that *"The audit committee shall submit a recommendation to the administrative or supervisory body of the audited entity for the appointment of statutory auditors or audit firms."*

In view of the above, the Recommendation of the Board of Statutory Auditors, in its role as Committee for Internal Control and Audit, was prepared following a specific Selection Procedure for which the Board of Statutory Auditors is responsible for ensuring correct

observance, within the meaning of Article 19, paragraph 1, of Legislative Decree No. 39/2010 and Article 16, paragraph 3, of the EU Regulation.

## 2. THE SELECTION PROCEDURE

Note that for the purposes of the Selection Procedure, the Board of Statutory Auditors received operational support from the Working Group, made up of the Chief Financial Officer, the Head of Group Administration, ERG Group General Counsel, the Head of Financial Statements, the Head of Procurement and the Head of Corporate Affairs, which drew up a Methodological Note that was approved by the Board of Statutory Auditors.

### 2.1. Pre-selection criteria

Prior to the start of the selection process, the Working Group and the Board of Statutory Auditors of ERG carried out a preliminary assessment, based on qualitative factors, aimed at identifying the shortlist of Candidates to whom the Letters of Invitation were to be addressed and who were to be called, therefore, to participate in the Selection Procedure by submitting a Bid (pre-selection).

The Candidates were chosen from among the major players in the national and international audit market and taking into account engagements undertaken for public-interest entities, with particular regard to those listed on regulated markets subject to supervision by CONSOB, and of comparable size and complexity to the ERG Group.

The Candidates chosen, taking into account the respective networks to which they belong, were:

- PricewaterhouseCoopers S.p.A. – PWC;
- KPMG S.p.A. – KPMG;
- ERNST & YOUNG S.p.A. – EY.

Despite the pre-selection procedure, it is noted that audit firms, other than the Candidates identified, who had expressed their interest in participating in the Selection Procedure, were in no way prevented from participating in the selection process.

### 2.2. Selection criteria

Before commencing the process, the Working Group shared with the Board of Statutory Auditors the selection criteria defined with the aim of assessing both the qualitative and economic factors contained in the Methodological Note.

The qualitative elements identified were expressed and presented in a rating model which would measure the key characteristics of the bids received, by assigning a score to each of them.

With reference to the qualitative aspects, the Working Group, together with the Board of Statutory Auditors, identified 6 assessment macro-categories, assigning to each of them a different specific weight in terms of the total score given: (i) the Parent Company audit team, (ii) knowledge of the ERG group and of the sector, (iii) the ability to serve global customers,

(iv) technical skills, (v) the hours and mix assumed and (vi) the work methodology identified. With reference instead to the economic component, the rating model involved the allocation of a score calculated on the basis of the amount requested by each individual company for the services to be performed using a proportional method with progressive weight, starting from the minimum Bid amount, which was regarded as the base amount.

### 2.3. Submission of tender documents

On 25 September 2017, the Letter of Invitation was sent by certified email, signed by the Chairman of the Board of Statutory Auditors, to the Candidates identified in the pre-selection phase.

No further candidatures were received.

Bids were requested with reference to all the companies of the Group falling within the scope of consolidation by virtue of the principle of "sole group auditor", given that a different solution could be inefficient as regards the provision of audit services, as well as a diseconomy for the Group.

As foreseen by the Procedure, the Board of Statutory Auditors, in its function as committee for internal control and audit, communicated the results of the selection procedure to the Control Bodies of the Subsidiaries, in such a way that they, where appropriate and in respect of their prerogatives, could, in accordance with regulations, submit a reasoned proposal for the appointment of Independent Auditors.

The letters sent identified the Subject of the tender:

#### A) Auditing services

- Audit of the separate financial statements of ERG
- Audit of the financial statements of the Subsidiaries as listed in the Annex to the Letter;
- Audit of the consolidated financial statements of ERG
- Audit of the consolidated financial statements of ERG Power Generation S.p.A. and of ERG Wind Bulgaria S.p.A.
- Audit of the non-financial report prepared pursuant to Legislative Decree No. 254 of 30 December 2016.

#### B) Additional services required by EU or national laws or regulations

- Limited audit of the half-year condensed consolidated financial statements of ERG
- Review of compliance of separate annual accounts (Unbundling)
- Audit activities for the signing of VAT declarations
- Audit activities for the signing of tax declarations as well as for the purposes of the repayment of the related tax receivables

#### C) Optional services

- Agreed-upon procedures (AUP) for auditing quarterly closing statements at 31 March and 30 September.

Candidates were asked to structure the Bid in three sections: the "Technical" section, in which they were asked to provide the information necessary for the assessment of the qualitative requirements, the "Economic" section, in which they were asked to provide a valuation of the economic component and the "Administrative" section, in which they were asked to provide the following declarations/attestations, duly completed and signed by their legal representative:

- attestation, by the Candidate, of eligibility to participate in the Selection Procedure (and therefore also to make the related declarations/attestations) including in the name and on behalf of entities from the Italian and international network to which said Candidate belongs (the "Network");
- consent, from the Candidate and the Network, in favour of ERG and the Subsidiaries, to the processing of personal data for the purposes related to the completion of the Selection Procedure;
- unconditional acceptance, by the Candidate and the Network, of the Selection Procedure and the content of the Letter of Invitation and the accompanying documentation;
- attestation of possession, by the Candidate and the Network, of the requirements required by legislation and in particular, attestation of:
  - a) possession of the independence and objectivity requirements as referred to in Article 10 and Article 17 of Legislative Decree No. 39/2010 with respect to ERG and the Subsidiaries or, if not, the commitment to remove such incompatibilities (which must be expressly indicated) by 31 December 2017;
  - b) the absence of risk to their independence (conflicts of interests, including only potential, business relationships or other) or, if the risk exists, the commitment to adopt suitable measures to mitigate such risks (which must be expressly indicated) by 31 December 2017.
- self-certification, within the meaning of the provisions of Presidential Decree No. 445/2000, stating that the companies in the International Network of the Candidate possess a certificate of registration to professional registers in their State of residence in accordance with the provisions of Directive No. 2006/43/EC of 17 May 2006;
- declaration stating any consultancy work/professional services ongoing on the date of submission of the Bid between the Candidate (or the Network).

Prior to the deadline for the receipt of Bids, individual meetings were held with the Candidates (management presentation) in order to present the Group and to provide further clarification on the Subject matter of the tender.

#### **24. Selection process**

Once the Bids had been received, the Company, with the supervision of the Board of Statutory Auditors and as indicated in the Methodological Note adopted, met the audit teams and assessed the Bids in detail in respect of the assessment criteria indicated.

Based on the documentation received, it is confirmed that the Candidates have in common the fact of belonging to international networks of primary standing with high levels of quality and professionalism of the services offered.

In particular, the analyses performed on the Bids received showed that:

- all of the Bids are adequate for the scope and complexity of the engagement, both in terms of the procedures for the performance of the audit activities detailed, and in terms of expected number of hours and human resource requirements;
- all the Bids contain the declaration concerning the independence requirements pursuant to Articles 10 and 17 of Legislative Decree No. 39/2010;
- the organisational structure and technical and professional capabilities of all the independent auditors, as indicated above, were adequate for the scope and complexity of the engagement.

Proceeding to the assessment of the Bids received, with the support of the Working Group, the declarations provided by tendering companies were examined in depth and additional information was acquired in order to assess any possible current or prospective risk to objectivity and independence.

In the light of the in-depth examinations performed as well as the meetings held with the Candidates' teams, the Working Group, with the supervision of the Board of Statutory Auditors, analysed and compared the Bids noting, for each assessment aspect, the distinctive and qualifying features of each company with reference to the qualitative aspects indicated in "Technical" section and the economic aspects indicated in the "Economic" Section of the Bids Received.

The analysis also took account of the attestations and documentation relating to the "Administrative" Section, in respect of which the Board of Statutory Auditors requested further examinations and verifications on the matter of independence with reference to the assumptions referred to in Articles 10, 10-*bis* and 17 of Legislative Decree No. 39/2010 and Articles 149-*bis* et seq. of the Issuers' Regulations. These checks, carried out with the support of a leading Italian law firm, showed no critical issues.

At the end of the Selection Process, which was carried out in respect of the Procedure for the assignment of the engagement and the Methodological Note drawn up by the Working Group with the supervision of the Board of Statutory Auditors, the Working Group prepared the *"Preliminary report on the conclusions of the Selection Procedure"* within the meaning of Article 16, paragraph 3(e), of EU Regulation No. 537/2014, in which it expressed its own preference in favour of the bid submitted by KPMG S.p.A. which, having obtained the same score as Ernst & Young S.p.A. in the "Technical" section, submitted a better economic offer.

The proposal by PricewaterhouseCoopers S.p.A. shows a limited difference with reference to the "Technical" Section, but the economic offer is the highest.

With reference to the Bid submitted by KPMG S.p.A., among other things, checks were

performed on the offices held in recent years in the context of the governance and control system, the organisational model abroad, risk compliance and involvement in the Audit project of the ICRMS (Internal Control and Risk Management System) and the FTOM (Finance Target Operating Model) of foreign companies, the findings of which were implemented in the Group's most recent working model known as OneCompany. These activities, considered to be closely tied with the audit of the Group, enabled KPMG S.p.A. to thoroughly understand ERG S.p.A. and its subsidiaries in the current composition and relative to the current business. With reference to the Bid submitted by Ernst & Young S.p.A., among other things, checks were performed on the experience of the partner responsible for the audit team of the Parent Company on groups listed and the experience of Ernst & Young S.p.A. in the reference sector.

Economically, the overall cost indicated in the Bid received by KPMG S.p.A. amounted to EUR 1,400,000, of which EUR 296,000 relates to the parent company ERG S.p.A. (external auditing of the company's separate financial statements, the consolidated financial statements of the Group, limited audit of the interim financial statements of ERG S.p.A. and audit of the non-financial report), as compared with the fee indicated for the same activities by Ernst & Young S.p.A. in the amount of EUR 1,430,000, of which EUR 319,000 relate to the parent company ERG S.p.A. (with reference to the same activities), and the amount indicated by PricewaterhouseCoopers S.p.A. of EUR 1,466,000.

Candidates were subsequently asked to provide a quote for tasks related to the change in scope envisaged from 2018 as a result of the new acquisition in the Solar Power sector, which did not modify the quote for the Candidates KPMG S.p.A. and Ernst & Young S.p.A.

Pursuant to Article 16, subparagraph 3(e), of EU Regulation No. 537/2014, the Board of Statutory Auditors confirmed the opinion expressed in the *"Preliminary report on the conclusions of the Selection Procedure"* presented by the Chief Financial Officer for the Working Group, having verified during the Selection Process that the Procedure adopted and the requirements of the law were complied with.

### **3. RECOMMENDATION OF THE BOARD OF STATUTORY AUDITORS IN ITS ROLE AS COMMITTEE FOR INTERNAL CONTROL AND AUDIT.**

In view of the above, the Board of Statutory Auditors:

- on the basis of the procedure carried out, of the bids received, of the assessments carried out and the results therein,
- taking into account that Article 16, paragraph 2, of EU Regulation No. 537/2014 provides that the reasoned recommendation by the Board of Statutory Auditors should contain at least two possible alternatives for the assignment in order to permit choice,
- considering also that the above mentioned Article 16, paragraph 2, of EU Regulation No. 537/2014 requires the Board of Statutory Auditors to express a duly justified preference

## RECOMMENDS

that the task of regulatory audit of ERG S.p.A. for the years 2018-2026 is awarded to the company KPMG S.p.A. or to the company Ernst & Young S.p.A., whose economic offers are listed in Annex 1 to this Recommendation.

Between the two

## EXPRESSES ITS PREFERENCE

in respect of KPMG S.p.A. as, with parity of score obtained in the "Technical" Section, the company presented the better economic offer compared to Ernst & Young S.p.A., resulting in on the completion of the assessment procedure a higher score.

KPMG S.p.A. therefore appears to be the auditing firm most suited to the accomplishment of the task for the reasons indicated above.

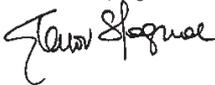
## 4. DECLARATIONS

The Board of Statutory Auditors, pursuant to Article 16, paragraph 2, of EU Regulation No. 537/2014, declares that this Recommendation has not been influenced by third parties and that no clause has been applied, pursuant to the relevant paragraph 6 of the aforementioned Article 16, between the Company and a third party with the intention of limiting the choice by the General Shareholders' Meeting.

Genoa, Italy, 7 March 2018

The Board of Statutory Auditors

Elena Spagnol



Lelio Fornabaio



Stefano Remondini



## ANNEX 1 - ECONOMIC CONDITIONS OF THE KPMG S.P.A. AND ERNST & YOUNG S.P.A. TENDERS

Number of hours and fees	KPMG	
	Hours	EUR
External auditing	14,730	1,003,000
Audit of the <i>non-financial</i> report prepared pursuant to Legislative Decree No. 254 of 30 December 2016;	380	30,000
<b>Auditing services</b>	<b>15,110</b>	<b>1,033,000</b>
Limited audit of the half-year condensed consolidated financial statements of ERG	2,325	156,000
Review of compliance of separate annual accounts ( <i>Unbundling</i> )	1,140	70,000
Audit activities for the signing of tax declarations	330	21,000
<b>Additional services required by EU or national laws or regulations</b>	<b>3,795</b>	<b>247,000</b>
Agreed-upon procedures (AUP) for auditing quarterly closing statements at 31 March and 30 September	1,895	120,000
<b>Optional services</b>	<b>1,895</b>	<b>120,000</b>
<b>Total hours and fees</b>	<b>20,800</b>	<b>1,400,000</b>

Number of hours and mix <sup>(1)</sup>	Hours	EUR
Number of hours and mix	1,874	9%
Dirigente	4,113	20%
Revisore esperto	6,701	32%
Assistente	8,112	39%
<b>Totale ore e mix</b>	<b>20,800</b>	<b>100%</b>

(1) Average value calculated on the basis of the information made available as part of the selection procedure

### TASKS RELATING TO AUDIT ACTIVITIES ON THE PARENT COMPANY ERG S.P.A.

	KPMG
	EUR
External auditing - Separate Financial Statements of ERG S.p.A.	80,000
External auditing - Consolidated Financial Statements of ERG S.p.A.	30,000
Audit of the <i>non-financial</i> report prepared pursuant to Legislative Decree No. 254 of 30 December 2016;	30,000
Limited audit of the half-year condensed consolidated financial statements of ERG	156,000
<b>Total fees</b>	<b>296,000</b>

Fees and number of hours	Ernst & Young	
	Hours	EUR
External auditing	15,429	1,050,000
Audit of the <i>non-financial</i> report prepared pursuant to Legislative Decree No. 254 of 30 December 2016;	530	40,000
<b>Auditing services</b>	<b>15,959</b>	<b>1,090,000</b>
Limited audit of the half-year condensed consolidated financial statements of ERG	2,593	160,000
Review of compliance of separate annual accounts ( <i>Unbundling</i> )	1,210	80,000
Audit activities for the signing of tax declarations	60	10,000
<b>Additional services required by EU or national laws or regulations</b>	<b>3,863</b>	<b>250,000</b>
Agreed-upon procedures (AUP) for auditing quarterly closing statements at 31 March and 30 September	1,200	90,000
<b>Optional services</b>	<b>1,200</b>	<b>90,000</b>
<b>Total</b>	<b>21,022</b>	<b>1,430,000</b>

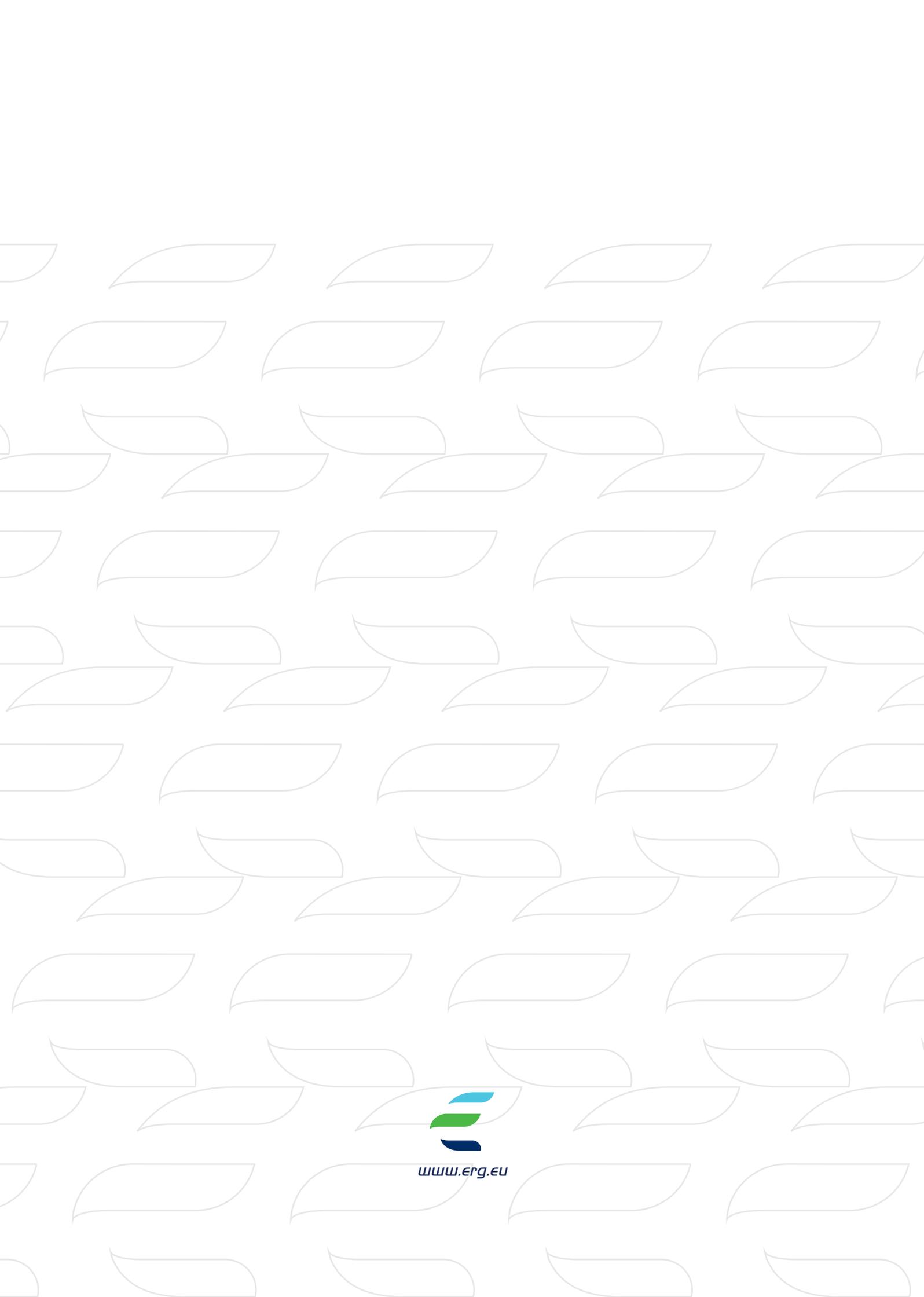
Number of hours and mix <sup>(1)</sup>	Hours	EUR
Partner	1,607	9%
Manager	4,130	20%
Senior	8,392	40%
Assistant	6,894	32%
<b>Total</b>	<b>21,022</b>	<b>100%</b>

(1) Average value calculated on the basis of the information made available as part of the selection procedure

#### TASKS RELATING TO AUDIT ACTIVITIES ON THE PARENT COMPANY ERG S.P.A. <sup>(2)</sup>

	Ernst & Young
	EUR
External auditing - Separate Financial Statements of ERG S.p.A.	84,000
External auditing - Consolidated Financial Statements of ERG S.p.A.	35,000
Audit of the <i>non-financial</i> report prepared pursuant to Legislative Decree No. 254 of 30 December 2016;	40,000
Limited audit of the half-year condensed consolidated financial statements of ERG	160,000
<b>Total fees</b>	<b>319,000</b>

(2) Amounts stated net of the discount applied by Ernst & Young to the relevant category of assignments, as indicated in the Offer received



[www.erg.eu](http://www.erg.eu)