



Report  
on corporate governance  
and ownership



# 1. EXECUTIVE SUMMARY

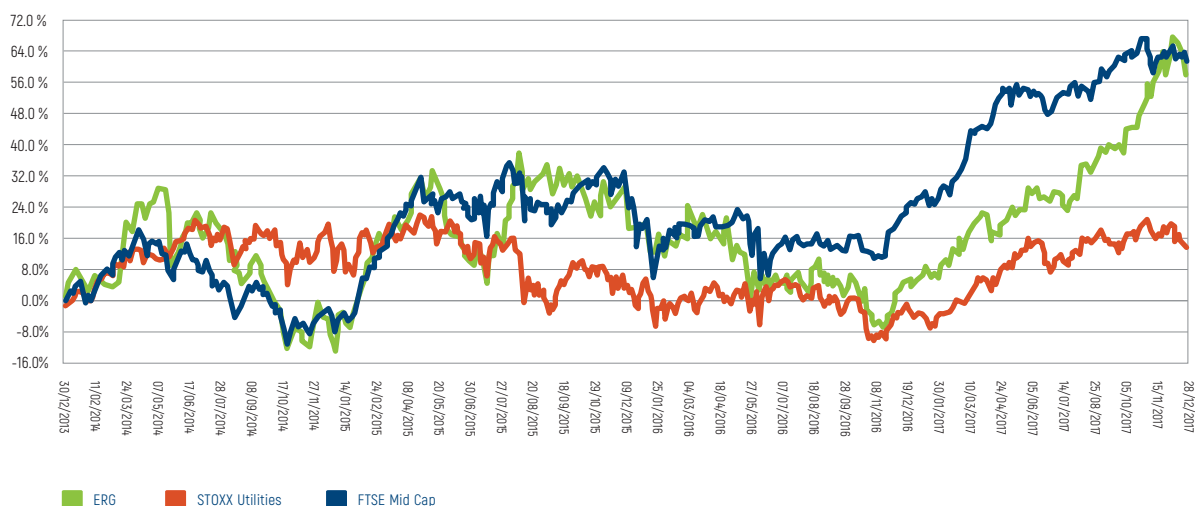
## 1.1. ERG GROUP - MAIN HIGHLIGHTS

Figures in EUR millions	2015	2016	2017	% Change 2016-2017; 3 years for TSR
Revenues from ordinary operations <sup>(1)</sup>	944	1,025	1,056	3%
EBITDA	350	455	472	4%
EBIT	179	202	220	9%
Net financial indebtedness	1,448	1,557	1,233	-21%
ROI	5.7%	6.1%	7.1%	
ROE	10.7%	11.7%	11.7%	
Capitalisation at 31/12	1,874	1,535	2,315	
Employees	666	715	714	
Sector	Utility			
Shareholders' Equity	1,676	1,729	1,877	
EBIT	179	202	220	

(1) at adjusted replacement cost

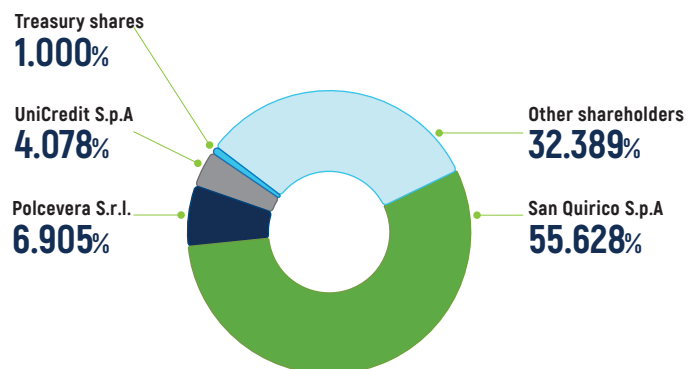
## SHARE PERFORMANCE, 2014-2017

ERG vs Euro Stoxx Utilities and FTSE Mid Cap  
% change from 30/12/2013 to 29/12/2017



## 1.2. SHAREHOLDING STRUCTURE

### OWNERSHIP STRUCTURE



### OTHER CHARACTERISTICS OF THE SHAREHOLDING STRUCTURE

	Yes/No	% of share capital
Shareholders' agreement in force	No	–
Majority vote	No	–
Shareholding by senior management	Yes	0.04%
Participation threshold for the presentation of lists	Yes	1%

### 1.3. CORPORATE BODIES AND BOARD COMMITTEES



#### SHAREHOLDERS' MEETING

Approves the financial statements, appoints the Board of Directors, the Board of Statutory Auditors and the Independent Auditors, and resolves on changes to the Articles of Association and on extraordinary transactions such as mergers, demergers and capital increases.



#### BOARD OF DIRECTORS

Approves the periodic financial reports, defines the strategic guidelines, the fundamental aspects of the organisational structure and the corporate governance system, resolves on significant transactions, and assesses the company's performance.

Composed of 12 members, 7 of which are independent\*. Held 9 meetings in 2017, with an average duration of around 2 hours and 45 minutes.



#### BOARD OF STATUTORY AUDITORS

Oversees compliance with the law and with the Articles of Association, adherence with correct administration principles, and the adequacy of the ICRM System\*\*, and ensures the independence of the Independent Auditors.

Comprised of a Chairman, 2 Standing Auditors and 3 Alternate Auditors. 13 meetings were held in 2017 with an average duration of around 3 hours.



#### CONTROL AND RISK COMMITTEE

Assists the Board of Directors in decisions relating to the approval of periodic financial reports pertaining to Group Governance, the ICRM System\*\*, obligations pursuant to Legislative Decree 231/01 and the Finance Division\*\*\*.

Comprised of one Chairman and 2 members chosen from among the Independent Directors. 10 meetings were held in 2017, with an average duration of around 2 hours and 25 minutes.



#### NOMINATIONS AND REMUNERATION COMMITTEE

Makes recommendations regarding the remuneration of Directors with powers or specific duties, and the definition of remuneration policies and incentive plans for Group management\*\*\*.

Comprised of one Chairman and 2 members chosen from among the Independent Directors. 6 meetings were held in 2017, with an average duration of around 50 minutes.



#### STRATEGIC COMMITTEE

Assists the Chief Executive Officer and the Board of Directors in defining strategic business, portfolio and finance guidelines, and in decisions relating to long-term strategic plans, the Group's investment budgets and significant investments.

Comprised of one Chairman and 3 members. 9 meetings were held in 2017 with an average duration of around 3 hours and 30 minutes.



\* 4 independent as per the Corporate Governance Code and 3 independent as per the Consolidated Law on Finance ["T.U.F."].

\*\* Internal Control and Risk Management System.

\*\*\* Responsible for formulating opinions for the purposes of the Procedure for Transactions with Related Parties.

## 1.4. INTERNAL COMMITTEES



## 1.5. COMPOSITION OF THE BOARD OF DIRECTORS

### STRUCTURE OF THE BOARD OF DIRECTORS:

Director	Office	Role	Independent	M/m*	CRC**	NRC**
Edoardo Garrone	Chairman	Executive	No	M		
Alessandro Garrone	Deputy Chairman	Executive	No	M		
Giovanni Mondini	Deputy Chairman	Non-Executive	No	M		
Luca Bettonte	Chief Executive Officer	Executive	No	M		
Massimo Belcredi	<i>Lead Independent Director***</i>	Non-Executive	Consolidated Finance Law (T.U.F.)	M	C	
Alessandro Careri	Director	Non-Executive	Consolidated Finance Law (T.U.F.)	M		
Mara Anna Rita Caverni	Director	Non-Executive	T.U.F. and Corporate Governance Code	M	x	x
Alessandro Chieffi	Director	Non-Executive	T.U.F. and Corporate Governance Code	m		
Barbara Cominelli	Director	Non-Executive	T.U.F. and Corporate Governance Code	M	x	
Marco Costaguta	Director	Non-Executive	No	M		
Paolo Francesco Lanzoni	Director	Non-Executive	Consolidated Finance Law (T.U.F.)	M		C
Silvia Merlo	Director	Non-Executive	T.U.F. and Corporate Governance Code	M		x

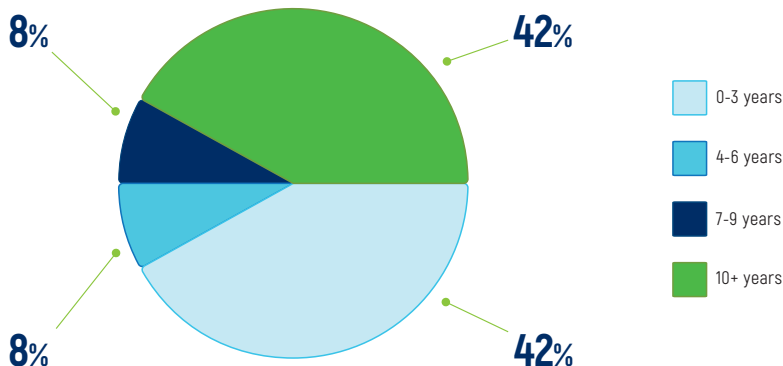
\* This column indicates whether the member was elected from the list voted by the majority (M) or by a minority (m).

\*\* CRC: Control and Risk Committee; NRC: Nominations and Remuneration Committee - they provide to the Board of Directors and to the relevant bodies the opinions provided for by the Procedure for Transactions with Related Parties.

\*\*\* Elected by the Board of Directors on a voluntary basis.

C: Chairman of the relevant Committee. - x: Member of the relevant Committee.

### SENIORITY OF THE DIRECTORS IN THE BOARD OF DIRECTORS (% OF TOTAL DIRECTORS)



### CHANGES COMPARED TO THE PREVIOUS MANDATE

	Previous mandate (2012-2014)	Previous mandate (2015-2017)	MID Cap* (last year available)
Number of Directors	12	12	10.7
Directors elected by minority	0	1	1.6
% of the less represented gender in the Board of Directors	8%	25%	29.6
% Independent Directors as per T.U.F.	42%	58%	49.4
% Independent Directors as per T.U.F. and Corporate Governance Code	42%	33%**	46.2
Average age of Directors	61	55**	57.8
Status of Chairman	Executive	Executive	-
Existence of Lead Independent Director	No	Yes	49.2%***

\* Source Assonime and CONSOB.

\*\* Change with respect to the years 2015 and 2016 and as a result of the resignation on 20 April 2017 by the Director Luigi Ferraris and the subsequent appointment, on 11 May 2017, pursuant to Article 2386 of the Italian Civil Code and Article 15 of the Articles of Association, of Alessandro Careri as new Director of the Company.

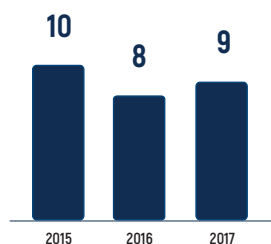
\*\*\* Companies in which Lead Independent Director is active.

## 1.6. OPERATION OF THE BOARD OF DIRECTORS

### NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS AND PARTICIPATION RATE

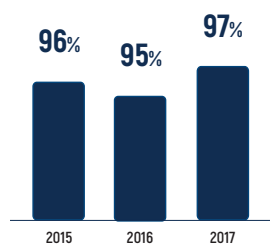
#### MEETINGS

MID CAP 10.6 10.8



#### PARTECIPATION

MID CAP 91.5% 92.2%



### DIRECTOR OR AUDITOR OFFICES HELD BY DIRECTORS IN OTHER COMPANIES

	Other Group companies	Other listed companies				Other unlisted companies of significant size or financial, banking	
		Executive Director	Non-Executive Director	Independent Director	Auditor	Director or Member of the Management Board	Auditor or Member of the Supervisory Board
Edoardo Garrone	-	-	1	-	-	1	1
Alessandro Garrone	-	-	-	-	-	1	-
Giovanni Mondini	-	-	-	-	-	1	-
Massimo Belcredi	-	-	-	1	-	-	-
Alessandro Careri	-	-	-	-	-	-	-
Mara Anna Rita Caverni	-	-	1	1	-	-	-
Alessandro Chieffi	-	-	1	-	-	3	-
Marco Costaguta	-	-	1	-	-	7	-
Paolo Francesco Lanzoni	-	-	-	-	-	1	-
Silvia Merlo	-	-	-	2	-	1	-

### BOARD EVALUATION PROCESS

Board evaluation process carried out	Yes
Evaluating party	The Board of Directors with the support of the Nominations and Remuneration Committee
Self-evaluation procedures	Anonymous questionnaire to the members of the Board of Directors; the Board of Statutory Auditors is also involved in the process

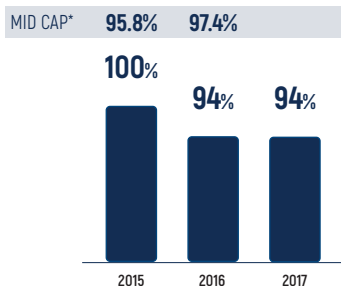
## 1.7. REMUNERATION

### NUMBER OF NOMINATIONS AND REMUNERATION COMMITTEE MEETINGS AND PARTICIPATION RATE

#### MEETINGS



#### PARTECIPATION



\* Data relating to Remuneration Committee

### REMUNERATION POLICY

#### SHORT-TERM INCENTIVE SCHEMES (MBO)

	No	Yes
Existence of a short-term incentive scheme		x
Existence of a <i>bonus cap</i>		x

#### LONG-TERM INCENTIVE SCHEMES (LTI)

	No	Yes
Existence of a long-term incentive scheme		x
Existence of a <i>bonus cap</i>		x
<b>LTI VEHICLES</b>		
Cash		x
Financial instruments	x	

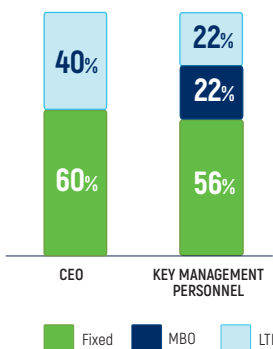
#### SHORT-TERM INCENTIVE SCHEMES (MBO)

MBO parameters	Weight
EBT Group*	30%
INDIVIDUAL OBJECTIVES e.g. EBITDA, NFP, OPEX, ...	70%

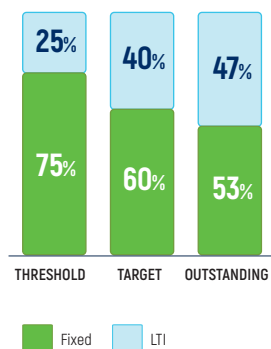
LTI parameters per CEO	Weight
$\Delta$ EVA	60%
TSR	40%

\* Profit (loss) before IAS taxes at fair value net of income (expenses) arising from shareholding in TotalErg S.p.A.

#### THEORETICAL PAY MIX FOR CEO AND KEY MANAGEMENT PERSONNEL



#### REMUNERATION FOR CEO DEPENDING ON ACHIEVEMENT OF TARGETS



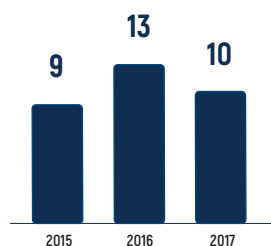


## 1.8. CONTROL AND RISK SYSTEM

### NUMBER OF CONTROL AND RISK COMMITTEE MEETINGS AND PARTICIPATION RATE

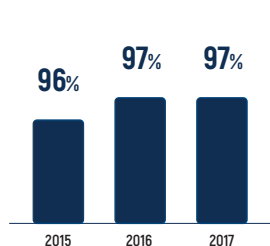
#### MEETINGS

MID CAP 8.8 7.9



#### PARTECIPATION

MID CAP 93.8% 94%



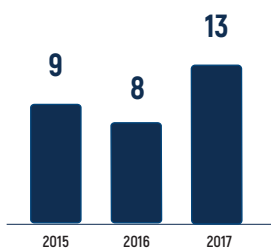
### COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

Auditors	Office	Independent	Other offices in unlisted companies of significant size or financial, banking or insurance companies
Elena Spagnol	Chairman	X	1
Lelio Fornabaio	Standing	X	5
Stefano Remondini	Standing	X	-
Vincenzo Campo Antico	Alternate	X	
Luisella Bergero	Alternate	X	
Paolo Prandi	Alternate	X	

### NUMBER OF MEETINGS OF THE BOARD OF STATUTORY AUDITORS AND PARTICIPATION RATE

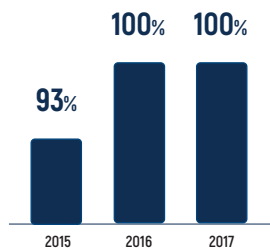
#### MEETINGS

MID CAP 14.2 12



#### PARTECIPATION

MID CAP 94.5% 96.4%



### MAIN ELEMENTS OF THE CONTROL AND RISK SYSTEM

	Yes/No
Presence of the Risk Management function	Yes
Chief Risk Officer	No
Enterprise Risk Management plan in place	Yes
If yes, has this plan been discussed with the Committee?	Yes

## MAIN RISKS

RISK	DESCRIPTION	MANAGEMENT STRATEGY IMPLEMENTED BY THE ERG GROUP
<b>1 - Natural variability of renewable contributions</b>	Production volumes can vary as a result of the natural variability of renewable production sources (water, wind and sun), which may adversely affect the production of renewable plants.	<ul style="list-style-type: none"> <li>• Diversification of renewable technologies (Wind, Solar and Hydroelectric) and the geographic location of renewable plants (European scale);</li> <li>• Use of as accurate as possible forecasting systems to define the production plan and short-term operating activities;</li> <li>• Scheduling of stoppages at renewable plants in periods in which renewable source production is low;</li> <li>• Use of industrial control systems (SCADA) for the continuous monitoring of the status of plants which make it possible to intervene promptly in the event of accidental failure and to reduce machinery downtime.</li> </ul>
<b>2 - Price Risk</b>	Risk linked to the volatility of prices in the commodities market (in particular EE/Gas), which can significantly affect Group results.	<ul style="list-style-type: none"> <li>• Definition and regular monitoring of risk exposure limits;</li> <li>• Escalation process in the event that the approved limits are exceeded;</li> <li>• Use of financial instruments to hedge price risk only if there is an underlying asset;</li> <li>• Contractualisation, where possible, of indexed sales formulae that may allow the risk to be transferred to the customer.</li> </ul>
<b>3 - Legislative and regulatory changes</b>	Possible legislative and regulatory changes in the countries in which the Group operates that may negatively impact the achievement of business targets.	<ul style="list-style-type: none"> <li>• Legislative and regulatory monitoring through institutional relations, related channels, comparison with operators in the sector, and the specialised press;</li> <li>• Active participation in consultations to protect Group interests;</li> <li>• Sensitivity Analysis to assess the effect of the main regulatory changes on Group results;</li> <li>• Periodic reporting to Management.</li> </ul>
<b>4 - Breach of corporate financing covenants</b>	Risk linked to the possibility of not complying with covenant constraints provided for under corporate financing agreements	<ul style="list-style-type: none"> <li>• Careful evaluation of each new investment initiative and verification of its sustainability, including in relation to the impacts on the covenant;</li> <li>• Periodic and structured monitoring of final and expected results and of the main financial risks that may directly or indirectly affect the covenant;</li> <li>• Sensitivity Analysis to assess the suitability of the Plan's assumptions with respect to the financial covenants.</li> </ul>
<b>5 - New capital expenditure</b>	Possible uncertain events originating from various factors, for example, scenarios (micro/macro-economic, political, regulatory, business-related), technical, operating, financial or organisational factors which may impact the decision to make new capital expenditure and on its success.	<ul style="list-style-type: none"> <li>• Structured processes for selecting capital expenditure that involve a set of successive levels of examination and approval of projects carried out based on, inter alia, internal and external support studies, benchmark analyses, legal-regulatory analyses, sustainability models and financial assessment/planning.</li> <li>• Detailed analysis for the relevant projects of all the risks associated with them: (i) potential impacts and strategy/actions to contain/eliminate the risk; (ii) follow-up items to monitor the mitigation processes;</li> <li>• Periodic updating of the WACC/HR, also through benchmarks, to ensure a suitable return in relation to the expected risk profile.</li> </ul>
<b>6 - Cyber-attacks on industrial production systems</b>	Potential cyber-attacks that exploit vulnerabilities may bring industrial production systems to a standstill.	<ul style="list-style-type: none"> <li>• Carrying out of security assessments to identify critical issues in the systems and support infrastructure;</li> <li>• Definition and implementation of a Security Program to adapt processes, systems and infrastructure to best practices;</li> <li>• Development of security awareness and training plans for users;</li> <li>• Use of automated tools (e.g. Intrusion Detection Systems) for the prevention, detection and management of incidents;</li> <li>• Insurance to cover the risks of cyber-crime.</li> </ul>
<b>7 - Failure to protect reputational capital</b>	Internal/external events that may have a negative impact on ERG Group's reputation (including: financial performance, ethics and integrity, social responsibility, HSE Policies, ICT security, crisis management, etc.).	<ul style="list-style-type: none"> <li>• Specific information and communication activities aimed at maintaining the Group's strong reputation among stakeholders, including, inter alia, a structured Corporate Social Responsibility process with specific social responsibility initiatives and the dissemination of Non-Financial Information;</li> <li>• Active relations with all major stakeholders and the media, and monitoring of stakeholders' perceptions;</li> <li>• Communication activities through the website/social media;</li> <li>• Structured Reputational Crisis Management process that enables crisis effects to be promptly managed and contained in order to safeguard the reputation of the ERG Group.</li> </ul>
<b>8 - Anti-Corruption Compliance Risk</b>	The possibility that one of the companies in the Group and/or a director, representative or employee of the same, could be involved in proceedings for offences committed in breach of anti-corruption laws that may involve the application of sanctions against the aforementioned persons (both physical and legal persons) and negative repercussions in terms of reputation.	<ul style="list-style-type: none"> <li>• Adoption of the rules of conduct system (Code of Ethics and Anti-Corruption Policy) valid for the entire Group;</li> <li>• Adoption of an "Integrated Anti-Corruption Model", for all companies, in Italy and abroad, in line with best practices;</li> <li>• Definition of information flows for the monitoring of the Anti-Corruption System;</li> <li>• Training on anti-corruption issues;</li> <li>• Definition and implementation of Compliance Programmes to verify compliance with the Anti-Corruption Policy.</li> </ul>
<b>9 - Industrial Risks and HSE</b>	Risks related to malfunctioning systems potentially resulting in critical issues during production processes and/or having a negative impact in terms of HSE	<ul style="list-style-type: none"> <li>• Implementation of a Business Continuity Management process that ensures the proper maintenance of production assets, through specific risk assessment activities and Business Impact Analyses;</li> <li>• Adoption of certified (ISO 14001 and OHSAS 18001) Management Systems and regular training for all staff working within the facilities;</li> <li>• Specific levels of insurance coverage for business interruption, property damage and any accidents involving staff.</li> </ul>

## 1.9. SUSTAINABILITY

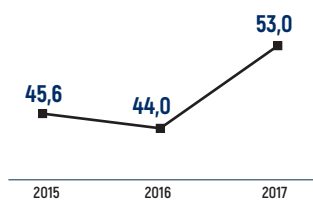
### CO<sub>2</sub> AVOIDED: 2016-2018



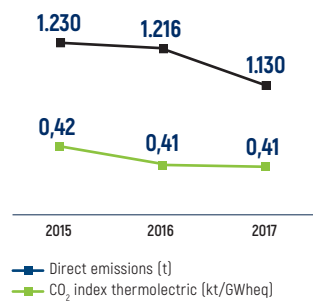
The conversion factor gCO<sub>2</sub>/kWh, published by Terna in its annual reports and referring to thermoelectric power generation of each country, is used to calculate the CO<sub>2</sub> avoided.

### SUSTAINABILITY INDICATORS

**AVERAGE TRAINING PER EMPLOYEE (HOURS/YEAR)**



**CO<sub>2</sub> EMISSIONS**



## 2. HISTORY OF THE GOVERNANCE STRUCTURE

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The current governance structure of ERG S.p.A. (hereinafter also “ERG” and the “Company”) has evolved over time by gradually introducing rules of conduct that reflect the most advanced and widely recognised principles of Corporate Governance into the ERG corporate approach.

Even prior to the listing of the Company in October 1997, one of the key aspects of the governance structure was a focus on a proper relationship between management and shareholders and balanced corporate management aimed at creating medium to long-term value.

This corporate policy was implemented through:

- the coordinated delegation of powers within ERG’s Board of Directors (the “Board of Directors”) in such a way as to assure the clarity and completeness of executive powers and accountabilities, and the monitoring of the activities carried out and assessment of the results achieved;
- regular and adequate reporting to the Board of Directors on actions taken in the exercise of managerial powers and responsibilities;
- the adoption of an Anti-Corruption System, in accordance with the best international standards (ISO 37001:2016<sup>1</sup>), which constitutes an integral part of the internal control and risk management system of the ERG Group;
- an integrated system of enterprise risk management aimed at identifying, evaluating and monitoring all risks that may assume importance in terms of sustainability in the medium-long term with regard to ERG Group operations;
- the use of specific procedures to determine remuneration for directors and management.

Its presence on the stock market has clearly accentuated the company’s propensity to base its conduct on the criteria of transparency and correctness. It has also accelerated the process of adapting both internal regulations and organisation to meet these criteria.

This corporate policy was therefore put into effect by means of:

- amendments to the Articles of Association to bring them into line with the regulatory changes introduced by the Italian company law reform, by law provisions on the matter of shareholders’ rights, on transactions with related parties and, lastly, on gender balance in the composition of corporate bodies;
- the adoption of a Code of Ethics - updated on 14 May 2014 - as a tool for defining and communicating ERG’s duties and responsibilities towards its stakeholders, as well as being an imperative element of an Organisation and Management Model consistent with the requirements of Italian Legislative Decree 231/2001;

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<sup>1</sup> Antibribery Management System: provides guidance on internal control and risk management measures that help to prevent and combat the phenomena of corruption in companies and in groups of undertakings.

- adherence to the Italian Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A. (“Corporate Governance Code”)<sup>2</sup> since its first edition in 1999;
- the adoption of a Code of Conduct for the Directors of companies of the ERG Group (“Group”), updated on 14 May 2014;
- the appointment of independent directors and non-executive directors to the Board;
- the adoption of a Remuneration Policy for members of the Board of Directors and key management personnel as prescribed by the Corporate Governance Code - most recently updated on 7 March 2018 - to align the interests of management with those of shareholders and strengthen the relationship between managers and the Company, both in terms of awareness of the importance of the stock value and its continuity over time;
- the definition of Guidelines for the identification and execution of significant transactions - most recently updated on 1 January 2017 - and of other governance documents designed to ensure transparent and timely management of the Group’s relationship with the market;
- the adoption of a Procedure for handling and processing privileged information and for the public dissemination of statements and information, most recently approved by the Board of Directors on 9 August 2017;
- the definition of Guidelines for the Internal Control and Risk Management System, updated on 13 July 2016;
- the adoption of an integrated risk management model, with the objective of identifying, as exhaustively as possible, the risks inherent in the Group’s full range of business activities;
- adoption of a specific Procedure to assure the transparency and the substantial and procedural correctness of transactions with related parties carried out by ERG directly or through its subsidiaries, most recently updated on 1 January 2017;
- the definition of a Code of Conduct for Internal Dealing - updated version approved by the Board of Directors on 1 May 2017 - aimed at regulating disclosure obligations in respect of the market, the Company and CONSOB with reference to transactions involving ERG shares/debt instruments issued by ERG or derivatives or other related financial instruments carried out, directly or indirectly, by members of the administrative and control bodies of ERG and of significant subsidiaries, by members of top management of the Group and by persons closely connected with them;
- the adoption of Guidelines for compliance with Legislative Decree 231/01 and anti-corruption laws within ERG Group companies, approved, in their latest version, on 9 October 2017;
- the adoption of the Anti-Corruption System and Policy with the aim of helping to ensure, together with the Code of Ethics and 231 Models, compliance with the national and international anti-corruption regulations of the countries in which the ERG Group operates.

<sup>2</sup> On 15 December 2015, the Board of Directors resolved to adhere to the new Corporate Governance Code published in July 2015; consequently, all references to the provisions of the Corporate Governance Code shall be deemed to refer to the aforesaid edition of the Code.

### 3. INFORMATION ABOUT THE OWNERSHIP STRUCTURE AT 31 DECEMBER 2017 PURSUANT TO ARTICLE 123-BIS OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (CONSOLIDATED FINANCE LAW OR 'T.U.F.')

Share capital structure at 31/12/2017					
	Number of shares	Amount of subscribed and paid-up share capital	% with respect to share capital	Listed / not listed (market)	Rights and obligations
Ordinary shares	150,320,000	EUR 15,032,000	100	MTA/FTSE Index Italy Mid Cap	–
Shares with limited voting rights	–	–	–	–	–
Shares without voting rights	–	–	–	–	–

Significant equity investments at 31/12/2017				
Declarant	Direct shareholder	% ordinary share capital	% voting share capital	
San Quirico S.p.A.	San Quirico S.p.A.	55.628	55.628	
San Quirico S.p.A.	Polcevera S.r.l.	6.905	6.905	
UniCredit S.p.A.	UniCredit S.p.A.	4.001	4.001	
	Fincobank Banca Fineco S.p.A.	0.045	0.045	
	UniCredit Bank AG	0.032	0.032	

Other disclosures at 31/12/2017			
	Yes	No	No notable disclosures in this regard
Restrictions on the transfer of securities		X	
Restrictions on the right to vote		X	
Shareholders' agreements		X	
Covenants pursuant to Article 123-bis paragraph 1 subsection i) of the T.U.F. <sup>1</sup>	X		

<sup>1</sup> the information in question is contained in the remuneration report published pursuant to Article 123-ter of the T.U.F.

Note that:

- there are no securities conferring special control rights;
- there are no employee stock option plans;
- with regard to the provisions of Article 123-bis, paragraph 1, subsection h) of the T.U.F., it should be noted that there are in existence financing agreements containing the usual provisions regarding the change of control of the debtor, which, at least in one case, could involve the reimbursement of the loan in question if there is a change in control at ERG S.p.A. and in particular: (i) the pool loan granted by Banca IMI, as an agent bank in a pool of seven banks,

on 30 November 2015, with an amount outstanding, at 31 December 2017, of EUR 350 million and final payment due in August 2020; (ii) bilateral financing granted by UBI on 26 February 2016, with an amount outstanding, at 31 December 2017, of EUR 100 million and final payment due in February 2021; (iii) bilateral financing granted by Mediobanca on 11 March 2016, with an amount outstanding, at 31 December 2017, of EUR 150 million and final payment due in March 2021; (iv) bilateral financing granted by UniCredit on 21 April 2016, with an amount outstanding, at 31 December 2017, of EUR 75 million and final payment due in April 2021.

- for rules applicable to the appointment and replacement of the members of the Board of Directors and of the Board of Statutory Auditors, and to amendments to the Articles of Association, please refer to the relevant sections of this report (hereinafter also the "Report");
- no powers have been granted to Directors in relation to capital contributions pursuant to Article 2443 of the Italian Civil Code;
- the Directors have no powers to issue equity instruments;
- the Shareholders' Meeting held on 20 April 2017 authorised the Board of Directors, pursuant to Article 2357 of the Italian Civil Code, to purchase treasury shares for a period of 12 months from the date of the related resolution, up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 30,064,000 (thirty million, sixty-four thousand) shares of ERG ordinary shares with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction;
- the Shareholders' Meeting held on 20 April 2017 authorised the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, for a period of 12 months from the date of the related resolution, to sell, all at once or in several steps, treasury shares at a unit price no lower than 10% below the closing price of the stock on the day immediately preceding each individual sale.

## 4. CORPORATE GOVERNANCE

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ERG's corporate governance complies with the requirements of the Italian Civil Code and of other specific laws and regulations relating to companies, particularly those contained in the T.U.F., and complies overall with the Italian Corporate Governance Code, and the various revisions that have been made to it over time<sup>3</sup>. The edition of the Corporate Governance Code to which the Company adheres is available to the public on the Borsa Italiana S.p.A website ([www.borsaitaliana.it](http://www.borsaitaliana.it)).

Corporate governance encompasses **statutory bodies**, **board committees** and the **corporate governance documents** that regulate their operation.

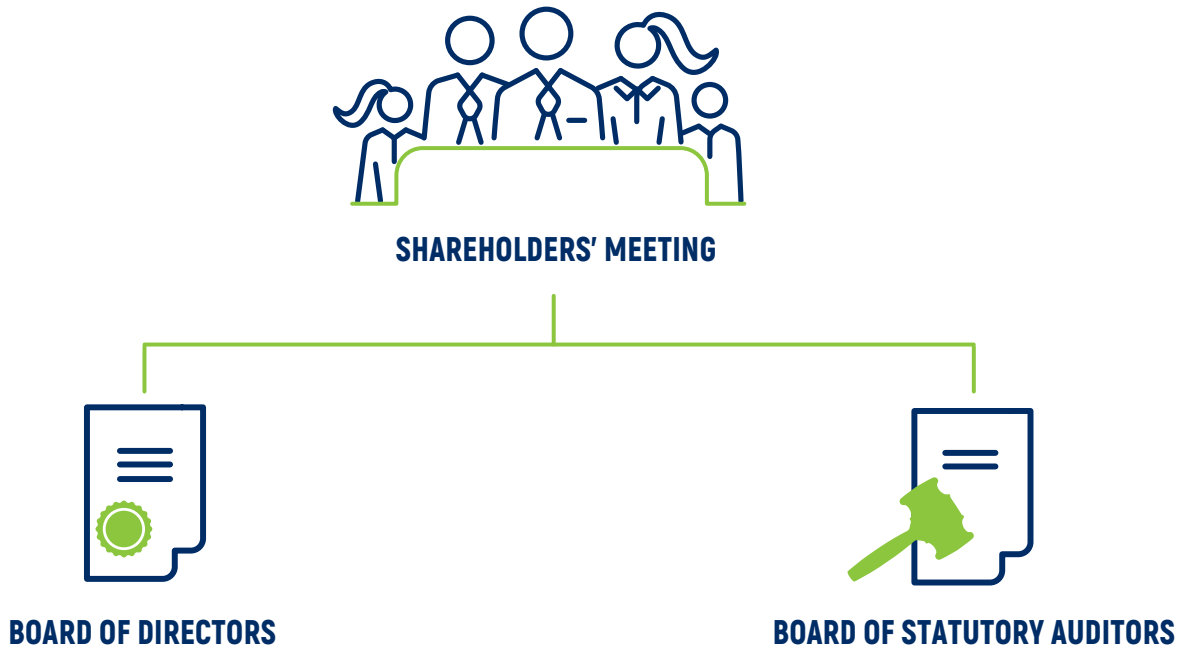


<sup>3</sup> Please refer to the information provided in Note 2.



## 5. STATUTORY BODIES

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## Board of Directors



**Edoardo Garrone**  
Executive Chairman



**Alessandro Garrone**  
Executive Deputy Chairman



**Giovanni Mondini**  
Deputy Chairman



**Luca Bettonte**  
Chief Executive Officer



**Massimo Belcredi**  
Independent Director  
Lead Independent Director



**Mara Anna Rita Caverni**  
Independent Director



**Alessandro Chieffi**  
Independent Director



**Barbara Cominelli**  
Independent Director



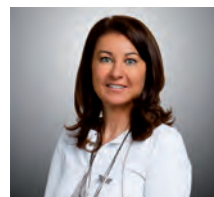
**Marco Costaguta**  
Director



**Alessandro Careri**  
Independent Director



**Paolo Francesco Lanzoni**  
Independent Director



**Silvia Merlo**  
Independent Director

The current Board of Directors, comprising twelve members, was appointed by the Shareholders' Meeting of 24 April 2015<sup>4</sup>; consequently, the appointment to the Board of Directors shall expire at the date of the Shareholders' Meeting convened to approve the financial statements at 31 December 2017.

It should be noted that, as a result of the resignation on 20 April 2017 by the Director Luigi Ferraris, the Board of Directors, on 11 May 2017, proceeded to appoint, at the proposal of the Nominations and Remuneration Committee, within the meaning of Article 2386 of the Italian Civil Code and Article 15 of the Articles of Association, as new Director of the Company, Alessandro Careri, who will remain in office until the next meeting of the shareholders of ERG S.p.A.

<sup>4</sup> With reference to the provisions of application criterion 1.C.4. of the Corporate Governance Code, it is noted that the Shareholders' Meeting has not generally and preventively authorised waivers from the competition prohibition set out in Article 2390 of the Italian Civil Code.

For the appointment of the current Board of Directors, two lists of candidates have been presented, one by the shareholder San Quirico S.p.A. and the other by some institutional investors as follows<sup>5</sup>:

#### San Quirico S.p.A. list

- |                       |                             |
|-----------------------|-----------------------------|
| 1. Edoardo Garrone    | 7. Paolo Francesco Lanzoni* |
| 2. Alessandro Garrone | 8. Mara Anna Rita Caverni** |
| 3. Giovanni Mondini   | 9. Barbara Cominelli**      |
| 4. Luca Bettonte      | 10. Luigi Ferraris**        |
| 5. Massimo Belcredi*  | 11. Silvia Merlo**          |
| 6. Marco Costaguta    | 12. Alessandro Careri       |

#### Institutional investors list

1. Alessandro Chieffi\*\*

\* Candidate indicated in the list as fulfilling the independence requirements in accordance with the provisions of the Consolidated Finance Law.

\*\* Candidate indicated in the list as fulfilling independence requirements in accordance with the Consolidated Finance Law and eligible for qualification as independent in accordance with the Corporate Governance Code.

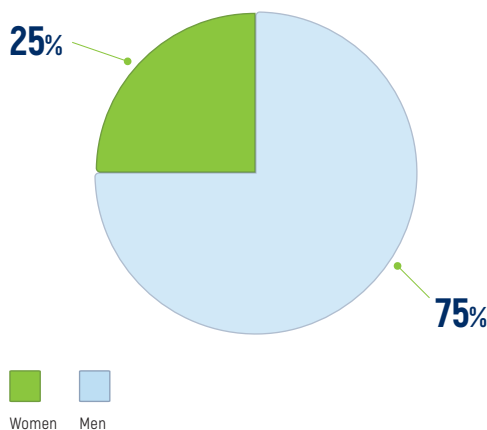
Pursuant to the Articles of Association, the Company is managed by a Board of Directors which, **in compliance with the gender balance criterion** prescribed by current law and regulatory provisions, consists of no fewer than 5 and no more than 15 members.

Directors are appointed on the basis of lists presented by shareholders – in which the candidates shall be listed with a progressive number – which, accompanied by information on the personal and professional characteristics of the candidates and a declaration of whether they meet the independence requirements prescribed by the T.U.F., must be filed, in compliance with Article 147-ter, paragraph 1-bis of the T.U.F., at least twenty-five days prior to the date of the Shareholders' Meeting and shall be made available to the public at least twenty-one days prior to said Meeting. The lists may only be presented by shareholders who, either individually or with other shareholders, represent the minimum percentage of share capital (currently 1%) established in accordance with Article 144-*quater* of the Regulations implementing the Consolidated Finance Law, adopted by CONSOB with resolution No. 11971 of 14 May 1999 ("Issuers' Regulations")<sup>6</sup>. This share capital percentage is the same for the presentation of lists for the appointment of the Board of Directors in office<sup>7</sup>.

Each shareholder may present or contribute to presenting only one list and each candidate may be included in only one list, under penalty of ineligibility. Each list shall contain a number of candidates not exceeding the maximum

Each shareholder may present or contribute to presenting only one list and each candidate may be included in only one list, under penalty of ineligibility. Each list shall contain a number of candidates not exceeding the maximum

#### BOARD OF DIRECTORS COMPOSITION BY GENDER



It is recalled that in appointing the Board of Directors a share equal to at least one third of the Directors elected should be reserved to the less represented gender.

<sup>5</sup> For the percentage of votes obtained by the lists in relation to the voting capital, please refer to the Summary Report of the voting on the items on the agenda of the Shareholders' Meeting of 24 April 2015, available on the Company's website ([www.erg.eu](http://www.erg.eu)) in the section "Corporate Governance/Shareholders' Meeting 2015".

<sup>6</sup> In accordance with CONSOB Resolution No. 20273 of 24 January 2018.

<sup>7</sup> In accordance with CONSOB Resolution No. 19109 of 28 January 2015.

number of directors set out in the first paragraph of Article 15 of the Articles of Association and, with the exception of those that present fewer than three candidates, it shall comply with the gender balance criterion prescribed by current laws and regulations.

In accordance with Article 147-ter, paragraph 1-ter of the Consolidated Finance Law, in appointing the Board of Directors the least represented gender must receive a share equal to at least one third of the Directors elected.

The lists indicate which Directors fulfil the independence requirements set by Article 147-ter, paragraph 4 of the Consolidated Finance Law. At least one candidate for each list, or two candidates if the Board of Directors has more than seven members, must fulfil the aforesaid independence requirements.

All candidates must fulfil the integrity requirements set out by current regulations for members of the Supervisory Bodies, as well as adequate professionalism requirements for the office to be held.

Together with each list, by the deadline indicated above, each candidate must file the statement accepting his/her candidacy and declaring under his/her own responsibility that there are no causes for ineligibility and incompatibility and that the requirements prescribed by applicable regulations are met, and indicating whether (s)he qualifies as independent director.

For the purposes of the allotment of the Directors to be elected, no consideration is given to the lists that did not obtain votes representing a percentage of the share capital equal to at least half of the percentage required for the presentation of the lists.

Each person entitled to vote may vote on only one list.

The election of the Directors takes place as follows:

- a) from the list that received the majority of the votes cast are drawn, in the progressive order in which they are listed, a number of Directors equal to the number of members to be elected minus one, subject to the provisions of Article 15, paragraphs 5 and 5-bis of the Articles of Association respectively for the appointment of independent Directors and to compliance with the gender balance criterion in the composition of the Board of Directors;
- b) the remaining Director is drawn from the minority list that received the highest number of votes;
- c) if a single list is presented, or if the required quorum is not reached by the other lists, all Directors shall be elected from the presented list or from the list that reached the quorum, subject to the provisions of Article 15, paragraph 5-bis of the Articles of Association with respect to compliance with the gender balance criterion in the composition of the Board of Directors.

In any case, the election will be won by the candidate or, if the Board has more than seven members, the first two candidates from the list that received the highest number of votes, who fulfil the independence requirements, in the progressive order in which they were entered in the list<sup>8</sup>.

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<sup>8</sup> For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Directors, please refer to the Articles of Association, available on the Company's website ([www.erg.eu](http://www.erg.eu)) in the section "Corporate Governance / Governance Documents".

The Directors in office at the date of approval of the Report are<sup>9</sup>:

Edoardo Garrone	<i>Chairman</i>
Alessandro Garrone <sup>10</sup>	<i>Deputy Chairman</i>
Giovanni Mondini	<i>Deputy Chairman</i>
Luca Bettonte	<i>Chief Executive Officer</i>
Massimo Belcredi	<i>Director</i>
Alessandro Careri	<i>Director</i>
Mara Anna Rita Caverni	<i>Director</i>
Alessandro Chieffi	<i>Director</i>
Barbara Cominelli	<i>Director</i>
Marco Costaguta	<i>Director</i>
Paolo Francesco Lanzoni	<i>Director</i>
Silvia Merlo	<i>Director</i>

#### Executive Directors

Edoardo Garrone  
Alessandro Garrone  
Luca Bettonte

#### Non-executive directors<sup>11</sup>

Giovanni Mondini  
Marco Costaguta

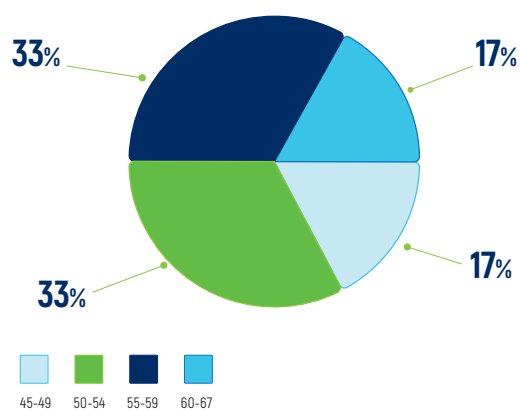
#### Independent non-executive Directors pursuant to T.U.F.

Massimo Belcredi  
Alessandro Careri  
Paolo Francesco Lanzoni

#### Independent Directors pursuant to T.U.F. and the Corporate Governance Code

Mara Anna Rita Caverni  
Alessandro Chieffi  
Barbara Cominelli  
Silvia Merlo

#### BOARD OF DIRECTORS - COMPOSITION BY AGE



<sup>9</sup> For the personal and professional qualifications of current members of the Board of Directors, please refer to the relevant curriculum vitae available on the Company's website ([www.erg.eu](http://www.erg.eu)) in the section "Corporate Governance / Board of Directors".

<sup>10</sup> Covers the role of Director in charge of the Internal Control and Risk Management System.

<sup>11</sup> In view of criterion 2.C.1. of the Corporate Governance Code.

**Lead independent director**<sup>12</sup>

Massimo Belcredi

**Secretary**

Giovanni Marco Scollo

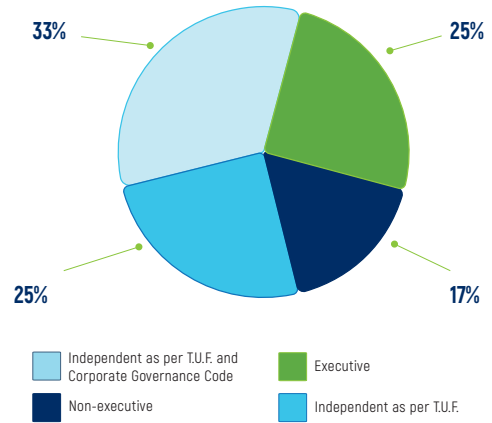
At the first meeting after the appointment, on 24 April 2015, the Board of Directors confirmed the independence of Directors Massimo Belcredi and Paolo Francesco Lanzoni with reference to Art. 148, third paragraph, of the Consolidated Finance Law (T.U.F.)<sup>13</sup> and the independence of Directors Mara Anna Rita Caverni, Alessandro Chieffi, Barbara Cominelli, Luigi Ferraris<sup>14</sup>

and Silvia Merlo both with reference to Art. 148, third paragraph, of the Consolidated Finance Law, and with reference to the information contained in the current Corporate Governance Code. In the meetings held on 13 July 2016 and 12 July 2017, the Board of Directors confirmed the assessments made on 24 April 2015.

On 11 May 2017, the Board of Directors, following the appointment within the meaning of Article 2386 of the Italian Civil Code and Article 15 of the Articles of Association of the Director Alessandro Careri, confirmed the independence of the latter with reference to the provisions of Article 148, third paragraph, of the Consolidation Finance Law<sup>15</sup>.

The Board of Statutory Auditors verified the correct application of the criteria and verification procedures adopted by the Board of Directors to assess the independence of its members.

On 12 July 2017, the independent Directors held their own meeting, but remained in contact and regularly consulted each other in advance on the principal matters examined by the Board of Directors. The independent directors put forward proposals and suggestions to the Chairman and the Executive Deputy Chairman as regards issues relating to the governance of the Company. The response was positive with respect to all the proposals made. The Lead Independent Director and Executive Deputy Chairman subsequently reported to the Board of Directors regarding the process followed and the implementation status of the individual proposals.

**BOARD OF DIRECTORS  
COMPOSITION BY STATUS**

<sup>12</sup> In the meeting of 12 May 2016, the Board of Directors, in view of the non-occurrence of the conditions set forth in the Corporate Governance Code for the appointment of a lead independent director, and in order to ensure continuity with respect to the skills and experience gained, and for the benefit and support of new independent directors, in consideration of the assessments of independence made by the Board of Directors itself in the meeting of 24 April 2015 with particular reference to the autonomy of judgement granted to the Director Massimo Belcredi, has appointed the latter as lead independent director.

<sup>13</sup> The Board of Directors, in line with the assessments made during the previous three years, with emphasis on substance rather than form, a principle advocated by the Corporate Governance Code, has confirmed that the Directors Belcredi and Lanzoni do not have, nor have they recently had, directly or indirectly, relations with the Company or related persons, that would impair their autonomy of judgement, in accordance with Principle 3.P.1. Of the current Corporate Governance Code promoted by the Italian Stock Exchange. Moreover, in view of their long tenure, the Board of Directors considered it preferable not to qualify them as independent directors pursuant to the Corporate Governance Code.

<sup>14</sup> Resigned on 20 April 2017.

<sup>15</sup> The Board of Directors, in particular, took the view that the professional relations existing between the Company and the joint venture TotalErg S.p.A. were not such as to compromise his independence in consideration of the fact that the office of Chairman held by him in the Board of Directors of the joint venture TotalErg S.p.A. does not involve the assignment of powers such as to qualify him as executive director, and the remuneration received by him for the aforementioned office, as well as the fee for the annual consultancy agreement, in the context of the oil sector, existing between the company IEC S.r.l. (of which he is a Shareholder and Sole Director) and ERG S.p.A., were not significant or in any case such as to compromise his independence. The aforementioned Director was not considered independent under the Code of Conduct in view of the significance of the fees received, in particular, in financial years 2014 and 2015 by the company IEC S.r.l. against a consultancy contract with ERG S.p.A., again within the context of the oil sector.

**Other appointments as director or statutory auditor held by Directors in other companies listed in regulated markets, also abroad, in finance companies, banking and insurance companies or companies of significant size at 31 December 2017<sup>16</sup>:**

Edoardo Garrone	<i>Chairman of the Supervisory Board of San Quirico S.p.A. Director of Il Sole 24 Ore S.p.A. Director of Invitalia Ventures Sgr S.p.A.</i>
Alessandro Garrone	<i>Director of Banca Passadore e C. S.p.A.</i>
Giovanni Mondini	<i>Chairman of the Management Board of San Quirico S.p.A.</i>
Massimo Belcredi	<i>Director of GEDI Gruppo Editoriale S.p.A.</i>
Mara Anna Rita Caverni	<i>Chairman of the Board of Directors of SNAITECH S.p.A. Director of Cerved Information Solutions S.p.A.</i>
Alessandro Chieffi	<i>Director of Intermonte SIM S.p.A. Director of Adriano Lease Sec. S.r.l. Director of Brera Sec S.r.l.</i>
Marco Costaguta	<i>Management Director of San Quirico S.p.A. Director of OTB S.p.A. Director of Goglio S.p.A. Director of Rimorchiatori Riuniti S.p.A. Director of Officine Maccaferri S.p.A. Director of Praesidium Sgr S.p.A. Director of Hat Orizzonte Sgr S.p.A. Director of Innova Italy 1 S.p.A.</i>
Paolo Francesco Lanzoni	<i>Director of Castello Sgr S.p.A.</i>
Silvia Merlo	<i>Director of GEDI Gruppo Editoriale S.p.A. Chief Executive Officer of Merlo S.p.A. Director of Leonardo S.p.A.</i>

**Other attendees of Board of Directors meetings**

Meetings of the Board of Directors also include representatives from Group management to provide certain specific and timely insights on topics discussed on an as needed basis. In financial year 2017, managers took part in every meeting of the Board of Directors, in several cases in support of the discussion of topics on the agenda.

**Directors' fees and remuneration - Evolutionary approach of the Remuneration Policy**

On 20 December 2011, at the proposal of the Nominations and Remuneration Committee, the Board of Directors

<sup>16</sup> Other than offices held in Group companies.

approved its Policy for the remuneration of members of the Board of Directors and of Key management personnel, taking into account in particular:

- Article 6 of the Corporate Governance Code;
- the provisions of the Consolidated Finance Law and the Issuers' Regulation on the transparency of the remuneration of the directors of listed companies and of key management personnel;
- the Procedure for Transactions with Related Parties and the principles expressed in the Group's Code of Ethics.

Revisions to the Remuneration Policy, proposed by the Nominations and Remuneration Committee, were made by the Board of Directors as follows:

- on 18 December 2012, to incorporate the powers delegated by the Board of Directors (appointed by the Shareholders' Meeting of 20 April 2012) and the adoption of the 2012-2014 Medium/Long-Term Incentive System ("LTI System");
- on 11 March 2015, effective as from 2015<sup>17</sup>, to incorporate the adhesion of the Company to the current Corporate Governance Code and the general principles of the 2015-2017 LTI system in anticipation of the renewal of the Board of Directors by the Shareholders' Meeting on 24 April 2015<sup>18</sup>;
- on 22 March 2016, in order to implement the Resolution of the Board of Directors of 15 December 2015 defining the conditions necessary to implement the 2015-2017 LTI System, in line with the Policy itself and based on the 2015-2018 Business Plan;
- on 9 March 2017, in order to implement (i) the organisational changes occurring following the reorganisation of the risk management, compliance and internal control processes of the ERG Group and the "One Company" Project, (ii) the introduction of a clause to which any deferred payment of non-recurring remuneration is subject, following assessment by the Nominations and Remuneration Committee and resolution by the Board of Directors;
- on 7 March 2018, effective as from 2018, to incorporate the essential elements of the 2018-2020<sup>19</sup> LTI system.

During 2017, the members of the Nominations and Remuneration Committee submitted to the Board of Directors proposals on the remuneration of Directors (appointed by the Shareholders' Meeting of 24 April 2015) who are executive or vested with particular roles or called to be part of the Strategic Committee<sup>20</sup>, based on the provisions of the current Remuneration Policy<sup>21</sup>.

17 Since the 2015-2017 LTI system is connected to ERG's share performance, it was submitted for approval to the Shareholders' Meeting held on 24 April 2015, who voted in favour of it.

18 The Shareholders' Meeting held on 3 May 2016 voted in favour of the first section of the Remuneration Report prepared in accordance with Article 123-ter of the Consolidated Finance Law.

19 Since the 2018-2020 LTI System is expected to be based on financial instruments, it will be subject to the approval of the Shareholders' Meeting that will be held to approve the Financial Statements at 31 December 2017.

20 Although not Group employees and with no seat on the Board of Directors.

21 For detailed information on this matter, please refer to the Remuneration Report referred to in Article 123-ter of the Consolidated Finance Law, to be presented to the Shareholders' Meeting convened in April 2018, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.



## Powers

At the meeting held on 24 April 2015, the Board of Directors assigned the following powers for three years and therefore until the date of the Shareholders' Meeting held to approve the Financial Statements at 31 December 2017:

- to **Chairman Edoardo Garrone**
  - the authority to manage, with responsibility for supervision, direction and control, the processes of institutional and external relations, corporate social responsibility and corporate affairs, giving him all the necessary powers for the exercise of the powers granted; on 12 May 2016 the Chairman returned to the Board of Directors some of the powers granted relating to the management, through the tasks of supervision and control, of the processes of institutional and external relations and corporate social responsibility<sup>22</sup>, whilst retaining the authority to manage, through the tasks of supervision, direction and control, corporate affairs activities, taking into account his role as Chairman of the Board of Directors and that stated in this regard in the Corporate Governance Code<sup>23</sup>;
  
- to **Deputy Chairman Alessandro Garrone**
  - the authority to oversee preliminary and functional activities to define the strategic objectives of the Company and the Group and the preparation of the Strategic Plan to be submitted to the Board of Directors for consideration and possible approval; additionally, to provide strategic coordination of the subsidiary companies;
  - the authority to oversee and control activities for the preparation of project Budgets to be submitted for review and possible approval by the Board of Directors;
  - the authority to provide guidance and supervision for activities related to research, development and negotiation with third parties in mergers and acquisitions transactions and structured finance transactions, which are subject to the approval of the Board of Directors;
  - the authority to supervise the definition of the Company's organisational structure up to the second level reporting directly to the CEO, contributing to the decisions regarding the appointment of directors and executives, employee terminations, and remuneration policies and incentives;
  - the power to oversee internal audit, risk and compliance activities and processes, through supervision, guidance and control;
  - the office of Director in charge of the internal control and risk management system, with powers and responsibilities as outlined in the current Corporate Governance Code in line with the Guidelines for the Internal Control and Risk Management System approved by the Company;
  
- to **CEO Luca Bettonte** (Chief Executive Officer of the Company)<sup>24</sup>
  - the necessary powers to perform all activities pertaining to corporate activity, except for those reserved to the

<sup>22</sup> In line with the organisational structure of the ERG Group, as a result of the decision made by the Chairman, the management of these processes also falls entirely under the responsibility of the Chief Executive Officer.

<sup>23</sup> Commentary on Article 2, fifth paragraph of the Corporate Governance Code.

<sup>24</sup> The interlocking directorate situation, set forth in application standard 2.C.5. of the Corporate Governance Code, does not apply.

Board of Directors (by law or by the Articles of Association) or delegated to other Board Members;

- the powers and responsibilities for the protection of health, and maintenance of safety in the workplace and the environment;
- the authority to protect persons and other subjects with regard to the processing of personal data.

In accordance with the Articles of Association, the Chairman has the power to represent the Company pursuant to Article 2384 of the Italian Civil Code. The Chief Executive Officer(s) also has/have such powers, within the limits of the authority vested in them.

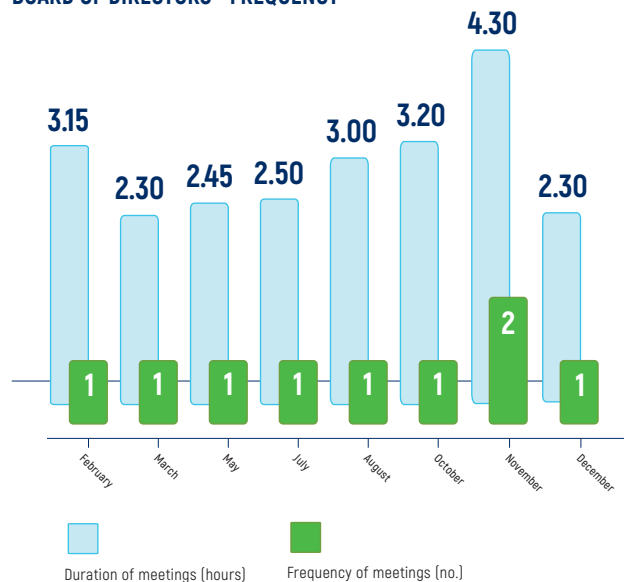
The Board of Directors, in accordance with the recommendations of the Corporate Governance Code, has specified that the powers vested in the Deputy Chairman and in the Chief Executive Officer shall be exercised within the scope of the directives and instructions imparted to them by the Board of Directors which shall retain, in addition to the powers that may not be delegated as prescribed by law or by the Articles of Association, the authority to review and approve significant transactions identified on the basis of the criteria set out in the Guidelines for identifying and carrying out significant transactions, approved by the Board of Directors.

The delegated bodies report to the Board of Directors, on a quarterly basis, on the activities carried out within the scope of the powers vested in them.

### Frequency

As prescribed by the Articles of Association, the Board of Directors meets at least once a quarter to inform the Board of Statutory Auditors on the Group's activities and on the most important business, financial and capital transactions undertaken by the company or its subsidiaries, and particularly those where there may be a potential conflict of interests. During the 2017 financial year, the Board of Directors held **9 meetings**, while for the year 2018 there are expected to be no fewer than **9 meetings**.

BOARD OF DIRECTORS - FREQUENCY



In the 2017 meetings, the Board of Directors passed **50 resolutions** pertaining to as many issues (**31** of which were adopted on the basis of a proposal or of an opinion provided by the Board Committees or following a prior assessment by them) and for **46** of them the related documentation was sent to Directors and Statutory Auditors beforehand (at least 48 hours before the meeting, barring exceptions), said advance notice being deemed suitable to enable Directors and Auditors to acquire adequate knowledge of the items on the agenda.

During all Board meetings, with particular reference to those in which, for some of the matters covered, the documentation could not, exceptionally, be sent beforehand, the Chairman ensured that specific and timely insights were guaranteed and, where appropriate, provided by representatives of Group management invited by the Board of Directors to participate.

It is also noted that, of the **4 resolutions** in relation to which Board members and Auditors had not been sent the relevant documentation in advance, 1 resolution concerned the immediate approval of the minutes at the end of the relevant meeting (to which said minutes referred) and 2 resolutions were adopted on the basis of a prior assessment by the Board Committees.

The average duration of the meetings held by the Board of Directors was **around 2 hours and 45 minutes**.

At the date of approval of this document, the Board of Directors had held **2 meetings**.

### Activities pursued

Directors made a significant contribution to the work of the Board of Directors and Committees in 2017, in terms of meeting attendance and effective participation in proceedings.

In the course of 2017, the Board of Directors performed the activities and responsibilities referred to in application criterion 1.C.1. of the Corporate Governance Code in accordance with the role that the Code attributes to the Board of a listed company.

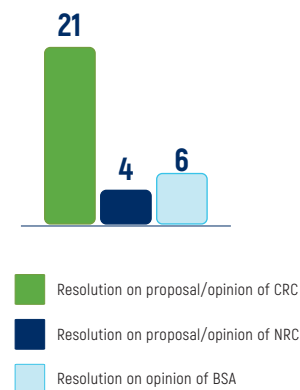
The Board of Directors, with respect to the provisions of application criterion 1.C.3. of the Corporate Governance Code, acknowledged that in light of the findings outlined in the document prepared by the Nominations and Remuneration Committee and taking into account the number of directorships and auditorships held by the individual Directors in other listed companies and in financial, banking, or insurance companies or companies of significant size, it does not appear to be necessary to establish a maximum number of directorships and auditorships.

Lastly, with respect to the recommendations of application criterion 5.C.2. of the Corporate Governance Code, the Board of Directors acknowledged, during the meeting held on 24 February 2015, that at present the adoption of a plan for the succession of executive directors was not considered necessary.

The Chairman of the Board of Directors ensured that during the meetings of the Board of Directors and of the Committees within the Board, in relation to the topics discussed, the Chief Executive Officer and representatives of Group management provided all directors with the necessary information to provide adequate knowledge of the industry in which the Group operates, of corporate performance and its trends and of the reference regulatory framework. In all Board meetings held during 2017, the Chief Executive Officer provided a report to the Board of Directors with regard to the exercise of the mandate and the performance of the Company and the Group.

During the year, the Chairman mentioned specific initiatives and events, organised by primary stakeholders and intended for Directors and Auditors of listed companies, which some Directors and Auditors subsequently attended.

### BOARD OF DIRECTORS RESOLUTIONS PASSED



### **Board Performance Review**

With regard in particular to subsection g) of criterion 1.C.1. of the Code of Conduct, the Board of Directors, at its meeting of 20 February 2018, carried out a review, partly on the basis of a document prepared for this purpose by the Nominations and Remuneration Committee, of the size, composition and functions of the Board of Directors and Committees during 2017, expressing, in this regard, an overall favourable opinion accompanied by specific indications with respect to the operation of the Board of Directors and of its Committees. This document was prepared using the assessment criteria already used last year and the results of a self-assessment questionnaire prepared by Corporate Affairs at the request of the Nominations and Remuneration Committee and sent to members of the Board of Directors and of the Board of Statutory Auditors.

### ***Diversity policy in relation to the composition of the administration, management and control bodies***

#### *1.1 Objectives*

The Board of Directors considers that the presence, within the Board of Directors itself and the Board of Statutory Auditors, of skills, values and points of view that are different yet complementary to each other may in fact be a strength since it makes it possible to analyse the various matters under discussion from different perspectives, it encourages debate and it serves as a basis for well-thought-out, informed and balanced committee decisions.

The presence of varying skills and know-how is also deemed essential and necessary for the purposes of fully understanding and adequately appreciating the different aspects that must be taken into account in the context of the business in which the Company operates.

#### *1.2 Implementation methods*

Since the Company's administrative, management and control bodies, in accordance with the provisions of Articles 147-ter and 148 of the Consolidate Finance Law and Articles 15 and 22 of the Articles of Association, are appointed on the basis of lists of candidates submitted by shareholders, the composition of said bodies depends on the decisions made from time to time by the latter during the Shareholders' Meeting, in compliance with the applicable laws and regulations.

Without prejudice to the foregoing, the Board of Directors considers that the Company's policy on diversity in relation to the composition of its administrative, management and control bodies (the "Policy"), in accordance with the provisions of the Corporate Governance Code, can be expressed through **specific recommendations** made by the Board of Directors to the shareholders, from time to time, before the appointment of the Board of Directors and the Board of Statutory Auditors, and explained in the report on matters on the agenda, provided within the meaning of Article 125-ter of the Consolidated Finance Law, and in the report on corporate governance and the ownership structure within the meaning of Article 123-bis of the Consolidated Finance Law.

The Policy proposed by the Board of Directors prescribes, in particular, that each Director, within the scope of the self-assessment process on the functioning of the Board of Directors and its Committees, expresses, before the appointment of the new Board, **his/her recommendations**, in the matter of diversity, on the managerial and professional figures that should be included in the Board, also taking into account factors such as training and professional characteristics, experience, including managerial, gender and age. The outcome of this assessment process will constitute an integral and substantial part of the **recommendations to shareholders**.

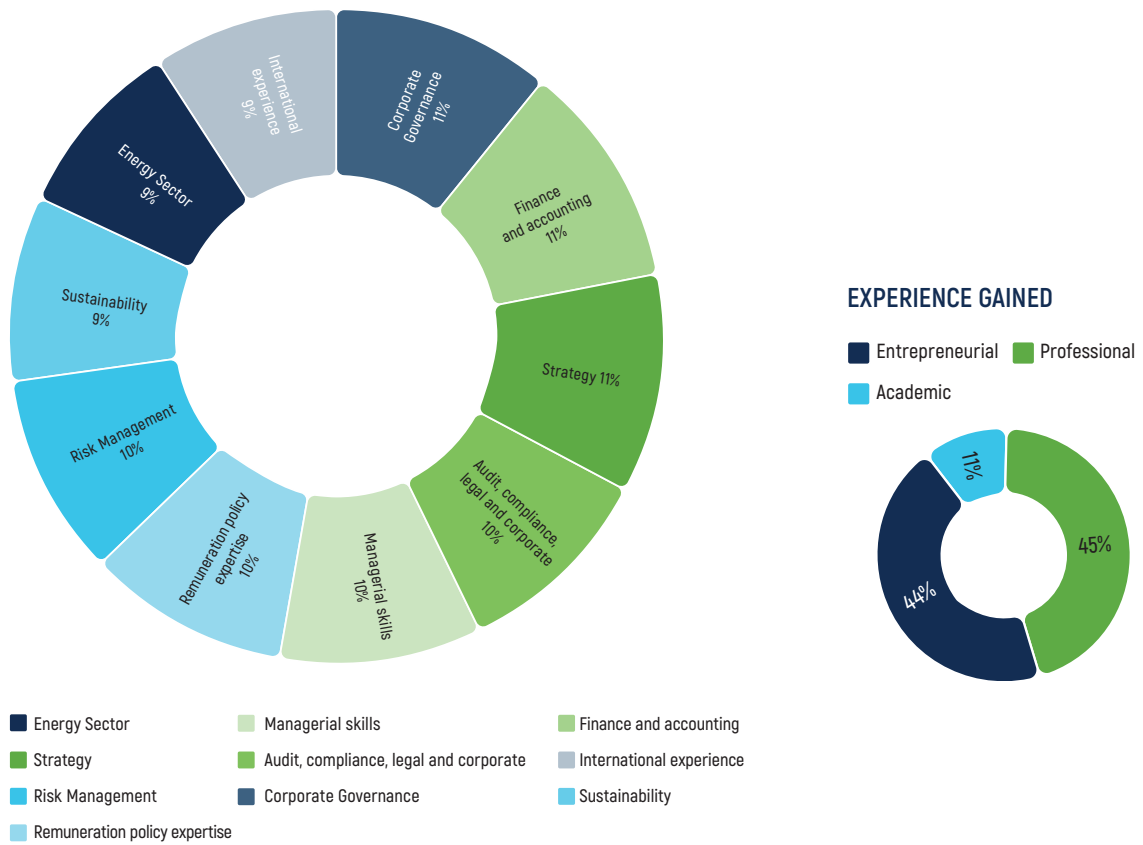
The same assessments will also be required with reference to the members of the Board of Statutory Auditors, prior to the appointment of the new Board. Outgoing members of the Board of Statutory Auditors will also be required to take part in this assessment process.

The results of assessments performed and the **recommendations** of the Board of Directors are set out below.

**Educational and professional background**

With reference **to the skills present in the Board of Directors**, the self-assessment process for financial year 2017 showed a balanced allocation of skills within the Board of Directors, gained mainly through entrepreneurial and professional experiences.

**SKILLS CURRENTLY PRESENT IN THE BOARD OF DIRECTORS**



With reference to the **skills that ought to be present in the Board of Directors**, following the self-assessment process for financial year 2017, the Board of Directors recommends that the skills already represented in the current Board of Directors are maintained, and that the weight of the international experience in the energy sector is potentially increased and specific skills in the field of administrative and regulatory law introduced, in line with developments in the existing and future portfolio of Group operations.

**SKILLS THAT OUGHT TO BE PRESENT IN THE BOARD OF DIRECTORS**



**Gender composition**

With reference to **gender balance**, the Board of Directors, following the self-assessment process for 2017, does not consider it necessary to recommend more stringent requirements than those laid down by legislation.

It is recalled that in appointing the Board of Directors a share equal to at least one third of the Directors elected should be reserved to the less represented gender.

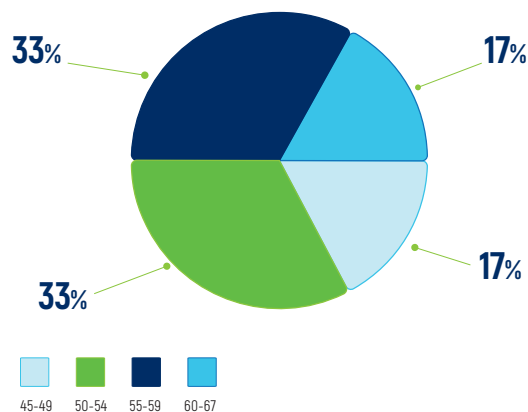
Self-assessment did, however, show that the skills and experience necessary for the purposes of the composition of the new Board of Directors are present across both genders.

### Age

With reference to **age**, following the self-assessment process for 2017, it was not considered necessary to make specific recommendations.

The current composition of the Board of Directors, divided according to age group, was however considered balanced.

**BOARD OF DIRECTORS - COMPOSITION BY AGE**



### 1.3 Results

The results of the Policy will be assessed following the process to appoint the new Board of Directors by the Shareholders' Meeting called, inter alia, to approve the Financial Statements at 31 December 2018.

### Recommendations of the Italian Corporate Governance Committee

In its meeting of 7 March 2018, the Board of Directors, in light of the content of the Report on Corporate Governance and Ownership and the Remuneration Policy, unanimously agreed that the Company is in line with the recommendations made in the letter sent by the Italian Corporate Governance Committee to the chairmen of the management and control bodies of all listed companies concerning (i) transparency on the timeliness, completeness and usability of pre-meeting information; (ii) the functions carried out by the nominations committee, if combined with the remuneration committee (as in the case of the Company); (iii) the process to assess the independence of Directors, (iv) the board performance review; (v) the allocation of a greater weight to long-term variable components; (vi) the introduction of claw-back clauses; and (vii) the definition of criteria and procedures for the allocation of any severance indemnity.

With reference, instead, to the possible adoption of succession plans for executive directors, in view of the expiry of its mandate at the date of the meeting that will be convened for the approval of the financial statements at 31 December 2017, the Board of Directors unanimously resolved to refer any necessary assessment to the new Board of Directors.



## Board of Statutory Auditors



**Elena Spagnol**  
Chairman



**Lelio Fornabaio**  
Statutory Auditor



**Stefano Remondini**  
Statutory Auditor

The current Board of Statutory Auditors, comprising 3 statutory auditors and 3 alternate auditors, was appointed by the Shareholders' Meeting of 3 May 2016; consequently, the appointment to the Board of Statutory Auditors shall expire at the date of the Shareholders' Meeting held to approve the Financial Statements at 31 December 2018. For the appointment of the Board of Statutory Auditors, two lists of candidates have been presented, one by the shareholder San Quirico S.p.A. and the other by some institutional investors as follows<sup>25</sup>:

### San Quirico S.p.A. list

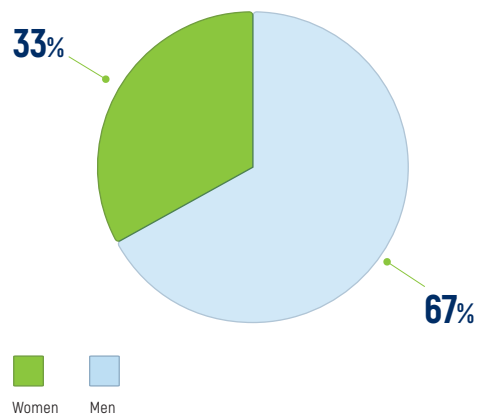
1. Lelio Fornabaio
2. Stefano Remondini
3. Elisabetta Barisone
4. Vincenzo Campo Antico
5. Mario Lamprati
6. Luisella Bergero

### Institutional investors list

1. Elena Spagnol
2. Paolo Prandi

In accordance with the Articles of Association, the Board of Statutory Auditors consists of three standing auditors and three alternate auditors **in compliance with the gender balance criterion** prescribed by current laws and regulations. The Board of Statutory Auditors is appointed on the basis of lists presented by Shareholders, which, in compliance with Article 147-ter, paragraph 1, of the T.U.F. (Consolidated Finance Law) (referenced by the Article 148, paragraph 2 of the T.U.F.), must be filed at least twenty-five days prior to the date of the Shareholders' Meeting and shall be made available to the public at least twenty-one days prior to the Meeting.

### BOARD OF STATUTORY AUDITORS COMPOSITION BY GENDER



<sup>25</sup> For the percentage of votes obtained by the lists in relation to the voting capital, please refer to the Summary Report of the voting on the items on the agenda of the Shareholders' Meeting of 3 May 2016, available on the Company's website ([www.erg.eu](http://www.erg.eu)) in the section "Corporate Governance/2016 Shareholders' Meeting".

Each list consists of two sections: one for candidates to the office of Standing Auditor and the other for candidates to the office of Alternate Auditor. Each list must contain a number of candidates, listed with a progressive number, not exceeding the maximum number of auditors to be elected and, with the exception of those presenting fewer than three candidates, it shall comply, for each section, with the gender balance criterion prescribed by current laws and regulations. Candidate lists may only be presented by shareholders who, at the time of presenting the list, are in possession of a shareholding equal to that required for the presentation of lists for the election of Directors, currently equal to 1%<sup>26</sup>. The same percentage ownership is required for the submission of lists for the appointment of Statutory Auditors in office<sup>27</sup>.

No shareholder may present or vote for more than one list and each candidate may be included in only one list, failing which he or she shall be disqualified.

The lists contain not only information about the Shareholders who submitted them and the statements made by them pursuant to the applicable regulations, but also exhaustive information about the candidates' personal and professional characteristics and their statements pursuant to the Articles of Association.

Candidates cannot be elected to the office of Statutory Auditor unless they satisfy the requirements of independence, professionalism and integrity as provided by Article 148, section 3 of the Consolidated Finance Law or if they already serve as Standing Auditor in five listed companies<sup>28</sup>.

If, at the expiration of the term for the presentation of the lists as indicated above, only one list was filed, or only lists presented by mutually connected shareholders, according to the definition set out in the applicable regulations, were filed, then lists may be presented - in accordance with Article 144-*sexies*, paragraph 5 of the Issuers' Regulations - until the third day after that date. In this case, the thresholds required for presentation of the lists are halved.

Any list presented without compliance with the required prescriptions<sup>29</sup> shall be considered not to have been presented.

If no list is presented in spite of the completion of the aforesaid procedure, a majority vote shall be taken in order to ensure that the composition of the Board of Statutory Auditors complies with current laws and regulations and with the Articles of Association. The Shareholders' Meeting appoints the Chairman.

If no second list is presented or voted, the entire Board of Statutory Auditors shall comprise, in the order of presentation, the candidates of the single list voted. The first person on the list is elected Chairman.

In the event that multiple lists are presented, the following are elected: from the list that received the highest number of votes, in the progressive order in which they are listed, two standing auditors and two alternate auditors; the third standing auditor and the third alternate auditor are elected choosing the candidates to the respective offices indicated at the top of the list that obtained the second-highest number of votes after the first one, among those

<sup>26</sup> In accordance with CONSOB Resolution No. 20273 of 24 January 2018.

<sup>27</sup> In accordance with CONSOB Resolution No. 19499 of 28 January 2016.

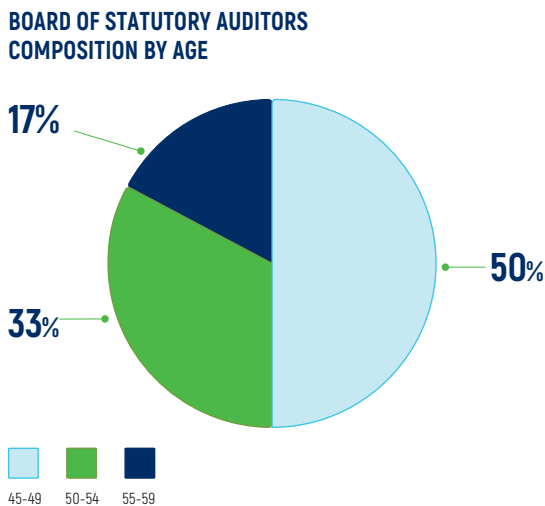
<sup>28</sup> It is noted in this regard that the disclosure obligations as per Article 144-*quaterdecies* of the Issuers' Regulations do not apply to those who serve as members of the control body of a single issuer.

<sup>29</sup> For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Statutory Auditors, please refer to the Articles of Association, available on the Company's website ([www.erg.eu](http://www.erg.eu)) in the section "Corporate Governance / Governance Documents".

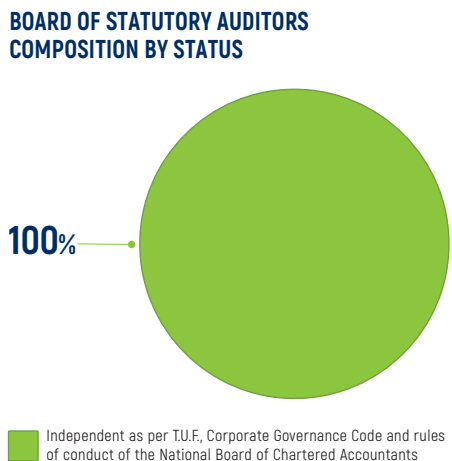
presented and voted by minority shareholders who are not connected - even indirectly - with the shareholders who presented or voted the list that received the highest number of votes, according to current regulations and subject to the provisions of paragraph 13-bis of the Articles of Association pertaining to compliance with the gender balance criterion in the composition of the Board of Statutory Auditors. The standing auditor drawn from the minority list is appointed Chairman. If the lists receive an equal number of votes, the candidate of the list that was presented by the shareholders owning the largest share or, subordinately, by the higher number of shareholders is elected.

The Statutory Auditors in office at the date of approval of the Report are the following<sup>30</sup>:

Elena Spagnol	<i>Chairman</i>
Lelio Fornabaio	<i>Standing Auditor</i>
Stefano Remondini	<i>Standing Auditor</i>
Vincenzo Campo Antico	<i>Alternate Auditor</i>
Luisella Bergero	<i>Alternate Auditor</i>
Paolo Prandi	<i>Alternate Auditor</i>



The Board of Statutory Auditors, having examined the personal and professional characteristics of each auditor, has concluded that its members can be designated as independent, partly based on the criteria set forth in the Corporate Governance Code for Directors. The Board of Directors, in light of the information provided in this regard by the members of the Board of Statutory Auditors and of the statements by the Chairman of the Board of Statutory Auditors, during its meeting of 12 May 2016, positively assessed the independence of the members of the Board of Statutory Auditors, both with reference to the provisions of Art. 148, third paragraph, of the Consolidated Finance Law and with reference to the rules of conduct of the Board of Statutory Auditors prepared by the National Board of Chartered Accountants and with the Corporate Governance Code for listed companies promulgated by Borsa Italiana S.p.A.



<sup>30</sup> For the personal and professional qualifications of auditor in office, please refer to the relevant curriculum vitae available on the Company's website ([www.erg.eu](http://www.erg.eu)) in the section "Corporate Governance / Board of Statutory Auditors".

During the meeting of the Board of Directors of 9 August 2017, the Chairman of the Board of Statutory Auditors, within the meaning of the provisions of application criterion 8.C.1. of the Corporate Governance Code, notified the Board of Directors that the Board of Statutory Auditors, which met on 9 May 2017, inter alia assessed and confirmed the independence of its members on the basis of the criteria laid down by the Consolidated Finance Law, by the rules of conduct of the Board of Statutory Auditors drawn up by the National Board of Chartered Accountants and Accounting Experts and by the Corporate Governance Code promoted by Borsa Italiana S.p.A. The Board of Statutory Auditors verified and monitored the independence of the Independent Auditors verifying both compliance with the regulatory provisions on the matter, and the nature and extent of services, other than auditing, performed for the Company and for its subsidiaries by the Independent Auditors and by entities belonging to its network.

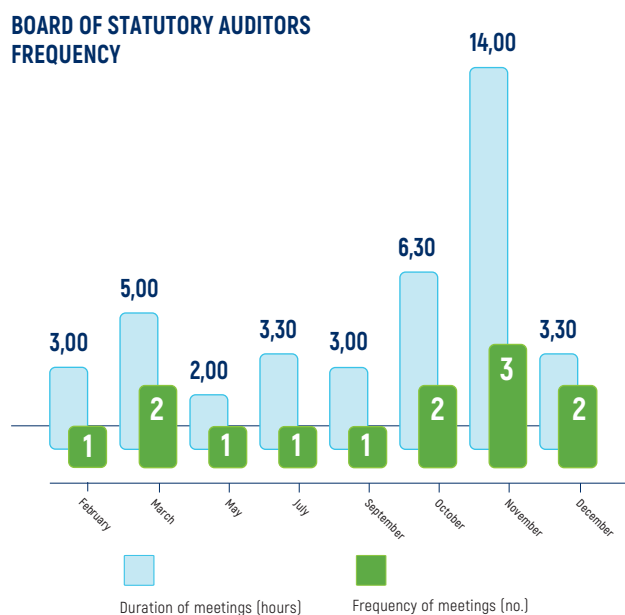
The Board of Statutory Auditors also monitored the process of financial disclosure, checked the effectiveness of the internal control, internal audit and risk management systems and monitored the legal auditing of annual accounts and of consolidated accounts.

In view of the expiry of the appointment of the Independent Auditors Deloitte & Touche S.p.A. at the date of the Shareholders' Meeting called to approve the financial statements at 31 December 2017, the Board of Statutory Auditors ensured the proper performance of the procedure to select statutory auditors, for which it is responsible within the meaning of Article 19 paragraph 1 of Legislative Decree No. 39/2010 and Article 16, paragraph 3, of EU Regulation No. 537/2014 (the "EU Regulation"), actively participating, together with the Working Group within the Company, in the process to select the Independent Auditors, conducted in line with the provisions of Article 16, paragraph 3, of the EU Regulation, for the purposes of providing a reasoned recommendation pursuant to Article 16, paragraph 2, of the EU regulation. The Board of Statutory Auditors, in the performance of its activities, was supported by the Internal Audit Division, coordinating with the Control and Risk Committee.

During the 2017 financial year the Board of Statutory Auditors held **13** meetings, while for the year 2018 there are expected to be no fewer than **9** meetings.

The average duration of the meetings held by the Board of Statutory Auditors was around **3 hours**.

At the date of approval of this document, the Board of Statutory Auditors had met **3 times**.



**Other appointments as director or statutory auditor held by the Statutory Auditors in other companies listed in regulated markets, also abroad, in finance companies, banking and insurance companies or companies of significant size at 31 December 2017<sup>31</sup>:**

Elena Spagnol	<i>Chairman of the Board of Statutory Auditors of Fineco Bank S.p.A.</i>
Lelio Fornabaio	<i>Standing Auditor of Astaldi S.p.A.</i> <i>Standing Auditor of Atlantia S.p.A.</i> <i>Standing Auditor of Telepass S.p.A.</i> <i>Director of Aeroporto di Genova S.p.A.</i> <i>Director of Cotral S.p.A.</i>

## Shareholders' Meetings

Article 10 of the Articles of Association states that, in compliance with laws and regulations, the holders of voting rights who exhibit a suitable certification issued in accordance with current regulations by the broker and notified to the Company according to the procedures and within the term set by current laws and regulations, are entitled to attend Shareholders' Meetings. Holders of voting rights may be represented by proxy in the Shareholders' Meeting, within the limits and according to the procedures prescribed by current laws and regulations. The proxy may be notified via certified electronic mail in accordance with the procedures indicated in the convening notice or using the different instrument which may be indicated in the notice.

Article 11 of the Articles of Association states that the Shareholders' Meeting must be convened by the governing body at least once a year, no later than one hundred and twenty days from the closing date of the financial year or, if the Company must prepare Consolidated Financial Statements and if required by specific provisions related to the organisation or the purpose of the Company, no later than one hundred and eighty days.

Article 12 of the Articles of Association states that the Shareholders' Meeting is convened by means of notice to be prepared and published within the terms and according to the procedures prescribed by current laws and provisions.

Article 13 of the Articles of Association states that the provisions of law shall apply for the quorum of both Ordinary and Extraordinary Shareholders' Meetings and for the validity of their resolutions.

## Meeting regulations

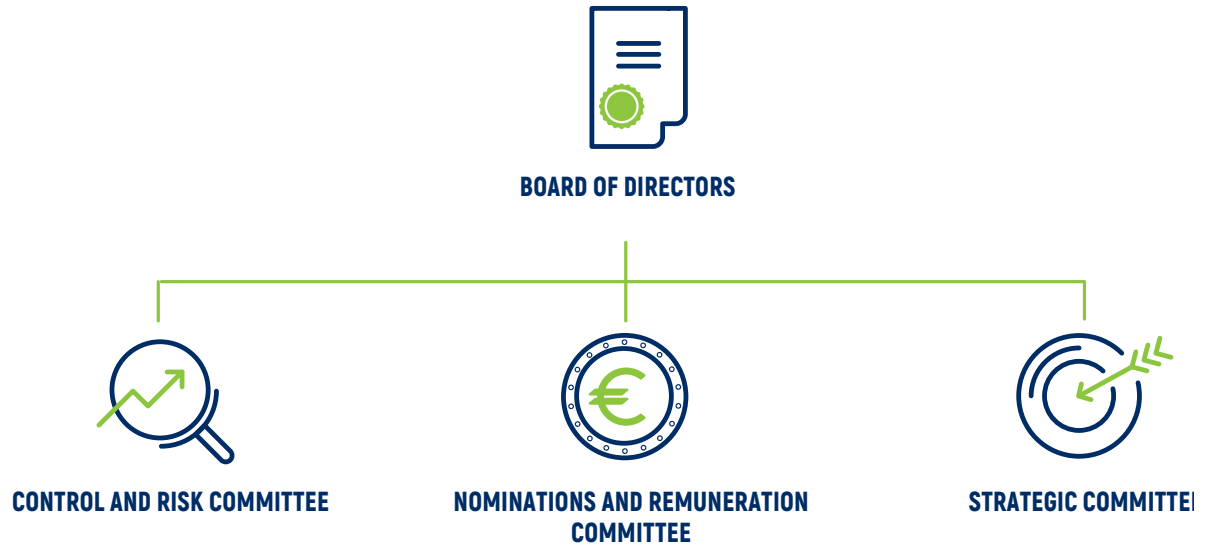
At the Ordinary Shareholders' Meeting, shareholders approved Regulations governing the proceedings of Ordinary and Extraordinary Shareholders' Meetings.

Article 14 of the Articles of Association expressly gives the Ordinary Shareholders' Meeting the possibility of adopting meeting Regulations.

<sup>31</sup> Other than offices held in Group companies.

## 5.1. BOARD COMMITTEES

The Board of Directors has set up the **Control and Risk Committee**, the **Nominations and Remuneration Committee** and the **Strategic Committee** to advise it and issue recommendations.





## Control and Risk Committee



**Massimo Belcredi**  
Chairman



**Mara Anna Rita Caverni**  
Member



**Barbara Cominelli**  
Member

### Members:

Massimo Belcredi – *Chairman*

Mara Anna Rita Caverni

Barbara Cominelli

Giovanni Marco Scollo - *Secretary*

The current Control and Risk Committee is comprised of, in accordance with the provisions of the Corporate Governance Code, three non-executive Directors, all independent as per the Consolidated Finance Law and mostly independent as per the Corporate Governance Code, appointed by the Board of Directors in the meeting of 24 April 2015.

With reference to the provisions of Principle 7.P.4. of the Corporate Governance Code<sup>32</sup>, it is noted that prior to the first meeting of the Committee held on 6 May 2015, the two independent members, considering the significant change occurred in the composition of the Committee, in order to ensure continuity with respect to the skills and experience acquired<sup>33</sup> through their tenure, as well as for their benefit and support as new members of said Committee, taking into account the assessments of independence made by the Board of Directors in the meeting of 24 April 2015 with particular reference to the autonomy of judgement granted to the non-executive member of the Committee and in view of the fact that the Chairman of the Committee during the vote does not enjoy special privileges over other members - with the abstention of the non-executive member - unanimously resolved to confirm the latter in the position of Chairman of the Control and Risk Committee. During its meeting on 6 May 2015, and subsequently in the meeting of 16 June 2016, the Committee appointed a Secretary from outside of its members. Together with the Secretary, the Chairman coordinates the activities of the Committee and chairs its meetings.

<sup>32</sup> "The control and risk committee is made up of independent directors. Alternatively, the committee may be made up of non executive directors, the majority of which being independent ones; in this case, the chairman of the committee is selected among the independent directors."

<sup>33</sup> It should be noted that the non-executive member of the Committee - qualified on 24 April 2015 by the Board of Directors as an independent director within the meaning of the Consolidated Finance Law but not in accordance with the Corporate Governance Code only due to the long tenure - has been Chairman the Control and Risk Committee since November 2005.

The members of the Committee have adequate accounting, financial and risk management expertise<sup>34</sup>.

Committee meetings are attended by the Chairman of the Board of Statutory Auditors or another auditor designated by him or, depending on the topics to be discussed, by all members of the Board of Statutory Auditors; meetings may also be attended by the Chairman of the Board of Directors, the Executive Deputy Chairman, the Director in charge of the Internal control and risk management system, and the Chief Executive Officer, who are entitled to participate in the discussion of the agenda items and to identify adequate actions to confront critical or potentially critical situations, as well as (also depending on the topics to be discussed), the Chief Audit Officer, the Manager responsible for preparing the company's financial reports, the General Counsel, the Head of Group Administration, the Head of Group Risk Management & Corporate Finance and the Head of Corporate Affairs.

Employees of Group companies, representatives of the independent auditors and, in general, persons whose presence is deemed necessary or appropriate for the discussion of the agenda items may be invited to attend Committee meetings.

The Head of Internal Audit is invited to attend the meetings in order to report to the Committee, at least once a quarter, on the activity carried out from time to time.

The Manager responsible for preparing the Company's financial reports is invited to attend the meetings in order to inform the Committee, at least quarterly (where interim management statements are published), about the accounting standards applied in the preparation of periodic financial statements and, at least semi-annually, about the activity carried out from time to time in accordance with Article 154-*bis* of the Consolidated Finance Law.

The Head of Group Administration is invited to attend meetings in order to report to the Committee, semi-annually, on the activity carried out from time to time with reference to Compliance with Law 262/05.

The Head of Group Risk Management & Corporate Finance is invited to attend the meetings in order to report to the Committee, at least quarterly, on the activity carried out from time to time with reference to Risk Management.

The Head of Corporate Affairs is invited to attend the meetings in order to report to the Committee, at least semi-annually, on the activity carried out from time to time with reference to Compliance with Legislative Decree 231/01.

The Committee meets at least quarterly, according to a schedule set with sufficient advance notice.

Committee members are provided, with reasonable advance notice with respect to the meeting date (at least 48 hours before the meeting, subject to certain exceptions), with the documentation and information required to enable them to express an informed opinion on the matters under consideration. During meetings, where appropriate, specific and timely insights are also obtained from representatives of Group management, invited to participate for that purpose.

The Committee organises its work in such a way as to combine comprehensive information flows and efficiency of operation with maximum independence of its members.

In particular, resolutions are taken without other parties being present.

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<sup>34</sup> These characteristics were assessed by the Board of Directors at the meeting of 12 May 2016.



### Tasks

The Control and Risk Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code. Since the date of adherence by the Company to the current Corporate Governance Code<sup>35</sup>, the Chairman of the Committee reports to the Board of Directors at the first board meeting on the meetings held by the Committee in the intervening period.

In general, it supports, through adequate investigations, the assessments and decisions of the Board of Directors pertaining to the Internal Control and Risk Management System (also, "ICRM System"), as well as those pertaining to the approval of periodic financial reports.

In particular:

- it assists the Board of Directors in the following tasks prescribed by the Corporate Governance Code: definition of the guidelines of the ICRM System; periodic verification of the adequacy of the actual operation and efficiency of the ICRM System; verification that the main corporate risks are correctly identified, adequately measured, managed and monitored;
- it expresses opinions on specific aspects pertaining to the identification of the main corporate risks as well as to the design, implementation and management of the ICRM System;
- it supports, with adequate investigations, the evaluations and decisions of the Board of Directors relating to the management of risks arising out of prejudicial acts of which the Board of Directors is aware;
- it expresses its own opinion on the appointment and termination of the Head of Internal Audit and on the proposal for his remuneration formulated by the Director in charge of the Internal Control and Risk Management System;
- it monitors the independence, adequacy, effectiveness and efficiency of the Internal Audit function;
- it assesses the annual work plan and the related budget prepared by the Head of Internal Audit and his/her periodic audit reports, requesting, where applicable, audits on specific operating areas;
- it examines the results of the activities of the Manager responsible for preparing the company's financial reports;
- it assesses, together with the Manager responsible for preparing the company's financial reports, and having consulted the Independent Auditors and the Board of Statutory Auditors, the correct use of the accounting standards and their consistency for the purposes of drawing up the Consolidated Financial Statements, the draft Financial Statements and the Half-Year Condensed Financial Statements;
- it maintains appropriate relations with the Independent Auditors, the Board of Statutory Auditors, the Director in Charge of the Internal Control and Risk Management System, the Head of Internal Audit, and other departments from within the Group's organisational structure that communicate with these parties, in such a way as to encourage them to carry out their respective activities in common areas of intervention in an effective and coordinated manner;
- it informs the Board of Directors, at least once every six months, upon approval of the Annual and Half-year Financial

<sup>35</sup> Since 15 December 2015.

Reports, about the work carried out and the adequacy of the ICRM System;

- it reviews the annual work plan prepared by the Supervisory Committee, established pursuant to the provisions of Legislative Decree 231/01, and the half-year reports;
- it reviews the annual work plan for Compliance with Legislative Decree 231/01 and anti-corruption, and the half-year reports;
- it reviews the annual work plan for Compliance with Law 262/05 and the half-year reports;
- it regularly assesses the adequacy of the company procedure to regulate, in operational terms, the external communication of documents and information pertaining to the Company and the Group, with particular reference to “price sensitive” information;
- it provides the Board of Directors, the Chairman, the Executive Deputy Chairman and the Chief Executive Officer with all other advice and proposals, which the Committee deems necessary or appropriate for them to better carry out their respective duties in the areas of control, risk management and corporate disclosure;
- it provides to the Board of Directors and to the relevant bodies the opinions required by the Procedure for Transactions with Related Parties, where applicable being specifically comprised of two Independent Directors belonging to the same Committee and the other Independent Director belonging to the Nominations and Remuneration Committee<sup>36</sup>. If a member of the Committee is the counterparty of the transaction to be evaluated or a related party thereto, the other members of the Committee shall call to participate in the committee another unrelated independent director or, if there are none, an unrelated standing member of the Board of Statutory Auditors;
- it carries out any other duties assigned by the Board of Directors.

To better carry out its duties, the Committee may employ outside consultants at the Company’s expense. Within the scope of the activity performed by the Committee members for the purposes of the Procedure for Transactions with Related Parties, the Board of Directors has not set any expense limit even for transactions of “Minor Relevance”.

In the performance of its duties, the Committee was able to access the information and made use of the company functions necessary to carry out its tasks.

In 2017, the Committee held **10 meetings** – all duly recorded in minutes – during which, in addition to approving its calendar and organising its work, it addressed issues relating to the following macro-issues:

- Group Governance;
- Internal Control and Risk Management System;
- Obligations as per Legislative Decree 231/01;
- Group administrative and accounting processes.

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<sup>36</sup> For transactions pertaining to the allocation or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a key manager of the Company or otherwise to one of the persons who holds the offices indicated in Annex 1 to the Procedure for Transactions with Related Parties, the Committee called upon to issue its opinion on the interest of the Company in the completion of the transaction with the related party and on the advantageousness and substantial correctness of the related conditions is the Nominations and Remuneration Committee, specifically comprised, where applicable, of two Independent Directors belonging to the same Committee and the other Independent Director belonging to the Control and Risk Committee, provided that the aforementioned transactions pursuant to Article 3.2, subsection c) of said Procedure are not excluded from the sphere of application of the same procedure.

The most significant issues covered by the Committee are as follows:

### **With regard to Group Governance**

#### *Guidelines, procedures and standards*

- it examined and shared the "Procedure for the assignment of audit engagements to companies in the ERG Group and the monitoring of additional services" in the light of new laws and regulations;
- it issued a favourable opinion on the proposal to update the Code of Conduct for Internal Dealing in order to incorporate the new materiality threshold introduced by CONSOB, in accordance with the provisions of the MAR;
- it issued a favourable opinion on the proposals to update the "Procedure for handling and processing privileged information and for the public dissemination of statements and information", with the aim of reflecting the organisational changes relating to the General Counsel and the Chief Business Development Officer.

#### *Specific analysis carried out*

- it examined the checks made on the thresholds set forth in the Procedure for Transaction with Related Parties, and acknowledged that they were adequate;
- it examined and shared the method used to prepare the Remuneration Report (sections I and II) for financial year 2016;
- it analysed, in the light of the statement by CONSOB in the consultation document of 24 October 2016, the possible implications, including of an operational nature, arising from the management of periodic financial reporting for the purposes of the legislation on market abuse;
- it examined the main obligations specified by Legislative Decree No. 254/16 with reference to "Non-Financial Information" and the materiality matrix approved by the Sustainability Committee, focusing in particular on diversity policies in relation to the composition of the administration, management and control bodies and the process for defining these;
- it verified the scope of Articles 2497 et seq. of the Italian Civil Code relating to (i) relations between ERG S.p.A. and its parent San Quirico S.p.A.; (ii) the scope of ERG S.p.A.'s management and coordination activities; (iii) the list of companies with which these activities are carried out.

### **With regard to the Internal Control and Risk Management System**

#### *Dealings with the Director in charge of the Internal Control and Risk Management System*

- it issued a favourable opinion on the proposal to determine the variable remuneration relating to 2016 and to define the fixed and variable remuneration relating to 2017 for the Chief Audit Officer.

*Dealings with Internal Audit*

- it examined the quarterly reports on the activities carried out by Internal Audit;
- it examined and shared the proposal to update the mandate of the Internal Audit function following the process to reorganise the Internal Control and Risk Management System and the "One Company" project;
- it examined and issued a favourable opinion on Internal Audit's 2018 activity plan and budget.

*Dealings with Group Risk Management & Corporate Finance*

- it followed, up to completion, the implementation of the action plan shared with KPMG as part of the reorganisation of the risk management, compliance and internal control processes;
- it examined the half-yearly update on the Enterprise Risk Management process following the activities to assess risk and the main risks that may have an impact on achieving the objectives of the Business Plan;
- it examined the Risk Report on the Business Plan.

*Specific analysis carried out*

- it requested specific additional information on certain issues dealt with from time to time, and received timely responses in this regard.

**Obligations in connection with Italian Legislative Decree 231/01***Dealings with the Supervisory Committee*

- it examined, on a six-monthly basis, the periodic reports on the activity carried out by the Supervisory Committee;
- it examined the schedule of activities and budget of the Supervisory Committee for 2018.

*Dealings with the 231 Compliance department*

- it analysed the semi-annual reports on activities in relation to compliance with Legislative Decree 231/01 and against corruption abroad;
- it examined the activity plan of the 231 Compliance department for 2018, with the aim of identifying the actions to be carried out for the purposes of compliance with Legislative Decree No. 231/01 as well as with a view to preventing corruption for ERG Group companies.

*Guidelines, procedures and standards*

- it examined and shared the proposals to update the Organisation and Management Model pursuant to Legislative Decree 231/01 following the "One Company" project and the new risk assessment carried out;
- it examined and shared the proposal to adopt the Anti-Corruption System and Policy and to update the Guidelines for compliance with Legislative Decree 231/01 and with anti-corruption laws within ERG Group companies.

**With regard to the Group's administrative and accounting processes***Dealings with the Manager responsible for preparing the company's financial reports*

- it examined the implementation of the impairment test procedure for the Financial Statements at 31 December 2016, and the most relevant general issues resulting from its application;
- together with the Manager responsible for preparing the company's financial reports, and having consulted the Independent Auditors Deloitte & Touche S.p.A. and the Board of Statutory Auditors, it assessed the correct use of the accounting standards and their adequacy for the purpose of drawing up periodic financial reports.

*Dealings with the 262 Compliance department*

- it examined the Risk Assessment for 2017 and the results of the half-yearly update on testing activities pursuant to Law 262/05.

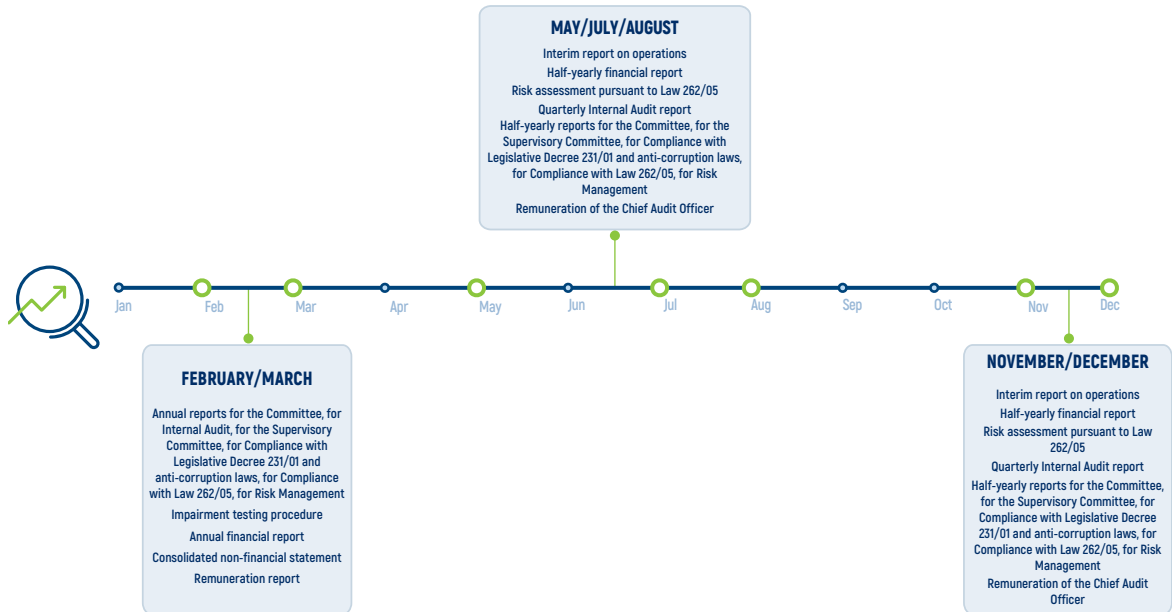
*Specific analysis carried out*

- it examined the main aspects relating to the domestic tax consolidation of ERG S.p.A. and indirect subsidiary ERG Wind Investments Ltd.;
- it examined the methods for renewing the Group VAT liquidation procedure for the 2017 tax year;
- it analysed the main features of the intra-group service agreements for 2017;
- it shared the proposal made to the Board of Directors to continue, on a voluntary basis, to prepare and publish the interim reports on operations (31 March and 30 September) in line with the contents of the interim reports of previous years.

**Information flows***Dealings with the Board of Statutory Auditors*

- it had regular interaction with the Board of Statutory Auditors, which - inter alia - participated in all the Committee's meetings;
- it analysed the methodology note approved by the Board of Statutory Auditors aimed at regulating the operational aspects of the procedure for the assignment of audit engagements to companies in the ERG Group and the monitoring of additional services and received timely updates on the process to assign audit engagements;
- it consulted the Board of Statutory Auditors as part of the process to assess the proper application of accounting principles and their consistency for the purposes of drawing up periodic financial reports.

## CONTROL AND RISK COMMITTEE WORKS CALENDAR

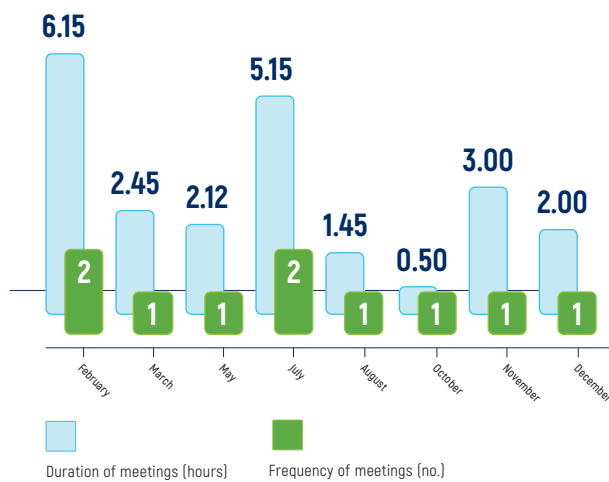


The Committee deemed it possible to confirm, in light of the activities carried out in 2017, its positive assessment with regard to the adequacy of the Internal Control and Risk Management System.

The average duration of the meetings held by the Committee was around 2 hours and 25 minutes.

At the date of approval of this document, the Control and Risk Committee had met 3 times.

### CONTROL AND RISK COMMITTEE - FREQUENCY





## Nominations and Remuneration Committee



**Paolo Francesco Lanzoni**  
Chairman



**Mara Anna Rita Caverni**  
Member



**Silvia Merlo**  
Member

### Members:

Paolo Francesco Lanzoni - *Chairman*

Mara Anna Rita Caverni

Silvia Merlo

Giovanni Marco Scollo - *Secretary*

In accordance with the provisions of the Corporate Governance Code, the current Nominations and Remuneration Committee is comprised of three non-executive Directors, all independent as per the Consolidated Finance Law and mostly independent as per the Corporate Governance Code, appointed by the Board of Directors during the meeting of 24 April 2015.

With reference to the provisions of Principle 6.P.3. of the Corporate Governance Code<sup>37</sup>, it should be noted that in the first meeting of the Committee, held on 6 May 2015, the two independent members, given the considerable change occurred in the composition of the Committee, in order to ensure continuity with respect to the skills and experience accrued<sup>38</sup>, as well as for the benefit of new members of the Committee, taking into account the assessments of independence made by the Board of Directors in the meeting of 24 April 2015 with particular reference to the autonomy of judgement granted to the non-executive member of the Committee and in view of the fact that the Chairman of the Committee during the vote does not enjoy special privileges over other members - with the abstention of the non-executive member - unanimously resolved to confirm the latter in the position of Chairman of the Nominations and Remuneration Committee.

During its meeting on 6 May 2015, and subsequently in the meeting of 13 July 2016, the Committee appointed a

<sup>37</sup> The Board of Directors shall establish among its members a remuneration committee, made up of independent directors. Alternatively, the committee may be made up of non executive directors, the majority of which to be independent; in this case, the chairman of the committee is selected among the independent directors."

<sup>38</sup> It should be noted in this regard that the non-executive member of the Committee - qualified on 24 April 2015 by the Board of Directors as an independent director pursuant to the Consolidated Finance Law (T.U.F.) but not in accordance with the Corporate Governance Code only due to the long tenure - has been Chairman of the Nominations and Remuneration Committee since May 2009.

Secretary from outside of its members. Together with the Secretary, the Chairman coordinates the activities of the Committee and chairs its meetings.

The members of the Committee have adequate financial and remuneration policy expertise<sup>39</sup>.

Committee meetings are attended by the Chairman of the Board of Statutory Auditors or another auditor designated by him or, depending on the topics to be discussed, by all members of the Board of Statutory Auditors; meetings may also be attended, upon invitation, by the Chairman of the Board of Directors, the Executive Deputy Chairman and the Chief Executive Officer, who are entitled to participate in the discussion of the agenda items and to identify adequate actions to confront critical or potentially critical situations.

Employees of Group companies, representatives of the independent auditors and, in general, persons whose presence is deemed necessary or appropriate for the discussion of the agenda items may be invited to attend Committee meetings.

The Committee meets at least quarterly, according to a schedule set with sufficient advance notice.

Committee members are provided, in advance of the meeting date (at least 48 hours before the meeting, subject to certain exceptions), with the documentation and information necessary to express an informed opinion on the matters under its consideration. During meetings, where appropriate, specific and timely insights are also obtained from representatives of Group management, invited to participate for that purpose.

### Tasks

The Nominations and Remuneration Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code for the Remuneration Committee<sup>40</sup>. Since the date of adherence by the Company to the current Corporate Governance Code<sup>41</sup>, the Chairman of the Committee reports to the Board of Directors at the first board meeting on the meetings held by the Committee in the intervening period.

In particular:

With reference to the activities of the **Remuneration Committee**:

- it makes recommendations to the Board of Directors regarding the remuneration of the Chairman, Deputy Chairmen, Chief Executive Officer and, more generally, Directors with powers or specific duties and the Directors called to serve on the Strategic Committee who do not hold positions on the Board of Directors and, upon indication by the Chief Executive Officer, regarding the determination of criteria for the remuneration of the Company's top management and for the definition of incentive plans for the Group management;

<sup>39</sup> These characteristics were assessed by the Board of Directors at the meeting of 24 April 2015.

<sup>40</sup> In compliance with the conditions outlined for both Committees in the Corporate Governance Code, without prejudice to what is stated in relation to Principle 6.P.3. of the Corporate Governance Code.

<sup>41</sup> Since 15 December 2015.



- it periodically assesses the adequacy, overall consistency and concrete application of the Remuneration Policy for members of the Board of Directors and Key management personnel;
- it provides to the Board of Directors and to the relevant bodies the opinions required by the Procedure for Transactions with Related Parties, being, where applicable, specifically comprised of two Independent Directors belonging to the same Committee and the other Independent Director belonging to the Control and Risk Committee, (i) on the Company's interest in carrying out transactions involving the assignment or the increase in remuneration and benefits, in any form, to a member of an administrative or control body of the Company or to a Key Manager thereof or otherwise to one of the persons holding the offices indicated in Annex 1 to the Procedure for Transactions with Related Parties, and (ii) on the advantageousness and substantial correctness of the relative conditions, and shall comprise members of the Nominations and Remuneration Committee, provided that the said transactions pursuant to Article 3.2, subsection c), of said Procedure, are not excluded from the scope of the procedure itself<sup>42</sup>. If a member of the Committee is the counterparty of the transaction to be evaluated or a related party thereto, the other members of the Committee shall call to participate in the committee another unrelated independent director or, if there are none, an unrelated standing member of the Board of Statutory Auditors.

With reference to the activities of the **Nominations Committee**:

- it proposes to the Board of Directors the candidates for the office of Director in the case provided by Article 2386, first paragraph, of the Italian Civil Code, if it is necessary to replace an Independent Director;
- it assesses, at the specific request of the shareholders who intend to present lists, the independence of candidates for the office of Director to be submitted to the Shareholders' Meeting;
- it provides the Board of Directors, on an annual basis, with an evaluation of the size, composition and operation of the Board itself, and it may express recommendations on the professional profiles that should be included in the Board;
- it expresses recommendations regarding the maximum number of directorships or auditorships in other companies listed on regulated markets in Italy and abroad, in financial, banking, or insurance companies or companies of significant size that can be considered to be compatible with an effective performance of the duties of a directorship in the Company;

To better carry out its duties, the Committee may employ outside consultants at the Company's expense. Within the scope of the activity performed by the Committee members for the purposes of the Procedure for Transactions with Related Parties, the Board of Directors has not set any expense limit even for transactions of "Minor Relevance".

<sup>42</sup> If the conditions per Article 3.2 subsection c) of the Procedure for Transactions with Related Parties are met, i.e. (i) that the Company has adopted a remuneration policy; (ii) that the Nominations and Remuneration Committee was involved in defining the remuneration policy; (iii) that a report illustrating the remuneration policy has been submitted for the Shareholders' Meeting consultative vote; (iv) that the remuneration assigned is consistent with said policy – subject to the disclosure obligations per Article 154-ter of the Consolidated Finance Law, the Procedure shall not apply to transactions pertaining to the assignment or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a key manager thereof or otherwise to one of the persons who hold the offices indicated in Annex 1 to the Procedure for Transactions with Related Parties.

Whenever the Committee discusses recommendations for the remuneration of the Chairman, the Executive Deputy Chairman and the Chief Executive Officer, such individuals must leave the meeting.

In the performance of its duties, the Committee was able to access the information and company functions necessary to carry out its tasks.

During financial year 2017, the Committee held **6 meetings** - all duly recorded in minutes - during which, in addition to approving its calendar and organising its work, it.

With reference to the activities of the **Remuneration Committee**:

- formulated proposals for setting the remuneration of the Chairman, Deputy Chairmen, Chief Executive Officer and, more generally, Directors with powers or specific duties and the Directors called to serve on the Strategic Committee who do not hold positions in the Board of Directors;
- issued opinions on assessing and determining the remuneration of certain key managers<sup>43</sup> and the Chairman of a company belonging to the ERG Group, a related party of ERG S.p.A.;
- made decisions, with reference to the MBO system, regarding (i) the definition of the corporate objective (reference target value) for financial year 2017, (ii) the profit achieved in 2016 with respect to the business objective assigned (reference target value);
- analysed the trends of the 2015-2017 LTI System indicators;
- actively participated in the process to update the Company's Remuneration Policy, in order to implement (i) the organisational changes occurring following the reorganisation of the risk management, compliance and internal control processes of the ERG Group and the "One Company" Project, (ii) the introduction of a clause to which any deferred payment of non-recurring remuneration is subject, following assessment by the Nominations and Remuneration Committee and resolution by the Board of Directors;
- analysed the consultative vote of the shareholders on the first section of the Company's Remuneration Report, concerning financial year 2017;
- assessed the adequacy, overall consistency and practical application of the Company's Remuneration Policy, using the information provided by the Chief Executive Officer and the Executive Deputy Chairman;

With reference to the activities of the **Nominations Committee**:

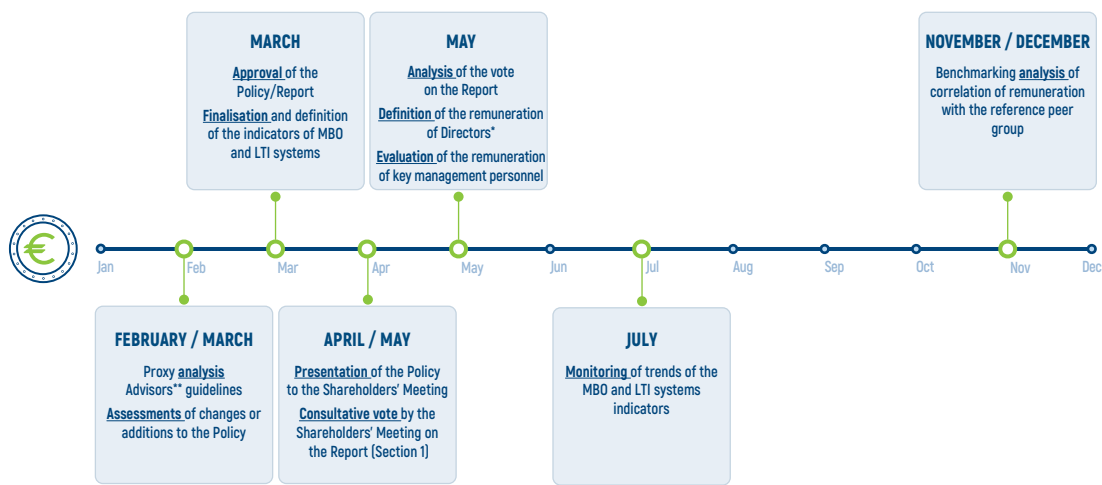
- prepared a support document for the assessment of the Board of Directors in relation to the size, composition and operation of the Board and its Committees during financial year 2016 using the valuation criteria used in the previous year and the findings of a self-assessment questionnaire sent to the members of the Board of Directors and the Board of Statutory Auditors;

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<sup>43</sup> The remuneration of the Chief Audit Officer is determined by the Management Board at the proposal of the Manager responsible for the Internal Control and Risk Management System, with the favourable opinion of the Control and Risks Committee following consultation with the Board of Statutory Auditors.

- examined the personal and professional characteristics of the candidate for the office of Director of ERG S.p.A. and the declaration issued by said candidate confirming possession of the requirements set out by law and the Articles of Association in order to serve as a Director as well as the independence requirements established by Article 148, third paragraph, of the Consolidated Finance Law. Following the assessment process, it proposed his appointment to the Board of Directors of 11 May 2017.

## NOMINATIONS AND REMUNERATION COMMITTEE WORKS CALENDAR

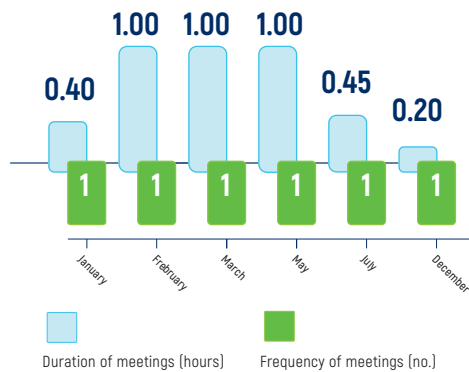


\* Executive or entrusted with special powers  
 \*\* Relating, inter alia, to ISS and Glass Lewis

The average duration of the meetings held by the Committee was around **50 minutes**.

At the date of approval of this document, the Nominations and Remuneration Committee had met **3 times**.

## NOMINATIONS AND REMUNERATION COMMITTEE FREQUENCY





## Strategic Committee



**Alessandro Garrone**  
Chairman



**Giovanni Mondini**  
Member



**Luca Bettonte**  
Member



**Marco Costaguta**  
Member

### Members<sup>44</sup>:

Alessandro Garrone - *Chairman*

Giovanni Mondini

Luca Bettonte

Marco Costaguta

Paolo Luigi Merli - *Secretary*

The Committee advises and issues recommendations to the Chief Executive Officer and to the Board of Directors of ERG and to the Boards of Directors of the Group's operating companies.

In accordance with the strategies and policies approved by the Board of Directors, the Committee's activities include the definition of strategic business and portfolio guidelines, guidelines and policies on strategic finance and for individual extraordinary financial transactions, and the monitoring of the progress of their implementation over time.

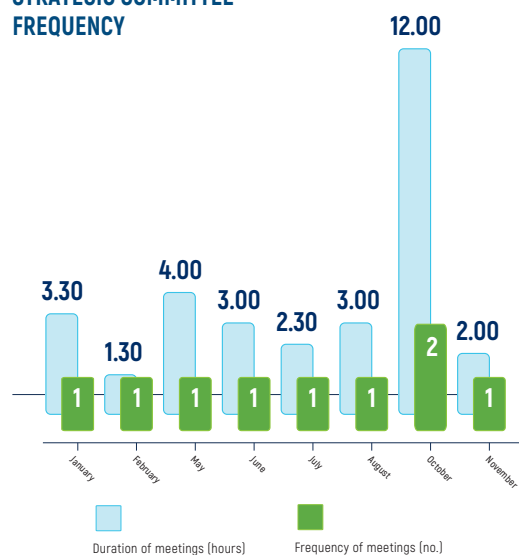
The Committee also examines the long-term strategic plans and capital expenditures budgets of the Group and of the operating companies, as well as the strategic benefits of significant capital expenditures effected at the Group level.

In 2017, the Committee held **9 meetings**.

The average duration of the meetings held by the Committee was **around 3 hours and 30 minutes**.

At the date of approval of this document, the Strategic Committee had met **2 times**.

### STRATEGIC COMMITTEE FREQUENCY



<sup>44</sup> Following the resignation of Luigi Ferraris on 20 April 2017 from the office of Director and member of the Strategic Committee, on 11 May 2017 the Board of Directors resolved not to add to the composition of the Strategic Committee.

## 5.2. INTERNAL COMMITTEES



The composition of the Internal Committees (non-board committees, composed of Group managers) is aligned with the working model of the Group's organisational structure.



### Leaders Meeting

Committee tasked with advising and consulting with respect to the Chief Executive Officer. In particular it:

- shares the activities, characteristics and performances of the Group's businesses;
- ensures a common vision and teamworking;
- enhances the Group's human and relational assets and promotes managerial culture and values;
- provides opportunities to compare with best practices outside the Group through testimonies and benchmarking.



### Human Capital Committee

Committee tasked with advising and consulting with respect to the Executive Deputy Chairman and the Chief Executive Officer. In particular it:

- defines and monitors the main human capital development programmes and activities;
- provides support to the Executive Deputy Chairman and the Chief Executive Officer in decisions relating to staff development and variable remuneration and medium/long-term incentive systems, and proposals to be submitted to the Nominations and Remuneration Committee.



### Sustainability Committee

Committee tasked with advising and consulting with respect to the Chairman of the Board of Directors. In particular it:

- defines the Group's sustainability guidelines and promotes the implementation of consistent practices in the field of corporate social responsibility;
- approves, monitors and evaluates sustainability objectives and priority areas for action relating to CSR;
- approves the time-frames and communication methods of the Sustainability Report and CSR initiatives.



### Investment Committee

Committee tasked with advising and consulting with respect to the Chief Executive Officer. In particular it:

- provides support to the Chief Executive Officer in assessing investment proposals;
- expresses a technical, economic and financial opinion for the Strategic Committee at various stages in the investment approval process.



### Risk Committee

Committee tasked with advising and consulting with respect to the Chief Executive Officer. In particular it:

- supports the Chief Executive Officer in defining strategies and policies for the management of financial and market risks;
- provides the Chief Executive Officer with information required to authorise financial and market risk management operations, and to monitor the execution of significant transactions and verify their effects.

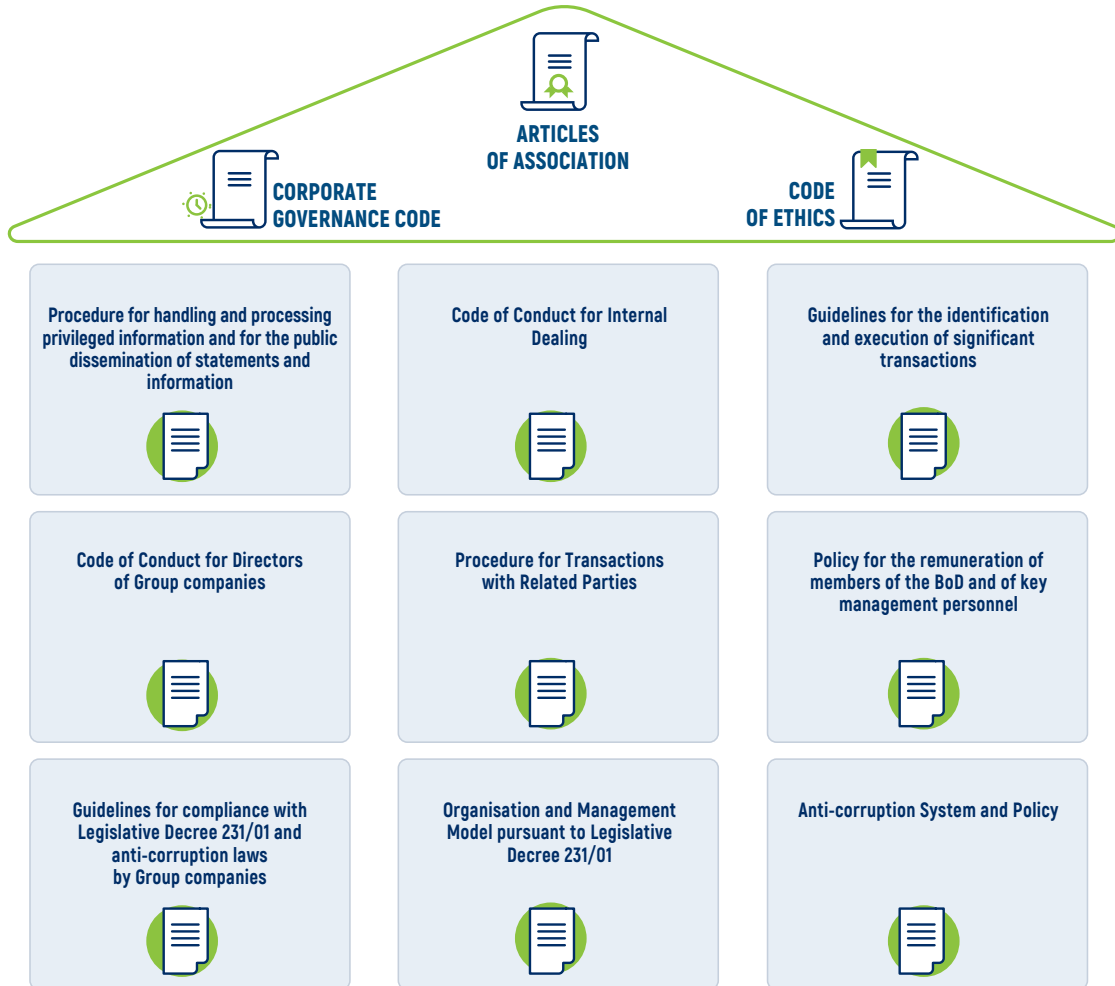


### Management Committee

Committee tasked with advising and consulting with respect to the Chief Executive Officer. In particular it:

- monitors the Group's economic, financial and industrial results;
- monitors changes in the institutional and regulatory framework;
- analyses development opportunities and monitors relevant projects in the framework of the strategic plan ensuring that the priorities of all Organisational Units are aligned.

### 5.3. CORPORATE GOVERNANCE DOCUMENTS





## Articles of Association

The Articles of Association, as illustrated in detail in the Report, contain the main rules governing the operation of ERG's corporate bodies and has been recently amended to comply with the changes in laws and regulations on the matter of gender balance in the composition of the administrative and control bodies.

## Code of Ethics

The Code of Ethics is an instrument for raising the awareness of all employees and associates and all other stakeholders so that, when carrying out their activities, they adopt correct and accountable conduct in line with the ethical and social values to which ERG aspires. The Code of Ethics is therefore an essential part of the Organisation and Management Model pursuant to Legislative Decree 231/01.

The Code of Ethics was revised in 2014 to take into account regulatory changes (introduction of the offences of bribery among private parties) and to improve the representation and communication of the ethical principles promoted by the Group. The latest revision to the Code of Ethics was approved by ERG's Board of Directors on 14 May 2014.

The Code of Ethics is adopted by all companies in the Group, both Italian and foreign, and it is available in English, French and German.

The Code of Ethics is communicated to associates of the Group not only through its publication on the Group's website, but also through reference in the contractual clauses.

Group employees are provided with both classroom training and an e-learning course, use of which is tracked in the system.

## Corporate Governance Code

The Company has adhered to the Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A. since its first edition in 1999. On 15 December 2015, the Board of Directors, following the Control and Risk Committee's preliminary assessment of the main amendments made, decided to adopt the new edition of the Corporate Governance Code published in July 2015.

## Procedure for handling and processing privileged information and for the public dissemination of statements and information

The Board of Directors, based on a recommendation made by the Control and Risk Committee, has adopted a procedure for handling and processing privileged information and for the public dissemination of statements and information. The aim is to ensure that all statements and information intended for the market, for CONSOB and for Borsa Italiana S.p.A. are the outcome of a process that guarantees both timeliness and accuracy.

The procedure, most recently approved by the Board of Directors on 9 August 2017, defines the tasks and responsibilities of the functions involved, identifies the criteria, methods and timing of the various procedural stages, and establishes the appropriate decision-making levels for the dissemination of statements and information. For this purpose, it contains prescriptions aimed at assuring an exhaustive and timely flow of information within the companies of the

Group and between them and the listed Parent Company for the purposes of compliance with information obligations pertaining to “price sensitive” events, vis-à-vis the market and the organisations tasked with its supervision.

### Code of Conduct for Internal Dealing

The Board of Directors has adopted a Code of Conduct - most recently approved by the Board of Directors on 11 May 2017 - in order to give transparency to financial transactions carried out by Relevant Persons, namely those persons who, by virtue of their roles within the Group, have significant decision-making powers or considerable knowledge of corporate strategies which would help them in making investment decisions regarding the financial instruments issued by the Company.

The list of recipients of this Code is published on the Company's website.

### Guidelines for the identification and execution of significant transactions

The Board of Directors has defined the guidelines for the identification and execution of significant transactions, the examination and approval of which - as recommended by the Corporate Governance Code - remain the exclusive responsibility of the Board of Directors.

The guidelines - most recently approved by the Board of Directors on 1 January 2017 - set out the criteria to be used to identify the most significant transactions, in accordance with Article 1 of the Corporate Governance Code, consisting of quantitative and qualitative criteria and criteria deriving from the specific requirements of the parties involved (related-party transactions and intra-group transactions). The document also indicates the standards of conduct to be followed in carrying out the aforesaid transactions, with particular reference to the transactions carried out by the subsidiaries in respect of which ERG performs management and coordination activities in accordance with Article 2497 et seq. of the Italian Civil Code which must be previously examined and approved by the Board of Directors.

### Code of Conduct for Directors of Group companies

The Board of Directors has adopted a Code of Conduct - most recently approved by the Board of Directors on 14 May 2014 - for Directors appointed in Group companies, in order to provide them with uniform rules of conduct for performing their duties within a systematic framework of reference and in compliance with Corporate Governance principles.

### Procedure for Transactions with Related Parties

The Board of Directors, with its resolution of 11 November 2010, following favourable opinion from the Control and Risk Committee and with the input of the Board of Statutory Auditors, approved and adopted a specific internal resolution - effective from 1 January 2011 - aimed at ensuring the transparency and substantial and procedural correctness of the transactions with related parties carried out by ERG directly or through its subsidiaries. The Procedure was most recently updated on 1 January 2017 in order to take account of organisational changes.

## Policy for the remuneration of members of the Board of Directors and of key management personnel

With its resolution of 20 December 2011, at the proposal of the Nominations and Remuneration Committee, the Board of Directors adopted a Remuneration Policy for the members of the Board of Directors and for key management personnel, in line with the provisions of the Corporate Governance Code. At the proposal of the Nominations and Remuneration Committee, this policy has been revised as follows:

- on 18 December 2012, to take into account the powers delegated by the Board of Directors (appointed by the Shareholders' Meeting of 20 April 2012) and the adoption of the 2012-2014 LTI System;
- on 11 March 2015, to take into account, with effect from 2015, the Company's adherence to the current Corporate Governance Code and the general principles of the 2015-2017 LTI System<sup>45</sup>;
- on 22 March 2016, in order to implement the Resolution of the Board of Directors of 15 December 2015 defining the conditions necessary to implement the 2015-2017 LTI System, in line with the Policy itself and based on the 2015-2018 Business Plan;
- on 9 March 2017, in order to implement (i) the organisational changes occurring following the reorganisation of the risk management, compliance and internal control processes of the ERG Group and the "One Company" Project, (ii) the introduction of a clause to which any deferred payment of non-recurring remuneration is subject, following assessment by the Nominations and Remuneration Committee and resolution by the Board of Directors;
- on 7 March 2018, to take into account, with effect from 2018, the essential elements of the general principles of the 2018-2020 LTI System.

## Guidelines for compliance with Legislative Decree 231/01 and anti-corruption laws within ERG Group companies

ERG, with particular reference to the definition of the corporate governance system and within the scope of the management and coordination activities carried out in respect of directly or indirectly controlled Italian and foreign subsidiaries within the meaning of Article 93<sup>46</sup> of the Consolidated Finance Law (the "Subsidiaries" and, together with ERG, "The ERG Group Companies" or the "ERG Group") - respecting the managerial and operating independence of said companies, which benefit from the advantages, the synergies and the economies of scale deriving from their inclusion in the ERG Group -, decided to summarise in the Guidelines the general reference principles and rules that Subsidiaries are asked to take into consideration.

In particular, the Guidelines have a general control function over:

- the adoption of the Code of Ethics and the Anti-Corruption Policy by all the Subsidiaries;

<sup>45</sup> For any additional information in this matter, please refer to the Report on Remuneration per Article 123-ter of the Consolidated Finance Act, to be presented to the Shareholders' Meeting convened in April 2018, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.

<sup>46</sup> "(...) In addition to those laid down in Article 2359, first paragraph, numbers 1 and 2, of the Italian Civil Code, the following are also considered subsidiaries: a) Italian or foreign companies over which a person is entitled, by virtue of a contract or of a statutory provision, to exercise a dominant influence when the applicable law allows such contracts or agreements; b) Italian or foreign companies over which a partner, on the basis of agreements with other shareholders, has alone sufficient votes to exercise a dominant influence in the ordinary shareholders' meeting. (...) the rights pertaining to subsidiaries or exercised through trustees or other parties are also taken into consideration; those exercised on behalf of third parties are not taken into consideration."

- the assessment, by each Italian subsidiary, of activities within which there is the potential risk of offences being committed and the consequent implementation of instruments to achieve compliance with Legislative Decree No. 231/01.

The latest version of the Guidelines was approved by ERG's Board of Directors on 9 October 2017.

## Organisation and Management Model pursuant to Legislative Decree 231/01 and Supervisory Committee

The purpose of the 231 Model is to ensure conditions of correctness and transparency in the performance of company activities. It is therefore intended to serve as a valid instrument aimed at preventing the risk of committing the offences sanctioned by Legislative Decree 231/01.

On 21 December 2004, the ERG Board of Directors resolved to adopt for the first time an organisation, management and control model pursuant to Legislative Decree 231/01 and appointed the Supervisory Committee.

Since initial approval, the 231 Model has been revised and improved to reflect regulatory and legislative changes, as well as organisational changes that have taken place within the Group.

The 231 Model was designed according to Confindustria Guidelines as well as Position Papers issued by the AODV (Italian association of supervisory bodies). In accordance with laws and regulations, the 231 Model includes a disciplinary system aimed at sanctioning any violations of the Model or the Code of Ethics, and the failure to comply with company safeguard procedures. The version of the 231 Model currently in force was approved by the Board of Directors of 12 July 2017. An extract of the document is published in the "Corporate Governance" section of the website [www.erg.eu](http://www.erg.eu). An English version is also provided.

The 231 Model was developed taking into consideration the main positions expressed by law with respect to the following characteristics:

- **effectiveness**: the adequacy of the set of controls established to prevent the committing of offences;
- **specificity**: the Model takes into account the characteristics and size of the Company and the type of activities carried out, as well as the history of the Company;
- **being up to date**: namely, the ability to reduce the risks of offences in reference to the structural and business characteristics of the company, in cooperation with the Supervisory Committee which keeps it up to date and current over time.

The structure of the 231 Model adopted by ERG includes the following significant components:

- **Code of Ethics**, which expresses the reference principles which must guide the activity of all those who contribute, with their work, to the performance of corporate activities;
- **general part**, which defines the overall structure of the Model, in relation to the provisions of Legislative Decree 231/01 and to the specific decisions made by the Company in its preparation referring to the disciplinary system, to be enforced in the event of violation of the prescribed rules and procedures;
- **specific part**, which defines the rules to be followed in the performance of sensitive activities.

Together with the adoption of the 231 Model, the decision to comply with Legislative Decree No. 231/01 led to the appointment of the Supervisory Committee, tasked with overseeing the observance of the Code of Ethics and assuring the adequacy and actual implementation of the Model, and evaluating whether it is necessary subsequently to update it.

The Committee, appointed by the Board of Directors on 24 April 2015 and subsequently integrated on 12 May 2016, is comprised of:

- an external member, identified as a Statutory Auditor of the Company, acting as Chairman (L. Fornabaio);
- two internal members, identified as the Head of Corporate Affairs (Giovanni Marco Scollo) and the Chief Audit Officer (Gabriello Maggini).

The members of the Supervisory Committee shall remain in office for a period preferably no longer than three years and may be reappointed. In the case of expiry of the Board of Directors which appointed them, they will remain in office until the appointment of new members, or the confirmation of the previous members by the new Board of Directors. The Supervisory Committee carries out its work within the Parent Company ERG, whereas the Subsidiaries, having their own Model, have appointed their own Supervisory Committee.

The synergies between the Code of Ethics and the 231 Model are evidenced by the assignment of the ERG Supervisory Committee as Guarantor of the Code of Ethics. Similarly, each subsidiary has assigned the task of Guarantor of the Code of Ethics to its own Supervisory Committee.

The Supervisory Committees of ERG and of its subsidiaries shall rely, in the preparation of proposals for the updating of the 231 Model, on ERG's "231 Compliance" department, which also handles the activities of technical secretariat of the corporate boards and committees; verification of the adequacy of the 231 Model and compliance with the controls contained therein, as well as with the Code of Ethics, are instead entrusted to the Internal Audit function of ERG.

To increase the effectiveness of the governance and internal control of the Company, information flows are provided to the Supervisory Committee. The primary function of the information flows is to enable the Supervisory Committee to continuously oversee the functionality of the 231 Model and to identify possible steps to amend the Internal Control and Risk Management System. To this end, the Supervisory Committee has adopted a special procedure that identifies the relevant information flows, the timing for transmission, and the individuals responsible. In order to manage communications to the Supervisory Committee, a dedicated e-mail address has been set up in addition to a traditional mail address. With reference to the provisions of the Comment to Article 7 of the Corporate Governance Code<sup>47</sup>, it is specified that the information flows to the Supervisory Committee are made through specific channels and guarantee the anonymity of the informant.

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<sup>47</sup> "The Committee believes that, at least in the issuer companies belonging to the FTSE-MIB index, an adequate internal control and risk management system shall provide for an internal system allowing the company employees to report any irregularity or breach of the applicable laws and internal procedures (so called whistleblowing systems), in accordance with the domestic and international best practices, that ensures a specific and confidential communication channel as well as the anonymity of the reporting person."

The Supervisory Committee prepares an annual supervisory activity plan which is presented to Control and Risk Committee and to the Board of Directors of ERG, and reports regularly to the Control and Risk Committee and to the Board of Directors on the implementation of the Code of Ethics and the 231 Model.

The Supervisory Committee provides training by means of:

- classroom training to all employees (including managers and executives) on issues pertaining to Legislative Decree 231/01, the 231 Model adopted by the Company, the Supervisory Committee and the activities it performs, the information flows to the Supervisory Committee;
- an e-learning course dedicated to the Code of Ethics, expected to be attended by employees and newly hired personnel;
- an e-learning course dedicated to issues relating to Legislative Decree 231/01, intended for newly hired personnel.

In addition, information on specific issues relating to the legislation referred to in Legislative Decree 231/01 is regularly provided to the members of the Board of Directors of ERG and its subsidiaries, as well as to members of the Board of Statutory Auditors.

### Anti-Corruption System and Policy

ERG carries out its activities in accordance with the highest national and international standards of good Corporate Governance. In this context, the Group is firmly committed to respecting and applying the principles of integrity, impartiality and transparency.

These principles increase in importance when addressing corruption, a global phenomenon that irreparably destroys the integrity of both public and private enterprises.

In order to further stress that it conducts all aspects of its activity in strict compliance with applicable domestic and international laws and regulations, with respect, inter alia, to anti-corruption, and to further demonstrate its adoption of the values described above, ERG has decided to adopt, in addition to the Code of Ethics, the Anti-Corruption System and Policy. The aim is to prohibit and prevent corrupt behaviour of any kind, in accordance with the 'zero tolerance' principle for corruption. In order to achieve this objective, organisational responsibilities, principles and rules of conduct to be followed have been established so as to ensure compliance with the applicable Anti-Corruption Laws. The Anti-Corruption System and Policy apply to ERG and to all companies of the ERG Group and are addressed to all those who work in Italy and abroad, in the name of or on behalf of the ERG Group.

The Anti-Corruption System and Policy were approved by the Board of Directors of ERG on 9 October 2017. The Anti-Corruption Policy is in the process of being adopted by all other companies of the ERG Group, in Italy and abroad, and has been translated into English, French and German.

## 6. MANAGEMENT AND COORDINATION

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ERG is a subsidiary of San Quirico S.p.A. which does not however exercise any management and coordination activity over its subsidiary, within the meaning of Articles 2497 et seq. of the Italian Civil Code, also in view of the fact that a provision of its Articles of Association expressly prohibits the company from carrying out management and coordination activities with regard to its subsidiaries.

This circumstance is periodically evaluated by the Board of Directors, also on the basis of a preliminary review carried out by the Control and Risk Committee. ERG in turn performs management and coordination in respect of direct or indirect subsidiaries.

The scope of the companies concerned and the content of any activity carried out on each of them are periodically reviewed by the Board of Directors, also on the basis of a preliminary review carried out by the Control and Risk Committee.

In particular, the Board of Directors, during the meeting held on 12 July 2017, acknowledged that ERG carries out management and coordination activities in respect of direct and indirect subsidiaries - respecting the managerial and operating independence of said companies, which benefit from the advantages, the synergies and the economies of scale deriving from their inclusion in the Group - including the definition of business strategies, the corporate governance system and the corporate structures, as well as the determination of shared general policies pertaining to human resources, accounting, financial statements, taxation, information & communication technology, procurement, finance, investments, risk management, communication, institutional relations and corporate social responsibility.

## 7. THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP

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The “Guidelines for the Internal Control and Risk Management System”, adopted on 11 March 2014 by the Board of Directors of ERG, were subsequently updated in order to take into account organisational changes and changes resulting from the Company’s adherence with the Corporate Governance Code. The version currently in force was approved on 13 July 2016 and takes into account, inter alia, the reorganisation of the Internal Control and Risk Management System which provided for the establishment of a Risk Management function at Group level.

### THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP: GENERAL GUIDELINES

The Internal Control and Risk Management System of the ERG Group (hereinafter also “ICRM System”) is the combination of measures, organisational structures, regulations and rules whose purpose is, by means of an appropriate process of identification, measurement, management and monitoring of the main risks, and the creation of adequate information flows to ensure the proper flow of information, to allow the company to be managed on a sound and proper basis, consistent with the company targets defined by the Board of Directors.

IT complies with the principles contained in the current edition of the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A. (hereinafter the “Corporate Governance Code”) and, more generally, current national and international level best practices.

IT is defined on the basis of leading national and international practices, and in particular “CoSO Internal Control - Integrated Framework 2013” which identifies a direct relationship between company targets (efficiency and effectiveness of operations, reporting and compliance), the components of the ICRM System and the organisational structure adopted by the Group.

This System, which is an integral part of the company’s business, involves, and therefore applies to, to the entire organisational structure of the ERG Group: from the Board of Directors of ERG and its subsidiaries, to Group Management and the company staff.

The ICRM System Guidelines, approved by the Board of Directors of ERG, lay down the general principles by which the Group’s main risks are managed, in line with the strategic objectives identified, and the coordination arrangements between the parties involved in order to maximise the effectiveness and efficiency of the ICRM System.



Below is a summary of those involved in the ICRM System and their respective responsibilities.

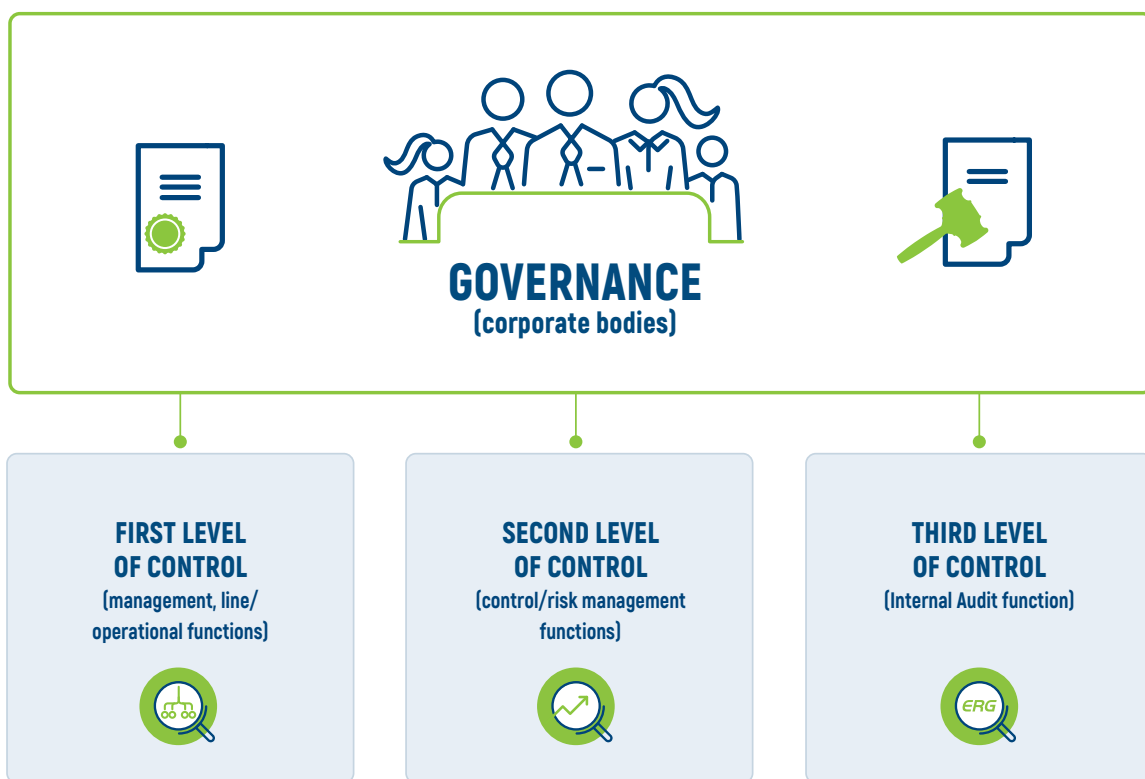
- **Board of Directors:** orients and assesses the adequacy of the ICRM System;
- **Chairman of the Board of Directors:** supervises, directs and controls corporate affairs activities;
- **Executive Deputy Chairman:** supervises, in particular, the Group's strategic decisions and the definition of the organisational macro-structure;
- **Chief Executive Officer:** has the powers necessary to carry out all actions pertaining to corporate activities and is responsible for identifying the main business risks, taking into account the characteristics of the activities carried out by the issuer and its subsidiaries and, after consulting the Director in charge of the Internal Control and Risk Management System, submitting them periodically to the review of the Board of Directors;
- **Director in charge of the internal control and risk management system:** delegated by the Board of Directors to oversee - through supervision, guidance and control - internal audit, risk management and compliance activities and processes, and ensures that the functionality and overall adequacy of the ICRM System is maintained;
- **Control and Risk Committee:** advises and makes proposals to the Board of Directors, with the aim of supporting it, through appropriate proceedings, in evaluations and decisions relating to the ICRM System, as well as in relation to the approval of periodic financial reports;
- **Board of Statutory Auditors:** oversees compliance with the law and with the Articles of Association, adherence with correct administration principles, the adequacy of the organisational structure (for aspects under its cognisance) of the ICRM System, as well as that of the administrative and accounting system and its reliability in correctly representing operations, and the adequacy of the provisions imparted to the Subsidiaries for the proper fulfilment of the prescribed disclosure obligations;
- **Supervisory Committee** pursuant to Legislative Decree 231/01: supervises the observance of the Code of Ethics and verifies the effectiveness and the adequacy of the Organisation and Management Model pursuant to Legislative Decree 231/01;
- **Internal Audit:** responsible for third level control activities and has a significant position in the ICRM System being entrusted with the task of providing an independent assurance on the ICRM System with the aim of improving the efficiency and effectiveness of the organisation. Internal Audit is tasked with verifying that the ICRM System is functional and adequate in relation to the size and operation of the ERG Group, verifying, in particular, that Management has identified the main risks, that the risks were assessed with consistent procedures and that the mitigating actions have been defined and carried out. It also verifies whether the risks are managed in accordance with the decisions of the Board of Directors, with external rules and with rules within the Group.

The following relevant parties also play a role: (i) Group Management, which bears prime responsibility for internal control and risk management activities (first control level); (ii) second level control functions with specific control tasks and responsibilities over different areas/types of risk. These functions are autonomous and distinct from operational ones; they are involved in defining risk governance policies and the risk management process: (i) the Manager responsible for preparing the company's financial reports, (ii) the Group Risk Management & Corporate

Finance function, (iii) the Compliance departments, assigned to oversee compliance issues, with particular reference to legal risk and non-compliance, including the risk of committing criminal offences to the detriment or in the interest of the ERG Group, committees, composed of corporate management, acting in an advisory capacity and making proposals regarding specific risk issues.

In line with regulations and reference best practices, the ICRM System is structured over the following levels:

## INTERNAL CONTROL SYSTEM



- **First level:** entrusted to individual operating lines, it encompasses the checks carried out by those involved in certain activities and those with supervisory responsibilities; also makes it possible to ensure operational activities are carried out correctly;
- **Second level:** entrusted to structures other than line, it is involved with defining risk measurement methods, identifying, assessing and checking them (Risk Management); it also makes it possible to verify compliance with regulatory obligations (Compliance);
- **Third level:** entrusted to Internal Audit, it serves to assess the functionality of the overall internal control and risk management system and to detect irregularities and violations of procedures and rules.

## 7.1 STRUCTURE AND OPERATION OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP

The Group is aware that an effective Internal Control and Risk Management System allows the company to be managed on a sound and proper basis, consistent with the company targets defined by the Board of Directors, by promoting well-informed decisions and contributing to wealth preservation, the efficiency and effectiveness of processes, the reliability of financial reporting, and compliance with standards, the Articles of Association and internal procedures.

To promote and maintain an adequate ICRM System, the ERG Group uses organisational, informational and regulatory instruments, which allow the identification, measurement, management and monitoring of the main risks.

This system is integrated in the organisational, administrative and accounting structure and, more generally, in the corporate governance structure. It is based on the recommendations of the Corporate Governance Code, which the Group has adopted, taking as references national and international models and best practices, aimed at consolidating overall effectiveness and efficiency.

### The System of Rules and Procedures

The definition of the Internal Control and Risk Management System structure and its governing rules takes place through the definition of appropriate internal business standards (Policies, Guidelines, Procedures and Operating Notes) which regulate the processes and activities carried out by ERG and its subsidiaries.

The beneficiaries of each standard are defined below:

- Policies: these are intended for all stakeholders and, based on the values expressed in the Code of Ethics, define the fundamental management principles involved in the performance of corporate activities;
- Guidelines: these are intended mainly for those who must set up operations and manage them, and define the principles for the execution of such activities;
- Procedures: these are intended for the parties involved in the operating processes regulated by them;
- Operating Notes: these are intended for the parties who, at operational level, carry out the activity or stages of activity regulated by the document.

Moreover, a specific procedure was formalised in the Group with the goal of defining a method for the uniform, integrated, effective and efficient management of the corporate rules and for regulating the activities performed by the involved parties, in terms of:

- responsibilities of the parties involved in the process;
- (electronic and hardcopy) communication flows among the various parties involved in the process;
- control activities connected with the operations reported in the process.

### The System for Assigning Powers

A correct and effective Corporate Governance system requires a formal assignment of powers consistent with the company's own organisational system.

A correct assignment of powers entails assessing whether the validity requirements exist, determining its limits and identifying matters that can be delegated.

The system adopted in the Group provides for:

- the assignment of powers by the Board of Directors to the Group's various Companies, through Board resolutions, to the Chief Executive Officers for the ordinary management of the Companies;
- the assignment, normally to first-level executives reporting to Chief Executive Officers, of powers of signature, representation and external negotiation;
- the assignment of special powers for the performance of specific, well-defined actions, upon completion of which the validity of the power is voided;
- the assignment to the heads of organisational positions of internal powers related to actions that have no external enforceability.

The system of delegated powers and mandates in place within the Group is structured so as to achieve consistency between the organisational structures, pursuant to the powers granted, and the company's regulatory system (Policies, Guidelines, Procedures, Operating Notes and Job Descriptions), in compliance with the Segregation of Duties ("SoD").

## 8. INFORMATION ON THE MAIN FEATURES OF THE EXISTING INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS OF FINANCIAL DISCLOSURE, INCLUDING AT A CONSOLIDATED LEVEL

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The ways in which the ERG Group has defined its Internal Control and Risk Management System in relation to the process of financial disclosure (henceforth referred to as “the System”) at the consolidated level are illustrated below. The purpose of the System is to significantly mitigate risks in terms of the trustworthiness, reliability, accuracy and timeliness of financial disclosures.

In particular, the Board of Directors of ERG, in the meeting of 11 March 2014, appointed Paolo Luigi Merli, Chief Financial Officer, as Manager responsible for preparing the Company’s financial reports, thereby attributing to him the responsibilities of:

- preparing adequate administrative and accounting procedures for the preparation of financial disclosure documents;
- monitoring the application of the procedures;
- issuing to the market the certification of the adequacy and effective application of the administrative and accounting procedures for the purposes of the Group’s financial disclosure.

The Manager responsible for preparing the Company’s financial reports shall rely on the support of the 262 Compliance Business Unit in verifying the operation of the administrative and accounting procedures by testing the controls. This organisational structure ensures complete segregation between the activities of preparing the administrative and accounting procedures and the activities of verifying their adequacy and effective application.

In such a context, all personnel of the Group are obliged to cooperate, in particular personnel in administrative functions that are more directly involved in the preparation of corporate accounting records, but also those in other functions that, directly or indirectly, contribute to the process through the preparation of documents and information, the inputting or updating of data in the company’s information systems, and normal operations.

The activity of Compliance pursuant to Law 262/05 has been submitted to the Control and Risk Committee and applies to the companies of the Group, from a logical point of view, in terms of methodology and as regards the principles of control and accuracy of the process.

**Role, Appointment and Requirements of the Manager responsible for preparing the Company's financial reports*****Role of the Manager responsible for preparing the Company's financial reports***

As already pointed out previously, the main responsibility of the Manager responsible for preparing the financial reports of ERG is to implement the administrative and accounting procedures by which periodic corporate financial reporting should be produced, to monitor their application and, together with the Chief Executive Officer, to certify to the market that the above principles were followed and that the financial documentation circulated is reliable.

The figure of Manager responsible for preparing the Company's financial reports fits into the wider framework of Corporate Governance, structured according to the traditional model with the presence of corporate bodies with diverse functions of control.

***Appointment and requirements of the Manager responsible for preparing the Company's financial reports***

The Board of Directors, with the mandatory opinion of the Board of Statutory Auditors, shall appoint the Manager responsible for preparing the Company's financial reports, setting his/her compensation and assigning him/her adequate powers and means. The Manager will be someone who has at least three years of experience in positions of adequate responsibility in the administrative, financial or accounting area of public and private companies or entities, or someone who has adequate knowledge and experience in legal, economic, administrative, accounting or financial matters.

**Elements of the System*****Methodological approach***

The Group has adopted a working methodology that envisages the following logical steps:

- a. identification and evaluation of the risks applicable to financial reporting;
- b. identification of controls for risks identified both at Company/Group level (entity level) and at process level;
- c. evaluation of controls and management of the monitoring process both in terms of design, and in terms of operation and effectiveness, with the aim of reducing risks to a level considered to be "acceptable" (information flows, gap management, plan for remedial action, reporting system, etc.).

The activity is performed by the 262 Compliance Business Unit and is periodically shared with the Manager responsible for preparing the company's financial reports.

***Risk identification and assessment***

Risk Assessment is conducted annually with the aim of identifying, on the basis of a quantitative analysis and following evaluations and parameters of a qualitative nature:

1. the companies within the Group consolidation to include in the analysis;
2. the risks at the level of the selected operating Company/Group (Company/Entity Level Controls) relating to the general corporate context of the Internal Control System, with reference to the five components of the CoSO model developed by the Committee of Sponsoring Organizations of the Treadway Commission, leading practice

at the international level and recognised within Italy as a reference model by the Corporate Governance Code (control environment, risk assessment, information and communication, control activities, monitoring);

3. the general risks for the Company's information systems supporting related processes (IT General Controls);
4. the processes that generate, with inherent risk, the accounts of the Consolidated Financial Statements for each company selected;
5. for each relevant process, the specific risks for financial reporting, with particular reference to so-called financial statement assertions (existence and occurrence, completeness, rights and obligations, valuation and allocation, presentation and disclosure).

The Risk Assessment process carried out at the level of Consolidated Group Financial Statements in order to determine the appropriate scope of analysis, is based on the combined application of two analytical parameters, one quantitative and the other qualitative. As regards the purely quantitative part of the analysis, the following elements are determined:

- large portion (coverage of the consolidated financial statements): this dimension is used to measure the extent of the area within which controls are to be analysed and evaluated, defined on the basis of the weight the dimensions bring to bear on the main items in the financial statements;
- significant account: this refers to the quantitative size that items in the financial statements must have in order to be considered significant after the application of a materiality threshold;
- significant process: by means of account-process matching, processes are identified for which controls should be assessed, given that all processes associated with accounts that have balances greater than the materiality threshold form part of the activity.

Following the quantitative analysis described above, the Risk Assessment process then requires an analysis to be performed based on qualitative elements, with a dual purpose:

- to integrate the exclusively quantitative part of the analysis, so as to include or exclude accounts processes from the activity's scope on the basis of knowledge the management has, from a historical point of view and also considering the expected evolution of the business, of companies making up the Group, and on the basis of the professional judgement by management concerning risk levels relating to financial disclosures;
- to define the "level of depth" to which the analysed accounts processes must be taken into consideration within the scope of the activity and at what level the related controls must be mapped, documented and monitored.

The final result of the Risk Assessment process consists of a document that is circulated to the various functions involved, validated by the Manager Responsible and presented to the Control and Risk Committee.

### **Identification of controls**

Once the main risks at the process level are identified, the actions to be taken in order to monitor the associated control objective are identified.

In particular, the mapping of accounts processes and related controls constitutes a tool through which:

- significant processes and their main associated risks are represented as defined within the scope of the Risk Assessment, as are the controls that are envisaged for the management of such risks;
- the chart of mapped controls is evaluated to ascertain the capacity of each control to manage and mitigate an identified risk and, in particular, the underlying financial statements assertion;
- the operation and representation of a control is shared with its owners, as are the risks and control activities;
- monitoring activities, required to support the representations that must be made by the Manager Responsible, are carried out.

The identification of risks and the associated controls is carried out both with regard to controls relating to financial statement assertions and to other control objectives within the scope of financial disclosure, including:

- the observance of authorised limits;
- the segregation of duties and responsibilities for operations and control;
- the physical security and existence of the company's assets;
- activities of fraud prevention that have an impact on financial disclosure;
- the security of company information systems and the protection of personal data.

The mapping generated from time to time for a specific process is also used as the basis for periodic testing activities whose goal is to evaluate and monitor both the design and the effectiveness of controls in place.

#### ***Assessment of controls and monitoring processes***

In accordance with the provisions of the law regarding formal compliance and in line with the best practices previously referred to, the adopted methodology prescribes constant monitoring of the relevant processes and effective execution of the mapped controls.

The objective of such monitoring is to evaluate the operating effectiveness of the controls - in other words the effective functioning during the period of the controls mapped for the purpose of analysis.

To this end, an annual monitoring (and refining and optimising, where necessary) activity plan is drawn up. The plan is formalised in a document that is presented to the Control and Risk Committee and in which strategies and timing are defined for carrying out monitoring tests.

As part of the activities carried out, the mapping of processes, risks and controls is regularly updated in accordance with Law No. 262/05.

Periodic reports are produced on the results of the activities, providing support on the basis of which the Manager responsible for preparing the company's financial reports releases legal declarations, and the Control and Risk Committee, as regards the most important deadlines for half-year and annual financial reports, evaluates and participates in the work of the Manager Responsible and the functions through which he/she operates.



## 9. THE INDEPENDENT AUDITORS

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Auditing is carried out in accordance with the law by a company enrolled in the Register of Statutory Auditors maintained by the Italian Ministry of Economy and Finance.

Deloitte & Touche S.p.A. was appointed as independent auditor for the years 2009-2017 by the Shareholders' Meeting held on 23 April 2009; consequently, its mandate shall expire at the date of the Shareholders' Meeting convened to approve the financial statements at 31 December 2017.

During the course of the financial year, the Independent Auditors have the duty to verify:

- that the company accounts are properly maintained and all operations are properly accounted for in the accounting records;
- that the Separate Financial Statements and the Consolidated Financial Statements match the results of the accounting records and of the inspections carried out and comply with the rules that govern them.

Deloitte & Touche S.p.A. is also tasked with performing a limited audit of the half-year condensed consolidated financial statements.

While carrying out its activities, the Independent Auditors have access to all documentary and electronic information and data, as well as the archives and the assets of the Company and of the Companies of the Group.

## 10. INVESTOR RELATIONS

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The company manages relations with its Shareholders, institutional investors and the market through the Investor Relations function, which operates within the Division run by the Chief Financial Officer.

As part of investor relations activities, meetings are regularly arranged both in Italy and abroad with representatives of the financial community. ERG's policy is to provide the most detailed information possible on its activities and strategies, including by regularly renewing and updating its website. The person in charge of managing investor relations is Emanuela Delucchi.

## 11. COMMITMENTS

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The Company intends to confirm its commitment:

- to pursue as its primary objective, in its formal acts and conduct, the creation of shareholder value;
- to model its business on total compliance with the Group's ethical principles, which are based on a combination of values including personal integrity, correctness of relationships inside and outside the Company, and transparency vis-à-vis Shareholders, related stakeholders, and the market – as outlined and explained in the Code of Ethics, adopted in December 2004, the most recent update of which was approved by the Board of Directors on 14 May 2014, to reflect not only the organisational and corporate changes that have taken place in the Group, but also the regulatory changes that have taken place and the changes to reference best practices;
- to ensure, by focusing on constantly developing the Corporate Governance principles, that such principles are observed by the organisation in order to ensure that it operates with transparency and efficiency over time.

The main documents concerning Corporate Governance, to which reference is made in the Report, are available in the Corporate Governance section of our website [www.erg.eu](http://www.erg.eu).

**TABLE 1: Structure of the Board of Directors and Committees**

Board of Directors							
Office	Members	Year of birth	In office since	In office until	List (M/m)*	Executive	Non-executive
Chairman	Edoardo Garrone	1961	24/04/15	Appr. Financial Statements 31/12/2017	M	Yes	
Deputy Chairman	Alessandro Garrone	1963	24/04/15	Appr. Financial Statements 31/12/2017	M	Yes	
Deputy Chairman	Giovanni Mondini	1966	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Chief Executive Officer	Luca Bettonte	1963	24/04/15	Appr. Financial Statements 31/12/2017	M	Yes	
Director	Massimo Belcredi	1962	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Director	Alessandro Careri	1950	11/05/17	Appr. Financial Statements 31/12/2017	M		Yes
Director	Mara Anna Rita Caverni	1962	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Director	Alessandro Chieffi	1964	24/04/15	Appr. Financial Statements 31/12/2017	m		Yes
Director	Barbara Cominelli	1970	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Director	Marco Costaguta	1959	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Director	Paolo Francesco Lanzoni	1953	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Director	Silvia Merlo	1968	24/04/15	Appr. Financial Statements 31/12/2017	M		Yes
Directors who left office during the reference year: 1							
Director	Luigi Ferraris	1962	24/04/15	20/04/2017	M		Yes

**Quorum required for list presentation at the time of last appointment: 1%**
**Number of meetings held during the reference year: BoD 9 - CRC 10 - NRC 6**
**Notes**

- \* This column indicates M/m depending on whether the member was elected from the list voted by the majority (M) or by a minority (m).
- \*\* This column indicates the percentage of attendance of the Directors in the meetings respectively of the Board of Directors and of the Committees (no. of meetings attended/no. of meetings held during the actual term of office of the relevant individual).
- \*\*\* This column indicates the number of appointments as Director or Statutory Auditor held by the relevant individual in other companies listed on regulated markets, also abroad, in financial, banking, insurance companies or in companies of significant size other than those held in companies of the ERG Group.
- \*\*\*\* This column indicates whether the member of the Board of Directors is a Committee member.
- \*\*\*\*\* This column indicates the date of first appointment of the Directors starting on 16 October 1997, i.e. the listing date of the Company.

Indep. as per Code	Indep. as per T.U.F.	% attendance (**)	Number of other offices (***)	Length of office as from first appointment (****)	Control and Risk Committee		Nominations and Remuneration Committee	
					(****)	(**)	(****)	(**)
		100%	3	16/10/97				
		89%	1	16/10/97				
		100%	1	16/10/97				
		100%		15/12/09				
	Yes	100%	1	29/04/03	Yes	100%		
	Yes	100%		11/05/17				
Yes	Yes	89%	2	24/04/15	Yes	90%	Si	100%
Yes	Yes	100%	3	24/04/15				
Yes	Yes	89%		24/04/15	Yes	100%		
		100%	8	20/04/12				
	Yes	100%	1	29/04/03			Yes	100%
Yes	Yes	100%	3	24/04/15			Yes	83%
Yes	Yes	100%		24/04/15				

**TABLE 2: Structure of the Board of Statutory Auditors**

Board of Statutory Auditors					
Office	Members	Year of birth	In office since	In office until	Lista (M/m)*
Chairman	Elena Spagnol	1968	03/05/2016	Appr. Financial Statements 31/12/2018	m
Statutory Auditor	Lelio Fornabaio	1970	03/05/2016	Appr. Financial Statements 31/12/2018	M
Statutory Auditor	Stefano Remondini	1963	03/05/2016	Appr. Financial Statements 31/12/2018	M
Alternate Auditor	Vincenzo Campo Antico	1966	03/05/2016	Appr. Financial Statements 31/12/2018	M
Alternate Auditor	Luisella Bergero	1971	03/05/2016	Appr. Financial Statements 31/12/2018	M
Alternate Auditor	Paolo Prandi	1961	03/05/2016	Appr. Financial Statements 31/12/2018	m

**Statutory Auditors who left office during the reference year: none**

**Quorum required for list presentation at the time of last appointment: 1%**

**Number of meetings held during the reference year: 13**

**Notes**

- \* This column indicates M/m depending on whether the member was elected from the list voted by the majority (M) or by a minority (m).
- \*\* This column indicates the percentage of attendance of the statutory auditors in the meetings of the Board of Statutory Auditors (no. of meetings attended/no. of meetings held during the actual term of office of the relevant individual).
- \*\*\* This column indicates the number of appointments as director or statutory auditor held by the Statutory Auditors in other companies listed on regulated markets, also abroad, in financial, banking, insurance companies or in companies of significant size other than those held in companies of the ERG Group. The full list of the offices held is attached, in accordance with Article 144-*quinquiesdecies* of the CONSOB Issuers' Regulations, to the report on the supervisory activity, prepared by the statutory auditors in accordance with Article 153, paragraph 1 of the Consolidated Finance Law (T.U.F.).
- \*\*\*\* This column indicates the date of first appointment of the Statutory Auditors.

Independence as per Code	% attendance (**)	Number of other offices (***)	Length of office as from first appointment (****)
Yes	100%	1	03/05/2016
Yes	100%	5	15/04/2010
Yes	100%	–	03/05/2016
Yes	–	–	15/04/2010
Yes	–	–	23/04/2013
Yes	–	–	03/05/2016

[Redacted]

[Redacted]

[Redacted]



## Board of Directors' Proposal



## BOARD OF DIRECTORS' PROPOSAL

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Dear Shareholders, in relation to the results achieved, we invite you to resolve as follows:

- to approve the Annual Financial Statements for your company for the year ended 31 December 2017, which closes with a net profit of EUR 23,969,998.60;
- to resolve upon the payment to the Shareholders of a dividend of EUR 1.15 per share, including a non-recurring component of EUR 0.40 per share, which it is proposed be distributed following the completion of the process to change the structure of the Group by exiting the Oil business and entering the Solar Power business. The dividend will be paid in respect of each share having dividend rights outstanding at the ex-date, excluding the company's treasury shares, in accordance with Article 2357 ter of the Italian Civil Code, by distribution of the year's earnings and for the residual part by use of retained earnings;
- to release part of the unavailable portion of the "Reserve for first-time adoption of IAS/IFRS and retained earnings" for an amount equal to EUR 20,216,282.00 corresponding to the change in value of the equity investment in TotalErg S.p.A. for the purposes of the application of IFRS 5, net of the related tax effects. It should be mentioned, in fact, that at the time of approving the 2010 Financial Statements, an unavailable reserve was allocated pursuant to Article 6, paragraph 1, subparagraph a) of Italian Legislative Decree no. 38/2005, using a part of the profit amounting to EUR 346,403,569.83 corresponding to the unrealised portion, net of tax charges, of the capital gain deriving from incorporation of the TotalErg Joint Venture, and that part of the unavailable portion of the Reserve, for a total of EUR 229,450,160.55, had already been released at the time of approving the 2012 Financial Statements and the 2013 Financial Statements as a result of the write-down of the shareholding performed in the corresponding financial years;
- to make the dividend payable starting from 23 May 2018, with an ex-dividend date as of 21 May 2018 and record date of 22 May 2018.

Genoa, Italy, 7 March 2018

On behalf of the Board of Directors

The Chairman

Edoardo Garrone







## **ERG S.P.A.**

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## **REGISTER OFFICE**

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Share Capital EUR 15.032.000,00 fully paid

R.E.A. Genoa n. 354265

Company Register Genoa

and Fiscal Code 94040720107

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ERG S.p.A. - March 2018

This publication is available in pdf format at [www.erg.eu](http://www.erg.eu)

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