



EVOLVING ENERGIES

ERG S.P.A.

REMUNERATION POLICY

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2018 REMUNERATION POLICY

1. EVOLUTION OF APPROACH

In line with the provisions of the Corporate Governance Code¹, the Board of Directors of ERG, adopted, with resolution dated 20 December 2011, upon a recommendation from the NRC², its own Remuneration Policy, effective from 2012. The Policy's structure was independently defined by ERG at the time, without using as reference remuneration policies pertaining to other companies.

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

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

On 11 March 2015, the Policy was subject to a second revision by the Board of Directors, upon a recommendation from the NRC, to take account, effective from 2015, of (i) the Company's adherence to the version of the Corporate Governance Code in force at that time through the introduction, as regards variable remuneration, of a clawback clause and (ii) the essential elements of the 2015-2017 LTI System, with a view to ensuring greater alignment of management's interests to the priority goal of creating value for Shareholders over the medium/long-

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

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

- on 22 March 2016, for the sole purpose of acknowledging the resolution of the Board of Directors dated 15 December 2015, which defined the conditions necessary to implement the 2015-2017 LTI System, in line with the said Policy and in view of the 2015-2018 Business Plan;
- on 9 March 2017 for the purpose of implementing the organisational changes following the reorganisation of the risk management, compliance and internal control processes of the ERG Group and the "ONE Company" Project³, as well as the introduction of a clause to which the deferred payment of any non-recurring remuneration is subordinated, after assessment of the NRC and resolution of the Board of Directors.

On 7 March 2018 the Policy was subject to a third revision by the Board of Directors, upon a recommendation from the NRC, to take account, with effect from financial year 2018, of the essential elements of the 2018-2020 LTI system.

• Changes deriving from the essential elements of the 2018-2020 LTI System

The 2018-2020 LTI System was developed according to a logic of continuous alignment between the objectives of the beneficiaries and the interests of shareholders. The 2018-2020 LTI System provides for the assignment of a predefined number of Shares, free of charge (i.e. Performance Shares, as defined below), at the end of a three-year vesting period, subject to the achievement of a minimum predetermined

¹ This refers to the version of the Corporate Governance Code published in December 2011.

² Further information regarding bodies and persons involved in the preparation and approval of the Policy and the NRC's composition, competences and working procedures is set out in the Report on Governance and Ownership drawn up pursuant to Article 123-bis of the Consolidated Finance Act (CFA).

³ See Press Release of 10 November 2016.

economic performance (i.e. EBITDA target, as defined below).

The LTI System also provides that, in the event that in addition to the economic performance objective being achieved a predetermined market performance of ERG Shares on the MTA is also achieved (i.e. Outstanding listing, as defined below), the number of Shares allocable increases up to a predetermined maximum.

The equity available for the LTI System will be exclusively composed of Own Shares already in the portfolio, subject to authorisation from the Shareholders' Meeting.

The 2018-2020 LTI System will be submitted to the vote of the Shareholders' Meeting that will be held for the approval of the Financial Statements at 31 December 2017 and, to this end, the essential elements of the 2018-2020 LTI System are described in the information document made available to the public at the registered office of the company in Genoa, Via de Marini 1, on the Company's website (www.erg.eu) in the section "Corporate Governance/ Shareholders' Meeting 2018", at Borsa Italiana S.p.A. and on the authorised storage platform eMarket Storage (www.emarketstorage.com).

2. PARTIES INVOLVED

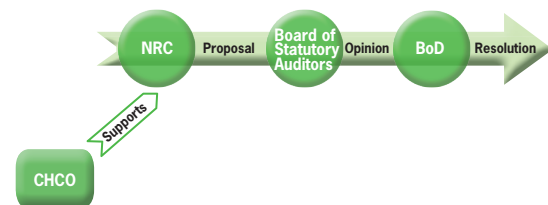
In keeping with relevant legislative and regulatory provisions in force and the recommendations of the Corporate Governance Code, the decisions behind the implementation of the 2018 Remuneration Policy and the responsibility for its correct application are the result of a joint process involving numerous parties:

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

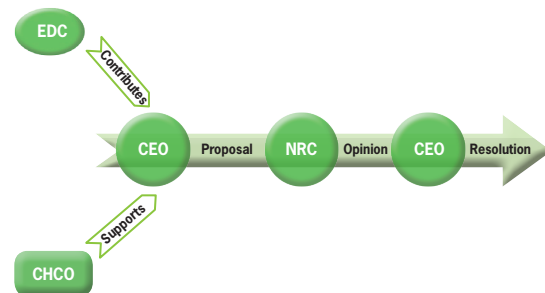


- b) The Board of Directors, upon a recommendation from the NRC, with the support of the CHCO and having consulted the Board of Statutory Auditors, as regards

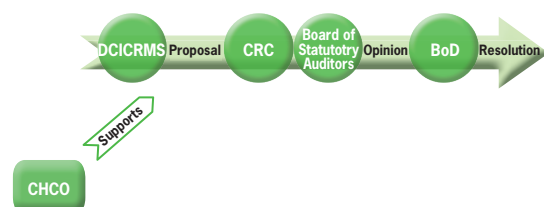
the remuneration of Executive Directors or Directors holding specific offices as well as, if necessary, the directors called upon to sit on the Strategic Committee, where these are not employees of the Group and do not hold offices on the Board of Directors



- c) The Chief Executive Officer, jointly with the Executive Deputy Chairman and with the support of the CHCO, having consulted the NRC, as regards the remuneration of Executives with strategic responsibilities⁴



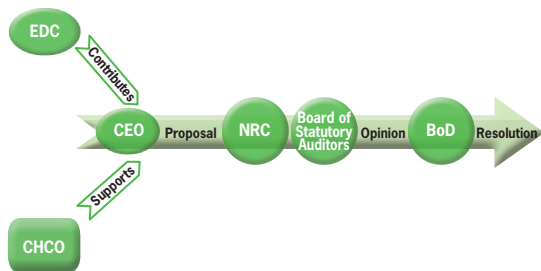
- d) The Board of Directors, upon a proposal from the Director in charge of the Internal Control and Risk Management System, subject to the favourable opinion of the CRC and the support of the CHCO, having consulted the Board of Statutory Auditors, for the remuneration of the Chief Audit Officer, who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



- e) The Board of Directors, upon a proposal from the Chief Executive Officer, jointly with the Executive

⁴ Subject to the provisions of point (d) below for the Chief Audit Officer and point (e) for the Manager Responsible for preparing company's financial reports.

Deputy Chairman and supported by the CHCO, having consulted the NRC and the Board of Statutory Auditors, for the remuneration of the Manager Responsible for preparing the Company's financial reports, who is also an Executive with strategic responsibilities



2.1 Nominations and Remuneration Committee

The Nominations and Remuneration Committee comprises three non-executive directors, qualified as independent pursuant to the related provisions set forth by the Consolidated Finance Act (CFA) and as mostly independent pursuant to the Corporate Governance Code⁵, who have adequate financial and Remuneration Policy experience⁶.

The Committee meets at least once a quarterly. All members of the Board of Statutory Auditors take part in the Committee proceedings; in addition, the Chairman of the Board of Directors, the Executive Deputy Chairman and the Chief Executive Officer may participate, by invitation, insofar as they are entitled to intervene on the matters being considered and to identify suitable interventions to address situations, even if potentially critical.

Directors do not take part in the meetings of the NRC where proposals are made to the Board of Directors in connection with their own remuneration. Employees of ERG Group companies, representatives of the independent auditor and, in general, persons whose presence is deemed necessary or appropriate for the discussion of the agenda items may be invited to attend Committee meetings.

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

- periodically assesses the adequacy, overall consistency and concrete application of the Remuneration Policy, reporting to the Board of Directors;
- submits recommendations or expresses opinions to the Board of Directors concerning the remuneration of Executive Directors or Directors holding specific offices as well as, if necessary, the remuneration of the Directors called upon to sit on the Strategic Committee, where the same are not employees of the Group and do not hold offices on the Board of Directors
- submits proposals or expresses opinions to the Board of Directors on the setting of performance targets linked to the variable component of the medium/long-term incentive systems;
- monitors implementation of the decisions taken by the Board of Directors, verifying the actual achievement of the performance targets.

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

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

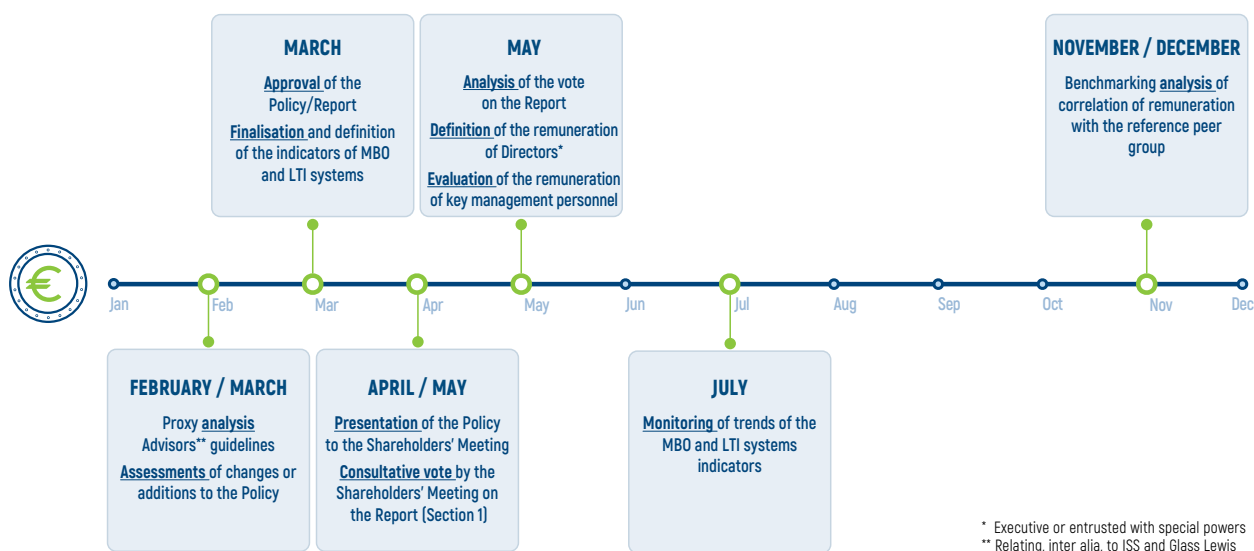
The Committee actively participates in defining the short and medium/long-term variable incentive systems.

In particular, the Committee was actively involved in the process of preparation and subsequent adoption of the MBO System and the Long-Term Incentive Systems (LTI).

⁵ It should be mentioned that the Committee Chairman, who is a non-executive director, was qualified by the Board of Directors of 24 April 2015 as an independent director pursuant to the Consolidated Finance Act (CFA) and not also within the meaning of the Corporate Governance Code exclusively in consideration of his long term in office. Said features were also evaluated by the Board of Directors during the meetings of 13 July 2016 and 12 July 2017.

⁶ Said features were also evaluated by the Board of Directors during the meeting of 24 April 2015.

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



3. STRUCTURE OF THE 2018 REMUNERATION POLICY

The 2018 Policy sets general guidelines for determining the remuneration of Board of Directors members and Executives with strategic responsibilities, in the course of their business, with a view to attracting, retaining and motivating highly qualified managers and aligning their interests to the pursuance of the priority objective of creating sustainable value for Shareholders over a medium/long-term horizon.

The essential elements of the 2018-2020 LTI System were defined in a manner consistent with the 2018-2022 Strategic Plan, as approved on 7 March 2018 by the Board of Directors. The regulation implementing the 2018-2020 LTI System - the approval of which by the new Board of Directors is expected to take place in the first half of 2018, in order to guarantee full temporal consistency with the new mandate - will become an integral part of the 2018 Policy.

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

The 2018 Policy is structured differently according to whether the remuneration in question is intended for Board Members or Executives with strategic responsibilities.

3.1 Board of Directors

3.1.1 Fees

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

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



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

The Board of Directors also recommends that the fee proposals be presented by the Shareholders (where appropriate, also pursuant to Art. 126-bis of the Consolidated Finance Act - CFA) in such a way as to allow

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

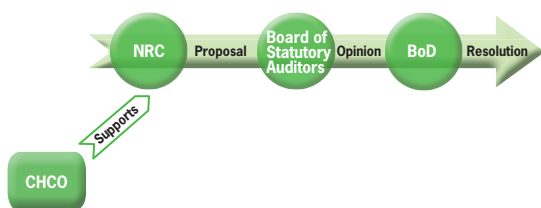
3.1.2 Remuneration

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

Fixed component

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

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



The Board of Directors may, in the Company's interest, provide for the fixed component to be established still using the same criteria but on a three-year basis. The amount of the annual fixed remuneration is measured proportional to the commitment required of each beneficiary for their respective offices, and is defined

(based on the opinion of specialised consulting firms) through market benchmarking with listed companies. The comparison is made considering, within the ambit of the reference stock market, firms that are similar in terms of their type, size and complexity and by comparing individual roles.

Variable component

The Board of Directors, upon a proposal from the NRC, with the support of the CHCO, having consulted the Board of Statutory Auditors, shall resolve upon the allocation of variable remuneration to the Executive Directors, who are of strategic importance for the purposes of achieving the 2018-2022 Business Plan (hereinafter the "Directors with Strategic Responsibilities"), correlated to the creation of sustainable value over the medium to long-term and determined in accordance with the essential elements of the 2018-2020 LTI System.

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

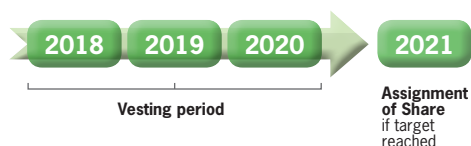
Essential elements of the 2018-2020 LTI System

The aim of the structure of the 2018-2020 LTI System 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.

It is recalled that the time horizon of the LTI System is aligned to the three-year mandate (for the financial years 2018-2020) that will be conferred upon the new Board of Directors by the Shareholders' Meeting called to approve the Financial Statements at 31 December 2017.

The LTI System provides for the assignment of a predefined number of Performance Shares, at the end of a three-year vesting period, subject to the achievement of the Target EBITDA. The LTI System also provides that, in the event that in addition to the Target EBITDA being achieved an Outstanding listing is also achieved, the number of Performance Shares allocable increases up to a predetermined maximum.

The equity available for the LTI System will be exclusively composed of Own Shares already in the portfolio, subject to authorisation from the Shareholders' Meeting.



In the event of **failure to achieve the Target EBITDA**, the **granting of Performance Shares** to the beneficiaries of the 2018-2020 LTI System **will not take place**.

The regulations of the LTI System will define, in particular, the modes of operation of the following clauses:

- **clawback clause** which governs the procedures for the exercise of the right, for the Company, to request the partial or total return of the Shares allocated or the corresponding monetary value at the grant date (or to retain the Shares allocated), within 3 years from their accrual, where these are found to have been allocated on the basis of data that was subsequently proved to be manifestly incorrect
- **clauses** that determine the consequences of the **termination of the mandate** by the beneficiary while the LTI System is in force.

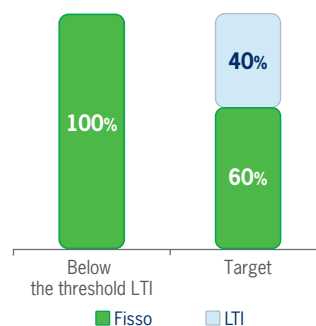
3.1.3 Balancing remuneration

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

The weight of the fixed component of remuneration for Directors with Strategic Responsibilities, on an annual basis, can vary from 50% to 60% of their overall target remuneration. The weight of the variable component of the remuneration for Directors with Strategic Responsibilities, on a three-year basis, considering its annualised amount, is between 40% and 50%⁷ of their total target remuneration. The fixed component of remuneration is sufficient to remunerate the services of Directors with Strategic

Responsibilities in the event that the variable component is not paid owing to failure to achieve the performance targets.

Pay mix Directors with Strategic Responsibilities⁷



3.1.4 Pay for Performance

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

It should be mentioned that the transformation process, which began in 2008 with the sale of 49% of the ISAB refinery in Sicily, and the Group's gradual repositioning in more profitable activities with less exposure to market volatility, has resulted in a notable creation of value for the Company and Shareholders and was made possible by the completion of the following extraordinary operations:

- **Progressive exit from refining**: this commenced in 2008 and was completed in 2013, with the sale of the remaining 20% stake.
- **Acquisition of IP Maestrале Investments**: in February 2013, ERG Renew acquired an 80% equity interest in IP Maestrале Investments Ltd, thereby increasing its installed power by 636 MW, of which 550 MW in Italy and 86 MW in Germany, and, consequently, becoming the leading wind power operator in Italy and among the top ten in Europe. ERG Renew thus reached a suitable

⁷ This refers to the target value of the bonus. It should be noted that the pay mix could vary depending on the powers vested, for the purposes of achieving the 2018-2022 Business Plan, by the Board of Directors' meeting which will be held following the Shareholders' Meeting called to approve the Financial Statements at 31 December 2017.

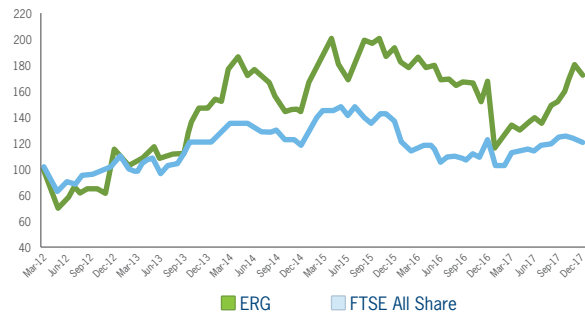
industrial size and financial level to pursue autonomously its growth process.

- **Sale of the ISAB Energy IGCC plant:** in June 2014, ERG sold to ISAB (LUKOIL) the ISAB Energy and ISAB Energy Services business units, mainly comprising the IGCC generation plant. The operation, in line with the definitive exit from refining, is an additional fundamental step forward in the strategy to reposition the asset portfolio, at the same time strengthening the Group's capital structure to support future development plans.
- **Acquisition of E.ON Produzione's entire hydroelectric business:** in November 2015, ERG entered the hydroelectric sector with notable dimensions through the acquisition of an integrated hub of power plants located in the regions of Umbria, Marche and Lazio, with an overall capacity of 527 MW. This acquisition, of paramount strategic importance for the Group, offered the opportunity to diversify the production sources, by assuming a significant prominence in the Italian renewables panorama and procuring new high-quality assets for the ERG Group.
- **Departure from the Downstream sector** through the sale of the shareholding in TotalErg S.p.A. In January 2018, ERG finalised the sale to the API Group of 2,600 service stations, the Rome logistical facility and the share held in the Treccate refinery. This transaction, which required more than a year of intense and complex activity, allowed ERG on the one hand to maximise the value of its shareholding in the downstream sector and on the other to further strengthen the financial capacity to continue its path of growth in the renewable energy sector.
- **Entry into the Solar Business:** in January 2018, ERG acquired from VEI Green S.r.l. an 89 MW photovoltaic platform made up of different plants located in 8 regions between the north and the south of Italy. With this transaction, ERG took a further step toward its strategy of technology diversification and sought to extend and optimise the Energy Management portfolio with high quality plants.

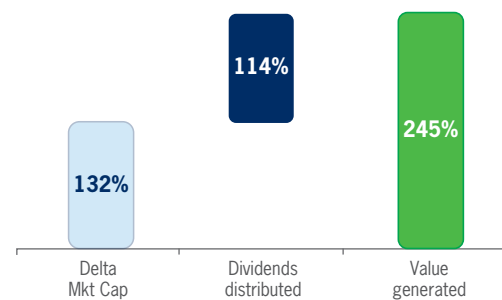
During the period between April 2012 and December 2017, the trend in price of the shares and the dividend distribution policy ensured outstanding value creation for

Shareholders, thanks to the growth path undertaken by the ERG Group and the extraordinary transactions that made it possible.

Performance ERG Stock vs FTSE All Share from April 2012 to December 2017

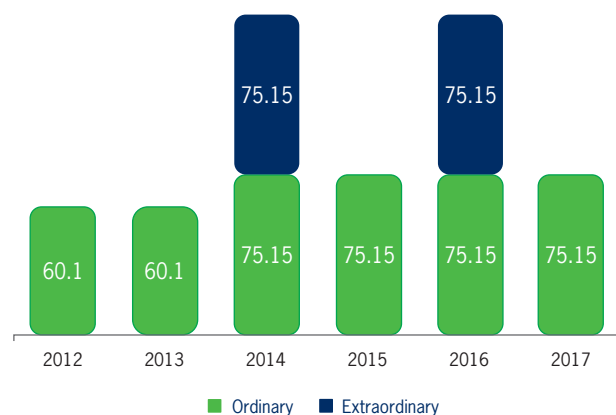


Value created for shareholders from April 2012 to December 2017 (TSR) %



During the same period (2012-2017), the Company remunerated Shareholders with dividends totalling EUR 571.1 million.

Dividends distributed in the 2012-2017 period €mn



A new phase of development now begins for the ERG Group, as described in detail in the 2018-2022 Business Plan, approved on 7 March 2018 by the Board of Directors. A key prerequisite for the implementation of the Business Plan is to continue to

ensure, including through the instruments provided by the Remuneration Policy, the successful alignment between the interests of Shareholders and Management, which has been central to our history of business successes to date.

For this reason, it was decided to introduce a new Long-Term Incentive System based on financial instruments ("Performance Shares") as described in the appropriate sections of the 2018 Policy.

The introduction of such an incentive system represents a further step forward in the full implementation of the "pay for performance" principle, allowing ERG to evolve the non-recurring remuneration mechanism into an instrument that is better aligned with best market practices.

3.1.5 Non-monetary benefits

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

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

3.1.6 Indemnity for early termination or non-renewal of office

The Board of Directors, upon a proposal from the NRC, with the support of the CHCO, having consulted the Board of Statutory Auditors, may resolve to assign⁸ to the Chief Executive Officer, as a non-employee of the Company, an indemnity in the event of early termination or non-renewal of his office subject to the following conditions:

- the amount of said indemnity usually and save for exceptional cases, may not exceed the total amount of related fixed remuneration paid to the same under the

relationship over a period of 24 months;

- the indemnity must be determined in advance along with the overall remuneration;
- the indemnity must not be paid in cases where termination of the relationship is due to the achievement of objectively inadequate results, subject to extraordinary events not attributable to the actions of the CEO;
- the related resolution must be adopted in accordance with the medium/long-term strategy, values and interests of the ERG Group.

3.1.7 Termination indemnity

The Board of Directors, upon a proposal from the NRC, with the support of the CHCO, having consulted the Board of Statutory Auditors, may resolve to assign a termination indemnity to the Chief Executive Officer, as a non-employee of the Company, subject to the following conditions⁹:

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

3.2 Executives with strategic responsibilities

3.2.1 Remuneration

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

The remuneration is broken down into two components,

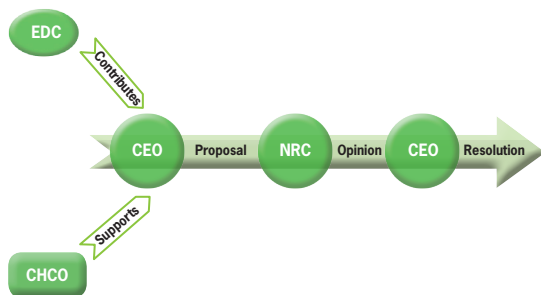
⁸ See paragraph 4.1.2 under the item "Termination of office or discontinuation of the employment relationship"

⁹ See paragraph 4.1.2 under the item "Termination indemnity"

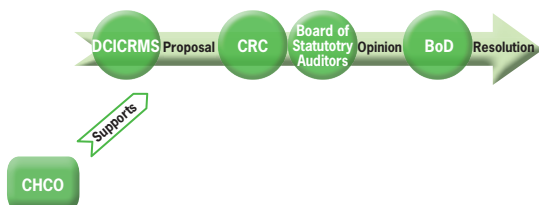
one fixed and one variable; the variable remuneration is, in turn, broken down into two components, in the form of a monetary incentive and a share incentive, linked to the achievement of specific performance targets, indicated and determined in advance, correlated to the creation of value, respectively, in the short-term based on the rules of the MBO System and in the medium/long-term according to the essential elements of the 2018-2020 LTI System.

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

- The Chief Executive Officer, jointly with the Executive Deputy Chairman and with the support of the CHCO, having consulted the NRC, determines the remuneration to be assigned to Executives with strategic responsibilities¹⁰

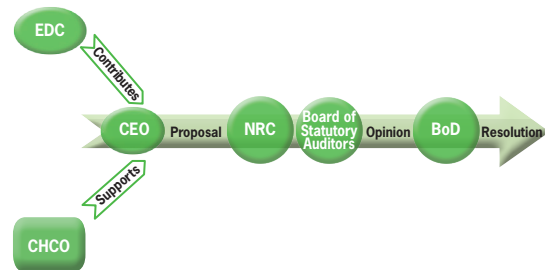


- The Board of Directors, based on a proposal from the Director in charge of the Internal Control and Risk Management System and subject to the favourable opinion of the CRC¹¹ and the support of the CHCO, having consulted the Board of Statutory Auditors, determines the remuneration of the Chief Audit Officer



- The Board of Directors, on a proposal from the Chief Executive Officer, jointly with the Executive Deputy

Chairman and supported by the CHCO, having consulted the NRC and the Board of Statutory Auditors, determines the remuneration of the Manager Responsible for preparing the company's financial reports.



Fixed component

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

Short-term variable component

The short-term variable component concerns the achievement of predetermined economic/financial and strategic targets and is governed by the MBO System.

The variable component assigned to the Chief Audit Officer is linked to targets not correlated to economic performance indicators and is parametrised on the implementation of the annual audit plan.

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

Main characteristics of the MBO System

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

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

- one Group target, identical for all participants, with a weight corresponding to 30% of the incentive target amount and measured using the indicator EBT ("Consolidated pre-tax IAS result at adjusted replacement cost");

¹⁰ Subject to the provisions set forth below concerning the Chief Audit Officer and the Manager Responsible for preparing the Company's financial reports.

¹¹ This being the body set up pursuant to the Corporate Governance Code to monitor the independence, adequacy, effectiveness and efficiency of the internal audit function.

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

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

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

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

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

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

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

Medium/long-term Variable Component

The medium/long-term variable component is structured in such a way as to align the interests of the beneficiaries with pursuit of the priority goal of creating sustainable value for Shareholders over the medium/long-term horizon. The Chief Audit Officer does not participate in the 2018-2020 LTI System.

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

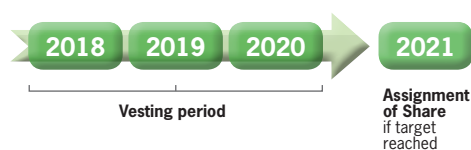
Essential elements of the 2018-2020 LTI System

The aim of the structure of the 2018-2020 LTI System is to encourage maximum alignment, in terms of objectives, between the interests of the relative beneficiaries and pursuit of the priority goal of creating sustainable value for Shareholders over a medium/long-term horizon.

It is recalled that the time horizon of the LTI System is aligned to the three-year mandate (for the financial years 2018-2020) that will be conferred upon the new Board of Directors by the Shareholders' Meeting called to approve the Financial Statements at 31 December 2017.

The LTI System provides for the assignment of a predefined number of Performance Shares, at the end of a three-year vesting period, subject to the achievement of the Target EBITDA. The LTI System also provides that, in the event that in addition to the Target EBITDA being achieved an Outstanding listing is also achieved, the number of Performance Shares allocable increases up to a predetermined maximum.

The equity available for the LTI System will be exclusively composed of Own Shares already in the portfolio, subject to authorisation from the Shareholders' Meeting.



In the event of **failure to achieve the Target EBITDA**, the **granting of Performance Shares** to the beneficiaries of the 2018-2020 LTI System **will not take place**.

The regulations of the LTI System will define, in particular,

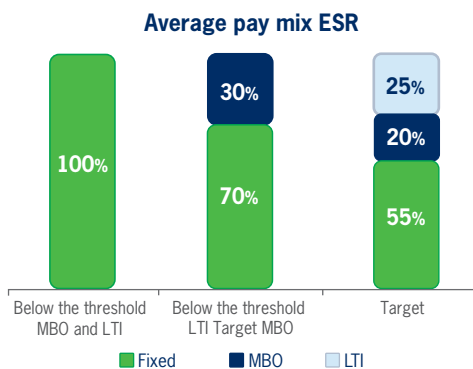
the modes of operation of the following clauses:

- **clausola di clawback** which governs the procedures for the exercise of the right, for the Company, to request the partial or total return of the Shares allocated or the corresponding monetary value at the grant date (or to retain the Shares allocated), within 3 years from their accrual, where these are found to have been allocated on the basis of data that was subsequently proved to be manifestly incorrect;
- **clauses** that determine the consequences of the **termination of the employment relationship** by the beneficiary while the LTI System is in force¹².

3.2.2 Balancing remuneration

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

The weight of the fixed component of remuneration for each Executive with strategic responsibilities, on an annual basis, corresponds on average to 55% of his overall target remuneration. The weight of the annual variable component (MBO) of remuneration corresponds on average to 20%¹³ of the related total target remuneration, while the medium/long-term variable component (LTI), considering its annualised amount, has an average weight of 25%¹⁴ of the related total target remuneration.



¹² Details are provided in the information document available to the public at the Company's registered office in Via De Marini 1, Genoa, on the Company's website (www.erg.eu) in the section, "Governance/Remuneration Reports", at Borsa Italiana S.p.A. and on the authorised storage platform Nis-Storage (www.emarketstorage.com).

¹³ This refers to the target value of the bonus.

¹⁴ This refers to the target value of the bonus.

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

3.2.3 Non-monetary benefits

The Chief Executive Officer, jointly with the Executive Deputy Chairman and with the support of the CHCO, having consulted the NRC, may decide to assign benefits such as insurance policies (health and life insurance), pension benefits, cars and living accommodation to Executives with strategic responsibilities, which are not withheld from remuneration¹⁵.

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

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

3.2.4 Resignation from office or termination of the employment relationship

The terms and conditions of the national collective agreement for industrial managers of companies producing goods and services shall apply to Executives

¹⁵ Subject to the provisions set forth below concerning the Chief Audit Officer and the Manager Responsible for preparing the Company's financial reports.

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

3.3 Incentive plans based on financial instruments

The 2018-2020 LTI System provides for the assignment of a predefined number of Performance Shares, at the end of a three-year vesting period, subject to the achievement

of the Target EBITDA. The LTI System also provides that, in the event that in addition to the Target EBITDA being achieved an Outstanding listing is also achieved, the number of Performance Shares allocable increases up to a predetermined maximum.

The aims and features of the 2018-2020 LTI System are described in more detail in the information document, drawn up by the Board of Directors pursuant to art. 114-*bis* of the Consolidated Finance Act and art. 84-*bis* of the Issuers' Regulations, made available to the public at the registered office of the company in Genoa, Via de Marini 1, on the Company's internet site (www.erg.eu) in the section "Corporate Governance/Shareholders' Meeting 2018", at Borsa Italiana S.p.A. and on the authorised storage platform eMarket Storage (www.emarketstorage.com)

GLOSSARY

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

CEO: Chief Executive Officer

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

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

ERG Shares or Stocks: ordinary ERG Shares, listed on the MTA

CAO: Chief Audit Officer

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

CHCO: Chief Human Capital Officer

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

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

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

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

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

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

EBT: consolidated pre-tax IAS result at adjusted replacement cost excluding proceeds (charges)

Target EBITDA: economic performance condition of the 2018-2020 LTI System, made up of a predefined percentage of Group EBITDA cumulated over the 2018-2020 period, gross of amortisation, depreciation and write-downs, financial income and taxes

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

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

Performance Shares: shares allocated free of charge upon achievement of a predetermined minimum level of performance

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

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

2018 Remuneration Policy or 2018 Policy: ERG's Policy for the remuneration of members of the Board of Directors and Executives with strategic responsibilities for the year 2018

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

Outstanding listing: market performance condition of the 2018-2020 LTI System, made up of the ERG share price above which a predefined number of additional Shares will be allocated, provided that the Target EBITDA has been also achieved

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

Report or Remuneration Report: report on remuneration of the members of the Board of Directors and Executives with strategic responsibilities, approved by the Board of Directors on 7 March 2018

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

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

2018-2020 LTI System or LTI System: Medium/Long-Term Incentive System based on financial instruments referred to the period 2015-2017

MBO System: Short-Term Monetary Incentive System

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

CFA: Italian Legislative Decree no. 58 of 24 February 1998, as amended (Consolidated Finance Act)

EDC: Executive Deputy Chairman

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