



## ITALIAN SUSTAINABILITY DAY 2018

MILAN, 2 JULY 2018





## DISCLAIMER

This document contains certain forward-looking information that is subject to a number of factors that may influence the accuracy of the statements and the projections upon which the statements are based.

There can be no assurance that the projections or forecasts will ultimately prove to be accurate; accordingly, the Company makes no representation or warranty as to the accuracy of such information or the likelihood that the Company will perform as projected.

# AGENDA



- ❑ A successful industrial transformation
- ❑ 2018-2022 Business Plan
- ❑ A focus on sustainability
- ❑ ERG in a nutshell at 31.12.2017
- ❑ Appendix



## A SUCCESSFUL INDUSTRIAL TRANSFORMATION



# 2008-2018: INDUSTRIAL REPOSITIONING



## 2008

- ISAB Refinery 100% controlled
- 7% Retail market share

## 2012

- 20% in ISAB, with put option to fully exit
- Rome Refinery closure; transformation into a logistic hub ongoing
- TotalERG + EOS: 12% combined market share

## Today

- Fully exit from Refining
- Fully exit from TotalERG

### Wind

- ERG Renew  $\approx$ 0.2GW
- EBITDA  $\approx$ €20mn

- ERG Renew  $\approx$ 0.6GW
- 3<sup>rd</sup> wind player in Italy
- EBITDA  $\approx$ €130mn

- $\approx$ 1.8GW Wind installed capacity
- 1<sup>st</sup> wind player in Italy,
- Amongst first 10 EU wind players

### Thermoelectric

- Electricity produced by ISAB Energy/CTE
- Presence in gas logistics/trading projects and retail power

- 1GW installed capacity: 480MW CCGT and 528MW CIP6
- Best-in-class profitability

- 480MW high yield CCGT
- Best-in-class profitability

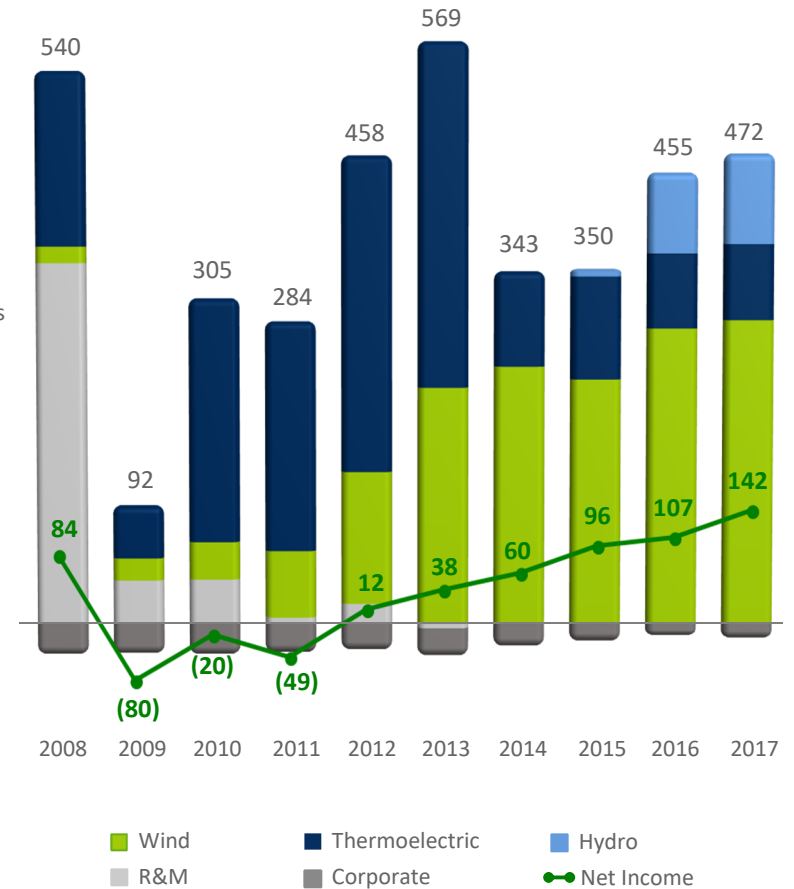
### Hydro

- 527MW hydro integrated plant

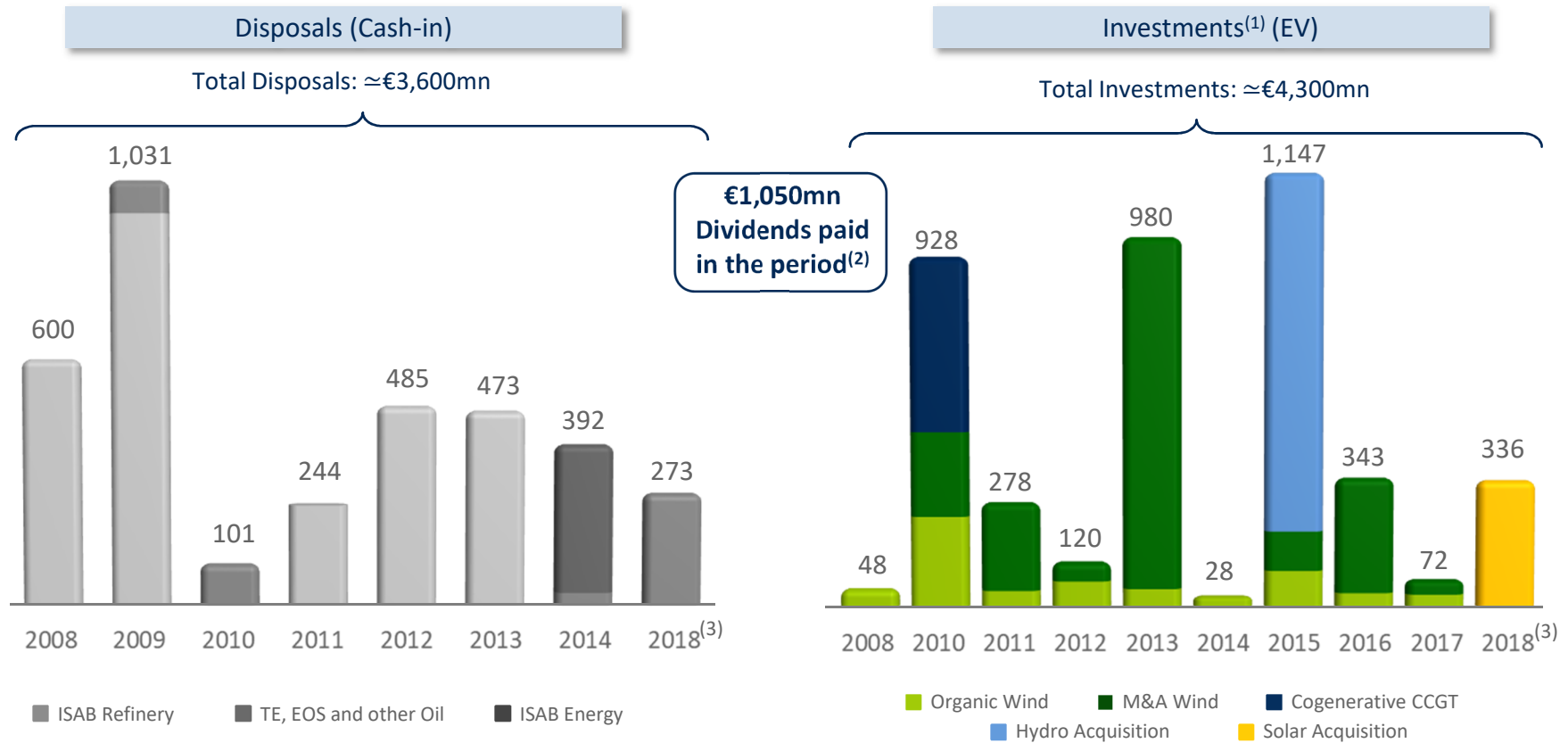
### Solar

- 90MW solar installed capacity

2008-2017 EBITDA and Net Income Evolution (€ mn)



# ERG INDUSTRIAL TRANSFORMATION



## Renewable diversification financed through oil-linked disposals and strong cash generation

<sup>(1)</sup> It refers to M&A and organic growth CAPEX

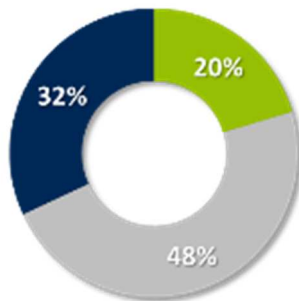
<sup>(2)</sup> It includes dividends to be paid in May 2018 (ca. €171mn with ordinary DPS at €0.75/sh and extraordinary DPS at €0.4)

<sup>(3)</sup> 2018 includes TotalErg Disposal whose closing took place on January 10, 2018 with a partial cash-in of €85mn in 2017, and ForVEI acquisition (EV €337mn) whose closing took place on January 12, 2018

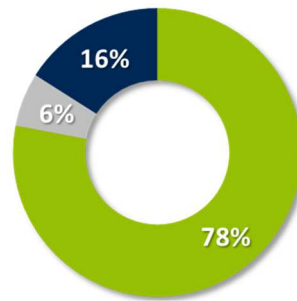
# INVESTED CAPITAL FULLY ROTATED TO RENEWABLES

Capital employed

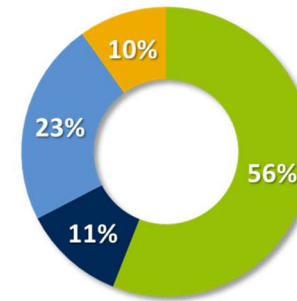
2008 (€2.2bn)



2014 (€2.1bn)



Pro Forma 1/1/2018<sup>(1)</sup> (€3.3bn)



● Oil

● Natural Gas

● Water

● Wind

● Sun

## From Oil to Renewables

<sup>(1)</sup> It includes TotalErg Disposal whose closing took place on January 10, 2018 with a partial cash-in of €85mn in 2017, and ForVEI acquisition whose closing took place on January 12, 2018



# 2016-2017 CSR RESULTS

## Tackling climate change

- Avoided CO<sub>2</sub>: 3mtons/year, 10mtons since 2006
- Carbon Index: down 32% in the last 3 years
- 88% of energy consumptions covered by Green energy
- Continuous efficiency improvement of our plants
- Full exit from oil, technological diversification with PV



## People enhancing

- Continuous training: 97% of employees attended training courses, about 6.6 day/empl.
- Human Capital Coverage: +1% since 2016
- Cooperation with universities and local community



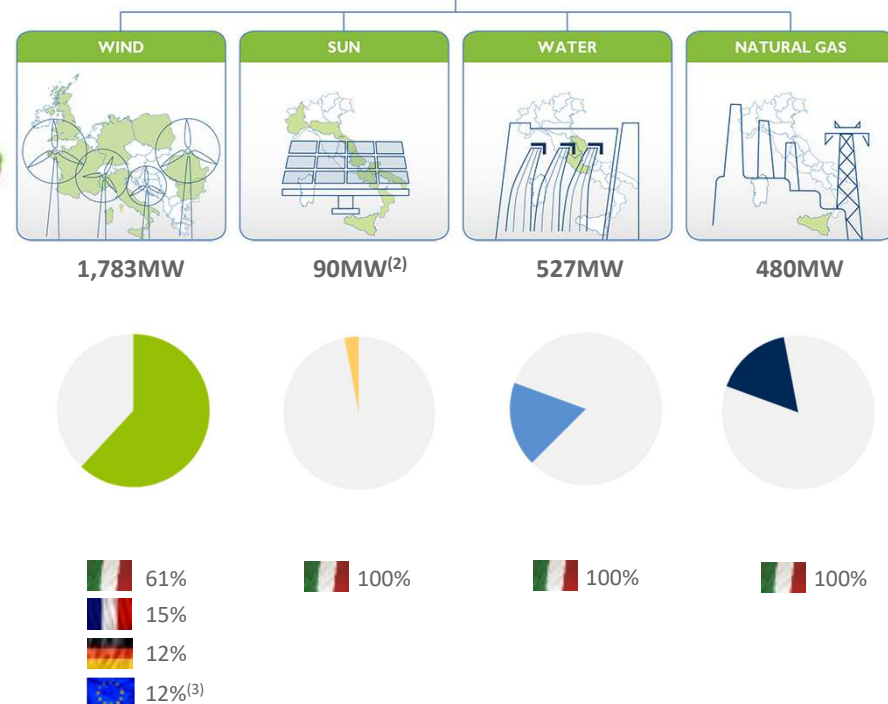
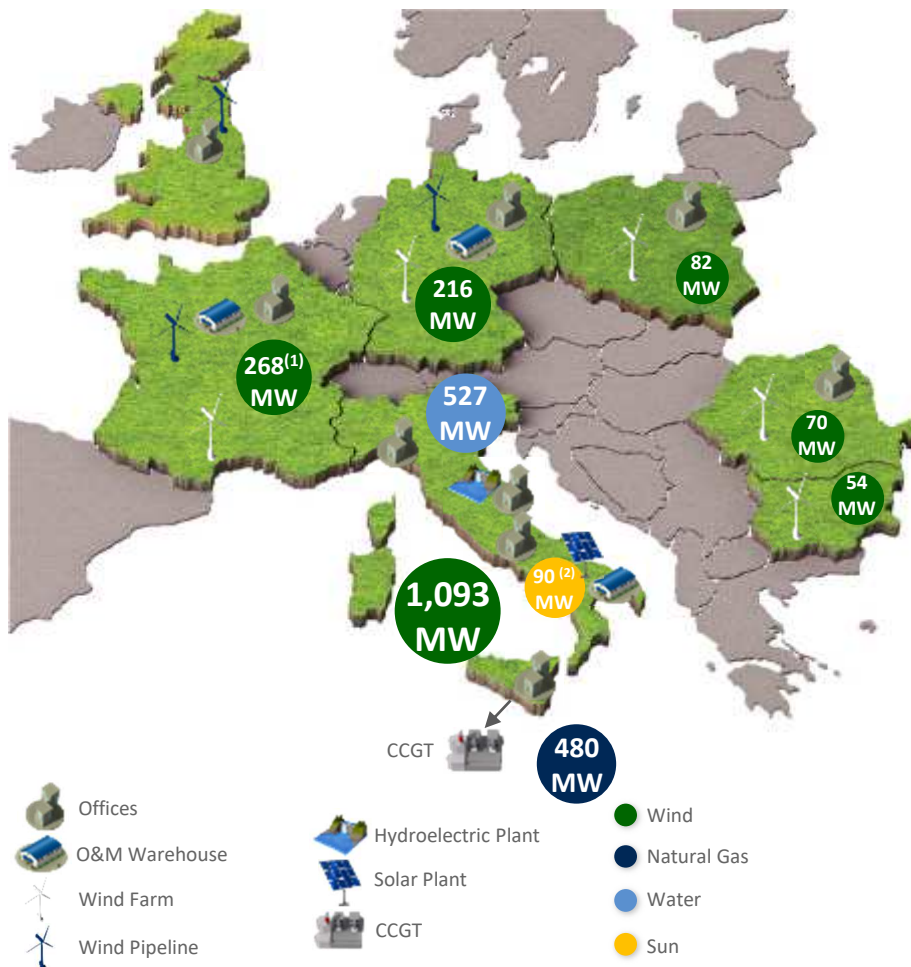
## Sustainable thinking sustainable acting

- CDP reporting: ERG rated A- (B in 2016)
- ERM process implemented
- Anticorruption Policy adopted
- Integration of HSE certifications according to ONE Company Model
- Open innovation.





# EU LEADING RENEWABLE IPP, GREEN ENERGY MAKER

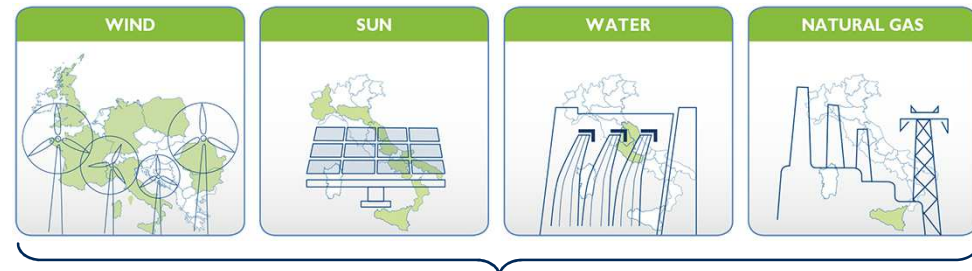
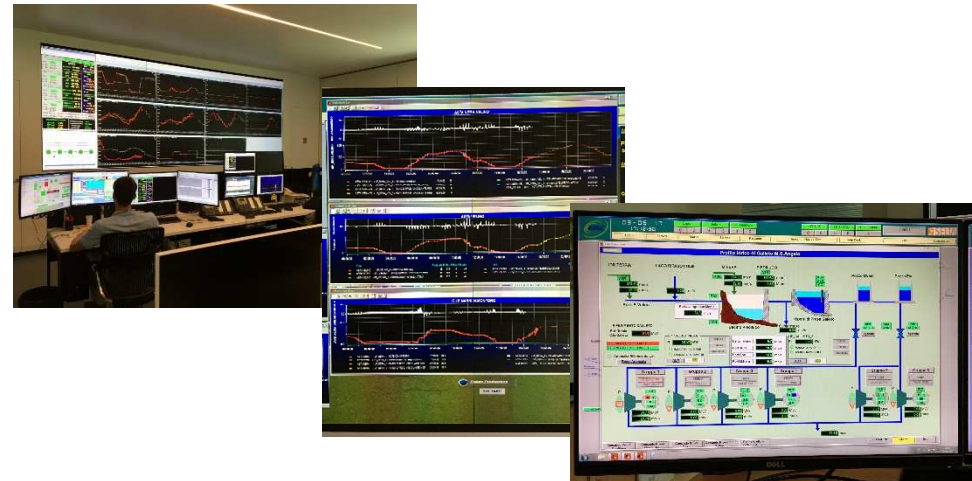
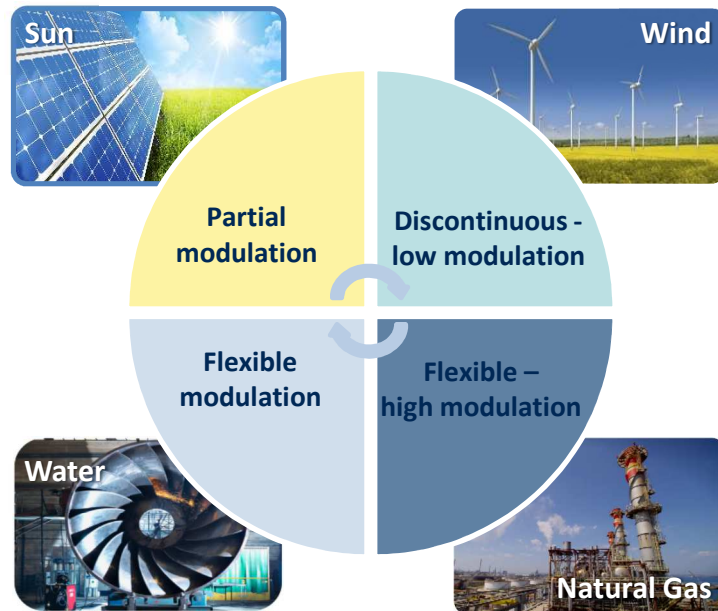


<sup>(1)</sup> It includes also Vent D'Est wind farm (16.25MW), whose closing took place on March 22, 2018

<sup>(2)</sup> It refers to the recent acquisition of ForVEI, whose closing took place on January 12, 2018, plus 1MW at ISAB Energy Solare consolidated as of January 1, 2018

<sup>(3)</sup> It refers to Romania, Bulgaria and Poland

# ENERGY MANAGEMENT AS A KEY SUCCESS FACTOR



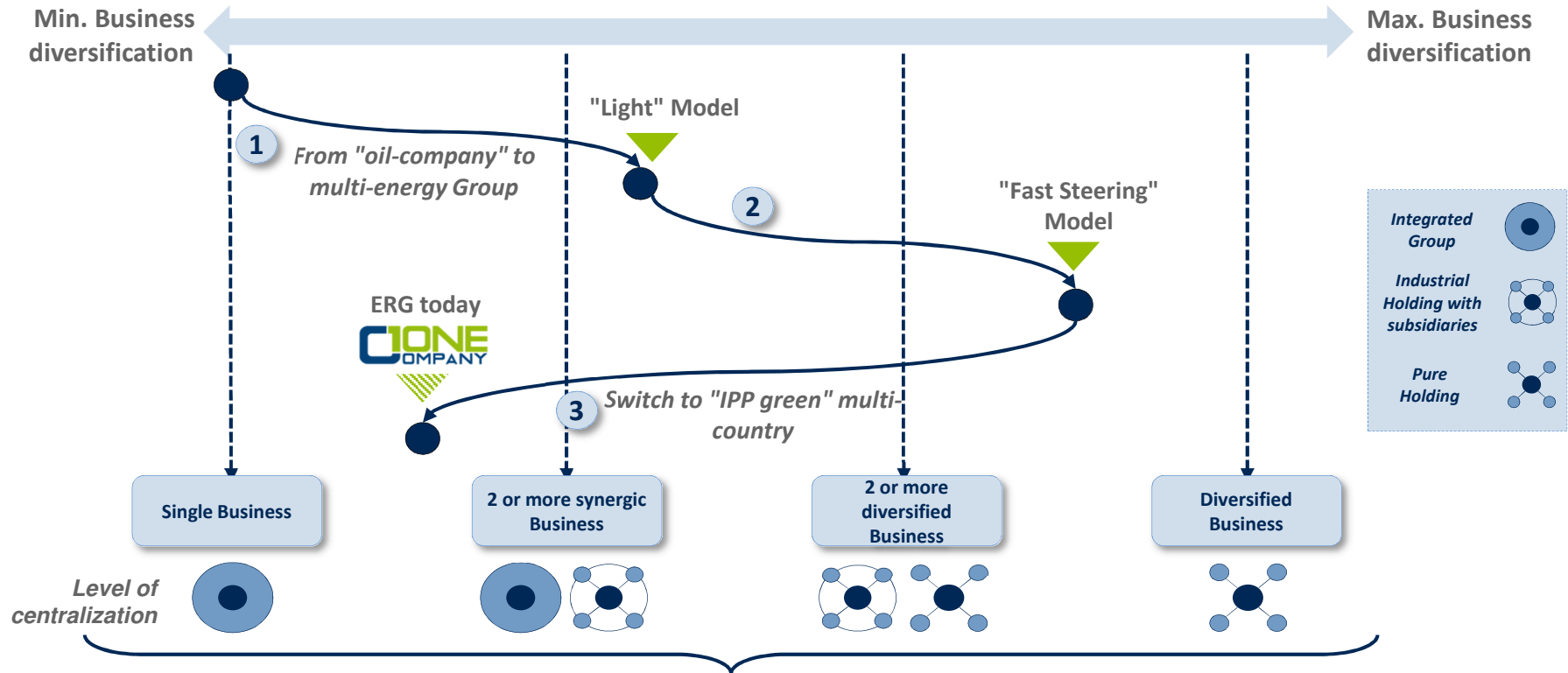
Production 2017:  $\approx 7\text{TWh}$   
 Total Energy Portfolio including Hedging:  $\approx 12\text{TWh}$

2018 expected PAR @YtDay down 50% thanks to hedging strategy



# ERG CHANGE MANAGEMENT APPROACH

## FLEXIBLE MINDSET



- **Organizational changes** always consistent with business model (from "Multi Energy" to "IPP green")
- Synergies between staff & lines
- **Flexible mindset** to cope with a changing business environment



## WHERE LEVERS MATCH ACCOUNTABILITY

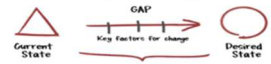
		GEN & MARKET	AFC & PROC	HC & ICT	PA & C	BD	CORP & LEG AFF
ERG Power Generation Spa	Business levers	Energy Management	✓				
		Market (Com.al)	✓				
		Regulatory	✓				
		Operations / Asset Mgmt	✓				
		Maintenance	✓				
		E&C	✓				
		Procurement		✓			
ERG Spa	Corporate levers	Business Development				✓	
		Energy Risk Management		✓			
		Finance		✓			
		M&A		✓			
		Institutional Relations				✓	
		Human Capital & ICT			✓		
		Legal Risk Management					
		6	3	1	2	1	1

No Overlapping levers

# A STRONG FOCUS ON HUMAN CAPITAL DEVELOPMENT




### Gap Analysis



Current skills  $\times$  Labour cost = HC ROI

Expected skills



**HCC**  
HUMAN CAPITAL COVERAGE

### High change Management speed




*«Fast-Steering»* (2013)

**ONE Company** (2016)

### Tailored Incentive Schemes

LTI IQ

MBO



### Empowerment & Self Accountability

1K€/person/year



**FAI CRESCERE LA TUA ENERGIA**

**YouLearn**

### Continuously setting aspirations and expectations



**MANAGEMENT FEEDBACK**

### Nurturing the leadership pipeline



**SUCCESSION PLANNING**



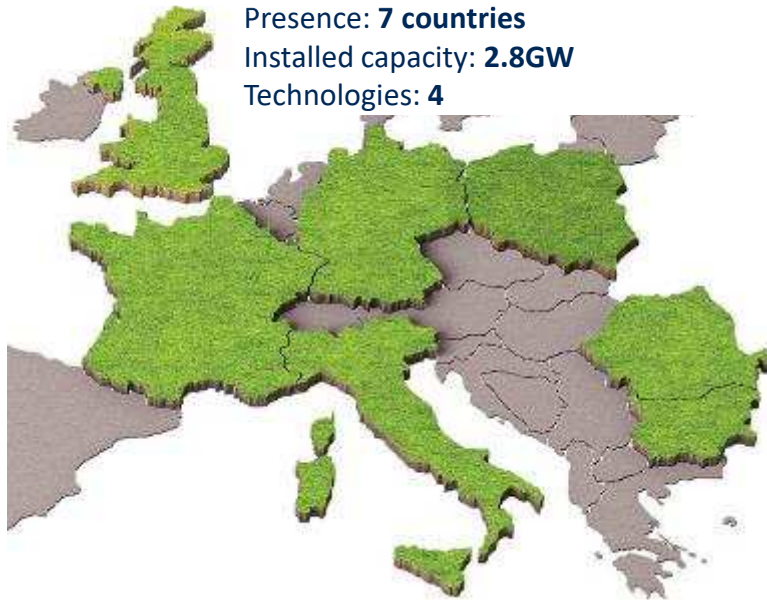
## 2018-2022 BUSINESS PLAN



# ERG 2018-2022 STRATEGIC OPTIONS



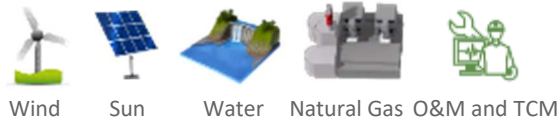
## ERG Group current geographical presence



### Geographical presence



### Business/Technology



## Country/Business attractiveness for ERG

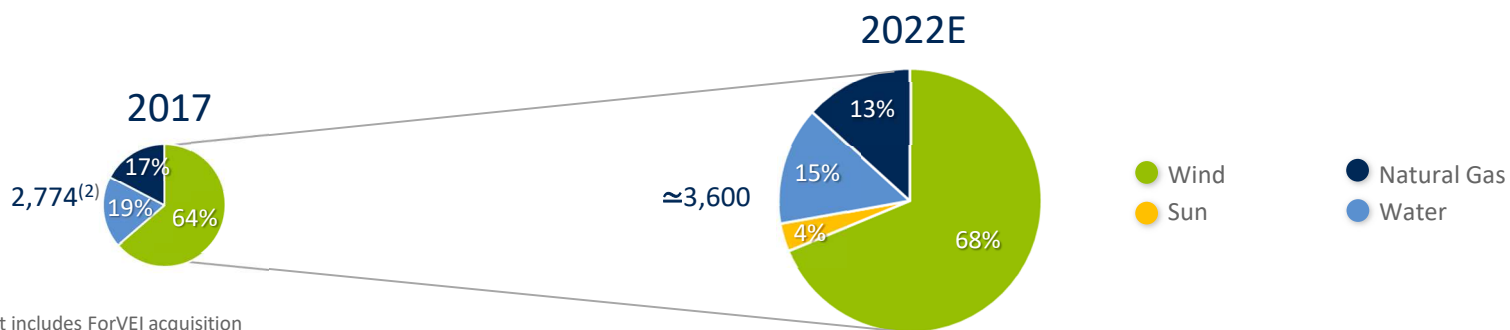
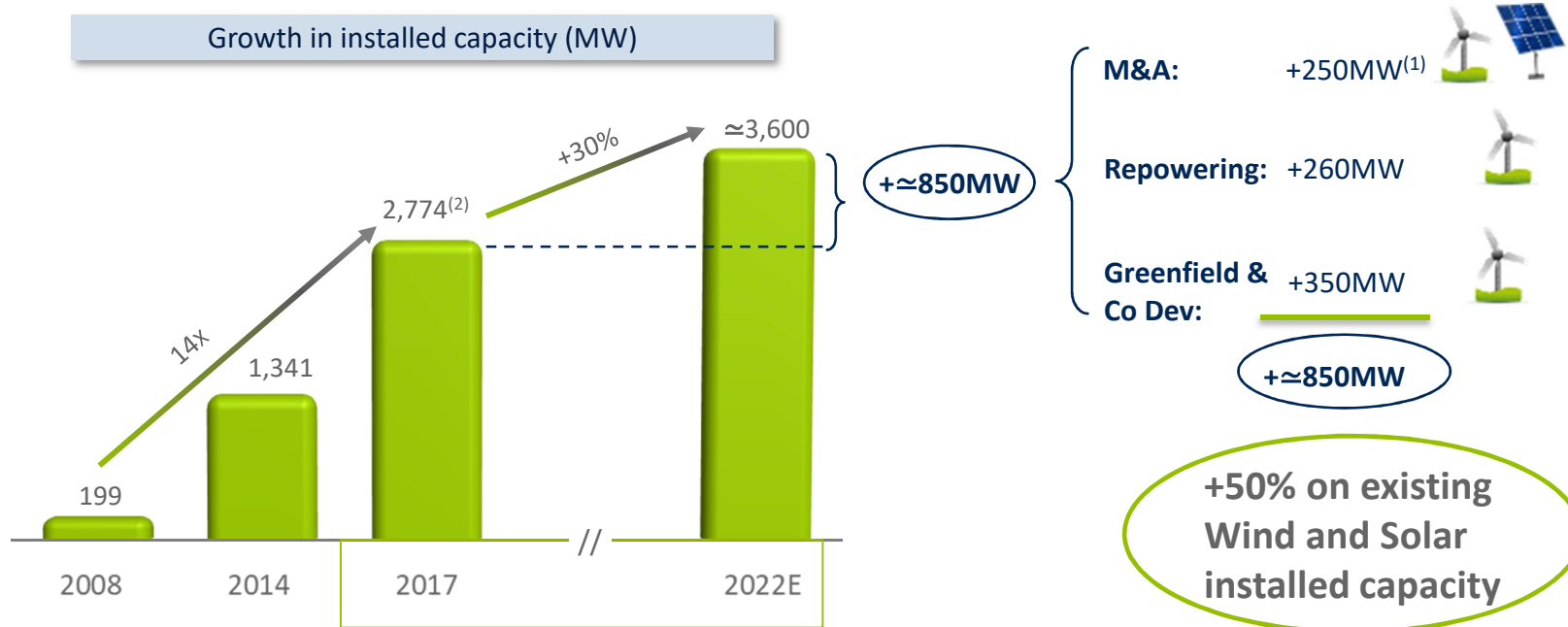
Business/Technology		Reference Geographies			
 Wind	Co-development & Greenfield	✓	✓	✓	✓
	Repowering & Reblading	✓	✓		✓
 Wind  Solar	M&A	✓	✓	✓	
		✓	✓		✓
 O&M and TCM	Focus on technical operating efficiency	✓	✓	✓	✓





# ERG 2018-2022 CAPACITY EVOLUTION

## THREE MAIN CLUSTERS TO GROW



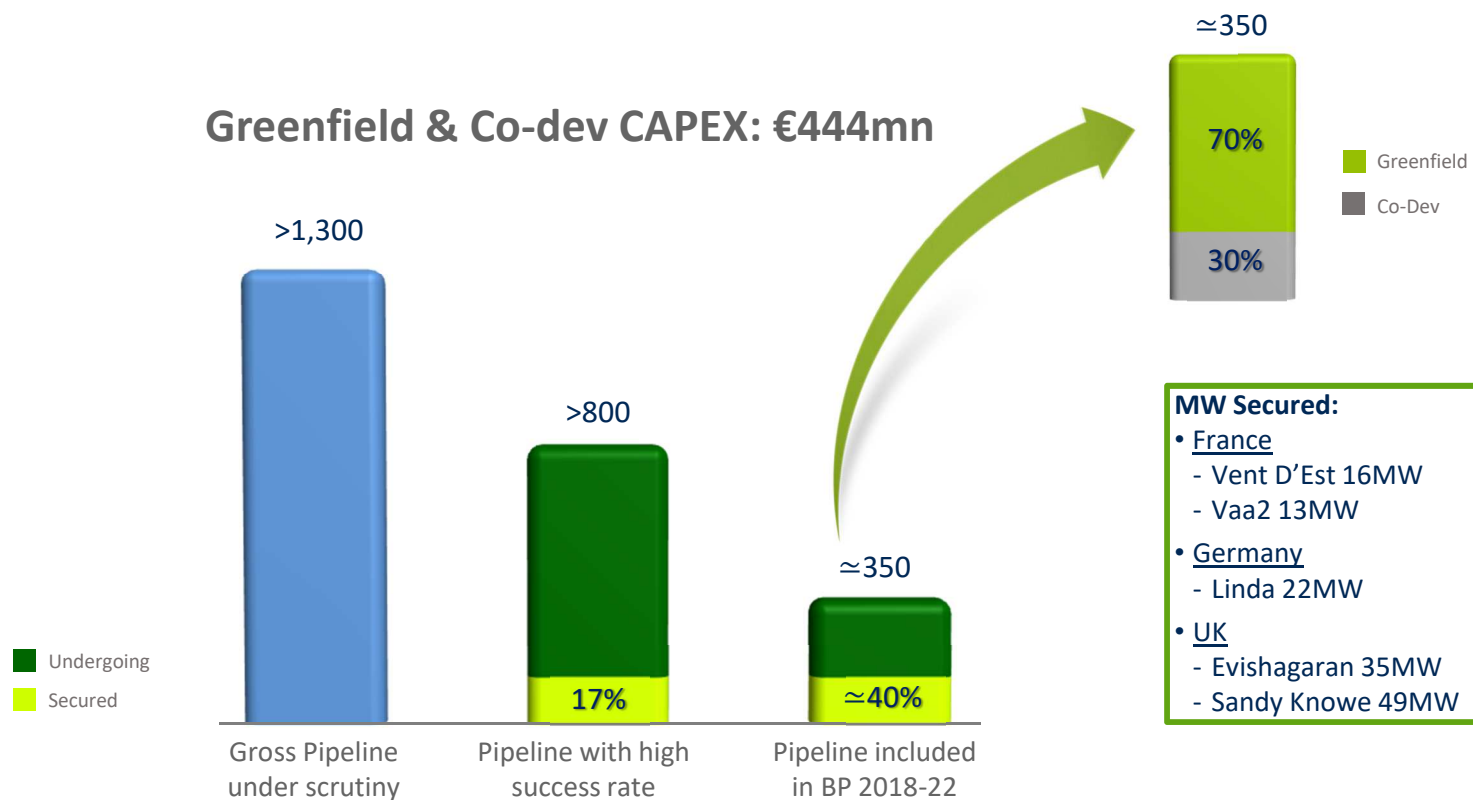
<sup>(1)</sup> It includes ForVEI acquisition

<sup>(2)</sup> 2017 Capacity net of Broackghboy wind farm in UK (47.5MW)





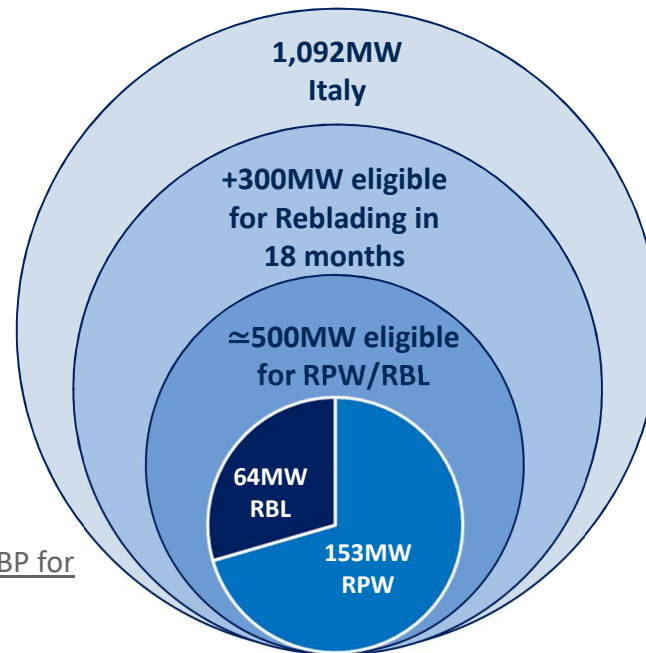
# A SOLID PIPELINE TO SUSTAIN GROWTH



Pipeline creates the basis for a sustainable long term growth



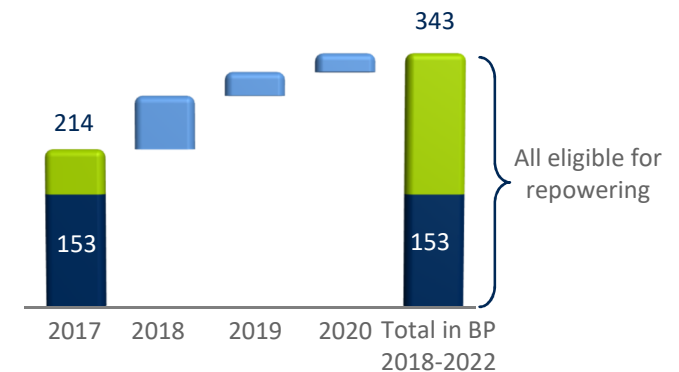
# REPOWERING & REBLADING



## Criteria to include MW in BP for Reblading:

- Incentives beyond BP
- technology fitting to V47 technology
- quite comfortable success rates
- low double digit returns

MW ending incentives in the Plan period

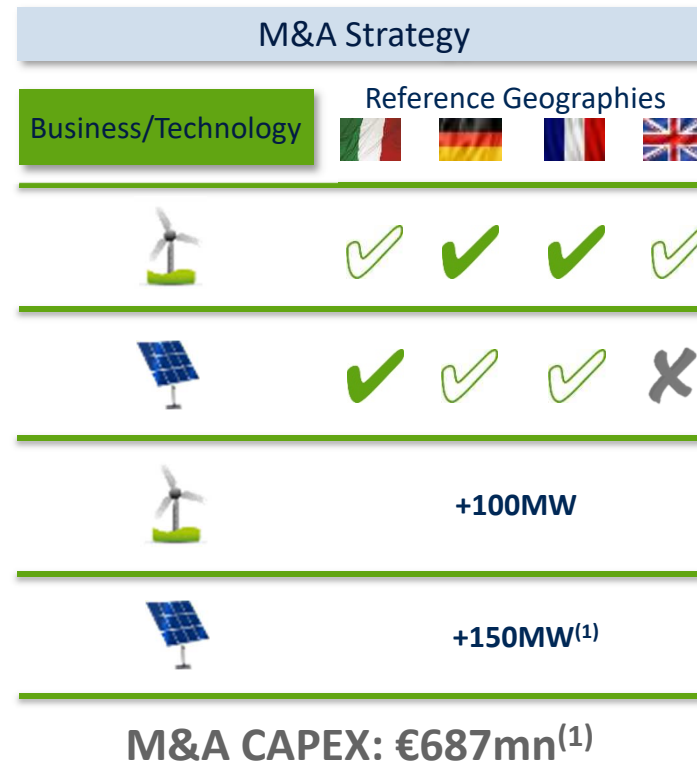
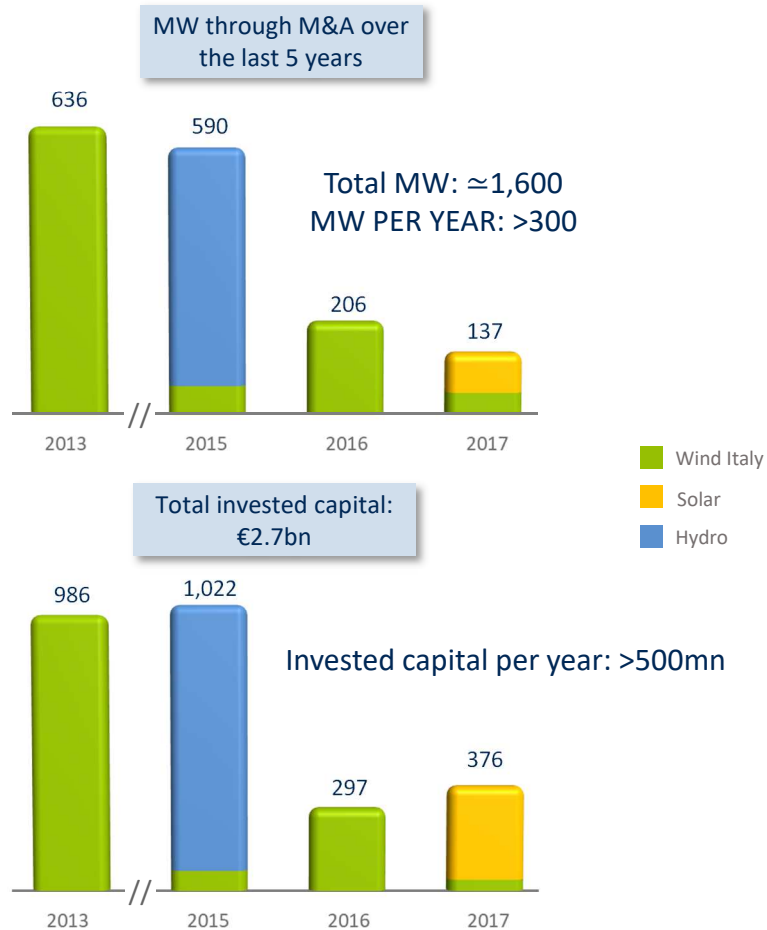


## Criteria to include MW in BP for Repowering:

- end of incentives
- technology below 1MW
- quite comfortable success rates
- low double digit returns

**Repowering & Reblading as a way to exploit asset base with new technologies and extend its technical life**  
**Flexible investment plan potentially upgradable**

# M&A TO SUPPORT ERG GROWTH IN KEY COUNTRIES



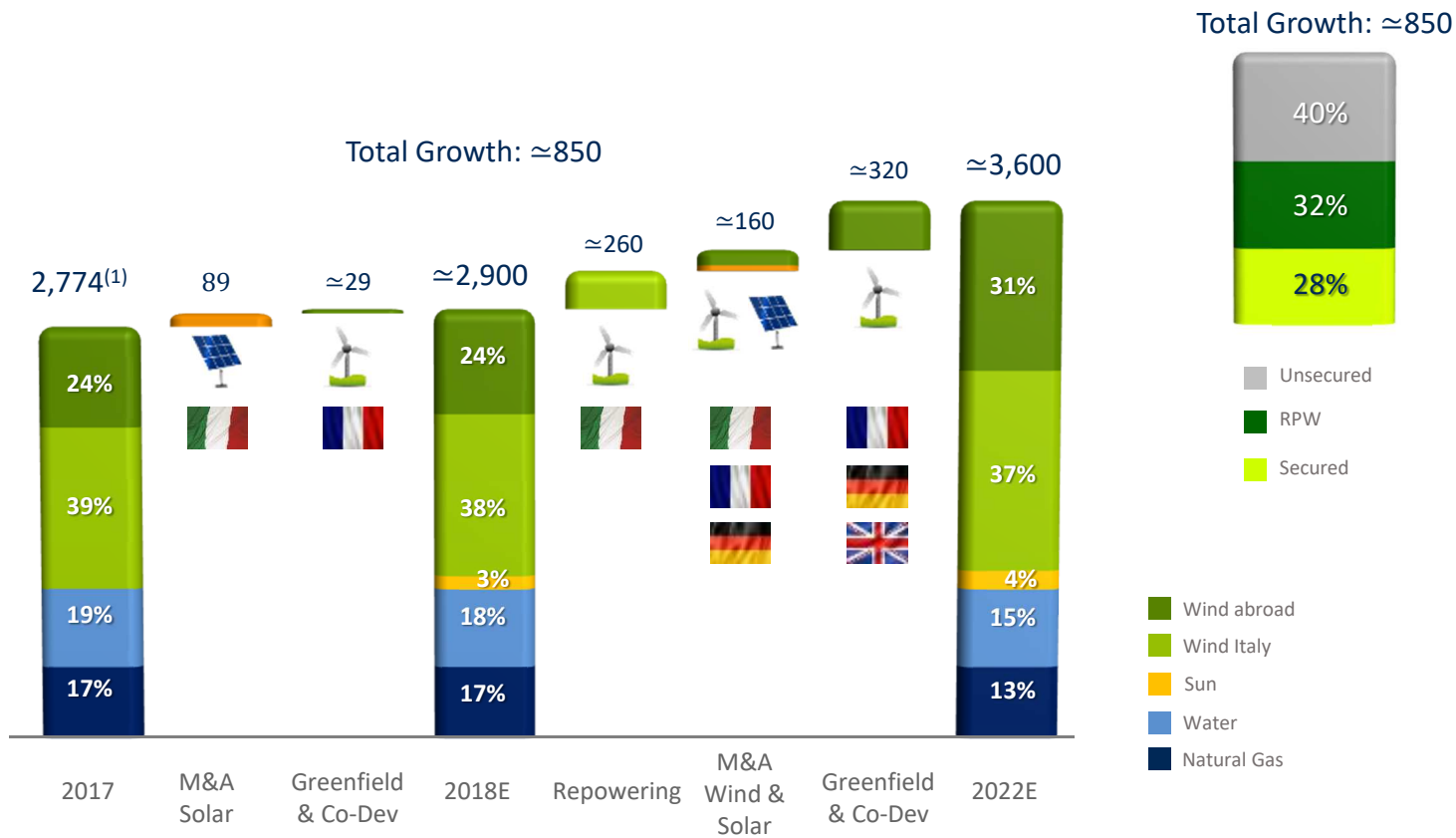
- Opportunistic approach to consolidate leading positions in the core countries
- Short term growth approach to support greenfield

## Value creation leveraging on strong M&A track record

<sup>(1)</sup> It includes ForVEI acquisition in Italy (89MW) for an EV of €337mn



# INSTALLED CAPACITY EVOLUTION



A solid growth path leveraging on greenfield, repowering and M&A

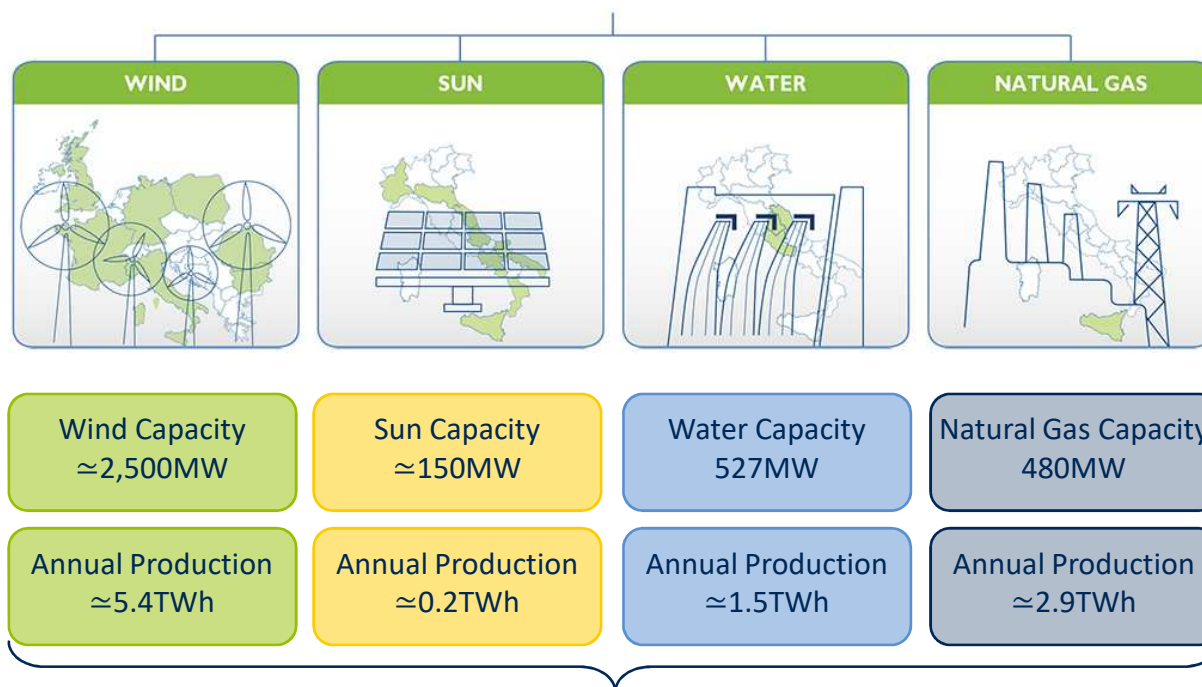
<sup>(1)</sup> 2017 Capacity net of Brockaghboy wind farm in UK (47.5MW)



# GREEN ENERGY PRODUCTION



EVOLVING ENERGIES



**Total 2022 Expected Production: ≈10TWh**

**Total Energy Portfolio including hedging & other sales: ≈15TWh**

Power from Nature with Wind, Water and Natural Gas,  
through a high efficiency cogeneration CCGT



# 2018-2022 CSR DRIVERS

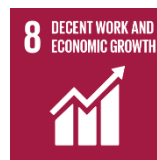
## Tackling climate change

- Avoided CO<sub>2</sub>: 15mtons
- Avoided TEP: 5m TEP
- Carbon Index: down 14%
- Continuous efforts on extracting value from our technology
- Enhancing our integrated generation portfolio



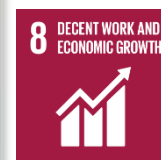
## People enhancing

- New leadership model
- Human Capital Coverage
- Skills development



## Sustainable thinking sustainable acting

- CDP reporting
- Integration of HSE certifications according to ONE Company Model
- Consolidating relations with communities
- Technological development





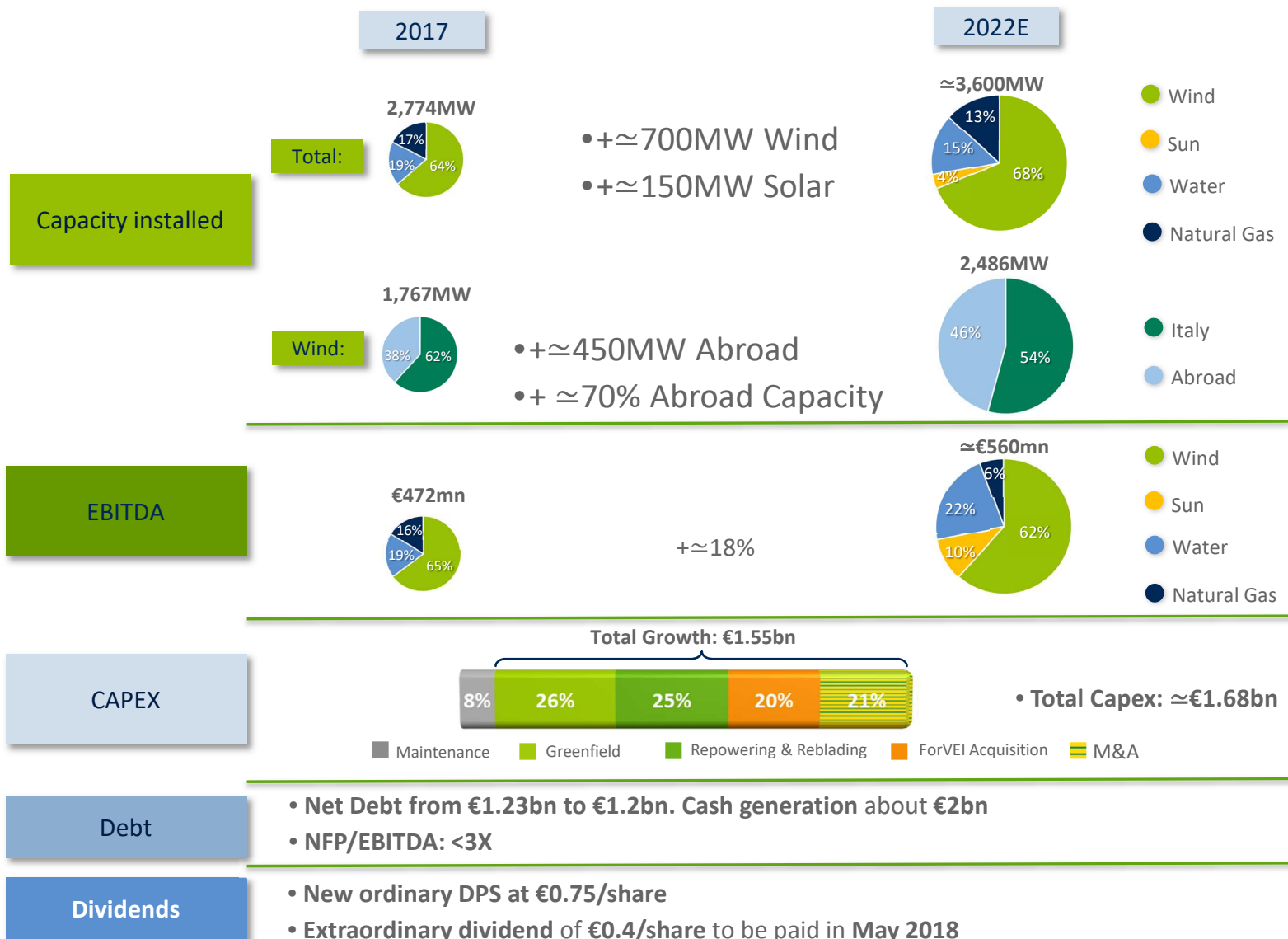
# NEW LEADERSHIP MODEL



The Business Plan shows the direction, Skills help people find the way and Values give us strength, unity and stability



# KPI IN THE PLAN PERIOD







## A FOCUS ON SUSTAINABILITY



# SUSTAINABILITY IN ERG



## Our «Sustainability Tree»



### ERG Sustainability Policy

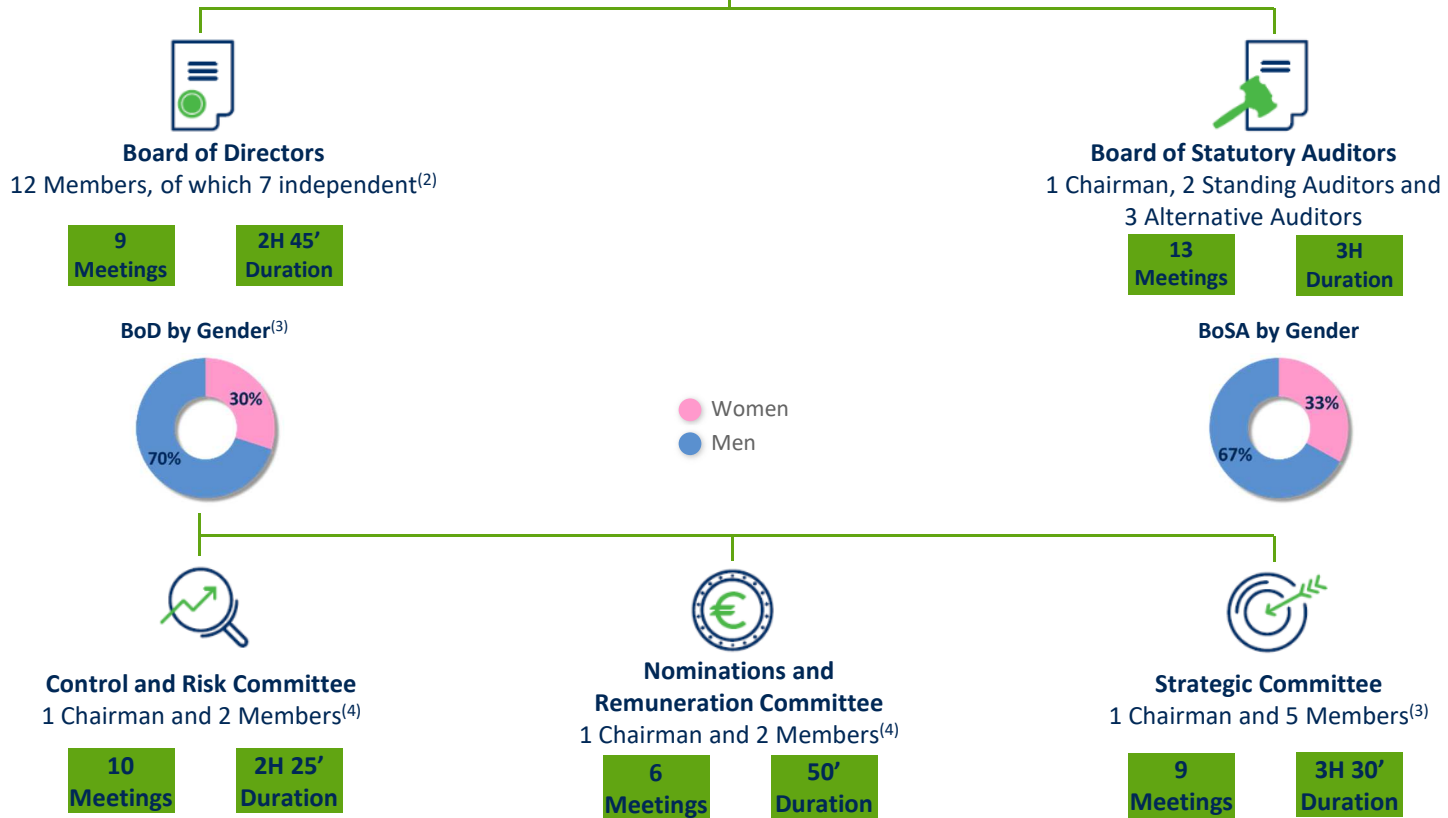
- Adopted in 2015 (previously HSE Policy) to assess its engagement towards Stakeholders
- The policy has been approved by the Sustainability Committee and signed by ERG Chairman

# ERG STRICT CORPORATE GOVERNANCE MODEL



- A strict financial discipline on investments (organic and M&A) through:
  - **Strategic Committee** (EVP, CEO, CFO, 3 Board Members)
  - **Investment Committee** (CEO, CFO, Management Team)
- **Strong risk management policy:**
  - **new risk policy** to ensure the hedging policy of the generation portfolio
- **Full Alignment of interests between Top Management and shareholders through:**
  - a launch of a new **LTI compensation scheme** subject to EGM approval **fully based on shares**

# CORPORATE BODIES AND BOARD COMMITTEES<sup>(1)</sup>



<sup>(1)</sup> Data as of December 31, 2017

<sup>(2)</sup> As of April 23, 2018, 5 Independent referring to both the Financial Consolidation Act and the Self-Discipline Code set out by the Italian Stock Exchange, and 2 Independent referring only to the Financial Consolidation Act.

<sup>(3)</sup> As of April 23, 2018.

<sup>(4)</sup> As of April 23, 2018, 2 Independent referring to both the Financial Consolidation Act and the Self-Discipline Code set out by the Italian Stock Exchange, and 1 Independent referring only to the Financial Consolidation Act.

# ENTERPRISE RISK MANAGEMENT



**Identification**  
Risk Catalogue



**Evaluation**  
Risk Profiles



**Risk Management**  
Risk Policy and Procedures



**Enterprise Risk Management (ERM)** is responsible for:

- identifying and assessing the Group's main risks and defining strategies to mitigate them
- providing management dynamic risk mapping evolution
- providing Management with key information to make risk-informed decisions
- spreading over risk-aware culture across the Organization

# ERG SUSTAINABILITY GOVERNANCE MODEL



The CEO is responsible for CSR.

## Sustainability Committee:

- composed by:
  - Chairman
  - Executive Deputy Chairman
  - CEO
  - Top management
- duties:
  - defining the Group's sustainability guidelines
  - approving and evaluating sustainability objectives
  - approving the CSR initiatives and DNF contents





# REMUNERATION POLICY



## Short-term Incentive Plans (MBO)

Short-term Incentive Plans  
Bonus Cap



## MBO VEHICLES

Cash



## MBO Parameters

Group EBT<sup>(1)</sup>  
Individual Objectives e.g. EBITDA, NFP, OPEX, etc.

## Weight

30%  
70%

## Long-term Incentive Plans (LTIP)

Long-term Incentive Plans  
On/Off Clause



## LTI Vehicles

Performance Share

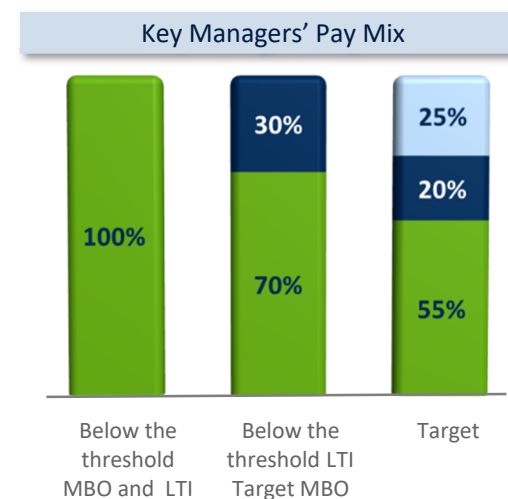
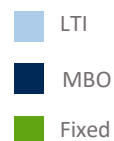


## LTI Parameters

Adjusted Cumulated EBITDA on/off Clause

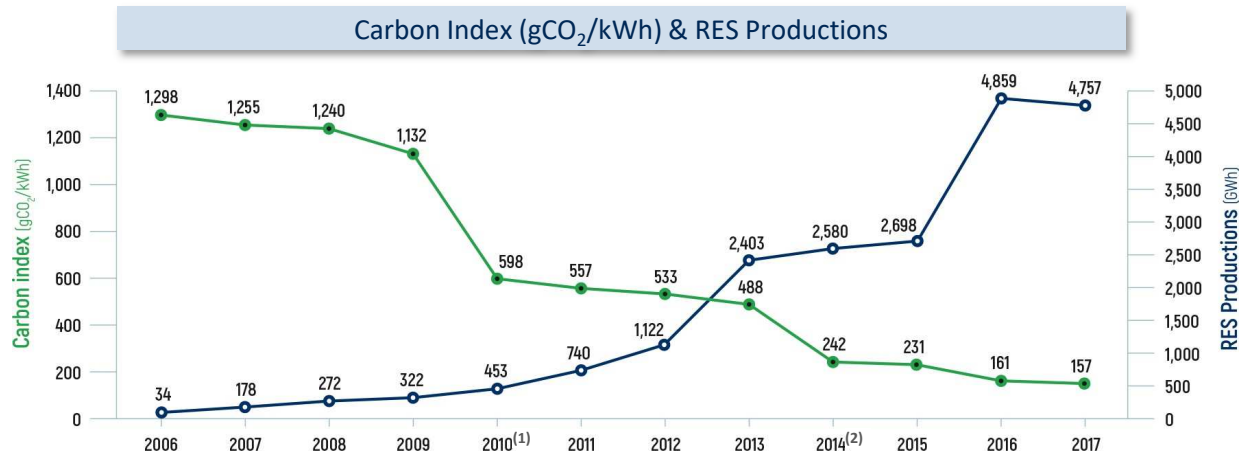
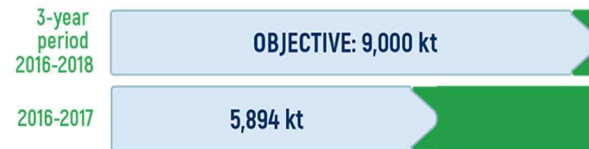
## Weight

100%



<sup>(1)</sup> IAS pre-tax profit.

# ENVIRONMENTAL RESPONSIBILITY



Avoided CO<sub>2</sub> calculated using the gCO<sub>2</sub>/kWh conversion factor published by Terna in its annual reports and referred to the thermoelectric power output of each country.

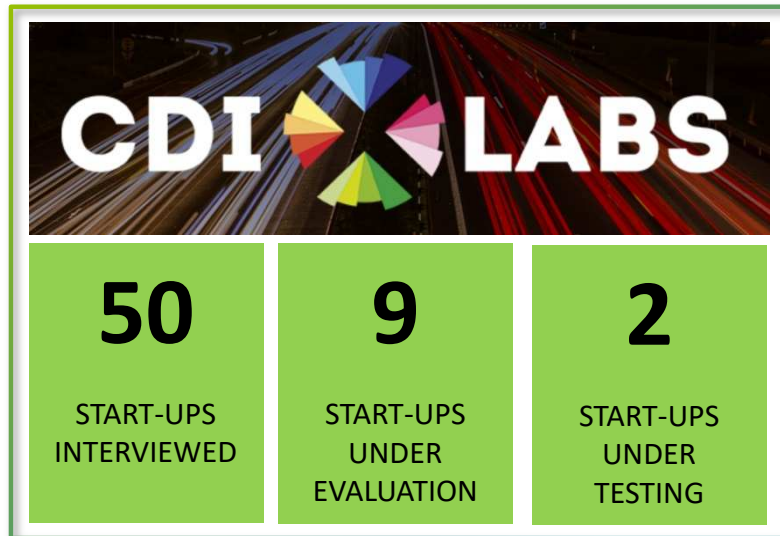
<sup>(1)</sup> The drop of Carbon Index in 2010 was due to the entrance into service of the ERG Power plant which replaced the existing oil fedded power plants.

<sup>(2)</sup> The drop of Carbon Index in 2014 was due to the sale of the ISAB Energy plant





# INNOVATIONS AND START-UPS



- Support to entrepreneurial initiatives
- Special focus on technological start-ups
- Embrace disruptive ideas for competitive advantage





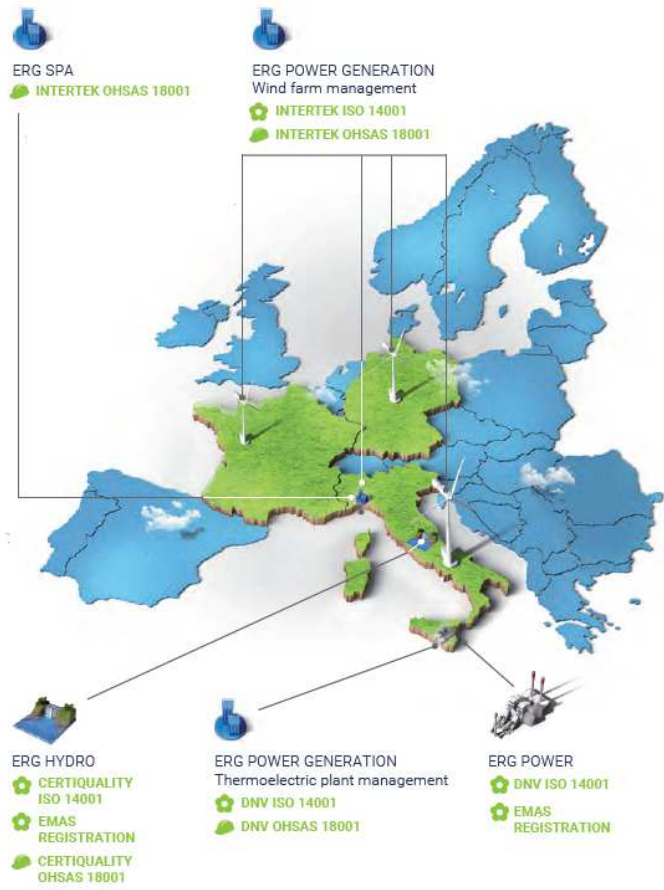
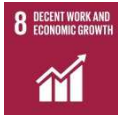
# CARBON DISCLOSURE PROJECT



- Company's actions and strategies for tackling climate change
- Disclosure transparency
- Our rating:

2017 **A-** | 2016 **B**

# SAFETY AND CERTIFICATIONS



## #SAFETYFIRST

- informing
- training
- involving
- monitoring



**100%**  
ISO14001 and/or  
OHSAS 18001  
Certified Italian companies  
consistent with their  
activities

---



**424**  
Safety Walks

The **CCGT plant** and the **Terni Hydroelectric Complex**, in addition to holding ISO 14001 (environmental) and OHSAS 18001 (safety) certifications, obtained **EMAS registration (Eco-Management and Audit Scheme)** pursuant to European Regulation EC 1221/2009.



Source: ERG 2017 disclosure on non-financial information



# ERG PEOPLE & TRAINING



*“We are not looking for Talented People  
but rather for the Talent hidden in each Person”*

## ERG Training in a nutshell

KPIs IN OUR TRAINING			
2015	27,584 HOURS OF TRAINING PROVIDED	5.7 DAYS OF TRAINING PROVIDED PER PERSON	92% PEOPLE WHO PARTICIPATED IN THE TRAINING
2016	31,787 HOURS OF TRAINING PROVIDED	5.6 DAYS OF TRAINING PROVIDED PER PERSON	96% PEOPLE WHO PARTICIPATED IN THE TRAINING
2017	37,950 HOURS OF TRAINING PROVIDED	6.6 DAYS OF TRAINING PROVIDED PER PERSON	97% PEOPLE WHO PARTICIPATED IN THE TRAINING

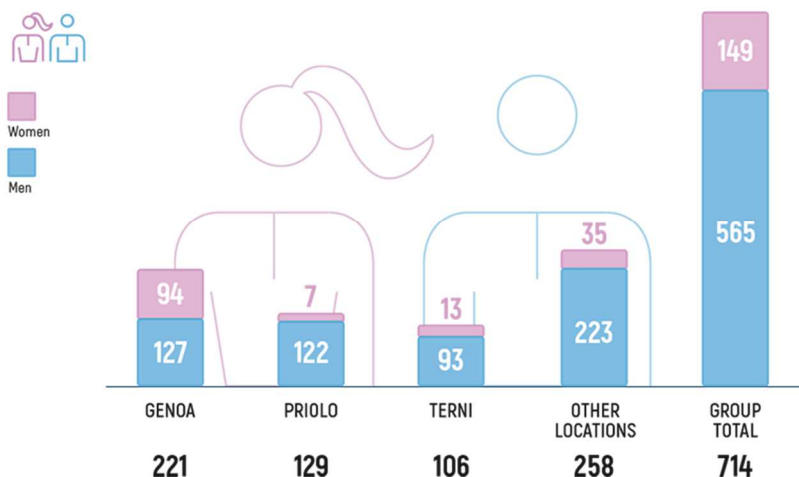
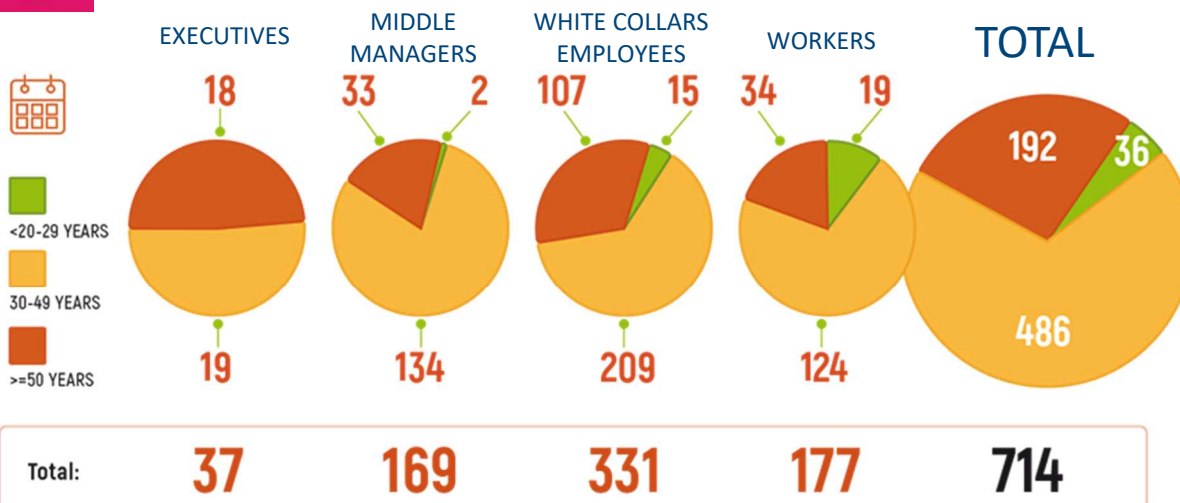
### Our training course:

- Managerial training: 30%
- Technical training: 25%
- Foreign languages: 24%
- HSE training: 21%

Every year all of our people are invited to design their own training path.  
A managerial attitude is required from all the employees.



# DATA BREAKDOWN ON PERSONNEL



	2015	2016	2017
Average time at Company (years)	8.8	8.9	9.8
Average employee age (years)	43.4	43.8	43.6
Female employment	20.6%	21.0%	20.9%

Women employment at Group headquarter is over 40% of total workforce.





# EDUCATIONAL PROGRAMS



@SYRACUSE

3,000  
STUDENTS

ProgettoScuola

@WIND FARMS  
TERRITORIES

1,500  
STUDENTS

VAI  
col  
VENTO!

@GENOA

OVER  
5,000  
CHILDREN

TORNEO RAVANO  
RESPECT

@TERNI  
@MELILLI and CARLENTINI

400  
STUDENTS

GIORNATA  
DELL'ENERGIA  
ELETTRICA 2017

@HYDRO PLANTS  
TERRITORIES

600  
STUDENTS

ACQUA!

- In 2017 **more than 10,000** students got acquainted with our CSR activities
- Future generations training and education on environmental matters
- Special attention to younger people supporting sport values



# EDUCATIONAL PROGRAMS



## INNOVATION & START-UPS



- Support to entrepreneurial initiatives
- Special focus on technological start-ups
- Embrace disruptive ideas for competitive advantage

## EDUCATIONAL PROJECTS



- In 2017 more than 10,000 students got acquainted with our CSR activities
- Future generations training and education on environmental matters
- Special attention to younger people supporting sports values

## CULTURE & KNOWLEDGE



- Promotion of important cultural events in the communities where we operate

# ...RECOGNIZED ALSO BY EXTERNAL INSTITUTIONS



**CDP**  
DRIVING SUSTAINABLE ECONOMIES  
BEST NEWCOMER ITALY 2016  
Rating B in 2016, Rating A- in 2017



**Oscar di Bilancio**  
52ª EDIZIONE  
OSCAR DI BILANCIO 2016  
for the representation of the evolution of its business  
and the Sustainability Report



1<sup>st</sup> CAREER WEBSITE 2017  
in Italy



CSR ONLINE AWARDS 2016-2017  
ERG ranked 8<sup>th</sup>



WEBRANKING ITALY 2017:  
ERG ranked 7<sup>th</sup>









## ERG IN A NUTSHELL AS AT 31.12.2017





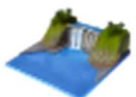
# FINANCIAL AND OPERATING PERFORMANCE AS AT 31.12.2017



## Financial Highlights

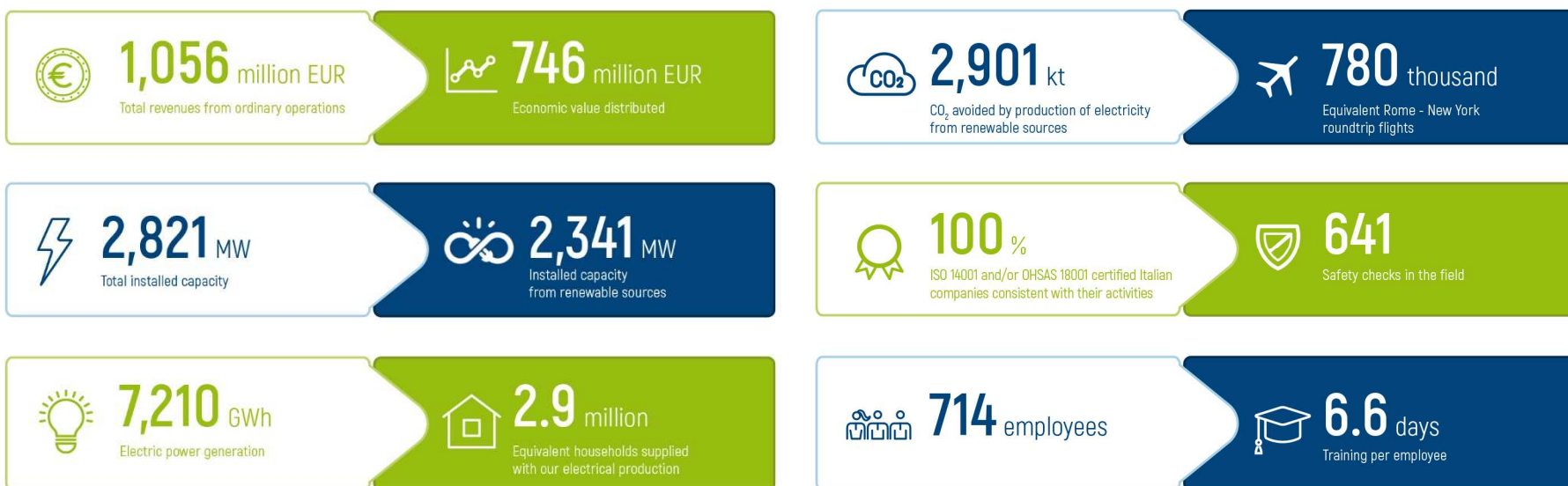
	<b>€472mn</b> Recurring EBITDA	<b>€220mn</b> Recurring EBIT
<b>€142mn</b> Recurring Group Net Result	<b>€3,274mn</b> Net Invested Capital	<b>€1,233mn</b> Net Financial Debt
	<b>715</b> Employees	

## Business Portfolio

	<b>1,814MW</b> Wind installed capacity	<b>3,613Gwh</b> Wind energy production
	<b>480MW</b> Thermo installed capacity	<b>2,453Gwh</b> Thermo energy production
	<b>527MW</b> Hydro installed capacity	<b>1,144Gwh</b> Hydro energy production



# ERG SUSTAINABILITY AS AT 31.12.2017





# ERG DISTRIBUTION OF ADDED VALUE AS AT 31.12.2017

## REPLACEMENT COST (MILLIONS OF EURO)

	2017	2016	2015
Production value	1,065	1,041	958
Economic value distributed	(746)	(748)	(759)
Production costs	(450)	(463)	(484)
Compensation of personnel	(79)	(76)	(71)
Compensation of public administration	(51)	(39)	(44)
Compensation of debt capital <sup>(1)</sup>	(89)	(97)	(87)
Compensation of risk capital <sup>(2)</sup>	(75)	(71)	(71)
Compensation for the community	(2)	(1)	(1)
Economic value withheld by the Group	319	293	199
Amortisation and depreciation	252	254	171
Compensation of the company	67	39	28

(1) Interest paid and other financial expenses to service debt.

(2) Dividends distributed by the Group net of extraordinary disbursements (EUR 72 million in 2016).



## APPENDIX






# THE ECONOMIC RESPONSIBILITY: MAIN TARGETS



UN SDGs	Areas of commitment - 2016-2018	Status as at 31/12/2017
 	<b>GOVERNANCE AND SUSTAINABILITY APPROACH</b> Pursue the internal and external dissemination of the Group's principles expressed in the Code of Ethics and the Sustainability Policy.	Training on sustainability issues continued at schools in the areas where the company operates.
 	Implement a new Enterprise Risk Management (ERM) system.	The Group's ERM methodology was implemented, risk assessment was performed, the Group's new risk management policy was defined; reporting system for the Control and Risk Committee and the Board of Directors was implemented.
 	Continuously update the 231 Models and Anti-Corruption Guidelines of the Group's companies and organise training sessions for personnel.  Expand and integrate the existing certifications in the field of environment, health, safety and sustainability.	The 231 Model was updated for the Italian companies. ERG Group's Anti-Corruption System and Policy was approved.  The scope and opportunity analysis was carried out; the integration procedure for the existing certifications following the One Company project was defined.
 	<b>BUSINESS STRATEGY</b> Consolidate the Group's business leadership in the production of electricity from renewable sources.	The increase in installed power continued thanks to new acquisitions and to the commissioning of the plant in Ireland.
	Support the Group's strategies through scouting activities, while identifying and assessing innovative technologies/new business opportunities.  Enhance the partnerships with Universities, Foundations, think-tanks and Research Institutes.	Two pilot projects generated from the 2016 scouting activities are being implemented. The second cycle of scouting activities was started in 2017 with CDI labs.  Cooperation with Universities and associations to organise post-degree master courses (Master SAFE, Master Mager) continued.
 	<b>OPTIMISATION AND ENERGY EFFICIENCY</b> Meet the Group's needs with Green energy.	90% of the Group's electricity demands was served by electrical energy from renewable sources.
	Implement energy efficiency projects in the Group's plants and offices.	The micro-hydro plants downstream of the dams started operations. Low-consumption lighting systems were installed at plants.
	<b>SUPPLIERS</b> Consolidate a supplier qualification and assessment system, with particular attention to Health, Safety, Environment and Sustainability.	The new supplier qualification platform was implemented. 50% of new suppliers qualified according to HSE parameters.

# THE ENVIRONMENTAL RESPONSIBILITY: MAIN TARGETS

UN SDGs	Areas of commitment - 2016-2018	Status as at 31/12/2017
  	<p><b>EMISSIONS AND WASTE</b></p> <p>Avoid CO<sub>2</sub> emissions for 9,000 kt in the plan period, for a total of approx. 13 million t from entry into the renewable energy sector (baseline 2006).</p> <hr/> <p>Implement activities to protect biodiversity in areas which are particularly important from the environmental point of view, in the areas where our plants are located.</p> <hr/> <p>Consider suitable and efficient initiatives to increase the percentage of waste to be recycled.</p>	<p>2,901 kt avoided emissions during 2017, adding up to more than 10 Mt avoided since 2006.</p> <p>Continual reduction in the Group's energy production carbonisation factor: -32% over the last three years.</p> <hr/> <p>Support to the activities performed at the Oasis of Alviano (WWF).</p> <p>Bird monitoring in our wind farms.</p> <hr/> <p>A recovery procedure for the waste produced by the grate cleaners was implemented in our hydroelectric plants.</p>





# THE SOCIAL RESPONSIBILITY: MAIN TARGETS

UN SDGs	Areas of commitment - 2016-2018	Status as at 31/12/2017
	<b>SAFETY</b> Consolidate the safety culture inside and outside the company, pursuing the goal for zero accidents caused by safety deficits in plants and offices.  Consolidate the system to check suppliers' performance.	Following the injuries in 2017, corrective actions were implemented to prevent the recurrence of similar events. A near-miss reporting system was promoted to increase prevention levels.  Monitoring continued to be implemented: around 650 field safety checks
	<b>PEOPLE</b> Facilitate the dissemination of ERG's culture and values through inclusion and awareness initiatives.	The onboarding and inclusion process for new colleagues was implemented.
	Spread a self-empowerment culture to build and maintain professional and managerial skills.	In 2017, around 38,000 hours of training provided at an average of approximately 6.6 days per employee. 97% of company staff took part in training courses.
	Favour the growth of a sustainability and green culture within the Group.	The first company volunteering day was organised for our Genoa employees.
	Consider the inclusion of CSR elements into the MBO/IQ system.	The MBO/IQ system included safety targets.
	<b>COMMUNICATION</b> Make contact with and inform the Group's stakeholders in a complete, transparent and timely manner.	Implementation of Non-Financial Information reporting. ERG received A- rating from CDP (improving the B rating achieved in 2016).  Improvement in its Webranking and "CSR on line awards" position.
	Support the ESG rating companies which are interested in the ERG Group.	Ongoing support to ESG rating companies or Group investors on non-financial issues.
	<b>COMMUNITY</b> Contribute to the development of local communities through social responsibility initiatives at a local level.	Activities were developed in local communities in keeping with Sustainability Policy principles.  "A tutta Acqua!" and "Vai col Vento!" were our leading projects for students living in the communities where our plants are located.





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