

# REPORT ON GOVERNANCE AND OWNERSHIP



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## THE PATH

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

Even before the Company was listed in October 1997, one of its key features was a focus on a proper relationship between management and shareholders and on ensuring that business operations be 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 internal regulations and organisation to meet these criteria.

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

- amendments to the Articles of Incorporation in compliance with the regulatory changes introduced by the Company Law Reform and to legal provisions on Shareholders' Rights;
- adoption 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 organisation and management model consistent with the requirements of Italian Legislative Decree no. 231/2001;
- acceptance of the Italian Corporate Governance Code for Listed Companies since its first edition in 1999, most recently reviewed in 2010;
- approval of a Code of Conduct for the directors of Group companies – revised on 12 November 2009;
- appointment of independent directors to the Board;
- 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 the stock value and its continuity over time;
- definition of Guidelines for the identification and execution of significant transactions – revised on 14 December 2010 – and of other governance documents designed to assure transparent and timely management of the Group's relationship with the market;
- amendment of the Articles of Incorporation to bring them into line with the regulatory changes introduced by the Italian Company Law Reform and by law provisions on the matter of Shareholders' Rights;
- adoption of an Enterprise Risk Management Model, with the objective of identifying, as exhaustively as possible, the risks inherent in the ERG Group's full range of business activities;
- adoption of a specific procedure to assure the transparency and substantial and procedural correctness of transactions with related parties carried out by ERG S.p.A. directly or through its subsidiaries;

- 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.

**INFORMATION ABOUT THE OWNERSHIP STRUCTURE  
AS OF 31 DECEMBER 2010 (PURSUANT TO ARTICLE 123-BIS  
OF LEGISLATIVE DECREE 58 OF 24 FEBRUARY 1998  
(ITALIAN CONSOLIDATED FINANCE ACT OR "T.U.F.")**

**Share capital structure as of 12/31/2010**

	NUMBER OF SHARES	% OF SHARE CAPITAL	LISTED (MARKET) / NOT LISTED	RIGHTS AND OBLIGATIONS
COMMON STOCK	150,320,000	100	MTA/INDEX FTSE ITALIA MID CAP	
STOCK WITH LIMITED VOTING RIGHT	–	–		
STOCK WITHOUT VOTING RIGHT	–	–		

**Significant stakes in the share capital as of 12/31/2010**

DECLARANT	DIRECT SHAREHOLDER	% OF COMMON STOCK	% OF VOTING CAPITAL
SAN QUIRICO S.P.A.	SAN QUIRICO S.P.A.	55.942	55.942
SAN QUIRICO S.P.A.	POLCEVERA S.A.	6.905	6.905
TRADE WINDS GLOBAL INVESTORS LLC	TRADE WINDS GLOBAL INVESTORS LLC	5.049	5.049
GENERALI INVESTMENTS ITALY SGR S.P.A.	GENERALI INVESTMENTS ITALY SGR S.P.A.	2.228	2.228

**Other information**

	YES	NO	NO KNOWN INFORMATION
RESTRICTIONS TO TRANSFER OF SHARES		X	
RESTRICTION TO VOTING RIGHT		X	
SHAREHOLDERS' AGREEMENTS			X
AGREEMENTS PER ART. 123-BIS PARAGRAPH 1 LETTERA I) TUF		X	

Note that:

- there are no securities conferring special control rights;
- there are no employee stock option plans;
- pursuant to Article 123-bis, paragraph , point 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 could theoretically involve the repayment of the loan in question if there is a change in control at ERG S.p.A. and in particular: (i) loan disbursed by Intesa San Paolo for EUR 50 million with maturity 31 December 2014 and (ii) loan disbursed by Monte dei Paschi di Siena for EUR 50 million with maturity 31 December 2013. It should also be noted that there are in existence partnership agreements with third parties relating to certain investee companies, which allow for the possibility, but not the obligation, as is frequently the case in such agreements, for third parties that are shareholders of the above-mentioned investee companies, to acquire, usually at market conditions, the shares or stakes of the shareholder belonging to the ERG Group if there is a change in control

at ERG S.p.A. Notable in this regard is the case of Ionio Gas S.r.l. where the other shareholder has rights that can be exercised in relation to the stake belonging to the ERG Group in the event of a change in control at ERG S.p.A., in accordance with the limits and conditions set out in the related agreements. Provisions of the same nature and/or purpose, formulated in various ways, are contained in the shareholder agreements of certain investee companies, also indirect, such as SIGEA S.p.A. and SIGEMI S.r.l. and with reference to other minor stakes particularly within TotalErg S.p.A.; with regard to the latter, it is pointed out that the related shareholder agreements provide the possibility for the other shareholder, upon the occurrence of the circumstance and according to the procedures set out in the agreements, to acquire a 2% stake of TotalErg S.p.A. from ERG Group in case of change in control at ERG S.p.A.;

- for rules applicable to the appointment and replacement of directors, and to amendments to the Articles of Incorporation, please refer to the relevant sections of this report;
- no powers have been granted to Directors in relation to capital contributions pursuant to Article 2443 of the Italian Civil Code;
- Directors have no powers to issue equity instruments;
- the Board of Directors' power to issue convertible bonds expired on 28 April 2009;
- on 15 April 2010, pursuant to Article 2357 of the Italian Civil Code, the Shareholders' Meeting authorised the Board of Directors for a 12 month time interval from the date of the resolution, to purchase treasury shares up to a revolving maximum (meaning the maximum amount of treasury shares held from time to time) of 15,032,000 (fifteen million thirty-two thousand) shares of ERG common stock with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, no lower than 30% below and no higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.

#### **CORPORATE GOVERNANCE**

ERG S.p.A.'s corporate governance system complies with the requirements of the Italian Civil Code and of other specific regulations relating to companies – particularly those contained in Italian Consolidated Finance Act – and is consistent overall with the Italian Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A., which has been revised and updated over the years, and most recently amended on 3 March 2010<sup>(1)</sup> (“Corporate Governance Code”). The latest version of the Italian Corporate Governance Code is available from the Borsa Italiana S.p.A. website ([www.borsaitaliana.it](http://www.borsaitaliana.it)).

ERG corporate governance comprises the statutory bodies, board committees and documents that regulate their operation.

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(1) In this regard, it is specified that issuers are invited to apply the new Article 7 of the Corporate Governance Code – as amended on 3 March 2010 – by the end of the year that starts in 2011, informing the market with a report on corporate governance to be published in 2012.

## STATUTORY BODIES

### BOARD OF DIRECTORS

The current Board of Directors, comprising twelve members, was appointed by the Shareholders' Meeting held on 23 April 2009; consequently, the Board of Directors will remain in office until the approval of the financial statements as of and for the year ended 31 December 2011.

For the appointment of the Board of Directors, a single list of candidates was submitted by the shareholder San Quirico S.p.A., i.e.:

1. Riccardo Garrone
2. Edoardo Garrone
3. Giovanni Mondini
4. Pietro Giordano
5. Alessandro Garrone
6. Massimo Belcredi\*
7. Lino Cardarelli\*
8. Aldo Garozzo
9. Giuseppe Gatti
10. Antonio Guastoni\*
11. Paolo Francesco Lanzoni\*
12. Graziella Merello

In accordance with the Articles of Incorporation, Directors are appointed on the basis of lists presented by shareholders 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. and/or the eligibility requirements to be qualified as independent in accordance with the Corporate Governance Code, must be filed, in accordance with Article 147-ter, Paragraph 1-bis of the T.U.F., at the Company's registered office by the twenty-fifth day preceding the Shareholders' Meeting and be made available to the public at least twenty-one days prior to the Shareholders' Meeting.

The lists may only be presented by Shareholders who, either individually or with other shareholders, represent the minimum percentage of share capital (currently 2%) established in accordance with the regulation implementing the T.U.F., adopted by the Consob with its Resolution no. 11971 of 14 May 1999 with subsequent amendments and additions (the "Issuers' Regulation"), in force on the date of the Shareholders' Meeting.

For the purposes of the allotment of the Directors to be elected, no consideration is given to lists that failed to obtain as many votes as represent a percentage of the share capital at least equal to half the share required for their presentation.

Election of the Directors takes place as follows:

- a) from the list that obtained the majority of the votes cast is drawn, in the progressive order with 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, Paragraph 5 of the Articles of Incorporation for the appointment of independent Directors;
- b) the remaining Director is drawn from the minority list that received the highest number of votes;
- c) if only one list is submitted, or if the required quorum is not reached by the other lists, the Directors are elected within the list that was submitted or that reached the quorum, until the end of the list is reached.

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\* Candidate indicated in the list as possessing the independence requirements as prescribed by the T.U.F. and eligible to qualify as independent in accordance with the Corporate Governance Code

On 15 April 2010 the Shareholders' Meeting, upon approval of the Financial Statements as of 31 December 2009, confirmed the appointment to Director of the Corporate General Manager, Luca Bettonte, who had already been co-opted by the Board of Directors on 15 December 2009 as a result of the resignation, on the same date, of Riccardo Garrone from the office of Director; Mr. Garrone continues to attend Board of Directors meetings as Honorary Chairman.

The following Directors are in office as of the date of approval of this Report:

Riccardo Garrone - *Honorary Chairman*

*Members:*

Edoardo Garrone - *Chairman*

Pietro Giordano - *Deputy Chairman*

Giovanni Mondini - *Deputy Chairman*

Alessandro Garrone - *Chief Executive Officer*

Massimo Belcredi - *Director*

Luca Bettonte<sup>(1)</sup> - *Director*

Lino Cardarelli - *Director*

Aldo Garozzo - *Director*

Giuseppe Gatti - *Director*

Antonio Guastoni - *Director*

Paolo Francesco Lanzoni - *Director*

Graziella Merello<sup>(2)</sup> - *Director*

*Non-executive directors*

Aldo Garozzo

*Independent directors<sup>(3)</sup>:*

Massimo Belcredi

Lino Cardarelli

Antonio Guastoni

Paolo Francesco Lanzoni

The Board of Directors assessed the independence of the Directors listed above according to the recommendations of the Corporate Governance Code, giving special consideration to substance over form and bearing in mind the application criteria set forth therein.

The Board of Directors conducted this assessment at its first meeting subsequent to the appointment and it periodically checks that these requirements be still valid (during the Board meeting called to examine the interim Report as of 31 March).

In 2010, the independence assessment was carried out during the Board meeting held on 13 May.

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(1) Confirmed Director by the Shareholders' Meeting of 15 April 2010. He has served as Corporate General Manager since 15 December 2009.

(2) He has served as executive director appointed to oversee the functioning of the internal control system since 23 April 2009.

(3) Independence was assessed in accordance with the T.U.F. and the Corporate Governance Code.

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. With regards to the composition of the Board of Directors and the distribution of offices and powers, carried out within the Board, it was not considered necessary to designate a lead independent director as provided by application criterion 2.C.3 of the Corporate Governance Code.

In 2010, the independent directors held their own meeting without the other Directors present on 24 May, but remained in contact and regularly consulted each other in advance on the principal matters examined by the Board of Directors.

*Other offices as Director and Statutory Auditor held by the Directors in other companies listed in regulated markets, also abroad, in financial, banking, insurance companies or in companies of significant dimensions as of 31 December 2010:*

Edoardo Garrone	<i>Chairman of the Supervisory Board of San Quirico S.p.A. Director of Pininfarina S.p.A.</i>
Pietro Giordano	<i>Chairman of ERG Renew S.p.A.</i>
Alessandro Garrone	<i>Director of Banca Passadore e C. S.p.A. Director of Gruppo MutuiOnline S.p.A.</i>
Massimo Belcredi	<i>Director of Arca SGR S.p.A.</i>
Luca Bettonte	<i>Director of ERG Renew S.p.A.</i>
Lino Cardarelli	<i>Deputy Chairman of Ambromobiliare S.p.A.</i>
Giuseppe Gatti	<i>Chairman of Grandi Reti S.c.a.r.l.</i>
Antonio Guastoni	<i>Chairman of the Board of Auditors of the Milan Chamber of Commerce (CCIAA) Chairman of the Board of Statutory Auditors of FUTURIMPRESA Sgr S.p.A. Standing Auditor of Leonardo Sgr S.p.A. Standing Auditor of Giulio Fiocchi S.p.A. Standing Auditor of Finlombarda Sgr</i>

#### *Other persons who attend Board of Directors meetings*

The meeting of the Board of Directors are attended by the Honorary Chairman and, depending on the matters under discussion, Group management representatives also take part.

#### *Directors' remuneration*

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

The Shareholders' Meeting also fixes the remuneration of the Directors serving on the following committees within the Board: Internal Control Committee and Nomination and Remuneration Committee.

The emoluments of the Chairman, Deputy Chairmen, and Chief Executive Officer and, more in general, of Directors with delegated powers are determined by the Board of Directors on the basis of a recommendation made by the Nominations and Remuneration Committee, with the input of the Board of Statutory Auditors.

In accordance with the new remuneration provisions of Article 7 of the Code of Corporate Governance, the Board of Directors of the company, by the end of the year that starts in 2011, upon the proposal of the Nominations and Remuneration Committee, is invited to define a general policy for the remuneration of executive directors, of the other directors vested with particular powers and of executives with strategic responsibilities.

### *Powers*

The Board of Directors granted:

- the Chairman Edoardo Garrone the authority to manage the staff functions carried out by the Institutional & International Relations Division, and in the context of the General Secretariat, by the Corporate Affairs Division, with responsibility for supervision, direction and control;
- Deputy Chairman Pietro Giordano the authority to manage the Group's M&A activities with responsibility for supervision, direction and control;
- Director Giuseppe Gatti the authority to manage scientific research in the Oil and Power sectors, with responsibility for supervision, direction and control;
- Director Graziella Merello the authority to manage the Internal Audit and Risk Office Divisions, with responsibility for supervision, direction and control.

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

The Board – in accordance 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.

Persons granted delegated authority report every quarter to the Board of Directors on the activity carried out in exercising the authority they were granted.

### *Frequency of Board meetings*

As envisaged by the Articles of Incorporation, 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 interest.

During the 2010 financial year the Board of Directors held 9 meetings, while for the year 2011 there are expected to be no fewer than 8 meetings.

In 2010, the Board of Directors passed resolutions on 44 different matters and for 32 of these, the relevant information documents were sent beforehand to Directors and Auditors.

On average, the meetings of the Board of Directors lasted 2 hours and 30 minutes.

As of the date of approval of this document, the Board of Directors had met three times.

### *Activities pursued*

Directors made a significant contribution to the work of the Board and Committees in 2010 in terms of meeting attendance and effective participation in proceedings.

In the course of 2010, the Board of Directors performed the activities and duties referred to in application criterion 1.C.1 of the Italian Corporate Governance Code for listed companies in accordance with the role that the Code attributes to the Board of a listed company.

With regard in particular to subparagraph g) of this criterion, the Board of Directors, at its meeting of 5 August 2010, 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. This review concluded with a favourable opinion.

Pursuant to application criterion 1.C.3. of the Italian Corporate Governance Code, the Board of Directors also acknowledged that, in light of the findings set out in the document prepared by the Nominations and Remuneration Committee, it no longer appears necessary to set a limit on the number of directorships and auditorships in other listed companies or in financial, banking, insurance companies or in companies of significant size, other than the one provided in the Report on Corporate Governance for 2009.

With a resolution dated 13 February 2003, the Board of Directors defined the guidelines for the identification and execution of significant transactions, the examination and approval of

which – as recommended by the Italian Corporate Governance Code – remain the exclusive responsibility of the Board of Directors.

The guidelines, the original version of which was amended once by the Board of Directors with its resolution of 6 August 2004, and again with its resolutions of 13 February, 10 August 2006 and 14 December 2010, set out the criteria to be used to identify the most significant transactions, in accordance with Article 1 of the Italian Corporate Governance Code, consisting of quantitative and qualitative criteria and criteria deriving from the specific requirements of the parties involved (related-party transactions and intragroup transactions).

The document also describes the code of conduct to be followed when performing the aforesaid transactions, with particular reference to transactions instructed by subsidiaries, on which the company carries out management and coordination activities in accordance with Article 2497 et seqq. of the Italian Civil Code, which must be examined and approved in advance by the Board of Directors.

The Board of Directors, with its resolution of 29 September 2010, approved the mandatory amendments to the Articles of Incorporation, prescribed by Legislative Decree 27 of 27 January 2010, regulating Shareholders' Rights.

The Board of Directors with its resolution of 11 November 2010, in accordance with Consob Resolution 17221 of 12 March 2010 – subsequently amended with Resolution 17389 of 23 June 2010 – with the favourable opinion of the Internal Control Committee – entirely constituted by independent directors – and after obtaining the opinion of the Board of Statutory Auditors approved, adopting it, a specific internal procedure – effective from 1 January 2011 – to assure the transparency and substantial and procedural correctness of transactions with related parties carried out by ERG S.p.A. directly or through its subsidiaries.

The Board of Directors with its resolution of 11 November 2010, as proposed by the Internal Control Committee, approved the revision of the Guidelines for the operation of said Committee, changing, inter alia, its composition from "three non executive directors, at least two of whom shall be independent" to "three independent directors". This does not entail any change to the actual composition of the Committee, which has been compliant with this requirement for several years.

#### **BOARD OF STATUTORY AUDITORS**

The current Board of Statutory Auditors was appointed by the Shareholders' Meeting held on 15 April 2010 and will remain in office until the approval of the financial statements as of and for the year ended 31 December 2012.

For the appointment of the Board of Statutory Auditors, a single list of candidates was submitted by the shareholder San Quirico S.p.A., i.e.:

Mario Pacciani - *Standing Auditor*

Lelio Fornabaio - *Standing Auditor*

Paolo Fasce - *Standing Auditor*

Vincenzo Campo Antico - *Alternate Auditor*

Fabio Porfiri - *Alternate Auditor*

Stefano Remondini - *Alternate Auditor*

In compliance with the Articles of Incorporation, the Board of Statutory Auditors is appointed on the basis of lists presented by Shareholders – which must set out the names of candidates in numbered, sequential order – which, pursuant to Article 147-ter, Paragraph 1-bis of the T.U.F., must be deposited no later than the twenty-fifth day preceding the date of the Meeting and made available to the public at least twenty-one days before the Meeting.

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.

At the time of appointment of the Board of Statutory Auditors currently in office, the shareholding required in order to present the lists was equal to 2% of the share capital.

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 Incorporation.

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 Italian Consolidated Finance Act or if they already serve as Standing Auditor in more than five listed companies.

If multiple lists are submitted, the elected members are: from the list that received the highest number of votes, in the progressive order with 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 office indicated in the first position of the list that received the highest number of votes after the first, among those submitted and voted by minority Shareholders who are not connected, even indirectly, to the Shareholders that submitted or voted the list that received the highest number of votes, in accordance with current regulations. The standing auditor drawn from the minority list is appointed Chairman.

In case of tie between the lists, the elected candidate is drawn from the list that was submitted by the Shareholders owning the largest stake or, otherwise, by the largest number of Shareholder.

*Members:*

Mario Pacciani - *Chairman*

Lelio Fornabaio - *Standing Auditor*

Paolo Fasce - *Standing Auditor*

Vincenzo Campo Antico - *Alternate Auditor*

Fabio Porfiri - *Alternate Auditor*

Stefano Remondini - *Alternate Auditor*

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 Statutory Auditors oversaw the independence of the audit company, verifying both compliance with regulatory provisions on this matter and the nature and extent of the services other than accounting auditing rendered to the Company and its subsidiaries by the audit company itself and by the entities belonging to its network.

The Board of Statutory Auditors also oversaw the financial disclosure process, the effectiveness of the internal control, internal audit and risk management systems, as well as on the audit of the annual accounts and of the consolidated accounts.

In performing its duties, the Board of Statutory Auditors coordinated with the Internal Audit Division and with the Internal Control Committee.

During the 2010 financial year the Board of Statutory Auditors held 6 meetings, while for the year 2011 there are expected to be no fewer than 6 meetings.

As of the date of approval of this document, the Board of Directors had met once.

*Other offices as Director and Statutory Auditor held by the Directors in other companies listed in regulated markets, also abroad, in financial, banking, insurance companies or in companies of significant dimensions as of 31 December 2010:*

Mario Pacciani	<i>Chairman of the Board of Statutory Auditors of Boero Bartolomeo S.p.A.</i>
Lelio Fornabaio	<i>Chairman of the Board of Statutory Auditors of ERG Renew S.p.A.</i> <i>Standing Auditor of Prelios S.p.A.</i> <i>Standing Auditor of HDI Assicurazioni S.p.A.</i> <i>Chairman of the Board of Statutory Auditors of InChiaro Assicurazioni S.p.A.</i> <i>Director of Ariscom Compagnia di assicurazioni S.p.A.</i> <i>Chairman of the Board of Statutory Auditors of Essediesse S.p.A.</i> <i>Director of Lux Vide Finanziaria per iniziative audiovisive e telematiche S.p.A.</i>
Paolo Fasce	<i>Standing Auditor of Boero Bartolomeo S.p.A.</i> <i>Standing Auditor of Yarpa Investimenti SGR S.p.A.</i> <i>Standing Auditor of YLF S.p.A.</i> <i>Chairman of the Board of Statutory Auditors of Le Buone Società S.p.A.</i>

### **SHAREHOLDERS' MEETINGS**

Article 10 of the Articles of Incorporation states that holders of voting rights are entitled to intervene in the Shareholders' meeting if, in compliance with the rules set out by laws and the Articles of Incorporation, they have obtained suitable certification issued in compliance with current legislation by the intermediary notified to the company in the manner and by the term set out by current laws and the Articles of Incorporation.

Article 11 of the Articles of Incorporation prescribes that the Shareholders' Meeting shall be convened by the governing body at least once a year, no later than one hundred twenty days from the closing date of the year or no later than one hundred eighty days, if the company is obligated to prepare the Consolidated Financial Statements and if required by particular needs related to the Company's structure and purpose.

Article 12 of the Articles of Incorporation specifies that the Shareholders' Meeting shall be convened with a notice to be published on the Company's website and on the daily paper Milano Finanza or Finanza e Mercati or Il Sole 24 Ore or, alternatively, on the Official Gazette in accordance with the law. The notice shall contain all current legislative and regulatory provisions.

Article 13 of the Articles of Incorporation specifies that the provisions of the law shall apply for the validity of the Shareholders' Meetings, be they Ordinary or Extraordinary, and of their resolutions.

### **MEETING REGULATIONS**

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

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

## BOARD COMMITTEES

The Board of Directors has set up an Internal Control Committee, a Nominations and Remuneration Committee and a Strategic Committee to advise it and issue recommendations.

### INTERNAL CONTROL COMMITTEE

*Members:*

Massimo Belcredi - *Chairman*

Antonio Guastoni

Paolo Francesco Lanzoni

The members of the Internal Control Committee have adequate experience in accounting and finance.

Committee meetings are attended by the Chairman of the Board of Statutory Auditors or another auditor designate by him or, in relation to the topics discussed, all members of the Board of Statutory Auditors; moreover, the meetings may be attended by the Chairman of the Board of Directors, the Chief Executive Officer and the Corporate General Manager, who are entitled to intervene on the questions being examined and to identify adequate actions to confront critical and potentially critical situations, and (in relation to the topics discussed) the executive Director appointed to oversee the functionality of the internal control system and the Manager in charge of preparing the company's accounting documents.

Employees of ERG Group companies, representatives of the audit company 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 control is invited to attend the meeting in order to report to the Committee, at least once a quarter, on the activities conducted from time to time.

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.

#### *Tasks*

The Internal Control Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code.

To optimise its performance, the Committee may use the services of external consultants at the company's expense.

In 2010 the Committee held 13 meetings during which, besides a preview of the annual financial statements and half-yearly report, issues were discussed in the following macro-areas: Corporate Governance, Control Systems, Legislative Decree 231/01, Risk Management and Administration, Reporting and Tax Area.

As of the date of approval of this document, the Internal Control Committee had met 3 times.

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

#### **1) Group Governance**

- the Committee examined the provisions of Consob Regulations 17221 of 12 March 2010 on transactions with related parts (OPC Regulations), suggesting the creation of an ad-hoc work group with the task of assessing their potential impacts and prepare a draft procedure;
- it examined the documentation prepared by the Work Group, providing its own recommendations. The Committee expressed its own favourable opinion in accordance with Article 4 Paragraph 3 of the OPC Regulations (requested by the Board of Directors on 13 May 2010) in time to allow the adoption of the procedures by the Board of Directors within the prescribed time;

- it examined the main changes introduced by Legislative Decree 27 of 27 January 2010 with regard to the exercise of certain rights of shareholders of listed companies and, after recommending that an analysis be conducted on the impact of the aforesaid provisions on the Articles of Incorporation of ERG S.p.A., it concurred with the procedures whereby the Company subsequently incorporated the mandatory changes deriving from said decree into its Articles of Incorporation;
- it expressed its favourable opinion on the proposal to modify the Guidelines for identifying and carrying out significant transactions, stemming from the need to align the aforesaid Guidelines to the procedure for transactions with related parties;
- it examined and approved its own meeting schedule for 2011.

## **2) Internal control system**

- it examined and approved, with half-year frequency, its periodic reports to the Board of Directors, providing it with its assessment of the adequacy of the internal control system;
- it examined and approved the updates to the Guidelines for the operations of the Internal Control Committee, in particular proposing to the Board of Directors of the Company – which approved it – to change its composition from “three non executive directors, at least two of whom shall be independent” to “three independent directors”;
- it examined the work plan prepared for 2010 by the Head of Internal Control and, at first every half year, then every quarter, the periodic reports on the activity carried out;
- it examined, with half-yearly frequency, the periodic reports on the activity carried out by the Internal Audit Division;
- it examined the most significant aspects of some disputes related to the Company’s businesses;
- it acknowledged the resignation tendered by the Head of Internal Control and of Internal Audits and of the personal reasons for it and it was promptly informed about the process for the selection of the new head and the transition; subsequently, it acknowledged the appointment of the new Head of Internal Audit and it expressed its own favourable opinion on the proposal to appoint the new Head of Internal Control formulated by the executive Director tasked with overseeing the functionality of the internal control system;
- it examined the schedule of Internal Audit activities for 2011.

## **3) Obligations in connection with Legislative Decree 231/01**

- it expressed its own opinion about the composition of the Supervisory Committee in light of some changes made to the organisational structure of the Company;
- it examined, with half-year frequency, the periodic reports on the activity carried out by the Supervisory Committee and it received additional information flows on individual activities of interest of the Supervisory Committee;
- it examined a document outlining the programme of activity of the ERG Supervisory Committee as well as of the Supervisory Committees of Group companies for 2011.

## **4) Risk Management**

- it examined the details of the work plan for 2010 prepared by the Risk Office and, with half-year frequency, the periodic reports on the work carried out;
- it examined the results of the study conducted by the Risk Office in relation to the different risk profiles present in the transports made by companies of the ERG Group;
- it examined the schedule of Risk Office activities for 2011.

## 5) Administration, Reporting and Taxation

- it examined the main issues of the Financial Statements as of 31 December 2009 and of the half-year Report as of 31 June 2010. It recommended to conduct further studies about some entries and it subsequently acknowledged the updates on said issues;
- it stated that it was able to assess the correct application of international accounting principles in preparing the draft statutory and Consolidated Financial Statements as of and for the year ended 31 December 2009 and the half-year financial report as of 30 June 2010 and of the standards adopted for the preparation of the Interim Report on operations as of 31 March and as of 30 September 2010;
- it followed the decision-making process that led to the merger by takeover of ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. (both 100% controlled) into ERG S.p.A.;
- it examined the main conditions for the renewal of the tax consolidation in the 2010-2012 time interval and its scope of application;
- it examined the manner of renewal – for the 2010 tax year – of the Group VAT liquidation procedure;
- it examined the main economic data of the intercompany services contracts for 2009 and an estimate of the main economic data of the intercompany services contracts for 2010;
- it acknowledged the information received about the activities carried out in 2009 and the activities planned for 2010 in accordance with Law 262/05;
- it examined the Risk Assessment activities on the Consolidated Financial Statements as of 31 December 2009 – requesting a prompt update in this regard – as well as the results of the test activities as of 30 June 2010 and changes in the Model per Law 262/05;
- it examined a document on the presumable accounting impacts on the Consolidated Financial Statements and on the separate financial statements of ERG S.p.A. and, in particular, the capital gains deriving from the start of the joint venture with Total Holdings Europe S.A.S.

## NOMINATIONS AND REMUNERATION COMMITTEE

### *Members:*

Paolo Francesco Lanzoni - *Chairman*

Massimo Belcredi

Lino Cardarelli

The Chairman and CEO and the Corporate General Manager take part in the Committee's work. Employees of ERG Group companies, representatives of the audit company, members of the Board of Statutory 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.

### *Tasks*

The Nominations and Remuneration Committee makes recommendations to the Board of Directors regarding the remuneration of the CEO and Directors holding particular positions, as well as recommendations, at the CEO's indication, concerning the pay policies for the company's senior management and the Group's management incentive schemes.

The Committee also (i) submits to the Board of Directors, where requested, candidates to the role of director in the cases set forth by Article 2386, first paragraph, of the Italian Civil Code, whenever it is necessary to replace an independent director; (ii) assesses, on the specific request of shareholders who intend to submit lists, the independence of the candidates to the role of director to be submitted to the shareholders' meeting; and (iii) performs preliminary activities to allow the Board of Directors to carry out its annual review regarding the size,

composition and functioning of the Board as effectively as possible. To this end, it may express its opinion on the professional figures whose presence in the Board of Directors is considered appropriate.

To optimise its performance, the Committee may use the services of external consultants at the company's expense.

Whenever the Committee discusses recommendations for the remuneration of the Chairman and CEO, such individuals must leave the meeting.

In 2010, the Committee held 7 meetings at which recommendations were made concerning the emoluments of the CEO and other Directors who hold office within the Board of Directors and of the Corporate General Manager, the setting of objectives for FY 2010 with regard to the short-term incentive scheme, the value creation achieved in 2009, the determination of extraordinary bonuses as a result of the completion of the joint venture with Total Holdings Europe S.A.S.

The Committee also prepared a support document for the Board of Directors, pertaining to the Board Performance Review it conducted.

As of the date of approval of this document, the Nominations and Remuneration Committee had met once.

## **STRATEGIC COMMITTEE**

### *Members*

Pietro Giordano - *Chairman*

Edoardo Garrone

Alessandro Garrone

Giovanni Mondini

Giuseppe Gatti

Luca Bettonte

The Committee advises and issues recommendations to the CEO of the holding company and to the Boards of Directors of the holding company and operating companies.

It operates, within strategies and policies approved by the Board of Directors, by defining strategic business and portfolio guidelines, and guidelines and policies on strategic finance and for individual finance operations, monitoring 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.

## **CORPORATE GOVERNANCE RULES**

The most significant rules in terms of their impact on the company's overall corporate governance are as follows:

- rules concerning the handling of sensitive and confidential information;
- the procedure for public communication of statements and information;
- the Code of Conduct for Internal Dealing;
- the Guidelines for the identification and execution of significant transactions;
- the Code of Conduct for Directors of Group companies;
- the reporting procedure for significant transactions by sub-holding companies;
- the procedure for related-party transactions.

#### **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 the Group, as well as between the latter and the listed 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.

#### **PROCEDURE FOR PUBLIC COMMUNICATION 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 communication of statements and information. The aim is to ensure that all statements and information intended for the market, for CONSOB and for Borsa Italiana are the outcome of an accretion 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. On 14 May 2009, the document was subjected to a revision with the goal of upgrading the text in view of the organisational changes that have taken place and of making its operation more efficient.

#### **CODE OF CONDUCT FOR INTERNAL DEALING**

With its resolution dated 9 August 2007, the Board of Directors adopted a Code of Conduct 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**

This is the document – adopted with the Board resolution passed on 13 February 2003 and subsequently amended with the resolutions passed on 6 August 2004, 13 February 2006, 10 August 2006 and 14 December 2010 – discussed in the section concerning the Board of Directors.

#### **CODE OF CONDUCT FOR DIRECTORS OF GROUP COMPANIES**

With its 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 compliance with corporate governance principles.

Following the revision dated 12 November 2009, it was decided that some provisions of the Code of Conduct would be made more binding in accordance with the legislative and regulatory provisions from time to time applicable.

#### **REPORTING PROCEDURE FOR SIGNIFICANT TRANSACTIONS BY SUB-HOLDING COMPANIES**

On 14 March 2006, the Board of Directors passed a resolution introducing a reporting procedure in compliance with which sub-holding companies – based on a specific approach and timeframe – would inform the Company of transactions effected by them directly and which might be classified as significant according to the guidelines mentioned above, applying the exceptions envisaged in these guidelines.

## **PROCEDURE FOR RELATED-PARTY TRANSACTIONS**

The Board of Directors with its resolution of 11 November 2010, in accordance with CONSOB Resolution 17221 of 12 March 2010 – subsequently amended with Resolution 17389 of 23 June 2010 – with the favourable opinion of the Internal Control Committee, and after obtaining the opinion of the Board of Statutory Auditors approved, adopting it, a specific internal procedure – effective from 1 January 2011 – to assure the transparency and substantial and procedural correctness of transactions with related parties carried out by ERG S.p.A. directly or through its subsidiaries.

## **OTHER INFORMATION**

Information about the internal control system, supervisory committee, investor relations, organisation and management model per Legislative Decree 231/2001, independent auditors, director responsible for preparing the company's financial reports and management and coordination activity can be found below.

## **THE INTERNAL CONTROL SYSTEM**

The Internal Control System present in the ERG Group consists of all the rules, procedures and organisational structures aimed at allowing, by means of an appropriate process of identification, measurement, management and monitoring of the principal risks, management of the business that is sound, appropriate and consistent with pre-set objectives.

The Internal Control System consists of a complete system of rules, procedures, organisational structures and behaviours with the purpose of:

- Supporting the achievement of strategic and operational objectives (in other words the effectiveness and efficiency of business activities and the safeguarding of the company's assets);
- Preventing or limiting the consequences of unexpected events through appropriate strategies of identification and management of risks/opportunities;
- Verifying that risk levels defined during planning are not exceeded;
- Ensuring conformity with laws and regulations in force;
- Ensuring control of correct and transparent internal and external reporting.

The Internal Control System is unitary and it applies across the whole Group, and it was created following a consistent method for identifying, measuring and evaluating risks.

In recent years the Group defined guidelines, approved by the Board of Directors, for the Internal Control System and it initiated specific projects aimed at rationalising the whole Internal Control System by means of mapping and classifying the parties that are a part of it, creating the flowchart of the main reports within the Group itself and describing the responsibilities and scope of existing activities.

Within the scope of the Internal Control System and with reference to financial disclosures, the Administrative-Accounting Organisational Model (henceforth referred to as the Model) is of particular relevance. It was implemented when the Internal Control System of the Group was brought into line with the requirements of Italian Law 262/052 and it has been updated periodically.

The Board of Directors passed a resolution on 23 April 2009, identifying the executive director appointed to oversee the functioning of the Internal Control System in the person of the director Graziella Merello. Subsequently, with resolution of 14 December 2010, upon the proposal of the executive director appointed to oversee the functioning of the internal control system, taking into account the favourable opinion of the Internal Control Committee, appointed Mr. Devan De Paolis, formerly Head of Internal Audit, as the new Head of Internal Control.

The actual operation of the Internal Control System within the Group is not assigned to an autonomous and specific corporate function, but comprises the coordinated operations of various functions to which, within the organisational structure, are assigned the responsibilities pertaining to the overall control activity. These functions are, above all, the Internal Audit Department and the Risk Office. They are joined by other functions whose responsibilities include monitoring the compliance of corporate actions with current laws and regulations.

The executive director in charge of overseeing the Internal Control System, with the assistance of the Head of Internal Control who periodically reports to the Internal Control Committee, constantly ascertains its overall adequacy, effectiveness and efficiency, and reports to the Board of Directors.

The Board of Directors evaluates on an annual basis the functionality of the Internal Control System based on the information made available to it by the executive director in charge of overseeing the functioning of the system and by the Internal Control Committee and by the Internal Control Committee in light of the report provided by the Head of Internal Control.

In August 2009, moreover, a detailed Enterprise Risk Management Model was adopted, with the objective of identifying, as exhaustively as possible, the risks inherent in the ERG Group's full range of business activities and of defining a formalised management process.

#### **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**

It is explained below how the ERG Group has created its system for risk management and internal control in relation to the process of financial disclosure (henceforth referred to as "the System") at the consolidated level. The purpose of this System is significantly to mitigate risks in terms of faithful presentation, reliability, accuracy and timeliness of financial disclosures.

The Model now described was presented to the Internal Control Committee of ERG S.p.A. and applies, from a logical point of view, in terms of methodology and as regards principles of process control and accuracy, to the main companies of the ERG Group<sup>(1)</sup> to which it was communicated through publication on the Company Intranet as well as communication to all personnel.

In such a context, all personnel of the Group are obliged to follow the indications of the Model, in particular personnel in administrative functions that are more directly involved in the preparation of corporate accounting documents, but also those in other functions that, indirectly, contribute to the process through the preparation of documents and information, the inputting or updating of data in the company's information systems, in normal operations. The Model is regularly updated and each update and/or integration of significance must be submitted and presented in advance to the Internal Control Committee.

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(1) As a listed company, ERG Renew S.p.A. has a dedicated manager responsible for preparing the company's financial reports and applies an independent model that is consistent with the model used by ERG S.p.A.

### *Role*

The main responsibility of the Manager responsible for preparing the financial reports of ERG S.p.A. is to implement the administrative-accounting procedures that govern the process of the production of periodic corporate financial reporting, to monitor the application of the indicated administrative-accounting procedures and, together with the Chief Executive Officer, to provide the market with their representations relating to compliance with the abovementioned principles and to the “reliability” of financial documentation circulated.

The duties of the Manager Responsible 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.

The Board of Directors passed a resolution on 15 December 2009 assigning the role of manager with responsibility for preparing the company’s financial reports to Giorgio Coraggioso, the head of Administration, Reporting and Tax.

### **ELEMENTS OF THE SYSTEM**

#### *Methodological approach*

Within the ERG Group it has been decided to adopt 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 the Company/Group level (entity level) and at the process level;
- c) evaluation of controls and management of the monitoring process both in terms of design, and in terms of operations and effectiveness, with the aim of reducing risks to a level considered “acceptable” (information flows, gap management, plan for remedial action, reporting system, etc.)

The complete process is managed by Processes and Compliance that operates as a staff function reporting to the Head of Administration and that, following standard practice, governs all administrative-accounting procedures, mapping and harmonising those in force through defining interventions at process level, information systems or procedures to rectify control deficiencies.

#### *Identification and evaluation of risks*

Risk Assessment is conducted annually and has the goal 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 Italian Stock Exchange 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 process of Risk Assessment carried out at the level of consolidated Group financial statements in order to determine the appropriate range of analysis, is based on the combined application of two analytical parameters, a fully quantitative one and a qualitative one.

As regards the fully quantitative part of the analysis, the following elements are determined:

- *large portion (coverage of 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 it is opportune to evaluate controls, given that all processes associated with accounts that have balances greater than the materiality threshold form part of the model.

Following the quantitative analysis described above, the process of Risk Assessment envisages the subsequent carrying out of an analysis based on qualitative elements, and that has two objectives:

- to integrate the exclusively quantitative part of the analysis, so as to include or exclude accounts-processes from the scope of the model 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” at which the analysed accounts-processes must be taken into consideration within the scope of the model 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 Internal Control Committee.

#### *Identification of controls*

Once the main risks at the process level have been identified, the various operating Companies examine the actions in that are in place in order to monitor the associated control objective.

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

- significant processes and their principal associated risks are represented as defined within the scope of 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, needed to support the representations that must be made by the Manager Responsible, are carried out.

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

- 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 chart and the effectiveness of controls in place.

#### *Evaluation of controls and monitoring processes*

In accordance with the provisions of the law regarding formal execution and in line with the best practices previously referred to, the methodology adopted envisages the carrying out of constant monitoring of the processes covered by the model and the effective execution of the mapped controls.

The objective of such monitoring is the evaluation of 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, a plan is prepared annually of monitoring activities (also refining and optimising these, where necessary). The plan is formalised in a document that is presented to the Internal Control Committee and in which strategies and timing are defined for carrying out monitoring tests.

Following the execution of testing activities, a report is produced on the results of the activities, and this constitutes the support on the basis of which the Manager Responsible for preparing the Company's financial reports releases legal representations, and the Internal Control Committee, as regards the most important deadlines for half-yearly and annual financial reporting, evaluates and participates in the work of the Manager Responsible and the functions through which he/she operates.

#### **THE INDEPENDENT AUDITORS**

The engagement for the independent audit for the years 2009-2017 was bestowed by the Shareholders' Meeting held on 23 April 2009 on Deloitte & Touche S.p.A.

#### **ORGANISATION AND MANAGEMENT MODEL PURSUANT TO ITALIAN LEGISLATIVE DECREE 231/2001**

With the resolution passed on 21 December 2004, the Board of Directors adopted the Organisation and Management Model pursuant to Italian Legislative Decree 231/2001, which was the periodically updated in accordance with subsequent regulatory and organisational changes. The Model was most recently updated on 10 March 2008.

#### **SUPERVISORY COMMITTEE**

Introduction of the Model entailed the appointment of the Supervisory Committee, tasked with overseeing the adequacy and actual implementation of the Model, and any need to upgrade it. The Committee, as a result of the resolutions made during the meeting of the Board of Directors of 14 December 2010, comprises Paolo Francesco Lanzoni, Chairman, Devan De Paolis, and Giovanni Antonio Martinengo.

The Supervisory Committee carries out its activity within the Parent Company ERG S.p.A. while the subsidiary Companies have appointed their own Supervisory Committee. The Supervisory Committee of ERG S.p.A. met 10 times in 2010.

#### **INVESTOR RELATIONS**

The Company manages relations with its shareholders, institutional investors and the market by means of the Corporate Finance, Control and Investor Relations functions, which form part of Corporate General Management. In the course of this activity, meetings are periodically

arranged, both in Italy and abroad, with members of the financial community. ERG's policy is to provide the fullest possible information on its activities and strategies, including through constant innovation and updating of its website.

#### **MANAGEMENT AND COORDINATION**

ERG S.p.A. 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 Incorporation expressly prohibits the company from carrying out management and coordination activities with regard to its subsidiaries.

This circumstance is periodically assessed by the Board of Directors, also on the basis of a preliminary review conducted by the Internal Control Committee.

In turn, ERG S.p.A. carries out management and coordination activities on directly or indirectly controlled companies. The scope of the companies involved and the content of any activity carried out on each are periodically examined by the Board of Directors, also on the basis of a preliminary review conducted by the Internal Control Committee.

#### **COMMITMENT**

The Company wishes to confirm its commitment:

- Pursue as its primary objective, in its formal acts and conduct, the 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;
- Ensure, by means of constant attention to the ongoing evolution of corporate governance principles, observance of such principles by its organisation, in order to ensure, in turn, the 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](http://www.erg.it).

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



# COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES

**TABLE 1**

<b>BOARD OF DIRECTORS</b>				
<b>OFFICE</b>	<b>MEMBERS</b>	<b>EXECUTIVE</b>	<b>NON EXECUTIVE</b>	<b>INDEPENDENT</b>
CHAIRMAN	EDOARDO GARRONE	YES		
DEPUTY CHAIRMAN	PIETRO GIORDANO	YES		
DEPUTY CHAIRMAN	GIOVANNI MONDINI	YES		
CHIEF EXECUTIVE OFFICER	ALESSANDRO GARRONE	YES		
DIRECTOR	MASSIMO BELCREDI			YES
DIRECTOR	LUCA BETTONTE	YES		
DIRECTOR	LINO CARDARELLI			YES
DIRECTOR	ALDO GAROZZO		YES	
DIRECTOR	GIUSEPPE GATTI	YES		
DIRECTOR	ANTONIO GUASTONI			YES
DIRECTOR	PAOLO FRANCESCO LANZONI			YES
DIRECTOR	GRAZIELLA MERELLO	YES		
NUMBER OF MEETINGS HELD DURING THE REFERENCE YEAR		BOARD OF DIRECTORS <b>9</b>		
<p>* The presence of the star indicates whether the director was designated through lists submitted by the minority</p> <p>1) This column shows the percentage of director's attendance at meetings, respectively, of the Board of Directors and of the Committees</p> <p>2) This column shows the number of offices as director or auditor held by the Directors in other companies listed on regulated markets, also abroad, in financial, banking, insurance or large companies. In the Report on corporate governance the duties are indicated in full</p> <p>3) This columns indicates whether the Board member belongs to the Committee</p>				

% ATTENDANCE <sup>(1)</sup>	NUMBER OF OTHER OFFICES <sup>(2)</sup>	INTERNAL CONTROL COMMITTEE		NOMINATIONS AND COMPENSATION COMMITTEE	
		(3)	(1)	(3)	(1)
100%	2				
89%	1				
100%	–				
100%	2				
100%	1	YES	100%	YES	100%
100%	1				
89%	1			YES	71%
100%	–				
100%	1				
100%	5	YES	100%		
89%	–	YES	100%	YES	100%
100%	–				
		INTERNAL CONTROL COMMITTEE <b>13</b>		NOMINATIONS AND COMPENSATION COMMITTEE <b>7</b>	

# BOARD OF STATUTORY AUDITORS

**TABLE 2**

OFFICE	MEMBERS	% ATTENDANCE	NUMBER OF OTHER OFFICES <sup>(1)</sup>
CHAIRMAN	MARIO PACCIANI <sup>(a)</sup>	100%	1
STANDING AUDITOR	LELIO FORNABAIO <sup>(b)</sup>	100%	7
STANDING AUDITOR	PAOLO FASCE <sup>(a)</sup>	100%	4
STANDING AUDITOR	ANDREA MANZITTI <sup>(c)</sup>	100%	
ALTERNATE AUDITOR	VINCENZO CAMPO ANTICO <sup>(b)</sup>	–	
ALTERNATE AUDITOR	FABIO PORFIRI <sup>(b)</sup>	–	
ALTERNATE AUDITOR	STEFANO REMONDINI <sup>(b)</sup>	–	
NUMBER OF MEETINGS HELD DURING THE REFERENCE YEAR: <b>6</b>			
INDICATE THE QUORUM REQUIRED FOR THE PRESENTATION OF THE LIST BY THE MINORITIES FOR THE ELECTION OF ONE OR MORE STANDING AUDITORS (PER ART. 148 OF THE TUF): <b>2%</b>			
<p>* The star shows whether the auditor was designated from lists submitted by the minority</p> <p>(1) This column shows the number of offices as director or auditor held by the Auditors in other companies listed on regulated markets, also abroad, in financial, banking, insurance or large companies. The complete list of offices held is attached, in accordance with Article 144-quinquiesdecies of the Consob Issuer Regulations, to the report on the supervisory activity, prepared by the auditors in accordance with Article 153, Paragraph 1 of the TUF</p> <p>(a) Former members of the previous Board of Statutory Auditors. Appointed members of the new Board of Auditors by the Shareholders' Meeting held on 15 April 2010.</p> <p>(b) Appointed members of the Board of Auditors by the Shareholders' Meeting held on 15 April 2010</p> <p>(c) In office until 15/04/2010</p> <p>In the Report on corporate governance the duties are indicated in full</p>			

# OTHER PROVISIONS FROM THE CORPORATE GOVERNANCE CODE

**TABLE 3**

	YES	NO	Brief description of reasons for any deviation from Code recommendations
<b>SYSTEM FOR DELEGATION OF POWERS AND TRANSACTIONS WITH RELATED PARTIES</b>			
HAS THE BOARD OF DIRECTORS DELEGATED POWERS, DEFINING THEIR:	X		
A) LIMITS	X		
B) PROCEDURES FOR EXERCISING THEM	X		
C) AND PERIODICITY OF DISCLOSURE?	X		
DID THE BOARD OF DIRECTORS RESERVE THE RIGHT TO EXAMINE AND APPROVE TRANSACTIONS WITH PARTICULAR SIGNIFICANCE IN ECONOMIC AND FINANCIAL TERMS (INCLUDING TRANSACTIONS WITH RELATED PARTIES)?	X		
HAS THE BOARD OF DIRECTORS DEFINED GUIDELINES AND CRITERIA TO IDENTIFY "SIGNIFICANT" TRANSACTIONS?	X		
ARE THE ABOVE GUIDELINES AND CRITERIA DESCRIBED IN THE REPORT?	X		BRIEFLY
HAS THE BOARD OF DIRECTORS DEFINED PROCEDURES TO REVIEW AND APPROVE TRANSACTIONS WITH RELATED PARTIES?	X		
ARE THE PROCEDURES FOR THE APPROVAL OF TRANSACTIONS WITH RELATED PARTIES DESCRIBED IN THE REPORT?	X		BRIEFLY
<b>PROCEDURES FOR THE MOST RECENT APPOINTMENT OF DIRECTORS AND AUDITORS</b>			
WERE THE CANDIDACIES FOR THE OFFICE OF DIRECTOR FILED AT LEAST TEN DAYS IN ADVANCE?	X		
WERE THE CANDIDACIES FOR DIRECTOR ACCOMPANIED BY COMPREHENSIVE INFORMATION?	X		
WERE THE CANDIDACIES FOR DIRECTOR ACCOMPANIED BY THE INDICATION OF ELIGIBILITY TO QUALIFY AS INDEPENDENT?	X		
WERE THE CANDIDACIES FOR THE OFFICE OF AUDITOR FILED AT LEAST TEN DAYS IN ADVANCE?	X		
WERE THE CANDIDACIES FOR AUDITOR ACCOMPANIED BY COMPREHENSIVE INFORMATION?	X		
<b>SHAREHOLDERS' MEETINGS</b>			
HAS THE COMPANY APPROVED MEETING REGULATIONS?	X		
ARE THE REGULATIONS ATTACHED TO THE REPORT? (OR ARE THERE INDICATIONS AS TO WHERE IT CAN BE OBTAINED/DOWNLOADED)?	X		
<b>INTERNAL CONTROL</b>			
HAS THE COMPANY APPOINTED HEADS OF INTERNAL CONTROL?	X		
ARE THE HEADS NOT HIERARCHICALLY SUBORDINATED TO HEADS OF OPERATING AREAS?	X		
ORGANISATIONAL UNIT TASKED WITH INTERNAL CONTROL (PER ART. 9.3 OF THE CODE)	INTERNAL	AUDIT	
<b>INVESTOR RELATIONS</b>			
HAS THE COMPANY APPOINTED AN INVESTOR RELATIONS MANAGER?	X		
ORGANISATION UNIT AND REFERENCES (ADDRESS/TELEPHONE/FAX/E-MAIL) OF THE INVESTOR RELATIONS MANAGER	INVESTOR RELATIONS - PAOLO MERLI PHONE 010/2401376 – FAX 010/2401598 E-MAIL: PMERLI@ERG.IT		

# MANAGEMENT INCENTIVE SCHEMES

The following information is provided pursuant to CONSOB recommendation no. 11508 dated 15 February 2000.

When the company's shares were first listed on the stock exchange, 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 the highest levels of senior management, 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 size 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.

The Remuneration Committee (now the Nominations and 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 most frequently-used management incentive tools.

To this end, during 2004, using the services of qualified experts, the Committee completed its review of the plan, defining a new system of short-term incentives providing for the allocation, using differing methods for directors and top management, of annual bonuses calculated on the basis of company performance and achievement of personal objectives.

The new short-term incentives scheme was approved by ERG S.p.A.'s Board of Directors at the meeting held on 12 November 2004 and applied with effect from 2005.

In 2005, the Remuneration Committee (now the Nominations and 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 held on 5 August 2005.

The short and long-term incentive schemes are described below.

## SHORT-TERM INCENTIVE SCHEME

The short-term incentive scheme is based on certain key objectives that can be summarised as follows:

- introducing a single incentive scheme that includes both company and personal performance;
- defining a market-related benchmark bonus for each scheme participant;
- measuring individual performance according to a consistent system of goals and indicators;
- evaluating company performance in terms of value created/annihilated;
- defining minimum and maximum bonus thresholds.

The scheme's participants are the managing directors of ERG S.p.A. and its subholdings and all executives and a selected number of managers of Group companies.

An individual benchmark bonus is defined for each 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, Thermoelectric and Renewable Energy) 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 use performance indicators specific to each individual area.

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

- 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;
- Thermoelectric division: 70% divisional EBITDA and 30% Group economic profit;
- Renewable energy division: 70% divisional EBITDA and 30% Group economic profit.

In addition, a distinction is made between top management and executives, so as to assign different risk profiles and enhance the level of sensitivity to the results achieved by the system's participants vis-à-vis top management.

The other 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 Nominations and 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.

#### **LONG-TERM INCENTIVE SCHEME**

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

- encourage decisions that assure sustainable, enduring value creation;
- avoid risks of "under-investment";
- increase retention of key people.

The long-term incentive scheme granted 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 had a 3-year duration, and envisaged 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 in the thirty days preceding each assignment of rights.

ERG S.p.A.'s Board of Directors had set at 2.1 million the maximum number of shares, either newly issued or treasury shares, to service the scheme for the entire three-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 EUR 21.08 to the Chairman of ERG S.p.A., to Group companies' Managing Directors, and to some selected executives, for a total of 15 people.

The second assignment, on 2 October 2006, consisted of 746,119 rights assigned at an exercise price of EUR 15.61 to the Chairman and two Deputy Chairmen of ERG S.p.A., to Group companies' Managing Directors, and to some selected executives, for a total of 16 people.

The third assignment, on 1 October 2007, which reflects the waivers of rights submitted in the meantime, consisted of 745,335 rights assigned at an exercise price of EUR 16.06 to the Chairman and two Deputy Chairmen, to Group companies' Managing Directors, and to some selected executives, for a total of 16 people.

The number of rights to be assigned was determined at the time of assignment by the Board of Directors, following a proposal by the Remuneration Committee (now the Nominations and Remuneration Committee), with reference to the Chairman, Deputy Chairmen and the CEO of ERG S.p.A., and by the CEO with respect to the other beneficiaries.

The scheme's regulation contains specific provisions regarding the effects of termination of the employment of dependent self-employment relationship occurring while the options are vested. 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 case 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 vested, or will otherwise expire. In any case, they may not be exercised in the period between 10 November and 15 May of each year.

On 1 October 2010, the period for the second allocation expired without any of the participants exercising the related rights.

Considering the fact that the three-year long-term incentive programme illustrated hereinabove had expired (although the options granted under it still remained exercisable), taking into account the new provisions introduced by Article 7 of the Code of Governance, the Nominations and Remuneration Committee, with the assistance of an outside consultant, undertook the study of a general policy for the remuneration of executive directors, of the other directors holding particular offices and executives with strategic responsibilities, as well as of a possible future long-term incentive plan for the Group's managers.