

ERG S.p.A.

Relation regarding the
Corporate Governance System



Corporate Governance Policy

The structure

The current company governance structure has been developed over time by gradually introducing behavioural rules into the company code, which are in keeping with recognised principles of Corporate Governance.

Even before its admission to listing in October 1997, part of the company ethos was to focus on developing a correct relationship between management and shareholders and to ensure that company's management was oriented towards the goal of value creation.

This company policy was implemented:

- by delegating powers within the Board of Directors in such a way as to guarantee, on the one hand, the transparency and completeness of managerial authority and responsibility and, on the other, the monitoring of the activities carried out and assessment the results achieved;
- via systematic and adequate reporting to the board on actions taken in exercise of powers and on managerial responsibilities;
- by adopting procedures to determine remuneration for directors and management.

Its presence on the stock market has clearly underlined the company's tendency to make the principles of transparency and correctness a key part of its conduct and has accelerated the process of adapting company regulations and organisational structure to fit such criteria.

The company consequently began to put the changes in corporate policy into effect, by:

- adopting a Group Remuneration Plan to align the interests of management with those of shareholders, and consolidate the relationship between managers and the company in terms of recognising shareholder value and the importance of continuity;
- including independent members on the Board of Directors;
- adopting a Code of Conduct for the directors of Group companies;
- subscribing to the Code of Conduct for Listed Companies, with the company putting into practice almost all of the recommendations contained in the Code;
- the inclusion of ERG in STAR from 2001 to 2005, a segment of the stock market introduced by Borsa Italiana in order to give significant visibility to companies paying particular attention to Corporate Governance matters;
- adopting a Code of Conduct regarding investment in financial instruments issued by ERG S.p.A.;
- defining guidelines for identifying and carrying out significant transactions;
- adopting a Code of Ethics as a tool for defining and communicating the duties and responsibilities of ERG with regards to its stakeholders, as well as being an essential element of an organisational and managerial model which is coherent with the provisions of Legislative Decree no. 231/2001;
- amending the Articles of Association to bring them into line with the legislative changes introduced by way of the Company Law Reform.

The corporate structure

The corporate structure of ERG S.p.A. complies with the Italian Civil Code and other special norms governing corporate organisation, particularly those set out in Legislative Decree no. 58, dated 24 February, 1998 and generally reflects its compliance with the Code of Conduct for Listed Companies.

The elements forming the basis of the corporate structure are the statutory bodies, the committees, the functions and company procedures.

Statutory bodies

The Board of Directors

The current Board of Directors consists of eleven members appointed by the Shareholders' Meeting of 29 April 2003 and will hold office until the approval of the financial statements at 31 December 2005.

In line with current practice, when the assemblies are called to decide on the appointment of Directors, the curricula vitae of the candidates are deposited at the company's registered office at least 10 days prior to the meeting.

Members:

EDOARDO GARRONE	Presidente
EDOARDO GARRONE	Chairman
GIOVANNI MONDINI	Deputy Chairman
DOMENICO D'ARPIZIO	Deputy Chairman
ALESSANDRO GARRONE	Chief Executive Officer
MASSIMO BELCREDI	Director
RICCARDO GARRONE	Director
GIUSEPPE GATTI	Director
ANTONIO GUASTONI	Director
PAOLO FRANCESCO LANZONI	Director
GIAN PIERO MONDINI	Director
GUIDO SEBASTIANO ZERBINO	Director

Non-executive directors:

RICCARDO GARRONE
GIUSEPPE GATTI
ANTONIO GUASTONI
GIAN PIERO MONDINI

Independent directors:

MASSIMO BELCREDI
PAOLO FRANCESCO LANZONI
GUIDO SEBASTIANO ZERBINO

The Board of Directors has verified that, at the time of their appointment, the above-mentioned Directors possessed the necessary requisites as regards their independent status and periodically checks (during the board meeting held to examine the first quarterly report) that these requisites are still valid.

Other posts held by directors:

ALESSANDRO GARRONE
Director of BPC Investimenti SGR S.p.A.
Director of FinecoBank S.p.A.

MASSIMO BELCREDI
Director of Arca SGR S.p.A.

RICCARDO GARRONE
Chairman of Banca di Genova e San Giorgio S.p.A.
Chairman of Capitalimpresa S.p.A.

GIUSEPPE GATTI
Chairman of Grandi Reti S.p.A.
Director of Actelios S.p.A.

ANTONIO GUASTONI
Chairman of the Board of Statutory Auditors of Leonardo SGR S.p.A.
Director of Editoriale Giorgio Mondadori S.p.A.
Director of Cairo Editore S.p.A.

PAOLO FRANCESCO LANZONI
Managing Director of Ligurcapital S.p.A.
Director of G. Raimondi & Co. SIM S.p.A.
Director of Impresa & Finanza S.G.R.
Director of Effusia S.p.A S.G.R.

Others participating in Board Meetings

The Head of Administration and Fiscal Management and the Head of Consolidated and Fiscal attend board meetings whenever the draft budget or particular administrative problems are discussed.

Remuneration of Directors

The remuneration of Directors is determined each year by the Ordinary Shareholders' Meeting to approve the financial statements.

The Shareholders' Meeting also fixes the remuneration of the Directors serving on the board committees.

The emoluments of the Chairman, the Deputy Chairmen and the Chief Executive Officer are determined by the Board of Directors on the basis of a proposal prepared by the Remuneration Committee.

Powers

The Board has assigned to the Chairman Edoardo Garrone the authority to manage, via duties of supervision, direction and control, the staff functions performed by the Legal and Corporate Affairs, Communication and Auditing departments, conferring on him all necessary powers to exercise such authority.

The Company's Chief Executive Officer Alessandro Garrone is the legal representative of the Company and holds all powers of ordinary and extraordinary administration.

Moreover, in accordance with the recommendations of the Code of Conduct for Listed Companies, the Board has stated that the powers entrusted to the Chief Executive Officer must be exercised within the framework of the directives and instructions he receives from the Board.

The Board of Directors:

- examines and approves the strategic, industrial and financial plans of the Company and the corporate structure of the Group headed by same;
- examines and approves operations having significant economic, equity-related or financial importance, with particular reference to transactions with related parties;
- verifies the adequacy of the general organisational and administrative structure of the Company and the Group as drawn up by the Chief Executive Officer;
- reports to Shareholders at the Shareholders' Meeting.

Furthermore, with a resolution dated 13 February 2003, the Board defined the guidelines for identifying and carrying out significant transactions, examination and approval of which, as recommended in the Code of Conduct, remain the exclusive responsibility of the Board.

The guidelines, the original text of which was amended with resolution of the Board of Directors dated 6 August 2004, set out the criteria to be adopted for the identification of major significant transactions, represented by quantitative and qualitative criteria and criteria deriving from the specific nature of the parties involved (transactions with related parties and infra-group transactions).

The document also identifies the principles of conduct for carrying out the transactions, with special reference to transactions initiated by subsidiaries, which must be examined in advance and approved by the ERG S.p.A. Board of Directors, and those with related parties, where it is necessary or opportune to obtain the opinion of independent experts.

Frequency of Meetings

As set forth by the Articles of Association, the Board of Directors meets on at least a quarterly basis to inform the Board of Statutory Auditors on the Group's activities and on the most important economic, financial and equity-related transactions carried out by the company and its subsidiaries, and particularly those where there may be a potential conflict of interest.

In 2005 the Board of Directors held 8 meetings; it expects to hold no less than 9 meetings in 2006.

Where the nature of the items on the agenda so permits, the documentation regarding the matters to be examined is sent to directors prior to the meeting.

The Board of Statutory Auditors

The board of statutory auditors was appointed by the shareholders' meeting of 29 April 2004 and will remain in office until the approval of the financial statements at 31 December 2006. In accordance with the Articles of Association, the Board of Statutory Auditors is appointed on the basis of numerical lists presented by shareholders at least ten days prior to the Shareholders' Meeting, which must set out the names of candidates in sequential order.

Only shareholders who, either individually or together with other shareholders, can demonstrate overall possession of at least 3% (three per cent) of the ordinary shares are entitled to present the lists; the said shares or the certificate issued by the depositaries for at least the minimum quantity must be lodged within the term provided by law for the purpose of participation in the Shareholders' Meeting.

Each shareholder may present, or participate in the presentation of, only one list and each candidate may appear on only one list, under penalty of ineligibility.

A description of the candidates' professional experience must be provided at the foot of the lists presented by shareholders, or as an attachment thereto.

Candidates already holding the position of standing auditor at more than five listed companies cannot be appointed as auditors.

Members:

ALFIO LAMANNA	Chairman
MARIO PACCIANI	Standing Auditor
FABRIZIO CAVALLI	Standing Auditor
UMBERTO TRENTI	Standing Auditor
MICHELE CIPRIANI	Standing Auditor
PAOLO FASCE	Standing Auditor

Other offices held by the Statutory Auditors:

ALFIO LAMANNA

Standing Auditor of Premuda S.p.A.

MARIO PACCIANI

Chairman of the Board of Statutory Auditors of Boero Bartolomeo S.p.A.

Shareholders' Meeting

Rules.

The Ordinary Shareholders' Meeting of 27 April 2001 adopted Rules for governing the conduct of the Ordinary and Extraordinary Shareholders' Meetings.

The possibility for the Ordinary Shareholders' Meeting to adopt shareholders' meetings rules is expressly set forth by Article 14 of the Articles of Association.

Committees

Board Committees

The Board of Directors has set up an Internal Control Committee and a Remuneration Committee, with consultative and propositional functions.

Internal Control Committee

Members:

MASSIMO BELCREDI Chairman
PAOLO FRANCESCO LANZONI
ANTONIO GUASTONI

The Chairman of the Board of Statutory Auditors and another Standing Auditor participate in the work of this committee. The Chairman of the Board of Directors and the Chief Executive Officer may also participate.

Tasks.

The Internal Control Committee has a consultative and propositional role vis-à-vis the Board of Directors.

In particular:

- it assists the Board of Directors with regard to the following tasks provided for in the Code of Conduct for Listed Companies: the definition of guidelines for internal control and the management of corporate risks, periodical verification of the adequacy and effective functioning of the internal control system, verification that the main corporate risks are suitably identified and managed;
- it evaluates the constant adequacy over time of the structure and effective functioning of the system for internal control and corporate risk management;
- it assesses the work plan prepared by the person responsible for internal control and the risk manager, receiving the periodic reports from same;
- it assesses, together with the company's administrative managers and auditors, the adequacy of the accounting standards used and their consistency for the purpose of drawing up the consolidated financial statements;
- it assesses the proposals for the relative assignment put forward by the external auditing firms, and the work plan drawn up for the review of the findings as set out in the report and in the letter of recommendations;
- it maintains appropriate contacts with the external auditing firm, the Board of Statutory Auditors, the internal control and corporate risk management system and those offices within the Group's organisational structure that deal with these entities, in order to contribute to the effective and coordinated running of their respective activities in areas of common intervention;
- it reports to the board, at least every six months, during approval of the annual financial statements and half-yearly report, on the activities it has carried out and the adequacy of the internal control and corporate risk management system;

- it assists the Supervisory Committee, set up in accordance with the provisions of Legislative Decree 231/01, in carrying out the tasks assigned to it by the aforesaid legislation, giving adequate support with regard to the more specifically organisational and preventative aspects related to such tasks and guaranteeing the necessary link with the board of directors;
- it assesses the constant adequacy over time of the corporate procedures intended to regulate, in operational terms, the external disclosure of documents and information concerning the Company and the Group, with special reference to “price-sensitive” information;
- it provides the Board, the Chairman and the Chief Executive Officer with any and all other consultative and propositional elements, deemed by the Committee to be necessary or useful for improving the performance by the same of their respective responsibilities in the areas of corporate control and information disclosure;
- it carries out any other tasks that may be assigned to it by the Board of Directors.

During 2005 the Committee held ten meetings. In the course of these meetings, in addition to examining the annual financial statements and the half-yearly report, its members also examined the work plan of the Internal Audit Function and the activity plan of the Supervisory Committee, and considered the implications of the organisational changes introduced in the area of activities designed to protect security and the assets of the company, including in-depth examination of aspects concerning the relationship between the new Corporate Security function, the Internal Audit function and the Supervisory Committee, for which a committee structure was proposed, the operations carried out to execute the decision taken by the ERG S.p.A. Board of Directors concerning the Group tax consolidation, the operations carried out as part of the process of adopting international accounting standards, and the issues involved in hedging foreign exchange and price risks, recommending, in such connection, that a project be undertaken to define a Group risk management policy with related operating procedures.

The Committee also approved the revision of the guidelines for the identification and carrying out of significant transactions on the part of Group companies and the Code of Conduct for Directors of the Group companies.

Remuneration Committee

Members:

EDOARDO GARRONE
MASSIMO BELCREDI
PAOLO FRANCESCO LANZONI
GUIDO SEBASTIANO ZERBINO

The Chief Executive Officer participates in the work of the committee.

Tasks.

The Remuneration Committee makes proposals to the Board regarding the remuneration of the Chief Executive Officer and the Directors holding particular offices as well as, upon the request of the Chief Executive Officer, the determination of criteria for the remuneration of the Company's senior management and for the definition of the Group management incentive programme.

In order to optimise its performance of these tasks, the Committee may use the services of outside consultants, at the expense of the Company.

Whenever the Committee is discussing its formulation of proposals for the remuneration of the Chairman and the Chief Executive Officer, the parties concerned leave the meeting.

During 2005 the committee held 7 meetings, in the course of which proposals were drawn up concerning the emoluments of the Chief Executive Officer and the other Directors holding particular offices within the Board, value creation during 2004, the bonus plan for 2004 and the definition of criteria for the assignment of bonuses relating to the 2005 accounting year.

The Committee, with the collaboration of professional outside consultants, defined a proposal for a new long-term incentive scheme which was approved by the ERG S.p.A. Board of Directors during the meeting held on 5 August 2005.

Appointments Committee

The Board of Directors has not deemed it appropriate to set up an appointments committee, since it was considered not to be in keeping with the present shareholder structure and the way in which relationships between same and the administrative body are handled.

Company Functions and Procedures

The corporate functions and procedures that have a bearing on the company's overall governance structure are the following:

- the internal control system;
- investor relations;
- provisions regarding the handling of sensitive and confidential information;
- the procedure for public dissemination of announcements and information;
- the Guidelines for identifying and carrying out significant transactions;
- the Code of Conduct for Directors of Group companies;
- the Code of Conduct for transactions in financial instruments issued by ERG S.p.A.

The internal control system

The internal control system operating within the Group does not represent an autonomous and specific corporate function, but consists in the coordinated operations of various functions, within the organisational structure, assigned responsibilities pertaining to the overall control activity. These functions are principally Audit, Management Control and Administration, added to which are the other functions whose responsibilities include monitoring the compliance of corporate actions with current laws and regulations.

The internal control system, which comes under the responsibility of the person in charge of the Administration Department, is monitored by the Internal Control Committee on behalf of the Board of Directors and the Chief Executive Officer, who has the task of ensuring its functionality and adequacy.

The Supervisory Committee

On 10 March 2005, the Board of Directors of ERG S.p.A. changed the structure of the Supervisory Committee (Organismo di Vigilanza), previously identified as the Internal Audit function, by creating a committee of five members – independent director Paolo Francesco Lanzoni, in the role of chairman, and the heads of the Company's Audit, Corporate Security, Human Resources and Legal and Company Affairs functions.

The Supervisory Committee, which maintains a direct and ongoing relationship with the Internal Control Committee, performs its activity for all companies directly and indirectly controlled which have, by way of board resolution, identified their own Supervisory Committee as being that of the parent company.

Investor relations

The company handles the relationships with its shareholders, institutional investors and the market through the Investor Relations office, which is part of the Finance Division. Within the context of these relationships, meetings are regularly arranged both in Italy and abroad with representatives of the financial community. It is the policy of ERG to provide full information on its activities and strategies, also through the continual updating and renewal of its website.

Provisions concerning the handling of sensitive and confidential information

The Board of Directors has adopted specific provisions to ensure an exhaustive and timely flow of information within the companies included in the Group, as well as between the same and the Parent Company responsible for fulfilling disclosure obligations concerning price-sensitive information vis-à-vis the market and the market's supervisory bodies.

Specific provisions have also been circulated concerning the handling of confidential information, designed to make employees aware of the responsibilities arising from misuse of such information under laws currently in force.

These provisions will be revised during the 2006 financial year in order to adapt them to the new regulations introduced by Law no. 62 of 18 April 2005.

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These provisions will be revised during the 2006 financial year in order to adapt them to the new regulations introduced by Law no. 62 of 18 April 2005.

The procedure for public dissemination of statements and information

The Board of Directors, following a proposal made by the Internal Control Committee, has adopted a procedure for the public dissemination of statements and information, with the aim of ensuring that all announcements and information destined for the market, Consob and Borsa Italiana are the outcome of a formative process which guarantees both timeliness and accuracy.

The procedure defines the tasks and responsibilities of the offices involved, identifies the criteria, methods and timing of the various stages and establishes the correct decisional levels for the dissemination of statements and information.

These provisions will be revised during the 2006 financial year in order to adapt them to the new regulations introduced by Law no. 62 of 18 April 2005.

Guidelines for identifying and carrying out significant transactions

This is the document, adopted with resolution dated 13 February 2003 and subsequently modified with resolutions dated 6 August 2004 and 13 February 2006, referred to in the paragraph dedicated to the Board of Directors.

Code of Conduct for the Directors of Group Companies

With resolution dated 21 March 2000, the Board of Directors adopted a Code of Conduct for Directors appointed to Group companies, in order to provide the same with uniform rules of conduct for carrying out their functions within an organised reference framework and respecting the principles of Corporate Governance.

Bearing in mind, however, the formal aspects inherent in the responsibilities of the Directors and the relationship between the individual companies which appointed them and the Group, it was deemed appropriate not to make the code an imperative one, but rather to emphasise its spirit of moral suasion, so that its application, when the directors are requested to act in a certain manner, is the result of spontaneous support for the code rather than a mere carrying out of duty.

The Code was modified by resolution of the Board of Directors on 5 August 2005, in order to adapt it to the Company Law Reform.

Code of Conduct regarding transactions in financial instruments issued by ERG S.p.A.

In compliance with articles 2.6.3 and 2.6.4 of the “Rules of the markets organised and managed by Borsa Italiana S.p.A.”, the Board of Directors has adopted a Code of Conduct which has the aim of giving transparency to financial transactions carried out by Relevant Persons, namely those persons who by virtue of their roles within the Group have decisional power or a knowledge of corporate strategies which are significant enough to give them an advantage in their decisions regarding investments in financial instruments issued by the Company.

This document is to be considered no longer valid after 1 April 2006, due to the coming into force of the new Internal Dealing rules introduced by way of Law no. 62 of 18 April 2005.

Commitments

By way of this statement on the part of the Board of Directors the Company wishes to confirm the following commitments:

- to pursue, in its formal acts and its conduct, the primary objective of commitment to value creation for its shareholders;
- to imbue its business with total respect for the Group's ethical principles, which are based on values such as personal honesty, correctness of relationships within and outside the company, transparency in dealings with the shareholders, related stakeholders and the market, as were stated and explained in the Code of Ethics adopted in December 2003;
- through constant attention to developing the principles of Corporate Governance, to guarantee observance thereof on the part of its organisation, with a view to ensuring the transparent and efficient running of same over time.

The documents relating to Corporate Governance, as referred to in this chapter, are available in the Corporate Governance section of the website www.erg.it.

The following tables summarise how the main recommendations of the Code of Conduct are adopted.

TABLE 1

Structure of the Board of Directors and Committees

BOARD OF DIRECTORS							INTERNAL CONTROL COMMITTEE		REMUNERATION COMMITTEE		EVENTUAL APPOINTMENT COMMITTEE		EVENTUAL EXECUTIVE COMMITTEE	
APPOINTMENT	MEMBERS	EXECUTIVES	NON EXECUTIVES	INDEPENDENTS	****	NUMBER OF OTHER APPOINTMENTS **	***	****	***	****	***	****	***	****
CHAIRMAN	EDOARDO GARRONE	YES			88%	1			X	100%	=	=	=	=
DEPUTY CHAIRMAN	GIOVANNI MONDINI	YES			100%	=					=	=	=	=
DEPUTY CHAIRMAN	DOMENICO D'ARPIZIO	YES			100%	=					=	=	=	=
CHIEF EXECUTIVE OFFICER	ALESSANDRO GARRONE	YES			100%	2					=	=	=	=
DIRECTOR	MASSIMO BELCREDI			YES	100%	1	X	100%	X	100%	=	=	=	=
DIRECTOR	RICCARDO GARRONE		YES		88%	2					=	=	=	=
DIRECTOR	GIUSEPPE GATTI	YES			100%	2					=	=	=	=
DIRECTOR	ANTONIO GUASTONI		YES		100%	3	X	100%			=	=	=	=
DIRECTOR	PAOLO FRANCESCO LANZONI			YES	88%	4	X	100%	X	100%	=	=	=	=
DIRECTOR	GIAN PIERO MONDINI		YES		100%	=					=	=	=	=
DIRECTOR	GUIDO SEBASTIANO ZERBINO			YES	100%	=			X	100%	=	=	=	=
NUMBER OF MEETINGS HELD DURING THE REFERENCE YEAR		BOARD: 8	INTERNAL CONTROL COMMITTEE: 10			REMUNERATION COMMITTEE: 7			APPOINTMENT COMMITTEE: =			EXECUTIVE COMMITTEE: =		

NOTES

* Indicates if the Director was appointed from lists presented by the minority.

****** In this column the number indicated is that of the appointments of the Director or Statutory Auditor in other companies quoted on regulated markets, including abroad, in financial companies, banks, insurance companies or of a significant size. The appointments are indicated in more detail in the Report on corporate governance.

*** An "X" in this column indicates that a member of the Board is also a Committee member.

**** The percentage of attendance of the directors at Board and Committee meetings respectively is indicated in this column. reference year

TABLE 2
Board of Statutory Auditors

APPOINTMENT	MEMBERS	PERCENTAGE OF ATTENDANCES AT MEETINGS OF THE BOARD OF STATUTORY AUDITORS	NUMBER OF OTHER APPOINTMENTS**
CHAIRMAN	ALFIO LAMANNA	100%	1
STATUTORY AUDITOR	MARIO PACCIANI	100%	1
STATUTORY AUDITOR	FABRIZIO CAVALLI	85%	=
ALTERNATE	UMBERTO TRENTI	=	=
ALTERNATE	MICHELE CIPRIANI	=	=
ALTERNATE	PAOLO FASCE	=	=
NUMBER OF MEETINGS DURING THE REFERENCE YEAR: 7			
INDICATES THE QUORUM REQUIRED FOR THE PRESENTATION OF LISTS BY THE MINORITY FOR THE ELECTION OF ONE OR MORE EFFECTIVE MEMBERS (PURSUANT TO ART. 148 OF THE UNIFIED FINANCIAL LAW): 3%			
NOTES			
* Indicates if the statutory auditor was appointed from lists presented by the minority.			
** In this column the number is indicated of the appointments of the Director or Statutory Auditor in other companies quoted on regulated markets in Italy. The appointments are indicated in more detail in the Report on corporate governance.			
*** The Board of Statutory Auditors was appointed by a shareholders' resolution on 29.4.2004.			

TABLE 3
**Other Provisions of the
 Self-regulation Code**

DELEGATION SYSTEM AND TRANSACTIONS WITH ASSOCIATED PARTIES	YES	NO	SUMMARY OF THE REASONS FOR ANY DIVERGENCE FROM THE RECOMMENDATIONS OF THE CODE
HAS THE BOARD DELEGATED POWERS DEFINING:	X		
A) LIMITS	X		
B) MODALITY	X		
C) AND THE FREQUENCY OF INFORMATION?	X		
DOES THE BOARD EXAMINE AND APPROVE TRANSACTIONS HAVING PARTICULAR PROFITABILITY, EQUITY AND FINANCIAL IMPORTANCE (INCLUDING TRANSACTIONS WITH ASSOCIATED PARTIES)?	X		
HAS THE BOARD DEFINED GUIDE LINES AND CRITERIA FOR THE IDENTIFICATION OF "SIGNIFICANT" TRANSACTIONS?	X		
ARE THE ABOVE GUIDE LINES AND CRITERIA DESCRIBED IN THE REPORT?	X		IN SUMMARY
DOES THE BOARD HAVE APPROPRIATE PROCEDURES FOR THE EXAMINATION AND APPROVAL OF TRANSACTIONS WITH ASSOCIATED PARTIES?	X		
ARE THE PROCEDURES FOR APPROVAL OF TRANSACTIONS WITH ASSOCIATED PARTIES DESCRIBED IN THE REPORT?	X		IN SUMMARY
PROCEDURES FOR THE MOST RECENT NOMINATION OF DIRECTORS AND STATUTORY AUDITORS			
WERE THE NOMINATIONS FOR DIRECTORS RECEIVED AT LEAST TEN DAYS IN ADVANCE?	X		
WERE THE NOMINATIONS FOR THE APPOINTMENT OF DIRECTORS ACCOMPANIED BY FULL INFORMATION?	X		
WERE THE NOMINATIONS FOR THE APPOINTMENT OF DIRECTORS ACCOMPANIED BY AN INDICATION OF THEIR SUITABILITY TO BE QUALIFIED AS INDEPENDENT?	X		
WERE THE NOMINATIONS FOR STATUTORY AUDITORS RECEIVED AT LEAST TEN DAYS IN ADVANCE?	X		
WERE THE NOMINATIONS FOR THE APPOINTMENT OF STATUTORY AUDITORS ACCOMPANIED BY FULL INFORMATION?	X		
SHAREHOLDERS' MEETINGS			
HAS THE COMPANY APPROVED REGULATIONS FOR SHAREHOLDERS' MEETINGS?	X		
WERE THESE REGULATIONS ATTACHED TO THE REPORT (OR WHERE THEY ARE OBTAINABLE/DOWNLOADABLE INDICATED)?	X		
INTERNAL CONTROL			
HAS THE COMPANY NOMINATED INTERNAL CONTROL SUPERVISORS?	X		
ARE THE SUPERVISORS NOT HIERARCHICALLY EMPLOYEES OF THE MANAGERS OF THE OPERATIVE AREAS?		X	THE SUPERVISOR WAS IDENTIFIED AS THE HEAD OF THE ADMINISTRATION DEPARTMENT BASED ON THE FACT THAT THE COMPANY'S BUSINESS IS CARRIED OUT BY PROCESSES, OF WHICH THAT DEPARTMENT REPRESENTS THE FINAL ELEMENT.
ORGANISATIONAL UNIT SUPERVISING INTERNAL CONTROL (PURSUANT TO ART. 9.3 OF THE CODE)	ADMINISTRATION DEPARTMENT		
INVESTOR RELATIONS			
HAS THE COMPANY APPOINTED AN INVESTOR RELATIONS MANAGER?	X		
ORGANISATIONAL UNIT AND REFERENCES (ADDRESS/TELEPHONE/FAX/E-MAIL) OF THE INVESTOR RELATIONS MANAGER	FINANCE AND CONTROL DEPARTMENT MR. JONATHAN GIBSON GENOA, VIA DE MARINI 1 TEL. 010 2401513 – FAX 010 2401598 E-MAIL: JGIBSON@ERG.IT		

Management incentive scheme

The following information is provided in accordance with CONSOB recommendation no. 11508 of 15 February 2000.

When the company's shares were first admitted to listing on the stock market, a new Compensation Plan was introduced, designed to align the interests of the management with those of the company and its shareholders, and consolidate their reciprocal relationship, also in terms of continuity over time.

More specifically, at senior management level, the plan provided for:

- a "basic" salary partly linked to ERG's share price performance during the year;
- annual "bonuses" tied to "value creation" during the year and calculated in proportion to the extent thereof;
- long-term incentive schemes, ascribing benefits to management in proportion to share price performance, again tied to "value creation" achieved during the reference period.

The Remuneration Committee noted the need to carry out a general review of the plan adopted at the time of admission to listing, in order to evaluate its adequacy with reference to both the new company structure and the changed sensitivity of the market, as regards the more frequently-used management incentive tools.

To this end, during 2004, using the services of qualified experts, the Committee completed its review of the plan by defining new short-term incentives which provided for executives and top management to receive, in differentiated forms, annual "bonuses" determined based on both company performance and the achievement of individual goals.

The new short-term incentive system was approved by the ERG S.p.A. Board of Directors at the meeting held on 14 November 2004 and will be effective as from the year 2005.

During the course of the 2005 financial year, the Remuneration Committee, again using the services of qualified experts, drew up the new long-term incentive scheme, which was approved by ERG's Board of Directors on 5 August 2005.

Before proceeding to illustrate the two incentive schemes mentioned above, a brief summary of information on the Stock Option plan that ended during 2005 is provided below.

The said Plan, approved by the Board of Directors of ERG S.p.A. on 12 September 2000, granted registered and non-transferable subscription rights in respect of the Company's shares issued in accordance with Art. 2441, paragraph 8, of the Italian Civil Code, or acquisition rights in respect of ERG shares held in the Company's portfolio, to be assigned to certain employees at a price equivalent to the cost of exercising subscription rights in respect of newly issued shares.

The beneficiaries of the plan were altogether 79 employees of the company and its subsidiaries, identified among those persons occupying a position within the firm considered to be of particular strategic importance for the overall structure of the Group.

The subscription rights were assigned in two tranches, on 12 December 2000 and 2 January 2001, for a total number of 5,915,000, all exercised by September 2005, the definitive expiry date of the Plan.

Following the exercise of the subscription rights, during the period of validity of the plan, the Company issued 1,122,000 new shares and transferred 4,793,000 of the treasury shares in its own portfolio.

The new short and long-term incentive schemes are illustrated below.

The short term incentive plan, approved by the ERG S.p.A. Board of Directors on 12 November 2004, as mentioned above, is based on certain basic objectives that may be summarised as follows:

- to introduce a single incentive system that covers both company and individual performance;
- to define a market-related reference bonus for each participant in the scheme;
- to measure individual performance against a coherent system of objectives and indicators;
- to evaluate company performance in terms of value created/destroyed;
- to define minimum and maximum bonus thresholds.

Participants in the scheme are the Managing Directors of ERG S.p.A. and the sub-holding companies and all executives of Group companies.

An individual reference bonus is defined for each participant in the scheme, representing the gross total the person will receive if they fully achieve both company and individual objectives.

For each business area (Corporate, Coastal Refining, Integrated Downstream, Energy) a distinct bonus pool is created, representing the sum of the individual bonuses of the executives belonging to each area, so as to be able to use performance indicators specific to each different area.

As regards company objectives, the company performance in each individual business area will be referred to using the following parameters:

- Corporate area: 100% to Group Economic Profit (Value Creation);
- Coastal Refining division: 70% to the division's EBITDA and 30% to the Group Economic Profit;
- Integrated Downstream division: 70% to the division's EBITDA and 30% to the Group Economic Profit;
- Power generation division: 70% to the division's EBITDA and 30% to the Group Economic Profit;

A distinction is also made between top management and executives, so that different risk profiles can be assigned and the system's degree of "aggressiveness" vis-à-vis top management can be increased.

The other characteristic elements of the scheme are:

- the determination of a cap for bonuses actually paid, corresponding to 200% of the individual reference bonus;
- the determination of a floor for bonuses actually paid, corresponding to 25% of the individual reference bonus;
- the allocation of executives to five merit bands.

The Remuneration Committee's intervention in the process of implementing the scheme concerns defining the annual Group Economic Profit objective, checking the EBITDA objectives of the Operating Companies, and determining the Economic Profit actually achieved.

The new long-term incentive scheme, approved by the Board of Directors on 5 August 2005, as mentioned above, has the following principal objectives:

- to stimulate the taking of decisions that guarantee a Value Creation sustainable over time;
- to avoid risks of "underinvestment";
- to enhance retention of key personnel.

The long term incentive plan grants registered and non-transferable subscription rights in respect of the Company's shares issued in accordance with Art. 2441, paragraph 8, of the Italian Civil Code, or acquisition rights in respect of ERG shares held in the Company's portfolio, to be assigned to certain employees at a price equivalent to the cost of exercising subscription rights in respect of newly issued shares

The scheme will have a duration of three years, and envisages the assignment of rights, each year, to be exercised at a price corresponding to the arithmetic mean of the official price of ERG shares in the thirty days preceding each assignment of rights.

The Board of Directors of ERG S.p.A. has set at 2.1 million the maximum number of shares, either newly issued or treasury shares, to service the scheme for the entire duration of the three year period.

In the event that all the rights are exercised, and only newly issued shares are attributed against such exercise, the maximum dilution of the share capital of ERG S.p.A. will be 1.4%.

The first assignment, on 5 October 2005, concerned 648,590 shares assigned at a price of Euro 21.08.

The participants in the scheme are the Chairman of ERG S.p.A., the Managing Directors of the Group companies, and some selected executives, totalling 15 beneficiaries in the case of the first assignment.

The number of rights to be assigned to each of the beneficiaries was determined by the Board of Directors, on the proposal of the Remuneration Committee, as regards the Chairman and Chief Executive Officer of ERG S.p.A., and by the Chief Executive Officer as regards the other beneficiaries.

The same process, in terms of defining the beneficiaries and the number of rights assigned to each, will be followed for the subsequent assignments.

The scheme's regulations contain specific provisions regarding the effects of termination of employment if this should arise while the options are still valid, making a distinction between, on the one hand, voluntary resignation, dismissal for just cause and voluntary redundancy in the case of employees, resignation or revocation in the case of the Chairman and the Managing Directors, in which case they will become totally invalid, and on the other, termination due to death, permanent disability, compulsory redundancy, expiry of an employment contract or expiry without renewal of a mandate for the Chairman and the Managing Directors, in which case they will maintain their validity, which will transfer to their heirs on their death.

The scheme also provides that options cannot be exercised before three years have elapsed since their assignment, and must be exercised within one year from the date on which they become exercisable, under penalty of lapse. However, options may not be exercised during the period from 10 November to 15 May of each year.

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