

Gruppo ERG

Corporate Governance Policy



Corporate Governance Policy

Evolution of approach

The current governance structure has been developed over time by gradually introducing rules of conduct in the ERG corporate approach reflecting the most advanced, recognised principles of corporate governance.

Even before the company was listed in October 1997, one of its key features was the focus on a proper relationship between management and shareholders and on ensuring that business operations were directed towards value creation.

This corporate policy was implemented via:

- Coordinated delegation of powers within the Board of Directors in such a way as to assure (a) clarity and completeness of executive accountabilities and (b) monitoring of activities and assessment of results achieved;
- Regular and adequate reporting to the Board on actions taken in the exercise of powers and of managerial responsibilities;
- Adoption 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 house regulations and organisation to meet these criteria.

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

- Adoption of a Group Compensation Plan to align the interests of management with those of shareholders, and strengthen the relationship between managers and the company in terms of awareness of the importance of ERG stock's value and of continuity over time
- Appointment of independent directors on the Board;
- Approval of a Code of Conduct for the directors of Group companies
- Acceptance of the first edition (2002) of the Italian Corporate Governance Code for Listed Companies, which led to implementation of almost all the Code's recommendations
- ERG's presence from 2001 to 2005 in STAR, a segment of the stock market introduced by Borsa Italiana S.p.A. (the company managing the Milan Bourse) to give significant visibility to companies prominent for the special attention paid to corporate governance matters
- Definition of (a) guidelines for the identification and execution of significant transactions and of (b) other governance documents designed to assure transparent and timely management of the Group's relationship with the market
- Introduction of a Code of Business Ethics as a tool for defining and communicating ERG's duties and responsibilities towards its stakeholders, as well as being an imperative element of an organisational and operational model consistent with the requirements of Italian Legislative Decree no. 231/2001
- Amendment of the Articles of Association to bring them into line with the regulatory changes introduced by way by the Italian Company Law Reform.

Corporate organisation system

ERG S.p.A.'s corporate organisation system complies with the requirements of the Italian Civil Code and of other, specific regulations relating to companies – in particular with those contained in Italian Legislative Decree no. 58 of 24 February 1998 (the Italian Consolidated Finance Act) - and, overall, reflects adherence to the Italian Corporate Governance Code for Listed Companies in its various editions, which have succeeded each other over the years. This report refers to the 2002 edition of the Code but contains a specific section providing an overview of application – either already in place or to be implemented by the end of 2007 – of the 2006 edition of the Code. The cornerstones of our corporate organisation are the statutory bodies, committees, functions, and corporate procedures.

Statutory bodies

Board of Directors

The current Board of Directors consists of 11 (eleven) members appointed by the Shareholders' Meeting held on 28 April 2006 and will hold office until the approval of annual financial statements for the year ending on 31 December 2008.

We point out that, in line with standard current practice, when shareholders' meetings are called to decide on the appointment of directors, candidates' curricula vitae are lodged at the company's registered office at least 10 days before the shareholders' meeting and made available on the website www.erg.it.

Members:

Edoardo Garrone	Chairman
Giovanni Mondini	Deputy Chairman
Domenico D'Arpizio	Deputy Chairman
Pietro Giordano	Deputy Chairman
Alessandro Garrone	Chief Executive Officer
Massimo Belcredi	Director
Lino Cardarelli	Director
Riccardo Garrone	Director
Giuseppe Gatti	Director
Antonio Guastoni	Director
Paolo Francesco Lanzoni	Director
Gian Piero Mondini	Director
Guido Sebastiano Zerbino	Director

Of which:

Non-executive directors:

Riccardo Garrone
Gian Piero Mondini
Guido Sebastiano Zerbino

Independent directors:

Massimo Belcredi

Lino Cardarelli

Antonio Guastoni

Paolo Francesco Lanzoni

The Board of Directors checked that the directors listed above meet the necessary independence requisites at the time of their appointment, based on the criteria contained in the edition of the Italian Corporate Governance Code published in March 2006. It regularly checks (during the board meeting held to examine the first quarterly interim report) that these requisites are still valid.

Other offices held by directors:

Edoardo Garrone *Director of Pininfarina S.p.A*

Alessandro Garrone *Director of BPC Investimenti SGR S.p.A.*
Director of Banca Passadore e C. S.p.A.
Director of MutuiOnline S.p.A.

Massimo Belcredi *Director of Arca SGR S.p.A.*

Lino Cardarelli *Deputy Chairman of Legler S.p.A.*
Deputy Chairman of Ambromobiliare S.p.A.

Riccardo Garrone *Chairman of Banco San Giorgio S.p.A.*
Chairman of Capitalimpresa S.p.A.
Chairman of UC Sampdoria S.p.A.

Giuseppe Gatti *Chairman of Iride Mercato S.p.A.*
Chairman of Grandi Reti S.p.A.
Director of Actelios S.p.A.

Antonio Guastoni *Director of Editoriale Giorgio Mondadori S.p.A.*
Director of Leonardo SGR S.p.A.
Director of Cairo Editore S.p.A.
Chairman of Board of Statutory Auditors of Media Finanziaria di Partecipazioni S.p.A.

Paolo Francesco Lanzoni *Managing Director of FIN.SAG Sel*
Director of Impresa & Finanza SGR
Director of Effusia S.p.A. SGR.

Other attendees of Board meetings

The head of the Administration & Tax division and the head of Tax & Tax Consolidation attend Board meetings during which draft annual accounts or specific administrative problems are reviewed and discussed.

Directors' remuneration

Directors' remuneration is determined, for each financial year, by the Ordinary General Shareholders' Meeting called to approve year-end financial statements.

The Shareholders' Meeting also fixes the remuneration of the Directors serving on committees within the Board

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

Powers

The Board of Directors has delegated the Chairman, Edoardo Garrone, to manage, performing the tasks of supervision, direction, and control, the staff functions performed by the Corporate Affairs unit, as regards corporate affairs and internal auditing, and by the Institutional & International Relations division, giving him all powers to perform the assignment delegated to him.

The company's Chief Executive Officer (CEO), Alessandro Garrone, holds the powers of legal representation of the company and all powers of ordinary and extraordinary management.

The Board – consistently with the recommendations of the Italian Corporate Governance Code for Listed Companies – has specified that the powers delegated to the CEO must be exercised according to the directives and instructions given to him by the Board.

The Board of Directors:

- Examines and approves the company's strategic, business, and financial plans and the corporate structure of the group headed by the company
- Examines and approves transactions of significant business, capital and financial importance, with special reference to related-party transactions
- Checks the adequacy of the general administrative and organisational approach of the company and Group as set up by the CEO
- Reports to shareholders at shareholders' meetings.

Furthermore, with a resolution dated 13 February 2003, the Board defined the guidelines for the identification and execution of significant transactions, examination and approval of which - as recommended by the Italian Corporate Governance Code - remain the exclusive responsibility of the Board.

The guidelines - the original text of which was amended for the first time with a Board resolution passed on 6 August 2004 and by subsequent resolutions passed on 13 February and 10 August 2006 - indicate the criteria to be used to identify major significant transactions. These criteria are quantitative and qualitative, stemming from the specific nature of the parties involved (transactions with related parties and infragroup transactions).

The document also identifies the principles of conduct to be applied in execution of transactions, with special reference to transactions initiated by subsidiaries, which must be examined and approved beforehand by ERG S.p.A.'s Board of Directors, and to those with related parties, where it is necessary or appropriate to obtain the opinion of independent experts.

Frequency of Board meetings

As envisaged 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 business, financial and capital transactions undertaken by the company or its subsidiaries, and particularly those where there may be a potential conflict of interest.

During 2006 the Board of Directors held 15 meetings. It expects to hold no less than 9 meetings in 2007.

When the nature of agenda items so permits, documentation concerning the matters to be examined is sent to directors prior to meetings.

Board of Statutory Auditors

The present Board of Statutory Auditors was appointed by the shareholders' meeting held on 29 April 2004 and will remain in office until shareholders' approval of year-end financial statements for the year ended on 31 December 2006. In compliance with the Articles of Association, the Board of Statutory Auditors is appointed on the basis of lists presented by shareholders at least ten days prior to the shareholders' meeting, which must set out the names of candidates in numbered, 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 custodians, for at least the minimum quantity indicated above, must be lodged with the legal deadline established for the purpose of attendance of and participation in shareholders' meetings. Each shareholder can present, or participate in the presentation of, only one list and each candidate and appear on only one list, on pain 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 office as Standing Auditor in more than five listed companies cannot be appointed as statutory auditors.

We point out that the Board of Statutory Auditors has not deemed it appropriate to assess statutory auditors' independence as envisaged by the new principle introduced by the Italian Corporate Governance Code because its term of office will end at the time of the Shareholders' Meeting held to approve year-end accounts as at 31 December 2006.

Members:

Alfio Lamanna	Chairman
Mario Pacciani	Standing Auditor
Fabrizio Cavalli	Standing Auditor
Umberto Trenti	Standing Auditor
Michele Cipriani	Standing Auditor
Paolo Fasce	Sindaco Supplente

Other offices held by Statutory Auditors on the Boards of Statutory Auditors of listed companies

Alfio Lamanna	Standing Auditor of Premuda S.p.A.
Mario Pacciani	Chairman of Board of Statutory Auditors of Boero Bartolomeo S.p.A.
Fabrizio Cavalli	Standing Auditor of Pininfarina S.p.A.
Paolo Fasce	Standing Auditor of Boero Bartolomeo S.p.A.

Shareholders' Meetings

Meeting Regulation

At the Ordinary Shareholders' Meeting held on 27 April 2001 shareholders approved a regulation governing the proceedings of ordinary and extraordinary shareholder meetings.

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

Committees

Board committees

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

Internal Control Committee

Members:

Massimo Belcredi Presidente
Paolo Francesco Lanzoni
Antonio Guastoni

The Chairman of the Board of Statutory Auditors or another Statutory Auditor takes part in this Committee's work. The Chairman of the Board of Directors and the CEO can also participate.

Depending on the topics discussed, Group management representatives also take part in the Committee's meetings.

Tasks

The Internal Control Committee has consultative and propositive functions vis-à-vis the Board of Directors.

More specifically, the Committee:

- Assists the Board of Directors in the following tasks envisaged by the Italian Corporate Governance Code for Listed Companies: definition of guidelines for internal control and corporate risk management; periodical verification of the adequacy and effective operation of the internal control system; and verification that the main corporate risks are suitably identified and managed.
- Evaluates the constant adequacy over time of the organisation and effective operation of the internal control and corporate risk management system.

- Assesses the work plan prepared by the person responsible for internal control and by the risk manager, then receiving regular periodic reports from them.
- Assesses, together with the company's administrative managers and independent auditors, the adequacy of the accounting standards and policies used and their uniformity for the purposes of preparation of consolidated financial statements.
- Evaluates the proposals for award of the independent auditing assignment made by independent auditing firms, as well as the work plan drawn up for the audit and the findings contained in the report and in the letter of recommendations, if any.
- Maintains appropriate contacts with the independent auditor, the Board of Statutory Auditors, the internal control and corporate risk management system and with the other functions in the Group organisation that interface with these entities, so as to contribute to the effective and coordinated operation of their respective activities in common areas of action.
- Reports to the Board, at least every six months, during approval of the annual financial statements and half-yearly report, on its activities and on the adequacy of the internal control and corporate risk management system.
- Assists the Supervisory Committee, set up in accordance with the requirements of Italian Legislative Decree 231/01, in performing the tasks assigned to it by the aforesaid regulation, giving adequate support as regards the more specifically organisational and preventative aspects related to such tasks and assuring the necessary liaison with the Board of Directors.
- Assesses the constant adequacy over time of the corporate procedures designed to regulate, in operational terms, the external disclosure of documents and information concerning the company and Group, with special reference to price-sensitive information.
- Provides the Board, the Chairman and the Chief Executive Officer with any other consultative and propositive input, deemed by the Committee to be necessary or useful for improving performance of their respective responsibilities in the areas of corporate control and information disclosure.
- Carries out any other tasks assigned to it by the Board of Directors.

During 2006 the Committee held 12 meetings. During these meetings, besides prior review of the statutory individual annual report & accounts and of the half-yearly report, the Committee examined the Internal Auditing function's work plan and the Supervisory Committee's activity plan. It expressed opinions on the finalisation or revision of some governance documents. It examined the implications of the market-abuse regulation and the adjustments to be made to the Articles of Association following the coming into force of Italian Law 262/05. It checked application of Articles 2497 et seq. of the Italian Civil Code. It expressed a positive opinion on the document concerning the Group's risk management policy. It examined the organisational & operating model of ERG S.p.A. and of the operating subsidiaries. Lastly, it reviewed the new Italian Corporate Governance Code for Listed Companies, making a recommendation to the Board of Directors concerning formal adherence to the new Code.

Remuneration Committee

Composizione:Members:

Massimo Belcredi

Paolo Francesco Lanzoni

Guido Sebastiano Zerbino

The CEO takes part in this Committee's work.

Tasks

The Remuneration Committee makes recommendations to the Board regarding the remuneration of the CEO and of directors holding specific positions offices as well as, recommendations, at the CEO's request, for setting criteria for remuneration of the company's senior management and for the definition of Group management incentive scheme. In order to optimise performance of these tasks, the Committee may use the services of outside consultants, paid by the company.

Whenever the Committee discusses elaboration of its recommendations for remuneration of the Chairman and CEO, the latter leaves the meeting. During 2006 the committee held 6 meetings, during which recommendations were prepared concerning (a) the emoluments of the CEO of other directors holding specific positions the Board; (b) definition of targets for 2006 in relation to the short-term incentive scheme; (c) value creation achieved in 2005, and (d) the number of rights to be allocated to the Chairman, to two Deputy Chairman, and to the CEO for the second year of the long-term incentive scheme. In addition, the Committee also reviewed - expressing a positive opinion - a document illustrating the Group's management compensation policy.

Appointments Committee

The Board of Directors has not deemed it appropriate to set up an appointments committee, since it was considered not to consistent with the present shareholder structure and the way in which relationships between the latter and the Board of Directors operate.

Strategic Committee

On 28 April 2006 the Board of Directors revised the mission and membership of the Strategic Committee, originally created in August 2002 as the Strategy & Finance Committee.

Composizione

Domenico D'Arpizio Chairman

Edoardo Garrone

Alessandro Garrone

Giovanni Mondini

Pietro Giordano

The Committee plays a consultative role and also a role of assistance vis-à-vis the CEO and Board of Directors of the holding company and of operating companies. Its activity takes the form of:

- Prior evaluation of the main strategic choices set to affect the business activity of Group companies and business portfolio balance;

- Long-term strategic business plans defined by the holding company;
- Individual strategic or major Group projects, as defined in the Investment Process Guidelines;
- Strategic finance policies;
- Individual extraordinary finance operations.

Corporate functions and procedures

The corporate functions and procedures that are important in terms of their effects on the company's overall governance approach are the following:

- The internal control system;
- Investor relations;
- Rules concerning the handling of sensitive and confidential information;
- Procedure for public dissemination of announcements and information;
- Guidelines for identification and execution of significant transactions;
- Code of Conduct for directors of Group companies;
- Subholding company reporting procedure for significant transactions;
- Procedure for execution of related-party transactions.

The internal control system

The internal control system operating within the Group is not a separate and specific corporate function, but consists of the coordinated operations of various organisational functions assigned responsibilities pertaining to the overall control activity.

These functions are primarily Internal Auditing, Budget Control, and Administration & Tax. They are joined by other functions whose responsibilities include monitoring the compliance of corporate actions with current laws and regulations.

The internal control system - which has historically been headed by the person in charge of the Administration & Tax Department but which, during 2007, will be formally indicated as being headed by the Internal Auditing Manager - is monitored by the Internal Control Committee on behalf of the Board of Directors and of the CEO, who is responsible for assuring its functionality and adequacy.

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" in Italian), previously enshrined in the Internal Auditing function, by creating a committee of five members, i.e. the independent director Paolo Francesco Lanzoni, as Chairman, and the heads of the company's Auditing, Corporate Security, Human Resources and Legal & Corporate Affairs functions. The Supervisory Committee, which maintains a direct and ongoing relationship with the Internal Control Committee performs its activity within the parent company. As regards subholding, each of them has appointed its own Supervisory Committee consisting of the independent director of Erg S.p.A., Paolo Francesco Lanzoni as Chairman, the head of the holding company's Corporate Security function, Luigi Bricocoli, and of the subholdings' respective Human Resources managers. As instead regards the listed subsidiary Enertad S.p.A., the Supervisory Committee consists of Paolo Francesco Lanzoni (Chairman), Luigi Bricocoli, Renzo Fos-sati, Danilo Lodola, and Claudio Pirani.

Investor relations

The company manages relationships with its shareholders, institutional investors and the market by means of the Investor Relations function, which is part of the Finance Division.

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 fullest possible information on its activities and strategies, also via constant updating and innovation of its Website.

Rules for the handling of sensitive and confidential information

The Board of Directors has introduced rules designed to ensure an exhaustive and timely flow of information within the companies forming part of the Group, as well as between the latter and the listed parent company in order to fulfil disclosure obligations concerning price-sensitive information vis-à-vis the market and the market's supervisory bodies.

Specific instructions have also been circulated concerning the handling of confidential information, designed to make employees aware of the liabilities arising from use of such information not compliant with current regulations.

These instructions and rules were revised during 2006 to adapt them to the new regulations introduced by Italian Law no. 62 of 18 April 2005.

Procedure for public dissemination of statements and information

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

The procedure 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.

The procedure was revised during 2006 to adapt it to the new regulations introduced by Italian Law no. 62 of 18 April 2005.

Guidelines for the identification and execution of significant transactions

This is the document - originally adopted with the Board resolution passed on 13 February 2003 and subsequently amended with resolutions passed on 6 August 2004, 13 February and 10 August 2006 - discussed in the section concerning the Board of Directors.

Code of Conduct for directors of Group companies

With a resolution dated 21 March 2000, the Board of Directors adopted a Code of Conduct 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 observance of corporate governance principles.

Bearing in mind, however, the formal aspects inherent in directors' responsibilities and the relationship between the individual companies appointing them, it was decided not to make the Code compulsory, instead accentuating its spirit of moral suasion. – the aim of this being to assure that its application, when the Code requires directors to conduct themselves in specific ways, is the result of spontaneous support for the Code rather than mere performance of a duty.

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

Subholding company reporting procedure for significant transactions

On 14 March 2006 the Board of Directors passed a resolution introducing a reporting procedures, in compliance with which subholding companies - based on a specified approach and timing – inform the parent company of transactions, qualifying as significant according to the guidelines mentioned above, that they have undertaken directly, applying exceptions envisaged in the guidelines.

Procedure for execution of related-party transactions

On 14 March 2006 the Board of Directors passed a resolution, which, to complete the provisions made in the guidelines for identification and execution of significant transactions, introduces a procedure indicating the criteria and approach to be applied in the execution of related-party transactions.

Code of Conduct regarding transactions in financial instruments issued by ERG S.p.A. (Internal Dealing)

In compliance with Articles 2.6.3 and 2.6.4 of the “Regulation for markets organised and managed by Borsa Italiana S.p.A.”, the Board of Directors adopted a Code of Conduct which aims to render transparent financial transactions executed by Relevant Persons, i.e. by those persons who, by virtue of their positions within the Group, have major decision-making power or significant knowledge of corporate strategies such as to them an advantage in their investment decisions concerning financial instruments issued by the Company.

This document will become obsolete, as from 1 April 2006, due to the coming into force of the new Internal Dealing rules introduced by Italian Law no. 62 of 18 April 2005.

Adherence to the Italian Corporate Governance Code published in March 2006

With the Board resolution passed on 19 December 2006, ERG S.p.A. officially adhered to the new Italian Corporate Governance Code for Listed Companies published in March 2006.

As per the requirements of Section 1A.2.6 of the Instructions accompanying the Regulation for Markets Organised and Managed by Borsa Italiana S.p.A., and applying the guidelines given in the joint memorandum of Borsa Italiana S.p.A. and Assonime (the Italian association of joint stock companies), below we provide information on the status of adaptation of ERG S.p.A.'s corporate governance system to the recommendations contained in the new Code.

1. Board of Directors' Role

ERG's corporate governance system is already consistent with the new principles introduced in the Code, with the exception of the requirements indicated in the following points:

- 1.C.1. letter g): "At least once a year the Board of Directors performs an evaluation of the Board's size and membership and of the operation of the Board itself and of its committees, expressing orientations, if any, concerning the professional figures whose presence on the Board is considered appropriate".
- 1.C.3.: "The Board of Directors expresses its orientation concerning the maximum number of offices held as director or statutory auditor that can be considered compatible with effective performance of office as a director of the issuer. To this end it identifies general criteria differentiated according to the degree of commitment connected with each role, also in relation to the nature and size of companies where such offices are held, and to their membership of the issuer's group. Directors' membership of committees set up within the Board can also be taken into account".

During 2007 ERG S.p.A.'s Board of Directors will have to pass a resolution defining how to put the recommendation in point 1.C.3 into practice.

As instead regards the recommendation in point 1.C.1 letter g), reference is made to Article 3. Independent Directors, below.

2. Board of Directors' Membership

ERG's governance system is already consistent with the new principles introduced in the Code.

3. Independent directors

ERG's governance system is already consistent with the new principles introduced in the Code since, as already highlighted in the earlier section concerning the Board of Directors, the independence of directors appointed by the Shareholders' Meeting on 28 April 2006 was assessed according to the criteria contained in the March 2006 edition of the Italian Corporate Governance Code.

We point out only the application rule 3.C.6: "Independent directors meet at least once a year in the other directors' absence". Criterion 3.C.6 will be put into practice. One of the items on this meeting's agenda will be performance of investigatory and support activities for the Board concerning the self-assessment recommended in the new Code of the Board's size and operation. Information on this investigatory and assessment activity will be provided in our Annual Corporate Governance Report.

4. Handling of corporate information

ERG's governance system is already consistent with the new principles introduced in the Code.

5. Creation and operation of internal committees of the Board of Directors

ERG's governance system is already consistent with the new principles introduced in the Code.

6. Appointment of directors

ERG's governance system is already consistent with the new principles introduced in the Code. We note the provisions of the point shown below, which was already present in the previous edition of the Code.

6.P.2: "The Board of Directors evaluates whether to set up and appointments committee – with the majority of its members consisting of independent directors - inside the Board".

ERG's Board of Directors confirms its evaluation, based on which it is believed that, given the company's shareholder structure, an appointments committee is not necessary.

7. Directors' remuneration

ERG's governance system is already consistent with the new principles introduced in the Code.

8. Internal control system

Il sistema di governance di ERG è già conforme ai nuovi principi introdotti nel Codice a eccezione di quanto previsto nel punto seguente:

8.C.1.: "The Board of Directors, aided by the Internal Control Committee, identifies an executive director (normally the CEO) made responsible for overseeing the internal control system's functionality, and, having received the Internal Control Committee's opinion, appoints or revokes one or more internal control supervisors and defines their remuneration consistently with corporate policies".

The Board of Directors will:

- Identify the executive director appointed to oversee the internal control system's functionality;
- Appoint, as proposed by the director made responsible for overseeing the internal control system's functionality, an internal control manager;
- Identify this manager in the Internal Auditing function.

9. Directors' interests and related-party interests

ERG's governance system is already consistent with the new principles introduced in the Code except for what is envisaged in the following point:

9.C.1.: "The Board of Directors, having Consulted with the Internal Control Committee, establishes the approach for approval and execution of transactions undertaken by the issuer, or by its subsidiaries, with related parties. More specifically, it defines the specific transactions (or determines the criteria for identifying transactions), which must be approved after an opinion is expressed by the Internal Control Committee and/or with the assistance of independent experts".

The Board of Directors will supplement the Rules of conduct for related-party transactions by defining specific criteria for transactions requiring approval by the Board with the assistance of independent experts, plus the approach for appointing such experts.

10. Statutory auditors

ERG's governance system is already consistent with the new principles introduced in the Code with the exception of the following points:

10. C.2.: "Statutory auditors are chosen from among persons who can be rated as independent also based on the criteria envisaged by the Code for directors. The Board of Statutory Auditors checks observance of the said criteria after appointment and annually thereafter, reporting on the outcome of this check in the annual corporate governance report".

3. C.5.: "The Board of Statutory Auditors, as part of the tasks attributed to it by law, checks proper application of the criteria and verification procedures adopted by the Board of Directors to assess its members. The outcome of these controls is disclosed to the market in the annual corporate governance report or in the statutory auditors' report to the shareholders' meeting".

We point out that the Board of Statutory Auditors currently holding office will lapse at the time of the Shareholders' Meeting held to approve year-end accounts as at 31 December 2006.

11. Shareholder relations

ERG's governance system is already consistent with the new principles introduced in the Code.

Timing of adaptation

The process of adapting ERG's governance system to the new Italian Corporate Governance Code will be completed by the end of 2007.

Commitment

With this statement made by the Board of Directors, ERG wishes to confirm its commitment to:

- Pursue as its primary objective, in its formal acts and conduct, creation of shareholder value;
- Model its business on total observance of the Group's ethical principles, which are based on that combination of values consisting of personal honesty, 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 2003;
- Assure, by means of constant attention to the ongoing evolution of corporate governance principles, observance of such principles by its organisation, to assure, in turn, transparent and efficient operation of the organisation over time.

The documents concerning corporate governance, to which reference is made in this chapter, are available in the Corporate Governance section of our Website www.erg.it.

The following tables summarise how the main recommendations of the Italian Corporate Governance Code are adopted and applied in the company.

Structure of Board of Directors and Committees

Table 1

BOARD OF DIRECTORS						
OFFICE	MEMBERS	EXECUTIVE	NON-EXECUTIVE	INDEPENDENT	****	
CHAIRMAN	EDOARDO GARRONE ^(a)	YES			100%	
DEPUTY CHAIRMAN	GIOVANNI MONDINI	YES			93%	
DEPUTY CHAIRMAN	DOMENICO D'ARPIZIO	YES			93%	
DEPUTY CHAIRMAN	PIETRO GIORDANO ^(b)	YES			100%	
CHIEF EXECUTIVE OFFICER	ALESSANDRO GARRONE	YES			100%	
DIRECTOR	MASSIMO BELCREDI			YES	100%	
DIRECTOR	PASQUALE CARDARELLI ^(b)			YES	91%	
DIRECTOR	RICCARDO GARRONE		YES		93%	
DIRECTOR	GIUSEPPE GATTI	YES			93%	
DIRECTOR	ANTONIO GUASTONI			YES	93%	
DIRECTOR	PAOLO FRANCESCO LANZONI			YES	100%	
DIRECTOR	GIAN PIERO MONDINI		YES		100%	
DIRECTOR	GUIDO SEBASTIANO ZERBINO		YES		100%	
NUMBER OF MEETINGS HELD DURING THE YEAR IN QUESTION		BOD: 15	INTERNAL CONTROL COMMITTEE: 12			
NOTES						
* The asterisk's presence indicates whether the director has been designated via lists presented by minority shareholders.						
** This column shows the number of directorships or statutory auditor appointments held by the person concerned in other companies listed in Italian or foreign regulated markets, in financial/banking/insurance companies, or in companies of major size.						
*** In this column an "X" indicates a Board ' member's membership of a given committee.						
**** This column indicates directors' percent attendance respectively of BoD and Committee meetings.						
(a) Member of the Remuneration Committee until 28/4/06						
(b) Appointed on 28/4/2006						

	NUMBER OF OTHER OFFICES **	INTERNAL CONTROL COMMITTEE		REMUNERATION COMMITTEE		APPOINTMENTS COMMITTEE (IF ANY)		EXECUTIVE COMMITTEE (IF ANY)	
		***	****	***	****	***	****	***	****
				X ^(a)	50%	=	=	=	=
						=	=	=	=
						=	=	=	=
			100%			=	=	=	=
		X	100%	X	100%	=	=	=	=
						=	=	=	=
						=	=	=	=
		X	100%			=	=	=	=
		X	92%	X	100%	=	=	=	=
						=	=	=	=
				X	100%	=	=	=	=
REMUNERATION COMMITTEE: 6				APPOINTMENTS COMMITTEE: =				EXECUTIVE COMMITTEE: =	

Board of Statutory Auditors

Table 2

OFFICE	MEMBERS	% ATTENDANCE OF MEETINGS OF BOARD OF STATUTORY AUDITORS	NUMBER OF OTHER OFFICES**
CHAIRMAN	ALFIO LAMANNA	100%	1
STANDING AUDITOR	MARIO PACCIANI	100%	1
STANDING AUDITOR	FABRIZIO CAVALLI	100%	1
STANDING AUDITOR	UMBERTO TRENTI		–
STANDING AUDITOR	MICHELE CIPRIANI		–
STANDING AUDITOR	PAOLO FASCE		1
NUMBER OF MEETINGS HELD DURING THE YEAR IN QUESTION: 7			
IQORUM REQUIRED FOR SUBMITTAL OF LISTS BY MINORITY SHAREHOLDERS FOR THE ELECTION OF ONE OR MORE STANDING AUDITORS (AS PER ART. 148 OF ITALIAN CONSOLIDATED FINANCE ACT): 3%			
NOTES			
* The asterisk indicates whether the statutory auditor has been designated via lists presented by minority shareholders.			
** This column shows the number of directorships or statutory auditor appointments held by the person concerned in other companies listed in Italian regulated markets. In the annual corporate governance report any such offices are indicated in full detail.			

Other provisions of italian Corporate Governance code

Table 3

	YES	NO	SUMMARY OF REASONS FOR ANY DEPARTURES FROM CODE RECOMMENDATIONS
POWER DELEGATION AND RELATED-PARTY TRANSACTION SYSTEM			
HAS THE BOD DELEGATED POWERS DEFINING THEIR:	X		
A) LIMITS?	X		
B) METHOD OF EXERCISE?	X		
C) FREQUENCY OF REPORTING?	X		
HAS THE BOD RESERVED AS ITS PREROGATIVE THE REVIEW AND APPROVAL OF TRANSACTIONS PARTICULARLY IMPORTANT IN BUSINESS, CAPITAL AND FINANCIAL TERMS (INCLUDING RELATED-PARTY TRANSACTIONS)?	X		
HAS THE BOD DEFINED GUIDELINES AND CRITERIA FOR IDENTIFICATION OF "SIGNIFICANT" TRANSACTIONS?	X		
ARE THE ABOVE GUIDELINES AND CRITERIA DESCRIBED IN THE REPORT?	X		SUMMARILY
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		SUMMARILY
PROCEDURES FOR MOST RECENT APPOINTMENT OF DIRECTORS AND STATUTORY AUDITORS			
WERE CANDIDACIES FOR DIRECTORSHIP LODGED AT LEAST 10 DAYS BEFOREHAND?	X		
WERE CANDIDACIES FOR DIRECTORSHIP ACCOMPANIED BY EXHAUSTIVE INFORMATION?	X		
WERE CANDIDACIES FOR DIRECTORSHIP ACCOMPANIED BY AN INDICATION OF ELIGIBILITY FOR CLASSIFICATION AS INDEPENDENT DIRECTORS?	X		
WERE CANDIDACIES FOR THE OFFICE OF STATUTORY AUDITOR LODGED AT LEAST 10 DAYS BEFOREHAND?	X		
WERE CANDIDACIES FOR THE OFFICE OF STATUTORY AUDITOR ACCOMPANIED BY EXHAUSTIVE INFORMATION?	X		
SHAREHOLDERS' MEETINGS			
HAS THE COMPANY APPROVED A REGULATION FOR SHAREHOLDERS' MEETING?	X		
IS THE REGULATION ATTACHED TO THE REPORT (OR IS IT INDICATED WHERE IT CAN BE OBTAINED/DOWNLOADED)?	X		
INTERNAL CONTROL			
LA SOCIETÀ HA NOMINATO I PREPOSTI AL CONTROLLO INTERNO?	X		
ARE THE INTERNAL CONTROLLERS FREE OF HIERARCHICAL RELATIONSHIPS WITH THE HEADS OF OPERATING AREAS?		X	THE INTERNAL CONTROLLER HAS BEEN IDENTIFIED AS BEING THE HEAD OF THE ADMINISTRATION & TAX DIVISION DUE TO THE FACT THAT BUSINESS ACTIVITY IS PERFORMED VIA PROCESSES IN WHICH THE DIVISION IS THE FINAL STAGE.
UNITÀ ORGANIZZATIVA PREPOSTA DEL CONTROLLO INTERNO (EX ART. 9.3 DEL CODICE)			ADMINISTRATION & TAX DIVISION
INVESTOR RELATIONS			
HAS THE COMPANY APPOINTED INTERNAL CONTROLLERS?	X		
ORGANISATIONAL UNIT AND CONTACT DETAILS (ADDRESS/TELEPHONE/FAX/E-MAIL) OF INVESTOR RELATIONS MANAGER			FINANCE DIVISION - JONATHAN GIBSON GENOA, VIA DE MARINI, 1 TEL. +39 010 2401513 – FAX +39 010 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 listed on the Milan Bourse, a new Compensation Plan was introduced, designed to align the interests of the management with those of the company and its shareholders, and strengthen their relationship, also in terms of continuity over time.

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

- “Basic” compensation partly linked to ERG's share price performance during the year;
- Annual “bonuses” linked to “value creation” achieved during the year and calculated in proportion to the entity of value achieved;
- Long-term incentive schemes, ascribing benefits to management in proportion to share price performance, once again linked to “value creation” achieved during the period of reference.

The Remuneration Committee found it necessary to subject the plan adopted at the time of stock market entry to general review, in order to evaluate its adequacy as regards both the new company structure and the change in the market's sensitivity to 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. It did so defining a new short-term incentive system, which envisaged payment to executives and top management, based on a differentiated approach, of annual bonuses, calculated on the basis both of company performance and of achievement of individual goals.

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

During 2005, the Remuneration Committee, once again drawing on the services of qualified experts, developed the new long-term incentive scheme, which was approved by ERG S.p.A.'s Board of Directors at its meeting on 5 August 2005.

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

The short-term incentive plan, approved by ERG S.p.A.'s Board of Directors on 12 November 2004, is based on a number of fundamental objectives that can be summarised as being to:

- Introduce a single incentive system comprising both company and individual performance;
- Define a market-related benchmark bonus for each scheme participant;
- Measure individual performance according to a consistent system of goals and indicators;
- Evaluate company performance in terms of value created/destroyed;
- Define minimum and maximum bonus thresholds.

The scheme's participants in the scheme are the Managing Directors of ERG S.p.A. and the subholding companies and all executives of Group companies.

An individual benchmark bonus is defined for each scheme participant in the scheme. This is the gross amount that the person will receive if both individual goals and company objectives are fully achieved.

For each business area (Corporate, Coastal Refining, Integrated Downstream, and Power Generation) a distinct bonus pool is created. The pool is 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 individual area.

As regards company objectives, reference is made to each individual area's business performance based on the following parameters and weighting:

- Corporate area: 100% Group Economic Profit (Value Creation);
- Coastal Refining division: 70% divisional EBITDA and 30% Group Economic Profit;
- Integrated Downstream division: 70% divisional EBITDA and 30% Group Economic Profit;
- Power Generation division: 70% divisional EBITDA and 30% to Group Economic Profit.

In addition, a distinction is made between top management and executives, so as to assign different risk profiles and increase the system's degree of "aggressiveness" vis-à-vis top management.

The other characteristic features of the scheme are:

- Setting of a cap for bonuses actually paid, corresponding to 200% of the individual benchmark bonus;
- Setting of a floor for bonuses actually paid, corresponding to 25% of the individual benchmark bonus;
- Allocation of executives to five merit ranges.

The Remuneration Committee takes part in the process of implementing the scheme via definition of the annual Group Economic Profit target, checking operating companies' EBITDA targets, and determining the Economic Profit actually achieved.

The key objectives of the new long-term incentive scheme, approved, as stated earlier, by the Board of Directors on 5 August 2005, are to:

- Encourage decisions that assure sustainable, enduring value creation;
- Avoid risks of "under-investment";
- Increase retention of key people.

The long-term incentive scheme grants registered and non-transferable subscription rights for company shares to be issued in accordance with Art. 2441, paragraph 8, of the Italian Civil Code, or rights to purchase ERG shares held as treasury shares, to be assigned to certain employees at a price equivalent to the cost of exercising subscription rights for newly issued shares.

The scheme will have a 3-year duration, and envisages the assignment of rights, each year, to be exercised at par, i.e. a price corresponding to the arithmetical average of ERG shares' official prices of ERG shares in the thirty days preceding each assignment of rights.

ERG S.p.A.'s Board of Directors has set at 2.1 million the maximum number of shares, either newly issued or treasury shares, to service the scheme for the entire 3-year duration.

If all 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 3 October 2005, consisted of 648,590 rights assigned at an exercise price of Euro 21.08 to the Chairman and CEO of ERG S.p.A., to Group companies' Managing Directors, and to some selected executives, for a total of 15 people.

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

The second assignment, on 2 October 2006, consisted of 746,119 rights assigned at an exercise price of Euro 21.08 to the Chairman and CEO of ERG S.p.A., to Group companies' Managing Directors, and to some selected executives, for a total of 16 people.

As done 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, based on the recommendation of the Remuneration Committee, as regards the Chairman and CEO of ERG S.p.A., and by the CEO as regards the other beneficiaries.

The scheme's Regulation contains specific provisions regarding the effects of termination of employment and of dependent self-employment occurring while the options can still be exercised valid. In this respect it makes a distinction between termination due to (a) voluntary resignation, dismissal for just cause and voluntary redundancy in the case of employees and resignation or revocation in the case of the Chairman and the Managing Directors - in which case the options become totally null and void - (b) termination due to death, permanent disability, compulsory redundancy, expiry without renewal of a dependent self-employment contract or expiry without renewal of appointment in the case of the Chairman and the Managing Directors - in which case the options remain valid and are transferred to heirs in the eventuality of a participant's death.

The scheme also establishes that options have a 3-year vesting period, i.e. they cannot be exercised before three years have elapsed since their assignment, and must be exercised within one year from the date when they become exercisable, or will otherwise lapse. Options cannot in any case be exercised during the period from 10 November to 15 May of each year.

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L'ENERGIA DEL SAPER FARE.