Press Release

The Board of Directors approves the consolidated financial statements and the draft financial statements as at 31 December 2013

Consolidated adjusted[1] EBITDA at replacement cost[2]: €569 million, €458 million in 2012
Group net result at replacement cost[3]: €38 million, €12 million in 2012
Proposed dividend per share of €1.00, including non-recurring component of €0.50

Fourth quarter of 2013[4]

Consolidated adjusted[1] EBITDA at replacement cost[2]: €132 million, €128 million in 4Q 2012
Group net result at replacement cost[3]: €3 million, €10 million in 4Q 2012

Genoa, 12 March 2014 – 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 2013[5], the report on corporate governance and ownership and the remuneration report.

Consolidated financial results at replacement cost

4th Quarter			Performance highlights (million Euro)	Year		
2013	2012	Change %		2013	2012	Change %
132	128	+ 3%	Adjusted EBITDA	569	458	+ 24%
56	70	- 20%	Adjusted EBIT	278	216	+ 29%
3	10	- 70%	Group net result	38	12	+ 217%

	31.12.13	31.12.12	Change
Net financial debt (million Euro)	807	513	294
Leverage[6]	29%	21%	
Adjusted net financial debt[7] (million Euro)	1,015	722	293
Adjusted leverage[7]	34%	27%	

Luca Bettonte, ERG's Chief Executive Officer, commented: **"FY2013 results show a strong growth and exceed the guidance figures provided at the beginning of the year, despite the still difficult general economic and financial situation. The contribution to renewables made by the assets acquired from GDF Suez and the good performance of the plants in the Power sector more than offset the downturn in the results of the R&M segment, which were penalised by the general falloff in consumption and a further worsening of the refining scenario. For FY2014, without taking into account the change in perimeter following completion of the transaction involving ISAB Energy, scheduled to take place during the second quarter, we expect to see a further improvement in results thanks to the full contribution of the new wind farms that have recently come on stream in Italy and in Eastern Europe and to the definitive exit from Coastal Refining. Against this background, we propose to the Shareholders' Meeting that a dividend be paid of Euro 1.00 per share, including a non-recurring component of Euro 0.50, bearing in mind the successful conclusion of an essential phase of the strategic industrial reorganisation project commenced in 2008.**

The Board of Directors therefore proposes to the Ordinary Shareholders' Meeting, to be convened on 15 April 2014 in first call, and, if required, on 16 April 2014 in second call, the distribution of a dividend per share of Euro 1.00, which will be available for payment starting from 22 May 2014 (payment date), with an ex-dividend date as of 19 May 2014 (ex date) and record date of 21 May 2014.

Fourth quarter 2013

Consolidated financial results

The **consolidated adjusted EBITDA at replacement cost** came to Euro 132 million, showing an upward trend compared to Euro 128 million posted for the corresponding period in 2012.

- **Renewables**: EBITDA at replacement cost for the sector was Euro 59 million, with a notable growth compared to Euro 37 million in the fourth quarter of 2012, due above all to the increase in output following the contribution from the new wind farms, despite the presence in Italy of extremely unfavourable wind conditions.

- **Power & Gas:** EBITDA at replacement cost for the sector was Euro 83 million, with a downturn compared to Euro 89 million in 2012, due above all to the reduction in the *CIP* 6 tariff and lower output during the period.

- **Refining & Marketing:** adjusted EBITDA at replacement cost dropped to a negative value of Euro 2 million, following the positive value of Euro 10 million posted in the fourth quarter of 2012, mainly as a result of the strongly negative trend in the refining scenario.

Consolidated adjusted EBIT at replacement cost was Euro 56 million, down from Euro 70 million in the fourth quarter of 2012, after amortisation and depreciation totalling Euro 76 million (Euro 57 million in the corresponding period of 2012).

The **Group net result at replacement cost** amounted to Euro 3 million, down from Euro 10 million posted in the fourth quarter of 2012.

The **Group net result** of Euro 19 million (negative Euro 45 million in 2012) was primarily impacted by the sale of the remaining 20% stake in ISAB for the amount of Euro 177 million and the provisions made in connection with activities at the Priolo site, above all following the exit from the refining sector. The result also reflects the write-down of the equity interest in TotalErg by Euro 58 million.

FY 2013

Consolidated financial results

Consolidated adjusted EBITDA at replacement cost came to Euro 569 million, with a sharp growth over the figure of Euro 458 million posted in 2012.

- **Renewables:** EBITDA at Euro 245 million was almost double the figure posted for the same period of the previous year (Euro 137 million), mostly due to the strong increase in output following the acquisition of ERG Wind, despite the lower sale prices and weaker wind conditions compared to 2012.

- **Power & Gas:** EBITDA came to Euro 358 million, with a growth over the figure of Euro 328 million posted in 2012, owing to both the good performance of the plants and the sustained zonal prices which were higher than those recorded a year earlier. These effects more than offset the downturn in the *CIP* 6 tariff as a result of the change in regulatory framework.

- **Refining & Marketing:** adjusted EBITDA at replacement cost in the sector came to a negative value of Euro 5 million, with a decline compared to the positive result of Euro 21 million posted in 2012; this result particularly reflects the marked downturn as regards the refining scenario, the effects of which were partly offset by reduced exposure to the business; there was an improvement in marketing results, despite the further falloff in demand.

Adjusted EBIT at replacement cost was Euro 278 million (Euro 216 million in 2012) after amortisation and depreciation totalling Euro 291 million (Euro 242 million in 2012), reflecting the consolidation of ERG Wind.

The Group net result at replacement cost was Euro 38 million, compared to Euro 12 million in 2012. The improvement in the result was mainly ascribable to the growth in margins at operational level.

The **Group net result** came to Euro 28 million (Euro 151 million in 2012) and was primarily impacted by the sale of the remaining 20% stake in ISAB for the amount of Euro 177 million, the provisions made in connection with activities at the Priolo site, above all following the exit from the refining sector, and additional charges pertaining to the acquisition of ERG Wind. The result also reflects the write-down of the equity interest in TotalErg by Euro 58 million. It is worth mentioning that FY2012 results primarily reflected the capital gain arising from the sale of a 20% stake in ISAB, net of the related tax effects, for the amount of Euro 214 million, and negative non-recurring items totalling Euro 72 million relating to provisions and write-downs of the joint venture TotalErg following the closure of the Rome Refinery.

Net financial debt, at Euro 807 million, was up by 294 million compared to the figure posted at 31 December 2012, largely due to the acquisition of ERG Wind and the payment of dividends. These effects were partly offset by the funds received following the sale of the remaining 20% stake in ISAB, cash flow during the period and specific phenomena associated with working capital. The net financial debt also includes financial liabilities relating to the fair value of interest rate hedging derivatives in the amount of approximately Euro 141 million (Euro 76 million at 31 December 2012).

Adjusted net financial debt, which includes ERG's share of net financial position as regards the TotalErg and LUKERG Renew joint ventures, amounted to Euro 1,015 million, up by around 293 million compared to 31 December 2012, essentially for the same reasons described above, together with specific phenomena also associated with TotalErg's working capital. The adjusted net financial debt includes financial liabilities relating to the fair value of interest rate hedging derivatives in the amount of approximately Euro 147 million (Euro 84 million at 31 December 2012).

Adjusted investments

4th Quarter		Million Euro	Year	
2013	2012		2013	2012
41	10	**Renewables***	97	39
11	15	**Power & Gas**	26	35
14	13	**Refining & Marketing****	41	51
1	0	**Corporate**	2	1
67	**37**	**TOTAL INVESTMENTS**	**165**	**126**

* Adjusted Renewables investments include ERG's share of the investments made by LUKERG Renew starting from July 2012

**Adjusted Refining & Marketing investments include ERG's share of investments made by TotalErg whereas, starting from August 2012, they no longer include ERG's share of investments carried out in ISAB.

In 2013, the ERG group made consolidated adjusted investments for a total of Euro 165 million (Euro 126 million in 2012). Overall, in **the fourth quarter of the same year,** adjusted investments made by the Group totalled Euro 67 million (Euro 37 million in the corresponding period of 2012).
The adjusted investments do not include the cost for the acquisitions in the wind sector relating to the wind farms acquired during the year in Bulgaria and Romania with an overall capacity of 84 MW (Euro 63 million) and the Operation & Maintenance company (Euro 10 million), or the investments pertaining to the 20% stake in ISAB (Euro 21 million).

Renewables: in March work commenced for the construction of a wind farm in Basilicata, at Palazzo San Gervasio (Potenza), with a capacity of 34 MW; the construction of the wind farm was completed ahead of schedule, in December, and the wind farm has been fully operational since the beginning of 2014. Also in March work began on the construction of a wind farm in Romania, in the region of Tulcea, with an overall capacity of 82 MW (ERG share 41 MW) and an estimated electricity output, when fully operational, of over 200 GWh per year. The project was acquired by the joint venture LUKERG Renew, at the end of 2012, from Inergia (Santarelli Group) and again for this project the implementation works were carried out very quickly and were essentially completed by December, ahead of the original schedule, with the wind farm coming on stream at the beginning of 2014.

Power & Gas: the year 2013 saw the completion, at the ISAB Energy power plant, of the construction of the plant's flare exhaust gas washing facility in conformity with the environmental requirements set forth in the plant's Integrated Environmental Authorisation (IEA). Moreover, at ERG Power's power plant, the works were completed for the adaptation and revamping of one of the steam production units (unit SA1 N1). These interventions, completed during the third quarter of 2013, will allow the entire power plant to operate more flexibly and efficiently and to comply with the new emissions restrictions laid down for ERG Power in the IEA. Lastly, targeted investments went ahead, at both ISAB Energy and ERG Power, with a view to improving the operational efficiency and reliability of the plants, in addition to the scheduled interventions in the area of Health, Safety and Environment.

Refining & Marketing: Insofar as concerns the Integrated Downstream sector, during 2013 investments totalling approximately Euro 41 million were carried out, almost entirely in connection with the 51% stake in TotalErg.
Most of these investments (around 71%) concerned the retail network, primarily for development activities (reconstructions, new dealerships, upgrading and automation of existing sales outlets, etc.) and activities associated with the reconversion of the Rome logistics hub (approximately 13%). A significant portion was also allocated to investments in the maintenance and improvement of Health, Safety and Environment aspects. On the other hand, as regards Coastal Refining, following the reduction in the percentage of ownership from 40% to 20%, the figures shown in the table for 2013 no longer include the investments made by ISAB.

Operational data

Electricity sales for the ERG Group refer above all to the electricity produced by its wind farms (ERG Renew) and thermoelectric plants (ISAB Energy and ERG Power) and, to a lesser extent, to purchases on organised markets and via physical bilateral contracts. Of the electricity sales carried out in Italy **during 2013**, around 8.8 TWh concerned output by the Group's facilities, corresponding to approximately 2.8% of overall domestic demand (2.5% in 2012). It is worth mentioning that the figures for 2013 include the contribution from sales on the part of wind farms owned by ERG Wind; of the sales carried out in Italy in the **fourth quarter of 2013,** around 2 TWh concerned output by the Group's facilities, corresponding to approximately 2.6% of overall domestic demand (2.6% in the corresponding period of 2012).
Overall the Group's electricity sales, in 2013, amounted to 10.6 TWh, compared to 9.1 TWh in 2012 (**in the fourth quarter of 2013** the Group's electricity sales totalled 2.5 TWh, compared to 2.3 TWh in the corresponding period of 2012).

In 2013, electricity output by ERG Renew amounted to 2.4 TWh, almost double the figure for 2012 (1.2 TWh); wind power output in Italy was 2.0 TWh compared to 1.1 TWh in 2012, while output abroad was 393 GWh, corresponding to 20% of the total, compared to 150 GWh in 2012 (approximately 14%). The increase was primarily associated with the contribution from ERG Wind, whose overall output during the period amounted to 1.1 TWh, of which 999 GWh in Italy and 155 GWh in Germany. Wind conditions were inferior to those recorded in 2012 and to the historical average as regards both Italy, particularly during the second half of the year which was especially weak, and Germany. Wind conditions in France were essentially in line with expectations, whereas wind conditions in Bulgaria and Romania were extremely favourable. During the **fourth quarter of 2013** ERG Renew's electricity output amounted to 594 GWh, compared to 350 GWh in the corresponding period of 2012, wind power output in Italy totalled 449 GWh, compared to 293 GWh for the last three months of 2012, while output abroad was 145 GWh, corresponding to around 24% of the total, compared to 56 GWh for the fourth quarter of 2012 (approximately 16%).

In 2013, output by ISAB Energy totalled 4.1 TWh, with a growth (+ 2%) over 4 TWh in 2012 thanks to the good overall performance of the plant, which recorded a utilisation factor of 90%, exceeding the figure for the previous year (88%). In the **fourth quarter of 2013** output amounted to 0.9 TWh, compared to 1.0 TWh for the corresponding period of 2012.

In 2013, net overall output by ERG Power was 2.7 TWh, with a downturn compared to the previous year (2.9 TWh). This falloff was primarily due to the increased modulation of the plant, in keeping with the price of energy on the market; moreover, participation in the dispatching services market emphasized throughout 2013 the above mentioned plant modulation to balance the retail network. **In the fourth quarter of 2013** electricity output was 0.7 TWh, compared to 0.7 TWh in the corresponding period of 2012.

Total oil product sales of the Refining & Marketing division in 2013 amounted to 7.8 million tonnes (10.3 million tonnes in 2012), of which 61% on the domestic market and the remaining 39% abroad (in the **fourth quarter of 2013** sales totalled 2.3 million tonnes, compared to 2 million tonnes during the corresponding period in 2012). The downturn in quantities sold is ascribable both to the change in perimeter as a result of the reduced stake in the ISAB Refinery and the closure of the Rome Refinery (which took place in September 2012) and to the more general falloff in demand as regards the various sales channels.
In 2013, retail sales in Italy totalled 1.5 million tonnes, compared to 1.6 million tonnes in 2012 (in the **fourth quarter of 2013** sales totalled 0.3 million tonnes, compared to 0.4 million tonnes in the corresponding period of 2012). It is worth mentioning that these figures include the sales contributed by 51% of TotalErg.

Processing by the refineries in 2013 amounted to 3.6 million tonnes, with a sharp drop compared to 8.3 million tonnes processed during the corresponding period a year earlier. The decrease is due to the change in the perimeter following the closure of the Rome Refinery in September 2012 and the sale to Lukoil of a further stake in the ISAB Refinery, down from 40% to 20%, again from September 2012 (**in the fourth quarter of 2013** processing totalled 0.9 million tonnes, compared to 1.1 million tonnes during the corresponding period of 2012).

ERG processing at the ISAB Refinery amounted to 2.2 million tonnes, with a net reduction compared to 4.5 million tonnes in 2012 (**in the fourth quarter of 2013** processing totalled 0.5 million tonnes, compared to 0.7 million tonnes during the fourth quarter of 2012). The decline in processing compared to 2012 stems from both the reduced stake in ISAB S.r.l., down from 40% to 20% (from September 2012), and the general shutdown at ISAB's *Impianti Nord* site together with the slowdown at ISAB's *Impianti Sud* site which took place during the months of March and April 2013.

Processing carried out in 2013 at TotalErg's inland refineries amounted to 1.4 million tonnes, with a sharp drop compared to 3.9 million tonnes processed during the corresponding period a year earlier following the closure of the Rome Refinery plants in September 2012 (in the **fourth**

quarter of 2013 processings totalled 0.4 million tonnes, compared to 0.4 million tonnes during the fourth quarter of 2012).

Main events in 2013

Closing of put option on remaining 20% stake in ISAB
The closing with regard to exercise of the put option on the remaining 20% stake in ISAB, approved by ERG's Board of Directors on 9 October 2013, took place on **30 December 2013**.
The transaction gave rise to a cash in of Euro 426 million, which takes into account the inventory value and the settlement of certain environmental matters pertaining to the refinery. As a result of this operation, ISAB S.r.l. is now wholly owned by LUKOIL

Agreement concerning sale of the ISAB Energy facility and early termination of *CIP*6
On **30 December 2013** ERG reached an agreement with GDF SUEZ for the acquisition of shareholdings, corresponding to a 49% equity stake (indirectly held by GDF SUEZ and by Mitsui & Co.), in ISAB Energy, owner of the 528 MW IGCC power plant in Priolo Gargallo (Syracuse), ISAB Energy Services, the plant's operation and maintenance company and ISAB Energy Solare, which owns a 1 MW photovoltaic facility. The total acquisition price for the three shareholdings has been set at Euro 149.4 million, in addition to which, at the time of the closing, ERG will take over shareholder loans totalling Euro 23.8 million granted by the sellers to ISAB Energy and ISAB Energy Solare. Prior to the closing, ISAB Energy and ISAB Energy Services will pay shareholders dividends totalling Euro 52.5 million, of which Euro 25.7 million pertaining to GDF SUEZ and Mitsui & Co. and the remainder to ERG. At the same time, ERG signed an agreement with ISAB, a company belonging to the LUKOIL Group, 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, to be finalised following early termination of the *CIP*6/92 agreement. The price agreed for the asset value amounts to Euro 20 million. The coming into effect of both agreements is conditional upon approval by the competent Antitrust Authority of both the acquisition of the equity interests and the sale of the ISAB Energy and ISAB Energy Services business lines, as well as the GSE's acceptance of early termination of the *CIP*6/92 agreement for the ISAB Energy plant, with effect from 1 July 2014. The closing of the two transactions is scheduled to take place no later than the second quarter of 2014.

ERG Renew's shareholder body opening up to include UniCredit
On **19 December 2013** ERG signed an agreement with UniCredit whereby the Bank will enter the ERG Renew shareholder body via the acquisition of a minority stake corresponding to an equity interest of 7.14%, valued at Euro 50 million, through a reserved capital increase. On **16 January 2014,** the ERG Renew Shareholders' Meeting approved a reserved capital increase for a total amount of Euro 50 million, at the same time subscribed and paid up by UniCredit.

Acquisition of IP Maestrale (now ERG Wind)
On **13 February 2013** ERG closed the transaction with International Power Consolidated Holding Ltd (100% GDF SUEZ) for the acquisition, through its subsidiary ERG Renew, of an 80% equity interest in IP Maestrale Investments Ltd., leading operator in Italy in the sector of renewable energy from wind sources with an installed capacity of 636 MW, of which 550 MW in Italy and 86 MW in Germany. On the same date, the Shareholders' Meeting of IP Maestrale passed a resolution to change the company's name to **ERG Wind Investments Ltd**.

On **20 December 2013** a settlement agreement was signed with Versalis (formerly Polimeri Europa) for the compensation of damages allegedly caused by the fire at the Priolo Refinery on 30 April 2006. The settlement provided for a payment to be made by ERG in favour of Versalis (who receives it also on behalf of ENI Insurance and the related reinsurers) in the all-inclusive amount of Euro 32 million, in full and final settlement of all claims or rights inferred or inferable by Versalis, ENI Insurance and the reinsurers. Against the settlement in question, Generali paid ERG the sum of Euro 16 million.

LUKERG Renew
On **20 June 2013** LUKERG Renew, a joint venture between ERG Renew (100% ERG) and LUKOIL- Ecoenergo, signed two agreements with Vestas to purchase a 100% stake in two already operational wind farms (overall installed capacity 84 MW): Gebeleisis in Romania and Hrabrovo in Bulgaria. Gebeleisis wind farm, which is located in the Galati region (Romania) and has been fully operational since February 2013, has a total installed capacity of 70 MW (35 WTGs Vestas V90-2 MW) and its average annual production is expected to exceed 165 GWh. The value of the acquisition, in terms of enterprise value, is Euro 109.2 million (roughly 1.56 million €/MW). Hrabrovo wind farm, which is located in the region of Dobrich (Bulgaria) and has been fully operational since March 2012, has a total installed capacity of 14 MW (7 WTGs Vestas V90-2 MW) and its average annual production is expected to exceed 34 GWh. The value of the acquisition, in terms of enterprise value, is Euro 17.6 million (roughly 1.26 million €/MW).
As regards the Gebeleisis wind farm, the transaction closing took place on **28 June 2013**, while the closing for the Hrabrovo wind farm took place on **5 September 2013**. The electricity generated by the two new facilities will avoid CO_2 emissions into the atmosphere of approximately 77 thousand tonnes per year.

On **7 October 2013** LUKERG Renew, through its subsidiary LUKERG Bulgaria, signed a project finance loan agreement with Raiffeisen Bank International as Mandated Lead Arranger (MLA) to partially finance the acquisition of its Hrabrovo wind farm in Bulgaria, which has an installed capacity of 14 MW. The loan, for an amount of Euro 10.6 million and duration of 5 years, has been arranged within the scope of the project financing signed with Raiffeisen Bank International in June 2012 for the acquisition of a wind farm in Bulgaria with an installed capacity of 40 MW.

Renewables
On **15 January 2013** ERG won the tender allowing it to take advantage of the twenty-year incentives for the 34 MW wind farm project in the Municipality of Palazzo San Gervasio (Potenza), with a 2.5% bidding discount.

On **22 March 2013** ERG Eolica Amaroni (100% ERG Renew) signed a project finance loan agreement for its wind farm located in the province of Catanzaro, which came on stream during the second half of 2012 and has an installed capacity of 22.5 MW.
The agreement, for the overall amount of Euro 35 million and with a duration of 14 years, was subscribed by Mandated Lead Arrangers ING Bank and Crédit Agricole CIB, the latter also acting as agent bank, and Cariparma Crédit Agricole as account bank.

On **31 October 2013** ERG Renew completed the closing with I.V.P.C. Service, indirectly owned by Maluni, for the acquisition of a 100% stake in a company specifically created to perform activities pertaining to the operation and maintenance of ERG Wind's Italian wind farms, for an enterprise value of around Euro 10 million. At the company's shareholders' meeting, held on the same date, a resolution was passed to change the company's name to ERG Renew Operations and Maintenance and to relocate its registered office to Genoa. As a result of this transaction, 136 people, mostly technicians who are highly specialised in the maintenance and operation of wind farms, joined the ERG Group, in addition to the 42 employees acquired through the investment in ERG Wind (formerly IP Maestrale), thereby further consolidating ERG Renew's structures in the South of Italy where most of the facilities are concentrated.

TotalErg
On **3 December 2013**, at the registered offices of TotalErg in Rome and Milan and ERG in Genoa, the Rome Tax Police executed a search of premises and seizure order issued by the Public Prosecutor's Office at the Rome Court as part of criminal proceedings launched against certain representatives of ERG and TotalErg. The enquiries – according to the charge formulated in the aforesaid order – concern alleged fiscal irregularities relating to FY2010, purportedly carried out by recording in TotalErg's accounts invoices for alleged nonexistent transactions for the purchase of goods, issued for a total amount of Euro 904 million by Bermuda-based companies belonging to the Total group, the related costs having been included in TotalErg's tax declarations, and acknowledged by the consolidating entity ERG in the domestic tax consolidation declaration for the

ERG Group. Immediately upon receiving news of the enquiries underway, the Company initiated an intense audit activity, with a view to accurately reconstructing the disputed events and transactions, and carefully reviewing the internal control systems. ERG considers that it has always operated in full observance of the prevailing laws and regulations and is therefore confident that its total lack of involvement with the facts forming the object of the enquiry will be ascertained. As at the time of authorising the publication of these Financial Statements, investigations are still underway and neither ERG nor TotalErg have been served with writs of a fiscal nature in connection with the aforesaid investigations.

Significant events occurring after the year-end

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 wind farm was connected to the national grid last November and turbine testing activities are currently underway. The new facility, which comprises 41 Vestas V90-2 MW wind turbines, has an installed capacity of 82 MW, to which another 2 MW will be added during the coming months, as soon as construction of the last turbine authorised in December 2013 has been completed. When fully operational, the facility will generate more than 200 GWh of electricity per year, corresponding to around 85 kt of avoided CO2 emissions.

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), which has taken place ahead of the original timetable. The new plant, comprising 17 Vestas V100 wind turbines each of 2 MW, has an installed capacity of 34 MW and an energy output of over 72 GWh per year, corresponding to approximately 30 kt in avoided CO2 emissions.

Business outlook

Renewables

2013 proved to be a particularly significant year for ERG Renew, following the acquisition of IP Maestrale (now ERG Wind), as a result of which ERG Renew became Italy's leading wind sector operator. Outside of Italy, through LUKERG Renew the acquisition was completed of two wind farms in Romania and Bulgaria with an overall installed capacity of 84 MW (ERG share 42 MW). Moreover, starting from October 2013, through its acquisition of ERG Renew O&M, the company began to perform operation and maintenance activities internally for approximately half of the Italian wind farms, the target being to extend this activity also to other wind farms in 2014, with a view to obtaining significant benefits in terms of operational efficiency, cost reduction and technical availability. Furthermore, at the end of 2013, construction works were completed on the new Palazzo San Gervasio wind farm (34 MW), in respect of which the company has qualified for incentives, following participation in the auctions set forth by the new legislation, and on a new wind farm in Romania, carried out through LUKERG Renew, which has an overall capacity of 82 MW (ERG share 41 MW). Both of these wind farms have been fully operational since January 2014, and will contribute towards the results of ERG Renew for the entire year. Lastly, in 2014, activities will continue to further develop the company by evaluating potential new investment opportunities, particularly outside of Italy.
The new wind farms' full contribution to power generation, together with the anticipated operational synergies, should imply a further growth in 2014 results compared to those recorded in 2013.

Power & Gas
The year 2014 will be characterised by the major discontinuity concerning the agreements, subject to the occurrence of certain conditions precedent, which will lead to the early termination of the *CIP* 6 convention and subsequent sale of the ISAB Energy plant. The plant should operate based on its current configuration only in the first half of the year, during which however the *CIP*6 tariffs are expected to be significantly lower than in 2013, owing to the related change in regulatory framework. Primarily as a result of the completion of this transaction, for 2014 there is expected to be a significant downturn in the sector's overall operating result, against which we shall see extraordinary income and a further liquidity injection due to the early termination of the *CIP*6 convention. On the other hand, insofar as concerns the ERG Power facility, satisfactory results are anticipated in 2014, albeit below those recorded in 2013, despite the continuing unfavourable domestic market situation for gas-fired plants, whose generation margins and utilisation factors are expected to remain depressed, mainly due to the weak demand. The plant's geographical location, its flexibility and the utilities supply contracts will in fact make it possible to maintain profitability above the average recorded by the sector in Italy.

Refining & Marketing

- ***Integrated downstream***
  As regards the Marketing sector, bearing in mind the weakness of the economic situation, the high cost of products on the international markets and the heavy burden of the tax component (VAT and excise duty), consumption levels are expected to remain depressed again in 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, in order to make it more competitive in terms of average throughput and more sustainable in the long term.
- ***Coastal refining***
  Following the sale of the remaining 20% stake in ISAB, which took place at the end of 2013, the Group has completed its exit from the coastal refining sector, which in recent years has been characterised by high volatility and extremely negative results. On the other hand, the business as regards the sale and purchase of crude oil and products will continue also in 2014, with a view to taking advantage of potential profit opportunities available on the market for these commodities, but within the scope of very strict risk management operating policies.

For the sector in general 2014 results are expected to show a significant improvement compared to those recorded in 2013.

In view of the foregoing, EBITDA at replacement cost for 2014 is expected to be lower than the figure posted in 2013; this comparison must however be made taking into account the strong discontinuities in terms of perimeter that are likely to occur during the coming year.

Additional information

Manager responsible for preparing the company's financial reports
The Board of Directors has appointed Manager responsible for preparing the company's financial reports Paolo Luigi Merli, in his capacity as Chief Financial Officer of ERG, who will be called upon to perform the aforesaid office starting from the current financial period, with reference to the information and accounting and financial documents pertaining to FY2014. The appointment has been made subject to the favourable opinion of the Board of Statutory Auditors and in observance of the requirements set forth by the company's articles of association.

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 (subject to prior revocation of the previous authorisation approved by the Shareholders' Meeting on 23 April 2013) 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 6.873 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 (subject to prior revocation of the previous authorisation approved by the Shareholders' Meeting on 23 April 2013), 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.

Reconstitution of the Board of Statutory Auditors
The Ordinary Shareholders' Meeting, following the resignation tendered by Stefano Remondini, on 12 December last, from the position of Alternate Auditor with ERG (see Press Release under the same date), will be called upon to reconstitute the Board of Statutory Auditors (appointed by the Shareholders' Meeting on 23 April 2013 and whose candidates were drawn from the sole list presented by majority shareholder San Quirico) by appointing an Alternate Auditor, in observance of the provisions set forth by Article 2397, second paragraph, of the Italian Civil Code and Article 148 of the Consolidated Finance Act, on the basis of proposals formulated in accordance with applicable legislative, regulatory and statutory provisions.

Remuneration Report
The Ordinary Shareholders' Meeting will be required to pass resolution pursuant to Article 123-*ter* of the Consolidated Finance Act regarding the first section of the Remuneration Report, as approved by the Board of Directors in their meeting on 11 March 2014.

Fees
Lastly, the Ordinary Shareholders' Meeting will be called upon to pass resolution with regard to the fee to be allocated to each member of the Board of Directors, valid until the date of the Shareholders' Meeting convened to approve the Annual Financial Statements for the period ending 31 December 2014, as well as the additional fee to be allocated to the Directors, other than Group employees, who do not hold offices within the Board and who are members of ERG's Internal Control and Risk Committee and Nominations and Remuneration Committee, valid until the date of the Shareholders' Meeting convened to approve the Annual Financial Statements for the period ending 31 December 2014, on the basis of proposals formulated in accordance with applicable legislative, regulatory and statutory provisions.

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, Giorgio Coraggioso, 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 FY2013 will be illustrated to analysts and investors today at 3.00 p.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 2014, has been prepared pursuant to the Regulation implementing Legislative Decree no. 58 of 24 February 1998, adopted by CONSOB under resolution no. 11971 of 14 May 1999, as amended and supplemented. It is available to the public at the offices of Borsa Italiana S.p.A. 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 "Governance/2014 Shareholders' Meeting".

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[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 2013 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

4th quarter 2013	4th quarter 2012	(EUR million)		Year 2013	Year 2012
		Main Income Statement data			
1,991	1,752	Total revenues [1]		7,076	8,288
37	92	EBITDA		380	332
111	**106**	**EBITDA at replacement cost [2]**		**493**	**346**
132	**128**	**EBITDA at adjusted replacement cost [3]**		**569**	**458**
57	**68**	**EBIT at replacement cost [2]**		**283**	**197**
56	**70**	**EBIT at adjusted replacement cost [3]**		**278**	**216**
33	(32)	Net income		85	200
19	(45)	of which Group net income		28	151
3	**10**	**Group net profit (loss) at adjusted replacement cost [4]**		**38**	**12**
		Main Financial data			
2,821	**2,484**	**Net invested capital**		**2,821**	**2,484**
2,014	1,971	Shareholders' Equity		2,014	1,971
807	513	Total net financial indebtedness		807	513
1,362	789	of which non-recourse Project Financing [5]		1,362	789
29%	21%	Financial leverage		29%	21%
1,015	722	Total net adjusted financial indebtedness [6]		1,015	722
		Operating data			
1,340	**596**	**Installed capacity at period end - wind farms**	MW	**1,340**	**596**
594	350	Electric power generation from wind farms	millions of KWh	2,403	1,222
1,008	**1,008**	**Installed capacity - thermoelectric plants [7]**	MW	**1,008**	**1,008**
1,592	1,766	Electric power generation from thermoelectric plants	millions of KWh	6,805	6,997
2,581	**2,295**	**Total sales of electric power**	millions of KWh	**10,631**	**9,074**
384	422	Italian Retail sales [8]	thousands of tonnes	1,544	1,642
11.5%	**12.1%**	**TotalErg Retail market share**	gasoline + diesel	**11.3%**	**11.2%**
0.7%	0.8%	ERG Oil Sicilia Retail market share [9]	gasoline + diesel	0.8%	1.0%
360	**726**	**Raw material and product inventories [10]**	thousands of tonnes	**360**	**726**
739	874	Refinery Processing [8]	thousands of tonnes	2,922	6,444
58	**70**	**Refinery Processing [8]**	thousands of barrels/day	**59**	**130**
31	25	Capital expenditures [11]	EUR million	74	77
778	**613**	**Employees at period end**	Units	**778**	**613**
		Market indicators			
65.2	65.7	Reference price of electricity [12]	EUR/MWh	63.0	75.5
89.3	80.3	Green Certificates sale price (renewables)	EUR/MWh	89.3	80.3
118.7	122.7	Sale price of CIP6 (Thermoelectric - ISAB Energy)	EUR/MWh	118.7	122.7
91.1	91.0	Sicily zone price	EUR/MWh	92.0	95.3
109.3	110.0	Brent Dated	USD/barrel	108.7	111.7
(3.0)	1.1	EMC refining margin	USD/barrel	(2.1)	0.2
1.361	1.297	EUR/USD rate	EUR/USD	1.328	1.285

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

(1) net of excise taxes.
(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) and of ISAB.
(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.
(7) installed capacity at the end of the period.
(8) estimated data. Including 51% of TotalErg.
(9) related to the sales outlets of the wholly owned subsidiary ERG Oil Sicilia.
(10) including ERG's share of the inventories of the TotalErg joint venture. The year 2012 also included ERG's share of the inventories of ISAB.
(11) in tangible and intangible fixed assets.
(12) Single National Price.

Performance highlights by segment

4th quarter 2013	4th quarter 2012	(EUR million)	Year 2013	Year 2012
		Revenues from ordinary operations:		
82	50	Renewable Energy Sources	339	177
440	430	Power & Gas	1,642	1,651
2,482	2,284	Refining & Marketing	9,002	11,688
2	2	Corporate	6	6
(163)	(120)	Intra-segment revenues	(621)	(1,065)
2,843	**2,645**	**Total adjusted revenues** (1)	**10,368**	**12,457**
(47)	*(54)*	*ERG share of ISAB S.r.l. contribution at adjusted replacement cost*	*(189)*	*(349)*
(811)	*(846)*	*TotalErg 51% contribution at adjusted replacement cost*	*(3,117)*	*(3,841)*
(5)	*(1)*	*LUKERG Renew 50% contribution at adjusted replacement cost*	*(11)*	*(2)*
1,980	**1,744**	**Total revenues from ordinary operations**	**7,051**	**8,265**
		EBITDA:		
59	37	Renewable Energy Sources	245	137
83	89	Power & Gas	358	328
(2)	10	Refining & Marketing	(5)	21
(7)	(9)	Corporate	(30)	(28)
132	**128**	**EBITDA at adjusted replacement cost** (2)	**569**	**458**
(8)	*(9)*	*ERG share of ISAB S.r.l. contribution at adjusted replacement cost*	*(31)*	*(68)*
(10)	*(12)*	*TotalErg 51% contribution at adjusted replacement cost*	*(39)*	*(43)*
(3)	*(1)*	*LUKERG Renew 50% contribution at adjusted replacement cost*	*(7)*	*(1)*
111	**106**	**EBITDA at replacement cost** (2)	**493**	**346**
(2)	*(14)*	*Inventory gains (losses)*	*(6)*	*(1)*
(72)	*(0)*	*Non-recurring items*	*(107)*	*(13)*
37	**92**	**EBITDA**	**380**	**332**
		Amortisation, depreciation and write-downs		
(32)	(18)	Renewable Energy Sources	(126)	(66)
(22)	(19)	Power & Gas	(80)	(76)
(22)	(20)	Refining & Marketing	(83)	(97)
(1)	(1)	Corporate	(3)	(3)
(76)	**(57)**	**Amortisation and depreciation at adjusted replacement cost** (2)	**(291)**	**(242)**
6	*6*	*ERG share of ISAB S.r.l. contribution at adjusted replacement cost*	*22*	*37*
15	*13*	*TotalErg 51% contribution at adjusted replacement cost*	*56*	*55*
1	*1*	*LUKERG Renew 50% contribution at adjusted replacement cost*	*4*	*1*
(54)	**(39)**	**Amortisation and depreciation at replacement cost** (2)	**(210)**	**(149)**
		EBIT:		
27	20	Renewable Energy Sources	119	71
61	70	Power & Gas	278	253
(24)	(9)	Refining & Marketing	(87)	(77)
(8)	(10)	Corporate	(32)	(31)
56	**70**	**EBIT at adjusted replacement cost** (2)	**278**	**216**
(2)	*(3)*	*ERG share of ISAB S.r.l. contribution at adjusted replacement cost*	*(9)*	*(32)*
5	*1*	*TotalErg 51% contribution at adjusted replacement cost*	*17*	*12*
(2)	*(0)*	*LUKERG Renew 50% contribution at adjusted replacement cost*	*(3)*	*(0)*
57	**68**	**EBIT at replacement cost** (2)	**283**	**197**
		Capital expenditures on tangible and intangible fixed assets:		
41	10	Renewable Energy Sources	97	39
11	15	Power & Gas	26	35
14	13	Refining & Marketing	41	51
1	0	Corporate	2	1
67	**37**	**Total adjusted capital expenditures** (3)	**165**	**126**
0	*0*	*Capital expenditures of ISAB S.r.l. (ERG share)*	*0*	*(13)*
(13)	*(12)*	*Capital expenditures of TotalErg (51%)*	*(39)*	*(36)*
(23)	*0*	*Capital expenditures of LUKERG Renew (50%)*	*(52)*	*0*
31	**25**	**Total capital expenditures**	**74**	**77**

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

(1) adjusted revenues take into account ERG's share of revenues generated by the TotalErg and LUKERG Renew joint ventures and by ISAB.

(2) 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 and ISAB.

(3) they take into account ERG's share of the capital expenditures effected by TotalErg. and LUKERG Renew and up until August 2012 by ISAB.

Consolidated Income Statement

4th quarter 2013	4th quarter 2012	Reclassified Income Statement (EUR million)	Year 2013	Year 2012
1,980.3	1,743.8	Revenues from ordinary operations	7,051.8	8,264.8
10.8	7.7	Other revenues and income	23.9	23.3
1,991.1	**1,751.6**	**TOTAL REVENUES**	**7,075.7**	**8,288.1**
(1,739.5)	(1,529.7)	Costs for purchase and changes in inventory	(6,099.0)	(7,327.7)
(214.5)	(129.9)	Costs for services and other operating costs	(596.8)	(628.5)
37.0	**92.0**	**EBITDA**	**379.8**	**331.8**
(54.3)	(42.0)	Amortisation, depreciation and write-downs of fixed assets	(210.1)	(152.6)
0.0	(1.6)	Income (expenses) from sale of business unit	0.0	(1.6)
(17.0)	(8.1)	Net financial income (expenses)	(72.8)	(52.5)
103.6	(56.3)	Net income (loss) from equity investments	97.1	143.7
69.3	**(16.0)**	**Profit before taxes**	**194.0**	**268.7**
(36.8)	(15.6)	Income taxes	(108.8)	(68.8)
32.6	**(31.7)**	**Profit for the period**	**85.2**	**199.9**
(13.8)	(12.9)	Minority interests	(56.8)	(48.7)
18.8	**(44.6)**	**Group's net profit (loss)**	**28.4**	**151.2**

Consolidated Statement of Financial Position

Reclassified Statement of Financial Position (EUR million)	12/31/2013	12/31/2012
Fixed assets	2,795.0	2,422.7
Net working capital	278.7	170.7
Employees' severance indemnities	(5.0)	(3.5)
Other assets	410.7	352.9
Other liabilities	(658.4)	(459.1)
Net invested capital	**2,821.0**	**2,483.7**
Group Shareholders' Equity	1,773.6	1,775.7
Minority interests	240.0	195.4
Net financial indebtedness	807.5	512.6
Shareholders' equity and financial debt	**2,821.0**	**2,483.7**

Cash flow

4th quarter 2013	4th quarter 2012		Year 2013	Year 2012
		CASH FLOWS FROM OPERATING ACTIVITIES:		
		(EUR million)		
71.3	79.0	Adjusted cash flow from current operations (1)	327.4	207.9
(29.6)	0.0	Income tax paid	(81.4)	(8.2)
77.8	166.9	Change in w orking capital	(33.3)	(5.5)
14.7	(37.9)	Change in other operating assets and liabilities	39.1	(30.6)
134.2	**208.0**	**TOTAL**	**251.8**	**163.6**
		CASH FLOWS FROM INVESTING ACTIVITIES:		
(29.6)	(26.1)	Net capital expenditures on tangible and intangible fixed assets (2)	(73.0)	(74.3)
(40.2)	(7.7)	Net capital expenditures in financial fixed assets	(61.5)	(16.0)
425.7	0.0	Collection for the sale of ISAB shares	434.7	484.7
355.9	**(33.8)**	**Total**	**300.2**	**394.4**
		CASH FLOW FROM SHAREHOLDERS' EQUITY:		
0.0	0.0	Distributed dividends	(68.2)	(62.7)
1.4	(3.9)	Other changes in equity (3)	25.4	(44.3)
1.4	**(3.9)**	**Total**	**(42.8)**	**(107.1)**
(9.9)	**0.0**	**CHANGES IN SCOPE OF CONSOLIDATION (4)**	**(804.1)**	**0.0**
481.6	**170.3**	**CHANGE IN NET FINANCIAL INDEBTEDNESS**	**(294.9)**	**450.9**
1,289.1	**682.9**	**INITIAL NET FINANCIAL INDEBTEDNESS**	**512.6**	**963.5**
(481.6)	***(170.3)***	***CHANGE IN THE PERIOD***	***294.9***	***(450.9)***
807.5	**512.6**	**FINAL NET FINANCIAL INDEBTEDNESS**	**807.5**	**512.6**

(1) item does not include inventory gains (losses), deferral of the CIP 6 tariff increase and current income tax for the period.
(2) item does not include capitalised costs for cyclical maintenance.
(3) in 2012, it includes the purchase of treasury shares for EUR 26 million.
(4) the change in the scope of consolidation refers to the acquisition of ERG Wind, ERG Renew Operation & Maintenance and to 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. To assure the comparability and consistency of results compared with previous periods, adjusted Income Statement values also include the contribution, for the portion attributable to ERG, of the results at replacement cost of ISAB.

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** and **ISAB**, 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 and ISAB 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.

As a result of the exercise of the put option, commented on above, and of the consequent cessation of joint governance of ISAB, from 1 September 2012 onwards the adjusted values of indebtedness and of investments no longer take into account the contribution of ISAB.

Closing of exercise of the put option on the final 20% equity investment in ISAB

It should be noted that 30 December 2013 saw the closing of the transaction relating to exercising of the put option on the final 20% equity investment in ISAB The transaction involved the provisional collection of EUR 426 million, which takes account of the value of inventories and the settlement of some environmental issues relating to the refinery. As a result of the transaction, LUKOIL holds 100% of the share capital of ISAB. The capital gain and the income components associated with the sale of the equity investment are deemed to be non-recurring items and therefore they are not reflected in "Group EBIT at replacement cost"; with reference to the aforementioned transaction, it should be noted that, in the consolidated financial statements, the book results of activities relating to the Coastal Refining Business (*discontinued operations*) are indicated separately, in application of IFRS 5. For greater clarity of disclosure, it was deemed appropriate to expose and comment, in the Report on Operations, on the results including those relating to the aforementioned business.

Reconciliation with operating results at adjusted replacement cost

4th quarter 2013	4th quarter 2012	EBITDA	Nota	Year 2013	Year 2012
37.0	***92.0***	**EBITDA**		***379.8***	***331.8***
2.2	*13.8*	*Exclusion of inventory gains / losses*		*6.3*	*0.8*
		Exclusion of non-recurring items:			
		Corporate			
0.4	*0.4*	*- Ancillary charges of sale of 20% of ISAB S.r.l.*	*1*	*0.4*	*4.2*
0.0	*0.0*	*- Ancillary charges ERG Wind acquisition*	*2*	*2.9*	*0.0*
0.2	*0.0*	*- Ancillary charges - other transactions*	*3*	*0.2*	*0.0*
4.3	*0.0*	*- Charges for company reorganisation*	*4*	*4.3*	*0.0*
		Renewable Energy Sources			
0.6	*0.0*	*- Ancillary charges - ERG Wind acquisition*	*2*	*10.2*	*0.0*
		Integrated Downstream			
1.8	*0.0*	*- Other charges on sales outlets in Sicily*	*5*	*7.2*	*0.0*
		Coastal refining			
0.0	*0.0*	*- Estimated liabilities on previous years' adjustments*		*0.0*	*2.6*
0.0	*0.0*	*- Charges from transactions related to previous years*	*6*	*17.0*	*0.0*
80.0	*0.0*	*- Liabilities for site disputes*	*7*	*80.0*	*0.0*
(7.7)	*0.0*	*- Derecognition of deferred expenses due to exit from Refining business*	*1*	*(7.7)*	*0.0*
(3.4)	*0.0*	*-Adjustment on commercial relations from previous years*	*8*	*(3.4)*	*0.0*
		Power & Gas			
0.0	*0.0*	*- Estimated liabilities on previous years' adjustments*		*0.0*	*6.3*
0.0	*(5.4)*	*- Assets on white certificates from previous years*		*0.0*	*(5.4)*
0.0	*5.3*	*- Liabilities on green certificates from previous years*		*0.0*	*5.3*
(4.3)	*0.0*	*- Adjustment on commercial relations from previous years*	*8*	*(4.3)*	*0.0*
111.1	**106.1**	**EBITDA at replacement cost**		**492.9**	**345.7**
8.2	*8.9*	*ERG share of ISAB contribution at adjusted replacement cost [1]*	*9*	*30.6*	*68.2*
10.0	*11.9*	*TotalErg 51% contribution at adjusted replacement cost [1]*	*10*	*39.0*	*43.0*
3.1	*0.7*	*LUKERG Renew 50% contribution at adjusted replacement cost*	*11*	*6.6*	*1.3*
132.4	***127.6***	**EBITDA at adjusted replacement cost**		***569.1***	***458.1***

4th quarter 2013	4th quarter 2012	AMORTISATION, DEPRECIATION AND WRITE-DOWNS	Nota	Year 2013	Year 2012
(54.3)	**(42.0)**	**Amortisation, depreciation and write-downs**		**(210.1)**	**(152.6)**
		Exclusion of non-recurring items:			
		Renewable Energy Sources			
0.0	*3.5*	*- Write-downs in the Renewable Energy Sources segment*		*0.0*	*3.5*
(54.3)	**(38.5)**	**Amortisation and depreciation at replacement cost**		**(210.1)**	**(149.1)**
(5.7)	*(5.6)*	*ERG share of ISAB contribution at adjusted replacement cost [1]*	*9*	*(22.0)*	*(36.7)*
(14.8)	*(12.5)*	*TotalErg 51% contribution at adjusted replacement cost [1]*	*10*	*(55.7)*	*(54.7)*
(1.4)	*(0.6)*	*LUKERG Renew 50% contribution at adjusted replacement cost*	*11*	*(3.6)*	*(1.3)*
(76.2)	***(57.3)***	**Amortisation and depreciation at adjusted replacement cost**		***(291.4)***	***(241.8)***

4th quarter 2013	4th quarter 2012	EBIT	Nota	Year 2013	Year 2012
56.9	**67.6**	**EBIT at replacement cost**		**282.8**	**196.6**
2.5	*3.3*	*ERG share of ISAB contribution at adjusted replacement cost [1]*	*9*	*8.5*	*31.5*
(4.7)	*(0.6)*	*TotalErg 51% contribution at adjusted replacement cost [1]*	*10*	*(16.7)*	*(11.8)*
1.6	*0.0*	*LUKERG Renew 50% contribution at adjusted replacement cost*	*11*	*3.1*	*0.0*
56.2	***70.3***	**EBIT at adjusted replacement cost**		***277.7***	***216.3***

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

4th quarter 2013	4th quarter 2012	GROUP'S NET PROFIT (LOSS)	Nota	Year 2013	Year 2012
18.8	**(44.6)**	**Group's net profit (loss)**		**28.4**	**151.2**
0.3	*17.1*	*Exclusion of inventory gains / losses*		*8.4*	*(6.2)*
		Exclusion of non-recurring items:			
0.0	*0.4*	*Exclusion of capital gain from sale of 20% of ISAB in 2012*	*1*	*(9.0)*	*(214.1)*
(176.5)	*0.0*	*Exclusion of capital gain and ancillary charges from sale of 20% of ISAB (2013)*	*1*	*(176.5)*	*0.0*
1.1	*0.0*	*Exclusion of liabilities for transactions on previous years*	*6*	*12.3*	*0.0*
70.6	*0.0*	*Exclusion of liabilities for site disputes*	*7*	*70.6*	*0.0*
6.7	*33.3*	*Exclusion of TotalErg non-recurring items*	*12*	*6.2*	*71.5*
1.1	*0.0*	*Exclusion of other charges on sales outlets in Sicily*	*5*	*4.2*	*0.0*
0.6	*0.0*	*Exclusion of ancillary charges on ERG Wind acquisition*	*2*	*11.8*	*0.0*
0.1	*0.0*	*Exclusion of fair value difference for derivatives on OIL inventories*	*13*	*1.9*	*2.7*
21.3	*0.0*	*Exclusion of reversal of tax assets from previous years*	*14*	*21.3*	*0.0*
0.1	*0.0*	*Exclusion of ancillary charges - other transactions*	*3*	*0.1*	*0.0*
3.1	*0.0*	*Exclusion of charges for company reorganisation*	*4*	*3.1*	*0.0*
1.0	*0.0*	*Exclusion of costs for Green Certificates from previous years*	*15*	*1.0*	*0.0*
(3.7)	*0.0*	*Exclusion of adjustment on commercial relations from previous years*	*8*	*(3.7)*	*0.0*
58.4	*0.0*	*Exclusion of non-recurring items - "TotalERG write-downs"*	*16*	*58.4*	*0.0*
0.0	*6.1*	*Exclusion of costs relating to sale of equity investment in Rivara Storage*		*0.0*	*6.1*
0.0	*(5.2)*	*Exclusion of IRAP benefit from previous years*		*0.0*	*(5.2)*
0.0	*2.1*	*Exclusion of non-recurring Items - "Write-downs in the Renewable energy sources sector"*		*0.0*	*2.1*
0.0	*(3.6)*	*Exclusion of assets on white certificates from previous years*		*0.0*	*(3.6)*
0.0	*1.6*	*Exclusion of liabilities on green certificates from previous years*		*0.0*	*1.6*
0.0	*0.0*	*Exclusion of estimated liabilities on adjustments from previous years*		*0.0*	*3.6*
0.0	*2.5*	*Exclusion of minor non-recurring items*		*0.0*	*2.5*
2.9	**9.8**	**Group net profit (loss) at replacement cost (1)**		**38.5**	**12.3**

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

Notes:

1. non-recurring items tied to the sale of the final 20% of ISAB
   a. Capital gain for the sale of 20% of the equity investment, i.e. EUR 177 million net of the related tax effects and other ancillary components;
   b. Adjustment on the sale of 20% of ISAB in 2012 for EUR 9 million;

2. Ancillary charges connected to the acquisition of the companies included in the ERG Wind Group;

3. Ancillary charges on other transactions;

4. Costs incurred and expected in relation to the change of the Group's organisational structure started at the end of 2013 which will be completed in 2014;

5. Other charges associated with EOS's exit from the wholesale network in Sicily as a result of the gradual transfer of ISAB shares to Lukoil;

6. Costs of EUR 17 million relating to the dispute with Versalis;

7. Liabilities connected with activities on the Priolo site and mainly resulting from the definitive exit from the Coastal Refining business;

8. Positive effect deriving from the definition of the 2008 CEC (avoided cost of fuel) which generated a positive effect of around EUR 4 million in ISAB Energy and roughly EUR 3 million in ERG;

9. ERG share of the results of ISAB at replacement cost net of inventory gains/losses;

10. ERG share of results at replacement cost for TotalErg net of inventory gains (losses) and non-recurring items;

11. ERG share of the results of LUKERG Renew at replacement cost;

12. Exclusion of non-recurring items of TotalErg which refer to the costs incurred in the period by the investee TotalErg for network rationalisation;

13. Negative impact of commodities transactions hedging the oil inventories at the ISAB refinery and carried out in relation to the exercise of the put option on the shares of the equity investment in ISAB;

14. Negative impact deriving from the derecognition of deferred tax assets on tax losses relating to the Robin Tax surcharge and withholding taxes no longer recoverable;

15. Costs for Green Certificates from previous years;

16. Write-down of the equity investment in TotalErg for EUR 58 million as a result of impairment testing carried out for these financial statements.

Reconciliation with adjusted net financial indebtedness

	12/31/2013	12/31/2012
Net financial indebtedness	**807.5**	**512.6**
Net financial position of TotalErg	*146.6*	*190.5*
Net financial position of LUKERG Renew	*135.2*	*34.2*
Elimination of intra-group items	*(74.2)*	*(15.6)*
Adjusted net financial indebtedness	**1,015.1**	**721.7**

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.
The increase in indebtedness of LUKERG Renew, up EUR 101 million compared to 31 December 2012, refers mainly to the previously commented acquisitions of the Gebeleisis and Hrabrovo wind farms, as well as to the capital expenditures in the period.

ERG GROUP

Business Performance in 2013

Introduction

This Document is an annex supporting the Press Release of 12 March 2014 to provide further details and to comment the 2013 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 that takes into account, for the portion attributable to ERG, the results at replacement cost of ISAB S.r.l. and of the joint ventures TotalErg S.p.A. for Refining & Marketing, and LUKERG Renew Gmbh for the Renewable Energy Sources segment, whose contributions to the Consolidated Income Statement not at adjusted replacement cost are reported in the equity of 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.
Since joint governance in ISAB S.r.l. is no longer in place, from 1 September 2012 onwards the adjusted values of indebtedness and of capital expenditures no longer take into account the contribution of ISAB S.r.l.

Acquisition of IP Maestrale (now called ERG Wind)

On 13 February 2013, ERG, through the subsidiary ERG Renew, closed with International Power Consolidated Holdings Ltd (100% GDF SUEZ) the acquisition of 80% of the capital of IP Maestrale Investments Ltd.
On the same date, the Shareholders' Meeting of IP Maestrale resolved to change the name of the company to ERG Wind Investments Ltd.
As a result of the acquisition, the ERG Group increased its installed power by 636 MW, of which 550 MW in Italy and 86 MW in Germany, reaching a total of approximately 1,340 MW, of which approximately 1,087 MW in Italy, positioning itself as the first wind power operator in Italy and among the top ten in Europe.

The enterprise value of the acquisition is EUR 859 million, i.e. approximately EUR 1.35 per installed MW. The price for the equity at the closing of the transaction was EUR 28.2 million for 80% of the share capital of IP Maestrale. The agreement provides for a put and call option on the remaining 20% of the capital, which may be exercised no sooner than three years after the date of closing. The wind farms are already fully financed through non-recourse project financing, maturing in December 2022, issued by a pool of primary Italian and international banks. The acquired company had an EBITDA of approximately EUR 120 million in 2012, and of approximately EUR 121 million in 2013.

In July, on the basis of the existing arrangements, a price adjustment pertaining to 100% of the equity investment, amounting to approximately EUR 12.4 million in favour of the ERG Group, was agreed and settled.

The Italian wind farms are located in Sicily (161 MW), Sardinia (111 MW), Campania (95 MW), Puglia (91 MW), Basilicata (55 MW), Molise (37 MW), whilst the five farms in Germany (86 MW) are located in the Centre and North of the country. These high quality assets have a producibility of approximately 2,000 hours/year, above the Italian national average.

The 2013 Annual Report reflects the impacts of the consolidation of ERG Wind Investments and of its subsidiaries from 1 January 2013 onwards.

ERG Renew's shareholder body opening up to UniCredit

On 19 December 2013, ERG announced that it had entered into an agreement with UniCredit, whereby the Banking Institution became a shareholder of ERG Renew through the acquisition of a minority interest equal to 7.14% of the share capital, through a reserved capital increase, for a price of EUR 50 million. The transaction enables ERG Renew to obtain new capital to support its growth plans in renewable energies in Italy and abroad and to count among its shareholders one of the foremost financial Institutions in Europe, with significant presence in Eastern European markets.
UniCredit has been recognised the typical governance prerogatives of a minority investor, which shall be reflected in the Articles of Association of ERG Renew: among them is the right to appoint a member of the Board of Directors.
The agreement provides for a lock-up period of four years starting from the closing of the transaction, subject to the possibility of listing ERG Renew, and for the recognition to UniCredit of the right to sell the equity investment to ERG if there is no listing or if no agreement is reached on strategic transactions.
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.

Closing the exercise of the put option on the final 20% equity investment in ISAB

On 30 December 2013, the exercise of the put option for the final 20% equity investment in ISAB S.r.l., approved on 9 October 2013 by the Board of Directors of ERG S.p.A., was closed. The transaction entailed the provisional collection of EUR 426 million, which takes into account the value of inventories and the definition of certain environmental issues involving the refinery. As a result of the transaction, LUKOIL holds 100% of the capital of ISAB S.r.l.

In view of the significance of the interest and of the existence of the operating processing agreement until the end of 2013, consistently with the previous periods, the income statement data at replacement cost of ISAB S.r.l. are included in the adjusted results, in proportion to ERG's share until the end of 2013.

For a better understanding of data commented in this document, the transaction's main impacts are pointed out:

- the reduction of net financial debt by approximately EUR 426 million as a result of the collection of the sale price;
- the recognition of the realised capital gain of EUR 177 million, net of the related tax effects and of other ancillary components. The gain and the other income components associated with the sale of the equity investment are considered non-recurring items and therefore they are not reflected in "Group EBIT at replacement cost";
- the contribution of ISAB S.r.l. to adjusted results in the proportion of 20% throughout 2013. In 2012, the contribution of ISAB S.r.l. was recognised in the proportion of 40% through August 2012 and of 20% from September 2012 onwards.

The aforesaid impacts refer to the provisional price collected on 30 December 2013. This amount is subject to final adjustment, expected to be defined in the first quarter of 2014 and therefore not reflected in the 2013 Annual Report.

With reference to the aforesaid transaction, it should be pointed out that in the Notes to the Consolidated Financial Statements the accounting results of the assets relating to the Coastal Refining Business (discontinued operations) are indicated separately in accordance with IFRS 5.
For clearer disclosure, the results inclusive of those relating to the aforesaid business are shown and commented in this document.

Lastly, the 2013 Annual Report includes the balance relating to the final sale price of the equity investment that had been sold in September 2012, i.e. a positive amount of EUR 9 million.

Agreement for the sale of the ISAB Energy plant and early termination of CIP 6

On **30 December 2013**, ERG announced that it had reached an agreement with GDF SUEZ for the acquisition of the equity investments, amounting to 49% of the share capital (indirectly held by GDF SUEZ itself and by Mitsui & Co.) in ISAB Energy, the company that owns the IGCC power plant (528 MW) of Priolo Gargallo (SR), in ISAB Energy Services, a company dedicated to the maintenance and operation of the plant, and in ISAB Energy Solare, owner of a 1 MW photovoltaic plant.
The total price for the purchase of the three equity investments was set to EUR 149.4 million, to which is added, at the closing date, ERG's takeover of the shareholder loans granted by the sellers to ISAB Energy and ISAB Energy Solare, totalling EUR 23.8 million. Before the closing, ISAB Energy and ISAB Energy

Services will distribute to the shareholders dividends totalling EUR 52.5 million, of which EUR 25.7 million to GDF SUEZ and Mitsui & Co, and the remainder to ERG.
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 agreement will be finalised following the early termination of the CIP 6/92 agreement. The agreed price for the asset value is EUR 20 million.
The effectiveness of both agreements is subject to the approval, by the competent Antitrust Authority, both of the acquisition of the equity investments and of the sale of the ISAB Energy and ISAB Energy Services business units, as well as to the acceptance, by the National Grid Operator (GSE), of the early termination of the CIP 6/92 agreement for the ISAB Energy plant, effective 1 July 2014. The closing of the two transactions is expected by the second half of 2014.

New organisational model

In 2013, the rationalisation of the Group's organisation continued with a project that led to the definition of a new Group organisational model, 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 corporate organisational model is meant to meet these needs through the interaction of three macro-roles:

- the Parent Company ERG S.p.A., which will provide strategic direction, managerial control and protection of the human, financial and relational capital as essential assets for growth;
- the business units, i.e. special purpose entities focused on their respective business and provided with adequate structures of their own, able to assure operating efficiency, momentum for growth and prompt responses to the volatility of reference markets;
- ERG Services S.p.A., a company tasked with reaching operating excellence in the performance of support services to all the companies of the ERG Group ("shared services").

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

- spinning off business activities previously carried out by ERG SpA, by transferring the business units (activities, personnel, assets and contracts) of the Oil and Power businesses respectively to ERG Supply & Trading SpA and to ERG Power Generation SpA, both controlled by the single shareholder ERG SpA;
- retaining all activities pertaining to the Renewables business in the subsidiary ERG Renew S.p.A.;
- spinning off the main service and support activities that cut across the Group's activities which were previously carried out by ERG S.p.A., by transferring the related 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 in the final weeks of the year and its actual implementation, both with regard to compliance with formal requirements and with regard to the realignment of all operating processes, is expected in the first half of 2014.

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 (in which it owns 93%), ERG is active in the generation of electricity from renewable sources, with 1,340 MW of wind power in operation as at 31 December 2013, of which 587 were already present at the end of 2012, to which, during the year, 636 MW were added as a result of the acquisition of IP Maestrale and 42 MW (ERG share) were acquired through the LUKERG Renew Joint Venture (out of a gross amount of 84 MW). Upon completing the transactions, ERG Renew became the first wind power operator in Italy and one of the first ten in Europe.
  To these assets were added, at the end of 2013, the new wind farms built during the year in Italy (34 MW) and in Romania through LUKERG Renew (82 MW, of which ERG's share is 41 MW), which will provide their full contribution from 2014 onwards.
  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 76 MW) and in Bulgaria (ERG's share: 27 MW).
  Moreover, since October 2013, 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 wind farms in Italy, with the goal of extending this activity to the other Italian parks in the future.

- **Power & Gas**
  The Group is active in the production and marketing of electric energy, steam and gas. ERG's main equity investments in the segment are:
  - ISAB Energy S.r.l. / ISAB Energy Services S.r.l. (51%): the former is the company that owns a plant (528 MW) that operates within the scope of a twenty-year CIP6 agreement and is fuelled by synthesis gas obtained from a process of gasification of asphalt originating from the ISAB Refinery in Priolo (Sicily); the latter performs O&M services for ISAB Energy S.r.l. and ERG Power S.r.l.;
  - 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.

At the end of 2013, ERG reached two significant agreements, described in greater detail farther on, which provide, during 2014, subject to the fulfilment of certain conditions precedent, the purchase of the remaining 49% equity investment in ISAB Energy, the early termination of the CIP 6/92 agreement and the sale of the ISAB Energy plant.

- **Refining & Marketing**
  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 3,000 sale outlets, and through ERG Oil Sicilia (EOS), 100% owned by ERG, operating in the retail market in Sicily.
  TotalErg also operates in the logistics and refining business mainly through a major logistical facility for the storage and handling of petroleum products in central Italy and through Raffineria Sarpom of Trecate, of which it owns 24%, with a processing capacity of 0.8 million tonnes per year (ERG's share).
  In 2013, ERG was still active in **coastal refining** through the 20% equity investment in the ISAB refinery in Priolo. As a result of the sale of said equity investment, at the end of 2013, ERG definitively left this business, which in recent years had been characterised by high volatility and by severely depressed processing margins. In 2014, instead, trading in crude oils and products will continue, seeking profit opportunities which may arise on the market for these commodities, within the scope of restrictive risk management policies.

Renewables

- 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)

Power & Gas

- ERG Power: 480MW CCGT plant in Sicily
- ISAB Energy: 528MW IGCC plant (51% owned)

Refining & Marketing

- 51% of TotalErg
- 100% of ERG Oil Sicilia
- 100% of ERG Supply & Trading

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.

- **Power – Renewable 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 made by LUKERG in Eastern Europe (where ERG's share of installed capacity in Romania and Bulgaria at the end of 2013 is 103 MW), and through the assessment of potential new investments in other countries. The size attained, the integration of IP Maestrale into ERG Renew and the in-sourcing 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 – Thermoelectric:** ERG continues to pursue a strategy of maximising the exploitation of its power plants, i.e. the IGCC plant of ISAB Energy (51% ERG) and the CCGT plant of the ERG Power subsidiary.
  With a view to best exploit its asset portfolio, ERG has entered into two important agreements that will lead in 2014, provided that certain conditions precedent are fulfilled, to the acquisition of the remaining 49% equity investment in Isab Energy, to the early termination of the CIP 6 agreement and to the subsequent sale of the plant, with a significant further strengthening of the Group's financial structure.

  With regard to the CCGT plant of ERG Power, 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 recent 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.

- **Refining & Marketing:** in **Integrated Downstream**, ERG's strategy is aimed at 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 view of this situation, in 2012 TotalErg shut down the Rome Refinery and launched a project to reconvert the site into a major logistical hub. In **Coastal Refining** ERG, consistently with its strategy, sold the remaining 20% equity investment in ISAB S.r.l. in 2013. However, to leverage its significant capital of skills and relationships matured in the segment, ERG will continue to trade in crude oils and products through its subsidiary Erg Supply & Trading, to exploit profit opportunities on the market for these commodities, within the scope of highly restrictive risk management operating policies.

Performance highlights

(EUR million)		Year 2013	2012
Main Income Statement data			
Total revenues [1]		7,076	8,288
EBITDA		380	332
EBITDA at replacement cost [2]		**493**	**346**
EBITDA at adjusted replacement cost [3]		**569**	**458**
EBIT at replacement cost [2]		**283**	**197**
EBIT at adjusted replacement cost [3]		**278**	**216**
Net income		85	200
of which Group net income		28	151
Group net profit (loss) at replacement cost [4]		**38**	**12**
Main Financial data			
Net invested capital		**2,821**	**2,484**
Shareholders' equity		2,014	1,971
Total net financial indebtedness		807	513
of which non-recourse Project Financing [5]		1,362	789
Financial leverage		29%	21%
Total net adjusted financial indebtedness [6]		1,015	722
Operating data			
Wind farm installed capacity at the end of the period	MW	**1,340**	**596**
Electric power generation from wind farms	millions of KWh	2,403	1,222
Thermoelectric plant installed capacity [7]	MW	**1,008**	**1,008**
Electric power generation from thermoelectric plants	millions of KWh	6,805	6,997
Total sales of electric power	millions of KWh	**10,631**	**9,074**
Italian Retail sales [8]	thousands of tonnes	1,544	1,642
TotalErg Retail market share	gasoline + diesel	**11.3%**	**11.2%**
ERG Oil Sicilia Retail market share [9]	gasoline + diesel	0.8%	1.0%
Raw material and product inventories [10]	thousands of tonnes	**360**	**726**
Refineries Processing [8]	thousands of tonnes	2,922	6,444
Refineries Processing [8]	thousands of barrels/day	**59**	**130**
Capital expenditures [11]	EUR million	74	77
Employees at the end of the period	Units	**778**	**613**
Market indicators			
Reference price of electricity [12]	EUR/MWh	63.0	75.5
"Green Certificates" sale price (renewable energies)	EUR/MWh	89.3	80.3
CIP 6 sale price (Thermoelectric - ISAB Energy)	EUR/MWh	118.7	122.7
Sicily zone price	EUR/MWh	92.0	95.3
Brent Dated	USD/barrel	108.7	111.7
EMC refining margin	USD/barrel	(2.1)	0.2
EUR/USD rate	EUR/USD	1.328	1.285

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

(13) net of excise taxes
(14) not including inventory gains (losses) and non-recurring items
(15) 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) and of ISAB S.r.l.
(16) does not include inventory gains (losses), non-recurring items and related applicable theoretical taxes. The values also match the adjusted ones
(17) including cash and cash equivalents and excluding the fair value of the related derivatives to hedge interest rates
(18) it also includes the contribution attributable to ERG of the net financial position of the joint ventures
(19) installed capacity at the end of the period
(20) estimated data. Including 51% of TotalErg
(21) related to the sales outlets of the wholly owned subsidiary ERG Oil Sicilia
(22) including ERG's share of the inventories of the TotalErg joint venture. In 2012, it also included ERG's share of the ISAB inventories
(23) in tangible and intangible fixed assets
(24) Single National Price

Performance highlights by segment

(EUR million)	Year 2013	Year 2012
Revenues from ordinary operations:		
Renewable Energy Sources	339	177
Power & Gas	1,642	1,651
Refining & Marketing	9,002	11,688
Corporate	6	6
Intra-segment revenues	(621)	(1,065)
Total adjusted revenues[1]	**10,368**	**12,457**
ERG share of ISAB S.r.l. contribution at replacement cost	*(189)*	*(349)*
TotalErg 51% contribution at replacement cost	*(3,117)*	*(3,841)*
LUKERG Renew 50% contribution at replacement cost	*(11)*	*(2)*
Total revenues from ordinary operations	**7,051**	**8,265**
EBITDA:		
Renewable Energy Sources	245	137
Power & Gas	358	328
Refining & Marketing	(5)	21
Corporate	(30)	(28)
EBITDA at adjusted replacement cost [2]	**569**	**458**
ERG share of ISAB S.r.l. contribution at replacement cost	*(31)*	*(68)*
TotalErg 51% contribution at replacement cost	*(39)*	*(43)*
LUKERG Renew 50% contribution at replacement cost	*(7)*	*(1)*
EBITDA at replacement cost [2]	**493**	**346**
Inventory gains (losses)	*(6)*	*(1)*
Non-recurring items	*(107)*	*(13)*
EBITDA	**380**	**332**
Amortisation, depreciation and write-downs		
Renewable Energy Sources	(126)	(66)
Power & Gas	(80)	(76)
Refining & Marketing	(83)	(97)
Corporate	(3)	(3)
Amortisation and depreciation at adjusted replacement cost [2]	**(291)**	**(242)**
ERG share of ISAB S.r.l. contribution at replacement cost	*22*	*37*
TotalErg 51% contribution at replacement cost	*56*	*55*
LUKERG Renew 50% contribution at replacement cost	*4*	*1*
Amortisation and depreciation at replacement cost [2]	**(210)**	**(149)**
EBIT:		
Renewable Energy Sources	119	71
Power & Gas	278	253
Refining & Marketing	(87)	(77)
Corporate	(32)	(31)
EBIT at adjusted replacement cost [2]	**278**	**216**
ERG share of ISAB S.r.l. contribution at replacement cost	*(9)*	*(32)*
TotalErg 51% contribution at replacement cost	*17*	*12*
LUKERG Renew 50% contribution at replacement cost	*(3)*	*(0)*
EBIT at replacement cost [2]	**283**	**197**
Capital expenditures on tangible and intangible fixed assets:		
Renewable Energy Sources	97	39
Power & Gas	26	35
Refining & Marketing	41	51
Corporate	2	1
Total adjusted capital expenditures[3]	**165**	**126**
Capital expenditures of ISAB S.r.l. (ERG share)	*-*	*(13)*
Capital expenditures of TotalErg (51%)	*(39)*	*(36)*
Capital expenditures of LUKERG Renew (50%)	*(52)*	*0*
Total capital expenditures	**74**	**77**

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

[4] adjusted revenues take into account ERG's share of revenues generated by the TotalErg S.p.A. and LUKERG Renew joint ventures and by ISAB S.r.l.

[5] 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 and ISAB S.r.l.

[6] they take into account ERG's share of the capital expenditures effected by TotalErg S.p.A. and LUKERG Renew and through August 2012 by ISAB S.r.l.

Sales

Power generation

The electricity sales carried out by the ERG Group refer mainly to the electricity generated by its plants[1], both wind power (ERG Renew) and thermoelectric (ISAB Energy and ERG Power) 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 2013, approximately 8.8 TWh relate to the electricity generated by Group plants, accounting for approximately 2.8% of total domestic demand (2.5% in 2012).
The 2013 data include the contribution of the sales by ERG Wind farms.

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

Power generation	**Year**	
(GWh)	**2013**	**2012**
ERG Renew Italy	2,010	1,072
ERG Renew Abroad	393	150
ISAB Energy	4,142	4,077
ERG Power & Gas	4,087	3,775
Total	**10,631**	**9,074**

In 2013, steam sales[2] amounted to 1,577 thousand tonnes (1,628 in the same period of 2012), of which 1,042 thousand tonnes to ISAB S.r.l.
Gas sales were 502 million Sm^3 – Standard cubic metres - (486 million Sm^3 in 2012), of which 354 million Sm^3 to ISAB S.r.l.

Petroleum products

Total Refining & Marketing sales of petroleum products, in 2013, amounted to 7.8 million tonnes (10.3 million tonnes in 2012), of which 61% were on the domestic market, and the remaining 39% were abroad.
The reduction in sale volumes is due both to the different perimeter deriving from the reduction in the share in the ISAB Refinery and from the shutdown of Raffineria di Roma (which took place in September 2012), and to the more generalised decline in demand in the various commercial networks.
The following table breaks down ERG’s oil product sales by distribution channel. The figures include the contribution from TotalErg sales at 51%.

Refining and Logistics	**Year**	
(thousands of tonnes)	**2013**	**2012**
Exports via ship	3,052	5,071
Deliveries to the domestic market	2,266	2,301
Total Refining and Logistics	**5,317**	**7,373**
Marketing		
Retail Network	1,544	1,642
Wholesale Network	934	1,283
Total Marketing	**2,478**	**2,925**
Total petroleum products	**7,795**	**10,298**

[1] for ERG Power & Gas sales of electric power differ from productions in that they include energy purchased and resold on the wholesale market 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 2013, **adjusted revenues** amounted to EUR 10,368 million, in decline from EUR 12,457 million in 2012, mostly as a result of the smaller quantities generated because of the planned general downtime and of the reduction in ERG's share of the ISAB Refinery, as well as of the shut-down of the Raffineria di Roma by TotalErg.

The EBITDA at adjusted replacement cost[1] amounted to EUR 569 million, up strongly compared with EUR 458 million in 2012. The change is a result of the following factors:

- **Renewable Energy Sources:** EBITDA amounted to EUR 245 million, nearly doubled compared to the same period of the previous year (EUR 137 million), mainly thanks to the sharp increase in output as a result of the acquisition of ERG Wind, even in the presence of lower sale prices and less favourable wind conditions than the previous year.
- **Power & Gas:** EBITDA amounted to EUR 358 million, higher than EUR 328 million in 2012, thanks both to the good performance of the plants, and to the persistently high zone prices, exceeding those of the previous year. These effects more than offset the contraction in the CIP 6 rate as a result of regulatory changes.
- **Refining & Marketing:** EBITDA was negative by EUR 5 million, in decline compared to EUR 21 million in 2012; the result was particularly affected by the severe deterioration in the refining scenario, whose effects were partly mitigated by the reduced exposure to the business; on the other hand, marketing improved, in spite of the further decline in demand.

EBIT at adjusted replacement cost[1] was EUR 278 million (EUR 216 million in 2012) after amortisation and depreciation of EUR 291 million (EUR 242 million in 2012).

Group EBIT at replacement cost amounted to EUR 38 million versus EUR 12 million in 2012. The improvement of the result is mainly linked to the growth in operating margins.

Group EBIT amounted to EUR 28 million (EUR 151 million in 2012) and it was mostly affected by the impacts of the previously commented sale of the final 20% equity investment in ISAB S.r.l. (EUR 177 million), of provisions tied to the activities on the Priolo site and mainly consequent to the exit from the Refining business and of ancillary charges related to the acquisition of ERG Wind. The result also reflects the write-down, by EUR 58 million, of the equity investment in TotalErg.
The results of 2012 were mainly affected by the capital gain deriving from the sale of a 20% equity investment in ISAB, net of the related tax effects, i.e. EUR 214 million, and by negative non-recurring items totalling EUR 72 million, relating to provisions for liabilities and write-downs of assets of the TotalErg joint venture as a result of the closing of the Rome Refinery.

In 2013, **adjusted Group capital expenditures** totalled EUR 165 million (EUR 126 million in 2012), of which 59% in the Renewable Energy Sources segment (31%), 15% in Power & Gas (28%) and 25% in the Refining & Marketing segment (40%)[2].

Net financial indebtedness amounted to EUR 807 million, up by EUR 294 million compared to 31 December 2012, mainly as a result of the acquisition of ERG Wind and of the payment of the dividends, effects that were partly offset by the collection relating to the sale of the final 20% of ISAB, by the operating cash flow of the period and by time-limited events affecting working capital.
Net financial indebtedness includes financial liabilities related to the fair value of interest rate hedging derivatives, amounting to approximately EUR 141 million (EUR 76 million as at 31 December 2012).

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 1,015 million, an increase of approximately EUR 293 million compared to 31 December 2012, substantially for the same reasons explained above and because of time-limited events affecting working capital, for TotalErg as well.
Adjusted net financial indebtedness includes approximately EUR 147 million of financial liabilities relating to the fair value of derivatives hedging the interest rate risk (EUR 84 million at 31 December 2012).

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1 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"
2 not including the capital expenditures in the ISAB refinery and the M&A in the renewable energies sector.

Significant events during the year

Closing the exercise of the put option on the final 20% equity investment in ISAB
On **30 December 2013**, the exercise of the put option for the final 20% equity investment in ISAB S.r.l., approved on 9 October 2013 by the Board of Directors of ERG S.p.A., was closed. The transaction entailed the provisional collection of EUR 426 million, which takes into account the value of inventories and the definition of certain environmental issues involving the refinery. As a result of the transaction, LUKOIL holds 100% of the capital of ISAB S.r.l.

Agreement for the sale of the ISAB Energy plant and early termination of CIP 6
On **30 December 2013**, ERG announced that it had reached an agreement with GDF SUEZ for the acquisition of the equity investments, amounting to 49% of the share capital (indirectly held by GDF SUEZ itself and by Mitsui & Co.) in ISAB Energy, the company that owns the IGCC power plant (528 MW) of Priolo Gargallo (SR), in ISAB Energy Services, a company dedicated to the maintenance and operation of the plant, and in ISAB Energy Solare, owner of a 1 MW photovoltaic plant.
The total price for the purchase of the three equity investments was set to EUR 149.4 million, to which is added, at the closing date, ERG's takeover of the shareholder loans granted by the sellers to ISAB Energy and ISAB Energy Solare, totalling EUR 23.8 million. Before the closing, ISAB Energy and ISAB Energy Services will distribute to the shareholders dividends totalling EUR 52.5 million, of which EUR 25.7 million to GDF SUEZ and Mitsui & Co, and the remainder to ERG.
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 agreement will be finalised following the early termination of the CIP 6/92 agreement. The agreed price for the asset value is EUR 20 million.
The effectiveness of both agreements is subject to the approval, by the competent Antitrust Authority, both of the acquisition of the equity investments and of the sale of the ISAB Energy and ISAB Energy Services business units, as well as to the acceptance, by the National Grid Operator (GSE), of the early termination of the CIP 6/92 agreement for the ISAB Energy plant, effective 1 July 2014. The closing of the two transactions is expected by the second half of 2014.

ERG Renew’s shareholder body opening up to UniCredit
On **19 December 2013**, ERG announced that it had entered into an agreement with UniCredit, whereby the Banking Institution became a shareholder of ERG Renew through the acquisition of a minority interest equal to 7.14% of the share capital, through a reserved capital increase, for a price of EUR 50 million. The transaction enables ERG Renew to obtain new capital to support its growth plans in renewable energies in Italy and abroad and to count among its shareholders one of the foremost financial Institutions in Europe, with significant presence in Eastern European markets.
UniCredit has been recognised the typical governance prerogatives of a minority investor, which shall be reflected in the Articles of Association of ERG Renew: among them is the right to appoint a member of the Board of Directors.
The agreement provides for a lock-up period of four years starting from the closing of the transaction, subject to the possibility of listing ERG Renew, and for the recognition to UniCredit of the right to sell the equity investment to ERG if there is no listing or if no agreement is reached on strategic transactions.
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.

Acquisition of IP Maestrale (now called ERG Wind)
On **13 February 2013**, ERG, through its subsidiary ERG Renew, closed the agreement with International Power Consolidated Holding Ltd (100% GDF SUEZ) for **the acquisition of 80% of the capital of IP Maestrale Investments Ltd**, a primary operator in Italy in the segment of renewable energy from wind power with an installed capacity of 636 MW, of which 550 MW in Italy and 86 MW in Germany. On the same date, the Shareholders' Meeting of IP Maestrale resolved to change the name of the company to **ERG Wind Investments Ltd**.
As a result of the acquisition, the ERG Group increased its installed power by 636 MW, reaching a total of approximately 1,340 MW, of which approximately 1,087 MW in Italy, positioning itself as the first wind power operator in Italy and among the largest ten in Europe.
The enterprise value of the acquisition is EUR 859 million, i.e. approximately EUR 1.35 million per installed MW. The provisional price for the equity at the closing of the transaction was EUR 28.2 million for 80% of the share capital of IP Maestrale. The agreements prescribe a put and call option on the remaining 20% of the capital, which may be exercised no earlier than three years after the date of closing. The farms are already entirely financed with non-recourse Project Financing with maturity in December 2022, issued by a

group of primary Italian and international banks. Italian wind farms are located in Sicily (161 MW), Sardinia (111 MW), Campania (95 MW), Puglia (91 MW), Basilicata (55 MW), Molise (37 MW), whilst the five farms in Germany (86 MW) are located in the Centre and North of the country. The high quality assets have a producibility of approximately 2,000 hours/year, above the national average.
In July, a price adjustment pertaining to 100% of the equity investment, amounting to approximately EUR 12.4 million in favour of the ERG Group, was agreed and settled.

Refining & Marketing
On **20 December 2013**, a settlement agreement was signed to end the dispute with Versalis S.p.A. (formerly, Polimeri Europa S.p.A.) for compensation of damages allegedly ascribable to the fire of 30 April 2006 in the Priolo Refinery. The settlement entailed the payment, by ERG S.p.A. to Versalis (which also receives it on behalf of ENI Insurance and of the related reinsurers), of a comprehensive amount of EUR 32 million, thereby settling and extinguishing any and all claim or right which Versalis S.p.A., as well as ENI Insurance and the reinsurers, have or may put forth. In view of said settlement, Generali recognised EUR 16 million in favour of ERG S.p.A.

LUKERG Renew
On **20 June 2013** LUKERG Renew, a joint venture of ERG Renew (100% ERG) and LUKOIL- Ecoenergo 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 region of Galati (Romania), fully operational since February 2013, has a total installed capacity of 70 MW (35 WTG Vestas V90-2 MW) and an expected average annual generation of over 165 GWh. The enterprise value of the acquisition is EUR 109.2 million (approximately EUR 1.56 million per MW). 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) and an expected average annual generation of over 34 GWh. The enterprise value of the acquisition is EUR 17.6 million (approximately EUR 1.26 million per MW). The transaction strengthens the strategic partnership between ERG Renew and Vestas and it enables ERG significantly to speed up the achievement of the growth targets in Eastern Europe set out in the business plan for 2015. Moreover, as a result of these acquisitions and of the construction of the wind farm in Romania, ERG Renew's installed capacity abroad has reached approximately 20% of the entire portfolio. With regard to the Gebeleisis wind farm, the transaction was closed on **28 June 2013**, whereas the closing for the Hrabrovo farm took place on **5 September 2013**. The electricity generated by the two new wind farms will avoid approximately 77 thousand tonnes of CO_2 atmospheric emissions per year.

On **7 October 2013** LUKERG Renew, through the subsidiary LUKERG Bulgaria, signed the Project Financing agreement with Raiffeisen Bank International as Mandated Lead Arranger (MLA) for the partial coverage of the acquisition of its own Hrabrovo wind farm in Bulgaria, with installed capacity of 14 MW. The loan, for a total amount of EUR 10.6 million and 5 year maturity, was integrated within the project financing signed in June 2012, also with Raiffeisen Bank International, for the acquisition of a wind farm in Bulgaria with installed capacity of 40 MW.

Renewable energy sources
On **15 January 2013**, ERG won the tender that will enable it to benefit from twenty-year incentives for a 34 MW wind farm in the municipality of Palazzo San Gervasio (PZ), with a 2.5% bidding discount.

On **22 March 2013** ERG Eolica Amaroni S.r.l. (100% ERG Renew) executed the project financing loan agreement for its own wind farm located in the Catanzaro province, subsequently commissioned in the second half of 2012, with an installed capacity of 22.5 MW.
The agreement, for a total amount of EUR 35 million and a term of validity of 14 years, was signed by the Mandated Lead Arrangers (MLA) ING Bank and Crédit Agricole CIB, which also acts as agent bank, and Cariparma Crédit Agricole CIB as account bank.

On **31 October 2013** ERG Renew closed with I.V.P.C. Service, indirectly controlled by Maluni, the acquisition of the entire capital of the company, dedicated to the operation and maintenance of ERG Wind's Italian wind farms. The Shareholders' Meeting of the company, held on the same date, resolved to change the name of the company to ERG Renew Operations & Maintenance S.r.l. and to move the registered office to Genoa.
As a result of the transaction, 136 persons joined the ERG Group: they are mostly technical personnel, highly specialised in the maintenance and operation of wind farms, and they are added to the 42 persons acquired through the investment in ERG Wind (formerly IP Maestrale) , thus further strengthening the ERG Renew organisation in the South of Italy, where most wind farms are concentrated.

While the economic value of the transaction – amounting to approximately EUR 10 million in terms of Enterprise Value – is modest, nonetheless it has great strategic significance, because it enables markedly to enhance ERG Renew's competencies, necessary to manage, in a direct and integrated manner, the operations of the wind power business, in a sector with mature infrastructures.
Through ERG Renew O&M, major benefits are expected in terms of cost optimisation and efficiency improvement in the operation of ERG Wind's farms, which will then be progressively extended also to ERG Renew's other wind farms, in Italy and abroad.

New organisational model
On **3 December 2013** the company ERG Services S.p.A., with its registered office in Genoa, Via De Marini 1, was incorporated. The share capital of ERG Services S.p.A., i.e. EUR 120,000 was fully subscribed and paid in by ERG S.p.A. On **20 December 2013** the Extraordinary Shareholders' Meeting of ERG Services S.p.A. voted to increase the share capital from EUR 120,000 to EUR 1,200,000, fully subscribed through the transfer of a business unit, with effect as at 1 January 2014. The transferred business unit consists mostly of some of the service activities carried out by ERG S.p.A. also in favour of the companies of the ERG Group and of the personnel and assets employed in the performance of the aforesaid activities.

On **3 December 2013** the company ERG Supply & Trading S.p.A., with its registered office in Genoa, Via De Marini 1, was incorporated. The share capital of ERG Supply & Trading S.p.A., i.e. EUR 120,000 was fully subscribed and paid in by ERG S.p.A. On **20 December 2013** the Extraordinary Shareholders' Meeting of ERG Supply & Trading S.p.A. voted to increase the share capital from EUR 120,000 to EUR 1,200,000, fully subscribed through the transfer of a business unit, with effect as at 1 January 2014. The transferred business unit consists of the petroleum commodity trading activities of the Oil Business Unit of ERG S.p.A. and of the personnel and assets employed in the performance of the aforesaid activities.

TotalErg
On **3 December 2013**, at the offices of TotalErg S.p.A. in Rome and Milan and of ERG S.p.A. in Genoa, the Tax Police of Rome executed the local search and seizure warrant issued by the Prosecutor's Office at the Court of Rome within a criminal proceeding initiated against certain officers of Erg S.p.A. and of TotalErg S.p.A.

The investigation - according to the charge formulated in the aforementioned warrant - pertain to alleged 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 transactions involving the purchase of goods, 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.

As soon as it was informed of the ongoing investigation, the Company started an intense audit activity, aimed at thoroughly reconstructing the facts and the transactions in question, and at carefully analysing the internal control system.

ERG deems that it has always operated in full compliance with current laws and regulations and therefore it is confident that its complete innocence with respect to the facts under investigation will be ascertained.

As at the date of authorisation to the publication of the2013 Financial Statements, the investigation is still ongoing and ERG S.p.A. and TotalErg S.p.A. have not been served with any notices of a tax-related nature in connection with the aforesaid investigation.

Regulatory framework

The most significant regulatory changes that characterised the energy industry in 2013 were:

GENERAL

National Energy Strategy (*Strategia Energetica Nazionale* – SEN)

The National Energy Strategy (SEN) was approved by inter-ministerial decree (MSE-MATT)

The SEN, approved with Ministerial Decree of 8 March 2013, indicates the national energy guidelines and the related targets to 2020, specifically providing:

- promoting energy efficiency (with the target of a 24% reduction in primary energy consumption)
- transforming Italy into the Southern European Hub of the gas market (with an expected decrease of EUR 7-8 per MWh in the price of natural gas)
- increasing electricity generation from renewable sources to approximately 120-130 TWh per year
- developing infrastructures and market instruments aimed at aligning Italian electricity prices to the European average; restructuring refining and the fuel distribution network;
- developing the national production of hydrocarbons;
- generally streamlining the institutional governance of the energy system (expanding the State's exclusive competence in these matters).

Publication, in view of the European Council meeting of 20-21 March 2014, of the Communication from the Commission on climate/energy strategy for 2030.

On 22 January 2014, following the public consultation started with the publication of the Green Paper of 27 March 2013, the European Commission published a series of documents that detail its general proposal for climate and energy policy through 2030. The Commission's "package" consists of the following documents:

- The actual Communication on the 2030 Framework (hereafter the "Communication")
- The Impact Assessment of the Communication
- A legislative proposal for the establishment of a strategic reserve of emission allowances within the Emission Trading Scheme (ETS) System

This first package is also accompanied by:

- The Study on drivers of energy prices and costs in Europe, prepared by the Directorate-General for Energy (DG Energy) of the Commission
- The Study on the macroeconomic impacts of the evolution of the energy market

The Communication is not a proposed Directive or a document that binds the member States. On the contrary, it is a general planning document, whose main purpose is to orient discussions about climate policy after 2020, which Heads of State and Government will initiate on the occasion of the European Council meeting in Brussels on 20 and 21 March 2014.
The main contents of the Communication are:

1. Binding reduction of the emission of greenhouse gases: 40% compared to the emission level in 1990.
    a. Increase in the annual linear emission reduction factor in the industries included in the ETS system from the current 1.74% to 2.2%. To be implemented in any case after 2020.
    b. The emissions of industries not included in the ETS shall instead be reduced by 30% compared to the 2005 level.
2. Reform of the ETS: establish a market stability reserve from the start of the next trading period, in 2021. The reserve scheme is included among the systems for the dynamic management of demand and it should, at least in its intentions, enhance the ability of the ETS to respond to systemic shocks on the demand or supply side.
3. New "community" target at 27% for the share of Renewable Energies relative to gross energy consumption in 2030. The target remains binding only at Union-wide level and not for individual member States.
4. No decision is predicted with regard to a possible target for energy efficiency. This issue will be given a central role on the occasion of the revision of the directive covering the matter, expected to be concluded by the end of the year. National energy plans shall contain "adequate" initiatives to promote efficiency.

Final approval of Back Loading

On 16 December, the Council of the European Union gave its final approval to the bill previously passed by the European Parliament, aimed at clarifying that the Commission, following certain checks of a procedural, rather than substantial, nature, to proceed with the temporary removal of 900 million CO^2 allowances. The withdrawn allowances will then be reintroduced before the end of the 3rd trading period (2020). In the meeting of 8 January 2014, the Climate Change Committee of the Council established that 400 million allowances will be withdrawn for 2014; this amount may decrease to 300 million if they are withdrawn by June. 330 million allowances will then be withdrawn for 2015 and 200 million for 2016. The reintroduction calendar calls for 300 million allowances for 2019 and 600 million for 2020.

Italian Law no. 98 of 9 August 2013, converting Law Decree no. 69 of 21 June 2013 bearing “Urgent provisions for restarting the economy" (Decreto del Fare, the “To-Do Decree”).

In the **electricity-energy sector**, the following main measures were introduced:

- the revision of the method for setting CIP 6 rates, which today are pegged to gas market prices. In 2013, the weight of the wholesale spot market price of natural gas is set gradually to increase in the indexation formula applied to determine the value of the avoided cost of fuel (CEC) component, which will reach 100% from 2014 onwards;
- on the IRES surtax front (“Robin Tax”) for producers of energy from renewable sources, the Decree prescribes that the enforcement thresholds shall be lowered to EUR 3 million for revenues and EUR 300 thousand for taxable income;

For the **Oil sector**, the intention is to promote the rationalisation of the fuel distribution network to promote the use of methane.

The **environmental provisions** pertain specifically to updates to the definition of “by-product” and to the use of excavation soils and rocks for small constructions sites and for works not subject to VIA (Environmental Impact Assessment) or AIA (Integrated Environmental Authorisation). The law also defines the conditions under which pumped groundwater are considered similar to industrial waste water and therefore regulated by Part III of Italian Legislative Decree no. 152/06 (Water Discharges), allowing for their treatment at existing industrial facilities.

RENEWABLE ENERGY SOURCES

Imbalance costs of non programmable renewable sources. The TAR of Lombardy repealed resolutions 281/2012 and 493/2012 whereby the Authority had introduced the imbalance payments for plants powered by non programmable renewable sources (FERNP).

The Authority appealed before the State Council against the decision of the Regional Administrative Court of Lombardy, with petition for suspension, which was rejected on 11 September 2013.

Notwithstanding these court decisions, the Authority intervened with its Resolution 462/2013, establishing, de facto, the reintroduction of the imbalance payments for FERNP producers at the actual imbalance portion that exceeds 20% of the programme starting from the productions of October 2013.

Administrative Decree no. 215 of 12 June 2013 - Region of Sicily. The Region of Sicily, with its Administrative Decree no. 215 of 12 June 2013, established on its territory the Regional Register of Renewable Energy Sources, wherein all plants for the generation of energy from renewable sources, present in the region, must register no later than 31 December 2013, or be subject to the voiding of the authorisation.

Approval by the Plenary Session of the Romanian Parliament of the new Law reforming the renewable energies incentive system

In December 2013, the Law reforming the renewable energies incentive/regulation system, approved by the plenary session of the Romanian Parliament, was sent to the President of the Republic of Romania for promulgation. With regard to wind power, inter alia, the emphasis is as follows:

- the retention of a Green Certificate (CV) from 1 January 2014 through 31 December 2016 for wind farms that started operations before 1 January 2014. The Green Certificates thus retained will then be released from 1 January 2018 and in any case no later than 31 December 2020. Consequently, wind power producers already in operation may market 1 Green Certificate for each MWh generated (instead of 2) until the end of 2016. From 2018 onwards, in addition to the incentive provided for the output of the current year, the previously retained Green Certificates will progressively be made available. Currently, the enforcement procedures are uncertain;
- Wind farms that became operational after 1 January 2014 will instead only be subjected to the reduction in the number of CVs, as prescribed by the Governmental Decision that endorsed the decision of the regulator, ANRE. As a result of said decision, the wind farms in question will have access to 1.5 CV for each MWh;
- Lastly, for each year from 2014 onwards ANRE will calculate the mandatory amount of CVs to be

acquired on the basis of an analysis of overall demand and of the estimated output from renewable sources.

However, in January 2014 the Romanian President did not ratify the bill approved by the Parliament, thus returning it to the Chambers, arguing that the European Commission had not been notified of the amendments to the incentive system made by the law and consequently there was a potential violation of EU principles.

Approval by the Plenary Session of the Bulgarian Parliament of an amendment reforming the renewable energies incentive system

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 Association against the related resolution, which defined said charge temporarily to 10% of the feed-in tariff for wind power producers, was favourable. It is foreseeable that in upcoming months the definitive value will be defined; it will in any case have to be based on a detailed analysis of the real cost of operation of the networks. 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. Subsequently, however, the Bulgarian President submitted to the Constitutional Court the matter of the constitutionality of the measures to regulate incentives adopted by the Parliament, and requested a verification as to whether the principles of free market competitions were violated.

The European Commission announced the start of an inquiry on the compatibility of the German EEG-surcharge with EU law

On 17 December 2013, the EU Commission – Directorate General for Competition announced the official start of an investigation on the compatibility with EU rules on competition and state aid of the partial exemption of energy-intensive companies from financing the cost of renewable energies in Germany (the so-called “EEG-surcharge”).

The Directorate-General for Competition of the European Commission has launched a public consultation on the guidelines for State Aid in the energy and environmental fields for 2014-2020

The public Consultation pertains to the latest draft of the document published on the website of the Commission. The draft is ambitious and it intends actively to support convergence in the design of renewable energy incentive systems among the various member States of the European Union. The guidelines address, inter alia, also the definition of the criteria that would make the introduction of capacity remuneration systems admissible from the viewpoint of competition rights.

THERMOELECTRIC

Ministerial Decree of 24 April 2013 published in the Italian Official Journal of 18 May 2013, determining the adjustment value of the avoided cost of fuel (CEC) component for the year 2012 and the related 2013 advance, on which the CIP 6 rate depends.

AEEG Resolution 553/2013 whereby the Authority set the value of the avoided cost of fuel (CEC) for the year 2008 for the electricity withdrawn by the National Grid Operator (GSE) pursuant to the CIP 6/92 Instruction.

Ministerial Decree of 30 September 2013 published in the Italian Official Gazette of 29 November 2013, bearing the “Amendment to Annex 2 of the Decree of 23 June 2011, and extension of the terms for participating in the request for early termination of CIP 6/92 agreements for plants fuelled with process fuels or residues or energy recoveries”, extending to 30 September 2014 the deadline for filing requests for the early termination of CIP 6 agreements and updating the parameters for calculating the cost-efficiency of the system for the early termination of the agreements.

Italian Legislative Decree no. 30 of 13 March 2013, implementing Directive 2009/29/EC regulating the CO_2 emission allowance trading scheme of the Community (“Emission trading Directive”) for the 2013-2010 time interval. The Decree incorporates the amendments introduced by the aforesaid EC directive, providing for the allocation of allowances by auction. For thermoelectric plants, the allocation shall be, with a few exceptions, by full auctioning, whereas for plants in sectors other than thermoelectric, gradual transition to “full auctioning” is provided. The Decree also defines the procedures for managing auctions, which shall take place with harmonised rules set at EC level, providing for a significant portion of the proceeds deriving from the auctions to be allocated to the Ministry of the Environment for mitigation policies and to facilitate adaptation to climate change (e.g., the reduction of greenhouse gas emissions, the development of renewable sources and of energy efficiency, incentives for the environmentally safe capture and geological storage of CO_2).

AEEG Resolution 621/2013, whereby the Authority recognises the costs, for CIP 6 producers, deriving from the obligation to purchase green certificates for the year 2012 (referred to productions from non renewable sources of the year 2011).

AEEG Resolution 216/2013, AEEG Resolution 217/2013, whereby the Authority recognises the costs, for CIP 6 producers, deriving from the obligation to purchase green certificates respectively for the year 2011 and 2010.

AEEG Resolutions 196/2013 and 293/2013, whereby the Authority implemented the second stage of the reform of the economic conditions for the performance of the natural gas protection service starting from 1 October 2013. Additional procedures implementing the second stage of the reform were defined by the Authority with its Resolution no. 293/2013.

AEEG Resolution 262/2013, whereby the Authority defined the criteria for determining the price to remunerate capacity for the period between 1 January 2012 and 31 December 2013.

Decree by the President of the Council of Ministers of 23 July 2013 published in the Italian Official Journal no. 231 of 2 October bearing "Extension, in accordance with Article 1, Paragraph 394, of Law no. 228 of 24 December 2012, of the term per Article 3-bis, Paragraph 1, of Law Decree no. 16 of 2 March 2012" which extends to 31 December 2013 the application of the calculation method established by AEEG Resolution 16/98 with regard to the reduced excise tax for fuels used in cogeneration plants.

AEEG Resolution 481/2013 e **AEEG Resolution 307/2013** whereby the Authority recognises to CIP6 producers the costs deriving from participation in the Emission Trading System (ETS) for the year 2012 and the recognition procedures for the third stage of the ETS 2013-2015.

REFINING & MARKETING

Italian Legislative Decree no. 249/2012 published in the Italian Official Journal no. 22 of 26 January 2013, bearing the endorsement of EU Directive 2009/119/EC on the member States' obligation to maintain a minimum level of stocks of oil and/or petroleum products.

Ministerial Decree of 24 April 2013 published on the Italian Official Gazette no. 161 of 11 July 2013 defining the methods for funding the Italian Central Storage Body (OCSIT).

Italian Ministerial Decree of 6 June 2013 prescribing the level of mandatory stocks for 2013
The MSE decree that indicates the mandatory stocks of petroleum products for the year 2013, effective from 1 July 2013, was published on Italian Official Journal no. 146 of 24 June.

Decree of the Ministry of Economic Development of 17 January 2013 on the obligation to disclose retail fuel prices and on the procedures for publicising prices in service stations
The Decrees prescribe: i) the obligation to notify the MSE of retail fuel prices according to set periodicities; ii) the procedures for indicating the retail prices applied in service stations (signs).

Impacts on the Group

With reference to the above, no further impacts on the businesses of the Group were noted for 2013, beyond those detailed in the comments on individual events or, below, in the chapters dedicated to the businesses.

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 that can 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.

The results of 2013 include the contribution of the ERG Wind farms as a result of the previously commented acquisition.

Reference market [1]

	Year	
Italian Renewable Energy Sources Market (GWh) [2]	**2013**	**2012**
Generation from renewable sources[3]	94,852	80,477
of which:		
Hydroelectric	52,515	43,260
Geothermal	5,305	5,251
Wind	14,886	13,333
Photovoltaic	22,146	18,633
Sale prices (EUR/MWh)		
PUN (Italy) [5]	63.0	75.5
Green certificates	89.3	80.3
EE Price – Centre-South area	59.3	73.2
EE Price – Southern area	57.2	70.3
EE Price – Sicily	92.0	95.3
EE Price – Sardinia	61.5	81.7
Average unit value of ERG energy sale in Italy	148.1	150.6
Feed In Tariff (Germany) [6]	94.6	n.a.
Feed In Tariff (France) [6]	90.4	89.4
Feed In Tariff (Bulgaria) [6]	94.8	94.4
EE Price – Romania	33.50	n.a.
Green Certificate price - Romania [7]	42.10	n.a.

(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 2013 in Italy, renewable sources accounted for over 34% of (net) domestic electricity generation, growing strongly from 28% in 2012. Of all generation from renewable sources, 19% originated from hydroelectric power, 5% from wind power, 8% from photovoltaic and the remaining 2% from geothermal power. Compared to the previous year, output from hydroelectric sources increased significantly (+21%), along with output from photovoltaic sources (+19%) and, to a lesser extent, from wind power (+12%).

Tariff scenario

Italy

The incentive system in Italy prescribes, for on-shore wind farms in operation before the end of 2012[1], 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 2013 withdrawal shall take place no later than 31 December 2013 and payment shall be in January 2014, whereas for electricity generated in the second quarter of 2013 withdrawal shall be no later than 31 March 2014, for electricity generated in the third quarter of 2013 withdrawal shall be no later than 30 June 2014 and for electricity generated in the fourth quarter it shall be no later than 30 September 2014. The price for the withdrawal of the Green Certificates is equal to 78% of the difference between 180 EUR/MWh and the average annual sale price of electricity in the previous year[2]. The reference price of 2013 Green Certificates is valid throughout the calendar year of generation, irrespective of the half year or quarter in which they are withdrawn. On 3 December 2013 the GSE announced that, while awaiting definition of the aforesaid value, for the purposes of the withdrawal of Green Certificates in the first quarter of 2013 the price of 80.34 EUR/MWh will be used, subject to subsequent adjustment.

Plants with more than 5 MW capacity built from 2013 onwards, instead, gain access to the incentives by participating in a Dutch auction[3]. The first auction led, for on-shore wind power generation, to the allocation of 442 MW (the total lot for 2013 amounted to 500 MW) and the second auction, completed on 10 June 2013, led to the allocation of 399.9 MW (the total lot for 2014 was 399.9 MW and required capacity was 1,086 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).

The situation involving the eventual revision of regulations on the electricity dispatching service for generating units powered by non programmable renewable sources is not yet stable, as Resolution 281/2012/R/EFR, which defined the new rules, applicable for 2013, was repealed by the decision of the Regional Administrative Court of Lombardy. The Italian Authority for Electricity and Gas filed an appeal before the Council of State and the appeal was rejected in the course of the preliminary hearing. The decision on the merits of the case is expected after 11 March 2014.

Germany

The incentive system for wind power in Germany is of the feed-in tariff type. For plants connected to the grid before 2012, the tariff amounts to 89 EUR/MWh for 20 years (constant). The latest version of the law also introduced, for all plants (both existing and newly built), the possibility of choosing an alternative incentive system, of the feed-in premium type. If this option is selected, electricity would be sold directly on the market and the Operator would receive, 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 12 EUR/MWh for 2012), 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.

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 products[4]. For the first 10 years of operation the initial tariff, depending on the year of stipulation of the agreement, 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

[1] There is a transitory 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, for 2013, of 127 EUR/MWh.

[4] The indicators considered are ICHTTS ("*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 des prix à la production de l'industrie et des services aux entreprises pour l'ensemble de l'industrie (marché français)*)", or index of production prices of industry and services to enterprises for the industry as a whole (French market).

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.

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. In particular, 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 €/MWh) below 2,250 annual hours of operation and 173.1 BGN/MWh (approximately 88.5 €/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 Association against the related resolution, which defined said charge temporarily to 10% of the feed-in tariff for wind power producers, was favourable. It is foreseeable that in upcoming months the definitive value will be defined; it will in any case have to be based on a detailed analysis of the real cost of operation of the networks. 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. Subsequently, however, the Bulgarian President submitted to the Constitutional Court the matter of the constitutionality of the measures to regulate incentives adopted by the Parliament, and requested a verification as to whether the principles of free market competitions were violated.

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 gross final consumption of electricity. The law defines the maximum annual portion of renewable energies that can be provided with incentives (set to grow from 12% in 2012 to 20% in 2020) and the portion of “green certificates” is defined accordingly on an annual basis. For wind power, 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. The emergency ordinance, published in the Romanian Official Journal on 24 June, introduced certain amendments to the incentive system; in particular, for wind power, 1 Green Certificate is to be retained in the 1 July 2013-31 March 2017 time interval. Retained Green Certificates will progressively be “released” from 1 January 2018 onwards and in any case no later than 31 December 2020, with procedures yet to be defined. Over the next few months, the bill is expected to be approved by Parliament (in January 2014 the Romanian President did not ratify the bill approved by the Parliament, thus returning it to the Chambers, arguing that the European Commission had not been notified of the amendments to the incentive system made by the law and consequently there was a potential violation of EU principles), subject to possible amendments.

Highlights of adjusted performance items

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.

	Year	
Operating results	**2013**	**2012**
Revenues from ordinary operations	**339**	**177**
EBITDA at replacement cost (1)	**245**	**137**
Amortisation, depreciation and write-downs(1)	(126)	(66)
EBIT at replacement cost (1)	**119**	**71**
Capital expenditures on tangible and intangible fixed assets	97	39
Main financial data (2)		
Net invested capital	**1,838**	**1,013**
Shareholders' equity	589	550
Total net financial indebtedness	1,249	463
of which non-recourse Project Financing (3)	1,157	520
EBITDA Margin % (4)	**72%**	**77%**

(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:

	Year	
EBITDA at replacement cost	**2013**	**2012**
Italy	219	128
Germany	11	n.a.
France	8	8
Bulgaria (50%)	4	1
Romania (50%)	2	n.a.
Total	**245**	**137**

Consolidated revenues in 2013 were significantly higher than those of 2012 in light of the strong increase in output deriving mainly from the growth in installed power, more than doubled as a result of the acquisition of ERG Wind, even though average sale revenues were slightly lower.

For ERG Renew, the average sale price of electricity in Italy amounted to 58.8 EUR/MWh, significantly lower than the value of 70.3 EUR/MWh recorded in the first nine months of 2012, and lower than the Single National Price (63.0 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. On the other hand, the estimated value of green certificates, i.e. 89.3 EUR/MWh, grew markedly compared to the 80.3 EUR/MWh estimated in 2012, in light of the incentive system which partly sterilises the changes in the price of electricity. Overall, therefore, the average unit revenue from ERG Renew production in Italy, considering the sale value of energy and of the green certificates, was 148.1 EUR/MWh, down from the value of 150.6 EUR/MWh of 2012.
In terms of revenues abroad, average unit revenue in 2013 was approximately 92.2 EUR/MWh, slightly higher than 90.1 EUR/MWh recorded in the previous year; this increase is mainly due to the different production perimeter which in 2013 also included the wind farms in Germany and in Romania, with average revenues, respectively, of 94.6 EUR/MWh and 96.5 EUR/MWh, as well as the wind farms in France (90.4

EUR/MWh) and in Bulgaria (94.8 EUR/MWh).

The EBITDA in 2013 amounted to EUR 245 million, up very strongly from the previous year's EUR 137 million; the improvement of this result, in spite of slightly lower average prices, is mainly tied to the increased output which substantially doubled, even in the presence of less favourable wind conditions, as a result of the greater installed power.

The EBITDA margin was 72%, in decline from 77% in 2012; this figure, compared to the previous year, was affected both by the change in perimeter, with lower unit revenues than those in Italy from the assets in Germany, Romania and Bulgaria, not present in 2012, and by the lower average unit revenues in Italy, as well as by the inclusion, in 2013, of the "imbalance costs".
A further factor penalising the EBITDA margin, tied to the prevalently fixed nature of production costs, derived from the lower producibility of the wind farms as a result of the particularly weak wind conditions recorded in Italy in the second half of the year.
This margin indicator, instead, benefited from the positive effect deriving from the effective cost containment actions, thanks also to the efficiency deriving from the larger size of the company, as well as to specific processes for the revision of company processes and cost budgets in "zero based" terms.

	Year	
Installed power (MW)	**2013**	**2012**
- Italy	**1,087**	**512**
of which		
Campania	239	*144*
Calabria	120	*120*
Puglia	249	*158*
Molise	79	*42*
Basilicata	89	*n.a.*
Sicily	198	*38*
Sardinia	111	*n.a.*
Others	2	*11*
- Germany	**86**	**n.a.**
- France	**64**	**64**
- Bulgaria (50%)	**27**	**20**
- Romania (50%)	**76**	**n.a.**
Total installed power at period end [1]	**1,340**	**596**

[1] power of plants in operation at period end.

Operating power grew from 596 MW at the end of 2012 to 1,340 MW at 31 December 2013 as a result of the acquisition of ERG Wind, with installed power of 636 MW, of which 550 MW in Italy and 86 MW in Germany. In addition to consolidating the company's presence in Southern Italian regions, the acquisition has enabled greatly to increase capacity in Sicily and to have a strong presence in Sardinia as well, thus making the portfolio in Italy more balanced among the various areas with high wind power potential.
The figure also includes the increased power in Romania (ERG's share: 35 MW) and in Bulgaria (ERG's share: 7 MW), thanks to the acquisition, through the Lukerg Renew joint venture, of the wind farms of Gebeleisis and Hrabrovo, for a total gross power of 84 MW, whereas it no longer includes a wind farm in Lazio, with 9 MW of power, sold in 2013.
Lastly, total installed power at the end of 2013 includes the new wind farms built in 2013 at Palazzo San Gervaso in Basilicata (34 MW) and in the Tulcea region in Romania through Lukerg Renew (82 MW, of which ERG's share is 41 MW); construction of these wind farms was completed at the end of 2013, with the first output produced, in the commissioning stage, already in December. The new farms will fully contribute to ERG Renew's result from early 2014 onwards.

Generation (GWh)	Year 2013	2012
- Italy	**2,010**	**1,072**
of which		
Campania	*437*	*304*
Calabria	*246*	*213*
Puglia	*497*	*369*
Molise	*164*	*103*
Basilicata	*103*	*n.a.*
Sicily	*336*	*69*
Sardinia	*220*	*n.a.*
Others	*7*	*15*
- Germany	**155**	**n.a.**
- France	**127**	**128**
- Bulgaria (50%)	**57**	**22**
- Romania (50%)	**54**	**n.a.**
Total wind farm output	**2,403**	**1,222**

In 2013, electricity generation by ERG Renew amounted to 2,403 GWh, nearly doubled compared to 1,222 GWh in the same period of 2012; in particular, wind power generation in Italy amounted to 2,010 GWh, versus 1,072 GWh in 2012, whilst generation abroad amounted to 393 GWh, i.e. approximately 20% of the total, compared to 150 GWh in 2012 (approximately 14%).

This increase is mainly linked to the contribution from ERG Wind, with total production of 1,154 GWh during the period, of which 999 GWh in Italy and 155 GWh in Germany.

Wind conditions were worse than in 2012 and than the historical average, both in Italy, especially in the second half that was particularly weak, and in Germany. Wind strength was substantially in line with expectations in France, while wind conditions in Bulgaria and Romania were satisfactory.

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 2013	2012
- Italy	**22%**	**25%**
of which		
Campania	*21%*	*24%*
Calabria	*23%*	*24%*
Puglia	*23%*	*27%*
Molise	*24%*	*29%*
Basilicata	*21%*	*n.a.*
Sicily	*19%*	*21%*
Sardinia	*23%*	*n.a.*
Others	*13%*	*16%*
- Germany	**21%**	**n.a.**
- France	**23%**	**23%**
- Bulgaria (50%)	**29%**	**25%**
- Romania (50%)	**31%**	**n.a.**
Load factor [(1)]	**22%**	**25%**

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

The load factor in 2013, i.e. 22%, was significantly lower than in 2012, mainly because of the weak wind conditions in Italy and in Germany, only partly offset by the excellent output levels in Bulgaria and Romania. In particular, wind conditions in Italy in 2013 were far weaker and lower than the historical average in all regions in the second part of the year, both in the third quarter and, especially, in the fourth quarter.

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 East European Countries and in Russia.
The purpose of the joint venture is to operate initially in Bulgaria and in Romania and subsequently in Ukraine and Russia, both organically and by seeking acquisition opportunities

- 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 region of Galati (Romania), it has been fully operational since February 2013 and it has a total installed capacity of 70 MW (35 WTG Vestas V90-2 MW). 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.
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.

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

	Year 2013	2012
EBITDA at replacement cost [1]	**13**	**3**
Amortisation, depreciation and write-downs[1]	(7)	(3)
EBIT at replacement cost [1]	**6**	**0**
Capital expenditures on tangible and intangible fixed assets	104	0

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

The EBITDA for 2013 amounts to approximately EUR 13 million, up compared to 2012, mainly as a result of the increased output deriving from the greater installed power.
The investments of 2013 refer mainly to the construction of the Topolog wind farm, completed in January 2014.

The net financial position of LUKERG Renew at 31 December 2013 amounted to EUR 270 million, an increase compared to EUR 68 million at 31 December 2012, as a result of the investments and of the acquisitions of the period. The medium-long term portion amounts to EUR 185 million, of which approximately EUR 37 million relate to project finance and EUR 148 to shareholder loans.

POWER & GAS

Reference market

Italian electricity market (GWh) [1]	Year 2013	2012
Demand	317,144	325,259
Pumping consumption	2,389	2,627
Import/Export	42,153	43,088
Internal generation [2]	277,380	284,798
of which		
Thermoelectric	182,528	204,796
Renewable energy sources	94,852	80,002
Sale prices (EUR/MWh)		
PUN [3]	63.0	75.5

[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 demand for electricity[1] of the domestic electrical system in 2013 was estimated by Terna, on the basis of the provisional data for the year, i.e. 317.1 TWh, a decline (-3.4%) compared to the values recorded in 2012. This decline occurred in the more general context of the economic recession currently ongoing in the Country, with a contraction in consumption that started in the last quarter of 2011 and persisted both in 2012 and throughout 2013. With regard to Sicily, the reference market for the ERG Group, the contraction in demand compared to 2012 was 2.4%, declining from 21.6 TWh to 21.1 TWh.
In the same period, the net internal generation of electricity amounted to 277.4 TWh, down by 3.6% from the previous year, whilst the net balance of exchanges abroad recorded net imports for 42.2 TWh, slightly down from 2012. 66% of (net) domestic production was assured by thermoelectric plants and the remaining 34% by renewable sources; these data, if compared with those of the previous year, show a significant contraction in generation from thermoelectric sources (-12.0%) due not only to the decline in energy demand, but also to the greater contribution, during the period, of renewable sources (+18%), in particular hydroelectric (+21%) thanks to the heavy rainfall of the first half of 2013, but also wind (+12%) and photovoltaic (+19%).

The average value of the PUN (Single National Price) in 2013 was 63.0 EUR/MWh, down by 17% compared with the value of the previous year (i.e. 75.5 EUR/MWh). Said decline mostly reflects the severe decrease in the cost of natural gas against a backdrop of very weak demand.

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

Period performance highlights

(EUR million)	Year 2013	Year 2012
Revenues from third parties	1,424	1,435
Intra-segment revenues	218	216
Revenues from ordinary operations	**1,642**	**1,651**
EBITDA at replacement cost [(1)]	**358**	**328**
Amortisation, depreciation and write-downs[(1)]	(80)	(76)
EBIT at replacement cost [(1)]	**278**	**253**
Capital expenditures on tangible and intangible fixed assets	26	35

(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 Power & Gas businesses was as follows:

EBITDA at replacement cost	Year 2013	Year 2012
ISAB Energy / ISAB Energy Services	254	241
ERG Power & Gas business unit / ERG Power plants	104	87
Total	**358**	**328**

Sales of electric power [(1)]

Sales (GWh)	Year 2013	Year 2012
Total Sales	**8,229**	**7,852**
ISAB Energy	4,142	4,077
ERG Power & Gas business unit	4,087	3,775
of which to ISAB S.r.l.	179	215
Generation (GWh)		
Total Generation	**6,805**	**6,997**
of which ISAB Energy S.r.l.	4,142	4,077
of which ERG Power S.r.l.	2,663	2,920
Sale prices (EUR/MWh)		
CIP 6	118.7	122.7
EE Price – Sicily	92.0	95.3

(1) for the Power & Gas business unit, electricity sales differ from the quantities generated because they also include volumes moved on MSD and re-sales 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

ISAB Energy

The results of ISAB Energy are partly subject to changes in market conditions, due to the index linking of prices contained in the electric power sale and raw material purchase contract.

The selling price of electricity generated by ISAB Energy is regulated by Inter-ministerial Price Committee Order no. 6 dated 29 April 1992 (so-called CIP 6/92).

ISAB Energy has been party to a twenty-year running agreement with the Italian National Grid Operator (GSE) since 2000, whereby the sale price includes the valuation of the “avoided cost component of fuel” (CEC) which in turn reflects the changes in natural gas prices. The feedstock, the main raw material used to generate electricity, is acquired from ISAB S.r.l. under a multi-year “take or pay” contract and is also tied to the valuation of the avoided cost of fuel.

During 2013, electricity generation totalled 4,142 GWh, up (+2%) compared with 4,077 GWh in 2012, thanks to the good overall performance of the plant, which recorded a utilisation factor of 90%, higher than in the previous year (88%).

The EBITDA at replacement cost was EUR 254 million, higher than in the previous year (EUR 241 million), mainly thanks to the greater output, which more than offset the decline in the unit price for the sale of electricity.

The estimated value of the 2013 CEC balance amounts to 86.9 EUR/MWh, in contraction compared to the estimated value in the same period of 2012, i.e. 91.8 EUR/MWh; the total value of CIP 6 electricity sale (including the CEC and the other tariff components) amounted to 118.7 EUR/MWh, in decline compared to 122.7 EUR/MWh in 2012.

For the purposes of the 2013 Financial Statements, for the definition of this value, the official regulatory reference was considered, i.e. the Italian Ministerial Decree of 20 November 2012 which regulates the applicability of Article 30, Paragraph 15 of Italian Law no. 99 of 2009 (“Development Act”) to the Selected Initiatives, with respect to the procedures for determining the value of the CEC “also taking into account the evolution of conversion efficiency”. Consequently, for the ISAB Energy plant, the specific consumption value indicated in the Italian Ministerial Decree of 20 November 2012 was adopted, applying the exemptions defined therein: for the ISAB Energy plant, the specific consumption value in this case is equal to 0.215 m3/kWh, corresponding to a reference yield of 48.5% taking into account the communication, sent by the National Grid Operator to Isab Energy on 9 May 2013, about the granting of the request for recognition of possession of the requirements for the application of the exemptions per the Italian Ministerial Decree of 20 November 2012.

For the calculation of the different components of the CEC, the methodology indications of the Ministerial Decree of 31 January 2014 published on the Italian Official Gazette General Series no. 40 of 18 February 2014, implementing the proposals of AEEG Opinion no. 503/2013 which in turn incorporates the provisions of Italian Law Decree no. 69/2013 of 21 June 2013 (“To-Do Decree”) and of the related conversion law of 9 August 2013.

For the gas component of the CEC, the methodological indications prescribe for 2013 a growing indexation to the wholesale price of natural gas on short-term markets in view of a progressive reduction of the reference, currently prescribed by the Development Act, to the basket of petroleum products providing a proportion of 80% in the first quarter, 70% in the second quarter and 60% in the remaining quarters.

Additionally, within the scope of the process for the redefinition of the 2008 CEC balance, caused by the dispute relating to Resolutions no. 154/08 and no. ARG/elt 50/09, AEEG initiated, with resolution 31/2013/R/EEL, a proceeding that ended favourably with Resolution no. 553/2013/R/eel which set the value of the 2008 CEC for Isab Energy to 77.0 EUR/MWh. The redefinition of the CEC had a positive effect on the Group's 2013 results amounting to approximately EUR 7 million, of which EUR 4 million relate to ISAB Energy and EUR 3 million to Coastal Refining as an adjustment to the feedstock sale value; taking into account the non-recurring nature of this item, the effect is not included in the EBITDA at current values.

Lastly, the net financial position as at 31 December 2013 of ISAB Energy, consolidated line by line, is positive by approximately EUR 31 million, versus the negative debt of EUR 54 million of 31 December 2012. The significant improvement is due to the cash generated during the period, to the collection of the CEC balance and to working capital dynamics.

Lastly, as described in greater detail in the section "Significant events during the year", on 30 December 2013, ERG entered into two significant agreements with GDF SUEZ and, at the same time, with ISAB (a subsidiary of the LUKOIL Group), whereby in 2014, subject to the fulfilment of certain conditions precedent, ERG will acquire the 49% equity investment in GDF SUEZ in ISAB Energy, the CIP 6/92 agreement will be terminated early and the ISAB Energy plant will be sold to ISAB.

ERG Power & Gas business unit and ERG Power

During 2013, ERG Power's net electricity generation amounted to 2,663 GWh, in decline from the previous year (2,920 GWh). The reduction was mostly due to a greater modulation of the plant, consistent with the reduction of the price of energy on the market; moreover, participation in the Dispatching Services Market accentuated the aforementioned modulation of the plant to balance the grid throughout 2013.
Approximately 7% of ERG Power's generated electricity was used to cover the consumption of the North Refinery of ISAB S.r.l.
The net supply[1] of steam by ERG Power plants to the Priolo industrial site in 2013 was approximately 1,577 thousand tonnes, (1,628 thousand tonnes in the same period of 2012), of which approximately 1,042 thousand tonnes were destined to the North Refinery of ISAB S.r.l.

The EBITDA of 2013 was EUR 104 million, up markedly from the value of 2012 (EUR 87 million).

The achievement of highly satisfactory results, even in the presence of a market environment in Italy that remains globally unfavourable for combined cycle gas-fuelled plants, reflects average values of the price of energy in Sicily that are still favourable overall, as well as the effectiveness of the energy management policy with significant use of the dispatching services market and the adoption of risk mitigation instruments. These instruments 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. Of note is the contract for the supply of utilities to the Versalis plants in Priolo, which was recently renewed and which entails the sale of electricity and steam until 2020.

Lastly, in relation to certain gas supply agreements, negotiations are underway for the redefinition of the supply price for 2013 ("price review"), from which positive effects are expected, although prudentially they were not included in the 2013 results.

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

REFINING & MARKETING

The results of Coastal Refining and of Integrated Downstream are included in the Refining & Marketing sector.
The breakdown of EBITDA at adjusted replacement cost and of the capital expenditures between the various activities of the Refining & Marketing business was as follows:

EBITDA at adjusted replacement cost	Year 2013	2012
(EUR million)		
Integrated Downstream	45	53
Coastal Refining	(50)	(32)
Total	**(5)**	**21**

Adjusted capital expenditures on tangible and intangible fixed assets	2013	2012
(EUR million)		
Integrated Downstream	41	37
Coastal refining[1]	-	14
Total	**41**	**51**

[1] since September 2012, the adjusted capital expenditures of Coastal Refining have no longer included the ERG share of the capital expenditures made by ISAB S.r.l.

Integrated Downstream

Reference market[1]

(thousands of tonnes)	Year 2013	2012
Italian Retail Market		
Gasoline	7,900	8,349
Diesel	14,614	15,281
Italian Wholesale Market		
Diesel	11,146	10,864
Heating oil	1,370	1,441
Specialties Market		
Combustion LPG	1,719	1,784
Transport LPG	1,520	1,355
Bitumen	1,475	1,564
Lubricants	398	394

[1] estimated figures

Italian Retail Market: in 2013, demand in the Retail network declined by 4.7% compared to 2012; there was a drop both in demand for gasoline (-5.4%) and for diesel, albeit to a slightly lesser extent (-4.4%).
The sharp contraction in demand is fundamentally due to the ongoing severe economic crisis which is conditioning and heavily changing motorists' consumption levels and habits; the recorded figure is particularly negative considering also that in 2012 demand in the Retail market had already declined by 9.5% compared to 2011.

Italian Wholesale Market:
In 2013 Wholesale demand for diesel fuels (transport, marine and agricultural) sharply reversed its trend compared to the Retail network, increasing by 2.6% compared to the previous year; this increase is due to the higher demand in transport diesel, which increased by 3.7% for higher delivery from "independent stations" through this network. There was a decline in demand for agricultural diesel (-0.8%) and marine diesel (-8.8%). With regard to heating oil, demand contracted by 4.9%.

Specialties Market: in 2013, total sales of LPG increased by 3.2% compared with 2012; in this case, too, the decline in consumption in the fuel network (-3.6% compared with 2012) was offset by the growth in the transport network (+12.2%).

Still evident were the effects of the economic crisis, and the consequent collapse in public investments, on demand for Bitumen, which declined further in 2013 compared to the already depressed values of 2012 (-5.7%). Lastly, there was a very slight recovery on sales of lubricants (+1.0%), mainly affected by the increase in the industry channel (+6.1%) which offsets the decline recorded in the auto channel (-5.3%).

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 reflects ERG's share (51%) of the consolidated results of the TotalErg joint venture.
It should be noted that the values below, in addition to the share of TotalErg, also include the activities in Sicily controlled by ERG Oil Sicilia.

	Year	
(EUR million)	**2013**	**2012**
Revenues from third parties	3,317	4,325
Intra-segment revenues	215	96
Revenues from ordinary operations	**3,532**	**4,422**
EBITDA at replacement cost (1) (2)	**45**	**53**
Amortisation, depreciation and write-downs(2)	(60)	(59)
EBIT at replacement cost (1) (2)	**(15)**	**(6)**
Capital expenditures on tangible and intangible fixed assets	41	37

(1) inventory gains (losses) of -6 in 2013 (+2 in 2012)
(2) they do not include non-recurring items as indicated in "Alternative performance indicators", to which reference is made for additional details

EBITDA at replacement cost for 2013 was EUR 45 million, down from the EUR 53 million recorded last year, mainly affected by the results of refining.
The Retail business improved, in a market environment which, even with higher margins than last year, characterised by particularly harsh price competition, continues to be penalised by further contraction in petroleum consumption.
With regard to the Wholesale and Specialties businesses, the results continue to reflect the weakness of the economic cycle and, with respect to the previous year, they are penalised by the contraction in wholesale activities in Sicily, because of ERG Oil Sicilia's exit from the Wholesale business.
In spite of the reduced exposure to the business, deriving from the shut-down of the Raffineria di Roma, refining had significantly lower results than in 2013, both because of some technical problems in Sarpom in the first part of the year, and because of a very weak environment, which has worsened compared to 2012; lastly, logistics was negatively affected by the overall decline in the activity tied to the decreased sales on all networks.

Downstream in Sicily

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.

ERG Oil Sicilia operates mainly in the Retail market. The network at 31 December 2013 comprises 201 sales outlets with a nationwide market share of approximately 0.8%.

The results of 2013, in decline compared to the previous year, were affected by the termination of the agreement for the utilisation of the load overland within the ISAB Srl refinery, which occurred in September 2012, as a result of the broader transaction whereby ERG S.p.A. reduced its equity investment in that refinery.

Total sales in the two channels amounted to 220 thousand tonnes in 2013 (473 thousand tonnes in 2012), of which 194 thousand tonnes referred to the Retail network (240 thousand tonnes in 2012). The decline of the sales, in addition to the aforementioned reduction in the activity of the Wholesale network, reflects in the Retail network the non-renewal of two low-margin service station lease agreements; this decision is a part of a path directed at maximising the profitability of the company network.

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 2013	2012
EBITDA at replacement cost [1]	**76**	**84**
Amortisation, depreciation and write-downs[2]	(109)	(107)
EBIT at replacement cost [1]	**(33)**	**(23)**
Capital expenditures on tangible and intangible fixed assets	76	71

(1) The data reported do not include inventory gains (losses) of -11 million in 2013 (+5 in 2012)
(2) they do not include non-recurring items as indicated in “Alternative performance indicators”, to which reference is made for additional details

In 2013, EBITDA amounted to approximately EUR 76 million, a decline compared to the same period of the previous year, mainly because of the weaker results of refining, only partly offset by the improvement in marketing.

With regard to the marketing business, the results, in spite of the further weakening of demand, showed an improvement compared to 2012, thanks both to more sustainable market margins and to careful cost control.

With regard to refining and logistics, instead, results were lower than in the previous year both because of the refining scenario, which was extremely weak and lower than last year's, and because of the negative impact of the decline in demand on the results of logistics. In this regard, the shut-down of Raffineria di Roma in September 2012 contributed to limit, at least in part, the economic effects deriving from the severe decline in refining margins.

The process of obtaining the synergies of the joint venture, deriving from the unified management of the main business, is now up and running and it has made it possible to mitigate, if only in part, the negative effects generated by the challenging market environment.

The net financial position of TotalErg as at 31 December 2013 amounts to EUR 287 million, lower than EUR 374 million as at 31 December 2012, as a result of working capital dynamics.

Retail Network

In 2013, fuel sales of the TotalErg Network amounted to approximately 2,551 thousand tonnes, in decline compared with 2,646 thousand tonnes in the previous year, albeit at a less severe rate when compared to the general decline in demand. Market share, at 11.3%, has grown slightly compared to 2012 (11.2%).

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

In this environment characterised by marked weakness, TotalErg’s efforts were focused on achieving the best possible operating efficiency, with the goal of safeguarding Business sustainability in the medium/long term. For this purpose, 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. In 2013, the plan led to the closing of 134 corporate sales outlets.

At 31 December 2013, the TotalErg Network in Italy comprises 3,017 stations (of which 1,834 are owned by the Group and 1,183 are leased), compared with 3,248 stations at 31 December 2012.

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 2013, wholesale diesel sales amounted to 1,149 thousand tonnes, down compared with 1,236 thousand tonnes recorded in the same period of 2012. The decline in sales was affected by the persistent generalised drop in demand tied to the ongoing recession, as well as by the rationalisation of the least profitable, high credit risk customers, and the product shortage on the Raffineria di Roma logistical facility, caused by the severely adverse weather of the first half of the year.

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

- Restiani S.p.A., 60% controlled, 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 2013, sales of lubricants amounted to 45.9 thousand tonnes (48.0 thousand in 2012), of which 4.1 were in the marine/foreign market, with total market share of 10.1%.

LPG Sales amounted to 227.3 thousand tonnes, a decrease compared to 248.8 thousand tonnes in the same period of 2012, fundamentally in the business to business network, affected by the shut-down of production at Raffineria di Roma, which took place in September 2012.

Lastly, bitumen sales, amounting to 127.8 thousand tonnes, declined compared with 152.2 thousand tonnes in 2012, as a result both of the severe drop in demand, and of the shut-down of internal bitumen production in the Raffineria di Roma and in the Sarpom Refinery during 2012.

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. In 2012, transformation work was carried out, to achieve a structural reduction in costs, thus causing TotalErg bitumen production to be suspended from July onwards.

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 enables optimising 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)] TotalErg Inland Refineries	Year 2013	Year 2012
USD/barrel	1.87	3.48
EUR/barrel	1.41	2.71
EUR/tonne[(2)]	10.5	19.9
Processed volumes (ktonnes)	**1,385**	**3,854**
of which		
Sarpom (Trecate)	1,385	1,552
Rome	0	2,302

(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 7.451 in 2013 (7.355 in 2012)

In 2013, 1,385 thousand tonnes were processed, down sharply from the 3,854 thousand tonnes processed in the same period of the previous year.

Unit contribution margins, hard to compare with 2012 in light of the different scope of activities, were negatively affected by a very weak environment, in particular in the second half of the year, as well as by the technical problems that occurred at the Sarpom Refinery in the first part of the year, and particularly by the slow-downs in the catalytic cracking plant; the plant was also taken out of service twice for extraordinary maintenance, in both cases for approximately 10 days: the first outage was in the first quarter and the second one in June. After these actions, the issues were resolved and the refinery is functioning according to its standards.

Coastal Refining

Reference market[1]

	Year 2013	Year 2012
Crude oils (USD/barrel)		
Brent crude price [2]	108.66	111.67
Ural/Brent differential [3]	(0.36)	(0.91)
Azeri Light/Brent differential	3.22	2.97
Products (USD/tonne)		
Transport diesel price	931.03	969.61
Unleaded gasoline price	981.67	1,021.71
Fuel Oil price	588.01	625.13
Crack Spread (USD/barrel)		
Transport diesel - Brent	16.14	18.30
Gasoline - Brent	8.91	10.69
ATZ Fuel Oil - Brent	(16.06)	(13.22)
Margin indicators		
EMC (USD/barrel)[4]	(2.10)	0.19
EMC (EUR/barrel)[4]	(1.58)	0.15
EUR/USD exchange rate	1.328	1.285

Source: Platts
(1) average prices in the period
(2) Brent Dated: reference light crude, on mean FOB basis
(3) Ural: reference heavy crude, on mean CIF basis
(4) value of the "notional" EMC contribution margin to FOB yields obtained with a 50% mix of the Ural and Azeri Light crudes. The EMC notional margin refers to a complex refinery characterised by catalytic conversions oriented to the production of gasoline (Fluid Catalytic Cracking plant)

In 2013, Brent crude prices (108.7 USD/barrel) remained at a high level, albeit slightly lower than in 2012 (111.7 USD/barrel).
With reference to the Mediterranean, the reduction in Iraqi volumes, the lack of Iranian crudes (embargoed) and Saudi grades (exported to Asia) and the growing exports of Ural crude to China (through the ESPO pipeline) pushed the Ural differential above the 2012 levels (-0.36 USD/barrel in 2013, vs. -0.91 USD/barrel in 2012).

The EMC FCC reference notional margin, i.e. -2.10 USD/barrel in 2013, was negative and lower by approximately 2.3 USD/barrel than in 2012 (+0.19 USD/barrel). The causes are manifold and they stem both from the generalised weakness of the products (average crack spread lower by over 2 USD/barrel than in 2012) and from the increase in the Ural differential (+0.55 USD/barrel) and Azeri Light differential (+0.26 USD/barrel).

Highlights of Coastal Refining performance at adjusted replacement cost [1]

To enhance the understandability of Coastal Refining performance, the results of this business are shown at their adjusted replacement cost, which reflects, for ERG's share (40% until August 2012 and 20% from September 2012 onwards), the results of ISAB S.r.l., whose contribution to income at non-adjusted replacement cost values is represented in the measurement of the investment under the equity method of accounting.

	Year	
(EUR million)	**2013**	**2012**
Revenues from third parties	5,290	6,517
Intra-segment revenues	181	749
Adjusted revenues from ordinary operations	**5,470**	**7,266**
EBITDA at adjusted replacement cost	**(50)**	**(32)**
Adjusted amortisation, depreciation and write-downs	(23)	(38)
EBIT at adjusted replacement cost	**(73)**	**(70)**
Adjusted capital expenditures on tangible and intangible fixed assets	0	14

(1) the illustrated figures do not include:
- inventory gains (losses) of -1 in 2013 (+8 in 2012)
- the non-recurring items indicated in the section "Alternative performance indicators", to which reference should be made for further details

The revenues of 2013 were lower than in the previous year, mainly as a result of the reduction of the share in ISAB and the consequent reduction in processed volumes, which in 2013 were also affected by the downtime of the plants for cyclical maintenance, carried out in the first half of the year.

EBITDA at adjusted replacement cost of 2013 was negative by EUR 50 million. The figure, in decline compared to the same period of 2012 (EUR -32 million), was affected by a highly negative refining scenario and by the effects of the downtime for cyclical maintenance that took place in March and April. The crude oil and product trading activities carried out in the businesses transferred to Erg Supply & Trading recorded a contribution of approximately EUR 7 million.

Margins and Processing

	Year	
Unit contribution margins at adjusted replacement cost[1] of ERG Coastal Refining	**2013**	**2012**
USD/barrel	(0.32)	1.36
EUR/barrel	(0.24)	1.06
EUR/tonne[2]	(1,7)	7.8
Processed volumes (ktonnes)	2,215	4,479

(1) expressed net of variable production costs (principally costs for utilities), they do not include inventory gains (losses) and non-recurring items and they include the contribution allocable to ERG of ISAB S.r.l.

(2) barrel/tonne conversion factor equal to 7.303 in 2013 (7.382 in 2012)

In 2013, unit margins were still severely depressed and lower than those of the same period of 2012, both because of the persistent severe weakness of the environment, and because of the plant non-optimisation in the first half, tied to the outage and subsequent re-start of the refining plants.

The contraction in processed volumes compared to 2012 is tied both to the reduction of the share in ISAB S.r.l. from 40% to 20% (starting from September 2012), and to the general shut-down of the ISAB North plants, as well as to the slowdown of the ISAB South plants in March and April 2013.
The API degree of the crude oils processed in 2013 (32.4) is slightly lower than that of the same period of 2012 (34.4).

Lastly, on 30 December 2013, ERG sold the final 20% interest in ISAB S.r.l.; as a result of this transaction, all inventories owned by ERG were sold on the same date and the refining activities carried out by ERG at the Priolo site were definitively shut down.

Highlights of performance of ISAB S.r.l.

The figures that follow refer to 100% of the company.

(EUR million)	Year 2013	2012
EBITDA at replacement cost [(1)]	**153**	**200**
Amortisation, depreciation and write-downs	(110)	(110)
EBIT at replacement cost [(1)]	**43**	**89**
Capital expenditures on tangible and intangible fixed assets	105	33

[(1)] the data shown do not include the inventory gains (losses).

In 2013, the EBITDA of ISAB S.r.l. was EUR 153 million; the severe decline from the same period of 2012 is tied to the fact that in the past year the company's result had benefited from an important effect deriving from the reduction in the stocks of crude oils and products.

Capital expenditures

The adjusted figure for capital expenditures by the ERG Group in 2013 was EUR 165 million (EUR 126 million in 2012), including EUR 156 million for tangible fixed assets (EUR 120 million in 2012) and EUR 9 million for intangible fixed assets (EUR 6 million in 2012).

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

	Year	
(EUR million)	**2013**	**2012**
Renewable Energy Sources (1)	97	39
Power & Gas	26	35
Refining & Marketing (2)	41	51
Corporate	2	1
Total	**165**	**126**

(1) Renewable Energy Sources adjusted capital expenditures include ERG's share of the capital expenditures made by LUKERG Renew since July 2012
(2) Refining & Marketing adjusted capital expenditures include ERG's share of the capital expenditures made by TotalErg S.p.A. whereas, from August 2012 onwards, they no longer include ERG's share of the capital expenditures made in ISAB S.r.l.

Adjusted capital expenditures do not include the prices for acquisitions in the wind power sector, i.e. EUR 63 million referred to Assets and EUR 10 million referred to the Operation & Maintenance company, as well as the capital expenditures pertaining to 20% of ISAB S.r.l. (EUR 21 million).

Renewable Energy Sources:

In March, work started on the construction of a wind farm in Basilicata, in Palazzo San Gervasio (PZ), with planned capacity of 34 MW; construction of the wind farm was completed in December, ahead of schedule, and the wind farm has been fully operational since the start of 2014.
Work also started in March for the construction of a wind farm in Romania, in the Tulcea region, with total capacity of 82 MW (ERG share: 41 MW) and estimated electricity output, when fully operational, of over 200 GWh per year; the project was acquired at the end of 2012 by the LUKERG Renew joint venture from Inergia SpA (Santarelli Group). For this project, too, construction work proceeded very speedily and it was substantially completed in December, ahead of the initial schedule, with fully operational status reached in early 2014.
In 2013, Renew's installed capacity further increased, thanks in part to the acquisition, through LUKERG Renew, of a further 84 MW (ERG share: 42 MW) already operational in Romania (70 MW) and Bulgaria (14 MW). The outlays for these capital expenditures, with a total forecast Enterprise Value of approximately EUR 63 million (ERG share) are not included among the amounts shown in the table of capital expenditures in the period, as they involve purchases of equity investments carried out by the LUKERG Renew joint venture.

Power & Gas:

in 2013, at the ISAB Energy plant, work was completed on the project for the construction of the flare exhaust gas cleaning system, in accordance with the environmental prescriptions set out in the Integrated Environmental Authorisation (AIA).
Moreover, at the ERG Power plant, work to upgrade and revamp one of the steam generating units (unit SA1 N1) was completed. These initiatives, completed in the third quarter of 2013, will enable the whole plant to operate more flexibly and efficiently, and to comply with the new emission restrictions prescribed in the AIA for ERG Power.

Lastly, focused capital expenditures continued both in ISAB Energy and in ERG Power, to boost the operating efficiency and reliability of the systems; the planned investments for Health, Safety and Environment also continued.

Refining & Marketing:

With regards, instead, to **Integrated Downstream**, during 2013, capital expenditures of approximately EUR 41 million were made, almost entirely related to 51% of TotalErg.
Most of the capital expenditures (approximately 71%) involved the Network, mainly for development activities (renovations, new leased outlets, enhancement and automation of existing sales outlets, etc.) and the activities for the transformation of the Rome logistical facility (approximately 13%). A significant portion was also destined to Health, Safety and Environment maintenance and improvements.

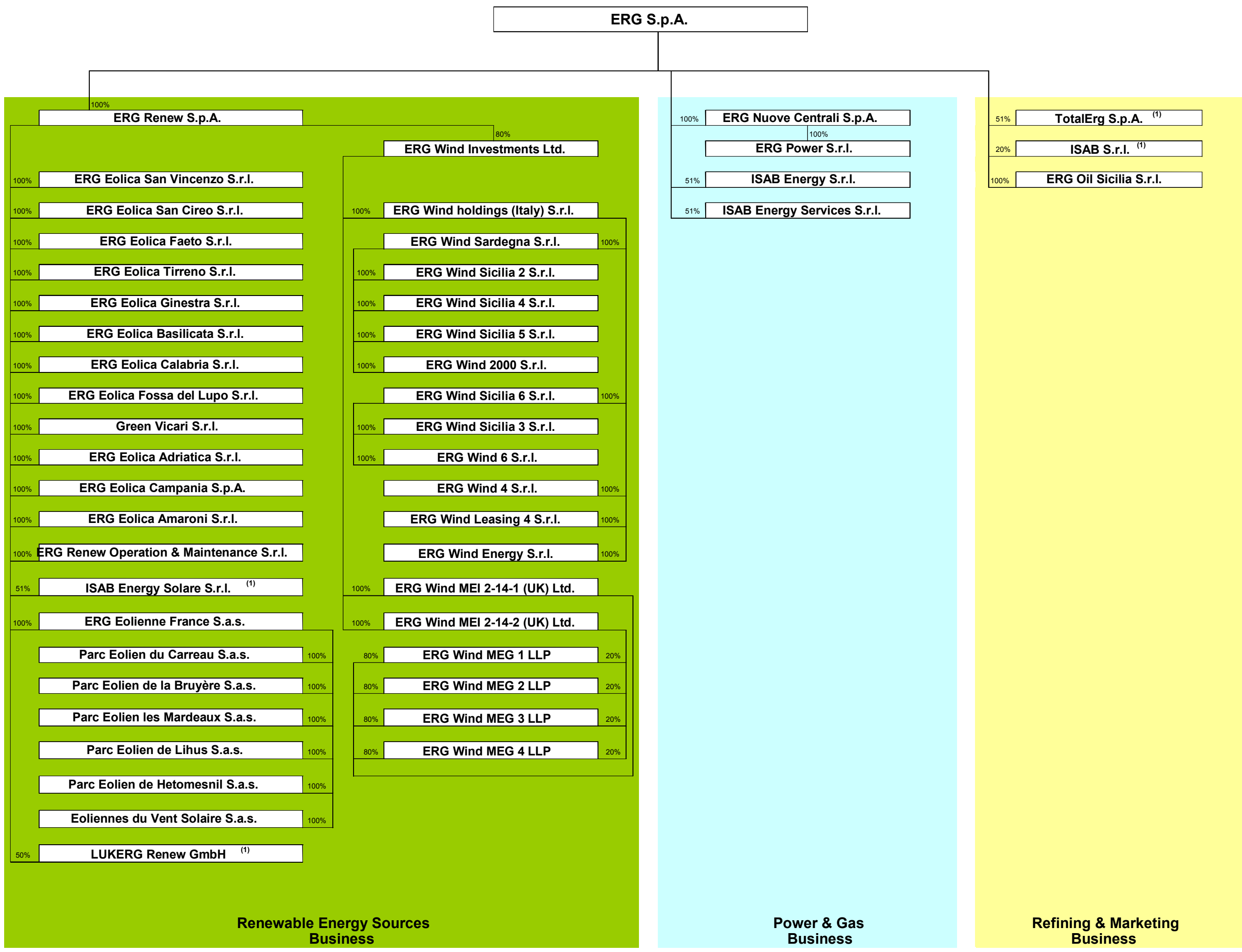
With regard, instead, to **Coastal Refining**, the data shown in the table for the first nine months of 2013 no longer include the capital expenditures made by ISAB as a result of the reduction of the share from 40% to 20%.

FINANCIAL STATEMENTS

Scope of consolidation and business segments

The table below shows the scope of consolidation at 31 December 2013.
Compared to 31 December 2012, of note is the acquisition of ERG Wind Investments Ltd. (formerly IP Maestrale Investments Ltd) and of its subsidiaries in the first quarter of 2013, the sale of Eolo S.r.l. in the third quarter of 2013 and the acquisition of ERG Renew Operation & Maintenance in the fourth quarter of 2013.

The ERG Group
Scope of consolidation at 31 December 2013



[(1)] *companies measured under the equity method of accounting*

Financial Statements

Income Statement

With reference to the sale of the final portion of the equity investment in ISAB, it should be pointed out that in the Consolidated Financial Statements the accounting results of the assets relating to the Coastal Refining Business (discontinued operations) are indicated separately in accordance with IFRS 5
For clearer disclosure, the comprehensive results, i.e. including those of the aforesaid businesses, are shown and commented in this Report on operations.

Reclassified Income Statement	Year 2013	2012
(EUR million)		
Revenues from ordinary operations	7,051.8	8,264.8
Other revenues and income	23.9	23.3
TOTAL REVENUES	**7,075.7**	**8,288.1**
Costs for purchases and changes in inventory	(6,099.0)	(7,327.7)
Costs for services and other operating costs	(596.8)	(628.5)
EBITDA	**379.8**	**331.8**
Amortisation, depreciation and write-downs of fixed assets	(210.1)	(152.6)
Income (expenses) from sale of business unit	**0.0**	**(1.6)**
Net financial income (expenses)	(72.8)	(52.5)
Net income (loss) from equity investments	97.1	143.7
Profit before taxes	**194.0**	**268.7**
Income taxes	(108.8)	(68.8)
Profit for the period	**85.2**	**199.9**
Minority interests	(56.8)	(48.7)
Group's net profit (loss)	**28.4**	**151.2**

Revenues from ordinary operations

Revenues in 2013 were EUR 7,052 million, compared with EUR 8,265 million in 2012. The change is a result of the following factors:

- the decrease in **Refining & Marketing** revenues, mainly tied to the decline in volumes sold as a result of the reduced share in the ISAB refinery;
- the revenues of **Thermoelectric Power Generation**, substantially in line with the previous year;
- increased revenues from **Renewable Energy Sources**, mainly because of the higher sale volumes as a consequence of increased production capacity deriving from the acquisition of ERG Wind.

Other revenues and income

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

Costs for purchases and changes in inventory

Costs for purchases mainly refer to the purchase of crude oil and other semi-finished products and also include transport and transaction costs.
In 2013, they are lower than in 2012 by approximately EUR 1,224 million, mainly due to lower volumes purchased and lower purchase prices.
With respect to **inventories**, raw materials decreased by approximately EUR 103 million (-180 thousand tonnes compared with 31 December 2012) and decreased by approximately EUR 8 million for finished products (-23 thousand tonnes).
In 2012, raw materials had increased by approximately EUR 22 million and finished products had decreased by approximately EUR 137 million.
It should be noted that on the basis of the weighted average cost method, the inventory change is impacted not only by the exact level of inventories in stock at the end of the period, but also by the variation in raw material and finished product purchase prices.

Costs for services and other operating costs

Costs for services include the processing costs of the ISAB Refinery, 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 decrease from the matching periods of 2012 is mainly tied to lower processing costs, as a result of the reduction of the share in ISAB, commented above.
The item was affected by the increase in costs relating to ERG Wind (EUR 45 million in 2013), mainly represented by maintenance costs, rents paid and other services rendered by third parties.

Amortisation, depreciation and write-downs

The increase in amortisation and depreciation is mainly due to the new wind farms acquired.

Net financial income (expenses)

The net financial expenses of 2013 amounted to EUR 73 million, compared with EUR 53 million in 2012. The increase is mainly due to the change in the scope of consolidation as a result of the acquisitions and capital expenditures made in 2013, partly offset by lower interest rates. In addition, income from cash management was higher.
In detail, the item includes short-term net financial income of approximately EUR 10 million (EUR 4 million in 2012), deriving mainly from cash management, and medium-long term financial expenses of approximately EUR 81 million (EUR 54 million in 2012) as a result of the aforementioned change in the scope of consolidation; the medium and long-term values also reflect the effects of the derivatives for hedging the interest rate fluctuation risk.

Net income (loss) from equity investments

In 2013, this item 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, carried out in 2012 (EUR 9 million). It should be recalled that in 2012 the item included the capital gain (EUR 227 million) realised from the disposal of 20% of the same equity investment.
The item also includes the results of the companies measured with the equity method of accounting (mainly the results of ISAB S.r.l. and of the TotalErg S.p.A. joint venture).
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

In 2013, income taxes amounted to EUR 109 million (EUR 69 million in 2012) and they include current taxes of EUR 99 million and deferred taxes of EUR 10 million, including the derecognition of deferred tax assets on tax losses (EUR 21 million) relating to the “Robin Tax” applied to ERG S.p.A. and at present deemed no longer recoverable.
The tax rate derived from the ratio between income taxes and pre-tax profit amounted to 56%.
The tax rate at adjusted replacement cost, derived from the ratio between income taxes and pre-tax profit net of inventory gains/losses and non-recurring items, amounted to 52%.

Statement of Financial Position

The financial position as at 31 December 2013 was affected by the consolidation of the ERG Wind group as a result of the aforementioned acquisition.
The contribution of ERG Wind in terms of net invested capital amounted to approximately EUR 800 million as at 1 January 2013, with a corresponding increase in net financial indebtedness.

Reclassified Statement of Financial Position	12/31/2013	12/31/2012
(EUR million)		
Fixed assets	2,795.0	2,422.7
Net working capital	278.7	170.7
Employees' severance indemnities	(5.0)	(3.5)
Other assets	410.7	352.9
Other liabilities	(658.4)	(459.1)
Net invested capital	**2,821.0**	**2,483.7**
Group Shareholders' Equity	1,773.6	1,775.7
Minority interests	240.0	195.4
Net financial indebtedness	807.5	512.6
Shareholders' equity and financial debt	**2,821.0**	**2,483.7**

At 31 December 2013, net invested capital amounted to EUR 2,821, markedly higher than at 31 December 2012 as a result of the acquisition of the wind farms of ERG Wind.
Financial leverage, which represents the ratio of total net financial indebtedness (including Project Financing) and net invested capital, was 29% (21% at 31 December 2012).

Fixed assets

Fixed assets include tangible, intangible and financial fixed assets. The increase compared to 31 December 2012 is mainly due to the acquisition of wind farms of ERG Wind.

Net working capital

Net working capital includes inventory, trade receivables and payables, and excise duties payable.
The increase relative to 31 December 2012 is due mainly to the contribution of ERG Wind as well as to punctual phenomena linked to working capital dynamics.

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 fixed assets and inventories), the estimate of income taxes owed for the period, the provisions for liabilities and charges, VAT payables and the deferred income resulting from deferred recognition in the Income Statement of the CIP 6 price increase on sales of electricity by subsidiary ISAB Energy.

Net financial indebtedness

Summary of the Group's indebtedness	12/31/2013	12/31/2012
(EUR million)		
Medium/long-term financial indebtedness	1,435.7	918.4
Short-term financial indebtedness (cash and cash equivalents)	(628.2)	(405.8)
TOTAL	**807.5**	**512.6**

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

Medium/long-term financial indebtedness	12/31/2013	12/31/2012
(EUR million)		
Medium/long-term bank borrowings	120.8	289.1
Current portion of mortgages and loans	(87.0)	(168.6)
Medium/long-term financial payables	162.3	94.9
Total	**196.2**	**215.4**
Medium/long-term Project Financing	1,361.9	789.2
Current portion of Project Financing	(122.5)	(86.2)
Total Project Financing	**1,239.5**	**703.0**
TOTAL	**1,435.7**	**918.4**

Medium/long-term financial payables include liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 141 million (EUR 76 million as at 31 December 2012) and, for the remainder, the interest-bearing loans granted to ISAB Energy S.r.l. by the IPM group which owns 49% of the company.

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

- loans of EUR 1,063 million granted to companies in the Renewable Energy Sources business for the construction of wind farms, of which EUR 656 million relating to the wind farms of ERG Wind, net of the positive fair value relative to the notional, i.e. approximately EUR 138 million;
- EUR 177 million in loans granted to ERG Power S.r.l. for the construction of the CCGT plant;

On 13 December 2013, the residual debt for the Project Financing of ISAB Energy, amounting to approximately EUR 31 million, was repaid early.

The increase from 31 December 2012 is mainly due to the acquisition of ERG Wind, commented above.

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

Short-term financial indebtedness (cash and cash equivalents)	12/31/2013	12/31/2012
(EUR million)		
Short-term bank borrowings	200.5	353.1
Current portion of mortgages and loans	87.0	168.6
Other short-term financial payables	12.4	19.9
Short-term financial liabilities	**299.9**	**541.6**
Cash and cash equivalents	(816.6)	(842.7)
Securities and other short-term financial receivables	(73.3)	(34.2)
Short-term financial assets	**(889.9)**	**(876.9)**
Short-term Project Financing	122.5	86.2
Cash and cash equivalents	(160.7)	(156.6)
Project Financing	**(38.2)**	**(70.4)**
TOTAL	**(628.2)**	**(405.8)**

Other short-term financial payables mainly comprise:

- financial payables to unconsolidated Group companies;
- short-term payables to companies controlled by IPM Eagle.

The amount of cash and cash equivalents consists mainly of the liquidity arising from the collection of the consideration for the disposal of 20% of ISAB S.r.l. in December 2013, and of the restricted bank accounts pursuant to the conditions set out in the Project Financing agreements.

"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 in the securities described above.

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

	Year 2013	Year 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
(EUR million)		
Adjusted cash flow from current operations (1)	327.4	207.9
Income tax paid	(81.4)	(8.2)
Change in working capital	(33.3)	(5.5)
Change in other operating assets and liabilities	39.1	(30.6)
TOTAL	**251.8**	**163.6**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net capital expenditures on tangible and intangible fixed assets (2)	(73.0)	(74.3)
Net capital expenditures on financial fixed assets	(61.5)	(16.0)
Collection for the sale of ISAB shares	434.7	484.7
Total	**300.2**	**394.4**
CASH FLOW FROM SHAREHOLDERS' EQUITY:		
Distributed dividends	(68.2)	(62.7)
Other changes in equity (3)	25.4	(44.3)
Total	**(42.8)**	**(107.1)**
CHANGE IN SCOPE OF CONSOLIDATION[4]	**(804.1)**	**0.0**
CHANGE IN NET FINANCIAL INDEBTEDNESS	**(294.9)**	**450.9**
INITIAL NET FINANCIAL INDEBTEDNESS	**512.6**	**963.5**
CHANGE IN THE PERIOD	***294.9***	***(450.9)***
FINAL NET FINANCIAL INDEBTEDNESS	**807.5**	**512.6**

(5) item does not include inventory gains (losses), deferral of the CIP 6 tariff increase and current income tax for the period.
(6) item does not include capitalised costs for cyclical maintenance.
(7) in 2012, it includes the purchase of treasury shares for EUR 26 million.
(8) the change in the scope of consolidation refers to the acquisition of ERG Wind, ERG Renew Operations & Maintenance and to the sale of Eolo.

The increase in debt by EUR 295 million compared to 31 December 2012 is mostly the result of the acquisition of ERG Wind and of the payment of the dividends, partly offset by the collection for the sale of the final 20% equity investment in ISAB and by the cash flow of the period.

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

ERG Wind Consolidation

On 13 February 2013, ERG, through the subsidiary ERG Renew, closed with International Power Consolidated Holdings Ltd (100% GDF SUEZ) the acquisition of 80% of the capital of IP Maestrale Investments Ltd.
On the same date, the Shareholders' Meeting of IP Maestrale resolved to change the name of the company to ERG Wind Investments Ltd.
The total provisional price of the acquisition was EUR 35 million. In particular, the enterprise value of the acquisition was EUR 859 million, i.e. approximately EUR 1.35 million per installed MW. ERG recognised to the seller a provisional consideration for the equity of EUR 28.2 million for 80% of the share capital of IP Maestrale.
The agreements prescribe a put and call option on the remaining 20% of the capital, which may be exercised no earlier than three years after the date of closing. In consideration of the terms of the option and of the method for calculating its exercise price, the acquisition of the minority shares was assumed to be certain, with the consequent inclusion of minority shares in the Group’s equity and the recognition of the corresponding fixed financial liability (EUR 7 million).
In July 2013, the parties agreed on the amount of the total final price, i.e. EUR 23 million, thus determining a positive balance of EUR 12 million in ERG’s favour.
In relation to the above, a purchase price allocation exercise was carried out on the basis of available information, in accordance with IFRS 3. For the purposes of this exercise, due consideration was also given to any contractually mandated price adjustments relating to guarantee clauses for the protection of the ERG Group.
For additional details, please see the chapter entitled “**Acquisition of IP Maestrale (now called ERG Wind)**” of the Notes to these Consolidated Financial Statements.

The method used for the first consolidation of the acquired companies, as required by reference accounting standards, is described below.
The acquisition was measured according to the provisions of IFRS 3 on business combinations; based on this standard, for the transaction to be properly accounted for, the following is necessary:

- determining the total acquisition cost;
- determining the fair value of the acquired assets and liabilities;
- allocating, at the date of acquisition, the cost of the business combination to the acquired assets and the liabilities assumed, including those not recognised before the acquisition;
- recognising any goodwill acquired in the business combination.

In the determination of the fair value of the acquired assets and liabilities, the main differences identified refer to the evaluation:

- Of fixed assets, and in particular the contracts and authorisations for the generation of electricity at feed-in tariffs for wind farms in operation. These assets were provisionally evaluated with the support of models set up when assessing the validity of the investment;
- Of financial liabilities related to the derivative to hedge interest rates and to the loan, originally entered into under more advantageous conditions than those proposed by the market at the time of the acquisition.

The difference between the total acquisition cost and the net value of the acquired assets and liabilities was recognised residually as goodwill.

In the period between the date of first consolidation (1 January 2013) and 31 December 2013, the ERG Wind Group contributed approximately EUR 121 million to the ERG Group’s EBITDA.
At 1 January 2013, the impact of the transaction on the Group’s net financial indebtedness is estimated to be EUR 800 million and it refers to the price paid (EUR 23 million) and to the net financial position of the acquired companies, inclusive of the fair value of the derivatives and of the positive effect deriving from the fair value measurement of the loan, as commented above.

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.
To assure the comparability and consistency of results compared with previous periods, adjusted Income Statement values also include the contribution, for the portion attributable to ERG, of the results at replacement cost of ISAB S.r.l.

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 the contribution of the **TotalErg S.p.A.** and **LUKERG Renew** joint ventures, and also of **ISAB S.r.l.** 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 S.p.A., LUKERG Renew and ISAB S.r.l. 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 S.p.A. and LUKERG Renew, net of the relevant intra-group items.

As a result of the exercise of the put option, commented above, and of the consequent cessation of joint governance of ISAB S.r.l., from 1 September 2012 onwards the adjusted values of indebtedness and of investments no longer take into account the contribution of ISAB S.r.l.

Closing the exercise of the put option on the final 20% equity investment in ISAB

It should be recalled that 30 December 2013 was the closing date of the transaction related to the exercise of the put option for the final 20% of the share capital of ISAB S.r.l. The transaction entailed the provisional collection of EUR 426 million, which takes into account the value of inventories and of the definition of certain environmental issues pertaining to the refinery. As a result of the transaction, LUKOIL holds 100% of the share capital of ISAB S.r.l.
The capital gain and the income components associated with the sale of the equity investment are deemed to be non-recurring items and therefore they are not reflected in “Group EBIT at replacement cost”;
With reference to the aforesaid transaction, it should be pointed out that in the Consolidated Financial Statements the accounting results of the assets relating to the Coastal Refining Business (discontinued operations) are indicated separately in accordance with IFRS 5.
For clearer disclosure, the results inclusive of the aforesaid business are shown and commented in this document.

Reconciliation with operating results at adjusted replacement cost

EBITDA	Note	Year 2013	2012
EBITDA continuing operations*		**554.3**	**440.7**
Contribution of discontinued operations		*(174.5)*	*(108.8)*
EBITDA		***379.8***	***331.8***
Exclusion of inventory Gains / Losses		*6.3*	*0.8*
Exclusion of non-recurring items:			
Corporate			
- Ancillary charges - sale of 20% of ISAB S.r.l.	*1*	*0.4*	*4.2*
- Ancillary charges - ERG Wind acquisition	*2*	*2.9*	*0.0*
- Ancillary charges - other transactions	*3*	*0.2*	*0.0*
- Charges for company reorganisation	*4*	*4.3*	*0.0*
Renewable Energy Sources			
- Ancillary charges - ERG Wind acquisition	*2*	*10.2*	*0.0*
Integrated Downstream			
- Other charges on wholesale activities in Sicily	*5*	*7.2*	*0.0*
Coastal Refining			
- Estimated liabilities on balances from previous years		*0.0*	*2.6*
- Liabilities for transactions on previous years	*6*	*17.0*	*0.0*
- Liabilities for site disputes	*7*	*80.0*	*0.0*
- Derecognition of deferred income due to exit from Refining business	*1*	*(7.7)*	*0.0*
- Balance on commercial relations from previous years	*8*	*(3.4)*	*0.0*
Power & Gas			
- Estimated liabilities on balances from previous years		*0.0*	*6.3*
- Assets on white certificates from previous years		*0.0*	*(5.4)*
- Liabilities on green certificates from previous years		*0.0*	*5.3*
- Balance on commercial relations from previous years	*8*	*(4.3)*	*0.0*
EBITDA at replacement cost		***492.9***	***345.7***
ERG share of ISAB contribution at replacement cost(1)	*9*	*30.6*	*68.2*
TotalErg 51% contribution at replacement cost (1)	*10*	*39.0*	*43.0*
LUKERG Renew 50% contribution at replacement cost	*11*	*6.6*	*1.3*
EBITDA at adjusted replacement cost		***569.1***	***458.1***

AMORTISATION, DEPRECIATION AND WRITE-DOWNS	Note	Year 2013	2012
Amortisation/depreciation continuing operations*		**(210.1)**	**(152.6)**
Contribution of discontinued operations		*0*	*0*
Amortisation, depreciation and write-downs		**(210.1)**	**(152.6)**
Exclusion of non-recurring items:			
Renewable Energy Sources			
- Write-downs in the Renewable Energy Sources segment		*0.0*	*3.5*
Amortisation and depreciation at replacement cost		**(210.1)**	**(149.1)**
ERG share of ISAB contribution at replacement cost(1)	*9*	*(22.0)*	*(36.7)*
TotalErg 51% contribution at replacement cost (1)	*10*	*(55.7)*	*(54.7)*
LUKERG Renew 50% contribution at replacement cost	*11*	*(3.6)*	*(1.3)*
Amortisation and depreciation at adjusted replacement cost		***(291.4)***	***(241.8)***

EBIT	Note	Year 2013	2012
EBIT at replacement cost		**282.8**	**196.6**
ERG share of ISAB contribution at replacement cost(1)	*9*	*8.5*	*31.5*
TotalErg 51% contribution at replacement cost (1)	*10*	*(16.7)*	*(11.8)*
LUKERG Renew 50% contribution at replacement cost	*11*	*3.1*	*0.0*
EBIT at adjusted replacement cost		***277.7***	***216.3***

** does not take into account the results of the Coastal Refining business, which in the consolidated Financial Statements are indicated separately in accordance with IFRS 5*

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

GROUP'S NET PROFIT (LOSS)	Note	Year 2013	2012
Group's net profit (loss)		**28.4**	**151.2**
Exclusion of inventory Gains / Losses		*8.4*	*(6.2)*
Exclusion of non-recurring items:			
Exclusion of capital gain from sale of 20% of ISAB in 2012	*1*	*(9.0)*	*(214.1)*
Exclusion of capital gain and ancillary charges from sale of 20% of ISAB (2013)	*1*	*(176.5)*	*0.0*
Exclusion of liabilities for transactions on previous years	*6*	*12.3*	*0.0*
Exclusion of liabilities for site disputes	*7*	*70.6*	*0.0*
Exclusion of TotalErg non-recurring items	*12*	*6.2*	*71.5*
Exclusion of other charges on wholesale activities in Sicily	*5*	*4.2*	*0.0*
Exclusion of ancillary charges - ERG Wind acquisition	*2*	*11.8*	*0.0*
Exclusion of fair value difference for derivatives on OIL inventories	*13*	*1.9*	*2.7*
Exclusion of reversal of tax assets from previous years	*14*	*21.3*	*0.0*
Exclusion of ancillary charges - other transactions	*3*	*0.1*	*0.0*
Exclusion of charges for company reorganisation	*4*	*3.1*	*0.0*
Exclusion of costs for Green Certificates from previous years	*15*	*1.0*	*0.0*
Exclusion of balance on commercial relations from previous years	*8*	*(3.7)*	*0.0*
Exclusion of non-recurring Items "TotalERG Write-downs"	*16*	*58.4*	*0.0*
Exclusion of costs relating to sale of equity investment in Rivara Storage		*0.0*	*6.1*
Exclusion of IRAP benefit from previous years		*0.0*	*(5.2)*
Exclusion of non-recurring items "Write-downs in the Renewable energy sources sector"		*0.0*	*2.1*
Exclusion of assets on white certificates from previous years		*0.0*	*(3.6)*
Exclusion of liabilities on green certificates from previous years		*0.0*	*1.6*
Exclusion of estimated liabilities on balances from previous years		*0.0*	*3.6*
Exclusion of minor non-recurring items		*0.0*	*2.5*
Group net profit (loss) at replacement cost [1]		***38.5***	***12.3***

[2] *also corresponds to Group net profit (loss) at adjusted replacement cost*

Notes:

1. non-recurring items tied to the sale of the final 20% of ISAB S.r.l.
    a. Capital gain for the sale of 20% of the equity investments, amounting to EUR 177 million net of the related tax effects and of other ancillary components;
    b. Balance on the sale of 20% of ISAB, completed in 2012, amounting to EUR 9 million;

2. Ancillary charges connected with the acquisition of the companies of the ERG Wind Group (please refer to the paragraph “ERG Wind Consolidation”);

3. Ancillary charges on other transactions;

4. Costs incurred and expected in reference to the change to the Group’s organisation, started at the end of 2013 and to be completed in 2014;

5. Other charges associated with the exit from the wholesale business in Sicily by EOS as a result of the progressive conversion of the ISAB S.r.l. equity investments to Lukoil;

6. Costs of EUR 17 million relating to the dispute with Versalis S.p.A. (please see the paragraph “Significant events during the year”).

7. Liabilities tied to the activities at the Priolo site and deriving mainly from the definitive exit from the Coastal Refining business

8. Positive effect deriving from the definition of the 2008 CEC, which generated a positive effect of approximately EUR 4 million in ISAB Energy and of approximately EUR 3 million in ERG S.p.A.

9. ERG share of the results of ISAB S.r.l. at replacement cost net of inventory gains/losses

10. ERG share of the results at replacement cost of TotalErg net of inventory gains (losses) and non-recurring items

11. ERG share of the results of LUKERG Renew at replacement cost

12. Exclusion of TotalErg non-recurring items that refer to the expenses incurred in the period by the TotalErg investee for network rationalisation;

13. Negative impact of transactions on commodities, hedging part of the oil inventories at the ISAB refinery and carried out in relation to the exercise of the put option on the share of the equity investment in ISAB S.r.l.

14. Negative impact deriving from the derecognition of deferred tax assets on tax losses relating to the Robin Tax and deemed no longer recoverable;

15. Costs for Green Certificates from previous years relating to ISAB S.r.l.

16. Write-down of the equity investment in TotalErg by EUR 58 million as a result of the impairment tests carried out when preparing the 2013 Financial Statements.

For comments on the non-recurring items of 2012, please refer to the corresponding notes of the related Financial Statements.

Reconciliation with adjusted net financial indebtedness

	12/31/2013	12/31/2012
Net financial indebtedness	**807.5**	**512.6**
Net financial position of TotalErg	*146.6*	*190.5*
Net financial position of LUKERG Renew	*135.2*	*34.2*
Elimination of intra-group items	*(74.2)*	*(15.6)*
Adjusted net financial indebtedness	**1,015.1**	**721.7**

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.
The increase in indebtedness of LUKERG Renew (EUR +101 million compared to 31 December 2012) refers mainly to the previously commented acquisition of the Gebeleisis and Hrabrovo wind farms, as well as to the capital expenditures in the period.

Reconciliation with the values indicated in the Notes to the Consolidated Financial Statements

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

Reclassified income statement FY 2013	Values in the Consolidated Financial Statements	Reversal of IFRS 5 reclassifications	Values in the Report on Operations
EUR million			
Revenues from ordinary operations	5,331.2	1,720.6	7,051.8
Other revenues and income	6.7	17.2	23.9
TOTAL REVENUES	**5,337.9**	**1,737.8**	**7,075.7**
Costs for purchases and changes in inventory	(4,383.7)	(1,715.4)	(6,099.0)
Costs for services and other operating costs	(400.0)	(196.9)	(596.8)
EBITDA FROM CONTINUING OPERATIONS	**554.3**	**(174.5)**	**379.8**
Amortisation, depreciation and write-downs of fixed assets	(210.1)	0.0	(210.1)
Income (expenses) from sale of business unit	**0.0**	**0.0**	0.0
Net financial income (expenses)	(72.8)	0.0	(72.8)
Net income (loss) from equity investments	(87.6)	184.7	97.1
Profit before taxes	**183.8**	**10.2**	**194.0**
Income taxes	(125.5)	16.8	(108.8)
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	**58.3**	**26.9**	**85.2**
Net profit (loss) from discontinued operations	*26.9*	*(26.9)*	*0.0*
Profit for the period	**85.2**	**(0.0)**	**85.2**
Minority interests	(56.8)	0.0	(56.8)
Group's net profit (loss)	**28.4**	(0.0)	**28.4**

Reclassified income statement FY 2012	Values in the Consolidated Financial Statements	Reversal of IFRS 5 reclassifications	Values in the Report on Operations
EUR million			
Revenues from ordinary operations	5,229.4	3,035.4	8,264.8
Other revenues and income	14.9	8.3	23.3
TOTAL REVENUES	**5,244.4**	**3,043.7**	**8,288.1**
Costs for purchases and changes in inventory	(4,388.3)	(2,939.4)	(7,327.7)
Costs for services and other operating costs	(415.4)	(213.2)	(628.5)
EBITDA FROM CONTINUING OPERATIONS	**440.7**	**(108.8)**	**331.8**
Amortisation, depreciation and write-downs of fixed assets	(152.6)	0.0	(152.6)
Income (expenses) from sale of business unit	**(1.6)**	**0.0**	**(1.6)**
Net financial income (expenses)	(52.5)	0.0	(52.5)
Net income (loss) from equity investments	(100.8)	244.5	143.7
Profit before taxes	**133.1**	**135.6**	**268.7**
Income taxes	(99.5)	30.6	(68.8)
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	**33.6**	**166.3**	**199.9**
Net profit (loss) from discontinued operations	166.3	(166.3)	-
Profit for the period	**199.9**	**0.0**	**199.9**
Minority interests	(48.7)	0.0	(48.7)
Group's net profit (loss)	**151.2**	**0.0**	**151.2**

The column “Reversal of IFRS 5 reclassifications” indicates the results of the Coastal Refining business and of the sale of the equity investment in ISAB and the related capital gain net of ancillary components.

Significant events after the reporting period

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 wind farm was connected to the national electricity grid last November, and turbine testing work is currently being carried out.
The new wind farm, consisting of 41 Vestas V90 wind turbine generators, each rated at 2 MW, will have an installed capacity of 82 MW, which will increase by a further 2 MW in upcoming months, as soon as construction work is completed on the last turbine, authorised last December. When it becomes fully operational, the wind farm will generate over 200 GWh of electricity per year, for savings of approximately 85 kt of CO_2 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 150 MW.

On **17 January 2014**, ISAB Energy paid dividends amounting to EUR 23 million to the shareholder ERG S.p.A., and paid the main “subordinated” debts pursuant to the project financing agreement in force through December 2013.

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 CO_2 emissions.
With the construction of the wind farm, ERG Renew strengthened its leadership position in the Italian wind power marked, with total installed capacity of 1,087 MW in Italy and 1,340 MW throughout Europe.

Business outlook

The expected outlook for the main operating and performance indicators in 2014 is as follows:

Renewable Energy Sources

2013 was a particularly important year for ERG Renew as a result of the aforementioned acquisition of IP Maestrale (now ERG Wind) whereby ERG Renew has become the leading operator in the wind power business in Italy.
Abroad, through LUKERG Renew, the acquisition of two wind farms in Romania and Bulgaria was completed; their total installed power is 84 MW (of which ERG's share is 42 MW).

Moreover, since October 2013, through the acquisition of ERG Renew O&M, the company started to carry out the operations and maintenance activities of approximately half of the Italian wind farms internally, with the goal of extending this activity to the other parks in 2014 thus aiming to achieve major benefits in terms of operating efficiency, cost containment and technical availability.

At the end of 2013, construction work was completed on the new wind farm of Palazzo San Gervasio, with 34 MW of power, for which the company has obtained entitlement to the incentives as a result of participation in the auctions prescribed by the new regulations, and on a new wind farm in Romania, built through the LUKERG Renew, with total power of 82 MW (of which ERG's share is 41 MW). Both wind farms have been fully operational since January 2014, and they will contribute to ERG Renew’s results throughout 2014.

Lastly, in 2014 activities aimed at further developing the company will continue, through the assessment of potential new investment opportunities, particularly abroad.

The full contribution of the new wind farms to electricity generation, associated with the expected operating synergies, should entail further revenue and income growth is expected for 2014, compared with 2013.

Power & Gas

The year 2014 will be characterised by the significant discontinuity relating to the agreement, subject to the fulfilment of certain conditions precedent, which will lead to the early termination of the CIP 6 agreement and to the subsequent sale of the ISAB Energy plant. The plant should therefore be operated according to the current configuration only in the first half of the year, during which CIP 6 rates are expected to contract significantly compared to those of 2013 as a result of the changes in the regulations covering this matter.

Mostly as a result of the completion of this transaction, a significant contraction in the overall operating result of the business is expected for 2014, in view of a non-recurring income and an additional significant injection of cash consequent to the early extinction of the CIP6 agreement.
With regard instead to the ERG Power plant, in spite of the persistently unfavourable conditions for gas-fuelled plants in the domestic market, whereby generation margins and utilisation factors are expected to remain at depressed levels, mostly because of the weak demand, satisfactory results - albeit lower than in 2013 - are expected for 2014 as well; the geographic position of the plant, its flexibility and the utility supply contracts will enable to maintain a higher profitability than the industry's average in Italy.

Refining & Marketing

- **Integrated Downstream**

  With regards to the Marketing business, in view of the weak economic environment, of the high prices of products on international markets and of the heavy weight of the tax component (VAT and excise duties), consumption is expected to remain at depressed levels in 2014 as well.
  In this situation, the company’s efforts will 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.
  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 compared to 2012, whilst the strategic role of the Group’s logistical assets will be enhanced.
- **Coastal Refining**

  As a result of the sale of the final 20% equity investment in ISAB S.r.l., at the end of 2013, the Group has definitely exited the Coastal Refining business, which in recent years has been characterised by high volatility and severely negative results.
  Trading in crude oils and products, instead, will continue in 2014 as well; through it, any profit opportunities which may arise on the market for these commodities will be sought, but within the scope of highly restrictive risk management policies.

For the business as a whole, significantly better results are expected in 2014, compared to 2013.

In light of the above, the EBITDA at replacement cost in 2014 is expected to be lower than in 2013; however, such a comparison must be considered in light of the marked discontinuities in the perimeter of interest, that can be expected in the course of the next year.

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.