

# LETTER TO THE SHAREHOLDERS

Dear Shareholders,

the year 2013 was marked by important achievements and significant changes for ERG.

The sharply growing economic results and the additionally strengthened financial structure, in a macroeconomic framework that remains difficult, confirm the validity of the strategic transformation route taken and make a solid base for the future growth of our Group. The business portfolio continued to be repositioned with determination, through the considerable growth in the renewable energy sources segment in terms of both installed capacity and managerial skills acquired, together with the completion of the exit from the Coastal Refining sector.

The acquisition of the assets of IP Maestrale, now ERG Wind, in February allowed ERG to become the first producer of wind energy in Italy and one of the ten leading operators in Europe; the positive effects of the acquisition were fully seen already in 2013, consequently to the important operating and managerial synergies achieved ahead of schedule. The acquisition of two wind farms that are already in operation (Gebelesis in Romania and Hrabrovo in Bulgaria), for a total capacity of 84 MW, was completed in June through the joint venture LUKERG Renew. The construction of the wind farm of Topolog was completed in Romania in December. With its 82 MW, it further consolidates the presence of LUKERG Renew, which has become one of the main operators in the Romanian wind market. The transactions completed in eastern Europe, combined with the acquisition, in Germany, of the portfolio of plants belonging to ERG Wind, have resulted in a level of geographical diversification of the installed wind capacity equal to about 20% of the total. As regards development in Italy, the completed construction of the Palazzo San Gervasio wind farm (34 MW) in Basilicata allowed us to further consolidate our leading position in the Italian market.

We also acquired the company in charge of managing the operations of the wind farms of ERG Wind, now ERG Renew Operations & Maintenance. 136 persons joined our Group: they are mostly technical personnel, highly specialised in the management and maintenance of wind farms. This transaction, which plays a fundamental strategic role, allowed us to complete the acquisition of the necessary skills to manage the wind power business in a direct and integrated manner, with great advantages in terms of cost optimisation and efficiency.

In 2013 the Group invested more than EUR 1 billion in the renewable energy sources segment overall, in terms of Enterprise Value.

The agreement with Unicredit was announced in December and then finalised in January of this year, for the inclusion of the bank in the shareholding of ERG Renew through the purchase of a minority interest equal to 7.14% of the share capital. The transaction, in addition to allowing new capital to be found to support the growth plans for renewable energies in Italy and abroad, proves the trust that a banking partner of such an international standing places in the future development potentials of ERG Renew.

An agreement was reached at the end of 2013 for the sale of the IGCC plant of ISAB Energy to the LUKOIL Group. The transaction is accompanied by the purchase of the 49% minority interest held by GDF SUEZ and Mitsui & Co. in ISAB Energy. The closing of both transactions is subject to the acceptance by the GSE of the early termination of the CIP6/92 convention, effective from 1 July 2014. These transactions were performed consistently with the definitive exit from Coastal Refining, with the announcement of the sale to LUKOIL of the last 20% equity investment in ISAB S.r.l. on 30 December 2013.

The set of transactions performed during 2013 is also the result of the sound relationships established with our national and international partners, as an important added value to achieve our business and development objectives.

The Group's economic results grew considerably also in 2013. EBITDA at adjusted replacement cost came to EUR 569 million, up by 24% compared to 2012, while the net profit of the Group stood at EUR 38 million, increasing greatly compared to EUR 12 million of the previous year.

The renewable energy sources segment recorded EBITDA of EUR 245 million, which almost doubled from the EUR 137 million of 2012, thanks to the full contribution from the output of the wind farms of ERG Wind and the partial contribution from the plants in Romania and Bulgaria acquired in June. The production of electricity from renewable sources allowed us to avoid the emission into the atmosphere of about 958 thousand tonnes of CO<sub>2</sub> in 2013, equal to about 13 million car journeys from Rome to Milan.

Further improvements are expected in 2014, mainly due to the production of the plants acquired in 2013 and those that were completed at the end of last year fully contributing to the results. We also expect to receive a considerable contribution from the complete implementation of the synergies after the internalisation of the maintenance and business activities of ERG Renew Operations & Maintenance.

The Power sector recorded an EBITDA of EUR 358 million, growing by 10% compared to 2012, thanks to the good operating performance of the CCGT plant of ERG Power and a favourable local market scenario, in a national context that remains difficult overall for combined cycle gas-fuelled plants. Within the framework of our policy devoted to workers' health and safety, ERG Power, which owns the CCGT plant, was awarded the OHSAS 18001 certification in 2013. The result expected in 2014 with regard to ERG Power remains satisfactory, though decreasing, featuring a significant lack of continuity of the operating results upon the conclusion of the agreements for the sale of the IGCC plant of ISAB Energy.

Concerning Refining & Marketing, negative EBITDA of EUR 5 million derives from the severe worsening of the refining scenario, whose effects were partly mitigated by the reduced exposure to such business. As regards Marketing, despite the additional drop in the domestic demand for fuels recorded during the year, the results have slightly improved, thanks to the efficiency actions taken on costs, automation and rationalisation of the TotalErg distribution network.

The year 2014 will benefit from the complete exit from the Coastal Refining sector, but will be affected by the persistently weak consumption and the significant incidence of the tax components on product prices. The investments envisaged in this context will mainly address the additional network automation and rationalisation.

If the results of ISAB Energy (expected to leave the scope of the Group) are excluded, the results for 2014 are expected to be better than in 2013 overall. The financial structure will be strengthened further by considerably reducing the net financial position, primarily as a consequence of the early termination of the CIP 6 convention, with effect expected from 1 July 2014.

Based on the results obtained during 2013, we intend to propose the Shareholders' Meeting a dividend of EUR 1 per share, including an ordinary component of EUR 0.5 per share, growing by 25% compared to 2012, and a non-recurring component of EUR 0.5 per share. Thanks to the mentioned transactions, in 2013 the Group reached fundamental goals within its project to strategically redefine its portfolio. This justifies the proposal to increase the ordinary component while recognising an extraordinary capital remuneration component, in line with a sound financial structure that is suitable to support the Group's medium-term development.

In this context of transformation, on 1 January 2014 the Group established a new organisational structure featuring a strategic orientation and coordination holding that is able to optimally allocate the financial and human resources within the Group, with more autonomous business divisions and a service company to manage the administrative and accounting processes, the purchases and IT services, transversally supporting the Group's organisational structures, always pursuing greater efficiency, synergies and economies of scale.

The results achieved in 2013 are also and foremost the outcome of successful teamwork that allows us to confidently look to the future and the development opportunities, being aware that the current more volatile and uncertain scenarios require new, more efficient, faster and more flexible management models and the ability to "look beyond", as essential elements of our way of doing business.



EDOARDO GARRONE  
Chairman

A handwritten signature in black ink, appearing to read "Edo Garrone".



LUCA BETTONTE  
Chief Executive Officer

A handwritten signature in black ink, appearing to read "Luca Bettonte".