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Diffusione presunta

Oggetto : The Board of Directors approves the
consolidated financial statements and the
draft financial statements as at 31
December 2014

Testo del comunicato

Vedi allegato.



Press Release

The Board of Directors approves the consolidated financial statements and the draft financial statements as at 31 December 2014

Consolidated adjusted¹ EBITDA at replacement cost²: €491 million, €569 million in 2013
Group net result at replacement cost³: €76 million, €38 million in 2013
Proposed dividend per share of € 0.50

Fourth quarter of 2014⁴

Consolidated adjusted¹ EBITDA at replacement cost²: €91 million, €132 million in 4Q 2013
Group net result at replacement cost³: €1 million, €3 million in 4Q 2013

Genoa, 12 March 2015 – The Board of Directors of ERG S.p.A., which met yesterday, approved the consolidated financial statements and the draft financial statements as at 31 December 2014⁵, the report on corporate governance and ownership, the 2015–2017 long-term monetary incentive plan, the remuneration report and the plan for the merger by incorporation of ERG Supply & Trading into ERG.

Consolidated financial results at replacement cost

| 4th Quarter | | | Performance highlights (million Euro) | | | Year | | |
|-------------|------|--------|---------------------------------------|--|--|------|------|--------|
| 2014 | 2013 | Var. % | | | | 2014 | 2013 | Var. % |
| 91 | 132 | -31 % | Adjusted EBITDA | | | 491 | 569 | -14 % |
| 31 | 56 | -44% | Adjusted EBIT | | | 249 | 278 | -10 % |
| 1 | 3 | -82 % | Group net result | | | 76 | 38 | +98 % |

| | 31.12.14 | 31.12.13 | change |
|---|----------|----------|--------|
| Net financial debt (million Euro) | 330 | 807 | -477 |
| Leverage ⁶ | 16% | 29% | |
| Adjusted net financial debt ⁷ (million Euro) | 538 | 1,015 | -477 |
| Adjusted leverage ⁷ | 24% | 34% | |

Luca Bettonte, ERG's Chief Executive Officer, commented: "FY2014 has been another year of extremely satisfactory economic and financial results, exceeding the indications given to the financial community at the beginning of the year, despite the still difficult energy and macroeconomic scenarios. The Group net result doubled and net financial debt was cut by half compared to 2013, as a result of both the extraordinary transactions concluded during the year and the strong operating cash generation by our assets, which confirmed their high quality. EBITDA, if we consider the same perimeter, increased, reflecting the favourable impact of a strong contribution from the new overseas wind farms, the positive performance of the CCGT plant and an upturn in the results of TotalErg's retail network. During 2014 we in fact achieved the objectives announced to the market in the 2013-2015 Plan. We are currently in the process of finalising the next three-year plan which will confirm the industrial path recently undertaken. As regards 2015, we are expecting to see EBITDA of around 400 million Euro, with a slight growth if compared to the figure posted in 2014 considering an homogeneous perimeter of operations, and a net financial debt of approximately 650 million Euro."

The Board of Directors therefore proposes to the Ordinary Shareholders' Meeting, to be convened on 24 April 2015 in first call, and, if required, on 27 April 2015 in second call, the distribution of a dividend per share of Euro 0.50, which will be available for payment starting from 20 May 2015 (payment date), with an ex-dividend date as of 18 May 2015 (ex date) and record date of 19 May 2015.

Comparison of results using the same perimeter

A comparison of results for the first quarter of 2014 with those for the corresponding period in 2013 reflects the change in perimeter, with special reference to the sale of the last remaining stake in the ISAB Refinery at the end of 2013 and the sale of the IGCC plant halfway through 2014.

In order to allow a better understanding of performance during the two periods, the following table shows a comparison of the results based on a constant perimeter.

More specifically, we have restated the figures for both the fourth quarter and FY2013, eliminating the contributions from ISAB Energy (Euro 59 million in the fourth quarter, Euro 132 million for the second half of the year) and Coastal refining (Euro -13 million in the fourth quarter, Euro -50 million for FY2013).

| 4th quarter | | | Year | |
|-------------|------------------|--|------------|------------------|
| 2014 | 2013 restated | | 2014 | 2013 restated |
| 66 | 59 | Renewables | 267 | 245 |
| 22 | 24 | Power | 204 | 226 |
| 9 | 11 | Integrated Downstream | 44 | 45 |
| (6) | (7) | Corporate | (24) | (30) |
| 91 | 87 | Adjusted EBITDA at replacement cost | 491 | 487 |

The slight growth during the year in adjusted EBITDA at replacement cost, considering the same perimeter, reflects above all the increased contribution from renewables and the reduction in central costs, offset by the lower contribution from the ISAB Energy plant in the first half of the year due to the significant falloff in the *CIP6* electricity selling price. We note that against a substantially aligned economic trend, net financial indebtedness shows a sharp reduction compared to the previous year precisely as a result of the extraordinary revenues associated with the two transactions, the sale of 20% of the ISAB Refinery and the amount received for early termination of *CIP6*. The trend in economic and financial dimensions reflects the important transformation of the Group's business portfolio which continued during 2014.

In the fourth quarter the slight upturn in adjusted EBITDA at replacement cost, considering the same perimeter, reflects above all the increase in contribution from renewables.

Fourth quarter 2014

Consolidated financial results

Consolidated adjusted EBITDA at replacement cost came to Euro 91 million, compared to Euro 132 million for the corresponding period in 2013, reflecting the change in perimeter of operations.

- **Renewables:** EBITDA at replacement cost was Euro 66 million, showing a growth compared to Euro 59 million in the fourth quarter of 2013, due above all to the contribution from the new wind farms in Italy and abroad and to the higher selling prices during the period.

- **Power:** EBITDA at replacement cost for the sector was Euro 22 million, with a downturn compared to Euro 83 million in 2013, reflecting the change in perimeter of operations following the sale of the ISAB Energy plant, whose contribution was absent for the entire fourth quarter of 2014. It should be mentioned that in the corresponding period of 2013, ISAB Energy's contribution amounted to Euro 59 million.
- **Integrated Downstream:** adjusted EBITDA at replacement cost was positive by Euro 9 million, with a clear growth over the negative result of Euro 2 million for the fourth quarter of 2013, due above all to the discontinuation of Coastal refining operations and to the improved results of TotalErg; these positive effects were partly hampered by the negative performance of ERG Supply & Trading during the period.

Consolidated adjusted EBITDA at replacement cost came to Euro 31 million, with a downturn compared to Euro 56 million for the fourth quarter of 2013, after amortisation and depreciation totalling Euro 60 million (Euro 76 million in the corresponding period of 2013).

The **Group net result at replacement cost** was Euro 1 million, with a decrease compared to Euro 3 million posted for the fourth quarter of 2013.

FY2014

Consolidated financial results

Consolidated adjusted EBITDA at replacement cost came to Euro 491 million, compared to Euro 569 million in 2013, but with a change in the perimeter of operations.

- **Renewables:** EBITDA at Euro 267 million, which showed a growth compared to the corresponding period a year earlier (Euro 245 million), was favourably impacted by the contribution from the new Italian and overseas wind farms, the improvement in efficiency, following the insourcing of O&M operations, and the reduction in imbalance charges, due to the effects of the recent Council of State verdict, which more than compensated the drop in selling prices.
- **Power:** EBITDA was Euro 204 million, with a downturn compared to Euro 358 million in 2013, primarily due to the lower contribution from ISAB Energy, which was absent in the second half of the year, following the sale of the plant, and which in the first six months was affected by the sharp reduction in the CIP6 tariff compared to 2013. The result posted by the CCGT facility, at around Euro 100 million, was more or less in line with the figure recorded a year earlier.
- **Integrated Downstream:** EBITDA was Euro 44 million with a sharp increase compared to the negative result of Euro 5 million posted in 2013, due above all to the improvement in the results posted by TotalErg, which were favourably impacted by major efficiency interventions and the discontinuation of the Coastal Refining business, following the sale of the remaining 20% stake in the ISAB Refinery. These positive effects were partly hampered by the negative performance of ERG Supply & Trading. In view of these negative results and bearing in mind the trend in the Group's strategic policies, it was decided to no longer pursue the related business operations.

Adjusted EBIT at replacement cost was Euro 249 million (Euro 278 million in 2013) after amortisation and depreciation totalling Euro 241 million (Euro 291 million in 2013).

Group net result at replacement cost amounted to Euro 76 million, compared to the result of Euro 38 million in 2013. The notable improvement was mainly associated with the higher contribution from Renewables and the exit from Coastal Refining, which more than offset the falloff in profits during the period on the part of ISAB Energy. The results further benefited from lower net financial charges and a lower tax rate also due to a reduction in the additional *IRES* (corporate tax) rate on current taxes from 10.5% to 6.5%.

The **Group net result**, at Euro 48 million (Euro 28 million in 2013), primarily reflects the positive impact of ISAB Energy's termination of *CIP6* (Euro 317 million, net of the tax effect), partly offset by the net loss associated with the sale of the ISAB Energy and ISAB Energy Services business lines (Euro 268 million, net of the tax effect). The result further reflects the negative impacts (Euro -19 million) arising from the write-off of tax assets as a consequence of the declared non-retroactive unconstitutionality of the additional Robin Tax and the negative fair value (Euro -7 million) of derivatives. It should be mentioned that the 2013 results included the positive impact due to the sale of the last remaining 20% stake in ISAB, with a capital gain of Euro 177 million, partly offset by appropriations associated with Priolo site activities mainly attributable to the exit from the refining sector and ancillary charges connected with the purchase of ERG Wind. The result also reflected the Euro 58 million write-down of the investment in TotalErg following the impairment test.

Net financial debt, at Euro 330 million, was down by Euro 477 million compared to 31 December 2013, mainly as a result of the payment received from the termination of ISAB Energy's *CIP6* agreement (Euro 515 million) and the cash flow from operating activities during the period, partly offset by the payment of dividends by ERG (Euro 143 million) and by ISAB Energy to the minority quotaholder (Euro 22 million) and the acquisition of a minority stake in ISAB Energy and ISAB Energy Services (Euro 153 million). The debt at 31 December 2014 was also positively impacted by the inflow of Euro 50 million following Unicredit's entry to the shareholder body of ERG Renew. The net financial debt reflects financial liabilities relating to the fair value of interest rate hedging derivatives for approximately Euro 181 million (Euro 141 million at 31 December 2013).

Adjusted net financial debt, which includes ERG's share of net financial position pertaining to the TotalErg and LUKERG Renew joint ventures, came to Euro 538 million, with a decrease of around Euro 477 million compared to the figure at 31 December 2013, essentially for the above mentioned reasons and due to specific phenomena associated with TotalErg's working capital. Adjusted net financial debt reflects financial liabilities relating to the fair value of interest rate hedging derivatives for approximately Euro 189 million (Euro 147 million at 31 December 2013).

Adjusted investments

| 4th Quarter | | Million Euro | Year | |
|-------------|-----------|--------------------------------|-----------|------------|
| 2014 | 2013 | | 2014 | 2013 |
| 9 | 41 | Renewables* | 38 | 97 |
| 4 | 11 | Power | 14 | 26 |
| 12 | 14 | Integrated Downstream** | 34 | 41 |
| 1 | 1 | Corporate | 3 | 2 |
| 25 | 67 | TOTAL INVESTMENTS | 89 | 165 |

* adjusted Renewables investments include ERG's share of the investments made by LUKERG Renew

** adjusted Integrated Downstream investments include ERG's share of the investments made by TotalErg.

In 2014, adjusted investments carried out by the ERG Group totalled Euro 89 million (Euro 165 million in 2013), of which Euro 77 million concerned tangible fixed assets (Euro 156 million in 2013) and Euro 12 million concerned intangible fixed assets (Euro 9 million in 2013). Overall, in the **fourth**

quarter of the same year, adjusted investments carried out by the Group amounted to Euro 25 million (67 million in the corresponding period of 2013).

Renewables: investments in 2014 concerned above all the construction of the new wind farm in Poland (installed capacity of 42 MW), which is scheduled to come on stream halfway through 2015, together with the last commissioning operations for Palazzo San Gervasio and the installation of the last turbine at the Topolog wind farm (taking the farm's overall capacity to 84 MW). Moreover, scheduled interventions continued in the area of Health, Safety and the Environment.

Power: in 2014, targeted initiatives continued in ERG Power to maintain the plants' operational efficiency, flexibility and reliability. Moreover, the scheduled interventions continued in the area of Health, Safety and Environment. It should be mentioned that 2014 investments include similar initiatives carried out in ISAB Energy, for a total amount of Euro 1.4 million, insofar as concerns the period up to 30 June 2014 (date on which the plant was sold).

Integrated Downstream: During 2014 investments totalling approximately Euro 34 million were carried out, almost entirely in relation to the 51% stake in TotalErg, showing a downturn with respect to 2013. Most of these investments (around 64%) concerned the retail network, primarily for development activities (reconstructions, new dealerships, upgrading and automation of existing sales outlets, etc.) and activities connected with the optimisation and expansion of the Rome logistics hub. A significant portion was also allocated to investments in the maintenance and improvement of Health, Safety and Environment aspects.

Operational data

Electricity sales carried out by the ERG Group primarily refer to the electricity produced by its wind farms (ERG Renew) and thermoelectric plants (ERG Power and, until 30 June, ISAB Energy) and, to a lesser extent, to purchases on organised markets and via physical bilateral contracts. Of the electricity sales carried out in Italy **during 2014**, around 6.7 TWh concerned output by the Group's facilities, corresponding to approximately 2.2% of overall domestic demand (2.8% in 2013); of the sales in Italy in the **fourth quarter of 2014**, around 1.2 TWh concerned output by the Group's facilities, representing approximately 1.5% of overall domestic demand (2.6% in the corresponding period of 2013).

The Group's total electricity sales, in 2014, amounted to 9.4 TWh, compared to 10.6 TWh in 2013 (**in the fourth quarter of 2014** the Group's electricity sales amounted to 2.0 TWh, compared to 2.6 TWh in the corresponding period of 2013).

In 2014, electricity output by ERG Renew amounted to 2,580 GWh, compared to 2,403 GWh in 2013; wind output in Italy totalled 2,051 GWh, in line with the figure recorded in 2013, whereas overseas production totalled 529 GWh, with an increase compared to 393 GWh in 2013. It should be noted that Italian output was positively impacted by the 34 MW increase in installed capacity (in the Basilicata region), and negatively affected by the wind conditions, which were far below the historical average and slightly inferior to the already weak conditions of 2013. We mention that, at national level, overall wind power output was essentially in line with the figures posted in 2013, but with a slight increase in installed capacity. With regard to overseas output, the growth was due above all to the contribution from the new wind farm in the region of Tulcea in Romania, as well as from the Gebeleisis (Romania) and Hrabrovo (Bulgaria) wind farms, which in 2013 had only contributed to output respectively from 28 June and 5 September. **In the fourth quarter of 2014**, ERG Renew's electricity output totalled 632 GWh, compared to 594 GWh in the corresponding period of 2013, Italian wind power output amounted to 481 GWh, compared to 449 GWh in the last three months of 2013, whereas overseas production totalled 151 GWh, compared to 145 GHz in the fourth quarter of 2013.

In 2014, output by ISAB Energy amounted to 2.0 TWh, compared to 4.1 TWh in 2013. We mention that, by June 2014, ERG had finalised its purchase of GDF SUEZ's 49% stake in ISAB

Energy, its early termination of the CIP6/92 agreement and its sale of the ISAB Energy plant to ISAB, which took place on 30 June 2014. The results posted by the facility therefore contributed to the Group's results only for the first six months of the year. **During 2014, ERG Power's net electricity output** totalled 2,623 GWh, slightly less than in 2013 (2,663 GWh). This reduction was primarily ascribable during the first half of the year to a situation of increased volatility, which gave rise to a more determined modulation of the plant, and to the disposal, during 2013, of an insufficiently flexible plant section (SA1N3 unit) producing steam and electricity. **In the fourth quarter of 2014** electricity output totalled 702 GWh, compared to 669 GWh in the corresponding period of 2013.

Total oil product sales by the Integrated Downstream sector in 2014 amounted to 3.6 million tonnes (7.8 million tonnes in 2013). **In the fourth quarter of 2014** sales totalled 1.1 million tonnes, compared to 2.3 million tonnes in the corresponding period of 2013. The sharp drop in volumes sold is primarily ascribable to the change in perimeter following the sale of the stake in the ISAB Refinery. It should be pointed out that the figures for 2014 include the contribution from the sales of TotalErg (51% share) and ERG Oil Sicilia, which was sold on 29 December 2014.

In 2014, retail sales in Italy totalled 1.4 million tonnes, compared to 1.5 million tonnes in 2013 (sales in the **fourth quarter of 2014** amounted to 0.3 million tonnes, compared to 0.4 million tonnes in the corresponding period of 2013). It should be pointed out that the figures include the contribution from the sales of 51% of TotalErg.

Processing by the refineries in 2014 amounted to 0.7 million tonnes, with a clear downturn compared to 2.9 million tonnes in 2013 (**in the fourth quarter of 2014**, processing amounted to 0.1 million tonnes, compared to 0.7 million tonnes in the fourth quarter of 2013). The sharp drop in processing in 2014 is ascribable to the complete exit from the Coastal Refining sector, which took place at the end of 2013 with the sale of the remaining 20% stake in the ISAB Refinery, and the processing therefore refers exclusively to the 51% share of TotalErg's processing.

Processing carried out by TotalErg's inland refineries, following the closure of the Rome Refinery in September 2012, exclusively concerns the stake held in the Sarpom Refinery (with a balanced distillation capacity of around 1.6 million tonnes). In 2014 processing therefore amounted to 1.3 million tonnes, less than the 1.4 million tonnes processed during the corresponding period a year earlier, due to the scheduled shutdown of the plant, for approximately 45 days, which took place during the months of October-November (**in the fourth quarter of 2014** processing totalled 0.2 million tonnes, compared to 0.4 million tonnes in the corresponding period of 2013).

Main events in 2014

RENEWABLES - ITALY

On **16 January 2014** the ERG Renew Shareholders' Meeting approved a reserved capital increase for a total amount of 50 million Euro, at the same time subscribed and paid up by UniCredit, corresponding to a 7.14% minority stake in ERG Renew's share capital. On the same date the Board of Directors co-opted a representative of Unicredit in accordance with the shareholder agreements.

On **20 January 2014** ERG Renew announced the coming on stream of its new wind farm at Palazzo San Gervasio (Potenza), with an installed capacity of 34 MW, which took place ahead of the original timetable. On **23 May 2014** ERG Eolica Basilicata (100% ERG Renew) signed a project finance loan agreement in favour of the Palazzo San Gervasio wind farm. The loan, for an overall amount of Euro 43 million and with a maturity of 17 years, was subscribed by Mandated Lead Arrangers BNP Paribas and Crédit Agricole CIB, the latter also acting as agent bank, and Carispezia Crédit Agricole as Account Bank.

On **5 November 2014** ERG served on International Power a claim for reimbursement in the amount of Euro 45.8 million. The reimbursement request was in reference to the decree of the Ministry of Economic Development revoking the contributions under Law 488/92 originally assigned to wind farms purchased in 2013 within the scope of the ERG Wind transaction. We mention that the risks associated with revocation of the aforesaid contributions were covered in the ERG Wind purchase agreements by specific indemnity undertakings provided by the seller. Against the revocation decrees an extraordinary appeal was immediately submitted, requesting the precautionary suspension of the efficacy of the impugned rulings and a decision is now pending with regard to both the precautionary petition and the merits of the appeal. It should be noted that pending the verdict at the Court of Avellino, the sum of Euro 32 million is already restricted in the special escrow account set up under Article 61, paragraph 23, of Law Decree no. 112/2008 (converted by Law no. 133/2008).

RENEWABLES – OUTSIDE OF ITALY

On **9 January 2014** LUKERG Renew, a joint venture between ERG Renew and LUKOIL-Ecoenergo, completed the construction and commissioning of the Topolog-Dorobantu wind farm in the Romanian region of Tulcea. The new facility, which comprises 42 Vestas V90-2 MW wind turbines, has an installed capacity of 84 MW.

On **2 April 2014** LUKERG Renew, through its subsidiary Corni Eolian, signed a project finance loan agreement with Raiffeisen Bank International AG and ING Bank NV as Mandated Lead Arrangers (MLA) to finance the Gebeleisis wind farm, located in the Romanian region of Galati, with an installed capacity of 70 MW. The loan, for the total amount of 67 million Euro, has a maturity of 11 years.

On **15 May 2014** ERG Renew signed an agreement to purchase from the Vortex Energy group a 100% equity interest in EW Orneta 2, a Polish company duly authorised to implement a wind farm project in Poland, in the region of Radziejów, with a planned capacity of 42 MW. The acquisition closing was completed on **22 July 2014**.

On **4 June 2014** LUKERG Renew, through its subsidiary Land Power, signed a project finance loan agreement with the European Bank for Reconstruction and Development (EBRD) and UniCredit as Hedging Provider and Account Bank, to finance the Topolog-Dorobantu wind farm located in the Romanian region of Tulcea. The loan, for the total amount of Euro 57 million, will have a maturity of 14 years.

THERMOELECTRIC

On **16 June 2014** ERG closed the transaction with GDF SUEZ for the acquisition of shareholdings, corresponding to a 49% equity interest (indirectly held by GDF SUEZ and by Mitsui & Co.), in ISAB Energy, ISAB Energy Services and ISAB Energy Solare.

On **30 June 2014** ERG closed the transaction with the LUKOIL Group subsidiary ISAB for the sale of the ISAB Energy and ISAB Energy Services business lines, comprising above all the IGCC production plant and the personnel concerned with its operation and maintenance.

OIL

On **5 November 2014** ERG announced that it had reached an agreement with GRS Petroli for the sale of its 100% equity interest in ERG Oil Sicilia, a company operating in Sicily in the fuel distribution sector with a retail network of around 200 outlets. Under this transaction GRS Petroli, already owner of a retail network of outlets on the island of Sicily, paid ERG an amount of approximately 30 million Euro. On **29 December 2014** ERG then announced its completion of the closing for the sale of EOS to Maiora.

CORPORATE

On **15 April 2014** ERG's Shareholders' Meeting, upon a proposal by the Board of Directors, resolved to pay a dividend of 1 Euro per share, which included a non-recurring component of Euro 0.50 per share, considering the successful conclusion of an essential phase of the strategic industrial reorganisation project commenced in 2008.

Significant events after the year-end

On **23 January 2015** ERG Renew signed an agreement with PAI (PAI Polish Alternative Investments RES) group to purchase a 100% equity interest in Hydro Inwestycje, a Polish company duly authorised to implement a wind farm project in Poland, in the municipalities of Szydłowo and Stupsk, with a planned capacity of 14 MW. ERG Renew expects to commence construction of the wind farm in the second quarter of 2015 with a view to coming on stream by the end of the year.

Business outlook

Renewables

During 2014 construction work started on the new wind farm in Poland (installed capacity of 42 MW), expected to come on stream halfway through 2015, and construction will shortly commence on a new 14 MW wind farm, with the aim of completing the same by the end of 2015, by which time installed capacity in Poland will therefore reach 56 MW. Lastly, activities continue to enhance the company's expansion, with the evaluation of potential new investment opportunities, particularly outside of Italy.

Considering the same perimeter, 2015 results are expected to show a slight growth compared to 2014, which was affected by wind conditions notably inferior to the historical averages, thanks to the contribution from the new wind farms currently being constructed outside of Italy and to the additional efficiencies deriving from the continued insourcing of O&M activities.

Power

The year 2015 will be characterised by the major discontinuity as regards the agreements for early termination of the *CIP6* convention and simultaneous sale of the ISAB Energy plant, which took place on 30 June 2014. Consequently, the operating results for the year will not include ISAB Energy's contribution, which, on the other hand, was present in the first six months of 2014. Insofar as concerns the ERG Power plant, very satisfactory results are forecast again in 2015, albeit below those recorded in 2014, despite the still unfavourable market conditions for gas-fired plants, whose generation margins and utilisation factors remain depressed, and the introduction of Essential Facility regulations under Law Decree 91/2004. In view of the plant's geographical location and flexibility, and the long-term supply contracts, it will in fact be possible to maintain profitability decidedly above the average recorded by other plants in Italy of the same type.

Integrated Downstream

Following the sale of the stake held in ERG Oil Sicilia at the end of 2014, in 2015 Integrated Downstream will benefit above all from the results of the equity investment in TotalErg. More specifically, as regards the Marketing sector, thanks to the notable reduction in the cost of products on the international markets in recent months, with a basic stability of the tax component (excise duty), consumption levels are not expected to fall below those of 2014. Against this background, the company's efforts will continue to be focused on achieving maximum operational efficiency and on implementation of the requalification plan for its retail network commenced in 2012, with a view to making it more competitive in terms of average throughput and more sustainable in the long term. Moreover, the fact of maintaining a depressed level of oil prices on the international markets

could favour a recovery of refining margins, in keeping with the trend during the second half of 2014. The year 2015 will also benefit from the full availability of the Sarpom refinery, which is 24% owned by TotalErg and in the fourth quarter of 2014 was affected by a long-term general shutdown.

For the Integrated Downstream sector overall 2015 results are expected to show an improvement compared to those recorded in 2014.

In view of the foregoing, group EBITDA is expected to show a downturn with respect to 2014; however, the comparison reflects above all the portfolio discontinuities associated with the sale of the ISAB Energy plant, completed on 30 June 2014, and the sale of ERG Oil Sicilia, completed on 29 December 2014. Without taking into consideration these discontinuities, the results would show a slight growth.

Additional information

Appointment of the new Board of Directors

The Ordinary Shareholders' Meeting will be called upon, *inter alia*, to pass resolution regarding the appointment of members to the Board of Directors, having previously determined their number, the appointment of the Chairman of the Board of Directors, the fixing of fees payable to the members of the Board of Directors, the Control and Risk Committee and the Nominations and Remuneration Committee for FY2015 on the basis of proposals formulated in accordance with applicable legislative, regulatory and statutory provisions.

Purchase and sale of treasury shares

The Ordinary Shareholders' Meeting will be called upon, *inter alia*, to resolve on the authorisation of the Board of Directors for the purchase of treasury shares up to a revolving limit of 30,064,000 ordinary shares, corresponding to 20% of ERG's share capital (intending thereby the maximum quantity of treasury shares from time to time held in portfolio), in order to optimise the equity structure with a view to maximising value creation for shareholders, also in relation to the significant liquidity available. The authorisation will be valid for a period of twelve months with effect from the date of the resolution. The purchase must be conducted through the use of distributable profits and available reserves resulting from the last approved financial statements, in compliance with Article 132 of the Consolidated Finance Act and according to the procedures laid down in Article 144-*bis*, paragraph 1, letter b), of the Issuers' Regulations, at a unitary price, including additional purchase charges, to be no more than 30% lower in minimum and no more than 10% higher in maximum with respect to the reference price recorded by the share during the stock exchange session on the day before each individual transaction. The Company holds 7,516,000 treasury shares, corresponding to 5% of share capital, with an average book value of Euro 6.9 per share. The Ordinary Shareholders' Meeting will be also called upon to resolve on the authorisation of the Board of Directors for the sale of treasury shares, in one or more stages, for a period of twelve months starting from the date when the related resolution is adopted, in accordance with article 2357-*ter* of the Italian Civil Code, at a unitary price no more than 10% lower in minimum with respect to the reference price recorded by the share during the stock exchange session on the day before each individual sale and in any case not below the unitary value per share included in the Company's shareholders' equity as from time to time appearing in the last approved financial statements. This is intended to optimise financial leverage and however in all other circumstances where the possibility to dispose of the shares appears, in the opinion of the administrative body, to be in keeping with the interests of the Company and the Shareholders.

Long-term monetary incentive plan 2015 – 2017

The Shareholders' Meeting will be called upon to approve the 2015-2017 Long-term Monetary Incentive Plan (the "Plan") as approved by the Board of Directors on 11 March 2015, following a proposal by the Nominations and Remuneration Committee (entirely made up of independent

directors) on 4 March 2015, having consulted the Board of Statutory Auditors. The Plan will be used to provide incentives and promote the retention of directors and/or employees of ERG and its Subsidiaries who hold major strategic relevance for the execution of the Business Plan currently being approved, including certain Managers with Strategic Responsibilities. The Plan should therefore be considered "of particular relevance" within the meaning of Article 84-*bis*, paragraph 2, of the Issuers' Regulations. A description of the Plan purposes and characteristics is set out in greater detail in the Information Document, prepared by the Board of Directors in accordance with Article 114-*bis* of the Consolidated Finance Act and Article 84-*bis* of the Issuers' Regulations and made available to the public at the Company's offices, at Via De Marini 1, Genoa, on the Company's website (www.erg.it) in the section "Corporate Governance/2015 Shareholders' Meeting", at the offices of Borsa Italiana S.p.A. and on the "Nis-Storage" authorised storage mechanism (www.emarketstorage.com), together with the Board of Directors' Explanatory Report with regard to the matters on the agenda.

Remuneration report

The Ordinary Shareholders' Meeting will be required to pass resolution pursuant to Article 123-*ter* of the Consolidated Finance Act regarding the Remuneration Report, as approved by the Board of Directors in their meeting on 11 March last.

Merger Plan

The Board of Directors has today approved the plan for merger by incorporation of ERG Supply & Trading into ERG, as approved by the ERG Supply & Trading Board of Directors during its meeting on 10 March last. Since ERG Supply & Trading is wholly owned by ERG, the merger will be simplified and therefore subjected to approval by the companies' respective management bodies, in accordance with Article 2505 of the Italian Civil Code, Article 17 of ERG's Articles of Association and Article 12 of ERG Supply & Trading's Articles of Association. As it concerns a simplified merger procedure, ERG will not carry out any increase of its capital or assign shares to replace the shares held in the companies involved in the incorporation, which will be cancelled without any share swap as a result of the merger. Likewise, no change is anticipated to ERG's Articles of Association. The real effects of the merger will commence from the first day of the month following that in which the final registration of the merger deed is made in the companies' register at the Genoa Chamber of Commerce, where all the companies are registered; the effects of the merger for accounting and tax purposes will commence from 1 January 2015. Bearing in mind the negative economic performances deriving from the "supply and trading" operations in 2014 and in keeping with the trend in the Group's strategic policies, as increasingly developed during the course of the year in question and more and more focused on renewable energy sources, the objectives pursued through this transaction are:

- streamlining of the ERG Group corporate structure, by reducing the control chain, with consequent advantages from an organisational and operational standpoint;
- the achievement of organisational synergies also with the Group's other businesses and the reduction of management and administrative costs.

ERG shareholders, representing at least 5% of the Company's capital, may submit to the Company within eight days of the merger plan being deposited a request – pursuant to Article 2505, third paragraph, of the Italian Civil Code – for the decision approving the merger to be submitted to the Extraordinary Shareholders' Meeting. The merger qualifies for exemption from application of the Procedure for ERG related party transactions provided in reference to transactions with subsidiaries. The Board of Directors considers that the merger transaction does not give rise to any right of withdrawal as set forth by Article 2437 of the Italian Civil Code.

In reference to the estimates and forecasts contained in this press release, we point out that actual results may differ even significantly from the announced results due to a multitude of factors, including: future trends in prices, the operating performance of plants, the impact of regulations for the oil and energy industry and for the environment, other changes in business conditions and in the action of the competition.

The layout of the accounting statements corresponds to the format used in the Report on Operations. Appropriate explanatory notes illustrate the results at replacement cost and adjusted results at replacement cost.

Pursuant to Article 154-bis(2) of the Consolidated Finance Act, the manager responsible for preparing the company's financial reports, Paolo Merli, declares that the accounting information contained in this press release corresponds to the accounting documents, books and records.

The results for the fourth quarter and FY2014 will be illustrated to analysts and investors today at 11.00 a.m. (CET), during a conference call and simultaneous webcast, which may be viewed by visiting the Company website at www.erg.it; the presentation will be available on the said website, in the "Investor Relations/Presentations" section, 15 minutes before the conference call.

This press release issued at 7.45 a.m. (CET) on 12 March 2015, has been prepared pursuant to the Issuers' Regulations. It is available to the public at the offices of Borsa Italiana S.p.A., on the "Nis-Storage" authorised storage mechanism (www.emarketstorage.com) and on the Company's website (www.erg.it), in the section "Media/Press releases".

The annual Financial Report, together with the reports of the Board of Statutory Auditors and of the Independent Auditors, and the Directors' Explanatory Report, as well as the additional documents prescribed, will be made available to the public within the deadlines and according to the procedures laid down in the current regulations at the Company's registered office at Via De Marini 1, Genoa, and on the Company website (www.erg.it) in the section "Corporate Governance/2015 Shareholders' Meeting", at the offices of Borsa Italiana S.p.A. and on the "Nis-Storage" authorised storage mechanism (www.emarketstorage.com).

Contacts:

Alessandra Mariotti Media Relations Manager - tel. + 39 010 2401364 Mob. + 39 335 8053395

Emanuela Delucchi IR Manager – tel. + 39 010 2401806 – e-mail: edelucchi@erg.it

Matteo Bagnara IR - tel. + 39 010 2401423 - e-mail: ir@erg.it – www.erg.it

¹ Adjusted results at replacement cost also include the contribution, as regards ERG's share, of the results of TotalErg (a joint venture with Total), LUKERG Renew (a joint venture with LUKOIL) and ISAB. For the definition and reconciliation of the adjusted results at replacement cost, reference should be made to the content of the chapter "Alternative performance indicators" attached to this press release.

² Results at replacement cost **do not** include inventory gains (losses) and non-recurring items.

³ Group net result at replacement cost **does not** include inventory gains (losses), non-recurring items or applicable theoretical taxes and corresponds to the adjusted Group net result at replacement cost.

⁴ The figures for the fourth quarter are reported on a pro-forma basis and for the purpose of completeness and continuity of information.

⁵ The Consolidated Financial Statements as at 31 December 2014 were prepared in accordance with the valuation and measurement criteria laid down by the International Financial Reporting Standards (IFRS) and based on the relevant regulatory guidelines. The Financial Statements were audited according to the procedures set forth by CONSOB regulations. The documents of the Financial Statements, together with the reports prepared by the supervisory bodies, will be made public within the time limits required by current regulations.

⁶ The ratio of total net financial debt (including project financing) and net invested capital.

⁷ Includes ERG's share of the net financial position pertaining to the TotalErg and LUKERG Renew joint ventures.

Performance highlights

| 4rd quarter | | (EUR million) | Year | |
|-----------------------------------|--------------|--|--------------|---------------|
| 2014 | 2013 | | 2014 | 2013 |
| Main Income Statement data | | | | |
| 265 | 1,991 | Total revenues ⁽¹⁾ | 1,999 | 7,076 |
| 46 | 37 | EBITDA | 547 | 380 |
| 70 | 111 | EBITDA at replacement cost ⁽²⁾ | 429 | 493 |
| 91 | 132 | EBITDA at adjusted replacement cost ⁽³⁾ | 491 | 569 |
| 23 | 57 | EBIT at replacement cost ⁽²⁾ | 240 | 283 |
| 31 | 56 | EBIT at adjusted replacement cost ⁽³⁾ | 249 | 278 |
| (74) | 33 | Net income | 73 | 85 |
| (74) | 19 | of which Group net income | 48 | 28 |
| 1 | 3 | Group net profit (loss) at adjusted replacement cost ⁽⁴⁾ | 76 | 38 |
| Main Financial data | | | | |
| 2,049 | 2,821 | Net invested capital | 2,049 | 2,821 |
| 1,719 | 2,014 | Shareholders' Equity | 1,719 | 2,014 |
| 330 | 807 | Total net financial indebtedness | 330 | 807 |
| 1,297 | 1,362 | of which non-recourse Project Financing ⁽⁵⁾ | 1,297 | 1,362 |
| 16% | 29% | Financial leverage | 16% | 29% |
| 538 | 1,015 | Total net adjusted financial indebtedness ⁽⁶⁾ | 538 | 1,015 |
| Operating data | | | | |
| 1,341 | 1,340 | Installed capacity at period end - wind farms | 1,341 | 1,340 |
| 632 | 594 | Electric power generation from wind farms | 2,580 | 2,403 |
| 480 | 1,008 | Installed capacity - thermoelectric plants ⁽⁷⁾ | 480 | 1,008 |
| 702 | 1,592 | Electric power generation from thermoelectric plants | 4,665 | 6,805 |
| 1,953 | 2,581 | Total sales of electric power | 9,354 | 10,631 |
| 349 | 384 | Italian Retail sales ⁽⁸⁾ | 1,403 | 1,544 |
| 10.6% | 11.5% | TotalErg Retail market share | 10.6% | 11.3% |
| N.A. | 0.7% | ERG Oil Sicilia Retail market share ⁽⁹⁾ | N.A. | 0.8% |
| 425 | 360 | Raw material and product inventories ⁽¹⁰⁾ | 425 | 360 |
| 104 | 739 | Refinery Processing ⁽¹¹⁾ | 650 | 2,922 |
| 14 | 31 | Capital expenditures ⁽¹²⁾ | 54 | 74 |
| 604 | 778 | Employees at period end⁽¹³⁾ | 604 | 778 |
| Market indicators | | | | |
| 58.8 | 65.2 | Reference price of electricity ⁽¹⁴⁾ | 52.1 | 63.0 |
| 97.4 | 89.3 | Green Certificates sale price (renewables) | 97.4 | 89.3 |
| n.a. | 118.7 | Sale price of CIP6 (Thermoelectric - ISAB Energy) | 100.9 | 118.7 |
| 82.4 | 91.1 | Sicily zone price | 80.9 | 92.0 |

For the definition and reconciliation of results to adjusted replacement cost, please refer to the section "Alternative performance indicators".

⁽¹⁾ net of excise taxes and, in 2014, sale and purchase transactions (3,829 million Euro). In 2014, total revenues also include proceeds arising from the early termination of the C/P 6 agreement;

⁽²⁾ not including inventory gains (losses) and non-recurring items;

⁽³⁾ adjusted values also include the contribution, attributable to ERG, of the results of TotalErg (joint venture with Total), of LUKERG Renew (joint venture with the LUKOIL Group). FY2013 included ERG's share of the contribution from ISAB's results;

⁽⁴⁾ does not include inventory gains (losses), non-recurring items and related applicable theoretical taxes. The values also match the adjusted ones;

⁽⁵⁾ including cash and cash equivalents and excluding the fair value of the related derivatives to hedge interest rates;

⁽⁶⁾ it also includes the contribution attributable to ERG of the net financial position of the joint ventures LUKERG Renew and TotalErg;

⁽⁷⁾ following the sale of the ISAB Energy business line, installed capacity has gone down by 528 MW.

⁽⁸⁾ estimated data. Includes 51% of TotalErg;

⁽⁹⁾ related to the sales outlets of the wholly owned subsidiary ERG Oil Sicilia, which was sold on 29 December 2014;

⁽¹⁰⁾ including ERG's share of the TotalErg joint venture inventories;

⁽¹¹⁾ In 2013, this included the processing carried out at the ISAB Refinery;

⁽¹²⁾ in tangible and intangible fixed assets;

⁽¹³⁾ includes the transfer from ISAB Energy Services to ISAB of personnel concerned with the business line;

⁽¹⁴⁾ Single National Price.

Performance highlights by segment

| 4rd quarter | | | Year | |
|--|--------------|--|--------------|---------------|
| 2014 | 2013 | | 2014 | 2013 |
| | | (EUR million) | | |
| Revenues from ordinary operations: | | | | |
| 87 | 82 | Renewable Energy Sources | 349 | 339 |
| 216 | 440 | Power | 1,164 | 1,642 |
| 708 | 2,482 | Integrated Downstream ⁽¹⁾ | 3,098 | 9,002 |
| 7 | 2 | Corporate | 30 | 6 |
| (80) | (163) | Intra-segment revenues | (291) | (621) |
| 939 | 2,843 | Total adjusted revenues ⁽²⁾ | 4,350 | 10,368 |
| 0 | (47) | ERG share of ISAB S.r.l. contribution at adjusted replacement cost | 0 | (189) |
| (679) | (811) | TotalErg 51% contribution at adjusted replacement cost | (2,958) | (3,117) |
| (6) | (5) | LUKERG Renew 50% contribution at adjusted replacement cost | (22) | (11) |
| 254 | 1,980 | Total revenues from ordinary operations | 1,369 | 7,051 |
| EBITDA: | | | | |
| 66 | 59 | Renewable Energy Sources | 267 | 245 |
| 22 | 83 | Power | 204 | 358 |
| 9 | (2) | Integrated Downstream ⁽¹⁾ | 44 | (5) |
| (6) | (7) | Corporate | (24) | (30) |
| 91 | 132 | EBITDA at adjusted replacement cost ⁽³⁾ | 491 | 569 |
| 0 | (8) | ERG share of ISAB S.r.l. contribution at adjusted replacement cost | 0 | (31) |
| (18) | (10) | TotalErg 51% contribution at adjusted replacement cost | (47) | (39) |
| (4) | (3) | LUKERG Renew 50% contribution at adjusted replacement cost | (14) | (7) |
| 70 | 111 | EBITDA at replacement cost ⁽³⁾ | 429 | 493 |
| 0 | (2) | Inventory gains (losses) | (0) | (6) |
| (24) | (72) | Non-recurring items | 118 | (107) |
| 46 | 37 | EBITDA | 547 | 380 |
| Amortisation, depreciation and write-downs | | | | |
| (39) | (32) | Renewable Energy Sources | (137) | (126) |
| (7) | (22) | Power | (54) | (80) |
| (13) | (22) | Integrated Downstream ⁽¹⁾ | (48) | (83) |
| (1) | (1) | Corporate | (2) | (3) |
| (60) | (76) | Amortisation and depreciation at adjusted replacement cost ⁽³⁾ | (241) | (291) |
| 0 | 6 | ERG share of ISAB S.r.l. contribution at adjusted replacement cost | 0 | 22 |
| 11 | 15 | TotalErg 51% contribution at adjusted replacement cost | 44 | 56 |
| 2 | 1 | LUKERG Renew 50% contribution at adjusted replacement cost | 8 | 4 |
| (47) | (54) | Amortisation and depreciation at replacement cost ⁽³⁾ | (189) | (210) |
| EBIT: | | | | |
| 27 | 27 | Renewable Energy Sources | 131 | 119 |
| 14 | 61 | Power | 150 | 278 |
| (4) | (24) | Integrated Downstream ⁽¹⁾ | (5) | (87) |
| (6) | (8) | Corporate | (27) | (32) |
| 31 | 56 | EBIT at adjusted replacement cost ⁽³⁾ | 249 | 278 |
| 0 | (2) | ERG share of ISAB S.r.l. contribution at adjusted replacement cost | 0 | (9) |
| (6) | 5 | TotalErg 51% contribution at adjusted replacement cost | (3) | 17 |
| (2) | (2) | LUKERG Renew 50% contribution at adjusted replacement cost | (6) | (3) |
| 23 | 57 | EBIT at replacement cost ⁽³⁾ | 240 | 283 |
| Capital expenditures on tangible and intangible fixed assets: | | | | |
| 9 | 41 | Renewable Energy Sources | 38 | 97 |
| 4 | 11 | Power | 14 | 26 |
| 12 | 14 | Integrated Downstream ⁽¹⁾ | 34 | 41 |
| 1 | 1 | Corporate | 3 | 2 |
| 25 | 67 | Total adjusted capital expenditures ⁽⁴⁾ | 89 | 165 |
| 0 | 0 | Capital expenditures of ISAB S.r.l. (ERG share) | 0 | 0 |
| (11) | (13) | Capital expenditures of TotalErg (51%) | (34) | (39) |
| 0 | (23) | Capital expenditures of LUKERG Renew (50%) | (2) | (52) |
| 14 | 31 | Total capital expenditures | 54 | 74 |

For the definition and reconciliation of results to adjusted replacement cost, please refer to the section "Alternative performance indicators".

⁽¹⁾ In 2013, Integrated Downstream also includes the results of coastal refining;

⁽²⁾ adjusted revenues take into account ERG's share of revenues generated by the TotalErg and LUKERG Renew joint ventures. FY2013 included ERG's share of the contribution from ISAB's results. The figures for 2014 do not include revenues from supply & trading activities (Euro 3,829 million), which are stated as a reduction against costs for purchases;

⁽³⁾ replacement cost values do not include inventory gains (losses) and non-recurring items. Adjusted values also include the contribution, attributable to ERG, of the results of TotalErg, LUKERG Renew. FY2013 included ERG's share of the contribution from ISAB's results;

⁽⁴⁾ they take into account ERG's share of the capital expenditures effected by TotalErg and LUKERG Renew.

Consolidated Income Statement

| 4rd quarter | | Reclassified Income Statement | Year | |
|---------------|----------------|--|----------------|----------------|
| 2014 | 2013 | | 2014 | 2013 |
| | | (EUR million) | | |
| 253.9 | 1,980.3 | Revenues from ordinary operations | 1,369.4 | 7,051.8 |
| 11.3 | 10.8 | Other revenues and income | 629.2 | 23.9 |
| 265.2 | 1,991.1 | TOTAL REVENUES | 1,998.7 | 7,075.7 |
| (147.0) | (1,739.5) | Costs for purchase and changes in inventory | (729.5) | (6,099.0) |
| (72.7) | (214.5) | Costs for services and other operating costs | (722.2) | (596.8) |
| 45.5 | 37.0 | EBITDA | 547.0 | 379.8 |
| (44.8) | (54.3) | Amortisation, depreciation and write-downs of fixed assets | (187.6) | (210.1) |
| (14.7) | (17.0) | Net financial income (expenses) | (66.0) | (72.8) |
| (50.6) | 103.6 | Net income (loss) from equity investments | (65.0) | 97.1 |
| (64.5) | 69.3 | Profit before taxes | 228.4 | 194.0 |
| (9.2) | (36.8) | Income taxes | (155.7) | (108.8) |
| (73.7) | 32.6 | Profit for the period | 72.7 | 85.2 |
| 0.0 | (13.8) | Minority interests | (24.9) | (56.8) |
| (73.7) | 18.8 | Group's net profit (loss) | 47.8 | 28.4 |

Consolidated Statement of Financial Position

| Reclassified Statement of Financial Position | 12/31/2014 | 12/31/2014 |
|--|----------------|----------------|
| (EUR million) | | |
| Fixed assets | 2,120.3 | 2,795.0 |
| Net working capital | 189.6 | 278.7 |
| Employees' severance indemnities | (4.7) | (5.0) |
| Other assets | 344.3 | 410.7 |
| Other liabilities | (600.5) | (658.4) |
| Net invested capital | 2,049.0 | 2,821.0 |
| Group Shareholders' Equity | 1,671.5 | 1,773.6 |
| Minority interests | 47.4 | 240.0 |
| Net financial indebtedness | 330.1 | 807.5 |
| Shareholders' equity and financial debt | 2,049.0 | 2,821.0 |

Cash flow

| 4rd quarter | | | Year | |
|---------------|----------------|---|----------------|----------------|
| 2014 | 2013 | | 2014 | 2013 |
| | | CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| | | (EUR million) | | |
| 52.2 | 71.3 | Adjusted cash flow from current operations ⁽¹⁾ | 292.1 | 327.4 |
| (26.8) | (29.6) | Income tax paid | (52.1) | (81.4) |
| 45.7 | 77.8 | Change in working capital | 57.9 | (33.3) |
| 6.1 | 14.7 | Change in other operating assets and liabilities ⁽²⁾ | 46.5 | 39.1 |
| 77.2 | 134.2 | TOTAL | 344.4 | 251.8 |
| | | CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| (12.6) | (29.6) | Net capital expenditures on tangible and intangible fixed assets ⁽³⁾ | (31.6) | (73.0) |
| 1.5 | (40.2) | Net capital expenditures in financial fixed assets | 13.8 | (61.5) |
| 0.0 | 425.7 | Collection for the sale of ISAB shares | 0.0 | 434.7 |
| 0.0 | 0.0 | Collection for termination of CIP6 agreement | 515.0 | 0.0 |
| (11.1) | 355.9 | Total | 497.3 | 300.2 |
| | | CASH FLOW FROM SHAREHOLDERS' EQUITY: | | |
| 0.0 | 0.0 | Distributed dividends | (164.9) | (68.2) |
| (13.5) | 1.4 | Other changes in equity ⁽⁴⁾ | (202.5) | 25.4 |
| (13.5) | 1.4 | Total | (367.4) | (42.8) |
| 3.8 | (9.9) | CHANGES IN SCOPE OF CONSOLIDATION ⁽⁵⁾ | 3.0 | (804.1) |
| 56.5 | 481.6 | CHANGE IN NET FINANCIAL INDEBTEDNESS | 477.4 | (294.9) |
| 386.6 | 1,289.1 | INITIAL NET FINANCIAL INDEBTEDNESS | 807.5 | 512.6 |
| (56.5) | (481.6) | CHANGE IN THE PERIOD | (477.4) | 294.9 |
| 330.1 | 807.5 | FINAL NET FINANCIAL INDEBTEDNESS | 330.1 | 807.5 |

- ⁽¹⁾ item does not include inventory gains (losses), deferral of the CIP 6 tariff increase and current income tax for the period. Moreover, the item does not include the revenues arising from early termination of the CIP 6 agreement, the capital loss arising from the sale to ISAB of the ISAB Energy and ISAB Energy Services business line and the related ancillary proceeds and charges;
- ⁽²⁾ item does not include the proceeds associated with early termination of the CIP6 agreement, which are stated in a separate line under cash flows from investing activities;
- ⁽³⁾ item does not include capitalised costs for cyclical maintenance;
- ⁽⁴⁾ item includes the acquisition of a minority stake in ISAB Energy and ISAB Energy Services (153 million) and the variation in cash flow hedge reserve in connection with IRS derivatives, partly offset by 50 million Euro received from Unicredit upon entering the ERG Renew shareholder body;
- ⁽⁵⁾ the change in the scope of consolidation in 2014 refers to the acquisition of EW Orneta Z.O.O. from the third quarter of 2014. In 2013 it referred to the acquisition of ERG Wind, ERG Renew Operations & Maintenance and the sale of Eolo.

Alternative performance indicators

In order to enhance understandability of trends in the business segments, the financial results are also shown at **adjusted replacement cost**, excluding inventory gains (losses) and non-recurring items, and including the contribution, for the portion attributable to ERG, of the results at replacement cost of the joint ventures TotalErg and LUKERG Renew.

The results at replacement cost and the results at adjusted replacement cost are indicators that are not defined in International Financial Reporting Standards (IAS/IFRS). Management deems that these indicators are important parameters for measuring the ERG Group's operating performance, and are generally used by operators in the petroleum and energy industry in their financial reporting. Since the composition of these indicators is not regulated by the applicable accounting standards, the method used by the Group to determine these measures may not be consistent with the method used by other operators and so these might not be fully comparable.

The components used to determine the calculation of results at adjusted replacement cost are described below.

Inventory gains (losses) are equal to the difference between the replacement cost of products sold in the period and the cost resulting from application of the weighted average cost. They represent the higher (lower) value, in the event of price increases (decreases), applied to the quantities corresponding to levels of inventories physically present at the beginning of the period and still present at the end of the period.

Non-recurring items include significant but unusual earnings.

The results also include the contribution of the joint ventures **TotalErg** and **LUKERG Renew**, for the portion attributable to ERG. To enhance understandability of the business' performance, the results of the business are also shown at adjusted replacement cost that takes into account, for the portion attributable to ERG, the results at replacement cost of TotalErg, LUKERG Renew whose contribution to the Income Statement not at adjusted replacement cost is reported in the value of the investment measured under the equity method of accounting.

Consistently with the above, net financial indebtedness is also shown at adjusted replacement cost that takes into account the portion attributable to ERG of the net financial position of the joint ventures TotalErg and LUKERG Renew, net of the relevant intra-group items.

Following the already commented sale of the stake in ISAB, starting from 1 January 2014 the adjusted values of economic data no longer take into account the said company's contribution.

Reconciliation with operating results at adjusted replacement cost

| 4rd quarter | | EBITDA | Note | Year | |
|---|---------------|--|------|----------------|----------------|
| 2014 | 2013 | | | 2014 | 2013 |
| 45.5 | 37.0 | EBITDA | | 547.0 | 379.8 |
| (0.1) | 2.2 | Exclusion of inventory gains / losses | | 0.0 | 6.3 |
| | | Exclusion of non-recurring items: | | | |
| | | Corporate | | | |
| (1.9) | 0.0 | - Ancillary charges - transactions concerning ISAB Energy and ISAB Energy Services | 1 | 6.4 | 0.0 |
| 0.0 | 0.4 | - Ancillary charges of sale of 20% of ISAB S.r.l. | | 0.0 | 0.4 |
| 0.0 | 0.0 | - Ancillary charges ERG Wind acquisition | | 0.0 | 2.9 |
| 0.2 | 0.2 | - Ancillary charges - other transactions | 2 | 0.2 | 0.2 |
| 16.0 | 4.3 | - Charges for company reorganisation | 3 | 16.0 | 4.3 |
| | | Power | | | |
| 0.0 | 0.0 | - Termination of CIP 6 agreement | 4 | (514.5) | 0.0 |
| 0.0 | 0.0 | - Sale of IGCC | 4 | 405.5 | 0.0 |
| 0.4 | 0.0 | - Other ancillary (proceeds) charges concerning ISAB Energy and ISAB Energy Services | 1 | (36.1) | 0.0 |
| 0.0 | (4.3) | - Adjustment on commercial relations from previous years | | 0.0 | (4.3) |
| | | Renewable Energy Sources | | | |
| 0.0 | 0.6 | - Ancillary charges - ERG Wind acquisition | | 0.0 | 10.2 |
| 0.4 | 0.0 | - Ancillary charges - extraordinary operations | 1 | 0.4 | 0.0 |
| | | Integrated Downstream | | | |
| 1.7 | 1.8 | - Other charges on sales outlets in Sicily | 5 | 2.5 | 7.2 |
| | | Trading | | | |
| 9.9 | 0.0 | - Impact of fair value measurement of swaps | 6 | 9.9 | 0.0 |
| | | Coastal refining | | | |
| (2.6) | 0.0 | - Estimated liabilities on previous years' adjustments | 7 | (7.8) | 17.0 |
| 0.0 | 80.0 | - Liabilities for site disputes | | 0.0 | 80.0 |
| 0.0 | (7.7) | - Derecognition of deferred expenses due to exit from Refining business | | 0.0 | (7.7) |
| 0.0 | (3.4) | - Adjustment on commercial relations from previous years | | 0.0 | (3.4) |
| 69.5 | 111.1 | EBITDA at replacement cost | | 429.5 | 492.9 |
| 0.0 | 8.2 | ERG share of ISAB contribution at adjusted replacement cost ⁽¹⁾ | 8 | 0.0 | 30.6 |
| 17.7 | 10.0 | TotalErg 51% contribution at adjusted replacement cost ⁽¹⁾ | 9 | 47.3 | 39.0 |
| 4.1 | 3.1 | LUKERG Renew 50% contribution at adjusted replacement cost | 10 | 14.0 | 6.6 |
| 91.3 | 132.4 | EBITDA at adjusted replacement cost | | 490.8 | 569.1 |
| AMORTISATION, DEPRECIATION AND WRITE-DOWNS | | | | | |
| 4rd quarter | | AMORTISATION, DEPRECIATION AND WRITE-DOWNS | Note | Year | |
| 2014 | 2013 | | | 2014 | 2013 |
| (44.8) | (54.3) | Amortisation, depreciation and write-downs | | (187.6) | (210.1) |
| | | Exclusion of non-recurring items: | | | |
| | | Power | | | |
| (1.7) | 0.0 | - Asset Write-off | 1 | (1.7) | 0.0 |
| (46.5) | (54.3) | Amortisation and depreciation at replacement cost | | (189.3) | (210.1) |
| 0.0 | (5.7) | ERG share of ISAB contribution at adjusted replacement cost ⁽¹⁾ | 8 | 0.0 | (22.0) |
| (11.5) | (14.8) | TotalErg 51% contribution at adjusted replacement cost ⁽¹⁾ | 9 | (44.3) | (55.7) |
| (1.9) | (1.4) | LUKERG Renew 50% contribution at adjusted replacement cost | 10 | (7.9) | (3.6) |
| (59.9) | (76.2) | Amortisation and depreciation at adjusted replacement cost | | (241.4) | (291.4) |
| EBIT | | | | | |
| 4rd quarter | | EBIT | Note | Year | |
| 2014 | 2013 | | | 2014 | 2013 |
| 23.0 | 56.9 | EBIT at replacement cost | | 240.2 | 282.8 |
| 0.0 | 2.5 | ERG share of ISAB contribution at adjusted replacement cost ⁽¹⁾ | 8 | 0.0 | 8.5 |
| 6.2 | (4.7) | TotalErg 51% contribution at adjusted replacement cost ⁽¹⁾ | 9 | 3.1 | (16.7) |
| 2.2 | 1.6 | LUKERG Renew 50% contribution at adjusted replacement cost | 10 | 6.1 | 3.1 |
| 31.4 | 56.2 | EBIT at adjusted replacement cost | | 249.4 | 277.7 |

⁽¹⁾ net of inventory gains (losses) and of any non-recurring items

| 4rd quarter | | GROUP'S NET PROFIT (LOSS) | Note | Year | |
|-------------|---------|---|------|---------|---------|
| 2014 | 2013 | | | 2014 | 2013 |
| (73.7) | 18.8 | Group's net profit (loss) | | 47.8 | 28.4 |
| 38.1 | 0.3 | Exclusion of inventory gains / losses | | 45.5 | 8.4 |
| | | Exclusion of non-recurring items: | | | |
| 5.0 | 0.0 | Exclusion of write-off resulting from Robin Tax on deferred tax assets and liabilities | 11 | 5.0 | 0.0 |
| 0.0 | 0.0 | Exclusion of CIP 6 termination | 4 | (316.8) | 0.0 |
| 0.0 | 0.0 | Exclusion of IGCC sale | 4 | 267.5 | 0.0 |
| (1.4) | 0.0 | Exclusion of other ancillary proceeds (charges) concerning ISAB Energy and ISAB Energy Services | 1 | (5.3) | 0.0 |
| 0.0 | 0.0 | Exclusion of capital gain and ancillary charges from sale of 20% of ISAB (2012) | | 0.0 | (9.0) |
| 0.0 | (176.5) | Exclusion of capital gain and ancillary charges from sale of 20% of ISAB (2013) | | 0.0 | (176.5) |
| 0.0 | 1.1 | Exclusion of liabilities for transactions on previous years | | 0.0 | 12.3 |
| 0.0 | 70.6 | Exclusion of liabilities for site disputes | | 0.0 | 70.6 |
| 14.4 | 6.7 | Exclusion of TotalErg non-recurring items | 12 | 14.6 | 6.2 |
| (2.0) | 0.0 | Exclusion for contributions of proceeds and charges pertaining to prior years | 7 | (2.0) | 0.0 |
| 1.1 | 1.1 | Exclusion of other charges on sales outlets in Sicily | 5 | 1.7 | 4.2 |
| 0.0 | 0.6 | Exclusion of ancillary charges on ERG Wind acquisition | | 0.0 | 11.8 |
| 0.0 | 0.1 | Exclusion of fair value difference for derivatives on OIL inventories | | 0.0 | 1.9 |
| 0.0 | 0.0 | Exclusion of ERG S.p.A. contribution under Law 488 | 7 | (3.5) | 0.0 |
| 0.3 | 0.0 | Exclusion of exchange rate differences pertaining to former Refining & Marketing Division | 13 | 2.9 | 0.0 |
| 7.2 | 0.0 | Exclusion of Impact of fair value swap trading | 6 | 7.2 | 0.0 |
| (0.6) | 0.0 | Exclusion of capital gain on sale of ERG Oil Sicilia | 14 | (0.6) | 0.0 |
| 0.0 | 21.3 | Exclusion of reversal of tax assets from previous years | | 0.0 | 21.3 |
| 0.4 | 0.1 | Exclusion of ancillary charges - other transactions | 2 | 0.4 | 0.1 |
| 11.6 | 3.1 | Exclusion of charges for company reorganisation | 3 | 11.6 | 3.1 |
| 0.0 | 1.0 | Exclusion of costs for Green Certificates from previous years | | 0.0 | 1.0 |
| 0.0 | (3.7) | Exclusion of proceeds (charges) in previous years | | 0.0 | (3.7) |
| 0.0 | 58.4 | Exclusion of non-recurring items - "TotalERG write-downs" | | 0.0 | 58.4 |
| 0.5 | 2.9 | Group net profit (loss) at replacement cost ⁽¹⁾ | | 76.0 | 38.5 |

⁽¹⁾ also corresponds to Group net profit (loss) at adjusted replacement cost

Notes

1. ancillary charges relating to extraordinary operations of ISAB Energy and ISAB Energy Services, as already commented in the sections Introduction and Significant events during the period;
2. ancillary charges on other non-recurring operations;
3. charges incurred and expected to be incurred in connection with the business portfolio restructuring and the changes to the Group's organisational structures commenced at the end of 2013 and currently being completed;
4. the item mainly includes the effects of the Agreement for the sale of the ISAB Energy plant and early termination of CIP6;
5. sundry charges associated with the sale of ERG Oil Sicilia, as already commented in the sections Introduction and Significant events during the period;
6. postponement to future reporting periods of the measurement component for derivatives set up by the company ERG Supply and Trading to manage commodity risk and not accounted for in hedge accounting;
7. this item includes the contribution under Law 488/92 received during the period in relation to the former ERG Raffinerie Mediterranee and the effect of writing off accounting entries pertaining to prior years;

8. ERG's share of the results at replacement cost of ISAB, net of inventory gains/losses;
9. ERG's share of the results at replacement cost of TotalErg, net of inventory gains/losses and non-recurring items;
10. ERG's share of the results at replacement cost of LUKERG Renew;
11. Negative impact arising from the write-off of deferred tax assets appropriated as additional Robin Tax following the ruling by the Constitutional Court which declared it to be illegitimate;
12. Exclusion of non-recurring items pertaining to TotalErg, mainly in reference to the write-off of deferred tax assets appropriated as additional Robin Tax and other proceeds and charges concerning activities to streamline the Network and Refining operations;
13. The charges reflect exchange rate differences pertaining to the former Refining business;
14. The item includes the capital gain on the disposal of integrated downstream assets in Sicily through the sale of ERG Oil Sicilia;

Comments regarding the non-recurring items pertaining to 2013 are provided in the corresponding notes of the related Financial Statements.

Reconciliation with adjusted net financial indebtedness

| | 12/31/2014 | 12/31/2014 |
|---|---------------|----------------|
| Net financial indebtedness | 330.1 | 807.5 |
| <i>Net financial position of TotalErg</i> | <i>128.5</i> | <i>146.6</i> |
| <i>Net financial position of LUKERG Renew</i> | <i>138.5</i> | <i>135.2</i> |
| <i>Elimination of intra-group items</i> | <i>(59.1)</i> | <i>(74.2)</i> |
| Adjusted net financial indebtedness | 538.0 | 1,015.1 |

The adjusted figures for net financial indebtedness take into consideration the portion attributable to ERG of the net financial position of the joint ventures, net of the related intra-group items.



ERG Group

2014 Business Performance

Introduction

This document is an annex supporting the press release of 12th March 2015 to provide further details and to comment the 2014 results of the ERG Group.

The comments provided are an excerpt from the Report on Operations which, together with the Notes to the Financial Statements, will be published within the times prescribed by current regulations.

Disclosure pursuant to Articles 70 and 71 of the Issuers' Regulations

The Company has selected the option, introduced by CONSOB with its resolution no. 18079 of 20 January 2012, of waiving the obligation to make available to the public an information document upon carrying out significant transactions, i.e. mergers, demergers, capital increase by transfer in kind, acquisition and sale.

Results at adjusted replacement cost

To enhance understandability of performance, the results of the business are also shown at adjusted replacement cost with the exclusion of non-recurring items¹ taking into account, for the portion attributable to ERG, the results at replacement cost of the joint ventures TotalErg S.p.A. for the Integrated Downstream business, and LUKERG Renew GmbH for the Renewable Energy Sources business, whose contributions to the Income Statement not at adjusted replacement cost are represented by the investments measured under the equity method of accounting.

Net financial indebtedness is also shown at adjusted replacement cost that takes into account the portion attributable to ERG of the net financial position of the joint ventures LUKERG Renew GmbH (50%) and TotalErg S.p.A. (51%), net of the relevant intra-group items.

Agreement for the sale of the IGCC ISAB Energy plant and early termination of CIP6

At the end of 2013 ERG announced that it had reached an agreement with GDF SUEZ for the acquisition of the equity investments, representing 49% of the share capital (indirectly held by GDF SUEZ itself and by Mitsui & Co.) of ISAB Energy, a company that owns the IGCC power plant (528 MW) of Priolo Gargallo (SR), of ISAB Energy Services, the company that operates and maintains the plant, and of ISAB Energy Solare, owner of a photovoltaic plant with 1 MW of power.

At the same time, ERG entered into an agreement with ISAB, a subsidiary of the LUKOIL Group, for the sale of the ISAB Energy and ISAB Energy Services business units, consisting mainly of the IGCC plant and of the personnel for its operation and maintenance. The agreed price for the asset value is EUR 20 million.

On 16 June 2014, the acquisition of 49% of the share capital of ISAB Energy, ISAB Energy Services and ISAB Energy Solare was closed with GDF SUEZ.

The transaction was completed, in line with the agreements disclosed on 30 December 2013, following the approval by the competent Antitrust Authority and the acceptance, by the National Grid Operator, of the early termination of the CIP6/92 for the ISAB Energy plant, effective 1 July 2014.

30 June 2014 was the date of closing with ISAB, a subsidiary of the LUKOIL Group, for the sale of the business units described above.

This Report reflects the effects of the transactions described above. For better understanding of the data commented herein, the following impacts are pointed out in particular:

- Acquisition of the minority shareholdings from GDF SUEZ for EUR 153 million with a reduction to zero of the minority interests and increase in the Group's shareholders' equity. Since the transaction took place at the end of June, the income statement still reflects the related minority interests for the first six months of 2014.
- Recognition of the income for the early termination of the CIP6 convention, i.e. approximately EUR 515 million (EUR 317 million net of the tax effect), collected during the third quarter of the year.
- Recognition of the net capital loss for the sale of the plants and of the personnel for their operation and maintenance, amounting approximately to EUR 405 million (EUR 267 million net of

¹ Non-recurring items include significant but unusual earnings.

the tax effect) with matching decrease in the assets and liabilities of the transferred personnel, in view of a collected amount of approximately EUR 26 million;

- Recognition of other net income, additional and related to the transaction, amounting to EUR 30 million in terms of EBITDA (EUR 5 million in terms of EBIT), related mainly to the release of the deferred income of the CIP6 price increase and to the allocation of deferred tax liabilities on distributable equity reserves.

These items are considered non-recurring and therefore they are not reflected in adjusted replacement costs.

Sale of the equity investment in ERG Oil Sicilia

On 29 December 2014 it sold to Maiora, a subsidiary of GRS Petroli, 100% of the share capital in ERG Oil Sicilia, a company operating in the sector of fuel distribution in Sicily, with a Network of approximately 200 sales outlets. The price of the sale is approximately EUR 30 million. This Report benefits, in the income statement, from the results of the company for the entire year and, in the statement of financial position, it reflects the sale at the aforesaid values. The transaction is consistent with the Group's portfolio strategy, which calls for ever increasing focus towards the generation of energy from renewable sources.

New organisational model

In 2014, a new Group organisational model was implemented, whose goal is to assure the alignment between business strategies and corporate operating model, seeking the optimal environment where ERG's personnel can best express their capital of ideas and skills. The new organisational-corporate model has been set up to meet these needs through the interaction of three macro-roles:

- the parent company ERG S.p.A. provides strategic direction, management control and oversight of human and financial capital and relationships as the fundamental assets for development;
- the business units, i.e., special purpose companies focusing on their respective businesses, equipped with their own adequate structures capable of guaranteeing efficient operations, drive for development and quick responses to the volatility of their specific markets;
- ERG Services S.p.A., the company established to attain operating excellence in the performance of support services to all companies in the ERG Group ("shared services").

The implementation of the Group's new corporate organisation model has entailed:

- outsourcing the business activities previously performed by ERG S.p.A., by transferring the business units (activities, personnel, assets and contracts) of the Oil and Power businesses respectively to ERG Supply & Trading S.p.A. and to ERG Power Generation S.p.A., both controlled by the sole shareholder ERG S.p.A.;
- retaining all activities pertaining to the Renewable Energy Sources business in the subsidiary ERG Renew S.p.A.;
- outsourcing the main service and support activities across the Group's activities, previously performed by ERG S.p.A., by transferring the business unit (activities, personnel, assets and contracts) to the newly established ERG Services S.p.A., controlled by the sole shareholder ERG S.p.A.

The new organisation was launched at the end of 2013 and its concrete implementation, both with regard to formal compliance and with regard to the realignment of operating processes, was substantially completed in the first half of 2014.

In particular, on 1 January 2014, the transfers of the business units pertaining to ERG Supply & Trading S.p.A. and ERG Services S.p.A. took effect, so the companies have been fully operational since the start of the year, whilst the transfer of the business unit pertaining to ERG Power Generation S.p.A. took effect on 1 July 2014.

With regard to ERG Supply & Trading S.p.A., in view of the negative results recorded in 2014 and taking into account the Group's strategic interests, the decision was made not to continue with its business activities and consequently to consider the most appropriate reorganisation operations.

Business Description

The ERG Group, also through its own subsidiaries and joint ventures with primary international operators, operates in the following segments:

• Renewable Energy Sources

Through ERG Renew (93% owned subsidiary), ERG is active in the generation of electricity from renewable sources with 1,341 MW of installed wind power at 31 December 2014, of which 636 MW deriving from the acquisition of IP Maestrale in 2013. ERG Renew is the first wind power operator in Italy and among the top ten in Europe.

Starting in 2014, full commercial operations were started at the new wind farms built in Italy (34 MW) and in Romania through LUKERG Renew (84 MW of which ERG's share is 42 MW).

Wind farms are mainly concentrated in Italy (1,087 MW), but with a significant presence also in Germany (86 MW), in France (64 MW) and, through LUKERG Renew, in Romania (where ERG's share is 77 MW) and in Bulgaria (ERG's share: 27 MW); in addition, in the second part of 2014, construction work started on a new wind farm in Poland (42 MW), expected to be commissioned in 2015.

Moreover, since October 2013, through the establishment of ERG Renew O&M, the Company has in-sourced the operation and maintenance of the wind farms in Italy deriving from the acquisition of IP Maestrale and is beginning progressively to extend this activity to the other Italian wind farms as well.

• Power

In 2014, the Group carried out the production and marketing of electricity, steam and gas, through:

- ERG Power S.r.l.: this company owns the North Plant (480 MW) located in the industrial site of Priolo, comprising a combined cycle plant fuelled by natural gas and other smaller facilities necessary to meet the site's demand for steam and other utilities. The plant started commercial operations in April 2010;
- ISAB Energy S.r.l.: until 30 June 2014, this company owned a plant (528 MW) operating within the scope of a twenty-year CIP6 convention and fuelled by synthesis gas obtained from a process of gasification of asphalt originating from the ISAB Refinery in Priolo (Sicily);
- ISAB Energy Services S.r.l.: this company performs O&M services for ERG Power S.r.l. and, until 30 June 2014, for ISAB Energy S.r.l.

As a result of the transaction with the GDF SUEZ and LUKOIL groups, completed on 30 June 2014, the ERG Group substantially changed its scope of operations in the thermoelectric sector, with the sale of ISAB Energy's 528 MW power plant and of the business unit pertaining to the O&M activity on that plant.

• Integrated Downstream

The Group is active in the Integrated Downstream market, where it is one of the foremost operators, through TotalErg, a joint venture with Total, with a network of approximately 2,700 sales outlets, and, until 29 December 2014, through ERG Oil Sicilia (EOS), a company operating in the retail market in Sicily, whose equity investment, equal to 100% of the share capital, was sold by ERG to the GRS Petroli group.

TotalErg also operates in the logistics and refining sector, mainly through a major facility for the storage and handling of petroleum products in Central Italy and through the Sarpom Refinery in Trecate, of which it owns 24%, with a processing capacity of 1.6 million tonnes per year.

Following the sale of the 20% share in the ISAB refinery in Priolo, at the end of 2013, ERG left the Coastal Refining business, which in recent years has been characterised by severely depressed processing margins. On the other hand, in 2014 it continued to trade crude oils and petroleum products through ERG Supply & Trading. However, this activity is expected to be disposed of in 2015, as it is no longer consistent with the Group's strategies.

| Renewables | Power | Integrated Downstream |
|--|---|--|
| <ul style="list-style-type: none">• 93% of ERG Renew• 1.3GW of wind installed capacity• Development abroad operated by ERG Renew e LUKERG Renew (50% JV with LUKOIL in Eastern Europe) | <ul style="list-style-type: none">• ERG Power: 480MW CCGT plant in Sicily• ISAB Energy⁽¹⁾: 528MW IGCC plant (51% owned) | <ul style="list-style-type: none">• 51% of TotalErg• 100% of ERG Oil Sicilia⁽²⁾• 100% of ERG Supply & Trading |
|  |  |  |

⁽¹⁾ ISAB Energy's 528 MW IGCC Plant was sold on 30 June 2014.

⁽²⁾ The equity investment in ERG Oil Sicilia was sold on 29 December 2014.

Strategy

The strategy pursued by ERG aims to consolidate the Group's current positioning in renewable energy sources in Italy and to continue its growth in wind power abroad, to optimise the operations and cash flow generation of thermoelectric plants, to rationalise the TotalErg Network, within an environment characterised by the profound changes taking place in the segment.

- **Renewable Energy Sources:**

ERG's strategy aims to continue the path to growth in the segment through the subsidiary ERG Renew, with the goal of consolidating its position as the leading operator in the domestic market and of accelerating growth abroad. In recent years, ERG Renew has significantly increased its installed capacity, which rose from approximately 200 MW in 2009 to over 1,300 MW at present, achieving this growth both through the acquisition of assets and through the construction of new plants. In particular, with regard to foreign countries, where approximately 20% of installed capacity is located, ERG's strategy aims to accelerate on the path towards the growth and geographic diversification of its asset portfolio, both through the investments currently being made in Poland, and through the assessment of potential new investments in other countries. The size attained, the integration of IP Maestrone into ERG Renew and the insourcing of O&M activities, will enable ERG to obtain important benefits in the management of its assets, both in terms of efficiency and cost control and of operating performance.

- **Power:** ERG continues to pursue a strategy of maximising the exploitation of the CCGT plant of the ERG Power subsidiary. With a view to best exploit its asset portfolio, the strategy aims at maximising and stabilising cash flows, through the agreement with IREN for the supply of 2 TWh of electricity per year for six years from 1 January 2012 onwards, the long-term agreements for the supply of utilities to the Priolo site and the participation in the Dispatching Services Market (MSD) with a significant contribution on margins. Also in light of these factors, the utilisation factors and the profitability of the ERG Power plant are well above the average for plants of this kind. An integral part of the strategy is the maximum possible exploitation of electricity, through a dedicated Energy Management department, which markets the electricity generated by the CCGT plant and by ERG Renew's Italian wind farms, which progressively waived the dedicated withdrawal by the National Grid Operator.

- **Integrated Downstream:** ERG's strategy is aimed at obtaining the maximum possible value from its equity investment in TotalErg by improving its competitive position to boost its long-term profitability and sustainability, in an environment that is challenging both because of the very severe contraction in demand and of the inefficient structure of the Country's fuel distribution network, where average dispensed quantities per filling station are far smaller than the average of the main European countries. Against this backdrop, ERG, through the joint venture TotalErg, intends to rationalise and strengthen its fuel distribution network, also through greater station automation. At the same time, in addition to seeking the maximum possible efficiency in terms of cost reduction, the strategy also aims to rationalise capital use through a supply model that is more oriented towards purchasing petroleum products on the cargo market to exploit the excess supply in the Mediterranean Area. In this context, TotalErg completed, fully according to schedule, the work for the transformation of the refinery into a logistical facility and specifically the upgrade of the tank farm and of the maritime terminals.

Performance highlights

| (EUR million) | Year | |
|---|---------------------|--------------|
| | 2014 | 2013 |
| Main Income Statement data | | |
| Total revenues ⁽¹⁾ | 1,999 | 7,076 |
| EBITDA | 547 | 380 |
| EBITDA at replacement cost ⁽²⁾ | 429 | 493 |
| EBITDA at adjusted replacement cost ⁽³⁾ | 491 | 569 |
| EBIT at replacement cost ⁽²⁾ | 240 | 283 |
| EBIT at adjusted replacement cost ⁽³⁾ | 249 | 278 |
| Net income | 73 | 85 |
| of which Group net income | 48 | 28 |
| Group net profit (loss) at replacement cost ⁽⁴⁾ | 76 | 38 |
| Main Financial data | | |
| Net invested capital | 2,049 | 2,821 |
| Shareholders' equity | 1,719 | 2,014 |
| Total net financial indebtedness | 330 | 807 |
| of which non-recourse Project Financing ⁽⁵⁾ | 1,297 | 1,362 |
| Financial leverage | 16% | 29% |
| Total net adjusted financial indebtedness ⁽⁶⁾ | 538 | 1,015 |
| Operating data | | |
| Wind farm installed capacity at the end of the period | MW | 1,341 |
| Electric power generation from wind farms | millions of KWh | 2,580 |
| Thermoelectric plant installed capacity ⁽⁷⁾ | MW | 480 |
| Electric power generation from thermoelectric plants | millions of KWh | 4,665 |
| Total sales of electric power | millions of KWh | 9,354 |
| Italian Retail sales ⁽⁸⁾ | thousands of tonnes | 1,403 |
| TotalErg Retail market share | gasoline + diesel | 10.6% |
| ERG Oil Sicilia Retail market share ⁽⁹⁾ | gasoline + diesel | n.a. |
| Raw material and product inventories ⁽¹⁰⁾ | thousands of tonnes | 425 |
| Refineries Processing ⁽¹¹⁾ | thousands of tonnes | 650 |
| Capital expenditures ⁽¹²⁾ | EUR million | 54 |
| Employees at the end of the period ⁽¹³⁾ | Units | 604 |
| Market indicators | | |
| Reference price of electricity ⁽¹⁴⁾ | EUR/MWh | 52.1 |
| "Green Certificates" sale price (renewable energies) | EUR/MWh | 97.4 |
| CIP6 sale price (thermoelectric - ISAB Energy) | EUR/MWh | 100.9 |
| Sicily zone price | EUR/MWh | 80.9 |

For the definition and reconciliation of results to adjusted replacement cost, please refer to the section "Alternative performance indicators".

⁽¹⁾ net of excise taxes and, in 2014, of trades (EUR 3,829 million). In 2014, total revenues also included the income for the early termination of the CIP6 convention.

⁽²⁾ not including inventory gains (losses) and non-recurring items

⁽³⁾ these also include the contribution, attributable to ERG, of the results of TotalErg (joint venture with Total) and of LUKERG Renew (joint venture with the LUKOIL Group). The year 2013 also included ERG's share of the contribution of the results of ISAB S.r.l.

⁽⁴⁾ does not include inventory gains (losses), non-recurring items and related applicable theoretical taxes. The values also match the adjusted ones

⁽⁵⁾ including cash and cash equivalents and excluding the fair value of the related derivatives to hedge interest rates

⁽⁶⁾ it also includes the contribution attributable to ERG of the net financial position of the joint ventures LukErg Renew and TotalErg

⁽⁷⁾ as a result of the sale of the ISAB Energy business unit, installed capacity was reduced by 528 MW.

⁽⁸⁾ estimated data. Including 51% of TotalErg

⁽⁹⁾ related to the sales outlets of the wholly owned subsidiary ERG Oil Sicilia, sold on 29 December 2014.

⁽¹⁰⁾ including ERG's share of the inventories of the TotalErg joint venture.

⁽¹¹⁾ in 2013 they included the processing work carried out at the ISAB refinery

⁽¹²⁾ in tangible and intangible fixed assets

⁽¹³⁾ including the sale of the business unit pertaining to personnel from ISAB Energy Services to ISAB S.r.l.

⁽¹⁴⁾ Single National Price

Performance highlights by segment

| (EUR million) | Year | |
|---|----------------|----------------|
| | 2014 | 2013 |
| Revenues from ordinary operations: | | |
| Renewable energy sources | 349 | 339 |
| Power | 1,164 | 1,642 |
| Integrated Downstream ⁽¹⁾ | 3,098 | 9,002 |
| Corporate | 30 | 6 |
| Intra-segment revenues | (291) | (621) |
| Total adjusted revenues⁽²⁾ | 4,350 | 10,368 |
| <i>ERG share of ISAB S.r.l. contribution at replacement cost</i> | <i>0</i> | <i>(189)</i> |
| <i>TotalErg 51% contribution at replacement cost</i> | <i>(2,958)</i> | <i>(3,117)</i> |
| <i>LUKERG Renew 50% contribution at replacement cost</i> | <i>(22)</i> | <i>(11)</i> |
| Total revenues from ordinary operations | 1,369 | 7,051 |
| EBITDA: | | |
| Renewable energy sources | 267 | 245 |
| Power | 204 | 358 |
| Integrated Downstream ⁽¹⁾ | 44 | (5) |
| Corporate | (24) | (30) |
| EBITDA at adjusted replacement cost⁽³⁾ | 491 | 569 |
| <i>ERG share of ISAB S.r.l. contribution at replacement cost</i> | <i>0</i> | <i>(31)</i> |
| <i>TotalErg 51% contribution at replacement cost</i> | <i>(47)</i> | <i>(39)</i> |
| <i>LUKERG Renew 50% contribution at replacement cost</i> | <i>(14)</i> | <i>(7)</i> |
| EBITDA at replacement cost⁽³⁾ | 429 | 493 |
| <i>Inventory gains (losses)</i> | <i>(0)</i> | <i>(6)</i> |
| <i>Non-recurring items</i> | <i>118</i> | <i>(107)</i> |
| EBITDA | 547 | 380 |
| Amortisation, depreciation and write-downs: | | |
| Renewable energy sources | (137) | (126) |
| Power | (54) | (80) |
| Integrated Downstream ⁽¹⁾ | (48) | (83) |
| Corporate | (2) | (3) |
| Amortisation and depreciation at adjusted replacement cost⁽³⁾ | (241) | (291) |
| <i>ERG share of ISAB S.r.l. contribution at replacement cost</i> | <i>0</i> | <i>22</i> |
| <i>TotalErg 51% contribution at replacement cost</i> | <i>44</i> | <i>56</i> |
| <i>LUKERG Renew 50% contribution at replacement cost</i> | <i>8</i> | <i>4</i> |
| Amortisation and depreciation at replacement cost⁽³⁾ | (189) | (210) |
| EBIT: | | |
| Renewable energy sources | 131 | 119 |
| Power | 150 | 278 |
| Integrated Downstream ⁽¹⁾ | (5) | (87) |
| Corporate | (27) | (32) |
| EBIT at adjusted replacement cost⁽³⁾ | 249 | 278 |
| <i>ERG share of ISAB S.r.l. contribution at replacement cost</i> | <i>0</i> | <i>(9)</i> |
| <i>TotalErg 51% contribution at replacement cost</i> | <i>(3)</i> | <i>17</i> |
| <i>LUKERG Renew 50% contribution at replacement cost</i> | <i>(6)</i> | <i>(3)</i> |
| EBIT at replacement cost⁽³⁾ | 240 | 283 |
| Capital expenditures on tangible and intangible fixed assets: | | |
| Renewable energy sources | 38 | 97 |
| Power | 14 | 26 |
| Integrated Downstream ⁽¹⁾ | 34 | 41 |
| Corporate | 3 | 2 |
| Total adjusted capital expenditures⁽⁴⁾ | 89 | 165 |
| <i>Capital expenditures of ISAB S.r.l. (ERG share)</i> | <i>-</i> | <i>-</i> |
| <i>Capital expenditures of TotalErg (51%)</i> | <i>(34)</i> | <i>(39)</i> |
| <i>Capital expenditures of LUKERG Renew (50%)</i> | <i>(2)</i> | <i>(52)</i> |
| Total capital expenditures | 54 | 74 |

For the definition and reconciliation of results to adjusted replacement cost, please refer to the section "Alternative performance indicators".

⁽¹⁾ in 2013, Integrated Downstream also included the results of coastal refining.

⁽²⁾ adjusted revenues take into account ERG's share of the revenues generated by the TotalErg S.p.A. and LUKERG Renew joint ventures. The year 2013 also included ERG's share of the contribution of the results of ISAB S.r.l. In 2014, they did not include revenues from ERG Supply & Trading activities (EUR 3,829 million), recognised as a reduction to purchase costs.

⁽³⁾ replacement cost values do not include inventory gains (losses) and non-recurring items. Adjusted values also include the contribution, attributable to ERG, of the results of TotalErg S.p.A., LUKERG Renew. The year 2013 also included ERG's share of the contribution of the results of ISAB S.r.l.

⁽⁴⁾ they take into account ERG's share of the capital expenditures effected by TotalErg S.p.A. and LUKERG Renew.

Sales

Power generation

The electricity sales carried out by the ERG Group refer mainly to the electricity generated by its plants¹, both wind power (ERG Renew) and thermoelectric (ERG Power and, until 30 June, ISAB Energy) as well as, to a lesser extent, purchases on organised markets and through physical bilateral agreements.

Of the electricity sales carried out in Italy in 2014, approximately 6.7 TWh relate to the electricity generated by Group plants, accounting for approximately 2.2% of total domestic demand (2.8% in 2013).

The breakdown of sale volumes, with reference to the type of source, is shown in the following table:

| Power generation (GWh) | Year | |
|---------------------------|--------------|---------------|
| | 2014 | 2013 |
| ERG Renew Italy | 2,051 | 2,010 |
| ERG Renew Abroad | 529 | 393 |
| ISAB Energy | 2,042 | 4,142 |
| ERG Power Generation | 4,732 | 4,087 |
| Total | 9,354 | 10,631 |

In 2014, steam sales² were 838 thousand tonnes (1,577 in the same period of 2013), whilst gas sales were 320 million Sm³ - Standard cubic metres (502 million Sm³ in 2013).

Petroleum products

In 2014, total sales of Integrated Downstream petroleum products amounted to 3,602 thousand tonnes (7,795 thousand tonnes in 2013).

The severe reduction in volumes sold is mainly due to the different scope of consolidation deriving from the sale of the share in the ISAB Refinery, completed at the end of 2013.

The following table breaks down ERG's oil product sales by distribution channel. In 2014, the figures include the contribution from TotalErg sales at 51% and of ERG Oil Sicilia, sold on 29 December 2014.

| Refining and Logistics (thousands of tonnes) | Year | |
|---|--------------|--------------|
| | 2014 | 2013 |
| Exports via ship | 57 | 3,052 |
| Deliveries to the domestic market | 1,362 | 2,266 |
| Total Refining and Logistics | 1,418 | 5,317 |
| Marketing | | |
| Retail Network | 1,403 | 1,544 |
| Wholesale Network | 741 | 934 |
| Total Marketing | 2,184 | 2,478 |
| Total petroleum products | 3,602 | 7,795 |

In addition, approximately 6.3 million tonnes of crude oils and products were purchased and sold in the year 2014 within the scope of the operations of ERG Supply & Trading S.p.A.; they are not represented in the table above, consistently with the representation of the accounting revenues posted as reductions of the corresponding purchase costs.

¹ For ERG Power, sales of electric power differ from the amounts generated, because they include energy purchased and resold on wholesale markets and on forward markets;

² Steam supplied to final users net of the quantities of steam withdrawn by the users and of pipeline losses.

Comments on the year's performance

In 2014, **adjusted revenues**¹ amounted to EUR 4,350 million, in decline from EUR 10,368 in 2013, mainly as a consequence of the exit from the Coastal Refining business and of the sale of the ISAB Energy plant.

EBITDA at adjusted replacement cost² amounted to EUR 491 million, a decrease compared to EUR 569 million in 2013, but in the presence of a different scope of operations. The change is a result of the following factors:

- **Renewable Energy Sources:** EBITDA amounted to EUR 267 million, up compared to the similar period of the previous year (EUR 245 million) thanks to the contribution of the new wind farms in Italy and abroad, to the improved efficiency deriving from in-sourcing the O&M activities and to the lower imbalance costs as a result of the effects of the recent decision by the Italian Council of State, which more than offset the reduction in average sale prices.
- **Power:** EBITDA of EUR 204 million, in contraction compared to EUR 358 million in 2013, mainly because of the lower contribution of ISAB Energy, which ceased in the second half as a result of the sale of the plant and which in the first half had been affected by the severe reduction in the CIP6 price compared to 2013. The result deriving from the CCGT plant, i.e. approximately EUR 100 million, is nearly in line with last year's.
- **Integrated Downstream:** EBITDA of EUR 44 million, a marked improvement compared to the negative result of EUR 5 million recorded in 2013 thanks mainly to the better results of TotalErg which benefited from major efficiency-boosting actions and to the cessation of Coastal Refining activities resulting from the sale of the final 20% of the ISAB refinery; these positive effects were partly dampened by a negative performance of ERG Supply & Trading.

EBIT at adjusted replacement cost² was EUR 249 million (EUR 278 million in 2013) after amortisation and depreciation of EUR 241 million (EUR 291 million in 2013).

Group net profit (loss) at replacement cost amounted to EUR 76 million, versus EUR 38 million in 2013. The significant improvement in the result is mainly tied to the higher contribution from renewable energies and to the exit from Coastal Refining, which more than offset the lower profits of ISAB Energy in the period. The results further benefited from lower net financial expenses and from a lower tax rate, partly as a consequence of the reduction in the IRES surtax from 10.5% to 6.5% on current taxes.

Group net income amounted to EUR 48 million (EUR 28 million in 2013) mostly as a result of the positive effect of ISAB Energy's termination of the CIP6 convention (EUR 317 million, net of the tax effect) partly offset by the capital loss tied to the sale of the ISAB Energy and ISAB Energy Services business units (EUR 268 million, net of the tax effect).

The result was also influenced by the negative (-EUR 19 million) tied to the derecognition of tax assets as a consequence of the declared non retroactive unconstitutionality of the Robin surtax and of the negative fair value (EUR -7 million) of derivatives.

It should be recalled that the 2013 results included the positive impact of the sale of the final 20% equity investment in ISAB S.r.l. involving a capital gain of EUR 177 million, partly offset by the provisions tied to the activities on the Priolo site and mainly consequent to the exit from the Refining business and by the ancillary charges related to the acquisition of ERG Wind. The result also reflected the write-down, by EUR 58 million, of the equity investment in TotalErg as a result of the Impairment Test.

In 2014, **adjusted Group capital expenditures** totalled EUR 89 million (EUR 165 million in 2013), of which 42% in Renewable Energy Sources (59%), 16% in Power (15%) and 38% in Integrated Downstream (25%).

Net financial indebtedness amounted to EUR 330 million, down by EUR 477 million compared to 31 December 2013 mainly as a result of the amount collected after the termination of the CIP 6 contract of ISAB Energy (EUR 515 million) and of the operating cash flow of the period, partially offset by the payment of the dividends from ERG S.p.A. (EUR 143 million) and from ISAB Energy to the minority shareholder (EUR 22 million), by the acquisition of the minority interest of ISAB Energy and ISAB Energy Services (EUR 153 million). Indebtedness at 31 December 2014 was also positively affected by the amount of EUR 50 million consequent to Unicredit's inclusion among ERG Renew shareholders.

¹ Adjusted revenues do not include Supply & Trading revenues, reported as reductions to purchase costs.

² for the definition and reconciliation of results at adjusted replacement cost and details of non-recurring items, please refer to the section "Alternative performance indicators".

Net financial indebtedness includes financial liabilities related to the fair value of interest rate hedging derivatives, amounting to approximately EUR 181 million (EUR 141 million as at 31 December 2013).

Adjusted net financial indebtedness, which includes the portion attributable to ERG of the net financial position in the TotalErg and LUKERG Renew joint ventures, amounted to EUR 538 million, a decrease by approximately EUR 477 million compared to 31 December 2013, substantially for the same reasons explained above and because of time-limited events affecting the working capital of TotalErg. Adjusted net financial indebtedness includes approximately EUR 189 million of financial liabilities relating to the fair value of derivatives hedging the interest rate risk (EUR 147 million at 31 December 2013).

Comparison of results for equal scope of consolidation

The comparison between the 2014 and 2013 results is affected by the change in the scope of consolidation, with particular reference to the sale of the final remaining interest in the ISAB Refinery at the end of 2013 and to the sale of the IGCC plant at the end of the first half of 2014.

To enhance the understandability of performance in the two periods, the following table provides a comparison of the results with equal scope of consolidation i.e. considering the contribution of ISAB Energy only for the first half of 2013 (thus with the exclusion of the second half, amounting to EUR 132 million) and excluding the results of Coastal Refining for the whole year 2013 (EUR -50 million).

| | 2014 | 2013 Restated |
|--|------------|------------------|
| Renewable Energy Sources | 267 | 245 |
| Power | 204 | 226 |
| Integrated Downstream | 44 | 45 |
| Corporate | (24) | (30) |
| EBITDA at adjusted replacement cost | 491 | 487 |

The slight growth of EBITDA at adjusted replacement cost, for equal scope of consolidation, reflects mainly the greater contribution of the renewable energy sources and the reduction in central costs, offset by the smaller contribution of the ISAB Energy plant in the first half of the year as a result of a significant contraction in the CIP6 sale price of electricity. It should be stressed that in view of a substantially constant income performance, net financial indebtedness was sharply reduced compared to the previous year specifically as a result of the non-recurring income tied to the two transactions, i.e. the sale of 20% of the ISAB Refinery and the collection of the consideration for early exit from the CIP6 convention. The performance of economic and financial entries reflect the significant transformation of the Group's asset portfolio, which continued through 2014.

Significant events during the year

RENEWABLE ENERGY SOURCES - ITALY

On **16 January 2014** the Shareholders' Meeting of ERG Renew voted a reserved capital increase, for a total price of EUR 50 million, simultaneously subscribed and freed by UniCredit, corresponding to a minority interest in ERG Renew that represents 7.14% of its share capital. On the same date, a representative of UniCredit was appointed to the Board of Directors in accordance with the shareholders' agreements.

On **20 January 2014** ERG Renew announced the full commissioning of the wind farm Palazzo San Gervasio (PZ), accomplished ahead of schedule.

The new wind farm, consisting of 17 Vestas V100 wind turbine generators rated at 2 MW each, has an installed capacity of 34 MW and an output of over 72 GWh of electricity per year, with savings of approximately 30 kt of CO₂ emissions. With the construction of the wind farm, ERG Renew strengthened its leadership position in the Italian wind power market, with total installed capacity of 1,087 MW in Italy and 1,341 MW throughout Europe. On **23 May 2014** ERG Eolica Basilicata S.r.l. (100% ERG Renew) executed the project financing loan agreement for the wind farm located in the Potenza province, subsequently commissioned in the first quarter of 2014, with an installed capacity of 34 MW. The loan, for a total amount of EUR 43 million and a term of validity of 17 years, was signed by the Mandated Lead Arrangers (MLA) BNP Paribas and Crédit Agricole CIB, which also acts as agent bank, and Carispezia Crédit Agricole as Account Bank.

On **5 November 2014** ERG served International Power with a request to reimburse EUR 45.8 million. The reimbursement request refers to the Decree of Ministry of Economic Development cancelling the contributions under Law 488/92 previously assigned to wind farms acquired within the ERG Wind transaction of 2013. The risks connected with the cancellation of the aforesaid contributions had been covered in the agreements for the acquisition of ERG Wind by specific indemnification obligations undertaken by the seller. An extraordinary appeal was promptly filed against the cancellation decrees, with a request for prudential suspension of the effectiveness of the challenged measures; currently, a decision is pending on both the suspension request and on the merits of the appeal.

While the case is pending before the Court of Avellino, EUR 32 million have already been allocated to the dedicated Litigation Provision established by Article 61, Paragraph 23, of Italian Law Decree no. 112/2008 (converted by law no. 133/2008).

RENEWABLE ENERGY SOURCES - ABROAD

On **9 January 2014** LUKERG Renew, a joint venture of ERG Renew and LUKOIL- Ecoenergo, completed the construction and commissioning of the wind farm in Topolog-Dorobantu in Romania, in the Tulcea region.

The new wind farm, consisting of 42 Vestas V90 wind turbine generators, each rated at 2 MW, will have an installed capacity of 84 MW. The last wind turbine generator, whose construction was completed in the first months of 2014, started commercial operations on 29 April 2014. Once fully operational, the wind farm will generate over 200 GWh of electricity per year, with savings of approximately 85 kt of CO₂ emissions.

With the construction of the wind farm, LUKERG Renew significantly enhances its presence in the Romanian wind power market and positions itself among the foremost operators in the sector, with installed capacity of approximately 150 MW.

On **2 April 2014** LUKERG Renew (equal share Joint Venture between ERG Renew and LUKOIL- Ecoenergo), through the subsidiary Corni Eolian, executed the project financing agreement with Raiffeisen Bank International AG and ING Bank NV as Mandated Lead Arranger (MLA) to finance the Gebeleisis wind farm in Romania in the Galati region, with 70 MW of installed capacity. The loan, totalling EUR 67 million, will have a maturity of 11 years.

On **15 May 2014** ERG Renew entered into an agreement for the acquisition, from the Vortex Energy group, of 100% of the capital of EW Orneta 2, a Polish company owning the authorisations required for the construction of a wind farm in Poland, in the region of Radziejów, with planned capacity of 42 MW and energy output estimated at over 100 GWh when fully operational, corresponding to approximately 2,400 equivalent hours and savings of approximately 85 kt of CO₂ emissions. ERG Renew started work for the

construction of the wind farm in the third quarter of 2014, in order to start operations by mid 2015. The total estimated investment for construction of the park is approximately EUR 65 million, including the price paid for the enterprise value of the company, i.e. approximately EUR 7.2 million. On **22 July 2014** the acquisition was closed. The transaction allows ERG Renew to enter a Country deemed strategic for its wind power development potential and to continue its path to growth abroad.

On **4 June 2014** LUKERG Renew, through the subsidiary Land Power, executed the project financing agreement with the European Bank for Reconstruction and Development (EBRD) and UniCredit as Hedging Provider and Account Bank to finance the Topolog-Dorobantu wind farm in Romania in the Tulcea region. The loan, totalling EUR 57 million, will have a maturity of 14 years.

THERMOELECTRIC

On **16 June 2014** ERG closed with GDF SUEZ the acquisition of the interests, amounting to 49% of share capital (indirectly held by GDF SUEZ and by Mitsui & Co.), in ISAB Energy, ISAB Energy Services and ISAB Energy Solare. The transaction was completed, in line with the agreements disclosed on 30 December 2013, following the approval by the competent Antitrust Authority and the acceptance, by the National Grid Operator, of the early termination of the CIP6/92 for the ISAB Energy plant, effective 1 July 2014.

On **30 June 2014** ERG closed with ISAB, a subsidiary of the LUKOIL Group, for the sale of the ISAB Energy and ISAB Energy Services business units, consisting mainly of the IGCC production plant and of the personnel employed for its operation and maintenance. This was the final step of a complex operation that led to the sale of the ISAB Energy plant, consistently with the definitive departure from the ISAB Refinery, enabling the Group to take a significant step forward in the asset portfolio repositioning strategy. The operation as a whole will also enable further to strengthen ERG's financial structure, also in support of its future development plans.

OIL

On **5 November 2014**, ERG announced that it had reached an agreement with GRS Petroli for the sale of the equity investment, amounting to 100% of the share capital, in ERG Oil Sicilia, a company active in the sector of fuel distribution in Sicily, with a Network of approximately 200 sales outlets. Within this transaction, GRS Petroli, which already owns a Network of sales outlets in the island, paid ERG a consideration of approximately EUR 30 million. On **29 December 2014** ERG then announced that it had closed the sale of the aforesaid equity investment in ERG Oil Sicilia, equal to 100% of the share capital, to Maiora, a subsidiary of GRS Petroli. The transaction, following the sale of the ISAB Refinery, is consistent with the strategy of leveraging assets and it represents an additional major step in ERG's industrial repositioning in Sicily, where ERG is present with ERG Renew's 198 MW of wind power and with ERG Power's 480 MW of power of the CCGT plant.

CORPORATE

On **15 April 2014**, the Shareholders' Meeting of ERG S.p.A, at the proposal of the Board of Directors, resolved to pay a dividend of EUR 1 per share, including a non-recurring part of EUR 0.50 per share tied to the positive conclusion of an essential phase of the strategic industrial reorganization project started in 2008.

TOTALERG TAX AUDIT

On **6 August 2014** ERG S.p.A., within the scope of the investigation on the alleged tax irregularities involving TotalErg, received, in its capacity as tax consolidator, a report on findings by the Tax Police of Rome, prepared with respect to TotalErg, whose contents substantially refer to the aforesaid allegations, already commented in the 2013 Financial Statements.

It should be recalled that these allegations pertain to tax irregularities referred to the year 2010, allegedly carried out by recording, in the accounts of TotalErg S.p.A., invoices for alleged non-existing crude oil purchase transactions, issued for a total amount of EUR 904 million by Bermuda-based companies belonging to the Total group, whose costs were included in the tax returns of TotalErg S.p.A. and reported by the consolidator ERG S.p.A. in the national tax consolidation return of the ERG Group.

Moreover, on the same date TotalErg received a Report on Findings for alleged tax irregularities pertaining to Total Italia for the years 2007, 2008, 2009, of substantially similar nature and amount for each year to those referenced above, hence referred to periods prior to the establishment of the TotalErg joint venture. In this regard, it should in any case be pointed out that the joint venture agreement with Total provides for an adequate mutual system of guarantees.

In view of the aforementioned Reports on Findings, ERG S.p.A. and TotalErg S.p.A., in order further to confirm the correctness of their behaviour, submitted observations and notes providing further information to the Financial Administration, which is currently examining them. At the date of authorisation to the publication of this document, to the best of the Company's knowledge, no notice of assessment had been issued to the Company. The ERG Group deems that it has always acted in full compliance with current laws and regulations and therefore, supported by the opinion of its legal counsel, it trusts that the correctness of its actions will be ascertained.

Regulatory framework

The most significant regulatory changes that characterised the energy industry in 2014 are described below.

GENERAL

2030 Climate-Energy Package

On 22 January 2014 the European Commission published the Communication entitled “A policy framework for climate and energy in the period from 2020 to 2030”.

While the document is not regulatory in nature or binding for Member States, it does contain guidelines to start discussions on climate policy after 2020. The main contents of the Communication are:

1. reduction in greenhouse gas emissions: 40% compared to the emission level as at 1990.
2. reforms to the ETS, including the establishment of a market stability reserve from the start of the next trading period, in 2021;
3. new “community” target of at least 27% of Renewable Energies relative to gross energy consumption in 2030, binding only at Union-wide level and not for individual member States.

On 9 April, the Commission and, more specifically, the Directorate General for Competition published the new Guidelines on environmental and energy State aid, which provide indications of the Directorate General’s orientation with respect to the compatibility of State aid with the internal market. The Guidelines will be applied from 1 July 2014 to 31 December 2020. With particular attention to renewable energies and to their domestic incentive schemes, the main contents of the Guidelines can be summarised as follows:

- o existing incentive systems will be subject to the Guidelines only if they have not been “notified” with the Commission or if they have not been amended or extended;
- o new incentive systems shall follow the Guidelines which provide for adopting competitive public auction systems for awarding the incentives, “feed-in tariff” systems limited to smaller plants and a transitional arrangement for the years 2015 and 2016.

With regard to energy efficiency, on 5 June 2014 the European Commission published the new Communication on this matter, whose essential elements are as follows:

- a) an 18-19% energy consumption reduction target by 2020 seems to be achievable with a more effective use of existing instruments;
- b) for 2030, a 30% energy consumption reduction target. In the absence of a more precise definition of the binding or indicative nature and of the level of its enforcement, i.e. National or European Union, last October the Council specified times, ways and quantities.

On 23 October 2014, the Heads of State and Government of the European Union reached a political agreement on the climate and energy framework up to 2030. The discussion developed starting from the Communication from the European Commission on this matter, published in January.

The agreement reached within the European Council provides some guiding principles. They shall be translated into proposals of the European Commission and subjected to the normal legislative co-decision procedure between the Parliament and Council of the European Union.

Very briefly, 3 targets were accepted, albeit highly different in nature and substance, for 2030:

1. a binding target for the reduction of greenhouse gas emissions of 40% relative to the emission levels recorded in 1990. This target is further divided into: 43% for Ets industries 30% for non Ets industries. Both figures refer to the 2005 emission level;
2. a target of at least 27% for the final gross consumption of energy from renewable sources. The target is binding for the Union as such, but not for individual member States;
3. a 27% energy savings target. The energy efficiency target is neither binding for the Union nor for the Member States.

With regard to the ETS, the European Council reached an agreement on the following points:

1. the linear reduction factor of total auctioned quotas changed from today’s 1.74% to 2.2% from 2021 onwards;
2. countries whose per capita GDP is less than 60% of the EU average may continue to guarantee free allowances to the electrical industry after 2020. This proportion may not exceed 40% of total full auctioning quotas;
3. the commitment to assign free quotas to avoid the risk of loss of competitiveness of industries subject to Carbon Leakage was confirmed. Reference parameters, it should be recalled, shall be periodically reviewed in line with the technological advances in the respective industries.

Other factors of interest of the agreement reached by the European Council:

1. a target dedicated to interconnections was defined, calculated on installed electrical capacity, of at least 10%, valid at least for the Baltic states and the Iberian peninsula with respect to countries that represent the respective entries into the European market;
2. the document also addresses the issue of the completion of both the regulations and the internal market for energy, seen as a fundamental element to improve European energy security with regard to electricity and gas;
3. it should be pointed out that any legislative proposal by the commission shall fully respect "member states' freedom to determine their energy mixes".

“Destination Italy – Voluntary incentive-spreading” Decree

In Italy, the Italian Law Decree known as **“Destination Italy”**, containing some **urgent measures for the energy sector**, was converted into law.

In particular, for electricity generating plants powered by renewable sources, with the exclusion of the photovoltaic segment, operators may opt to extend the incentive period by seven years in view of a reduction in the incentive (“voluntary incentive spreading”). If operators do not adhere, they lose their right to access any other form of new incentive for 10 years; the measure excludes new plants (authorised with Ministerial Decree of 6 July 2012), plants whose incentives are expiring and CIP6 plants.

The implementation of the “Destination Italy” Law Decree took place with the **Decree of the Ministry of Economic Development published on 18 November 2014**, which establishes the procedures for determining the new incentives recognised on the electricity generated by existing renewable energy plants, other than photovoltaic, which opted to re-modulate the incentive by 17 February 2015.

Another significant provision introduced with the “Destination Italy” Law Decree is the elimination of so-called Minimum Guaranteed Prices for Renewable Energy Plants smaller than 1 MW; instead, small plants (below 100 kW if they are photovoltaic/solar and below 500 kW if hydroelectric) are exempted.

On the bio-fuel front, the minimum mixing percentage in traditional fuels, already in force for 2014, was confirmed for 2015 (4.5% vol.).

“Competitiveness” Decree

The Italian Government’s commitment to boost the competitiveness of domestic enterprises (in particular “SMEs”), also through a **reduction in the costs of the energy withdrawn**, led to the promulgation of a new measure that also involves the energy sector, the **“Competitiveness”** Law Decree, published in June 2014 and converted with amendments into Law no. 116 of 11 August 2014. The measure contains an *ad hoc* rule for the reduction of incentives for photovoltaic plants above 200 kW to be enforced from 1 January 2015 onwards.

Briefly, photovoltaic operators will have to choose among three options: a) extending the incentive period from 20 to 24 years, in view of a re-modulation of the unit value of the incentive by an amount that depends on the duration of the residual incentive period; b) maintaining the twenty-year incentive period, in view of a reduction in the incentive for a first period, and a corresponding increase for a second period, with percentages defined by the **Decree of the Ministry of Economic Development of 17 October 2014**; c) maintaining the twenty-year incentive period, with a progressively increasing percentage of reduction according to the size of the plants.

The same measure also provided the possibility for all renewable energy producers to sell up to 80% of the incentives to international financial operators through an auction organised by the Energy Authority. However, this regulation has not yet been implemented because it is subject to the verification, by the Ministry of the Economy, of the compatibility of the effects of this operation on public finance balances for the purposes of compliance with the commitments made in Europe.

For Italian operators of **Internal Utility Electrical Networks** (RIU, from the Italian acronym) or Efficient Utility Systems (SEU, from the Italian acronym), there will be a 5% charge for system costs for consumption within the owned grid.

“Mucchetti” amendment for generating units in Sicily

In the course of the process for the conversion of Italian Law Decree no. 91/14 “Competitiveness” into law, among the various provisions introduced, of note is the so-called “Mucchetti” amendment: with this provision, in order to lower the wholesale price of electricity of the Sicily zone, the regulating authority defined **essential, from 1 January 2015 and until the start of operations of the “Sorgente-Rizziconi” 380 kV power line** between Sicily and the Continent (which to date is expected to be completed by 2015), all electricity generating units of said zone, with the exception of non-programmable renewable ones, with over 50 MW of power (including the Company’s CCGT plant). The criteria for bidding and for the remuneration of the aforesaid generating units subject to essentiality rules were set by the Authority

for Electricity, Gas and Water with its **Resolution no. 521/2014/R/eel**, following the cost restoration rules under Resolution no. 111/06.

The same amendment introduced a further provision pertaining to the calculation of the imbalances until the complete revision of the regulations for the Dispatching Services Market regarding **the removal of the Sicily and Sardinia macro zones** from the subdivision of the relevant network by inclusion in the South macro zone (as a result, the new structure of the zones for the sole purposes of calculating the imbalances comprises zone A, consisting of the North zone, and zone D, consisting of the Centre North, Centre South, South, Sicily and Sardinia zones).

With its Resolution 525/2014/R/eel the Authority for Electricity, Gas and Water implemented the aforesaid provisions with effect from 1 November 2014, in order to limit the costs for the electrical system due to the application of imbalance prices calculated on the basis of the previous macro zone configuration

Environment – Efficiency – Safety Matters

With regard to purely **environmental** matters, in the first quarter of the year the "Consolidated Law on the Environment" (**Italian Legislative Decree no. 46/2014**) was amended, with effect from the second quarter; in particular, provisions have been inserted, with respect to the incineration and waste to energy conversion, which were not included previously. The other significant changes pertain to updates to environmental assessment procedures, emission limits for large combustion plants (above MW) and stricter limits in case of any "substantial" change to the plant.

In addition, particularly noteworthy is **Italian Legislative Decree no. 102 of 4 July 2014, transposing Directive 2012/27/EU on Energy Efficiency** which, among the numerous measures to be adopted in the different industries that contribute to the Country's energy consumption, introduces the obligation for large enterprises and for energy-intensive enterprises to carry out the **energy diagnosis** in their production sites no later than 5 December 2015.

Lastly, of note is the publication of Italian Law no. 161 of 30 October 2014, introducing: "Provisions for compliance with the obligations deriving from Italy's membership in the European Union – European Law 2013-*bis*". The measure, in force since last November 2014, contains certain changes with respect to safety, connected to risk assessment both when establishing a new enterprise, and when revising an existing assessment. For fuel distributors, the constraint whereby unmanned, "automat" or "ghost" stations had to be located outside inhabited centres was definitively eliminated.

ROBIN TAX

With its decision no. 10 of 11 February 2015, the Constitutional Court declared the constitutional illegitimacy of the 6.5% IRES surtax for enterprises operating in the petroleum and energy industries ("Robin Tax"), introduced by Article 81, Paragraph 16 of Italian Law Decree no. 112/2008 (converted into Italian Law no. 133/2008) as amended.

The declaration of non retroactive unconstitutionality has been effective since 12 February 2015, the day after the decision was published in the Official Journal of Italy.

For the purposes of these financial statements, therefore, current taxes were calculated considering, when applicable, the Robin Tax, whereas the accounts receivable for deferred tax assets and provisions for deferred tax liabilities allocated in relation to the aforesaid IRES surtax were derecognised, inasmuch as the very basis for their expected payment no longer applies.

The net impact under the "taxes" item was negative by EUR 5 million.

In addition, the equity measurement of the TotalErg S.p.A. joint venture under the equity method reflects EUR -14 million (ERG share) tied to the same effect.

The aforesaid impacts were isolated as non-recurring items.

Lastly, it should be specified that the related effect was considered an adjusting event in accordance with IAS 10, i.e. an event occurred after the reporting date, which entails an adjustment on the basis of the best analyses available at the time of preparation of these financial statements in relation to the recent promulgation of the decision.

RENEWABLE ENERGY SOURCES

ITALY

The Renewable Energy Sources sector has already been the subject of focused measures, in addition to the inter-disciplinary measures already discussed in the previous paragraph.

With the intention, repeatedly announced by the Government, to monitor the payment of incentives more closely, on 31 January 2014 the Minister of Economic Development signed the decree that defines the controls and inspections the National Grid Operator may carry out on renewable source plants to which it paid incentives ("**Audits**" **Ministerial Decree**).

Specifically, the measure regulates the procedures for the performance of controls under the National Grid Operator's responsibility on generating plants as well as sanctions if significant violations (specified in a dedicated annex) are ascertained. In this case, the incentives shall be forfeited and the amounts already paid shall be returned in full. The measure applies equally to all plants powered by renewable sources, regardless of their size and of the type of source used.

Another significant issue for non programmable Renewable sources (e.g., wind) is represented by **imbalance costs**.

With the **Decision no. 2936 of 9 June 2014, the Council of State (CdS)** definitively repealed resolutions 281/2012 and 493/2012 whereby the Authority had introduced the imbalance costs on plants with non-programmable renewable energy sources, but confirmed the need to avoid socialising them. Following the consultation that ended on 8 September 2014 (**DCO 302/2014**), in October the Authority defined, with its **resolution no. 522/2014**, the new rules on the matter. In particular, the AEEGSI established that, from 1 January 2015 onwards, it shall be possible to choose between two methods for applying the imbalance price. The first one entails the introduction of "bands" differentiated by source (for wind power, it is equal to 49% of the programme), for a different method of valuing the imbalances: above the band, the rules for non-authorized units are applied, whilst below the band, imbalances are valued through an average unit price that is not differentiated by source. To avoid this latter valuing method, it is possible to opt for the application of the rules prescribed for non authorised units for the entire imbalanced energy. The measure was challenged before the Regional Administrative Court of Lombardy. The decision is still pending.

With regard to the 1 January 2013 - 31 December 2014 time interval, Resolution no. 522/2014 restored the rules that did not call for the payment of imbalance costs on the part of non programmable Renewable generators, except in cases of programme correction in the intraday market.

On the front of new installations, at the end of March the National Grid Operator published the **calls pertaining to the auction records and procedures for incentives to non photovoltaic Renewable Sources pertaining to the 2015 lot** (the last one contemplated by the Ministerial Decree of 6 July 2012). In relation to wind farm auctions, a quantity of 356.1 MW was set; the auction records and procedures closed and the related standings were published by the National Grid Operator in August 2014.

BULGARIA

At the end of 2013, the Bulgarian Parliament approved, within the scope of the 2014 Budget Law, an amendment to the renewable energies incentives law, whereby from January 2014 onwards a fee amounting to 20% of revenues was imposed on sun- and wind-powered generating plants. On 31 July, the Bulgarian Constitutional Court, at the President of the Republic's request to verify the constitutionality of the law, ruled that the 20% fee is incompatible. The Supreme Court decision that therefore declared the law unconstitutional was published in Bulgarian Official Journal no. 65 of 6 August 2014 and entered into force three days after publication. The Court's decision has no retroactive effects.

In addition, the Bulgarian regulatory Authority amended the electricity trading rules (the amendments were published in the Bulgarian Official Journal on 9 May 2014), introducing, starting from June 2014, the responsibility for balancing also for non-programmable renewable sources.

ROMANIA

Romanian Law no. 23/2014, amending and incorporating the previous Emergency Ordinance of March 2013, was ratified by the Romanian President, after a few vicissitudes, in March 2014. The Law introduced certain amendments to the incentive system; in particular, for existing wind farms, 1 Green Certificate is to be retained in the 1 July 2013-31 March 2017 time interval. The withheld Green Certificates will be progressively freed starting from 1 January 2018 and in any case no later than 31 December 2020, with procedures that are still to be defined. In the meantime, the Government, following

the indications of the ANRE, changed the maximum annual percentage of electricity generation from renewable sources that can benefit from incentives in 2014, from 15%, as prescribed by the previous regulations, to 11.1%. Based on the changes introduced by the new law, the ANRE has the task of defining this mandatory percentage on an annual basis.

The law is currently being reviewed by the European Commission - DG Competition. The market expects a decision from the Brussels authorities within the first half of 2015.

Wind farms that became operational after 1 January 2014 are instead subjected to the reduction in the number of GCs (over-compensation), as prescribed by the Governmental Decision that endorsed the decision of the Regulator, ANRE. Consequently, the wind farms in question access 1.5 GC for each MWh generated through 2017 and 0.75 GC for each MWh generated from 2018 onwards.

In October 2014 Directorate-General for Competition of the European Commission approved the exemption for energy-intensive industries from the law-mandated obligation to purchase green certificates. The Government announced the intention of enacting the related implementing decree on 1 January 2015. The market is waiting to be informed of the details of the decree, with particular regard to the procedures for distributing the portions pertaining to those exempted among the other parties that remain obligated.

FRANCE

The appeals against the 2008 Law Decree that established the measure and procedures for providing incentives to renewable energy plants reached their conclusion. An appeal had been brought before the French Council of State against said decree, because of its alleged incompatibility with EC regulations on State Aid. Following the measure promulgated by the Competition DG, the 2008 decree was repealed, but it was immediately replaced by a new regulation that confirms the incentive system (for existing plants as well).

In the meantime, the Chamber of Deputies approved the new text of the Law for energy transition, which provides incentives to the new renewable capacity through a "feed-in premium" tariff.

GERMANY

After the approval, in recent years, of the *EnergieWende*, i.e. the Law that regulates the Country's energy transition to the complete elimination of coal by 2050, in October 2014 the Government published a "Green Paper", outlining the essential choices in terms of market design, useful to achieve the Country's energy and environmental objectives.

The document is a part of the wider debate on the fate of fossil-fuel based energies in the German generating mix and on the methods to be implemented to comply with the target defined when the grand coalition Government was formed, i.e. a 40% reduction in greenhouse gases by 2020.

While the Green Paper does not contain an unequivocal position but merely sets the terms of the debate, it does stress the need for market reform (e.g. of the balancing and intra-day markets) and the opportunity to establish a strategic capacity reserve, deemed less costly than capacity remuneration schemes.

POLAND

After a new Government took power in Warsaw, the Parliament continued to debate the new Law on renewable energy sources. The bill intends to introduce an auction-based "Contract for Difference" incentive system for new entries. It provides for a form of voluntary shift with incentives for those parties that, although they already benefit from the current Green Certificate system, wish to opt for the new form of incentives. The sections that regulate the Contract for Difference should enter into force on 1 January 2016. For the full approval of the Law, the Polish system requires the joint vote of the Chamber of Deputies and of the Senate.

The new regulations were modelled according to the EC Guidelines of the Competition Directorate General concerning State Aid in the fields of energy and the Environment.

THERMOELECTRIC

In terms of Italian laws and regulations, as described above, in 2014 several measures were approved to reduce the cost of energy, in order to promote the competitiveness of Italian enterprises.

Among them was the decree to reduce the burden of Cip6 incentives on energy bills. It is **Ministerial Decree of 31 January 2014** on the new procedures to determine the so-called **CEC 2013 et seq.**, which entirely incorporates the Authority's proposal for the revision of the procedures to calculate the avoided cost of fuel (CEC) in accordance with the "To-Do Decree" (Article 5 of Italian Law Decree no. 69/2013), directed at making Cip6/92 rates closer to the cost structure of the natural gas market.

With regard to the new **capacity market** introduced with **Resolution no. 98/11**, after a long period of public consultations, it reached its final approval. With **Ministerial Decree of 30 June 2014**, the Ministry finally approved the outline of the new market for productive capacity transmitted by Terna, with the input of the Authority for energy, provided that a series of changes are made. According to a note by the Ministry of Economic Development (MSE), the first auctions for the new capacity market should be called by Terna by the end of 2015, with effects starting from 2018/2019.

As to the post-2014 "transitional capacity payment", instead, the industry is still awaiting its final approval. It should be recalled that the Authority for Energy, with its **resolution no. 6/2014**, started the process to implement Article 1 Paragraph 153 of the Stability Law on the transitional electric capacity payment, followed by the consultation document no. 234/2014, regarding the proposed revisions to the schemes for remunerating productive capacity at steady state and during the transitional period for the purposes of promoting flexibility. At the end of the public consultation (DCO 234/2014), the Authority, with its **Resolution no. 320/2014**, published the proposal, addressed to the MSE, to supplement the system for remunerating the generation capacity (transitional capacity payment) currently in force to provide for an explicit remuneration of flexible capacity, with reference to the 2015-2017 time interval. This proposal was transmitted to the MSE and to Terna for final approval.

Lastly, some important changes were introduced by the Authority with regard to the **dispatching services market (MSD)**. In particular, with its **Resolution no. 66/2014**, the Authority introduced a voluntary scheme for measuring and valuing the contribution to primary regulation provided by generating units whose size is no less than 10 MVA with certain technical requirements, which enables, *inter alia*, to exclude the contribution to primary regulation provided by the generating units from the calculation of their imbalances. Lastly, with its **Resolution no. 65/2014**, the Authority amended the rules for calculating the cost for the failure to comply with the start-up order on the part of owners of thermoelectric plants on the dispatching services market (MSD).

INTEGRATED DOWNSTREAM

In addition to the aforementioned provisions, pertaining to the liberalisation of automated unmanned stations and the mandatory portion of bio-fuels, it should be noted that, as provided by Law no. 98 of 9 August 2013 (converting the "To-Do Decree" into law), from 1 March 2014 and through 31 December 2014 the increased excise rates on fuels (gasoline and diesel) came into force:

- from EUR 728.40 to EUR 730.80 per thousand litres for gasoline;
- from EUR 617.40 to EUR 619.80 per thousand litres for diesel fuel.

On the Italian Official Journal no. 83 of 9 April 2014, two decrees by the Minister of the Interior pertaining to self-service stations for LPG and methane were published.

They provide that next to gasoline and diesel dispensers, those for automotive methane or LPG, configured as daily and nightly unmanned self-service dispensers, may also be installed (under certain safety prescriptions).

The intent of the rules is to promote use of methane and LPG as automotive transport fuels, enabling Italy to consolidate its position among the leaders in Europe in the use of these fuels (with advantages in terms of reduction of polluting emissions and development of the supply chain of the related models and components for the automotive industry).

IMPACTS ON THE GROUP

With regard to the impacts of these measures on the ERG Group for the year 2014, please refer to the following chapters dedicated to the individual activities managed.

BUSINESS SEGMENTS

RENEWABLE ENERGY SOURCES

The ERG Group operates in the renewable energy segment through the subsidiary ERG Renew, whose performance is based mainly on the wind power generation business.

Wind farms consist of wind-power generators able to transform the kinetic energy of wind into mechanical energy, which is used in turn to generate electricity. Aside from the availability of the plants, the performance expected from each wind farm is obviously influenced by the wind speed profile of the site on which the wind farm is located.

Business performance is also influenced by the sale price of electricity, which can also vary in relation to the geographic areas where the plants are located, by the value of “green certificates”, and in general, by the incentive systems for renewable energy sources, which differ from country to country.

Reference market⁽¹⁾

| Italian Renewable Energy Sources Market (GWh) ⁽²⁾ | Year | |
|--|---------|--------|
| | 2014 | 2013 |
| Generation from renewable sources ⁽³⁾ | 101,873 | 95,428 |
| of which: | | |
| Hydroelectric | 58,067 | 54,068 |
| Geothermal | 5,541 | 5,319 |
| Wind | 14,966 | 14,812 |
| Photovoltaic | 23,299 | 21,229 |

Sale prices (EUR/MWh)

| | | |
|--|-------|-------|
| PUN (Italy) ⁽⁴⁾ | 52.1 | 63.0 |
| Green certificates | 97.4 | 89.3 |
| EE Price Centre-South area | 48.9 | 59.3 |
| EE Price Southern area | 47.4 | 57.2 |
| EE Price Sicily | 80.9 | 92.0 |
| EE Price Sardinia | 52.2 | 61.5 |
| Average unit value of ERG energy sale in Italy | 146.4 | 148.1 |
| Feed In Tariff (Germany) ⁽⁵⁾ | 96.0 | 94.6 |
| Feed In Tariff (France) ⁽⁵⁾ | 91.1 | 90.4 |
| Feed In Tariff (Bulgaria) ⁽⁵⁾ | 94.9 | 94.8 |
| EE Price Romania | 25.0 | 33.5 |
| GC Price Romania ⁽⁶⁾ | 29.3 | 42.1 |

⁽¹⁾ estimated output for December

⁽²⁾ source: Terna S.p.A. monthly report on the electrical system. Estimated data, subject to correction

⁽³⁾ sources considered: hydroelectric, geothermal, wind power and photovoltaic

⁽⁴⁾ Single National Price – Source: GME S.p.A.

⁽⁵⁾ the values of the Feed in Tariff abroad refer to the prices obtained by ERG Renew plants

⁽⁶⁾ price referred to the unit value of the green certificate (the number of green certificates recognised and the timeline are discussed in the section describing the scenario in Romania)

Market scenario in Italy

In 2014, 38% of (net) domestic electricity generation was obtained from renewable sources, up compared to 34% in 2013; of this output, 22% originated from hydroelectric power, 9% from photovoltaic, 6% from wind power, and the remaining 2% from geothermal power; compared to 2013, strong growth was recorded both by photovoltaic (+10%) and hydroelectric (+7%), while wind power grew only slightly (+1%).

Tariff Scenario

Italy

The incentive system in Italy prescribes, for on-shore wind farms in operation before the end of 2012¹, the continuation of the green certificates system until 2015 and the subsequent conversion, for the residual period of entitlement to incentives, to a premium feed-in tariff paid on a monthly basis and calculated according to a similar formula. With regard to the timeline for the Italian National Grid Operator's withdrawal of the Green Certificates, for electricity generated in the first quarter of 2014, withdrawal took place by 30 September 2014 with payment no later than 31 October; for electricity generated in the second quarter of 2014, withdrawal shall take place no later than 31 December 2014, with payment no later than 31 January 2015, for electricity generated in the third quarter of 2014, withdrawal shall take place no later than 31 March 2015 with payment no later than 30 April and lastly for electricity generated in the fourth quarter, withdrawal shall take place no later than 30 June 2015. The price for the withdrawal of the Green Certificates is equal to 78% of the difference between 180 EUR/MWh and the average annual price of electricity in the previous year².

Wind plants with more than 5 MW capacity built from 2013 onwards (starting operations after April 2013) instead shall gain access to the incentives by participating in a Dutch auction³. As a result of the first auction, 442 MW were assigned for on-shore wind power (the total amount allocated for 2013 was 500 MW), whilst the second auction, completed on 10 June 2013, led to the assignment of the entire amount available for 2014, i.e. 399.9 MW versus a capacity demand of 1,086 MW⁴. With the third auction, relating to the amount for 2015, which was completed on 26 June 2014, the entire amount available for onshore wind power, i.e. approximately 356 MW, was assigned once again (capacity demand greatly exceeded the available amount, at approximately 1,261 MW).

Starting from 2013, moreover, for all entities accessing the incentive schemes for the generation of electricity from plants powered by renewable sources (with the exclusion of photovoltaic plants and of plants allowed for Inter-ministerial Price Committee Order 6/92), a contribution of EUR 0.5 is provided for each MWh of subsidised energy, to be paid to the Italian National Grid Operator (GSE).

Concerning the revision of regulations on the electricity dispatching service for generating units powered by non programmable renewable sources, following the decision of the Italian Council of State no. 2936 of 9 June 2014, the imbalance costs for the years 2013 and 2014 were definitively eliminated⁵.

Following DCO 302/2014, the Authority for Electricity, Gas and Water issued its Resolution no. 522/2014/R/EEL, which reintroduces imbalance costs from 2015 onwards, eliminating, de facto, the deductibles provided by the previous Resolution 281/12/R/EEL and providing new calculation scheme, differentiated according to technology.

By 31 December 2014, Terna provided for any balances due.

Lastly, in October 2014 the "incentive-spreading" implementing Decree was approved (implementing the "Destination Italy" Law no. 9 of 21 February 2014), addressed to producers of electricity from renewable sources (other than photovoltaic), owners of plants that benefit from incentives in the form of green certificates, all-encompassing tariffs, or premium tariffs. Participation is voluntary and it provides on one hand a reduction in the incentive, and on the other hand a further seven year extension of the incentive period. Plants that do not participate in the modulation will not benefit from incentives in case of intervention of any kind for a period of 10 years from the end of the incentive period. The option may be exercised within 90 days from the publication of the decree in the Official Journal of Italy, which to date is still being finalised. In this regard, ERG, considering the lack of a clear regulatory framework about the level and the procedures for accessing new incentives, has decided not to opt for the extension of the incentive period.

Germany

The incentive system for wind power in Germany is of the feed-in tariff/feed-in premium type. Based on the new EEG 2014, the tariff for new on-shore wind farms amounts to 89 EUR/MWh for 20 years (constant). The existing plants also have the option of choosing an alternative incentive system, of the feed-in premium type (mandatory for new plants). If this option is selected, electricity is sold directly on

¹ There is a transitional period until 30 April 2013, for plants already authorised no later than 11 July 2012.

² Electricity sale price defined by the Italian Authority for Electricity and Gas implementing Article 13, Paragraph 3, of Italian Legislative Decree no. 387 of 29 December 2003, recorded the previous year and announced by the Authority itself.

³ Base price of 127 EUR/MWh.

⁴ As a result of the decision by the Regional Administrative Court of 14 February 2014, 66 MW were reinstated, after they had been excluded from the second auction (after the end of the period for submitting auction bids) because they belonged to the transitional period. Consequently, said capacity was subtracted from the 2015 amount.

⁵ Years for which Resolution no. 111/2006 continues to be in force.

the market and the Operator receives, on a monthly basis, a premium equal to the difference between the basic value of the feed-in tariff and the average monthly market price of electricity, to which would be added a management premium (amounting to 4.5 EUR/MWh for 2014), decreasing over the years, which represents a proxy of the charges tied to the management of the sale of electricity on the market.

The 2009 version of the same law introduced a System Service Bonus, i.e. 7 EUR/MWh for work carried out no later than 2010, recognised if technological enhancements are made to the plant (to improve its performance related to voltage and frequency regulation), for the first 5 years from the completion of the work.

The tariff for ERG Wind's farms varies between 87 and 89 EUR/MWh (constant in nominal terms for 20 years). The Sallgast and Brunsbuttel wind farms went to the direct market system in 2014, while the remaining 3 wind farms continued to apply the fixed tariff system. All of ERG Wind's German wind farms (with the exception of the Gembeck wind farm, 4 WTG) today benefit from this bonus (SDL) of 7 EUR/MWh.

France

The incentive system for on-shore wind power is of the feed-in tariff type. The incentive for existing plants is recognised for 15 years and it is updated annually according to a formula tied to the index of hourly labour cost and to the index of the production prices of industrial products¹. For the first 10 years of operation it is the initial tariff, depending on the year of stipulation of the agreement, and it is updated annually, whilst for the subsequent 5 years the value to be indexed is decreasing if annual hours of operation exceed 2,400. For 2006, the initial tariff value was 82 EUR/MWh. To define the starting value for new plants in subsequent years, the tariff is reduced by 2% from the previous year, starting from 2008, and it is updated to take into account changes in the aforementioned indices. The value thus determined, for each plant, is then updated annually, according to the scheme described above. With reference to the appeal before the Council of State, which in turn involved the European Court of Justice, against the 2008 decree for the alleged incompatibility with EC rules on state aid, the 2008 decree itself was repealed on 28 May 2014 (by virtue of the failure to notify the European Commission before its implementation), but a new decree was issued on 17 June 2014, which confirms the same incentive system (for existing facilities as well). The decree had previously been definitively approved by the European Commission's General Directorate for competition, which found the text compatible with current State aid regulations.

Bulgaria

For on-shore wind farms, current regulations prescribe a feed-in tariff in brackets based on hours of operation, which is constant in nominal terms. In particular, for wind farms existing as at 3 May 2011, the incentive is recognised for the first 15 years of operation; the value of the tariff is 188.29 BGN/MWh (approximately 96.3 EUR/MWh) below 2,250 annual hours of operation and 172.95 BGN/MWh (approximately 88.4 EUR/MWh) above 2,250 annual hours of operations. For wind farms commissioned after this date and no later than June 2012, the incentive is recognised for the first 12 years of operation; the value of the tariff is 191 BGN/MWh (approximately 97.7 EUR/MWh) below 2,250 annual hours of operation and 173.1 BGN/MWh (approximately 88.5 EUR/MWh) above 2,250 annual hours of operation.

In September 2012, a charge for accessing transmission and distribution networks was introduced by the local Regulatory Authority for renewable source producers in operation since March 2010. The outcome of the appeal by Operators and industry Associations against the related resolution, which defined said charge temporarily to 10% of the feed-in tariff for wind power producers, was favourable. However, the definitive value, based on a detailed analysis of the actual costs of operation of the grids, has been published; it has been applicable since 13 March 2014 and it has been reduced to 2.5 BGN/MWh (approximately 1.3 EUR/MWh). At the end of 2013, the Bulgarian Parliament approved, within the scope of the 2014 Budget Law, an amendment to the renewable energies incentives law, whereby from January 2014 onwards a fee amounting to 20% of revenues was imposed on sun- and wind-powered generating plants. On 31 July, the Bulgarian Constitutional Court, at the President of the Republic's request to verify the constitutionality of the law, ruled that the 20% fee is incompatible. The Supreme Court decision that therefore declared the law unconstitutional was published in Bulgarian Official Journal no. 65 of 6 August 2014 and entered into force three days after publication. The decision has no retroactive effects.

In addition, the Bulgarian regulatory Authority amended the electricity trading rules (the amendments were published in the Bulgarian Official Journal on 9 May 2014), introducing, starting from June 2014, the responsibility for balancing also for non-programmable renewable sources.

¹ The indicators considered are ICHTrevTS ("*indice du coût horaire du travail (tous salariés) dans les industries mécaniques et électriques*", or index of hourly cost of labour (all personnel) in mechanical and electrical industries") and the PPEI ("*indice de prix de production de l'industrie française pour l'ensemble de l'industrie*"), or index of production prices of French industry for the industry as a whole).

Romania

Incentives for renewable energy in Romania are provided through “green certificates” for the first 15 years of operation. The obligation to place a certain yearly quantity of green energy in the grid (or to purchase an equal quantity of green certificates) is on the final consumption of electricity. For wind farms commissioned before 2014, 2 green certificates are provided for each MWh generated until 2017 and 1 green certificate from 2018 onwards, and the unit price of the green certificates ranges between a cap (55 EUR/MWh in 2010 currency) and a floor (27 EUR/MWh in 2010 currency) – defined in Euro – and indexed to inflation on an annual basis. Romanian Law no. 23/2014, amending and incorporating the previous Emergency Ordinance of March 2013, was ratified by the Romanian President, after a few vicissitudes, in March 2014¹. The Law introduced certain amendments to the incentive system; in particular, for existing wind farms, 1 Green Certificate is to be retained in the 1 July 2013-31 March 2017 time interval. The withheld Green Certificates will be progressively “released” starting from 1 January 2018 and in any case no later than 31 December 2020, with procedures that are still to be defined. In the meantime, the Government, following the indications of the ANRE, changed the maximum annual percentage of electricity generation from renewable sources that can benefit from incentives in 2014, from 15%, as prescribed by the previous regulations, to 11.1% (for 2015, from 16% prescribed by previous regulations to 11.9%). Based on the changes introduced by the new law, the ANRE has the task of defining this mandatory percentage on an annual basis.

The law is currently being reviewed by the European Commission - DG Competition.

Wind farms that became operational after 1 January 2014 are instead subjected to the reduction in the number of GCs (“over-compensation”), as prescribed by the Governmental Decision that endorsed the decision of the Regulator, ANRE. Consequently, the wind farms in question access 1.5 GC for each MWh generated through 2017 and 0.75 GC for each MWh generated from 2018 onwards.

With regard to the wind farms owned by ERG Renew in Romania, the Gebeleisis wind farm (70 MW; ERG's share: 35 MW) accesses the incentive scheme whereby 2 GC are recognised through 2017, one of which will be retained until 31 March 2017 whilst the Topolog wind farm (84 MW when fully operational; ERG's share: 42 MW), which started commercial operations in 2014 and is subject to the “overcompensation” scheme whereby 1.5 GC is recognised through 2017, and subsequently 0.75 GC will be recognised for each generated MWh.

In October 2014 Directorate-General for Competition of the European Commission approved the exemption for energy-intensive industries from the law-mandated obligation to purchase green certificates. The Government announced its intention to make the related implementing decree enter into force on 1 January 2015; market is waiting to be informed of the details of the decree, with particular regard to the procedures for distributing the portions pertaining to those exempted among the other parties that remain obligated.

¹ Decree no. 270/2014 approving Law 23/2014, which approves the Emergency Ordinance no. 57/2013, amending and supplementing Law no. 220/2008 for the Green Certificate incentive system.

Highlights of performance items at adjusted replacement cost

To enhance the understandability of the performance of Renewable Energy Sources, the results of this business are shown at their adjusted replacement cost, which reflects ERG's share (50%) of the consolidated results of the LUKERG Renew joint venture.

| Operating results | Year | |
|--|--------------|--------------|
| | 2014 | 2013 |
| Revenues from ordinary operations | 349 | 339 |
| EBITDA at replacement cost ⁽¹⁾ | 267 | 245 |
| Amortisation, depreciation and write-downs ⁽¹⁾ | (137) | (126) |
| EBIT at replacement cost ⁽¹⁾ | 131 | 119 |
| Capital expenditures on tangible and intangible fixed assets | 38 | 97 |
| Main Financial data⁽²⁾ | | |
| Net invested capital | 1,701 | 1,838 |
| Shareholders' equity | 636 | 589 |
| Total net financial indebtedness | 1,065 | 1,249 |
| of which non-recourse Project Financing ⁽³⁾ | 1,120 | 1,157 |
| Ebitda Margin % ⁽⁴⁾ | 76% | 72% |

⁽¹⁾ not including non-recurring items indicated in the section "Alternative performance indicators," to which reference should be made for further details

⁽²⁾ figures from the ERG Renew Consolidated Financial Statements

⁽³⁾ including cash and cash equivalents

⁽⁴⁾ EBITDA at adjusted replacement cost over revenues from ordinary operations

The breakdown of EBITDA at replacement cost between the various geographic areas of the Renewable Energy Sources business was as follows:

| EBITDA at replacement cost | Year | |
|----------------------------|------------|------------|
| | 2014 | 2013 |
| Italy | 233 | 219 |
| Germany | 12 | 11 |
| France | 8 | 8 |
| Bulgaria (50%) | 4 | 4 |
| Romania (50%) | 10 | 2 |
| Total | 267 | 245 |

In 2014, consolidated revenues were higher than those of 2013, thanks to the higher output of the period which more than offset the effect of the lower sale prices. In greater detail, output increased significantly abroad, thanks to the contribution, for the entire period, of the wind farms in Gebeleis in Romania (ERG share: 35 MW) and in Hrabrovo in Bulgaria (ERG share: 7 MW), acquired in the third quarter of 2013 as well as of the new Topolog wind farm (ERG Share: 42 MW) in Romania, commissioned at the end of 2013; in Italy, output increased slightly thanks to the commissioning of the Palazzo San Gervasio wind farm (34 MW) in December 2013, which more than offset the weaker wind conditions in Sicily and Sardinia.

With regard to the decrease in sale prices, for ERG Renew, the average sale price of electricity in Italy amounted to 49.0 EUR/MWh, significantly lower than the value of 58.8 EUR/MWh recorded in 2013, and lower than the Single National Price (52.1 EUR/MWh). This decrease is in line with the general decline in energy prices, whilst the difference compared to the Single National Price derives from the specific geographic breakdown of ERG plants, concentrated in the South of Italy. The reduction in the sale price of Electricity was partially offset by the increase in the value of green certificates, i.e. 97.4 EUR/MW, higher than the value of 89.3 EUR/MWh of 2013, in light of the incentive system which partly offsets the

changes in the price of electricity. Overall, the average unit revenue from ERG Renew production in Italy, considering the sale value of energy and of the green certificates, was 146.4 EUR/MWh, down from the value of 148.1 EUR/MWh of 2013.

The average unit revenue of wind farms abroad, in 2014, was approximately 87.5 EUR/MWh, down compared to 92.2 EUR/MWh recorded last year, because of the start of operations of the new wind farms in Romania, with lower average unit revenues.

The EBITDA at adjusted replacement cost amounted to EUR 267 million in 2014, up further compared to EUR 245 million in 2013, mainly thanks to the contribution of the new wind farms, to the benefits deriving from the in-sourcing of Operation & Maintenance activities for the wind farms of ERG Wind (550 MW) and to the lower costs tied partly to the cessation of the imbalance costs.

The EBITDA margin amounted to 76%, up compared to 72% in 2013. This margin indicator benefited from the positive effects of the recent Council of State decision on imbalance costs, which entailed, in addition to the zeroing of such costs in 2014, the recognition of approximately EUR 5 million of income on 2013 costs. In addition, effective cost containment actions continued, thanks to the efficiency deriving from the larger size of the company, from the in-sourcing of O&M activities on ERG Wind farms as a result of the acquisition of ERG Renew O&M, as well as to specific projects for the revision of company processes and cost budgets in "zero based" terms.

This margin indicator instead was negatively affected by changes in scope, with unit revenues from the new assets in Romania lower than in Italy, and by the decline in unit revenues in Italy.

| Installed Power (MW) | Year | |
|--|--------------|--------------|
| | 2014 | 2013 |
| - Italy | 1,087 | 1,087 |
| of which | | |
| <i>Campania</i> | 239 | 239 |
| <i>Calabria</i> | 120 | 120 |
| <i>Puglia</i> | 249 | 249 |
| <i>Molise</i> | 79 | 79 |
| <i>Basilicata</i> | 89 | 89 |
| <i>Sicily</i> | 198 | 198 |
| <i>Sardinia</i> | 111 | 111 |
| <i>Other</i> | 2 | 2 |
| - Abroad | 254 | 253 |
| of which | | |
| <i>Germany</i> | 86 | 86 |
| <i>France</i> | 64 | 64 |
| <i>Bulgaria (50%)</i> | 27 | 27 |
| <i>Romania (50%)</i> | 77 | 76 |
| Total installed power at period end⁽¹⁾ | 1,341 | 1,340 |

⁽¹⁾ power of plants in operation at period end.

The power in operation at 31 December amounted to 1,341 MW, in line with the figure at 31 December 2013.

Compared to operational power in 2014 and 2013, instead, power grew at the end of 2013 by approximately 76 MW thanks to the new wind farms built in Palazzo San Gervasio in Basilicata (34 MW) and in the Tulcea region in Romania through Lukerg Renew (84 MW, of which ERG's share is 42 MW); construction of these farms was in fact completed at the end of 2013, with the first output generated during the commissioning phase in December 2013, and the consequent full contribution to ERG Renew's results only in 2014.

Moreover, compared to 2013, the year 2014 benefited, in addition to the aforementioned wind farms, from the contribution, for the entire period, of the wind farms at Gebeleisis, Romania (of which 35 MW is ERG's share) and at Hrabrovo, Bulgaria (ERG's share: 7 MW), acquired in the third quarter of 2013.

| Generation (GWh) | Year | |
|-------------------------------|--------------|--------------|
| | 2014 | 2013 |
| - Italy | 2,051 | 2,010 |
| of which | | |
| <i>Campania</i> | 453 | 437 |
| <i>Calabria</i> | 249 | 246 |
| <i>Puglia</i> | 502 | 497 |
| <i>Molise</i> | 163 | 164 |
| <i>Basilicata</i> | 173 | 103 |
| <i>Sicily</i> | 313 | 336 |
| <i>Sardinia</i> | 198 | 220 |
| <i>Other</i> | 0 | 7 |
| - Abroad | 529 | 393 |
| of which | | |
| <i>Germany</i> | 144 | 155 |
| <i>France</i> | 122 | 127 |
| <i>Bulgaria (50%)</i> | 67 | 57 |
| <i>Romania (50%)</i> | 196 | 54 |
| Total wind farm output | 2,580 | 2,403 |

In 2014, ERG Renew's electricity output amounted to 2,580 GWh, higher than in 2013 (2,403 GWh), with slightly higher output in Italy (from 2,010 GWh to 2,051 GWh) and growth abroad (from 393 GWh to 529 GWh).

These output values in Italy were positively influenced by the higher installed capacity by 34 MW (in Basilicata) and negatively influenced by wind conditions that were far weaker than the historic average, and slightly lower than the already weak figure of 2013. At the national level, total output from wind farms were substantially in line with the values recorded in 2013, whilst installed capacity grew slightly.

Growth abroad derives mainly from the contribution of the new wind farm in the Tulcea region in Romania, as well as from the wind farms at Gebeleisis in Romania and Hrabrovo in Bulgaria, which in 2013 had contributed their output only starting on 28 June and 5 September 2013, respectively.

The following table shows wind farm load factor by main geographic area; the figure, estimated taking into account the actual start of operations of the wind farms in individual years, provides a measure of the level of generation of the various farms in relative terms, and it is influenced not only by the characteristics of the farm and the wind conditions in the period considered, but also by the level of availability of the plants and any limitations on the energy transport networks.

| Load Factor % | Year | |
|-----------------------------------|-------------|------------|
| | 2014 | 2013 |
| - Italy | 22% | 22% |
| of which | | |
| <i>Campania</i> | 22% | 21% |
| <i>Calabria</i> | 24% | 23% |
| <i>Puglia</i> | 23% | 23% |
| <i>Molise</i> | 23% | 24% |
| <i>Basilicata</i> | 22% | 21% |
| <i>Sicily</i> | 18% | 19% |
| <i>Sardinia</i> | 20% | 23% |
| <i>Other</i> | <i>n.a.</i> | 13% |
| - Germany | 19% | 21% |
| - France | 22% | 23% |
| - Bulgaria (50%) | 28% | 29% |
| - Romania (50%) | 29% | 31% |
| Load Factor ⁽¹⁾ | 22% | 22% |

⁽¹⁾ actual output in relation to maximum theoretical output (calculated taking into account the actual date of initial operation of each individual wind farm)

Overall, the total load factor in 2014, i.e. 22%, was in line with the 2013 figures.

LUKERG Renew

ERG Renew is active in Bulgaria and Romania through LUKERG Renew, a joint venture between ERG Renew and LUKOIL-Ecoenergo incorporated in 2011 to operate jointly in the renewable energies market in Romania, in Bulgaria, in Ukraine and in Russia.

- At the end of the **first half of 2012** LUKERG Bulgaria GmbH, a subsidiary of the joint venture LUKERG Renew GmbH, acquired two wind farms (Kavarna and Longman) that were already operational in Bulgaria, in the Dobrich region, with total installed capacity of approximately 40 MW.
- At **the end of 2012**, LUKERG Renew acquired 100% of Land Power SRL, a Romanian company, owner of the land and authorisations for an 84 MW wind farm in Topolog, in the Tulcea region (Romania); construction of the wind farm started in April 2013 and was completed in January 2014.
- In **June 2013** LUKERG Renew entered into two agreements with Vestas for the acquisition of 100% of two already operational wind farms (total installed capacity, 84 MW): Gebeleisis in Romania and Hrabrovo in Bulgaria.

The Gebeleisis wind farm is in the Galati region (Romania); fully operational since February 2013, its total installed capacity is 70 MW (35 Vestas V90-2 MW WTG). The acquisition was closed on 28 June 2013. The Hrabrovo wind farm is in the region of Dobrich (Bulgaria); it has been fully operational since March 2012 and it has a total installed capacity of 14 MW (7 WTG Vestas V90-2 MW). The acquisition was closed on 5 September 2013 through the subsidiary LUKERG Bulgaria.

The Topolog wind farm is in the region of Tulcea (Romania), it has been fully operational since December 2013 and it has a total installed capacity of 84 MW (42 Vestas V90-2 MW WTG).

With these acquisitions and with the commissioning of Topolog, LUKERG Renew thus reached an installed power of over 200 MW, becoming one of the foremost players in both markets where it is active.

During 2014, moreover, two Project Finance agreements were signed for the Romanian wind farms of Gebeleisis and Topolog, respectively amounting to EUR 67 million and EUR 57 million.

Thus, all wind farms benefit from non-recourse Project Financing, attesting to the high quality of the

facilities, recognised by the credit system, in complex regulatory environments.

The following figures refer to 100% of the consolidated financial statements of the joint venture.

| | Year | |
|--|-----------|-----------|
| | 2014 | 2013 |
| EBITDA at replacement cost ⁽¹⁾ | 28 | 13 |
| Amortisation, depreciation and write-downs ⁽¹⁾ | (16) | (7) |
| EBIT at replacement cost ⁽¹⁾ | 12 | 6 |
| Capital expenditures on tangible and intangible fixed assets | 4 | 104 |
| Installed power: | | |
| Bulgaria | 54 | 54 |
| Romania | 154 | 152 |

⁽¹⁾ not including non-recurring items indicated in the section "Alternative performance indicators," to which reference should be made for further details

EBITDA for 2014 amounted approximately to EUR 28 million, higher than in 2013 (EUR 13 million) mainly because of the increased output deriving from the greater installed capacity, only partly offset by the lower price of energy.

Capital expenditures in 2014 refer mainly to the latest activities tied to the commissioning and testing of the Topolog wind farm, completed in the first half of 2014.

The net financial position of LUKERG Renew at 31 December 2014 amounted to EUR 277 million, an increase compared to EUR 270 million at 31 December 2013. The medium-long term portion amounts to EUR 270 million, of which approximately EUR 154 million relate to project finance and EUR 136 to shareholder loans.

POWER

Reference market

| Italian electricity market (GWh) ⁽¹⁾ | Year | |
|---|---------|---------|
| | 2014 | 2013 |
| Demand | 309,006 | 318,475 |
| Pumping consumption | 2,254 | 2,495 |
| Import/Export | 43,703 | 42,138 |
| Internal generation ⁽²⁾ | 267,557 | 278,832 |
| of which | | |
| Thermoelectric | 165,684 | 183,404 |
| Renewable energy sources | 101,873 | 95,428 |
| Sale prices (EUR/MWh) | | |
| PUN ⁽³⁾ | 52.1 | 63.0 |

⁽¹⁾ source: Terna S.p.A. monthly report on the electrical system. Estimated data, subject to correction

⁽²⁾ output net of consumption for auxiliary services

⁽³⁾ Single National Price. Source: GME S.p.A.

The electricity demand¹ of the Italian electric system in 2014 amounted to 309.0 TWh, in decline (-3.0%) compared with the values recorded in 2013. With regards to Sicily, the contraction in demand compared with 2013 was 3.4%, from 20.5 TWh to 19.8 TWh.

In the same period, net internal electricity generation amounted to 267.6 TWh, down by 4.0% compared with the previous year, whilst the net balance of exchange with foreign countries recorded imports of 43.7 TWh, up by 3.7% compared with 2013. Thermoelectric plants provided 62% of (net) domestic generation and renewable sources provided the remaining 38%; compared to the previous year, output from thermoelectric sources declined sharply (-10%), offset by the higher contribution from renewable sources (+7%), in particular photovoltaic (+10%) and hydroelectric (+7%), whilst the output from wind power grew slightly (+1%).

The average value of the PUN (Single National Price) in 2014 was 52.1 EUR/MWh, down by 17% compared with the value of 2013 (i.e. 63.0 EUR/MWh). The decline reflects on one hand the reduction in the price of gas for thermoelectric use, and on the other hand the further drop in demand accompanied by the growing contribution of renewable energy sources.

Article 23, Paragraph 3-*bis* of Law Decree no. 91 of 24 June 2014, converted by law no. 116 of 11 August 2014, introduced new rules for programmable generation plants situated in Sicily.

In particular, it was established that, from 1 January 2015 and until the commissioning of the "Sorgente-Rizziconi" 380 kV power line between Sicily and the Continent and of the other interventions aimed at the significant increase in interconnection capacity between the electrical grids of Sicily and of the Italian peninsula: (i) the electricity generating units, with the exclusion of non-programmable renewable units, with over 50 MW of power, shall be considered essential resources for the security of the electrical system and shall be offered on the previous day market; (ii) the Authority shall define the bidding and remuneration procedures of the aforesaid units no later than ninety days from the date of entry into force of the law converting Law Decree no. 91/14, following the criteria of the timely recognition, for each individual generating unit, of the variable costs and of the fixed costs of an operational nature and of fair remuneration of the residual invested capital related to the same units, in order to assure the reduction of costs for the electrical system.

Executing the provisions of the aforesaid Law Decree, on 24 October 2014 the Authority published the Instruction no. 521/2014/R/EEL, pertaining to provisions on essential facilities in Sicily, directed at

¹ Including grid losses and net of electricity used for pumping.

regulating, inter alia, the offering and remuneration criteria for units defined as essential in accordance with Law Decree no. 91/2014.

In October 2014, the Authority also published its Resolution no. 500/2014/R/EEL; while it pertains to Essential Units under ordinary rules, it does clarify and revise certain parameters of the Recognised Variable Cost which also have effect on Essential Units under Italian Law Decree no. 91/2014.

Lastly, with its Resolution 667/2014/R/EEL, the AEEGSI approved the parameters for the calculation of the Recognised Variable Cost of Essential Units under Italian Law Decree no. 91/2014.

The regulations for Essential Units under Italian Law Decree no. 91/2014 had no impact on the year 2014, because they will be enforced in the time interval between 1 January 2015 and the date of initial operation of the Sorgente-Rizziconi power line, currently planned to occur on or before 30 June 2015. This deadline, however, will have to be confirmed in the first half of 2015 in light of the completion of ancillary works supporting the cable's functionality and its actual commissioning.

With regard to ERG Power, a significant impact is expected on energy markets, by virtue of the obligation to bid by the Generating Units at prices no higher than their own Recognised Variable Cost: in particular, the price differential between the Sicily zone and the national single price is expected to contract markedly in 2015 compared to the level of 2014.

The impact will also be significant on the Dispatching Services Market, for which the regulations impose the obligation to bid the entire power at a price equal to the Recognised Variable Cost.

Impacts on revenues from markets, however, should be offset by the administered component recognised to Essential Units to cover fixed operating and investment costs, including the fair remuneration of the invested capital within the scope of the so-called restoration of generation costs.

This price shall be liquidated only upon completion, based on official accounting documents, with a consequent negative effect on working capital.

Period performance highlights

As previously commented, the results reported below reflect the contribution of the IGCC plant until 30 June 2014

| | Year | |
|--|--------------|--------------|
| | 2014 | 2013 |
| (EUR million) | | |
| Revenues from third parties | 930 | 1,424 |
| Intra-segment revenues | 234 | 218 |
| Revenues from ordinary operations | 1,164 | 1,642 |
| EBITDA at replacement cost ⁽¹⁾ | 204 | 358 |
| Amortisation, depreciation and write-downs ⁽¹⁾ | (54) | (80) |
| EBIT at replacement cost ⁽¹⁾ | 150 | 278 |
| Capital expenditures on tangible and intangible fixed assets | 14 | 26 |

⁽¹⁾ the data shown here do not include the non-recurring items indicated in the section "Alternative performance indicators," to which reference should be made for further details

The breakdown of EBITDA at replacement cost between the various activities of the Power business was as follows:

| | Year | |
|---|------------|------------|
| | 2014 | 2013 |
| EBITDA at replacement cost | | |
| ISAB Energy / ISAB Energy Services | 104 | 254 |
| ERG Power Generation / ERG Power plants | 100 | 104 |
| Total | 204 | 358 |

Sales of electric power ⁽¹⁾

| Sales (GWh) | Year | |
|------------------------------|--------------|--------------|
| | 2014 | 2013 |
| Total Sales | 6,774 | 8,229 |
| ISAB Energy | 2,042 | 4,142 |
| ERG Power Generation | 4,732 | 4,087 |
| Generation (GWh) | | |
| Total Generation | 4,665 | 6,805 |
| of which ISAB Energy S.r.l. | 2,042 | 4,142 |
| of which ERG Power S.r.l. | 2,623 | 2,663 |
| Sale prices (EUR/MWh) | | |
| CIP 6 | 100.9 | 118.7 |
| EE Price Sicily | 80.9 | 92.0 |

⁽¹⁾ for the Power business unit, electricity sales differ from the quantities generated because they also include the energy bought and sold on wholesale markets and on forward markets; on the other hand, sales of electricity generated from wind power purchased from the subsidiaries of the renewable energies business are excluded from the above data

ERG Power business unit and ERG Power

During 2014, ERG Power's net electricity generation amounted to 2,623 GWh, slightly in decline from the previous year (2,663 GWh). In the first six months, the reduction was mainly caused by the more volatile environment, which led to more vigorous modulation of the plant, as well as by the placement in cold reserve status, in 2013, of a plant section with poor flexibility (SA1N3 unit) that produced steam and electricity.

Approximately 20% of ERG Power's electricity output was allocated to cover the requirements of the customers of the Priolo industrial site, whilst the net supply¹ of steam to said customers amounted to approximately 838 thousand tonnes, a sharp reduction from 1,577 thousand tonnes in the same period of 2013, mainly because of the reduced utilisation by Versalis as a result of a different organisation of its plants.

EBITDA in 2014 amounted to EUR 100 million, in line with the 2013 value.

The highly satisfactory results, even in a market environment in Italy that worsened sharply for combined cycle gas-fuelled plants, reflect, on one hand, average values of the price of energy in Sicily that are still favourable, and above all the effectiveness of the energy management policy with significant use of the dispatching services market and the adoption of effective hedges of the generation margin. These policies contemplate, *inter alia*, the multi-year forward sale of electricity to IREN Mercato, the use of instruments for hedging the price risk and the sale of steam and electricity, through multi-year agreements, to the customers of the petrochemical site in Priolo Gargallo. Throughout 2014, the plant benefited from high reliability and production efficiency, pursued through focused investments.

ISAB Energy

As described in greater detail in the introduction, in June 2014 ERG completed the purchase of the 49% equity investment of GDF SUEZ in ISAB Energy, the early termination of the CIP6/92 convention and the sale of ISAB Energy's plant to ISAB, which occurred on 30 June 2014. Consequently, the results of the plant contributed to the Group's results only for the first six months, whilst in the second half the results were only due to the revision of the sale prices and to the Operation & Maintenance activity still carried out by ISAB Energy Services on the CCGT plant and other minor site facilities.

In 2014, electricity output therefore pertains only to the first half year (2,042 GWh), with a consequent sharp decline (-51%) compared to the output of 4,142 GWh of the entire year 2013.

EBITDA at current values amounted to EUR 104 million, down sharply compared to the previous year (EUR 254 million), mainly as a result of the aforementioned sale of the generating activities starting from 1 July 2014, as well as the contraction in the sale price of electricity.

The value of the CEC balance for 2014, published by the AEEGSI on 30 January 2015, amounts to 68.7 EUR/MWh¹, a severe contraction compared to 86.9 EUR/MWh in 2013; the total value of CIP 6 electricity

⁽¹⁾ i.e. the supply of steam to the industrial site of Priolo Gargallo excluding pipeline losses, net of steam withdrawal from customers

¹ value published on the AEEGSI website on 30 January 2015

Annex to the press release of 12 March 2015

sale price (including the CEC and the other tariff components) is 100.9 EUR/MWh, in marked decline compared to 118.7 EUR/MWh recorded in 2013.

INTEGRATED DOWNSTREAM

Reference market⁽¹⁾

| (thousands of tonnes) | Year | |
|---------------------------------|--------|--------|
| | 2014 | 2013 |
| Italian Retail Market | | |
| Gasoline | 7,663 | 7,924 |
| Diesel | 14,619 | 14,644 |
| Italian Wholesale Market | | |
| Diesel | 11,853 | 11,214 |
| Heating oil | 1,098 | 1,385 |
| Specialties Market | | |
| Combustion LPG | 1,499 | 1,745 |
| Transport LPG | 1,570 | 1,537 |
| Bitumen | 1,411 | 1,446 |
| Lubricants | 383 | 395 |

⁽¹⁾ estimated figures

Italian Retail Market: in 2014, fuel consumption in the Retail Market declined yet further. Overall demand for products contracted by 1.3% compared to the previous year, as a result of the decline in the demand for gasoline (-3.3%) and to a lesser extent in the demand for diesel (-0.2%).

Demand does not seem to exhibit any signs of recovery, and in fact the contracting trend in consumption, that took place in recent years, is persisting. The still weak macroeconomic environment is affecting and changing motorists' consumption habits, penalising the end demand for transport fuels. The figure for 2014 compounds particularly negative trends, like the one for the entire year 2013, with a decline by 4.7%, and the one in 2012, with a 9.5% drop compared to 2011.

Italian Wholesale Market: in 2014, Wholesale demand for diesel fuels (transport, marine and agricultural) increased by 5.7% compared to 2013; the increase is due to demand for transport diesel, which increased by 7.5%, and to a lesser extent to demand for marine diesel (+0.7%), while demand for agricultural diesel declined (-2.4%). With regard to heating oil, lastly, demand contracted very severely, by 20.7%, mainly as a result of the particularly mild winter.

Specialties Market: in 2014, total LPG sales declined by 6.5% compared to 2013. The particularly negative figure is due to the lower demand in the combustion network which, affected by the temperatures, higher than seasonal averages in the past winter, decreased by 14.1% compared to 2013. On the other hand, the transport network confirmed its positive trend, growing by +2.1%. With regard to Bitumen, demand in 2014 declined slightly compared to 2013 (-2.4%). Lastly, there was a contraction of sales of lubricants (-3.0%), mainly affected by the decrease in the industry channel (-12.2%) which more than offsets the slight increase recorded in the auto channel (+0.5%).

Highlights of Integrated Downstream performance at adjusted replacement cost

To enhance the understandability of Integrated Downstream performance, the results of this business are shown at their adjusted replacement cost, which also take into account ERG's share (51%) of the consolidated results of the TotalErg joint venture.

It should be pointed out that the figures shown below include, in addition to TotalErg's share, also ERG Oil Sicilia's activities in Sicily, the results of the company ERG Supply & Trading, and for the 2013 figures only, the results deriving from the Coastal Refining activity, which ceased as a result of the definitive departure from the business, following the sale of the remaining 20% of the ISAB refinery, completed at the end of 2013.

| (EUR million) | Year | |
|--|--------------|--------------|
| | 2014 | 2013 |
| Revenues from ordinary operations ⁽¹⁾ | 3,098 | 9,002 |
| EBITDA at replacement cost ^{(2) (3)} | 44 | (5) |
| Amortisation, depreciation and write-downs ⁽³⁾ | (48) | (83) |
| EBIT at replacement cost ^{(2) (3)} | (5) | (87) |
| Capital expenditures on tangible and intangible fixed assets | 34 | 41 |

(1) in 2014, they did not include revenues from Supply & Trading activities (EUR 3,829 million), recognised as a reduction to purchase costs.

(2) inventory gains (losses) of -69 in 2014 (-14 in 2013)

(3) they do not include non-recurring items as indicated in "Alternative performance indicators", to which reference is made for additional details

The breakdown of EBITDA at adjusted replacement cost and of the capital expenditures between the various activities of the Integrated Downstream business was as follows:

| EBITDA at adjusted replacement cost | Year | |
|--|-----------|------------|
| | 2014 | 2013 |
| (EUR million) | | |
| TotalERG (51%) | 47 | 39 |
| ERG Oil Sicilia | 5 | 6 |
| ERG Supply & Trading | (8) | 0 |
| Coastal Refining | 0 | (50) |
| Total | 44 | (5) |
| Adjusted capital expenditures on tangible and intangible fixed assets | | |
| (EUR million) | | |
| TotalERG (51%) | 34 | 39 |
| ERG Oil Sicilia | 0 | 2 |
| ERG Supply & Trading | 0 | 0 |
| Coastal Refining | 0 | 0 |
| Total | 34 | 41 |

In 2014, EBITDA at replacement cost amounted to EUR 44 million, an improvement compared to the loss of EUR -5 million of 2013, which was still affected by the results of Coastal Refining.

Although the results of TotalERG continued to be influenced by severely negative refining margins as well as by a still contracting fuels market, smaller than 2013 both in terms of demand and market margins, they were higher than the previous year, partly thanks to the efficiency-boosting and cost containment actions taken by the company.

In a challenging market environment, the results of ERG Oil Sicilia, whose equity investment was sold at the end of 2014 as commented above, declined slightly from the previous year.

Lastly, the results of ERG Supply & Trading, slightly positive in the first nine months, gave a negative overall contribution to the results of the year, sharply worsening in the final months of the year in an environment marked by high volatility and contracting commodity prices.

ERG Oil Sicilia

Downstream activities in Sicily are carried out through ERG Oil Sicilia (EOS), which started operations on 1 April 2010 within the scope of the performance of the agreements for the incorporation of TotalErg, and to which all the assets of ERG Petroli in the Region were transferred. The company was sold on 29 December 2014.

The results of 2014 decreased slightly compared to 2013, in light of further contracting demand compared to the previous year, 2013.

EOS total sales amounted to 138 thousand tonnes in 2014, down compared to 220 recorded in 2013. The drop is due both to the different scope of the company's activity, which in 2013 still included residual sales in the wholesale network, and to non-renewal of two low-margin service station lease agreements, as well as to the general contraction in market demand.

ERG Supply & Trading

On 1 January 2014, following the sale of the remaining 20% of the ISAB refinery and the cessation of the Coastal Refining activity, a business unit consisting mainly of the personnel and activities relating to the trading of crude oils and products was transferred from ERG S.p.A. to the newly established company ERG Supply & Trading.

This activity, is mostly carried out through the purchase and sale, through both spot and term contracts, of crude oils and petroleum products, both with refiners and integrated downstream operators, and with trading companies active in the petroleum industry. The goal of the activity is to exploit profit opportunities on the market for these commodities through arbitrage between different geographic markets. Risks are edged in part by subscribing derivative instruments, traded and managed through regulated markets, within the scope of restrictive policy management policies.

The results of 2014, negative by approximately EUR 8 million in terms of EBITDA, were affected by a market environment that has unfavourable price differentials between the products in the various geographic areas, in particular during the final part of the year, also as a result of the sudden change in the petroleum scenario's factors and in the Euro/US Dollar exchange rate.

In view of the negative results recorded in 2014 and taking into account the Group's strategic interests, the decision was made not to continue with these business activities.

Highlights of TotalErg performance

The following figures refer to 100% of the Consolidated Financial Statements of the company, which has operated since 1 October 2010.

| (EUR million) | Year | |
|--|-----------|-------------|
| | 2014 | 2013 |
| EBITDA at replacement cost ⁽¹⁾ | 93 | 76 |
| Amortisation, depreciation and write-downs ⁽²⁾ | (87) | (109) |
| EBIT at replacement cost ⁽¹⁾ | 6 | (33) |
| Capital expenditures on tangible and intangible fixed assets | 66 | 76 |

⁽¹⁾ The data reported do not include inventory gains (losses) of -135 million in 2014 (-11 in 2013)

⁽²⁾ they do not include non-recurring items as indicated in "Alternative performance indicators", to which reference is made for additional details

EBITDA amounted to approximately EUR 93 million in 2014, a marked improvement over the same period of the previous year.

Concerning the marketing business, the results, notwithstanding the further contraction in demand and lower market margins than in the previous year, were higher than the previous year, thanks to the efficiency-boosting and cost containment actions taken by the company and to the restructuring of the fuel network, which led to a reduction in sales outlets and a focus on the company's own stations with higher profitability and average dispensed quantities.

With regard to refining and logistics, the recovery in refinement margins in the second half was able only partly to offset the negative impacts of the 45-day planned shut-down in October-November, with lower total results than in 2013, in spite of the efficiency-boosting actions carried out in the period, in particular in the use of the Rome logistical facility.

Lastly, the net financial position of TotalErg as at 31 December 2014 amounts to EUR 252 million, lower than EUR 287 million as at 31 December 2013, as a result of time-limited working capital dynamics.

Retail Network

In 2014, the fuel sales of the TotalErg Network amounted to approximately 2,382 thousand tonnes, a decrease compared to 2,551 thousand in 2013. Market share, at 10.6%, declined compared to 2013 (11.3%) because of the strong competitive pressure, in particular on the part of "independent stations".

As has already been pointed out, Retail sales were strongly affected by the overall performance of domestic demand, which was mainly affected by the persistence of the economic crisis.

In such a weak market and in the presence of aggressive discount policies applied by the major operators and by small independent companies, known as "independent stations", the TotalErg strategy, aimed at safeguarding income by avoiding non profitable sales, has caused a contraction in market share.

Lastly, with the purpose of improving the medium/long term sustainability of the Business, in 2012 the Company launched a significant plan to re-qualify its network in order to make it more competitive in terms of average dispensed quantities and operating efficiency.

At 31 December 2014, the TotalErg Network in Italy comprised 2,701 stations (of which 1,676 are owned by the Group and 1,025 are leased), compared with 3,017 stations at 31 December 2013. At the end of 2012, the network comprised 3,248 stations.

Wholesale Network

TotalErg operates on the wholesale market by selling petroleum products mainly to companies that in turn resell them to end users on their own local markets and directly to consumers through the subsidiaries Restiani and Eridis.

In 2014, direct diesel sales amounted to 1,111 thousand tonnes, substantially in line with the 1,149 thousand recorded in 2013. On the other hand, heating oil sales declined sharply.

In addition to the sales made directly by TotalErg, the sector benefited from the results of the subsidiaries:

- Restiani S.p.A., 60% controlled subsidiary, which operates in the marketing of petroleum products and heat management services for private users in particular in the North-West area.
- Eridis S.r.l., wholly owned subsidiary that operates in the marketing of petroleum products in the North-West and Centre-South areas.

Specialties

TotalErg operates in the Specialties sector by selling lubricants (of which it purchases the bases, which it then mixes with additives in its own plant in Savona and at third party plants), bitumen, both normal and modified (produced by its own plants), and LPG, both directly and through the wholly owned subsidiary TotalGaz.

In 2014, sales of lubricants amounted to 51.2 thousand tonnes (45.9 thousand in 2013), of which 26.1 were in the transport network, 14.5 in industry and 4.5 in the marine/foreign market, with total market share of 10.5%.

LPG sales amounted to 202.7 thousand tonnes, in decline from 227.3 thousand tonnes in 2013; the contraction was mainly experienced in the business-to-business network and in direct sales to end consumers for home heating. The decline is consistent with the marked decrease in sector demand, due mainly to the particularly mild winter.

Lastly, bitumen sales amounted to 102.8 thousand tonnes, lower than 127.8 thousand tonnes in 2013.

Refining

After the shut-down of the Raffineria di Roma, which took place in September 2012, TotalErg's exposure in the refining business was significantly reduced, from total annual balanced distillation capacity of approximately 6.0 million tonnes to a capacity of approximately 1.6 million tonnes provided solely by the share held in the Sarpom Refinery.

The Sarpom Refinery is equipped with catalytic conversion, more focused on the production of light distillates and it processes mainly crude oils with low sulphur content.

With regard to the reconversion of Raffineria di Roma, work was completed, fully according to schedule, on the transformation of the refinery into a logistical facility and specifically on the upgrade of the tank farm and of the maritime terminals. Reaching the target configuration is enabling to optimise the operations involved in receiving products by sea and the storage and shipment of finished products. Moreover, the flexibility of the logistical facility, thus dimensioned, will enable to exploit the business opportunities that should emerge in the future.

Margins and Processing

| Unit contribution margins at replacement cost ⁽¹⁾ | Year | |
|--|--------------|--------------|
| | 2014 | 2013 |
| USD/barrel | 0.56 | 1.87 |
| EUR/barrel | 0.42 | 1.41 |
| EUR/tonne ⁽²⁾ | 3.2 | 10.5 |
| Processed volumes (ktonnes)⁽³⁾ | 1,275 | 1,385 |

⁽¹⁾ the unit contribution margins at replacement cost, net of variable production costs (mainly utility costs) do not include inventory gains (losses) and non-recurring items.

⁽²⁾ barrel/tonne conversion factor equal to 7.486 in 2014 (7.451 in 2013)

⁽³⁾ volumes processed at the Sarpom Refinery (Trecate)

In 2014, 1,275 thousand tonnes were processed, down from the 1,385 thousand tonnes processed in the previous year because of the planned outage, of approximately 45 days, carried out in the October-November time interval.

The unit contribution margins of 2014 were lower than the already highly depressed levels recorded the previous year, partly as a result of the planned shut-down of the facilities in the fourth quarter, which did not allow fully to benefit from the margin recovery in the second half of the year, concurrently with a favourable scenario tied also to the sharp decline in crude oil prices.

Capital expenditures

The adjusted figure for capital expenditures by the ERG Group in 2014 was EUR 89 million (EUR 165 million in 2013), including EUR 77 million for tangible fixed assets (EUR 156 million in 2013) and EUR 12 million for intangible fixed assets (EUR 9 million in 2013).

The breakdown of adjusted capital expenditures by business segment is shown in the following table:

| (EUR million) | Year | |
|---|-----------|------------|
| | 2014 | 2013 |
| Renewable energy sources ⁽¹⁾ | 38 | 97 |
| Power | 14 | 26 |
| Integrated Downstream ⁽²⁾ | 34 | 41 |
| Corporate | 3 | 2 |
| Total | 89 | 165 |

⁽¹⁾ Renewable Energy Sources adjusted capital expenditures include ERG's share of the capital expenditures made by LUKERG Renew.

⁽²⁾ Integrated Downstream adjusted capital expenditures include ERG's share of the capital expenditures made by TotalErg

Renewable Energy Sources

With regard to the construction of new wind farms, both for the wind farm of Palazzo San Gervasio (PZ) in Basilicata, with 34 MW of installed capacity, and for the wind farm of Topolog, Romania (84 MW of installed capacity, of which ERG's share is 42 MW), construction work was in fact completed at the end of 2013, whilst testing work was completed in early 2014 and both wind farms are now fully operational. Capital investments in 2014 refer mostly to the construction of the new wind farm in Poland (with 42 MW of installed power), expected to start operating in mid 2015, as well as to the last commissioning activities for Palazzo San Gervasio and to the installation of a last turbine for the Topolog wind farm (which brought the total power of the wind farm to 84 MW).

Progress was also made on the planned Health, Safety and Environment projects.

Power

In 2014, focused investment initiatives continued in ERG Power, with the aim of preserving the operating efficiency, flexibility and reliability of the plants.

Progress was also made on the planned Health, Safety and Environment projects.

It should be recalled that the capital expenditures of 2014 include the similar initiatives carried out in ISAB Energy, totalling EUR 1.4 million for the period until 30 June 2014 (date of sale of the plant).

Integrated Downstream

With regards to Integrated Downstream, during 2014, capital expenditures of approximately EUR 34 million were made, almost entirely related to 51% of TotalErg, a decrease compared to 2013.

Most of the capital expenditures (approximately 64%) involved the Network, mainly for development activities (renovations, new leased outlets, enhancement and automation of existing sales outlets, etc.) and the activities tied to the optimisation and enhancement of the Rome logistical facility. A significant portion was also destined to Health, Safety and Environment maintenance and improvements.

FINANCIAL STATEMENTS

Scope of consolidation and business segments

The table below shows the scope of consolidation at 31 December 2014. Compared to 31 December 2013, the companies ERG Supply & Trading S.p.A. and ERG Services S.p.A. were consolidated line-by-line in view of their fully operational status, the company EW Orneta 2 SP.ZO.O. was acquired in the third quarter of 2014 and ERG Oil Sicilia S.r.l. was sold in the fourth quarter of 2014.



(1) companies measured under the equity method of accounting

(2) on 8 May 2014, ERG Nuove Centrali S.p.A. changed its name to ERG Power Generation S.p.A. and on 1 July it received the business unit relating to the Power business transferred by ERG S.p.A.

Financial Statements

Income Statement

| Reclassified Income Statement | Year | |
|--|----------------|----------------|
| | 2014 | 2013 |
| (EUR million) | | |
| Revenues from ordinary operations | 1,369.4 | 7,051.8 |
| Other revenues and income | 629.2 | 23.9 |
| TOTAL REVENUES | 1,998.7 | 7,075.7 |
| Costs for purchases and changes in inventory | (729.5) | (6,099.0) |
| Costs for services and other operating costs | (722.2) | (596.8) |
| EBITDA | 547.0 | 379.8 |
| Amortisation, depreciation and write-downs of fixed assets | (187.6) | (210.1) |
| Net financial income (expenses) | (66.0) | (72.8) |
| Net income (loss) from equity investments | (65.0) | 97.1 |
| Profit before taxes | 228.4 | 194.0 |
| Income taxes | (155.7) | (108.8) |
| Profit for the period | 72.7 | 85.2 |
| Minority interests | (24.9) | (56.8) |
| Group's net profit (loss) | 47.8 | 28.4 |

Revenues from ordinary operations

2014 revenues were EUR 1,369 million, compared with EUR 7,052 million in 2013. The decrease is due mainly to the departure from the Coastal Refining business and to the sale of the ISAB Energy S.r.l. plant. The comparison is also affected by the classification of the revenues of ERG Supply & Trading S.p.A. of 2014 (EUR 3,829 million) as a reduction in purchase costs. The change is a result of the following factors:

- **Energy – Renewable Sources** revenues were in line with those of 2013, thanks to the higher output of the period which more than offset the effect of the lower sale prices;
- the decrease in the revenues of **Energy - Thermoelectric** mainly as a result of the sale of the ISAB Energy plant;
- the significant decrease in **Integrated Downstream** revenues tied mostly to the departure from the Coastal Refining business;

Other revenues and income

These consist mainly of rental income, insurance indemnification, gains on disposals, indemnities and expense recoveries.

The significant increase in 2014 compared to 2013 is mainly due to the revenues deriving from the early termination of the CIP6 convention by ISAB Energy S.r.l..

Costs for purchases and changes in inventory

In 2014, costs for purchases were significantly lower than in 2013, mainly because of the different scope of operations, which no longer includes Coastal Refining, and of the different classification of the revenues of ERG Supply & Trading, as indicated above.

In 2014, inventories decreased by EUR 15 million (+3 thousand tonnes), mainly because of products related to the Supply & Trading business. In 2013, raw materials had decreased by approximately EUR 103 million and finished products tied mainly to Coastal Refining had decreased by approximately EUR 8 million.

Costs for services and other operating costs

Costs for services include maintenance costs, commercial expenses (including product transport and electricity costs), costs for utilities, for consulting services (ordinary and connected with extraordinary transactions), insurance, marketing and for services rendered by third parties.

The other operating costs mainly relate to cost of labour, rent, provisions for risks and charges and to taxes other than income taxes.

The increase in 2014 compared to 2013 is mainly tied to the capital loss deriving from the sale of the ISAB Energy S.r.l. business unit to ISAB S.r.l.

Net of the aforesaid capital loss, costs decreased, mainly as a result of the exit from the Refining business and the cessation of the related processing costs.

Amortisation, depreciation and write-downs

The decrease in amortisation and depreciation is mainly tied to the sale of the ISAB Energy plant, which took place on 30 June 2014.

However, the change in the item does not take into account the impacts of the sale of the equity investment in ISAB S.r.l. because it is measured at equity. This impact is, in fact, reflected in 2013 adjusted replacement cost, better commented in the section "Alternative performance indicators".

Net financial income (expenses)

Net financial expenses totalled EUR 66 million in 2014, compared with EUR 73 million in 2013. The decrease is due mainly to the lower interest expense and to the higher income from cash management, partly offset by the higher expenses deriving from exchange rate differences. The increase in the expenses deriving from exchange rate differences derives mainly from the treasury activities linked with the operations of ERG Supply & Trading in a context of sharp devaluation of the Euro versus the US Dollar in the period.

The lower interest expenses and the higher income also reflect the lower average debt of 2014 compared to the same period of 2013, both by effect of a reduction in the stock of medium-long term debt and of an increase in cash and cash equivalents as a result of the collection deriving from the sale of 20% of the ISAB refinery, which took place at the end of 2013, and of the collection deriving from the early termination of the CIP6 convention of ISAB Energy, which took place at the end of the third quarter of 2014.

In detail, the item includes exchange rate expenses of EUR 9 million (EUR 1 million in gains in 2013), net short-term financial income of approximately EUR 15 million (EUR 10 million in 2013) deriving mainly from cash management, and medium-long term financial expenses of approximately EUR 72 million (EUR 84 million in 2013); the medium and long term amounts also reflect the effects of the derivatives hedging against the risk of interest rate fluctuations.

Net income (loss) from equity investments

In 2014, this item reflects mainly the results of the TotalErg S.p.A. and LUKERG Renew GmbH joint ventures, measured at equity.

In comparing the item to the previous year, it should be recalled that in 2013 it mainly comprised the net gain of EUR 173 million relating to the sale of the final 20% interest in ISAB S.r.l. on 30 December 2013 and the balance on the price for the sale of the 20% interest, paid in 2012 (EUR 9 million).

The decrease in 2014 is mainly related to the worsened results of TotalErg S.p.A., which were also impacted by the year-end inventory effects and by the effects connected with the derecognition of tax assets as a result of the declaration of non retroactive unconstitutionality of the Robin Tax.

In 2013, the item included the write-down of the equity investment in TotalErg by EUR 58 million, reducing in particular the capital gains attributed in 2010 upon incorporating the joint venture.

Income taxes

Income taxes in 2014 amounted to EUR 156 million (EUR 109 million in 2013) and comprise EUR 146 million in current taxes and EUR 10 million in deferred tax assets.

The tax rate, obtained from the ratio between income taxes and pre-tax profit, amounted to 68% (56% in 2013).

The tax rate at adjusted replacement cost, obtained from the ratio between income taxes and pre-tax profit net of non-recurring items, amounted to 41% (52% in 2013).

With its decision no. 10 of 11 February 2015, the Constitutional Court declared the constitutional illegitimacy of the 6.5% IRES surtax for enterprises operating in the petroleum and energy industries ("Robin Tax"), introduced by Article 81, Paragraph 16 of Italian Law Decree no. 112/2008 (converted into Italian Law no. 133/2008) as amended.

The declaration of unconstitutionality has been effective since 12 February 2015, the day after the decision was published in the Official Gazette.

For the purposes of these financial statements, therefore, the current taxes were calculated considering, when applicable, the Robin Tax, whereas the tax assets (accounts receivable for deferred tax assets and provisions for deferred tax liabilities) allocated in relation to the aforesaid IRES surtax were written off inasmuch as the very basis for their payment no longer applies.

Taking into account that, in 2013, the deferred tax assets on tax losses (EUR 21 million) relating to the Robin Tax applied on ERG S.p.A., deemed no longer recoverable, had already been derecognised, the net impact in the taxes entry of 2014 was limited to EUR -5 million.

Lastly, it should be specified that the related effect was considered an adjusting event in accordance with IAS 10, i.e. an event occurred after the reporting date, which entails an adjustment on the basis of the best analyses available at the time of preparation of these financial statements in relation to the recent promulgation of the decision.

Statement of Financial Position

| Reclassified Statement of Financial Position | 31/12/2014 | 31/12/2013 |
|--|----------------|----------------|
| (EUR million) | | |
| Fixed assets | 2,120.3 | 2,795.0 |
| Net working capital | 189.6 | 278.7 |
| Employees' severance indemnities | (4.7) | (5.0) |
| Other assets | 344.3 | 410.7 |
| Other liabilities | (600.5) | (658.4) |
| Net invested capital | 2,049.0 | 2,821.0 |
| Group Shareholders' Equity | 1,671.5 | 1,773.6 |
| Minority interests | 47.4 | 240.0 |
| Net financial indebtedness | 330.1 | 807.5 |
| Shareholders' equity and financial debt | 2,049.0 | 2,821.0 |

As at 31 December 2014, net invested capital amounted to EUR 2,049 million; it decreased compared to 31 December 2013, mainly as a result of the sale of the ISAB Energy plant.

Financial leverage, which represents the ratio of total net financial indebtedness (including Project Financing) and net invested capital, was 16% (29% at 31 December 2013).

Fixed assets

This item includes tangible, intangible and financial fixed assets. The decrease compared to 31 December 2013 relates mainly to the sale of the ISAB Energy business unit, as well as to the depreciation exceeding capital expenditures in the period.

Net working capital

This item includes inventory, trade receivables and payables, and excise duties payable.

The decrease compared to 31 December 2013 is mainly due to the effects deriving from the sale of the ISAB Energy plant, as well as to time-limited events linked to working capital.

Other assets

These mostly comprise deferred tax assets, receivables from Tax Authorities for tax advances and advance payments made against current provision of services.

Other liabilities

These mainly concern the deferred tax liabilities calculated on the differences between the carrying value of recognised assets and liabilities for financial reporting purposes and their corresponding tax basis (mainly concessions, fixed assets and inventories), the estimate of income taxes owed for the period, the provisions for liabilities and charges, and VAT payables. The change in the period also reflects the complete release of the deferred income for the deferral of the recognition in the income statement of the CIP6 price increase on the sale of electricity of the ISAB Energy plant.

Net financial indebtedness

| Summary of the Group's indebtedness | 31/12/2014 | 31/12/2013 |
|---|--------------|--------------|
| (EUR million) | | |
| Medium/long-term financial indebtedness | 1,313.9 | 1,435.7 |
| Short-term financial indebtedness (cash and cash equivalents) | (983.8) | (628.2) |
| TOTAL | 330.1 | 807.5 |

The following table illustrates the medium/long-term financial debt of the ERG Group:

| Medium/long-term financial indebtedness | 31/12/2014 | 31/12/2013 |
|---|----------------|----------------|
| (EUR million) | | |
| Medium/long-term bank borrowings | 13.6 | 120.8 |
| Current portion of mortgages and loans | (13.6) | (87.0) |
| Medium/long-term financial payables | 181.1 | 162.3 |
| Total | 181.1 | 196.2 |
| Medium/long-term Project Financing | 1,297.3 | 1,361.9 |
| Current portion of Project Financing | (164.5) | (122.5) |
| Total Project Financing | 1,132.8 | 1,239.5 |
| TOTAL | 1,313.9 | 1,435.7 |

Medium/long-term financial payables include liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 181 million (EUR 141 million as at 31 December 2013).

The payables for "medium/long-term Project Financing" are for:

- loans of EUR 1,120 million issued to companies in the Renewable Energy Sources business for the construction of wind farms, of which EUR 627 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 117 million;
- EUR 177 million in loans issued to ERG Power S.r.l. for the construction of the CCGT plant.

In compliance with IAS 39, the accessory expenses incurred to obtain the loans are presented as a reduction of the payable to which they refer, according to the amortised cost method.

With regard to the ERG Wind acquisition, in accordance with IFRS 3 the financial liability relating to Project Financing is measured at fair value. Said fair value was lower than the nominal value, in consideration of the more advantageous contractual conditions than those proposed by the market at the time of the acquisition. The difference between the positive fair value of the liability and its nominal value is consequently managed through the amortised cost method throughout the duration of the loan.

The breakdown of short-term financial indebtedness is shown below:

| Short term financial indebtedness (cash and cash equivalents) | 31/12/2014 | 31/12/2013 |
|---|------------------|----------------|
| (EUR million) | | |
| Short-term bank borrowings | 60.3 | 200.5 |
| Current portion of mortgages and loans | 13.6 | 87.0 |
| Other short-term financial debts | 6.0 | 12.4 |
| Short-term financial liabilities | 79.8 | 299.9 |
| Cash and cash equivalents | (1,047.3) | (816.6) |
| Securities and other short-term financial receivables | (58.8) | (73.3) |
| Short-term financial assets | (1,106.1) | (889.9) |
| Short-term Project Financing | 164.5 | 122.5 |
| Cash and cash equivalents | (122.0) | (160.7) |
| Project Financing | 42.5 | (38.2) |
| TOTAL | (983.8) | (628.2) |

Other short-term financial payables mainly comprise payables to unconsolidated Group companies.

The amount of cash and cash equivalents derives mainly from the liquidity arising from the collection of the consideration for the early termination of the CIP6 convention of ISAB Energy, from the collection deriving from the sale of ISAB S.r.l., and from the restricted bank accounts pursuant to the conditions set out in the Project Financing agreements.

The increase in cash and cash equivalents is mainly tied to the collection of the consideration related to the termination of the CIP6 convention in the third quarter of 2014.

“Short-term financial assets” also comprise short-term securities for use as liquidity.

The change in “Securities and other short-term financial receivables” refers in particular to a different temporary utilisation of liquidity of the securities described above.

The change in net financial indebtedness is broken down as follows:

| | Year | |
|---|----------------|----------------|
| | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| (EUR million) | | |
| Adjusted cash flow from current operations ⁽¹⁾ | 292.1 | 327.4 |
| Income tax paid | (52.1) | (81.4) |
| Change in working capital | 57.9 | (33.3) |
| Change in other operating assets and liabilities ⁽²⁾ | 46.5 | 39.1 |
| TOTAL | 344.4 | 251.8 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net capital expenditures on tangible and intangible fixed assets ⁽³⁾ | (31.6) | (73.0) |
| Net capital expenditures in financial fixed assets | 13.8 | (61.5) |
| Collection for the sale of ISAB shares | 0.0 | 434.7 |
| Collection for termination of CIP6 convention | 515.0 | 0.0 |
| Total | 497.3 | 300.2 |
| CASH FLOW FROM SHAREHOLDERS' EQUITY: | | |
| Distributed dividends | (164.9) | (68.2) |
| Other changes in equity ⁽⁴⁾ | (202.5) | 25.4 |
| Total | (367.4) | (42.8) |
| CHANGE IN THE SCOPE OF CONSOLIDATION ⁽⁵⁾ | 3.0 | (804.1) |
| CHANGE IN NET FINANCIAL INDEBTEDNESS | 477.4 | (294.9) |
| INITIAL NET FINANCIAL INDEBTEDNESS | 807.5 | 512.6 |
| CHANGE IN THE PERIOD | (477.4) | 294.9 |
| FINAL NET FINANCIAL INDEBTEDNESS | 330.1 | 807.5 |

- (1) the item does not include inventory gains (losses) and current income tax for the period. In addition, the item does not include the income deriving from the early termination of the CIP6 convention, the capital loss deriving from the sale of the ISAB Energy and ISAB Energy Services business units to ISAB and the related additional income and expenses.
- (2) the item does not include the income tied to the early termination of the CIP6 convention, reported in a separate line in cash flows from investment activities
- (3) this item does not include capitalised costs for cyclical maintenance.
- (4) including the acquisition of the minority interest in ISAB Energy and ISAB Energy Services (EUR 153 million) and the change in the cash flow hedge reserve with respect to IRS derivatives, partly offset by the collection of EUR 50 million consequent to the inclusion of Unicredit among the shareholders of ERG Renew;
- (5) the change in the scope of consolidation in 2014 refers to the acquisition of EW Ornetà Z.O.O. from the third quarter of 2014. In 2013 it referred to the acquisition of ERG Wind, ERG Renew Operations & Maintenance and to the sale of Eolo.

The decrease in indebtedness by EUR 477 million compared to 31 December 2013 is mainly due to the collection deriving from the termination of the CIP6 convention of Isab Energy (EUR 515 million) and from the operating cash flow of the period, partly offset by payment of dividends by ERG S.p.A. (EUR 143 million) and by ISAB Energy to the minority shareholder (EUR 22 million) as well as from the acquisition of the minority interest in ISAB Energy and ISAB Energy Services (EUR 153 million). Indebtedness at 31 December 2014 was also positively affected by the amount of EUR 50 million consequent to Unicredit's inclusion among ERG Renew shareholders.

A detailed analysis of capital expenditures effected may be found in the specific section.

Alternative performance indicators

In order to enhance understandability of trends in the business segments, the financial results are also shown at **adjusted replacement cost**, excluding inventory gains (losses) and non-recurring items, and including the contribution, for the portion attributable to ERG, of the results at replacement cost of the joint ventures TotalErg S.p.A and LUKERG Renew.

The results at replacement cost and the results at adjusted replacement cost are indicators that are not defined in International Financial Reporting Standards (IAS/IFRS). Management deems that these indicators are important parameters for measuring the ERG Group's operating performance, and are generally used by operators in the petroleum and energy industry in their financial reporting.

Since the composition of these indicators is not regulated by the applicable accounting standards, the method used by the Group to determine these measures may not be consistent with the method used by other operators and so these might not be fully comparable.

The components used to determine the calculation of results at adjusted replacement cost are described below.

Inventory gains (losses) are equal to the difference between the replacement cost of sold products in the period and the cost resulting from application of the weighted average cost. They represent the higher (lower) value, in the event of price increases (decreases), applied to the quantities corresponding to levels of inventories physically present at the beginning of the period and still present at the end of the period.

Non-recurring items include significant but unusual earnings.

The performance also includes ERG's share of the contribution of the **TotalErg S.p.A.** and **LUKERG Renew** joint ventures.

To enhance understandability of the business performance, the results of the business are also shown at adjusted replacement cost that takes into account ERG's share of the results at replacement cost of TotalErg S.p.A., LUKERG Renew whose contribution to the Income Statement not at adjusted replacement cost is reported in the measurement of the investment at equity.

Consistently with the above, net financial indebtedness is also shown at adjusted replacement cost that takes into account the portion attributable to ERG of the net financial position of the joint ventures TotalErg S.p.A. and LUKERG Renew, net of the relevant intra-group items.

As a result of the sale of the equity investment in ISAB S.r.l., commented above, from 1 January 2014 onwards the adjusted income statement no longer take into account the contribution of that company.

Reconciliation with operating results at adjusted replacement cost

| EBITDA | Note | Year 2014 | Year 2013 |
|--|------|----------------|----------------|
| EBITDA from continuing operations | | 283.5 | 554.3 |
| <i>Contribution of discontinued operations</i> | | <i>263.4</i> | <i>(174.5)</i> |
| EBITDA | | 547.0 | 379.8 |
| <i>Exclusion of inventory Gains / Losses</i> | | <i>0.0</i> | <i>6.3</i> |
| <i>Exclusion of non-recurring items</i> | | | |
| Corporate | | | |
| - Ancillary transaction charges on ISAB Energy and ISAB Energy Services | 1 | 6.4 | 0.0 |
| - Ancillary charges on sale of 20% of ISAB S.r.l. | | 0.0 | 0.4 |
| - Ancillary charges on ERG Wind acquisition | | 0.0 | 2.9 |
| - Ancillary charges on other transactions | 2 | 0.2 | 0.2 |
| - Charges for company reorganisation | 3 | 16.0 | 4.3 |
| Power | | | |
| - Termination of CIP 6 agreement | 4 | (514.5) | 0.0 |
| - Sale of IGCC | 4 | 405.5 | 0.0 |
| - Other ancillary (income) charges on ISAB Energy and ISAB Energy Services | 1 | (36.1) | 0.0 |
| - Balance on previous years' commercial transactions | | 0.0 | (4.3) |
| Renewable energy sources | | | |
| - Ancillary charges on ERG Wind acquisition | | 0.0 | 10.2 |
| - Ancillary charges on non-recurring transactions | 1 | 0.4 | 0.0 |
| Integrated downstream | | | |
| - Other charges on wholesale activities in Sicily | 5 | 2.5 | 7.2 |
| Trading | | | |
| - Impact of fair value commodities swap | 6 | 9.9 | 0.0 |
| Coastal Refining | | | |
| - Income for contributions and other income (expenses) from previous years | 7 | (7.8) | 17.0 |
| - Liabilities for site disputes | | 0.0 | 80.0 |
| - Derecognition of deferred charges for exit from Refining business | | 0.0 | (7.7) |
| - Balance on previous years' commercial transactions | | 0.0 | (3.4) |
| EBITDA at replacement cost | | 429.5 | 492.9 |
| <i>ERG share of ISAB contribution at replacement cost⁽¹⁾</i> | 8 | <i>0.0</i> | <i>30.6</i> |
| <i>TotalErg 51% contribution at replacement cost⁽¹⁾</i> | 9 | <i>47.3</i> | <i>39.0</i> |
| <i>LUKERG Renew 50% contribution at replacement cost</i> | 10 | <i>14.0</i> | <i>6.6</i> |
| EBITDA at adjusted replacement cost | | 490.8 | 569.1 |
| AMORTISATION, DEPRECIATION AND WRITE-DOWNS | Note | Year 2014 | Year 2013 |
| Amortisation and depreciation on continuing operations | | (158.5) | (154.2) |
| <i>Contribution of discontinued operations</i> | | <i>(29.1)</i> | <i>(56.0)</i> |
| Amortisation, depreciation and write-downs | | (187.6) | (210.1) |
| <i>Exclusion of non-recurring items</i> | | | |
| Power | | | |
| - Asset derecognition | 1 | (1.7) | 0.0 |
| Amortisation and depreciation at replacement cost | | (189.3) | (210.1) |
| <i>ERG share of ISAB contribution at replacement cost⁽¹⁾</i> | 8 | <i>0.0</i> | <i>(22.0)</i> |
| <i>TotalErg 51% contribution at replacement cost⁽¹⁾</i> | 9 | <i>(44.3)</i> | <i>(55.7)</i> |
| <i>LUKERG Renew 50% contribution at replacement cost</i> | 10 | <i>(7.9)</i> | <i>(3.6)</i> |
| Amortisation and depreciation at adjusted replacement cost | | (241.4) | (291.4) |
| EBIT | Note | Year 2014 | Year 2013 |
| EBIT at replacement cost | | 240.2 | 282.8 |
| <i>ERG share of ISAB contribution at replacement cost⁽¹⁾</i> | 8 | <i>0.0</i> | <i>8.5</i> |
| <i>TotalErg 51% contribution at replacement cost⁽¹⁾</i> | 9 | <i>3.1</i> | <i>(16.7)</i> |
| <i>LUKERG Renew 50% contribution at replacement cost</i> | 10 | <i>6.1</i> | <i>3.1</i> |
| EBIT at adjusted replacement cost | | 249.4 | 277.7 |

⁽¹⁾ net of inventory gains (losses) and of any non-recurring items

Year

Annex to the press release of 12 March 2015

| GROUP'S NET PROFIT (LOSS) | Note | 2014 | 2013 |
|--|-------------|-------------|-------------|
| Group's net profit (loss) | | 47.8 | 28.4 |
| <i>Exclusion of inventory Gains / Losses</i> | | 45.5 | 8.4 |
| <i>Exclusion of non-recurring items</i> | | | |
| <i>Exclusion of derecognition of Robin Tax effect on prepaid and deferred taxes</i> | 11 | 5.0 | 0.0 |
| <i>Exclusion of CIP 6 termination</i> | 4 | (316.8) | 0.0 |
| <i>Exclusion of IGCC sale</i> | 4 | 267.5 | 0.0 |
| <i>Exclusion of other ancillary (income) charges on ISAB Energy and ISAB Energy Services</i> | 1 | (5.3) | 0.0 |
| <i>Exclusion of capital gain from sale of 20% of ISAB in 2012</i> | | 0.0 | (9.0) |
| <i>Exclusion of capital gain from sale of 20% of ISAB in 2013</i> | | 0.0 | (176.5) |
| <i>Exclusion of liabilities for transactions on previous years</i> | | 0.0 | 12.3 |
| <i>Exclusion of liabilities for site disputes</i> | | 0.0 | 70.6 |
| <i>Exclusion of TotalErg non-recurring items</i> | 12 | 14.6 | 6.2 |
| <i>Exclusion for contributions and other income (expenses) from previous years</i> | 7 | (2.0) | 0.0 |
| <i>Exclusion of other charges on wholesale activities in Sicily</i> | 5 | 1.7 | 4.2 |
| <i>Exclusion of ancillary charges on ERG Wind acquisition</i> | | 0.0 | 11.8 |
| <i>Exclusion of fair value difference for derivatives on OIL inventory</i> | | 0.0 | 1.9 |
| <i>Exclusion of contribution under Law No. 488 ERG S.p.A.</i> | 7 | (3.5) | 0.0 |
| <i>Exclusion of exchange rate differences ex Refining & Marketing Div.</i> | 13 | 2.9 | 0.0 |
| <i>Exclusion of impact of fair value swap Trading</i> | 6 | 7.2 | 0.0 |
| <i>Exclusion of capital gain from sale of ERG Oil Sicilia</i> | 14 | (0.6) | 0.0 |
| <i>Exclusion of derecognition of tax assets from previous years</i> | | 0.0 | 21.3 |
| <i>Exclusion of ancillary charges on other transactions</i> | 2 | 0.4 | 0.1 |
| <i>Exclusion of charges for company reorganisation</i> | 3 | 11.6 | 3.1 |
| <i>Exclusion of costs for GC in previous years</i> | | 0.0 | 1.0 |
| <i>Exclusion of balance on previous years' commercial transactions</i> | | 0.0 | (3.7) |
| <i>Exclusion of "TotalErg Write-downs" non-recurring items</i> | | 0.0 | 58.4 |
| Group net profit (loss) at adjusted replacement cost ⁽¹⁾ | | 76.0 | 38.5 |

⁽¹⁾ it also corresponds to Group net profit (loss) at adjusted replacement cost

Notes

1. ancillary charges relating to the non-recurring transactions of ISAB Energy and ISAB Energy Services, as commented in the Introduction and in the Significant events during the year;
2. ancillary charges on other transactions;
3. costs incurred and expected in reference to the restructuring of the asset portfolio and to the changes to the Group's organisation, started at the end of 2013 and being completed;
4. the item comprises mainly the effects of the Agreement for the sale of the ISAB Energy plant and early termination of CIP 6;
5. other charges associated with the sale of ERG Oil Sicilia, as commented in the Introduction and in the Significant events during the year;
6. postponement to future periods' reporting of the measurement of the derivatives activated to manage the commodity risk of the company ERG Supply and Trading S.p.A. and not subjected to hedge accounting;
7. the item includes the contribution per Italian Law no. 488/92 received during the year, relating to the former ERG Raffinerie Mediterranee S.p.A. and the effect of the derecognition of items from previous years;
8. ERG share of the results of ISAB S.r.l. at replacement cost net of inventory gains/losses;
9. ERG share of the results at replacement cost of TotalErg net of inventory gains (losses) and non-recurring items;
10. ERG share of the results of LUKERG Renew at replacement cost;
11. Negative effect deriving from the derecognition of the deferred tax assets allocated by way of "Robin Tax" surtax as a consequence of the decision by the Italian Constitutional Court that declared it illegitimate;
12. Exclusion of TotalErg non-recurring items that refer mainly to the derecognition of the deferred tax assets allocated for the Robin Tax and other income and expenses related to the activities for streamlining the Network and the Refining activities;
13. The charges refer to exchange rate differences related to the former Refining business;
14. The item includes the capital gain for the sale of the activities of the integrated downstream in Sicily through the sale of ERG Oil Sicilia;

For comments on the non-recurring items of 2013, please refer to the corresponding notes of the related Financial Statements.

Reconciliation with adjusted net financial indebtedness

| | 31/12/2014 | 31/12/2013 |
|---|---------------|----------------|
| Net financial indebtedness | 330.1 | 807.5 |
| <i>Net financial position of TotalErg</i> | 128.5 | 146.6 |
| <i>Net financial position di LUKERG Renew</i> | 138.5 | 135.2 |
| <i>Elimination of intra-group items</i> | <i>(59.1)</i> | <i>(74.2)</i> |
| Adjusted net financial indebtedness | 538.0 | 1,015.1 |

The adjusted figures for net financial indebtedness take into consideration the portion attributable to ERG of the net financial position of the joint ventures, net of the related intra-group items.

RECONCILIATION WITH THE VALUES INDICATED IN THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The reconciliation between the reclassified statements posted and commented in this Report on Operations and the values indicated in the Notes to the Consolidated Financial Statements is provided below.

| FY 2014 | Values in the Consolidated Financial Statements | Restated Supply&Trading revenues | Reversal of IFRS 5 reclassification | Values in the Report on Operations |
|--|---|----------------------------------|-------------------------------------|------------------------------------|
| (EUR million) | | | | |
| Revenues from ordinary operations | 4,833.9 | (3,829.5) | 365.0 | 1,369.4 |
| Other revenues and income | 20.3 | 0.0 | 609.0 | 629.2 |
| TOTAL REVENUES | 4,854.2 | (3,829.5) | 973.9 | 1,998.7 |
| Costs for purchases and changes in inventories | (4,327.7) | 3,829.5 | (231.3) | (729.5) |
| Costs for services and other operating costs | (236.8) | 0.0 | (485.4) | (722.2) |
| EBITDA | 289.7 | 0.0 | 257.3 | 547.0 |
| Amortisation, depreciation and write-downs of fixed assets | (158.5) | 0.0 | (29.1) | (187.6) |
| Net financial income (expenses) | (67.4) | 0.0 | 1.4 | (66.0) |
| Net income (loss) from equity investments | (65.8) | 0.0 | 0.8 | (65.0) |
| Profit (loss) before taxes | (2.0) | 0.0 | 230.4 | 228.4 |
| Income taxes | (50.0) | 0.0 | (105.7) | (155.7) |
| Net profit (loss) from continuing operations | (52.0) | 0.0 | 124.7 | 72.7 |
| <i>Net profit (loss) from discontinued operations</i> | 124.7 | 0.0 | (124.7) | 0.0 |
| Profit (loss) for the period | 72.7 | 0.0 | 0.0 | 72.7 |
| Minority interests | (24.9) | 0.0 | 0.0 | (24.9) |
| Group's net profit (loss) | 47.8 | 0.0 | 0.0 | 47.8 |

| FY 2013 | Values in the Consolidated Financial Statements | Restated Supply&Trading revenues | Reversal of IFRS 5 reclassification | Values in the Report on Operations |
|--|---|----------------------------------|-------------------------------------|------------------------------------|
| (EUR million) | | | | |
| Revenues from ordinary operations | 4,516.3 | 0.0 | 2,535.5 | 7,051.8 |
| Other revenues and income | 12.4 | 0.0 | 11.6 | 23.9 |
| TOTAL REVENUES | 4,528.7 | 0.0 | 2,547.0 | 7,075.7 |
| Costs for purchases and changes in inventories | (3,941.1) | 0.0 | (2,158.0) | (6,099.0) |
| Costs for services and other operating costs | (231.9) | 0.0 | (365.0) | (596.8) |
| EBITDA | 355.7 | 0.0 | 24.1 | 379.8 |
| Amortisation, depreciation and write-downs of fixed assets | (154.2) | 0.0 | (56.0) | (210.1) |
| Net financial income (expenses) | (69.5) | 0.0 | (3.3) | (72.8) |
| Net income (loss) from equity investments | (87.6) | 0.0 | 184.7 | 97.1 |
| Profit (loss) before taxes | 44.5 | 0.0 | 149.5 | 194.0 |
| Income taxes | (40.2) | 0.0 | (68.6) | (108.8) |
| Net profit (loss) from continuing operations | 4.3 | 0.0 | 80.9 | 85.2 |
| <i>Net profit (loss) from discontinued operations</i> | 80.9 | 0.0 | (80.9) | 0.0 |
| Profit (loss) for the period | 85.2 | 0.0 | (0.0) | 85.2 |
| Minority interests | (56.8) | 0.0 | 0.0 | (56.8) |
| Group's net profit (loss) | 28.4 | 0.0 | (0.0) | 28.4 |

Significant events after the reporting period

On 23 January 2015 ERG Renew reached an agreement for the acquisition from the PAI Group (PAI Polish Alternative Investments RES) of 100% of the capital of Hydro Inwestycje, the Polish company that owns the authorisations required for the construction of a wind farm in Poland, in the municipalities of Szydłowo and Stupsk, with a planned capacity of 14 MW and an estimated electricity output, once fully operational, of over 36 GWh per year, equal to approximately 2,600 equivalent hours and approximately 30 kt of avoided CO₂ emissions. ERG Renew expects to start construction work on the wind farm in the second quarter of 2015 to begin operations at the end of the year. The total estimated investment for the construction of the wind farm is approximately EUR 23 million, already inclusive of the price recognised in terms of enterprise value of the company, i.e. approximately EUR 2.1 million. The closing took place on 19 February 2015. The completion of this transaction will allow ERG Renew to continue its path to growth in a Country deemed strategic for its wind power development potential.

Business outlook

The expected outlook for the main operating and performance indicators in 2015 is as follows:

Renewable energy sources

The last two years were of fundamental importance for ERG Renew, which through the acquisition of IP Maestrale (currently, ERG Wind), the acquisitions in Eastern Europe and the construction of new wind farms in Italy and in Romania more than doubled the installed capacity, becoming the foremost operator in Italy and extending its presence in Germany and Romania as well. Through the acquisition of ERG Renew O&M, the company started to carry out internally the operations and maintenance activities of approximately half of the Italian wind farms; these activities are progressively extending also to the remaining part of the assets in Italy, with major benefits in terms of operating efficiency, cost containment and technical availability.

In 2014, construction work started on the new wind farm in Poland, with 42 MW of installed power, expected to start operating in mid 2015, and construction work is to begin shortly on a new 14 MW wind farm with the goal of completing it by the end of 2015, by which time installed power in Poland will thus be 56 MW.

Lastly, activities aimed at further developing the company will continue, through the assessment of potential new investment opportunities, particularly abroad.

For equal scopes of consolidation, the results of 2015 are expected to grow slightly compared to 2014, which had been influenced by wind conditions that were significantly weaker than historical averages, thanks to the partial contribution of the new wind farms under construction abroad and to the additional efficiencies deriving from the further in-sourcing of O&M activities.

Power

The year 2015 will be characterised by the significant discontinuity relating to the agreements for the early termination of the CIP6 convention and the concurrent sale of the ISAB Energy plant, completed on 30 June 2014; therefore, the operating results of the year will not include the contribution of ISAB Energy, present instead in the first half of last year.

With regard to the ERG Power plant, in spite of the persistence of unfavourable market conditions for gas-fuelled plants with still depressed generation margins and utilisation factors, as well as the introduction of the aforementioned regulations for Essential Units under Italian Law Decree no. 91/2004, the results for 2015 are still expected to be satisfactory, albeit lower than those of 2014. The geographic positioning and the plant, its flexibility and the long-term supply contracts will enable it to maintain a sharply higher profitability level than the average achieved by the same types of plants in Italy.

Integrated Downstream

Following the sale of the equity investment held in ERG Oil Sicilia, at the end of 2014, in 2015 Integrated Downstream will mainly benefit from the results of the equity investment held in TotalErg.

In greater detail, with regard to the Marketing business, thanks to the sharp decline in the cost of products on international markets in recent months, with a substantial stability of the tax component (excise duties), consumption is expected to be no lower than in 2014.

In this situation, the company's efforts remain focused on achieving the best possible operating efficiency and on implementing the plan for the re-qualification of its own network, started in 2012 and aimed at making the network more competitive in terms of average quantities dispensed, and more sustainable over the long term.

Moreover, the permanence of a depressed level of petroleum prices on international markets could promote a recovery in refining margins, in line with what took place in the second half of 2014.

With the definitive shutdown of Refining activities at the Raffineria di Roma and the consequent transformation of the industrial site into a logistical facility, exposure in the business was significantly reduced, whilst the strategic role of the Group's logistical assets will be enhanced. The year 2015 will also benefit from the full availability of the Sarpom refinery, 24% of which is owned by TotalERG, which in the fourth quarter of 2014 was affected by the multi-year general shutdown.

For the Integrated Downstream business as whole, results in 2015 are expected to be better than in 2014.

In light of the above, the Group's EBITDA is expected to decline compared to 2014; however, the comparison reflects mainly the portfolio discontinuities related to the sale of the ISAB Energy plant, on 30 June 2014, and to the sale of ERG Oil Sicilia, on 29 December 2014. Net of these discontinuities, the results would be slightly higher.

Risks and uncertainties facing the business outlook

With reference to the estimates and forecasts contained herein, it should be pointed out that actual results may differ even significantly from those announced in relation to a multiplicity of factors, such as: future price trends, the operating performance of plants, the impact of regulations for the energy and fuel distribution industry and for the environment, other changes in business conditions and in competitors' actions.

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