



ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING HELD ON 21/22 APRIL 2020

REPORT ON THE REMUNERATION POLICY
AND THE AMOUNTS PAID



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LETTER OF THE CHAIRMAN OF THE NOMINATIONS AND REMUNERATION COMMITTEE



Silvia Merlo

Chairman of the Nominations and Remuneration Committee

Dear Shareholders,

as Chairman of the Nominations and Remuneration Committee, together with my colleagues Barbara Cominelli and Paolo Francesco Lanzoni, I am pleased to present the ERG Group Annual Report on the Remuneration Policy and the amounts paid.

In continuity with previous years, we continued the dialogue with our stakeholders, gaining useful insights from the various people we spoke with, with the aim of adopting best market practices, improving the transparency of the ERG pay systems, ensuring adaptation to Italian and European regulatory requirements and guaranteeing stakeholders the tools needed to thoroughly assess the Company and exercise their rights on an informed basis. In particular, we have paid special attention to ESG matters and to the input provided by rating agencies, which will play a guiding role in designing the new Long-Term Incentive Plan and in reviewing how the short-term incentive system (MBO) works.

When drafting the Report, we worked a great deal on the matter of transparency, making the Executive Summary more exhaustive and the pay mix more detailed by including the monetary values payable in the different scenarios of variability of the total remuneration (threshold, target and cap). We also explained the duration of the Policy (annual), introduced a specific chapter aimed at describing the procedure for derogation from the provisions of the policy and described the process followed to determine the remuneration of members of the Board of Statutory Auditors.

In the course of 2019, as a result of organisational changes aimed at continually adjusting the value levers with respect to the impact of the individual stages of implementation of the 2018-2022 Business Plan, the Committee was called upon to define the remuneration package for the new General Manager and to resolve upon, within the limits of the approved regulations, the broadening of the range of beneficiaries of the 2018-2020 Performance Share System, again with a view to ensuring a sustainable remuneration policy, geared to creating value over time for the stakeholders of the Group.

I thank my colleagues for having put at the disposal of the Committee their wealth of experience and professionalism; similar thanks and appreciation is due to management and to the staff of ERG. I submit this report to you in the hope that it will provide a comprehensive overview of ERG's remuneration system and its contribution to the creation of value and sustainable success for shareholders in the medium to long-term.

Sincerely,

Silvia Merlo

EXECUTIVE SUMMARY

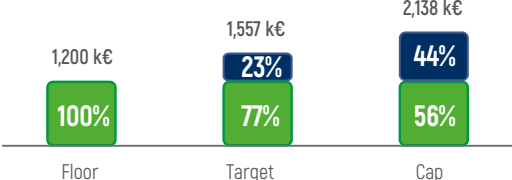
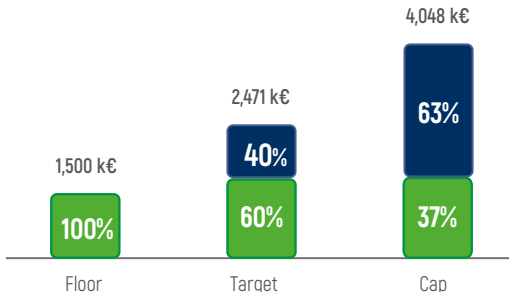
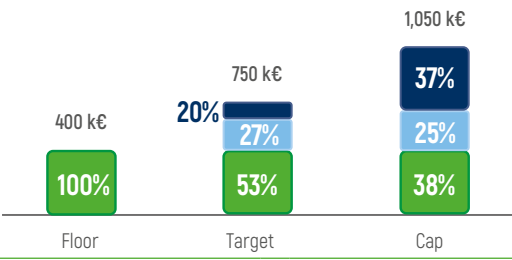
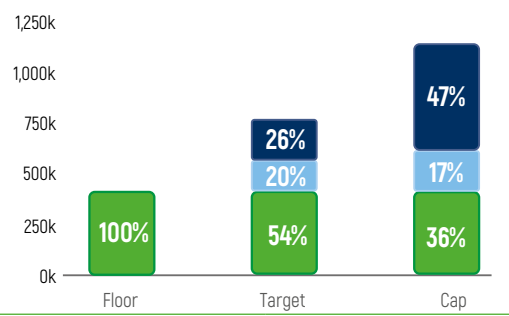
2020 REMUNERATION POLICY GUIDELINES

Fixed Remuneration	Enhances the responsibilities, the skills and the contribution demanded by the position. Ensures attraction and retention through continuous market benchmarking. Remunerates the activity carried out in the event that the variable component is not paid out.	
	Executive Deputy Chairman	Chief Executive Officer
Both roles receive an annual compensation , as members of the Board of Directors, and an annual remuneration for their role as Executive Directors. The amount of remuneration is determined through a benchmark of the posts held by them within a peer group consisting of FTSE MIB and MID CAP companies in the industrial sector comparable to ERG in terms of capitalisation, shareholder structure, distribution of powers and complexity.		
	General Manager	Other Executives with Strategic Responsibilities
Annual earnings , from employment. The benchmark is carried out on the basis of a sample made up of companies that operate on the Italian market in non-financial markets.		Annual earnings , from employment. The benchmark is carried out on the basis of salary surveys for executive roles in companies that operate on the Italian market.
Short-term variable remuneration (MBO)	Aimed at the achievement of economic, financial and strategic targets, predetermined, measurable and in line with the budget.	
	Executive Deputy Chairman	Chief Executive Officer
	Not envisaged	Not envisaged
	General Manager	Other Executives with Strategic Responsibilities¹
MBO System: 100% cash Sustainability clause²: ON/OFF on Company target Clawback clause: exercisable within 3 years Company Target 30% EBT	Target score <50% nothing is owed Target score >150% 150% of the target bonus is owed	MBO System: 100% cash Sustainability clause²: ON/OFF on Company target Clawback clause: exercisable within 3 years Company Target 30% EBT
Personal Targets 70% targets	Target score <80% nothing is owed Target score >120% 120% of the target bonus is owed	Personal Targets 70% targets
Economic, Operational, Financial, Business development and/or specific projects		Economic, Operational, Financial, Business development and/or specific projects

¹ The variable component assigned to the Chief Audit Officer is linked to objectives that do not depend on financial performance indicators. These objectives are formalised in the annual audit plan and are linked to the degree of efficiency and effectiveness of the audit activities.

² The variable remuneration referred to the company target will not be paid out, for the reference year, regardless of the corporate performances recorded, if there is a fatal accident involving a Group employee or an accident causing a level of permanent disability greater or equal to 46%.

Long-Term Variable Remuneration (LTI)		Aimed at aligning the interests of the beneficiaries with the pursuit of the priority objective of the creation of sustainable value for the shareholders over the medium/long term. Contributes to the strategy of ensuring the Company's sustainability over time, incentivising management to achieve strategic results, consistent with the specific objectives of the 2018-2022 Business Plan, with the prospect of sustainable success.	
Executive Deputy Chairman³	Chief Executive Officer³	General Manager	Other Executives with strategic responsibilities
2018-2020 Performance Share System Performance indicator ON/OFF: 90% expected cumulated EBITDA for three-year period 2018-2020 ⁴ Clawback clause: exercisable within 3 years Single awarding at plan inception, with three-year vesting . At the end of the plan p/sh ERG ≤ EUR 16 p/sh ("Target Price"): Shares assigned = 100% Shares allocated p/sh ERG ≥ EUR 21 p/sh ("Cap Price"): Shares assigned = 200% Shares allocated p/sh ERG <> between Target Price and Cap Price: Shares allocated following a linear incentive strategy.			

Pay Mix	Chosen to ensure a remuneration mix in line with the managerial position held.		
Executive Deputy Chairman		Chief Executive Officer	
			
General Manager		Other Executives with strategic responsibilities⁵	
			
■ Fixed ■ MBO ■ LTI			
The target value of the long-term component was determined by multiplying the target price (EUR 16 psh) by the number of shares allocated. The cap value of the long-term component was determined by multiplying the cap price (EUR 21 psh) by 200% of the number of shares allocated.			

³ As Executive Directors with a strategic importance for the purposes of the achievement of the 2018-2022 Business Plan.

⁴ Press release issued on 8 March 2018 in the context of the presentation to the Market of the 2018-2022 Business Plan.

⁵ The weight of the total variable component, made up of the short-term incentive (MBO System) and the long-term incentive (LTI System) for remuneration, on an annual basis, may vary between 45% and 50% of the target total remuneration depending on the strategic relevance of the role for the purposes of achieving the 2018-2022 Business Plan.

Non-monetary benefits		In a Total Reward approach, the compensation package is integrated with benefits, mainly in the form of pension and social security.	
Executive Deputy Chairman	Chief Executive Officer	General Manager	Other Executives with strategic responsibilities
Medical assistance and insurance coverage against the risk of death and disability (which are subtracted from the annual compensation) Company car for mixed use		Medical assistance Insurance policies for the risk of death and disability Company car for mixed use	

SUSTAINABILITY INDICATORS

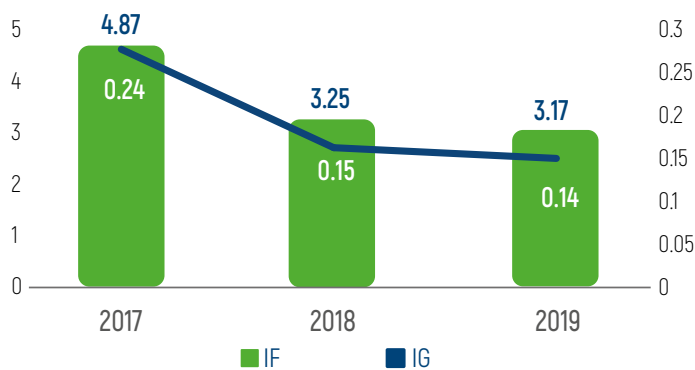
ERG believes that the full compatibility of its activities with the health and safety of the workers and the safeguard of communities, natural resources and the environment is an essential requirement to make its plants and operations acceptable and to achieve its growth objectives.

Therefore, ERG is committed to ensuring that all Companies of the ERG Group operate with the highest respect for the health and safety of employees and third parties, as well as for the environment, defined in its broadest sense⁶. Consistently with the provisions of the Code of Ethics of the ERG Group, a **sustainability clause** based on workplace accidents has been added to the MBO System.

Sustainability clause

In the MBO System, the variable remuneration referred to the company target will not be paid out, for the reference year, regardless of the corporate performance recorded, if there is a fatal accident involving a Group employee or an accident causing a level of permanent disability greater or equal to 46%.

Accident Frequency⁷ (AF) and Severity⁸ (AS) Index



2019: ON

The accidents occurred in 2019 resulted in a residual disability level equal to or less than 3%.

6 Code of Ethics of the ERG Group, 2018 version.

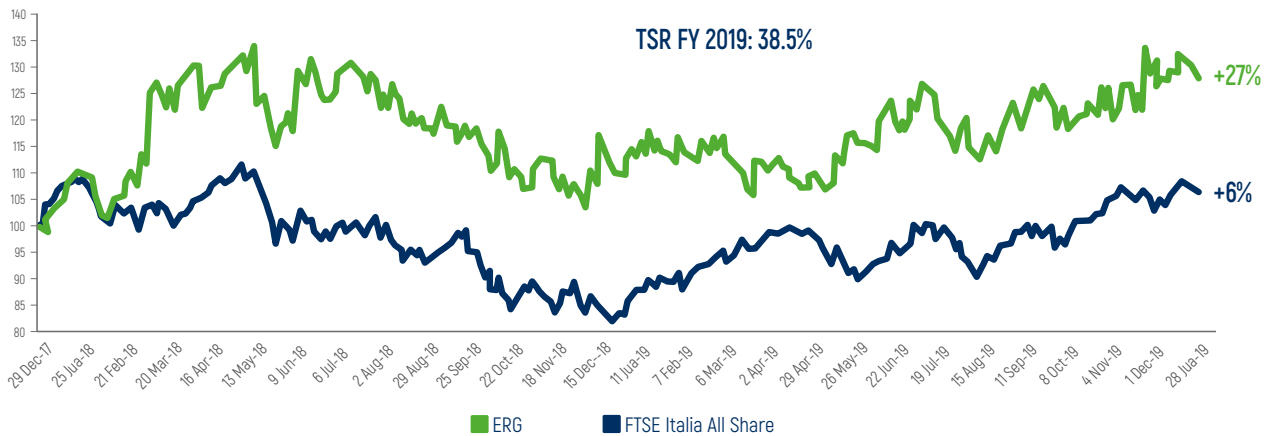
7 No. accidents*1,000,000/worked hours.

8 No. days lost*1,000/worked hours.

PAY FOR PERFORMANCE

In the last two years, ERG has rewarded its shareholders with total dividends of approximately EUR 284 million (including a non-recurring component of approx. EUR 60 million) and a share performance of 27.5%, almost 22 points higher than the FTSE All Share average.

Performance ERG Share vs FTSE Italia All Share, FY 2018-2019



INTRODUCTION

Pursuant to the provisions of Article 123-*ter* of the Consolidated Finance Act, the Report is divided into two sections.

I. FIRST SECTION

The first section describes the 2020 Remuneration Policy and the procedures used for its adoption and implementation.

II. SECOND SECTION

The second section provides, for the individual members of the Board of Directors and the Board of Statutory Auditors, for the General Manager and, in aggregate form, for the other Executives with strategic responsibilities:

- a) a suitable description of each of the items that make up the remuneration, including the indemnities due in the event of termination of office or discontinuation of the employment relationship, showing their consistency with the 2019 Remuneration Policy;
- b) a statement of the remuneration paid in financial year 2019, for whatsoever reason and in any form, by ERG and its subsidiaries or associated companies, indicating any components of the said remuneration that are attributable to the activities carried out in previous years and highlighting also the fees to be paid in one or more subsequent periods for activities performed in the reference year, possibly indicating an estimated value for the components not objectively quantifiable in the reference year.

The 2020 Remuneration Policy was approved by the Board of Directors on 10 March 2020, at the proposal of the NRC, having obtained, accordingly, the favourable opinion of the Board of Statutory Auditors. On the same date, the Board of Directors approved the Report, having obtained the opinion of the CRC.

The Shareholders' Meeting called to approve the Financial Statements at 31 December 2019 is called upon to express its views on this Report with:

- a binding vote on the First section
- an advisory vote on the Second section

This Report is made available to the public, at the registered office and in the Corporate Governance section of the Company's website www.erg.eu, within the deadline required by current law.

SECTION I: 2020 REMUNERATION POLICY

1. EVOLUTION OF APPROACH

In line with the provisions of the Corporate Governance Code⁹, on 20 December 2011, at the proposal of the NRC¹⁰, the Board of Directors of ERG adopted its own Remuneration Policy, effective from 2012. Up until that time, the structure of the Policy had been independently defined by ERG, without making reference to the remuneration policies of other companies.

The Policy underwent a **first revision**, on 18 December 2012, to take into account the adoption of the 2012-2014 LTI System, and a **second revision**, on 11 March 2015, to take into account, among other things, the adoption by the Company of the Corporate Governance Code¹¹ and the general principles of the 2015-2017 LTI System. On 22 March 2016, the Policy was **updated** to acknowledge the resolution of the Board of Directors, dated 15 December 2015, which specified the conditions required to implement the 2015-2017 LTI System, and on 9 March 2017 to acknowledge the organisational changes made as a result of the reorganisation of the risk compliance and internal audit functions of the ERG Group.

On 7 March 2018, the Policy underwent a **third revision** to take into account, effective from 2018, the fundamental elements of the 2018-2020 Performance Share System, and was **updated** on 6 March 2019 following the resolution of the Board of Directors, on 14 May 2018, which specified the conditions required to implement the 2018-2020 Performance Share System, in line with the Policy and in the light of the 2018-2022 Business Plan.

The Policy underwent a **fourth review**, on 10 March 2020, in order to incorporate the organisational changes occurring following the appointment, by the Board of Directors, of the General Manager with the title "Corporate General Manager & CFO", which took place on 2 August 2019, as well as the new legislation introduced by Article 123-ter of the Consolidated Finance Act as amended by Legislative Decree No. 49 of 10 May 2019, which transposed into Italian law EU Directive 2017/828, which lays down, inter alia, rules on transparency and the involvement of shareholders with regard to the remuneration of directors and entrusts CONSOB with the task of including some of the elements indicated by the aforesaid Directive in the remuneration report disclosures, both with regard to the remuneration policy (Section I) and the remuneration paid during the reference financial year (Section II)¹².

For the purposes of this latest update, the Company – in continuity with previous practices – also took as reference some of the remuneration policies of the non-financial companies of the FTSE MIB index, as these are believed to be more representative of national best practices, and also received support from the consulting firm The European House – Ambrosetti.

⁹ The version of the Corporate Governance Code published in December 2011.

¹⁰ 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.

¹¹ Version of the Corporate Governance Code published in July 2015. It is noted that the new Corporate Governance Code was published on 31 January 2020. Since the companies that adopt the new Corporate Governance Code are

called upon to apply the code starting from the first year beginning after 31 December 2020, informing the market thereof in the corporate governance report to be published in 2022, the Board of Directors will be called upon in the course of 2020 to carry out every appropriate assessment regarding adherence to the code.

¹² At the date of approval of the Report, the regulatory framework has not yet been fully defined.

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 2020 Remuneration Policy and the

responsibility for its correct application are the result of a joint process involving numerous parties that take part in the decision-making process, as described in detail in this document.

BODIES INVOLVED AND PERIMETERS OF RESPONSIBILITY

Parties	Supports	Proposes	Expresses an opinion	Resolves
Directors (compensation)		Shareholders		Shareholders' Meeting
Executive Directors and/or Directors holding specific offices (Remuneration)	Head of Human Capital & ICT	NRC	Board of Statutory Auditors	Board of Directors
Chief Executive Officer (Remuneration)	Head of Human Capital & ICT	NRC	Board of Statutory Auditors	Board of Directors
General Manager	Head of Human Capital & ICT	CEO and EDC	NRC Board of Statutory Auditors ¹³	Board of Directors
Other Executives with Strategic Responsibilities	Head of Human Capital & ICT	CEO and EDC	NRC	CEO
Chief Audit Officer	Head of Human Capital & ICT	EDC ¹⁴	CRC Board of Statutory Auditors	Board of Directors
Board of Statutory Auditors		Shareholders		Shareholders' Meeting

2.1 Nominations and Remuneration Committee

The Nominations and Remuneration Committee consists of three non-executive directors, mostly independent pursuant to the Corporate Governance Code, with suitable experience of financial issues and remuneration policies. The Committee meets at least once a quarter. All members of the Board of Statutory Auditors attend the meetings of the Committee; in addition, the Chairman of the Board of Directors, the Executive Deputy Chairman and the Chief Executive Officer may attend, on invitation, as they are entitled to intervene on these issues and to identify suitable actions to address situations, even potentially critical ones. Directors do not take part in the meetings of the NRC where proposals are made to the Board of Directors related to their own remuneration. Employees of ERG Group companies, representatives of

the independent auditor and, in general, persons whose presence is believed to be necessary or advisable for the discussion of the items on the agenda may also be invited to attend Committee meetings.

With regard to the remuneration of the **Board Directors**, the Committee:

- regularly assesses the suitability, overall consistency and practical application of the Remuneration Policy, reporting to the Board of Directors;
- submits proposals or expresses opinions to the Board of Directors concerning the remuneration of the Executive Directors or Directors holding special positions as well as, if necessary, concerning the remuneration of the Directors who are members of the Strategic Committee, when they are not employees of the Group and do not sit

¹³ As the General Manager also holding the position of Manager responsible for preparing the company's financial reports.

¹⁴ Director in charge of the Internal Control and Risk Management System.

on the Board of Directors;

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

With regard to the remuneration of the **General Manager**, the Committee:

- regularly assesses the suitability, overall consistency and practical application of the Remuneration Policy, reporting to the Board of Directors;
- submits proposals or expresses opinions concerning remuneration to the Chief Executive Officer and to the Executive Deputy Chairman, so that the Board of Directors may pass resolutions in this regard;
- submits proposals or expresses opinions to the Chief Executive Officer and to the Executive Deputy Chairman on the setting of the Group performance targets linked to the variable component of the short-term incentive system, so that the Board of Directors may pass resolutions in this regard;
- submits proposals or expresses opinions to the Chief Executive Officer and to the Executive Deputy Chairman on the setting of the performance targets linked to the variable component of the medium/long-term incentive systems, so that the Board of Directors may pass resolutions in this regard;
- verifies the actual achievement of the Group performance targets.

With regard to remuneration of Other **Executives with strategic responsibilities**, the Committee:

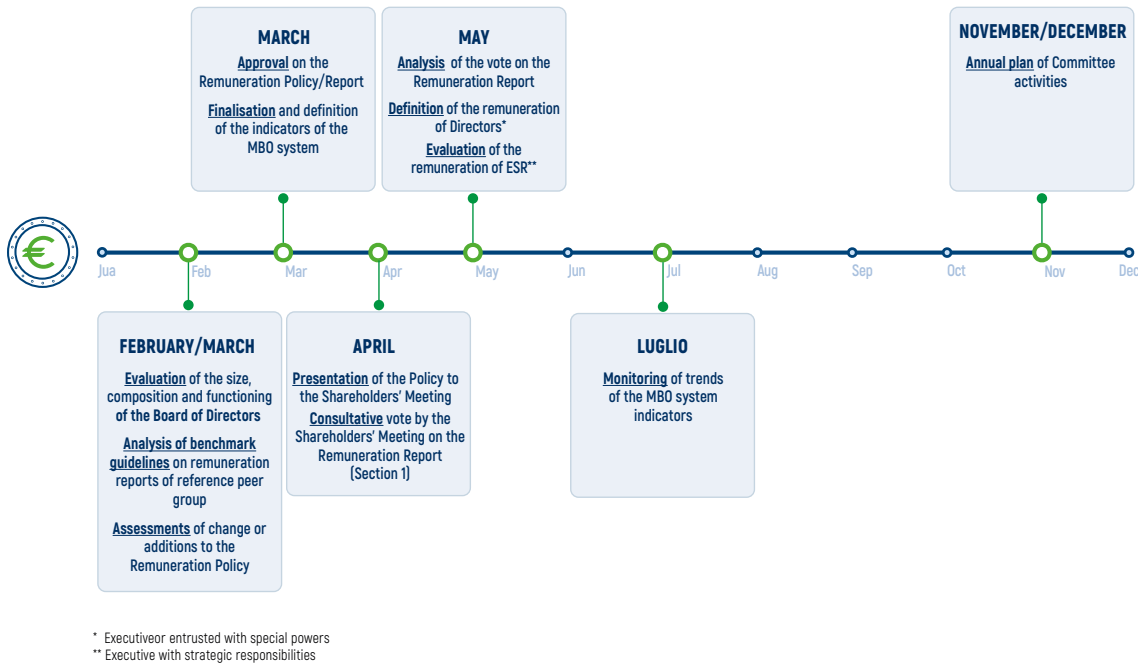
- regularly assesses the suitability, overall consistency and practical application of the Remuneration Policy;
- expresses opinions to the Chief Executive Officer on their remuneration;
- submits proposals or expresses opinions to the Chief Executive Officer and to the Executive Deputy Chairman on the setting of the Group performance targets linked to the variable component of the short-term incentive system;
- submits proposals or expresses opinions to the Chief Executive Officer and to the Executive Deputy Chairman on the setting of the performance targets linked to the variable component of the medium/long-term incentive systems, so that the Board of Directors may pass resolutions in this regard;
- verifies the actual achievement of the Group performance targets.

The Committee actively participates in the definition of 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 and the 2018-2020 Performance Share System.

In the course of 2019, the Committee carried out in-depth assessments regarding succession policies for top positions within the Group and Diversity & Inclusion policies.

Calendar of the meetings of the Nominations and Remuneration Committee and significant events in the context of the Remuneration Policy



3. STRUCTURE OF THE 2020 REMUNERATION POLICY

The 2020 Policy sets general guidelines for determining the remuneration of the members of the Board of Directors, the General Manager and other Executives with strategic responsibilities, in the performance of their activity, with a view to attracting, retaining and motivating highly qualified managers and aligning their interests with the pursuit of the priority objective of creating sustainable value for the shareholders over the medium/long-term.

This policy lasts for one year.

The 2020 Policy is structured differently according to whether it deals with the remuneration of Board Directors, the General Manager, other Executives with strategic responsibilities or members of the Board of Statutory Auditors..

3.1 Board of Directors

3.1.1 Compensation

The Shareholders' Meeting is called once a year to resolve, at the proposal of the shareholders, on a fixed annual compensation to be awarded to all members of the Board of Directors and an additional fixed annual compensation

to be awarded to directors called to sit on the NRC or the CRC.

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, and that the remuneration proposals be presented by the Shareholders (where appropriate, also pursuant to Article 126-bis of the Consolidated Finance Act) 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.

It should be mentioned in this regard that starting from 2013 the reference shareholder has submitted proposals in line with this recommendation, which were therefore disclosed to the public with a suitable advance with respect to the Shareholders' Meeting called to approve them.

3.1.2 Remuneration

The remuneration paid to the Executive Directors or Directors holding special positions shall be such to attract, retain and motivate highly qualified individuals and aims at assigning a value to their skills, in line with the contribution

demanded by the position held and the risk related to the powers granted.

Fixed component

The Board of Directors, at the proposal of the NRC, with the support of the HOHC, after consulting the Board of Statutory Auditors, approves the award of a fixed annual remuneration to the Executive Directors or the Directors holding special positions.

The Board of Directors, again at the proposal of the NRC, with the support of the HOHC, after consulting the Board of Statutory Auditors, may provide for an annual fixed remuneration to be awarded to the Directors called to sit on the Strategic Committee when these are not employees of the Group and do not sit on the Board of Directors. Their remuneration is, therefore, not linked to the business performance of the Company.

The Board of Directors may, in the interest of the Company, provide for the fixed component to be set with the same criteria but on a three-year basis.

The amount of the fixed annual remuneration is such as to remunerate the responsibilities, the skills and the contribution demanded by the position and is sufficient to remunerate the activity carried out in the event the variable component is not paid out. It ensures, where required, retention through constant compensation benchmarking.

Variable component

The Board of Directors, at the proposal of the NRC, with the support of the HOHC, after consulting the Board of Statutory Auditors, approves the award of a variable remuneration to the Chief Executive Officer and the Executive Deputy Chairman, as Executive Directors with a strategic importance for the purposes of the achievement of the 2018-2022 Business Plan.

For the ERG Group, mitigating risk-taking and encouraging the creation of sustainable value for shareholders in the medium/long-term is of fundamental and strategic importance for the purposes of achieving the 2018-2022 Business Plan; with this in mind, the variable component of the remuneration for the Executive Deputy Chairman and

the Chief Executive Officer is exclusively long-term and allocated as provided for by the 2018-2020 Performance Share System.

The amount of the variable component at target value is set taking into account external remuneration benchmarks and the strategic importance of the position held for the purposes of achieving the 2018-2022 Business Plan, and is linked to the creation of sustainable value in the medium/long-term.

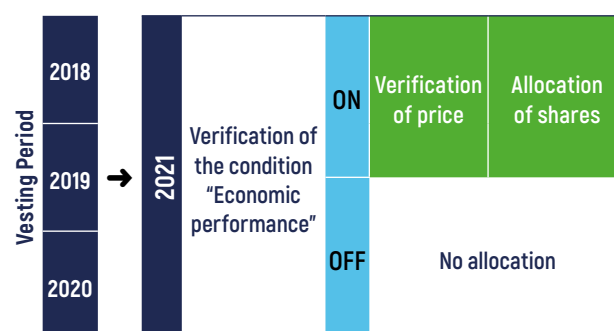
3.1.2.1 2018-2020 Performance Share System

The 2018-2020 Performance Share System has been structured to ensure the maximum alignment, in terms of objectives, of the interests of the beneficiaries with the pursuit of the priority objective of the creation of sustainable value for the Shareholders over the medium/long-term.

The time horizon of the LTI System is in line with the three-year mandate (2018-2020) of the Board of Directors appointed by the Shareholders' Meeting held on 23 April 2018.

The LTI System provides for the allocation of a pre-specified number of Shares ("Performance Shares"), free of charge, at the end of a three-year vesting period, subject to the attainment of a predetermined minimum economic performance (**Performance Condition**).

The Performance Condition agreed by the Board of Directors, in the context of the resolution of the Shareholders' Meeting held on 23 April 2018, is equal to 90% of the expected value of the Group cumulated EBITDA for the 2018, 2019 and 2020 financial years, announced in the context of the presentation to the Market of the 2018-2022 Business Plan.



If the Performance Condition is not met, the assignment of the Performance Shares to the beneficiaries of the LTI System will not take place.

If the Performance Condition is met and the market price of the ERG Share on the MTA¹⁵ exceeds the Target Price (or Outstanding Price), the LTI System also provides for the number of the shares that may be assigned to increase up to a predetermined maximum:

- if the price of the Shares is equal to or less than the Target Price (EUR 16.00), the Assigned Shares shall be equal to the Allocated Shares;
- if the price of the Shares is equal or above the Cap Price (EUR 21.00), the Assigned Shares shall be equal to 200% of the Allocated Shares;
- if the price of the Shares is above the Target Price but less than the Cap Price, Shares shall be allocated following a linear incentive strategy.

The shares set aside to service the Performance Share System consist only of Treasury Shares already in portfolio.

The LTI System also includes the following clauses:

- **clausola di clawback**, according to which, if objective circumstances arise, from which it appears that the data, based on which the Performance Condition had been assessed, on which the vesting of the Shares that may be assigned is conditional, were clearly incorrect, or the result of manipulation or unlawful conduct, the Company may withdraw the right of beneficiaries to the allocation of Shares, resulting in the final lapse of any right of the beneficiaries in this regard, or ask the beneficiaries to reimburse, fully or in part, an amount equivalent to the benefit received as a result of the vesting of the Shares. The clawback clause can be exercised by the Company within three years of the approval by the Shareholders' Meeting of the financial statements as at 31 December 2020.
- **clauses** that specify the consequences deriving from the termination of employment and/or of the mandate of the current beneficiaries of the LTI System, according

to which (i) in "bad leaver" situations, the beneficiary will lose for good the right to any assignment of Shares at the end of the vesting period, while (ii) in "good leaver" situations, if the Performance Condition is met, Shares shall be assigned in proportion to the duration of the employment/mandate.

- **clause for the revision of the Performance Condition**. The LTI System has a multi-annual time span. It is therefore possible that events may occur (either inside or outside of the ERG group) that may affect the consistency of the Plan's incentive strategy, limiting its ability to fulfil the purposes for which it was designed. As a general rule, these events are due, in particular, to two cases: (i) a change in scope of ERG and the ERG Group; and (ii) a significant change in the macro-economic and/or business scenario or other extraordinary events¹⁶. With regard to the above-mentioned events, the Board of Directors, at the proposal of the NRC, having heard the opinion of the Board of Statutory Auditors, within the limits of authorisation of the General Meeting of 23 April 2018¹⁷, may review the incentive strategy, modifying the basic performance scenarios (i.e. target EBITDA, Target Price and Outstanding Price) to take account of the above-mentioned events. Any changes must safeguard the principles and the guidelines according to which the LTI System was formulated, by not introducing undue advantages or penalties either as regards the beneficiaries of the Performance Share System or as regards ERG.

3.1.3 Balancing of remuneration

The balancing between the fixed and the variable remuneration components aims to align the interests of their beneficiaries with the medium/long-term strategic objectives of the Company, ensuring the creation of sustainable value for the Shareholders in compliance with

¹⁵ Calculated as the average of the official Stock Exchange price in the period between 15 November 2020 and 15 February 2021

¹⁶ In the event that the applicable conditions occur, revisions will be made within the provisions of Article 123-ter of the Consolidated Finance Act taking account of the Procedure for Related-Party Transactions

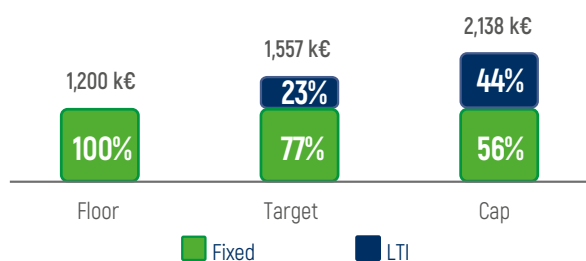
¹⁷ Information Document [available to the public at the registered office of the Company in Genoa, Via De Marini 1, on the website of the Company (www.erg.eu) in the section "Governance/Remuneration Reports", at Borsa Italiana S.p.A. and on the authorised storage mechanism eMarket Storage (www.emarketstorage.com)]

the ERG Group risk management policy.

The amount of the remuneration and the balancing of the total annual fixed/variable component are in proportion to the commitment demanded of each of the beneficiaries in their offices and provides for a greater weight of the variable component for roles that have a greater impact on the corporate results. The pay mix is defined based on the opinion of highly specialised advisors, using specific wage benchmarks. The benchmarking is carried out by comparing the individual roles within a peer group consisting of industrial companies of the FTSE MIB and MID CAP comparable to ERG in terms of capitalisation, shareholder structure, distribution of powers and complexity.

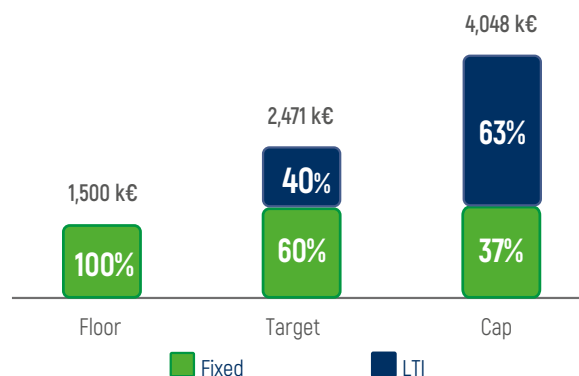
As regards the Executive Deputy Chairman, the weight of the long-term variable component¹⁸ (2018-2020 Share Performance System), in its annualised amount, is equal to 23% of the target total remuneration; the fixed component is equal to 77% of the total target remuneration.

PAY MIX Executive Deputy Chairman



The balancing of the remuneration of the Chief Executive Officer provides for a long-term variable component¹⁴ (2018-2020 Share Performance System), in its annualised amount, equal to 40% of the target total remuneration; the fixed component is equal to 60% of the target total remuneration.

PAY MIX Chief Executive Officer



3.14 Non-monetary benefits and other compensation

The Shareholders' Meeting may resolve, at the proposal of the Shareholders, to grant all members of the Board of Directors the right to receive certain non-monetary benefits (healthcare, insurance for the risk of death and disability), the amount of which will be withheld from the fixed annual compensation, also approved by the Shareholders' Meeting.

The Board of Directors, at the proposal of the NRC, with the support of the HOHC, after consulting the Board of Statutory Auditors, may resolve to grant benefits such as cars and housing to Executive Directors or Directors holding special positions, which will not be withheld from the fixed annual compensation or remuneration.

It should be noted that **no non-recurring remuneration is expected to be paid**. The instruments offered by the Remuneration Policy, the latest of which being the 2018-2020 Share Performance System, ensure both the application of the "pay for performance" principle and the successful alignment between the interests of shareholders and management, which has been central to our history of business successes to date.

3.15 Indemnity for early termination or non-renewal of office

The Board of Directors, at the proposal of the NRC, with the support of the HOHC, after consulting the Board of Statutory Auditors, may resolve to award to the Chief Executive Officer, as this is not an employee of the Company, an indemnity in

¹⁸ The target value of the long-term component was determined by multiplying the target price (EUR 16 psh) by the number of shares allocated. The cap value of the long-term component was determined by multiplying the cap price (EUR 21 psh) by 200% of the number of shares allocated.

the event of the early termination or non-renewal of the office subject to the following conditions:

- the amount of the indemnity, save for exceptional cases, cannot exceed the amount of the total fixed remuneration due assuming an unchanged relationship over a period of 24 months;
- the indemnity must be set in advance together with the total remuneration;
- the indemnity cannot be paid if the termination of the relationship is due to the achievement of objectively inadequate results, except for extraordinary events not attributable to the actions of the Chief Executive Officer;
- the corresponding resolution must be taken in line with the strategy, values and medium-long-term interests of the ERG Group¹⁹.

3.1.6 Termination indemnity

The Board of Directors, on proposal of the NRC, with the support of the HOHC, after consulting the Board of Statutory Auditors, may resolve to award to the Chief Executive Officer, who is not an employee of the Company, a termination indemnity subject to the following conditions:

- the amount of the indemnity, save for exceptional cases, cannot exceed 35% of the total fixed remuneration paid to the Chief Executive Officer during the mandate;
- the indemnity must be set in advance together with the total remuneration;
- the corresponding resolution must be taken in line with the strategy, values and medium-long-term interests of the ERG Group²⁰.

3.2 General Manager and other Executives with Strategic Responsibilities

The following parties are involved in defining the total remuneration of the General Manager and the other Executives with Strategic Responsibilities:

- the Board of Directors, at the proposal of the Chief Executive Officer, in conjunction with the Executive

Deputy Chairman and with the support of the HOHC, after consulting the NRC and the Board of Statutory Auditors²¹, decides on the remuneration of the General Manager.

- the Chief Executive Officer, in conjunction with the Executive Deputy Chairman and with the support of the HOHC, after consulting the NRC, decides on the remuneration to be awarded to other Executives with Strategic Responsibilities²²
- the Board of Directors, at the proposal of the Director in charge of the Internal Control and Risk Management System, after obtaining the favourable opinion of the CRC²³ and the support of the HOHC, after consulting the Board of Statutory Auditors, decides on the remuneration to be awarded to the Chief Audit Officer.

3.2.1 Remuneration

The remuneration paid to the General Manager and to other Executives with strategic responsibilities shall be such to attract, retain and motivate highly qualified individuals and is aimed at promoting their skills, in line with the contribution demanded by the position held, and at aligning their interests with the pursuit of the priority objective of the creation of sustainable value for the Shareholders over the medium/long-term.

The remuneration is divided into two components: fixed and variable. The variable remuneration is in turn divided into two components: monetary incentive and share incentive, linked to the achievement of specific, pre-determined performance targets, correlated to the creation of value, in the short term according to the rules of the MBO System and over the medium/long-term according to the principles of the 2018-2020 Performance Share System, respectively.

Fixed component

The amount of the fixed remuneration is in proportion to the commitment demanded of the beneficiaries to their offices and decided, with the advice of specialised

¹⁹ See paragraph 6.1.2 under "Termination of office or discontinuation of the employment relationship".

²⁰ See paragraph 6.2.2 under "Termination indemnity".

²¹ As the General Manager also holding the position of Manager responsible for preparing the company's financial reports.

²² With the exception of what is provided below for the Chief Audit Officer and the Manager responsible for preparing the company's financial reports.

²³ This being the body appointed by the Corporate Governance Code to monitor the independence, suitability, effectiveness and efficiency of the internal audit function.

consulting firms, based on a benchmark consisting of listed companies. The comparison is made considering, within the reference stock market, companies that are comparable in terms of type, size and complexity and by comparing individual roles.

The amount of the fixed component shall be sufficient to remunerate the services provided by the General Manager and other Executives with strategic responsibilities in the event that the variable component is not paid out due to a failure to achieve the performance targets.

Short-term variable component

The short-term variable component for the General Manager and other Executives with strategic responsibilities is linked to 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 objectives that do not depend on financial performance indicators. These objectives are formalised in the annual audit plan and are linked to the degree of efficiency and effectiveness of the audit activities. The target value is set taking into account external remuneration benchmarks specific to the role held and represents approximately 25% of the target total remuneration.

3.2.1.1 MBO System

The purpose of the MBO System is to encourage participants to achieve annual objectives.

The system provides for the allocation of structured performance objectives as a percentage of the target incentive amount assigned to each participant:

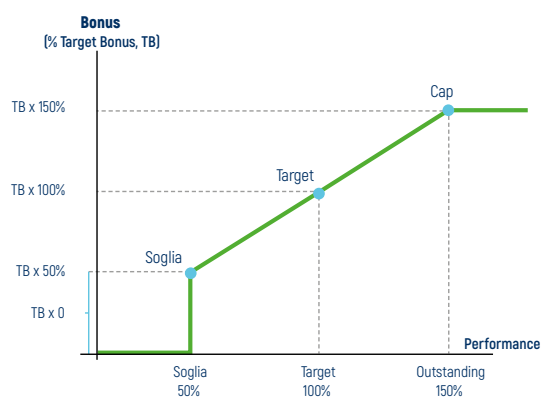
- 30% consolidated Group EBT²⁴: company target is the same for all participants
- 70%: individual targets (maximum of 4) measured according to quantitative indicators linked to economic/financial parameters (EBITDA, NFP, OpEx, ...), business development, organisational matters and/or specific projects.

The company target consolidated Group EBT (weight 30%), has variability between 0% and 150%, structured as follows:

- Indicator score <50% (threshold) no amount paid
- Indicator score =50% 50% of the target bonus is owed
- Indicator score ≥150% (outstanding) 150% of the target bonus is owed
- Indicator score 50%<->150% payment interpolated linearly.

The indicator value is defined in its target, threshold and outstanding values, with the favourable opinion of the Nominations and Remuneration Committee, which also approves the determination of the actual result achieved..

Model of variability of the company target



In line with the high level of attention always and constantly paid by the Group to workplace safety, the monetary payment linked to the company target (30%) is conditional on the achievement of the [Sustainability Clause](#). The entry gate condition provides that the variable remuneration referred to the company target will not be paid out, for the reference year, regardless of the company performances recorded, in the event that there is a fatal accident or an accident causing a level of permanent disability greater or equal to 46% involving a Group employee.

Individual targets (weight 70%), have variability between 0% and 120%, structured as follows:

- Indicator score <80% (threshold) no amount paid
- Indicator score =80% 80% of the target bonus is owed
- Indicator score ≥120% (outstanding) 120% of the target bonus is owed
- Indicator score 80%<->120% payment interpolated linearly

²⁴ Consolidated earnings before adjusted IAS taxes

The definition of objectives follows a cascading logic and as regards the General Manager and the other Executives with strategic responsibilities is determined by the Chief Executive Officer together with the indicator values in the Target, Threshold and Outstanding scenarios.

The MBO System also provides for the **clawback clause**, i.e. the right of the Company to demand the partial or total reimbursement of the MBO amount paid, or to withhold deferred amounts, within three years from its accrual, where this is found to have been based on data that were subsequently found to be clearly incorrect, or the result of manipulation or unlawful conduct.

Medium/long-term variable component

The medium/long-term variable component of the remuneration is structured in such a way as to align the interests of its beneficiaries with the pursuit of the priority objective of the company, the creation of sustainable value for the Shareholders over the medium/long-term.

The target value is set based on external remuneration benchmarks (for the long-term variable component of the remuneration) and the expected creation of value.

The General Manager and other Executives with strategic responsibilities take part in 2018-2020 Performance Share System, the operation of which is described in chapter 3.1.2.1.

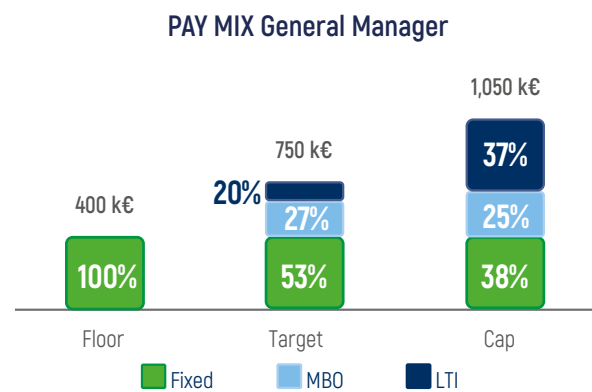
The composition of the Chief Audit Officer’s remuneration does not provide for his/her participation in the long-term incentive system.

3.2.2 Balancing of remuneration

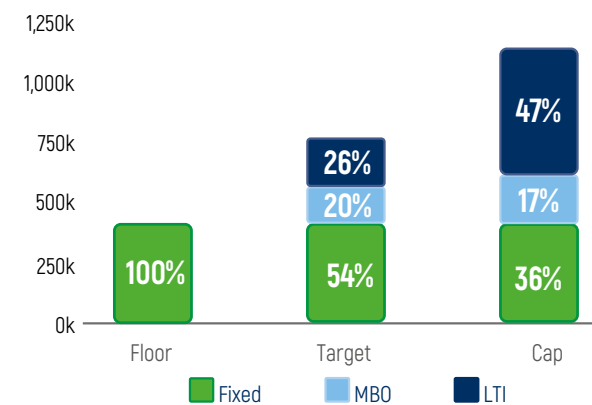
The balancing between the fixed and the variable remuneration components aims to align the interests of their beneficiaries with the medium/long-term strategic objectives of the Company, ensuring the creation of sustainable value for the shareholders in compliance with the ERG Group risk management policy.

The 2020 Remuneration Policy guidelines define a pay mix in line with the managerial position held, as can be

seen in the pay-mix charts below, divided between the General Manager and other Executives with strategic responsibilities, calculated taking into consideration the annualised valuation of the long-term incentives in the event of on-target results, at the minimum and maximum as specified by the 2018-2020 Performance Share System previously described²⁵.



PAY MIX other Executives with Strategic responsibilities



The weight of the total variable component, made up of the short-term incentive²⁵ (MBO) and the long-term incentive²³ (2018-2020 Performance Share System) for the remuneration of other Executives with strategic responsibilities, on an annual basis, may vary between 45% and 50% of the target total remuneration depending

²⁵ The target value of the long-term component was determined by multiplying the target price (EUR 16 psh) by the number of shares allocated. The cap value of the long-term component was determined by multiplying the cap price (EUR 21 psh) by 200% of the number of shares allocated.

on the strategic relevance of the role for the purposes of achieving the 2018-2022 Business Plan.

3.2.3 Non-monetary benefits and other compensation

The Board of Directors, at the proposal of the Chief Executive Officer, in conjunction with the Executive Deputy Chairman, with the support of the HOHC, after consulting the NRC and the Board of Statutory Auditors, may choose to award non-monetary benefits to the General Manager²⁶, which will not be withheld from the remuneration.

The Chief Executive Officer, in conjunction with the Executive Deputy Chairman, with the support of the HOHC, and after consulting the NRC, may decide on the awarding of non-monetary benefits to other Executives with strategic responsibilities, which will not be withheld from the remuneration.

The Board of Directors, on the proposal of the Director in charge of the Internal Control and Risk Management System, with the favourable opinion of the CRC and the support of the HOHC, after consulting the Board of Statutory Auditors²⁶, may choose to award non-monetary benefits to the Chief Audit Officer, which will not be withheld from the remuneration.

The system of benefits is defined by corporate policies, in line with legal provisions and those of the current National Collective Labour Agreement, and completes and enhances the total remuneration package. The system of benefits is determined by taking into consideration the complexity of the roles and responsibilities assigned. Benefits include pensions (PREVINDAI fund) and social security benefits (FASI fund and supplementary health insurance) as well as insurance against accident, disability and death. Provisions are also made for the allocation of company cars for mixed use or housing.

It should be noted that **no non-recurring remuneration is expected to be paid**. The instruments offered by the Remuneration Policy, the latest of which being the

2018-2020 Share Performance System, ensure both the application of the "pay for performance" principle and the successful alignment between the interests of shareholders and management.

3.2.4 Termination of office or discontinuation of the employment relationship

The conditions of the national collective agreement for industrial managers of companies producing goods and services shall apply to the Executives with strategic responsibilities²⁷, as these are employees of the company, in the event of termination of employment for justified reason or just cause.

In compliance with Italian legal provisions – Article 2120 of the Italian Civil Code – Executives with strategic responsibilities whose employment ends for any reason will receive an employee severance indemnity, which is on average equal to 7% of their gross annual remuneration. The payment of the employee severance indemnity is not conditional upon the achievement of a minimum performance.

3.3 Incentive plans based on financial instruments

Reference is made to chapter 3.1.2.1.

3.4 Board of Statutory Auditors

The Shareholders' Meeting, on the occasion of the appointment of the Board of Statutory Auditors, is called upon to decide, at the proposal of the shareholders, on the awarding of a fixed annual salary to the Statutory Auditors for the entire period of duration of their term of office.

The Board of Directors recommends that salary is consistent with the professional commitment required by the office, as well as with the related responsibilities, and that the salary proposals be presented by the Shareholders (where appropriate, also pursuant to Article 126-bis of the Consolidated Finance Act) 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.

²⁶ As the Manager responsible for preparing the company's financial reports.

²⁷ General Manager, Chief Audit Officer and other Executives with Strategic Responsibilities.

It should be mentioned in this regard that the reference shareholder had, starting from 2013, already submitted proposals in line with this recommendation, which were therefore disclosed to the public with a suitable advance with respect to the Shareholders' Meeting called to approve them.

4. DEROGATION PROCEDURE

An adequate remuneration policy that favours the alignment of the interests of management with those of shareholders is essential in order to ensure the pursuit of long-term objectives and the sustainability of the Company as a whole, ensuring its ability to stay on the market.

In exceptional cases, the Board of Directors may deem it necessary to derogate temporarily from this Policy in order to ensure the achievement of the essential strategic outcomes set out in the 2018-2022 Business Plan and with it the alignment of management with the interests of shareholders. Such exceptional circumstances include, for example, the replacement of an Executive with strategic responsibilities during the reference financial year, or - during the course of the mandate - the Chief

Executive Officer. The element from which the Company may decide to derogate, in the presence of the above exceptional circumstances, relates to the mix of the fixed and variable component (short-term and long-term) of the remuneration, since the 2018-2020 Performance Share System does not allow new beneficiaries to be added until expiry. In particular, the variable incentive should be paid through the MBO System, taking into consideration the beneficiary's importance in achieving the essential strategic outcomes set out in the 2018-2022 Business Plan. The amount of the target total remuneration will be determined on the basis of the same process defined in the 2020 Policy.

In the event that the requirements are met, the temporary derogation from the 2020 Policy will have to be approved by the Board of Directors, at the proposal of the NRC, with the support of the HOHC, having consulted the Board of Statutory Auditors.

Any such decisions should be taken in compliance with the procedure for Related-Party Transactions and must be disclosed to the market, within the meaning of law and of the Procedure itself.

SECTION II: 2019 COMPENSATION AND REMUNERATION

5. PAY FOR PERFORMANCE

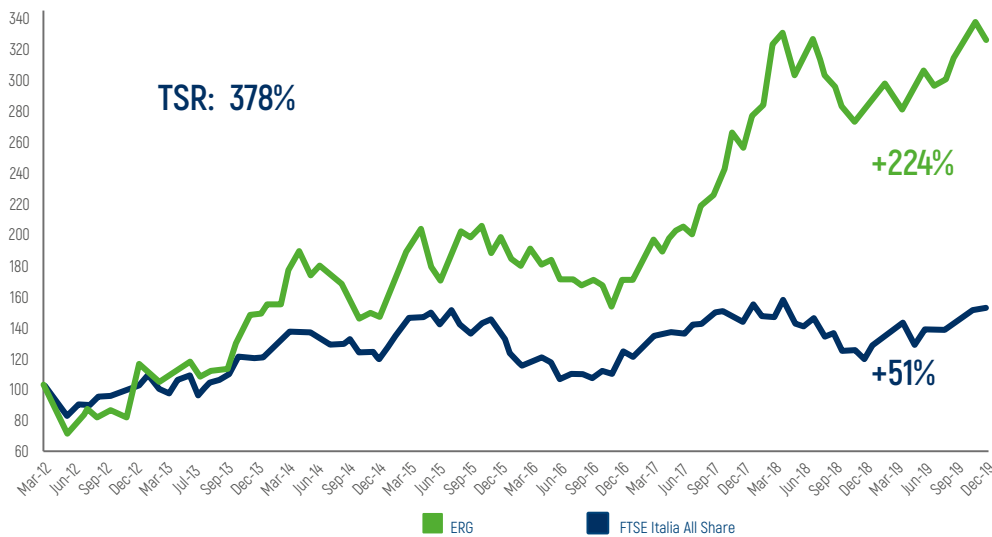
In the last few years, the ERG Group has been able to radically modify its business portfolio, anticipating long-term energy trends and completing its transformation from industrial operator in the refining sector to leading independent producer of electricity mainly from renewable sources.

The transformation process - started in 2008 with the sale of a 49% stake in the ISAB refinery in Sicily - and the gradual repositioning of the Group in more profitable activities, less exposed to market volatility, has resulted in a strong creation of value for the Company and for the Shareholders and was made possible only by completing the following M&A transactions:

- **Gradual exit from refining:** started in 2008 and completed in 2013, with the sale of the last 20% stake.
- **Acquisition of IP Maestrane Investments:** in February 2013, ERG Renew acquired an 80% stake in IP Maestrane Investments Ltd., therefore increasing its installed power by 636 MW, of which 550 MW in Italy and 86 MW in Germany, and becoming the leading producer of wind power in Italy and one of the top ten in Europe. ERG Renew has thus reached an industrial and financial size that will allow it to independently pursue its growth strategy.
- **Sale of ISAB Energy IGCC plant:** in June 2014, ERG sold to ISAB (Lukoil) the ISAB Energy and ISAB Energy Services business units, mainly consisting of the IGCC generation plant. The transaction, in line with the definitive exit from the refining sector, represents an additional important step forward in the strategy of repositioning of the asset portfolio and has at the same time strengthened the capital structure of the Group also in support of future development plans.
- **Acquisition of E. ON Produzione entire hydroelectric business:** in November 2015, ERG entered the hydroelectric sector with an important investment, acquiring an integrated hub of power plants located in the Umbria, Marche and Lazio regions, with annual total capacity of 527 MW. This acquisition, of great strategic importance for the Group, has allowed it to diversify its production sources, taking an important role in the Italian renewable energy sector and providing the ERG Group with new high-quality assets.
- **Exit from the Downstream sector** through the sale of the shareholding in TotalErg S.p.A. in January 2018, ERG completed the sale to the API Group of 2,600 service stations, the Rome logistical hub and the stake held in the Trecate refinery. This transaction, which required more than a year of intense and complex activity, allowed ERG on one hand to maximise the value of its equity investment in the downstream sector and on the other to further strengthen the financial capacity to continue to pursue its growth strategy in the renewable energy sector.
- **Entry in the Solar Business:** in January 2018, ERG acquired from VEI Green S.r.l. an 89 MW solar energy platform with different plants located in eight regions between the north and the south of Italy. With this transaction, ERG has taken an additional step in its technology diversification strategy and has been able to expand and optimise its Energy Management portfolio with high-quality plants. The diversification into solar has continued and in February 2019 ERG acquired from Soles Montalto GmbH 78.5% of Andromeda PV S.r.l., a company that operates two solar energy plants with an installed capacity of 51.4 MW. With this acquisition, ERG has become one of the top five solar energy producers in Italy, with more than 140 MW of installed power, reaching the plan targets ahead of schedule with high-quality assets.

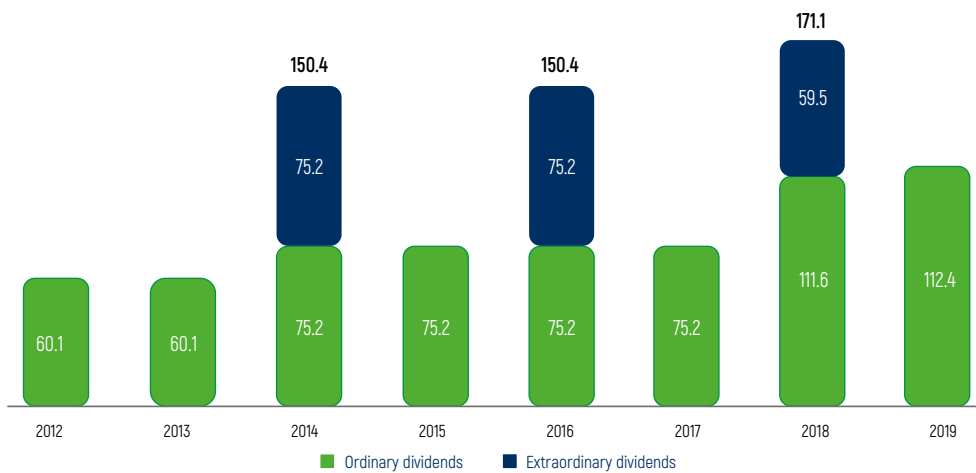
In the period between April 2012 and December 2019, the performance of the share price and the dividend distribution policy ensured an outstanding creation of value for the shareholders, thanks to the growth strategy adopted by the ERG Group and the M&A transactions that made it possible.

Performance ERG Share vs FTSE Italia All Share from January 2015 to December 2019



In the same period (2012-2019), the Company distributed to its Shareholders dividends for a total of EUR 854.6 million.

Dividendi distribuiti negli anni 2012-2019 €mn



6. IMPLEMENTATION OF THE 2019 REMUNERATION POLICY

The remuneration policy implemented by the Company in 2019, with particular regard to the members of the Board of Directors, the General Manager and other Executives with strategic responsibilities, was consistent with the 2019 Remuneration Policy, which was approved by the Board of Directors on 6 March 2019 and received the favourable vote of the Shareholders' Meeting held on 17 April 2019.

The different remuneration packages awarded in 2019 are described below.

6.1 Board of Directors

6.1.1 Remuneration

The Shareholders' Meeting of 17 April 2019, at the proposal of the Shareholder Polcevera S.A. pursuant to Article 126-*bis* of the Consolidated Finance Act, approved the allocation of a **fixed annual compensation**, pro rata temporis²⁸, of EUR 70,000 to all members of the Board of Directors.

The Shareholders' Meeting, at the proposal of the Shareholder Polcevera S.A. pursuant to Article 126-*bis* of the Consolidated Finance Act, also resolved to assign an additional **fixed annual compensation**, pro rata temporis²⁸, to the independent directors called upon to sit on the NRC (EUR 35,000) and the CRC (EUR 45,000).

These proposals, according to the statement made by the Shareholder Polcevera S.A., were made in line with the professional commitment demanded by the positions and the related responsibilities.

6.1.2 Remuneration

Fixed component

On 14 May 2019, the Board of Directors, at the proposal of the NRC and after consulting the Board of Statutory Auditors, awarded fixed remuneration pro rata temporis³⁴ to the Executive Directors or Directors holding special positions, as follows:

- Chairman (Edoardo Garrone) EUR 790,000

- Executive Deputy Chairman (Alessandro Garrone) EUR 1,130,000
- Deputy Chairman (Giovanni Mondini) EUR 290,000
- Chief Executive Officer (Luca Bettonte), for each year of duration of the mandate, EUR 1,430,000
- Directors sitting on the Strategic Committee who are not employees of the Group and do not hold positions in the Board of Directors (Elisabetta Oliveri and Marco Costaguta) EUR 60,000.

Variable component

On 14 May 2018, the Board of Directors, at the proposal of the NRC, after consulting the Board of Statutory Auditors, awarded the long-term incentive, regulated by the rules of the 2018-2020 Performance Share System, to the Chief Executive Officer, in the measure of 182,000 Shares for three years, and to the Executive Deputy Chairman, in the measure of 67,000 Shares for three years.

Quantification of Remuneration

The size of these remunerations at target level was proportional to the commitment demanded of the beneficiaries for the purpose of their offices, and was decided, with the support of The European House Ambrosetti, making use of a benchmark based on a sample of Italian companies, comparable in terms of market capitalisation and ownership structure to ERG and where the Chief Executive Officer does not usually coincide with the reference shareholder.

Non-monetary benefits

For the Directors who have chosen to exercise the right to receive certain non-monetary benefits (such as insurance policies, health insurance and life insurance), the amount of the benefits in question was withheld from the annual compensation approved by the Shareholders' Meeting.

For the Executive Directors or Directors holding special positions who made use of certain benefits such as a car and housing, the amount of these benefits was not withheld from the fixed component.

²⁸ A valere sino alla data dell'Assemblea convocata per l'approvazione del Bilancio di Esercizio al 31 dicembre 2019.

Termination of office or discontinuation of the employment relationship

The Board of Directors' Meeting held on 14 May 2018, at the proposal of the NRC²⁹ and having consulted the Board of Statutory Auditors, in full compliance with the values and the medium/long-term interests of the ERG Group, recognised for the Chief Executive Officer the right to receive compensation for termination of office of EUR 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 indemnity shall not be due when the termination, dismissal or non-renewal result from just cause.

The indemnity for the termination of office will not be paid if the termination of the employment is due to the achievement of results less than 1/3 of the target set in the 2018-2020 Performance Share System, except for extraordinary events not due to the actions of the Chief Executive Officer.

There are no additional agreements providing for an indemnity to the Executive Directors in the event of termination of office or discontinuation of the employment relationship.

Termination indemnity

On 14 May 2018, the Board of Directors, at the proposal of the NRC, 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 EUR 525,000 per year.

Upon the dissolution of the Board of Directors at the end of the three-year period, the termination indemnity recorded at the end of that period, unless otherwise agreed by the parties, will not be paid in the case of immediate reconfirmation and acceptance of a mandate in the subsequent new Board of Directors, under the same

conditions and with the same powers. This termination indemnity amount, which is revalued on an annual basis in accordance with ISTAT indices, will be kept aside by the Company, and paid at the next mandate termination date.

6.2 General Manager and other Executives with Strategic Responsibilities

On 2 August 2019, the Board of Directors appointed Paolo Luigi Merli as General Manager with the title "Corporate General Manager & CFO", maintaining the role of Manager Responsible for preparing the Company's financial reports.

Fixed component

In compliance with the 2019 Policy, the fixed remuneration of the General Manager was resolved upon by the Board of Directors on 31 October 2019, at the proposal of the Chief Executive Officer, in conjunction with the Executive Deputy Chairman and with the support of the HOHC, after consulting the NRC and the Board of Statutory Auditors, in the amount of EUR 400,000.

The fixed remuneration of the other Executives with strategic responsibilities was defined by the Chief Executive Officer, in conjunction with the Executive Deputy Chairman and with the support of the HOHC, in compliance with the 2019 Policy, based on market remuneration surveys provided by specialised companies.

For the Chief Audit Officer, the fixed component, as well as the variable one, was set by the Board of Directors on 14 May 2019, at the proposal of the Director in charge of the Internal Control and Risk Management System, after obtaining the favourable opinion of the CRC and with the support of the HOHC, after having consulted the Board of Statutory Auditors.

Variable component In compliance with the 2019 Policy, the variable component of the General Manager's salary was resolved upon by the Board of Directors, and broken down as follows:

- short-term (MBO), on an annual basis, equal to EUR 200,000.
- medium/long-term (2018/2020 Performance Share

²⁹ Also taking into account the Procedure for Related-Party Transactions.

System) 28,000 Shares for three years, allocation defined by the Board of Directors on 14 May 2018.

The variable component of the remuneration for other Executives with strategic responsibilities, which includes the short-term (MBO) and the medium/long-term (2018/2020 Performance Share System) incentive³⁰, was defined by the Chief Executive Officer, in conjunction with the Executive Deputy Chairman, with the support of the HOHC, after consulting the NRC, in compliance with the 2019 Policy.

For the purposes of the payment of the annual incentives for 2019, the final figures relevant to the 2019 EBT target were discussed on 5 March 2020 with the NRC, leading to the calculation of earnings equal to EUR 144 million, which in the measurement scale used represents 100% of the EUR 144 million target value.

	Sustainability clause	Company Target
Definition	Accident indicator	EBT
Budget value	<46% disability	EUR 144 million
Actual value	≤ 3%	EUR 144 million
Payment	ON	100%

On 14 May 2018, the Board of Directors, at the proposal of the NRC, after consulting the Board of Statutory Auditors, resolved to assign to the Executives with strategic responsibilities a long-term incentive, regulated by the 2018-2020 Performance Share System, equal to 37,000 shares over three years.

Note that the Chief Audit Officer does not receive the Long-Term variable remuneration. The objectives relative to the short-term variable component assigned are linked to financial performance indicators.

Quantification of Remuneration

The size of these remunerations at target value was in

proportion to the commitment demanded of each of the beneficiaries for the purpose of their offices, and was defined, making use of the Korn Ferry Executive Italy Survey, through a benchmark based on a market that includes the top management and those reporting directly to the top management of listed and/or independent companies operating on the Italian market. The panel consists of 232 companies out of a sample of 1,100 top executives.

The remuneration of the General Manager was determined on the basis of a benchmark on specific roles based on a sample of 33 companies that operate on the Italian market in non-financial markets.

Non-monetary benefits

In 2019, the Executives with strategic responsibilities received certain non-monetary benefits such as healthcare, insurance for the risk of death and disability, and company car for mixed use.

Termination of office or discontinuation of the employment relationship

In 2019, no indemnity was paid out for the termination of office or discontinuation of the employment relationship.

6.3 Incentive plans based on financial instruments

Consistently with the 2019 Policy, the 2018-2020 Performance Share System based on financial instruments was adopted. This System is therefore regulated by Article 114-*bis* of the Consolidated Finance Act.

6.4 Board of Statutory Auditors

On 17 April 2019, the Shareholders' Meeting, at the proposal of the shareholder San Quirico S.p.A., awarded an annual remuneration of EUR 60,000 for the Chairman of the Board of Statutory Auditors and EUR 40,000 for each of the other two Standing Auditors, valid until the date of the Shareholders' Meeting called to approve the Financial Statements as at 31 December 2019.

³⁰ The Chief Audit Officer does not take part in the 2018-2020 Performance Share System. His compensation package depends, among other things, on the execution of the annual audit plan.

7. COMPENSATION PAID IN 2019

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

Table 1. Fees paid to the members of the Board of Directors, general managers and other executives with strategic responsibilities

(A)	(B)	(C)	(D)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)		
Name and surname	Office	Period for which office was held	Termination of office	Fixed fees	Fees for participation in committees	Variable non-equity fees Bonus and other incentives	Non-mone- tary benefits	Other fees	Total	Fair Value of equity fees*	Severance indemnities for end of office or termination of employment		
Edoardo Garrone	Chairman	01.01.2019-31.12.2019	04.2021										
				(i) Fees in the company preparing the financial statements (ERG S.p.A.)	846,478	-	-	-	13,522	-	860,000	-	-
				(ii) Fees from subsidiaries and associated companies	-	-	-	-	-	-	-	-	-
				(iii) Total	846,478	-	-	-	13,522	-	860,000	-	-
Alessandro Garrone	Executive Deputy Chairman	01.01.2019-31.12.2019	04.2021										
				(i) Fees in the company preparing the financial statements (ERG S.p.A.)	1,186,600	-	-	-	16,716	-	1,203,316	432,628	-
				(ii) Fees from subsidiaries and associated companies	-	-	-	-	-	-	-	-	-
				(iii) Total	1,186,600	-	-	-	16,716	-	1,203,316	432,628	-
Giovanni Mondini	Deputy Chairman	01.01.2019-31.12.2019	04.2021										
				(i) Fees in the company preparing the financial statements (ERG S.p.A.)	348,231	-	-	-	15,590	-	363,821	-	-
				(ii) Fees from subsidiaries and associated companies	-	-	-	-	-	-	-	-	-
				(iii) Total	348,231	-	-	-	15,590	-	363,821	-	-
Luca Bettonte	Amministr. Delegato	01.01.2019-31.12.2019	04.2021										
				(i) Fees in the company preparing the financial statements (ERG S.p.A.)	1,488,162	-	-	-	33,736	-	1,521,899	1,175,198	525,000 ⁽¹⁾
				(ii) Fees from subsidiaries and associated companies	-	-	-	-	-	-	-	-	-
				(iii) Total	1,488,162	-	-	-	33,736	-	1,521,899	1,175,198	525,000
Massimo Belcredi	Chief Executive Officer	01.01.2019-31.12.2019	04.2021										
				(i) Fees in the company preparing the financial statements (ERG S.p.A.)	65,010	45,000 ⁽²⁾	-	-	4,990	-	115,000	-	-
				(ii) Fees from subsidiaries and associated companies	-	-	-	-	-	-	-	-	-
				(iii) Total	65,010	45,000	-	-	4,990	-	115,000	-	-
Mara Anna Rita Caverni	Director	01.01.2019-31.12.2019	04.2021										
				(i) Fees in the company preparing the financial statements (ERG S.p.A.)	70,000	45,000 ⁽³⁾	-	-	-	-	115,000	-	-
				(ii) Fees from subsidiaries and associated companies	-	-	-	-	-	-	-	-	-
				(iii) Total	70,000	45,000	-	-	-	-	115,000	-	-
Barbara Cominelli	Director	01.01.2019-31.12.2019	04.2021										
				(i) Fees in the company preparing the financial statements (ERG S.p.A.)	70,000	35,000 ⁽⁴⁾	-	-	-	-	105,000	-	-
				(ii) Fees from subsidiaries and associated companies	-	-	-	-	-	-	-	-	-
				(iii) Total	70,000	35,000	-	-	-	-	105,000	-	-

(A)	(B)	(C)	(D)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)		
Name and surname	Office	Period for which office was held	Termination of office	Fixed fees	Fees for participation in committees	Variable non-equity fees Bonus and other incentives	Non-mone- tary benefits	Other fees	Total	Fair Value of equity fees*	Severance indemnities for end of office or termination of employment		
Marco Costaguta	Director	01.01.2019-31.12.2019	04.2021										
				(i) Fees in the company preparing the financial statements (ERG S.p.A.)	70,000	60,000 ⁽⁶⁾	-	-	-	-	130,000	-	-
				(ii) Fees from subsidiaries and associated companies	-	-	-	-	-	-	-	-	-
				(iii) Total	70,000	60,000	-	-	-	-	130,000	-	-
Paolo Francesco Lanzoni	Director	01.01.2019-31.12.2019	04.2021										
				(i) Fees in the company preparing the financial statements (ERG S.p.A.)	65,010	35,000 ⁽⁶⁾	-	-	4,990	-	105,000	-	-
				(ii) Fees from subsidiaries and associated companies	-	30,000 ⁽⁷⁾	-	-	-	-	30,000	-	-
				(iii) Total	65,010	65,000	-	-	-	-	135,000	-	-
Silvia Merlo	Director	01.01.2019-31.12.2019	04.2021										
				(i) Fees in the company preparing the financial statements (ERG S.p.A.)	70,000	35,000 ⁽⁶⁾	-	-	-	-	105,000	-	-
				(ii) Fees from subsidiaries and associated companies	-	-	-	-	-	-	-	-	-
				(iii) Total	70,000	35,000	-	-	-	-	105,000	-	-
Elisabetta Oliveri	Director	01.01.2019-31.12.2019	04.2021										
				(i) Fees in the company preparing the financial statements (ERG S.p.A.)	70,000	105,000 ⁽⁶⁾	-	-	-	-	175,000	-	-
				(ii) Fees from subsidiaries and associated companies	-	-	-	-	-	-	-	-	-
				(iii) Total	70,000	105,000	-	-	-	-	175,000	-	-
Mario Paterlini	Director	01.01.2019-31.12.2019	04.2021										
				(i) Fees in the company preparing the financial statements (ERG S.p.A.)	70,000	-	-	-	-	-	70,000	-	-
				(ii) Fees from subsidiaries and associated companies	-	-	-	-	-	-	-	-	-
				(iii) Total	70,000	-	-	-	-	-	70,000	-	-
Elena Spagnol	Chairman Board of Statutory Auditors	01.01.2019-31.12.2019	04.2022										
				(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	-	-
Lelio Fornabaio	Standing Auditor	01.01.2018-31.12.2018	04.2022										
				(i) Fees in the company preparing the financial statements (ERG S.p.A.)	40,000	30,000 ⁽¹⁰⁾	-	-	-	-	70,000	-	-
				(ii) Fees from subsidiaries and associated companies	24,000 ⁽¹¹⁾	-	-	-	-	-	24,000	-	-
				(iii) Total	64,000	30,000	-	-	-	-	94,000	-	-
Fabrizio Cavalli	Standing Auditor	01.01.2019-31.12.2019	04.2022										
				(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	-	-
Stefano Remondini	Standing Auditor	01.01.2018-31.12.2018	04.2019										
				(i) Fees in the company preparing the financial statements (ERG S.p.A.)	13,333	-	-	-	-	-	13,333	-	-
				(ii) Fees from subsidiaries and associated companies	-	-	-	-	-	-	-	-	-
				(iii) Total	13,333	-	-	-	-	-	13,333	-	-

(A)	(B)	(C)	(D)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Name and surname	Office	Period for which office was held	Termination of office	Fixed fees	Fees for participation in committees	Variable non-equity fees Bonus and other incentives	Non-mone- tary benefits	Other fees	Total	Fair Value of equity fees*	Severance indemnities for end of office or termination of employment	
Palo Luigi Merli	General Manager											
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				321,429	-	200,00 ⁽¹²⁾	-	7,841	-	529,269	180,800	-
(II) Fees from subsidiaries and associated companies				-	-	-	-	-	-	-	-	-
(III) Total				321,429	-	200,00	-	7,841	-	529,269	180,800	-
Executives with strategic responsibilities⁽¹³⁾	Directors in subsidiaries and division managers											
(I) Fees in the company preparing the financial statements (ERG S.p.A.)				530,000	-	190,000 ⁽¹⁴⁾	-	16,950	-	736,950	238,914	-
(II) Fees from subsidiaries and associated companies				-	-	-	-	-	-	-	-	-
(III) Total				530,000	-	190,000	-	16,950	-	736,950	238,914	-

Note Table 1

- (1) Portion accrued in the year of the termination indemnity, which will accrue according to the duration of the office. For further details see paragraph 6.1.2 under "Termination indemnity"
- (2) Fee as Member of the Control and Risk Committee
- (3) Fee as Chairman of the Control and Risk Committee
- (4) Fee as Member of the Nominations and Remuneration Committee
- (5) Fee as Member of the Strategic Committee
- (6) Fee as Member of the Nominations and Remuneration Committee
- (7) Fee as Chairman of the Supervisory Committee of ERG Power Generation S.p.A.
- (8) Fee as Chairman of the Nominations and Remuneration Committee
- (9) Fee as Member of the Control and Risk Committee and Member of the Strategic Committee
- (10) Fee as Chairman of the Supervisory Committee of ERG S.p.A.
- (11) Fee as Chairman of the Board of Statutory Auditors in ERG Power Generation S.p.A. and ERG Hydro S.r.l.
- (12) Short-term variable component - MBO
- (13) Includes two Executives with Strategic Responsibilities
- (14) Short-term variable component - MBO

* Annual portion of Fair value at the assignment date indicated in the financial statements (column 5 table 3A)

8. MONETARY INCENTIVE PLANS

Table 3B: Monetary incentive plans for members of the board of directors, general managers and other executives with strategic responsibilities

(A)	(B)	(1)	(2)			(3)			(4)
			Bonus for the year			Bonus for previous years			Other Bonuses
Name and surname	Office	Plan	(A) Payable/Paid	(B) Deferred	(C) Deferment period	(A) No longer payable	(B) ayable/ Paid	(C) Still deferred	
(I) Fees in the company preparing the financial statements									
Paolo Luigi Merli	General Manager	MBO System	200,000	-	2019 ⁽¹⁾	-	-	-	-
Executives with strategic responsibilities	Directors in subsidiaries and division managers	MBO System	190,000	-	2019 ⁽¹⁾	-	-	-	-
(I) Total			390,000	-		-	-	-	-

No fees from subsidiaries and associated companies are provided for

Notes Table 3B

(1) Variable component of the remuneration accrued in 2019 related to the MBO System, which will be paid out in May 2020.

9. SHARE INCENTIVE PLANS

Table 3A: Incentive plans based on financial instruments, other than stock options, for members of the Board of Directors, general managers and other executives with strategic responsibilities

(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Name Surname	Office	Plan	Financial instruments assigned in previous years not vested during the year		Financial instruments assigned during the year					Financial instruments vested during the year and not assigned	Financial instruments vested during the year and assigned		Financial instruments accrued during the year
			No. and Type	Vesting period	No. and Type	Fair value at allocation date	Vesting Period	Assignment date	Market price on assignment	No. and Type	No. and Type	Value at vesting date	Fair Value
Alessandro Garrone	Executive Deputy Chairman	Performance Share 2018-2020 BoD 14/05/2018	n.a.	n.a.	67,000	1,297,884	three years	21/05/2018	18.4551	n.a.	n.a.	n.a.	432,628
Luca Bettonte	Chief Executive Officer	Performance Share 2018-2020 BoD 14/05/2018	n.a.	n.a.	182,000	3,525,595	three years	21/05/2018	18.4551	n.a.	n.a.	n.a.	1,175,198
Paolo Luigi Merli	General Manager	Performance Share 2018-2020 BoD 14/05/2018	n.a.	n.a.	28,000	542,399	three years	21/05/2018	18.4551	n.a.	n.a.	n.a.	180,800
Executives with strategic responsibilities	Nr. 1	Performance Share 2018-2020 BoD 14/05/2018	n.a.	n.a.	37,000	716,742	three years	21/05/2018	18.4551	n.a.	n.a.	n.a.	238,914
Other Executives⁽¹⁾	Nr. 4	Performance Share 2018-2020 BoD 14/05/2018	n.a.	n.a.	56,000	1,084,799	three years	21/05/2018	18.4551	n.a.	n.a.	n.a.	361,600

Notes Table 3A

- (1) Note that within the meaning of the Plan Regulations, on 28 February 2019 the Nominations and Remuneration Committee resolved upon the participation of a new beneficiary, allocating 6,000 shares, and that in 2019, as a result of voluntary resignation, one participant was removed from the incentive system, thereby losing all rights to participation in the 2018-2020 Performance Share System (21,000 shares).

10. COMPENSATION PLANS BASED ON FINANCIAL INSTRUMENTS

Table 1 of scheme 7 of Annex 3A, Regulation No. 11971/1999

With regard to the Performance Share System approved by the Ordinary Shareholders' Meeting on 23 April 2018, to the conditions and explanatory purpose of the information document, made available to the public on the website of the Company (www.erg.eu), the following table provides, pursuant to Article 84-*bis* (Annex 3, Table 3A) of the CONSOB Issuers' Regulations, details of the instruments awarded under the system.

BOX 1 FINANCIAL INSTRUMENTS OTHER THAN STOCK OPTIONS SECTION 2								
Newly awarded instruments based on the decision of the body responsible for the implementation of Shareholders' resolution								
Name and surname or Category	Office	Date of Shareholders' resolution	Type of financial instruments	No. financial instruments	Award date	Purchase price of instruments, if any	Market price on award	Vesting period
Alessandro Garrone	Executive Deputy Chairman	23/04/2018	Shares	67,000	21/05/2018	Treasury Shares	18.4551	3 years
Luca Bettonte	Chief Executive Officer	23/04/2018	Shares	182,000	21/05/2018	Treasury Shares	18.4551	3 years
Paolo Luigi Merli	General Manager	23/04/2018	Shares	28,000	21/05/2018	Treasury Shares	18.4551	3 years
Executives with strategic responsibilities	No. 1	23/04/2018	Shares	37,000	21/05/2018	Treasury Shares	18.4551	3 years
Other Executives⁽¹⁾	No. 4	23/04/2018	Shares	56,000	21/05/2018	Treasury Shares	18.4551	3 years

Notes to the Table

(1) Note that within the meaning of the Plan Regulations, on 28 February 2019 the Nominations and Remuneration Committee resolved upon the participation of a new beneficiary, allocating 6,000 shares, and that in 2019, as a result of voluntary resignation, one participant was removed from the incentive system, thereby losing all rights to participation in the 2018-2020 Performance Share System (21,000 shares).

11. EQUITY INVESTMENTS HELD IN 2019

Table 7-*ter*: Table with information on the equity investments of members of the board of directors and statutory auditors, 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.	45,000	-	5,000	40,000
Elisabetta Oliveri⁽¹⁾	Director	ERG S.p.A.	1,000	-	-	1,000
Paolo Luigi Merli⁽¹⁾	General Manager	ERG S.p.A.	20,000	20,000	-	40,080 ⁽²⁾
Executives with strategic responsibilities⁽¹⁾	-	ERG S.p.A.	-	-	-	160 ⁽³⁾

(1) Direct shareholders - holding title: ownership.

(2) 80 shares subject to free assignment on 14/01/2019.

(3) 80 shares subject to free assignment on 14/01/2019 for each Executive with strategic responsibilities (2).

GLOSSARY

In addition to the definitions provided in other articles, capitalised terms and expressions used in the Report have the meaning assigned to them below. Note that in any case the same meaning applies both to the singular and to the plural:

CEO: Chief Executive Officer.

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

Shares or ERG Share: ordinary ERG shares, listed on the MTA.

Allocated Shares: the conditional rights object of the Performance Share System, free of charge and not transferable inter vivos, each of which gives the Beneficiaries the right to be assigned free of charge 1 (one) Share under the terms and conditions specified by the Performance Share System Regulations.

Assigned Shares: the number of Shares calculated pursuant to the regulations of the Performance Share System and actually assigned.

CAO: Chief Audit Officer.

CRC: Control and Risk Committee; board committee consisting of 3 non-executive directors, mostly independent, appointed by the Board of Directors at the meeting held on 24 April 2015.

Committee or NRC: Nominations and Remuneration Committee; board committee consisting of 3 non-executive directors, mostly independent, appointed by the Board of Directors at the meeting held on 24 April 2015.

Corporate Governance Code: the current Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A., in the version published in July 2015, which the Board of Directors resolved to adopt on 15 December 2015.

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

Board of Directors or BoD: the Board of Directors of ERG S.p.A.

Corporate General Manager & CFO or GM: General Manager with the title "Corporate General Manager & CFO" appointed by the Board of Directors on 2 August 2019.

Executives with Strategic Responsibilities: persons who hold the functions/offices indicated in Annex 1 to the current ERG Group Procedure for Related-Party Transactions (with the exception of the members of the Board of Directors and the Board of Statutory Auditors of ERG S.p.A.), available on the website of the Company (www.erg.eu) in the section "corporate governance/governance documents".

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

EBT: Consolidated earnings before adjusted IAS taxes net of financial income (expense).

Target EBITDA: economic performance condition of the 2018-2020 LTI System, consisting of a predefined percentage of the Group EBITDA cumulated over the 2018-2020 period, inclusive of the amortisation, depreciation and write-downs, financial charges and proceeds and taxes.

HOHC: Head of Human Capital & ICT.

MTA: the screen-based stock exchange organised and managed by Borsa Italiana S.p.A. on which the Shares are listed.

Performance Share: Shares assigned free of charge upon achievement of a predetermined minimum performance level.

2018-2022 Business Plan or Business Plan: Business Plan announced to the Market on 8 March 2018.

Policy or Remuneration Policy: the Policy setting the remuneration of the members of the Board of Directors and the Executives with strategic responsibilities.

2019 Remuneration Policy or 2019 Policy: the Policy adopted by ERG setting the remuneration of the members of the Board of Directors and the Executives with strategic responsibilities with regard to 2018.

2020 Remuneration Policy or 2020 Policy: the Policy adopted by ERG setting the remuneration of the members of the Board of Directors and the Executives with strategic responsibilities with regard to 2020.

Procedure: Procedure regulating Related-Party Transactions, adopted by the Board of Directors on 11 November 2010, after favourable opinion of the Control and Risk Committee, after hearing the Board of Statutory Auditors – most recently updated on 1 January 2017.

Cap Price: the ERG Share price which defines the maximum number of Shares to be assigned.

Outstanding Price: market performance condition of the 2018-2020 LTI System, consisting of the ERG Share price above which a pre-specified number of additional shares will be assigned, provided that the Target EBITDA has also been achieved.

Target Price: the reference price of the ERG Share necessary for the definition of the number of Shares to be awarded to each beneficiary at the beginning of the Plan.

Issuers' Regulations: Regulations implementing Italian Legislative Decree No. 58 of 24 February 1998, as amended (Issuers' Regulations).

Report or Remuneration Report: the Report on the remuneration of the members of the Board of Directors and the Executives with strategic responsibilities, approved by the Board of Directors on 10 March 2020.

2012-2014 LTI System: Medium/long-term monetary incentive system for the 2012-2014 period.

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

2018-2020 Performance Share System or Performance Share System or LTI System: Incentive system based on medium/long-term financial instruments for the 2018-2020 period.

MBO System: Short-term monetary incentive system.

TSR: Total Shareholder Return, namely the total return on investment for shareholders, which is calculated by adding the increase in the share price, over a certain time interval, with the effect of the dividends per share paid during the same period.

CONSOLIDATED FINANCE ACT: Italian Legislative Decree No. 58 of 24 February 1998, as amended (Testo Unico della Finanza).

EDC: Executive Deputy Chairman.

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