

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP

EVOLUTION OF APPROACH

The current governance structure of ERG S.p.A. (hereafter, also the “Company”) 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 of Directors 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 to bring them into line with the regulatory changes introduced by the Italian Company Law Reform, by law provisions on the matter of Shareholders’ Rights on transactions with related parties and, lastly, on gender balance in the composition of corporate bodies;
- adoption of a Code of Ethics as a tool for defining and communicating the duties and responsibilities of ERG S.p.A. towards its stakeholders, and as an imperative element of an organisation and management model consistent with the requirements of Italian Legislative Decree no. 231/2001, most recently updated on 26 February 2013;
- acceptance of the Italian Corporate Governance Code for Listed Companies, promoted by Borsa Italiana S.p.A. (“Corporate Governance Code¹”) since its first edition in 1999;
- adoption of a Code of Conduct for the directors of ERG Group companies;
- appointment of independent directors and non executive directors to the Board;

¹ On 30 July 2012, the Board of Directors resolved to adhere to the new edition of the Corporate Governance Code published in December 2011 with the exception of the different choices already made by the Board, to be adequately pointed out in the pertinent section of this report; consequently, all references to the provisions of the Corporate Governance Code shall be deemed to refer to the aforesaid edition of the Code.

- adoption of a Policy for the compensation of members of the Board of Directors, and of the key managers as prescribed by the Corporate Governance Code, most recently revised on 18 December 2012, to align the interests of management with those of Shareholders and strengthen the relationship between managers and the Company, both in terms of awareness of the importance of the stock value and its continuity over time;
- definition of guidelines for the identification and execution of significant transactions, most recently revised on 10 May 2012, and of other governance documents designed to assure transparent and timely management of the ERG Group's relationship with the market;
- adoption of a Procedure for handling and processing privileged information and for the public dissemination of statements and information, most recently revised on 10 May 2012;
- adoption of an integrated 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 the substantial and procedural correctness of transactions with related parties carried out by ERG S.p.A. directly or through its subsidiaries, most recently updated on 6 August 2012.

INFORMATION ABOUT THE OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2012 PURSUANT TO ARTICLE 123-BIS OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (THE ITALIAN CONSOLIDATED FINANCE ACT OR "T.U.F.")

Share capital structure as at 31 December 2012

	NUMBER OF SHARES	AMOUNT OF SHARE CAPITAL SUBSCRIBED AND PAID UP	% OF SHARE CAPITAL	LISTED (MARKET) / UNLISTED	RIGHTS AND OBLIGATIONS
ORDINARY SHARES	150.320.000	15,032,000	100	MTA/ FTSE ITALY MID CAP INDEX	-
SHARES WITH LIMITED VOTING RIGHTS	-	-	-	-	-
SHARES WITHOUT VOTING RIGHTS	-	-	-	-	-

Significant equity investments as at 31 December 2012

DECLARANT	DIRECT SHAREHOLDER	% SHARE OF ORDINARY CAPITAL	% SHARE 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
ERG S.P.A.	ERG S.P.A.	5,000	5,000
TRADEWINDS GLOBAL INVESTORS LLC	TRADEWINDS GLOBAL INVESTORS LLC	4,959	4,959

Other information as at 31 December 2012

	YES	NO	NO AVAILABLE INFORMATION
RESTRICTIONS TO THE TRANSFER OF SECURITIES		X	
RESTRICTIONS TO VOTING RIGHT		X	
SHAREHOLDER AGREEMENTS			X
ARRANGEMENTS PURSUANT TO ART. 123-BIS, PAR. 1 LETTER I) T.U.F. (1)	X		

(1) Said information is contained in the report on remuneration, published in accordance with Article 123-ter of the Italian Consolidated Finance Act

Note that:

- there are no securities conferring special control rights;
- there are no employee stock option plans;
- pursuant to Article 123-bis, paragraph 1, point h) of the Italian Consolidated Finance Act, it should be noted that there are in existence financing agreements containing the usual provisions regarding the change of control of the debtor, which, at least in one case, could involve the reimbursement of the loan in question if there is a change in control at ERG S.p.A. and in particular: (i) loan provided by Intesa San Paolo for EUR 50 million, maturing on 31 December 2014 and (ii) loan provided by Monte dei Paschi di Siena for EUR 50 million, maturing 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 shareholders belonging to the ERG Group if there is a change in control at ERG S.p.A. In this regard, of particular note is the case of TotalErg S.p.A., in relation to which the Shareholders' agreements provide the possibility, for the other shareholder, when the circumstances occur and in accordance with the procedures prescribed by said agreements, to purchase an equity investment, owned by the ERG Group, representing 2% of TotalErg S.p.A. if control of ERG S.p.A. changes;
- for rules applicable to the appointment and replacement of the members of the Board of Directors and of the Board of Statutory Auditors, and to amendments to the Articles of Incorporation, please refer to the relevant sections of this report (hereafter also the "Report");
- no powers have been granted to Directors in relation to capital contributions pursuant to Article 2443 of the Italian Civil Code;
- the Directors have no powers to issue equity instruments;
- the Board of Directors' power to issue convertible bonds expired on 28 April 2009;
- on 20 April 2012, pursuant to Article 2357 of the Italian Civil Code, the Shareholders' Meeting authorised the Board of Directors to purchase treasury shares for a period of 12 months from the date of the related resolution, up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 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, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction².

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 the Italian Consolidated Finance Act – and is consistent overall with the Italian Corporate Governance Code for Listed Companies, which has been revised and updated over the years³. The edition of the Corporate Governance Code to which the Company adheres is available to the public at the Website of Borsa Italiana S.p.A. (www.borsaitaliana.it).

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

² Implementing the aforesaid resolution, the Board of Directors decided, on 10 May 2012, to launch a program for the acquisition of treasury shares as a result of which the Company reached the number of 7,516,000 treasury shares held, i.e. 5.000% of share capital.

³ Please refer to the information provided in Note no. 1.

STATUTORY BODIES

BOARD OF DIRECTORS

The current Board of Directors, comprising twelve members, was appointed by the Shareholders' Meeting of 20 April 2012⁴ consequently, the appointment to the Board of Directors shall expire at the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2014.

For the appointment of the Board of Directors only one list of candidates was presented by the Shareholder San Quirico S.p.A.⁵, i.e.:

1. Edoardo Garrone
2. Giovanni Mondini
3. Alessandro Garrone
4. Massimo Belcredi*
5. Luca Bettonte
6. Pasquale Cardarelli*
7. Alessandro Careri
8. Marco Costaguta
9. Antonio Guastoni*
10. Paolo Francesco Lanzoni*
11. Graziella Merello
12. Umberto Quadrino*

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

At the proposal of the shareholders Polcevera S.A., the Shareholders' Meeting of 20 April 2012 confirmed Riccardo Garrone⁶ as Honorary Chairman of the Board of Directors.

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

Directors are appointed on the basis of lists presented by Shareholders – in which the candidates shall be listed with a progressive number – which, accompanied by information on the personal and professional characteristics of the candidates and a declaration of whether they meet the independence requirements prescribed by the Italian Consolidated Finance Act, must be filed, in compliance with Article 147-ter, paragraph 1-bis of the Consolidated Finance Act, at least twenty-five days prior to the date of the Shareholders' Meeting and shall be made available to the public at least twenty-one days prior to the Meeting.

The lists may only be presented by Shareholders who, either individually or with other Shareholders, represent the minimum percentage of share capital (currently, 2.5%)⁷ established in accordance with Article 144-quater of the Regulations implementing the Consolidated Finance Act, adopted by CONSOB with resolution no. 11971 of 14 May 1999 ("Issuers' Regulations").

At the time of appointment of the Board of Directors currently in office, the shareholding required in order to present the lists was equal to 2% of the share capital⁸.

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

⁵ For the percentage of votes received by the list with respect to the voting share capital, please see the minutes of the Shareholders' Meeting of 20 April 2012, available in the Governance section of the Website www.erg.it.

⁶ Passed away on 21 January 2013.

⁷ Updated on the basis of the Company's market capitalisation as at 31 December 2012 calculated as the average the last quarter before the end of the 2012 financial year.

⁸ In accordance with CONSOB Resolution no. 18083 of 25 January 2012.

Each shareholder may present or contribute to present only one list and each candidate may be included in only one list, under penalty of ineligibility. Each list shall contain a number of candidates not exceeding the maximum number of directors set out in the first paragraph of Article 15 of the Articles of Incorporation and, with the exception of those that present fewer than three candidates, it shall comply with the gender balance criterion prescribed by current laws and regulations.

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

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

Together with each list, by the deadline indicated above, each candidate must file the statement accepting his/her candidacy and declaring under his own responsibility that there are no causes for ineligibility and incompatibility and that the requirements prescribed by applicable regulations are met, and indicating whether (s)he qualifies as independent director. For the purposes of the allotment of the Directors to be elected, no consideration is given to the lists that did not obtain as many votes as represent a percentage of the share capital at least equal to half the percentage required for the presentation of the lists.

Each person entitled to vote may vote only one list.

The election of the Directors takes place as follows:

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

In any case, the election will be won by the candidate or, if the Board has more than seven members, the first two candidates from the list that received the highest number of votes, who fulfil the independence requirements, in the progressive order in which they were entered in the list⁹.

⁹ For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Directors, please refer to the Articles of Incorporation, available in the Governance section of the website www.erg.it.

The Directors in office at the date of approval of the Report are¹⁰:

Composition of the Board of Directors:

Edoardo Garrone - *Chairman*
Alessandro Garrone - *Deputy Chairman*
Giovanni Mondini - *Deputy Chairman*
Luca Bettonte - *Chief Executive Officer*
Massimo Belcredi - *Director*
Pasquale Cardarelli - *Director*
Alessandro Careri - *Director*
Marco Costaguta - *Director*
Antonio Guastoni - *Director*
Paolo Francesco Lanzoni - *Director*
Graziella Merello¹¹ - *Director*
Umberto Quadrino - *Director*

*Non-executive directors*¹²

Giovanni Mondini
Alessandro Careri
Marco Costaguta

*Independent directors*¹³

Massimo Belcredi
Pasquale Cardarelli
Antonio Guastoni
Paolo Francesco Lanzoni
Umberto Quadrino

The Board of Directors, in the first meeting after the appointment – held on 20 April 2012 – positively assessed the Directors' independence both with reference to the provisions of Article 148, third paragraph, of the Italian Consolidated Finance Act and with reference to the Corporate Governance Code, thus preferring substance over form¹⁴.

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.

10 For the personal and professional characteristics of each director in office, please see their CVs available in the Governance section of the website www.erg.it.

11 Serves as Director in charge of the Internal Control and Risk Management System (formerly, executive Director appointed to supervise the functionality of the Internal Control System).

12 Taking into account application standard 2.C.1 of the Corporate Governance Code.

13 Independence was assessed by the Board of Directors in accordance with the Consolidated Finance Act and with the Corporate Governance Code.

14 In particular, the Board of Directors, in the aforesaid meeting of 20 April 2012, with reference to the fact that Directors Massimo Belcredi, Antonio Guastoni and Paolo Francesco Lanzoni would exceed, during their term in office, the nine-year limit set out by application standard 3.C.1 letter e) of the Corporate Governance Code, deemed that (i) the automatic enforcement of this limit for the purposes of assessing independence would not have been in line with the spirit of the Corporate Governance Code; (ii) the overall profile of the aforesaid Directors – and their history with the Company – offered sufficient guarantees in terms of their independent mindedness. With reference to the appointments reported by Director Antonio Guastoni – Director and Deputy Manager in Sampdoria Holding S.p.A., a subsidiary of San Quirico S.p.A. (office of Deputy Chairman held until 5 September 2012, without executive powers and/or signature and/or delegation powers) – and by Director Paolo Francesco Lanzoni – Chairman of the Supervisory Committee of ERG Renew S.p.A., ERG Nuove Centrali S.p.A., ERG Power S.r.l., ERG Oil Sicilia S.r.l., ISAB Energy S.r.l. and ISAB Energy Services S.r.l. (directly/indirectly controlled by ERG S.p.A.) – as had been assessed by the previous Board of Directors in 2011, deemed that the aforesaid offices were irrelevant for the purposes of their independence and that the compensation received for their participation in the Supervisory Bodies per Italian Legislative Decree 231/2001 (control bodies with external relevance) were akin to the case contemplated by application standard 3.C.1 letter d) of the Corporate Governance Code, which explicitly refers to additional compensation for participation in committees within the Board, recommended by the Code itself.

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

During 2012, the independent Directors held their own meeting without the other directors present, but remained in contact and regularly consulted each other in advance on the principal matters examined by the Board of Directors.

Other appointments as director or statutory auditor held by Directors in other companies listed in regulated markets, also abroad, in finance companies, banking and insurance companies or companies of significant size as at 31 December 2012¹⁵:

Edoardo Garrone	<i>Chairman of the Supervisory Board of San Quirico S.p.A. Director of Pininfarina S.p.A.</i>
Alessandro Garrone	<i>Director of Banca Passadore e C. S.p.A. Director of Gruppo MutuiOnline S.p.A.</i>
Giovanni Mondini	<i>Chairman of the Management Board of San Quirico S.p.A.</i>
Massimo Belcredi	<i>Director of Arca Sgr S.p.A.</i>
Marco Costaguta	<i>Director of Gestione di San Quirico S.p.A.</i>
Antonio Guastoni	<i>Chairman of the Board of Statutory Auditors of Futurimpresa Sgr S.p.A. Chairman of the Board of Statutory Auditors of Parcam S.r.l. Director of Comoi Sim S.A. Standing Auditor of Giulio Fiocchi S.p.A.</i>
Umberto Quadrino	<i>Director of Ambienta SGR S.p.A. Director of Italsconsult S.p.A. Director of Creo Invest S.r.l.</i>

Other attendees of Board of Directors meetings

Depending on the matters under discussion, ERG Group management representatives also take part in Board of Directors meetings.

Directors' compensation and remuneration

In accordance with the Corporate Governance Code, the Board of Directors, at the proposal of the Nominations and Remuneration Committee, on 20 December 2011 approved its Policy for the remuneration of the members of the Board of Directors and of Key managers¹⁶.

Directors' remuneration is determined, for each financial year, by the Shareholders' Meeting called to approve the Financial Statements.

The Shareholders' Meeting also fixes the remuneration of the Directors serving on the following committees within the Board: Internal Control and Risk Committee¹⁷ and Nominations and Remuneration Committee.

The remuneration of the Chairman, of the Deputy Chairmen, of the Chief Executive Officer and, more in general, of Directors with delegated powers or appointed to carry out particular duties and of the Directors appointed to the Strategic Committee that do not hold positions in the Board of Directors, is set by the Board of Directors on the basis of a proposal formulated by the Nominations and Remuneration Committee, after obtaining the opinion of the Board of Statutory Auditors.

¹⁵ Other than offices held in companies of the ERG Group.

¹⁶ The Shareholders' Meeting held on 20 April 2012 voted in favour of the first section of the Report on Remuneration prepared in accordance with Article 123-ter of the Italian Consolidated Finance Act.

¹⁷ The former Internal Control Committee. The different name was assigned as a result of the Company's adherence to the new edition of the Corporate Governance Code published in December 2011.

With reference to the Directors in office, the members of the Nominations and Remuneration Committee contributed to formulate the aforesaid proposals also on the basis of elements initially not contemplated by the Remuneration Policy which, adopted by the Company on 20 December 2011, did not take into account the different delegated powers decided by the new Board of Directors on 20 April 2012, and – for the aforesaid reasons – on the basis of the Procedure for Transactions with Related Parties.

The Board of Directors, at the proposal of the Nominations and Remuneration Committee, on 18 December 2012 approved the revision of the Remuneration Policy in order to take into account the aforesaid delegation of powers and the medium/long term incentive Systems (LTI System)¹⁸.

Powers

The Board of Directors vested:

- the Chairman Edoardo Garrone with the power to manage the staff functions carried out by the Institutional & International Relations Division with respect to external relations and to Corporate Social Responsibility and the General Secretariat functions within the scope of the Corporate Affairs Division, with responsibility for supervision, direction and control¹⁹;
- the Deputy Chairman Alessandro Garrone with the power to supervise preliminary and functional activities for the definition of the Company's and of the Group's strategic objectives and for the preparation of the related Strategic Plan, to be submitted to the Board of Directors for review and approval or disapproval; consequently, to provide strategic coordination to subsidiaries; to exercise supervision and control over activities for the preparation of draft budgets to be submitted for review and approval or disapproval by the Board of Directors; to conduct direction and supervision activities in the search, preparation and negotiation with third parties of Merger & Acquisition projects and in structured finance transactions, which in view of their significance are subject to the approval of the Board of Directors; to supervise the definition of the Company's organisational structure to the second reporting level down from the Chief Executive Officer, concurring with the CEO on decisions pertaining to the appointment of directors and executives, to the termination of any employee and to remuneration and incentive policies;
- Chief Executive Officer Luca Bettonte²⁰ with the powers necessary to carry out all actions pertaining to the company's business;
- Director Graziella Merello with the power to oversee the Internal Audit, Risk and Compliance Division, with responsibility for supervision, direction and control²¹.

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

18 For any additional information on this matter, please refer to the Report on Remuneration pursuant to Article 123-ter of the Consolidated Finance Act, to be presented to the Shareholders' Meeting convened in April 2013, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.

19 Assignment of these managerial powers, with particular but not exclusive reference to the activities of the General Secretariat within the Corporate Affairs Division, takes into account the role carried out as Chairman of the Board of Directors and by the provisions of the Corporate Governance Code (Comment to Article 2, fifth paragraph).

20 The interlocking directorate situation, contemplated by application standard 2.C.5. of the Corporate Governance Code, does not apply. Additionally, on 10 May 2012 the Chief Executive Officer resigned from the office of Corporate General Manager. The Board of Directors, on the same date, taking into account the Company's organisational structure resulting from the appointment of the new Board of Directors, resolved not to appoint a new Corporate General Manager.

21 Formerly, Internal Audit Division and Risk Office function.

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

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

Frequency of Board meetings

As prescribed 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 2012 financial year, the Board of Directors held 10 meetings, while for the year 2013 there are expected to be no fewer than 6 meetings.

In the 2012 meetings, the Board of Directors passed resolutions pertaining to 53 issues and for 36 of them the related documentation was sent to Directors and Statutory Auditors beforehand (at least 48 hours before the meeting, barring exceptions)²² said advance notice being deemed suitable to enable Directors and Auditors to acquire adequate knowledge of the items in the agenda.

The average duration of the meetings held by the Board of Directors was 2 hours and 46 minutes. As of the date of approval of this document, the Board of Directors had held 2 meetings.

Activities pursued

Directors made a significant contribution to the work of the Board of Directors and Committees in 2012, in terms of meeting attendance and effective participation in proceedings.

In the course of 2012, the Board of Directors performed the activities and responsibilities referred to in application criterion 1.C.1 of the Italian Corporate Governance Code 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 30 July 2012, carried out a review, partly on the basis of a document prepared for this purpose by the Nominations and Remuneration Committee, of the size, composition and functions of the Board of Directors and Committees during 2011, expressing, in this regard, an overall favourable opinion accompanied by specific indications with respect to the operation of the Board of Directors and of its committees²³. This document was prepared applying the assessment criteria already employed in past years²⁴.

22 In the resolutions with respect to which the related documentation was not sent to Directors and Statutory Auditors beforehand, 5 pertained to topics with respect to which the Nominations and Remuneration Committee or the Control and Risk Committee had carried out preparatory work, 7 were taken up by the Board of Directors upon specific proposals by the Directors during Board meetings.

23 This assessment refers to the year 2011 and, hence, to the previous Board of Directors and its Committees whose members, in relation to the Nominations and Remuneration Committee and to the Internal Control and Risk Committee, were confirmed in office by the current Board of Directors, appointed by the Shareholders' Meeting of 20 April 2012.

24 With the exception of the self-assessment questionnaire – prepared by the Corporate Affairs Division at the request of the Nominations and Remuneration Committee – sent to the members of the Board of Directors and of the Board of Statutory Auditors within the Board Performance Review process for the year 2010, not used in the assessment process for the year 2011 in view of the appointment of the new Board of Directors by the Shareholders' Meeting on 20 April 2012. The document is available in the Governance section of the website www.erg.it.

Pursuant to application criterion 1.C.3. of the Italian Corporate Governance Code, the Board of Directors acknowledged that, in light of the findings set out in the document prepared by the Nominations and Remuneration Committee, it no longer seems necessary to set a limit on the number of directorships and auditorships in other listed companies and in finance, banking, insurance companies or companies of significant size for members of the Board of Directors that is different from the current number as shown in the disclosure they provided for the purposes of their candidacy and subsequent appointment to Directors of the Company, which took place on 20 April 2012.

The Chairman of the Board of Directors ensured that during the meetings of the of the Board of Directors and of the Committees within the Board, in relation to the topics discussed, the Chief Executive Officer and representatives of the ERG Group's managers provided all directors with the necessary information for adequate knowledge of the industry where the Group operates, of corporate performance and its trends and of the reference regulatory framework. During the year, the Chairman also pointed out to Directors, with the aforesaid purposes, specific initiatives and events organised by major entities.

BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors was appointed by the Shareholders' Meeting held on 15 April 2010 and its term of office shall expire at the date of the Shareholders' Meeting convened for approval of the Financial Statements as at 31 December 2012.

For the appointment of the Board of Statutory Auditors, only one list of candidates was presented by the shareholders San Quirico S.p.A.²⁵, 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 accordance with the Articles of Incorporation, the Shareholders' Meeting shall elect the Board of Statutory Auditors, consisting of three standing auditors and three alternate auditors in compliance with the gender balance criterion prescribed by current laws and regulations. The Board of Statutory Auditors is appointed on the basis of lists presented by Shareholders, which, in compliance with Article 147-ter, paragraph 1-bis of the Consolidated Finance Act (referenced by Article 148, paragraph 2 of the Consolidated Finance Act), must be filed at least twenty-five days prior to the date of the Shareholders' Meeting and shall be made available to the public at least twenty-one days prior to the Meeting.

Each list consists of two sections: one for candidates to the office of standing auditor and the other one for candidates to the office of alternate auditor. Each list shall contain a number of candidates, listed with a progressive number, not exceeding the maximum number of auditors to be elected and, with the exception of those presenting fewer than three candidates, it shall comply, for each section, with the gender balance criterion prescribed by current laws and regulations.

Candidate lists may only be presented by Shareholders who, at the time of presenting the list, are in possession of a shareholding equal to that required for the presentation of lists for the election of Directors, currently equal to 2.5%²⁶.

²⁵ For the percentage of votes received by the list with respect to the voting share capital, please see the minutes of the Shareholders' Meeting of 15 April 2010, available in the Governance section of the Website www.erg.it.

²⁶ Updated on the basis of the Company's market capitalisation as at 31 December 2012 calculated as the average of the last quarter before the end of the 2012 financial year.

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 capital²⁷.

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 may not be elected to the office of Statutory Auditor unless they satisfy the requirements of independence, professionalism and integrity as provided by Article 148, paragraph 3 of the Italian Consolidated Finance Act or if they already serve as Standing Auditor in five listed companies²⁸.

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

Any list presented without compliance with the required prescriptions²⁹ shall be considered not to have been presented.

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

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

If more than one list is presented, the following candidates shall be elected: from the list that received the highest number of votes, in the progressive order in which they are listed, two standing auditors and two alternate auditors; the third standing auditor and the third alternate auditor are elected choosing the candidates to the respective offices indicated at the top of the list that obtained the second-highest number of votes after the first one, among those presented and voted by minority Shareholders who are not connected – even indirectly— with the Shareholders who presented or voted the list that received the highest number of votes, according to current regulations and subject to the provisions of paragraph 13-bis of the Articles of Incorporation pertaining to compliance with the gender balance criterion in the composition of the Board of Statutory Auditors. The standing auditor drawn from the minority list is appointed Chairman.

If the lists receive equal number of votes, the candidate of the list that was presented by the Shareholders owning the largest share or, subordinately, by the higher number of Shareholders is elected.

²⁷ In accordance with CONSOB Resolution no. 17148 of 27 January 2010.

²⁸ In this regard, as a result of CONSOB Resolution no. 18079 of 20 January 2012 – which introduced among other matters, some amendments to the Issuers' Regulations to simplify rules on the accumulation of duties for the members of the control committee – the limits to the accumulation of duties per Article 144-terdecies, paragraph 2, of the Issuers' Regulations and the disclosure obligations per Article 144-quaterdecies of the Issuers' Regulations do not apply to those who serve as members of the controlling body of a single issuer.

²⁹ For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Statutory Auditors, please refer to the Articles of Incorporation, available in the Governance section of the website www.erg.it.

The Statutory Auditors in office at the date of approval of the Report are³⁰:

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 supervised the independence of the independent auditor verifying both compliance with the regulatory provisions on the matter, and the nature and extent of services, other than auditing, performed for the Company and for its subsidiaries by the independent auditor and by entities belonging to its network.

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

The Board of Statutory Auditors, in the performance of its activities, was supported by the Internal Audit, Risk and Compliance Division, coordinating with the Internal Control and Risk Committee.

During the 2012 financial year the Board of Statutory Auditors held 10 meetings, while for the year 2013 there are expected to be no fewer than 6 meetings.

The average duration of the meetings held by the Board of Statutory Auditors was 2 hours and 30 minutes.

As at the date of approval of this document, the Board of Statutory Auditors had met 3 times.

Other appointments as director or statutory auditor held by the Statutory Auditors in other companies listed in regulated markets, also abroad, in finance companies, banking and insurance companies or companies of significant size as at 31 December 2012³¹:

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

Lelio Fornabaio *Standing Auditor of Prelios S.p.A.*
Standing Auditor of Astaldi S.p.A.
Standing Auditor of Gemina S.p.A.
Director of Ariscom Compagnia di assicurazioni S.p.A.
Chairman of the Board of Statutory Auditors of Essediesse S.p.A.

Paolo Fasce *Standing Auditor of Boero Bartolomeo S.p.A.*
Standing Auditor of Yarpa Investimenti SGR S.p.A.
Standing Auditor of YLF S.p.A.
Standing Auditor of Banca Passadore & C. S.p.A.

³⁰ For the personal and professional characteristics of each auditor in office, please see their CVs available in the Governance section of the Website www.erg.it.

³¹ Other than offices held in companies of the ERG Group.

SHAREHOLDERS' MEETINGS

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

Article 11 of the Articles of Incorporation states 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 financial year or no later than one hundred eighty days, if the Company must prepare Consolidated Financial Statements and if required by specific provisions related to the organisation or the purpose of the Company.

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

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

Meeting regulations

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

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

BOARD COMMITTEES

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

INTERNAL CONTROL AND RISK COMMITTEE

Members:

Massimo Belcredi - *Chairman*

Antonio Guastoni

Paolo Francesco Lanzoni

The Internal Control and Risk Committee comprises three independent directors.

The members of the Committee have adequate accounting and financial expertise.

Committee meetings are attended by the Chairman of the Board of Statutory Auditors or another auditor designated by him or, depending on the topics to be discussed, by all members of the Board of Statutory Auditors; meetings may also be attended by the Chairman of the Board of Directors, the executive Deputy Chairman and the Chief Executive Officer, who are entitled to participate in the discussion of the agenda items and to identify adequate actions to confront critical or potentially critical situations, as well as (also depending on the topics to be discussed), the Director in charge of the Internal Control and Risk Management System and the Manager responsible for preparing the company's financial reports.

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

The Head of Internal Audit, Risk and Compliance shall be invited to attend the meetings in order to report to Committee, at least once a quarter, on the activity carried out 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 and Risk Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code. Taking into account the composition of the Committee, the Procedure for Transactions with Related Parties, approved by the Board of Directors, prescribes that the Committee convened to issue its opinion both with reference to transactions of "Minor Relevance" and with reference to transactions of "Major Relevance" on the interest of the Company in the completion of the transaction with the related party and on the advantageousness and substantial correctness of the related conditions shall comprise members of the Internal Control and Risk Committee³². If a member of the Committee is the counterparty of the transaction to be evaluated or a correlated party thereof, the other members of the Committee shall call to participate in the committee another non-correlated independent director or, if there are none, a non correlated standing member of the Board of Statutory Auditors.

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

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

In 2012, the Committee held 10 meetings³³ – all duly recorded in minutes – during which, in addition to the preventive review of the financial statements, of the half-year report and of the economic and financial data of interim reports on operations, it examined topics pertaining to the following macro-issues: Group Governance, Control and risk management system, compliance requirements of Italian Legislative Decree no.231/01 and Administration, Reporting and Taxation Area.

The average duration of the meetings held by the Committee was 2 hours and 30 minutes.

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

In terms of the most significant issues covered, the Committee has, in the areas of:

1) Group Governance

- examined the audits made on the thresholds set forth in the Procedure for Related Party transactions and acknowledged the consistency of the same;
- appointed its Chairman (confirming Prof. Belcredi, who previously held this position before the renewal of the Board of Directors);

32 For transactions pertaining to the allocation or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a key manager of the Company or otherwise to one of the persons who hold the offices indicated in Annex 1 to the Procedure for transactions with related parties, the Committee called upon to issue its opinion on the interest of the Company in the completion of the transaction with the related party and on the advantageousness and substantial correctness of the related conditions comprises the members of the Nominations and Remuneration Committee, unless the aforesaid transactions in accordance with Article 3.2, letter c) of the Procedure are excluded from the scope of the procedure.

33 Specifically: 3 times before the end of the mandate awarded to the previous Board of Directors and 6 times after the appointment of the new Board of Directors (which took place at the Shareholders' Meeting on 20 April 2012) which confirmed the terms of office of the members of the previous Committee; therefore the composition of the Committee was unchanged even after the renewal of the Board of Directors.

- examined the changes proposed to the Guidelines for the identification and execution of significant transactions and to the Market info procedure following the changes in the award of powers made by the new Board of Directors on 20 April 2012;
- approved the proposal for the remuneration of the Head of Internal Control formulated by the Executive Director entrusted with overseeing the functioning of the Internal Control System pursuant to the provisions of the Corporate Governance Code promoted by Borsa Italiana;
- on the express request of the Board of Directors, conducted an analysis on the main changes made with regard to the Corporate Governance Code, as well as on the measures to be set in place if the Company should decide to subscribe to the new edition of said Code; reporting in this regard to the Board of Directors;
- examined the applicability of articles 2497 et seq. of the Italian Civil Code relating to i) relations between ERG S.p.A. and its parent S. Quirico S.p.A.; ii) the scope of the management and coordination of ERG S.p.A.; iii) the list of companies with which these activities are carried out;
- received advance information on the proposal to contribute to the Edoardo Garrone Foundation, a related party of ERG S.p.A.; the amount of the transaction is considered insignificant;
- analysed the change introduced by CONSOB to the Issuers' Regulation with resolution no. 18079 dated 20 January 2012 regarding the faculty for issuers to waive the obligation to prepare information documents in the event of significant extraordinary transactions, assessing the possible implications of the Company subscribing to the aforementioned faculty;
- examined the proposal to update the list of Executives with strategic responsibility following organisational changes made following the appointment of the new Board of Directors and approved the consequent proposal to update the Procedure for Related Party transactions;
- examined and approved its own schedule of meetings for 2013.

2) Control and risk management system

- analysed and approved, with half-year periodicity, its own periodic reports to the Board of Directors formulating its own assessment of the adequacy of the Internal control and risk management system;
- examined, the quarterly updates on the Audits activity conducted by the Internal Audit, Risk and Compliance Division and the relative results, recommending specific actions and requesting the relative follow-up;
- acknowledged the proposal to reorganise the Internal control and risk management system and the grounds underlying the same;
- analysed the risks connected with ongoing events in Iran and the consequent actions taken by the Company, as well as an update on the risks relating to business relations with Libya;
- examined the quarterly updates on the development of the risk management process, the outcome of the monitoring and assessment activities carried out by the Internal Audit, Risk and Compliance Division and the objectives achieved;
- examined, on a six-monthly basis, periodic reports on the activities carried out by the Head of Internal Control;
- examined the activities and budget of the Internal Audit, Risk and Compliance Division for 2013.

3) Obligations in connection with Italian Legislative Decree No. 231/01

- examined, on a six-monthly basis, the periodic reports on the activity carried out by the Supervisory Committee;
- examined the schedule of activities and budget of the ERG Supervisory Committee and of the Supervisory Committees of Group companies for 2013.

4) Administration, Reporting and Taxation

- examined the proposed updates to the model per Law no. 262 of 28 December 2005 also as a result of the organisational – corporate changes that have taken place in the Group and the results of the test activities carried out as at 31 December 2011 and the planned schedule of activities for 2012;
- examined the methods for the renewal the Group VAT liquidation procedure – for tax year 2012;
- acknowledged the set-up followed with respect to the impairment test procedure on the Financial Statements as at 31 December 2011, the most important aspects emerging from the application of the same and the reasons underlying the write-downs made;
- stated that it had been able to assess the correct utilisation of international accounting standards in the preparation of the Statutory and Consolidated Financial Statements as at and for the year ended 31 December 2011 and of the Half-year Financial Report as at 30 June 2012 and of the standards adopted for the purposes of the preparation of the Interim Financial Report as at 31 March and as at 30 September 2012;
- examined the main aspects pertaining to the domestic “tax consolidation” of ERG S.p.A.;
- acknowledged the updates relating to intra-group service agreements for 2012.

NOMINATIONS AND REMUNERATION COMMITTEE

Members:

Paolo Francesco Lanzoni - *Chairman*

Massimo Belcredi

Pasquale Cardarelli

The Nominations and Remuneration Committee comprises three independent directors.

The members of the Nominations and Remuneration Committee have adequate accounting and financial expertise.

The Chairman, executive Deputy Chairman and CEO take part in the Committee’s work.

Employees of ERG Group companies, representatives of the independent auditor, 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 – which carries out the duties prescribed by the Corporate Governance Code for the Remuneration Committee³⁴ – makes recommendations to the Board of Directors regarding the remuneration of the Chairman, Deputy Chairmen, CEO and, more in general, of Directors with powers or specific duties and of the Directors called to serve on the Strategic Committee who do not hold positions in the Board of Directors and, upon indication of the CEO, regarding the determination of criteria for the remuneration of the Company's top managers and for the definition of incentive plans for the ERG Group's management. The Committee periodically assesses the adequacy, overall consistency and concrete application of the Remuneration Policy for members of the Board of Directors and Key managers.

Taking into account the composition of the Nominations and Remuneration Committee, the Procedure for Transactions with Related Parties, approved by the Board of Directors, prescribes that the Committee convened to issue its opinion both with reference to transactions of "Minor Relevance" and with reference to transactions of "Major Relevance" (i) on the interest of the Company in the completion of transactions pertaining to the assignment or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a Key manager thereof or otherwise to one of the persons holding the offices indicated in Annex 1 to the Procedure for transactions with related parties and (ii) on the advantageousness and substantial correctness of the related conditions shall comprise members of the Nominations and Remuneration Committee, unless the aforesaid transactions in accordance with Article 3.2, Letter c) of the Procedure are not excluded from the scope of said Procedure³⁵.

If a member of the Committee is the counterparty of the transaction to be evaluated or a correlated party thereof, the other members of the Committee shall call to participate in the committee another non-correlated independent director or, if there are none, a non correlated standing member of the Board of Statutory Auditors.

The Committee also submits to the Board of Directors 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; 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 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 is considered appropriate.

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

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

³⁴ Complying with the conditions set out for both Committees by the Corporate Governance Code.

³⁵ If the conditions per Article 3.2 letter c) of the Procedure for Transactions with Related Parties are met, i.e. (i) that the Company has adopted a remuneration policy; (ii) that the Nominations and Remuneration Committee was involved in the definition of the remuneration policy; (iii) that a report illustrating the remuneration policy has been submitted to the Shareholders' Meeting consultative vote; (iv) that the remuneration assigned is consistent with said policy – subject to the disclosure obligations per Article 154-ter of the Italian Consolidated Finance Act, the Procedure shall not apply to transactions pertaining to the assignment or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a key manager thereof or otherwise to one of the persons who hold the offices indicated in Annex 1 to the Procedure for transactions with related parties.

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

In 2012, the Committee held 7 meetings³⁶ – duly recorded in minutes – in which it: (i) formulated proposals for setting the remuneration of the Chairman, Deputy Chairmen, CEO and, more in general, of Directors with powers or specific duties and of the Directors called to serve on the Strategic Committee who do not hold positions in the Board of Directors; (ii) made determinations on the definition of the targets for the year 2012 with reference to the short and long term incentive system and to the value creation achieved in 2011, (iii) issued opinions – and proposals, when warranted – as to the recognition and setting of bonuses to some of the Company's managers. The members of the Nominations and Remuneration Committee formulated the aforesaid proposals or assessments also taking into account the Procedure for transactions with related parties, issuing – when required – its opinion with the reasons for it.

The Committee also actively participated in the process for the design and subsequent adoption of a new short-term incentives system – the MBO System³⁷, and of the new medium-long term incentives systems undergoing design – the LTI System³⁸.

The MBO System and the LTI System are integral, substantial parts of the Remuneration Policy for the members of the Board of Directors and Key managers adopted by the Board of Directors – always at the proposal of the Nominations and Remuneration Committee – on 20 December 2011 in accordance with the Corporate Governance Code most recently revised on 18 December 2012 to take into account the powers delegated by the new Board of Directors of ERG S.p.A. – appointed by the Shareholders' Meeting of 20 April 2012 – and the medium/long term incentive System (LTI System).

The Committee also prepared a support document for the Board of Directors on the Board Performance Review carried out by the Committee using the assessment criteria used in past years³⁹.

The average duration of the meetings held by the Committee was 2 hours.

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

36 Specifically: 4 times before the end of the mandate awarded to the previous Board of Directors and 3 times after the appointment of the new Board of Directors (which took place at the Shareholders' Meeting on 20 April 2012) which confirmed the terms of office of the members of the previous Committee; therefore the composition of the Committee was unchanged even after the renewal of the Board of Directors.

37 Management by objectives.

38 Long term incentive.

39 Please refer to the information provided in Note no. 24.

STRATEGIC COMMITTEE

Members

Alessandro Garrone - *Chairman*

Giovanni Mondini

Luca Bettonte

Alessandro Careri

Marco Costaguta

The Committee advises and issues recommendations to the CEO and to the Board of Directors of ERG S.p.A. and to the Boards of Directors of the operating companies of the ERG Group. 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 ERG Group and of the operating companies, as well as the strategic benefits of significant capital expenditures effected at the ERG Group level.

In the course of 2012, the Committee held 13 meetings – duly recorded in meeting minutes.

CORPORATE GOVERNANCE RULES

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

- the Procedure for handling and processing privileged information and for the public dissemination 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;
- the Policy for the remuneration of members of the Board of Directors and of key managers.

PROCEDURE FOR HANDLING AND PROCESSING PRIVILEGED INFORMATION AND FOR THE PUBLIC DISSEMINATION OF STATEMENTS AND INFORMATION

The Board of Directors, based on a recommendation made by the Internal Control and Risk Committee, has adopted a procedure for handling and processing privileged information and for 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 S.p.A. are the outcome of an accretion process that guarantees both timeliness and accuracy.

The procedure, most recently revised on 10 May 2012, defines the tasks and responsibilities of the functions involved, identifies the criteria, methods and timing of the various procedural stages, and establishes the appropriate decision-making levels for the dissemination of statements and information. For this purpose, it contains prescriptions aimed at assuring an exhaustive and timely flow of information within the companies of the ERG Group and between them and the listed Parent Company for the purposes of compliance with information obligations pertaining to "price sensitive" events, vis-à-vis the market and the organisations tasked with its supervision.

CODE OF CONDUCT FOR INTERNAL DEALING

The Board of Directors has adopted a Code of Conduct 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, most recently revised on 3 December 2012 is published on the Company's website.

GUIDELINES FOR THE IDENTIFICATION AND EXECUTION OF SIGNIFICANT TRANSACTIONS

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

The guidelines, most recently revised on 10 May 2012, set out the criteria to be used to identify the most significant transactions, in accordance with Article 1 of the Corporate Governance Code, consisting of quantitative and qualitative criteria and criteria deriving from the specific requirements of the parties involved (related-party transactions and intra-group transactions). The document also indicates the standard of conduct to be followed in carrying out the aforesaid transactions, with particular reference to the transactions carried out by the subsidiaries over which ERG S.p.A. exercises management and coordination in accordance with Article 2497 et seq. of the Italian Civil Code which must be preventively examined and approved by the Board of Directors.

CODE OF CONDUCT FOR DIRECTORS OF GROUP COMPANIES

The Board of Directors has adopted a Code of Conduct for Directors appointed in ERG 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.

REPORTING PROCEDURE FOR SIGNIFICANT TRANSACTIONS

The Board of Directors has adopted a reporting procedure whereby sub-holding companies and their subsidiaries and investee companies – based on a specific approach and timeframe – shall inform the Company of transactions effected by them directly and which can be classified as significant according to the guidelines mentioned above, applying the exceptions allowed in these guidelines⁴⁰.

PROCEDURE FOR RELATED-PARTY TRANSACTIONS

The Board of Directors, with its resolution of 11 November 2010, with the favourable opinion of the Internal Control and Risk Committee and with the input of the Board of Statutory Auditors, approved and adopted a specific internal resolution – with effect since 1 January 2011 – aimed at assuring the transparency and substantial and procedural correctness of the transactions with related parties carried out by ERG S.p.A. directly or through its subsidiaries. The Procedure was most recently revised on 6 August 2012.

⁴⁰ This is information provided to the Board of Directors in relation to transactions not subject to the preliminary approval of the Board itself on the basis of the waivers prescribed by the aforesaid Guidelines.

POLICY FOR THE REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS AND OF KEY MANAGERS

The Board of Directors adopted, with its resolution of 20 December 2011, at the proposal of the Nominations and Remuneration Committee, a Remuneration Policy of the members of the Board of Directors and of Key managers in line with the provisions of the Corporate Governance Code, revised – at the proposal of the Nominations and Remuneration Committee – on 18 December 2012 to take into account the powers vested by the new Board of Directors of ERG S.p.A. – appointed by the Shareholders' Meeting of 20 April 2012 – and the medium/long term incentive System (LTI System)⁴¹.

OTHER INFORMATION

Information about the internal control and risk management System, Supervisory Committee, investor relations, organisation and management model per Italian Legislative Decree 231/2001, independent auditors, the head of the Internal Audit, Risk and Compliance Division, the manager responsible for preparing the company's financial reports, and management and coordination activity can be found below.

THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP

1. GENERAL PRINCIPLES

The Internal Control and Risk Management System of the ERG Group (hereafter, "CIGR System") complies with the principles set out in the Corporate Governance Code and, more in general, it is consistent with domestic and international best practices. The CIGR System, in particular, consists of a set of rules, procedures and organisational structures aimed at proactively contributing – through an adequate process of identifying, measuring, managing and monitoring the main risks – to the protection of the ERG Group's assets, to the efficient and effective management of the Group in line with the corporate strategies defined by the Board of Directors, to the trustworthiness, accuracy and reliability of financial disclosure and, more in general, to compliance with current laws and regulations.

The System, as an integral part of the enterprise, involves and hence is applied to the entire organisational structure of the ERG Group: from the Board of Directors of ERG and of its subsidiaries⁴² (hereafter, "Subsidiaries"), to the Group Management (hereafter, "Management") and to the company's personnel.

2. PERSONS AND BODIES INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The main persons and bodies involved in the ERG Group's internal control and risk management system, according to their respective skills and in compliance with current laws and regulations, as well as with the recommendations of the Corporate Governance Code, are:

- the Board of Directors, which orients and assesses the adequacy of the CIGR System;
- the Chief Executive Officer, who identifies the main corporate risks;
- the Director in charge of the Internal Control and Risk Management System, responsible for verifying the correct functionality and the overall adequacy of the CIGR System;
- the Internal Control and Risk Committee, tasked with supporting, through an adequate preliminary analysis activity, the assessments and decisions of the Board of Directors pertaining to the CIGR System, as well as those pertaining to the approval of periodic financial reports;
- the Head of Internal Audit, Risk and Compliance, in charge of verifying the viability and suitability of the CIGR System.

⁴¹ For any additional information in this matter, please refer to the Report on Remuneration per Article 123-ter of the Consolidated Finance Act, to be presented to the Shareholders' Meeting convened in April 2013, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.

⁴² The meaning of the term "control" is as set out in Article 93 of the Italian Consolidated Finance Act. Consequently, Joint Ventures with joint control are excluded.

BOARD OF DIRECTORS

The Board of Directors carries out the role and the duties prescribed by the Corporate Governance Code and, within its main function of orienting and assessing the adequacy of the CIGR System, it is the central body of the System.

To this end, the Board of Directors shall, in particular:

- define the Guidelines of the CIGR System⁴³ (hereafter “Guidelines”), so that the main risks are correctly identified and adequately measured, managed and monitored, determining their compatibility with enterprise management that is consistent with the identified strategic objectives;
- assess, at least once a year, the adequacy of the CIGR System with respect to the characteristics of the company and to the risk profile assumed, as well as its effectiveness;
- appoint the Head of Internal Audit, Risk and Compliance, define his/her compensation⁴⁴ and approve, at least once a year, the work plan prepared by him/her;
- identify within it
 - one or more directors appointed to set up and maintain an effective Internal Control and Risk Management System
 - the Internal Control and Risk Committee

with whose support it carries out the assessments and makes the decisions pertaining to the CIGR System and assures that duties and responsibilities are allocated clearly and appropriately and that the Head of Internal Audit, Risk and Compliance, the Supervisory Committee and the Manager responsible for preparing the company’s financial reports, have adequate resources available for the performance of their duties and enjoy an appropriate level of autonomy within the organisation.

Specifically, responsibility for setting up and maintaining an effective Internal Control and Risk Management System are shared between the Chief Executive Officer and the Director in charge of the Internal Control and Risk Management System, as described below.

CHIEF EXECUTIVE OFFICER

The CEO has the powers necessary to carry out all actions pertaining to the company’s business. Within ERG’s organisational structure, the following Divisions report to him/her: the Mergers & Acquisitions Division, the Corporate Development Division, the Power & Gas Business Unit, the Oil Business Unit, the Finance and Control Division, the Institutional and International Relations Division, the General Secretariat Division, the Administration Reporting and Taxation Division, the Organisation and Systems Division.

The Chief Executive Officer is also the Chairman of the Investment Committee, which has a consultative role and expresses a reasoned technical and economic-financial opinion for the Strategic Committee in the various stages of the investment process.

The Chief Executive Officer identifies the main corporate risks, taking into account the characteristics of the activities carried out by the issuer and by its subsidiaries, and periodically submits them to the review of the Board of Directors, as described in detail below.

⁴³ With the opinion of the Internal Control and Risk Committee.

⁴⁴ At the proposal of the Director in charge of the Internal Control and Risk Management System and with the favourable opinion of the Internal Control and Risk Committee, taking into consideration the input of the Board of Statutory Auditors.

DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Director in charge of the Internal Control and Risk Management System assures that the CIGR System's functionality and overall adequacy is maintained, promptly reporting to the Internal Control and Risk Committee (or to the Board of Directors) on any problems and critical issues noted in the course of his/her activity, or of which (s)he has otherwise become aware, so that the Committee (or the Board of Directors) can undertake the appropriate initiatives. For this purpose the Director in charge shall, in particular:

- implement the Guidelines defined by the Board of Directors, providing for the design, implementation and management of the Internal Control and Risk Management System and constantly verifying its adequacy and effectiveness;
- manage the adaptation of this system to the dynamics of operating conditions and of the legal and regulatory environment;
- verify, with the support of the Internal Audit, Risk and Compliance Division, that Management has identified the main risks, that the risks were assessed with consistent procedures, that the mitigating actions have been defined and are being carried out, and that the risks are management in accordance with the decisions of the Board of Directors;
- propose to the Board of Directors the appointment and compensation of the Head of Internal Audit, Risk e Compliance⁴⁵, assuring his/her independence and operating autonomy with respect to each manager in charge of operating areas and verifying that the Head of Internal Audit, Risk and Compliance is provided with suitable means to perform his/her duties effectively;
- rely on the Internal Audit, Risk and Compliance Division to perform audits on specific operating areas and on compliance with rules and internal procedures in the execution of corporate operations;
- promptly report to the Internal Control and Risk Committee (or to the Board of Directors) on any problems and critical issues noted in the course of his/her activity, or of which (s)he has otherwise become aware, so that the Committee (or the Board of Directors) can undertake the appropriate initiatives.

The Director in charge of the Internal Control and Risk Management System shall not be delegated any individual management powers.

INTERNAL CONTROL AND RISK COMMITTEE

The Internal Control and Risk Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code, supporting the Board of Directors in the assessments and decisions pertaining to the CIGR System.

For this purpose, the Committee shall, in particular:

- examine the work plan and the periodic reports prepared by the Head of Internal Audit, Risk and Compliance;
- express opinions on specific aspects pertaining to the identification of the main corporate risks;
- report to the Board of Directors, on a half-yearly basis, on the activity performed and on the adequacy of the CIGR System;
- monitor the autonomy, adequacy and effectiveness of the Internal Audit, Risk and Compliance Division;
- examine the results of the activities of the Manager responsible for preparing the company's financial reports;

⁴⁵ With the favourable opinion of the Internal Control and Risk Committee and taking into consideration the input of the Board of Statutory Auditors.

- assess the proper use of the accounting standards⁴⁶ and their consistency for the preparation of the Consolidated Financial Statements, of the statutory financial statements, of the condensed half-yearly report and of the interim reports on operations.

The Board of Statutory Auditors shall attend the meetings of the Internal Control and Risk Committee.

HEAD OF INTERNAL AUDIT, RISK AND COMPLIANCE

The Internal Audit, Risk and Compliance Division performs the role and duties prescribed by the Corporate Governance Code, verifying the functionality and suitability of the CIGR System and, in particular, that Management has identified the main risks, that the risks were assessed with consistent procedures and that the mitigating actions have been defined and carried out. The Division also verifies whether the risks are managed in accordance with the decisions of the Board of Directors, with external rules and with rules within the Group.

The Head of Internal Audit, Risk and Compliance is not responsible for any operating area; (s)he reports hierarchically to the Board of Directors through the Director in charge of the Internal Control and Risk Management System and (s)he provides all due information to the Internal Control and Risk Committee and to the Board of Statutory Auditors. The annual work plan, based on a structure process of analysis and prioritisation of the main risks ("Audit Plan"), similarly to the budget, is subject to the approval of the Board of Directors⁴⁷. Moreover, within the scope of the audit plan, the Internal Audit Risk and Compliance Division shall verify the reliability of the information systems including the accounting measurement systems.

At least twice a year, it prepares a summary of the main observations emerged and of the corporate risks to be monitored (Risk Report) which includes an assessment of the suitability of the CIGR System. The findings of these reports are presented to the Director in charge of the Internal Control and Risk Management System, to the Internal Control and Risk Committee, and to the Board of Statutory Auditors.

The Chairmen of the Board of Directors, of the Board of Statutory Auditors and of the Internal Control and Risk Committee, as well as the Director in charge of the Internal Control and Risk Management System are recipients of non-periodic information flows, generated by the Internal Audit, Risk and Compliance Division, in such a way as to assure their simultaneous involvement.

3. OTHER RELEVANT PLAYERS WITH SPECIFIC INTERNAL CONTROL AND RISK MANAGEMENT DUTIES

Chairman

The Chairman supervises and oversees the activities of the:

- Institutional and International Relations Division for External Relations and Corporate Social Responsibility;
- General Secretariat for Corporate Affairs.

Executive Deputy Chairman

The Executive Deputy Chairman supervises the Group's strategic decisions and the definition of the organisational macro-structure, orients and coordinates the extraordinary transactions, including structure finance transactions, carries out the strategic coordination of the subsidiaries.

⁴⁶ Together with the Manager responsible for preparing the company's financial reports and taking into consideration the opinion of the Independent Audit Firm and of the Board of Statutory Auditors.

⁴⁷ With the opinion of the Director in charge of the Internal Control and Risk Management System, taking into consideration the input of the Internal Control and Risk Committee and of the Board of Statutory Auditors.

The Executive Deputy Chairman is also the chairman of the Strategic Committee, which supports the Executive Deputy Chairman and the Chief Executive Officer in the performance of their duties to the Board of Directors in particular in the definition of strategic business guidelines, portfolio guidelines, including innovative projects, and strategic finance guidelines and policies as well as for individual extraordinary finance transactions, monitoring the progress of their implementation over time.

MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

The Manager responsible for preparing the company's financial reports, whose activity is regulated by Italian Law no. 262/2005, shall

- prepare adequate administrative and accounting procedures for the preparation of financial disclosure documents;
- monitor the enforcement of the procedures;
- issue to the market the certification of the adequacy and effective enforcement of the administrative and accounting procedures for the purposes of the Group's financial disclosure.

BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors oversees compliance with the law and with the Articles of Incorporation, adherence with correct administration principles, the adequacy of the organisational structure (for aspects under its cognisance), of the CIGR System and of the administrative-accounting system, and its reliability in correctly representing operations, and the adequacy of the provisions imparted to the Subsidiaries for the proper fulfilment of the prescribed disclosure obligations.

For this purpose, the Board of Statutory Auditors in line with the role and the duties prescribed by the Corporate Governance Code:

- shall exchange, in a timely manner, with the Internal Control and Risk Committee, the relevant information for the performance of their respective duties;
- may rely on the Internal Audit, Risk and Compliance Division for the performance of audits on specific operating areas or company transactions.

SUPERVISORY COMMITTEE

The Supervisory Committee (hereafter "Committee") is appointed by the Board of Directors and it has adequate financial resources available for the performance of its duties, among which are:

- oversee compliance with the Code of Ethics;
- verify the effectiveness and adequacy of the Model or its suitability to prevent the occurrence of offences per Italian Legislative Decree no. 231/2001 on the basis of an annual audit plan submitted to the Board of Directors;
- verify the adequacy of the organisational solutions adopted for the implementation of the Model;
- prepare a half-yearly report to the Internal Control and Risk Committee and to the Board of Directors about its activities, informing them of any violations it has observed with respect to the Model.

The Committee shall be provided with all information that pertain, even indirectly, to the perpetration or attempted perpetration of offences and elusions of the Model as well as at-risk behaviours in general. For this purpose, the information described in the Information Flows chart shall be sent according to the periodicity indicated therein.

4. IMPLEMENTATION OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

ERG considers proper risk management and mitigation to be of fundamental importance: for this reason, the Top Management has deemed it appropriate to define a risk management Policy able to explain the relationships between risk management and processes to identify

objectives and management plans in order to define the procedures to select the different strategies and risk protection techniques, assigning formal management responsibilities within the organisation. This framework has entailed the preparation, on one hand, of an organisation able to provide a clear allocation of the governance, monitoring and reporting responsibilities, on the other hand to institute an inter-relationship between the functions and the bodies assigned to carry out risk management and control activities. More in detail, the Corporate Governance System adopted by ERG entails the institution of specific committees (e.g. Strategic Committee, Investment Committee, Risks Committees, Loans and Credits Committee), tasked with studying issues, providing advice and/or making proposals in relation to particular sensitive" and economically, financially and strategically relevant matters, so that on such issues it will be possible both to conduct a debate and a series of checks that will lead to the adoption, by the Board of Directors, of knowledgeable, clearly represented decisions. These committees concur in the definition of the methods for measuring, identifying, assessing and controlling risks, and they provide advice and make proposals to the Chief Executive Officer in relation to:

- definition of risk management strategies and policies;
- assessment of the most relevant transactions and analysis of the associated risks;
- monitoring the progress of the most relevant transactions and verification of the enforcement of risk management policies.

Within this scope, the risk management process develops through:

- the identification and assessment of the main strategic risks tied to the Business Plan and to extraordinary transactions, as well as the definition of the policies required to mitigate them;
- the identification and assessment of the main risks tied to business processes, as well as the definition of the procedures to manage them and of the control instruments;
- the continuous verification of the operation and effectiveness of the risk management process.

The aforementioned steps are described in detail below.

MANAGEMENT OF STRATEGIC AND DISCONTINUITY RISKS

In relation to the management of the risks tied to the Business Plan and to extraordinary transactions, it should be pointed out that decisions of a strategic nature are made by the Board of Directors on the basis of a risk assessment carried out with the support of the Strategic Committee and of the Investment Committee. The Executive Deputy Chairman and the Chief Executive Officer, members of these Committees, periodically report to the Board of Directors also with regard to the main prospective risks, in terms of strategic decisions and investment. The process, aimed at the definition of the strategic risks related to the Group's investments and to significant transactions, initially involves the Investment Committee, which expresses a technical and economic-financial opinion on them, and subsequently the Strategic Committee, which assesses the desirability of proceeding with them. The process, following these assessment steps, enables the Board of Directors to carry out its role concerning the strategic decisions, and in relation to the significant investments the Group intends to make. The Board of Directors decides both with respect to investments and in relation to the risks to be assumed, overseeing the ex post management of the transactions and of the related risks.

The Chief Executive Officer has responsibility and accountability for the management of corporate risks and is supported by the Management in the identification and assessment of the risks, as well as in the definition of the policies for their management. In this regard, (s)he is also supported by the Strategic Committee and by the Investment Committee.

MANAGEMENT OF PROCESS RISKS

The management of process risks is performed by the company's Management, which is responsible for their assessment and for the definition of the mitigating instruments. To manage process risks, Management uses a risk self-assessment instrument: the Business Process Risk

Assessment. The Business Process Risk Assessment (BPRA) enables the Management to monitor the riskiest areas on the basis of an assessment of the level of adequacy of the design of the controls, in order to mitigate the associated risks, pointing out areas deserving attention, towards which the most appropriate action plans should be adopted. This activity, with the aid of the Internal Audit Risk and Compliance Division, involves the entire Management of the ERG Group in the identification of the process risks (business and corporate) and of the related associated controls.

Therefore, the BPRA is a valid support that enables the Management to manage the riskiest areas effectively.

A contribution to assure the effective operation of the CIGR System shall also be provided by the Manager responsible for preparing the company's financial reports, who assesses the adequacy and operation of the controls on the administrative-accounting processes, the Risk Committee, which provides advice and support to the Chief Executive Officer, in particular for the definition of the strategies and policies to manage financial and market risks, as well as the Loans and Credits Committee, which monitors and manages credit collection actions.

The significance of the risks, classified in categories and sub-categories, is determined on the basis of parameters measuring the likelihood of their occurrence and the impact, not just in economic terms, but also in terms of market share, competitive advantage and reputation.

The assessment of the control environment pertains to:

- the existence, the upgrade and compliance with internal regulations (e.g. guidelines, procedures);
- the adequacy of the organisational instruments (e.g. delegated powers and authority);
- the adequacy of the monitoring activities, reporting and internal communication;
- the adequacy of the information systems supporting process management.

CONTINUOUS VERIFICATION OF THE EFFECTIVENESS OF THE RISK MANAGEMENT PROCESS

This verification activity is the natural joining point between one risk management cycle and the next, and it provides the occasion to verify both the extent to which the objectives have been attained, and the correct implementation of the selected management procedures. Every deviation from the objectives and policies is subjected to analysis, to review the decision-making processes adopted and to identify the factors that hinder the success of the identified solutions. Based on the results of these analyses, if necessary, the redefinition of the management programmes can start.

The CIGR System, defined on the basis of domestic and international leading practices, consists of the following three levels of control:

- **First level:** entrusted to individual lines, they consist of the checks carried out by those who perform certain activities and by those who are responsible for their supervision. They also enable to assure the correct performance of the operating activities;
- **Second level:** entrusted to structures other than line, they contribute to the definition of the risk measurement methods, to their identification, assessment and control (Risk Management). They also enable to verify compliance with regulatory obligations (Compliance);
- **Third level:** entrusted to the Internal Audit, Risk and Compliance Division, their purpose is to identify anomalous trends, violations of the procedures and regulations, and to assess the functionality of the overall internal control and risk management system.

Within this context, the Director in charge of the Internal Control and Risk Management System focuses his/her activities on the main corporate risks, taking into account the objectives and characteristics of the activities performed by the ERG Group.

The Model contributes to strengthen the CIGR System, describing the measures and protocols aimed at reducing the risk of perpetration of offences within the corporate organisation.

The duty of the Supervisory Committee is to supervise the suitability to prevent the perpetration of the offences set out in the Model in accordance with Italian Legislative Decree no.231/2001 and to propose the adoption of new measures if the need arises, in order to make it current and effective at all times, adapting them to any regulatory and organisational changes that should occur over time.

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

The ways in which the ERG Group has defined 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 are illustrated below. The purpose of the System is to mitigate risks significantly in terms of trustworthiness, reliability, accuracy and timeliness of financial disclosures.

The Model described below was presented to the Internal Control and Risk Committee of the listed Parent Company 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 to which it has been communicated through publication on the Company Intranet as well as communication to all personnel.

In such a context, all personnel of the ERG 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 and Risk Committee.

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 their application and, together with the Chief Executive Officer, to certify to the market that the above principles were followed and that the financial documentation circulated is reliable.

The figure of Manager Responsible 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, with its resolution of 15 December 2009, appointed Giorgio Coraggioso, Head of Administration, Reporting and Taxation, as the Manager Responsible for preparing the financial reports.

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 the Processes and Compliance function 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 by defining interventions at process level, information systems or procedures to rectify any control deficiencies.

Risk identification and assessment

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 ERG Group scope of 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 scope of analysis, is based on the combined application of two analytical parameters, one quantitative and the other one qualitative.

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

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

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

- to complement 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 ERG Group, and on the basis of the professional judgement by management concerning risk levels relating to financial disclosures;
- to define the "level of depth" to which the analysed accounts-processes must be taken into consideration within the scope of the 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 and Risk Committee.

Identification of controls

Once the main risks at the process level are identified, the actions to be taken in order to monitor the associated control objective are identified. In particular, the mapping of accounts-processes and related controls constitutes a tool through which:

- significant processes and their 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.

Assessment of controls and monitoring processes

In accordance with the provisions of the law regarding formal compliance and in line with the best practices previously referred to, the adopted methodology prescribes constant monitoring of the processes covered by the model and 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 and Risk Committee and in which strategies and timing are defined for carrying out monitoring tests.

Following the completion of testing activities, reports are produced on the results of the activities, providing the support on the basis of which the Manager responsible for preparing the company's financial reports releases legal representations, and the Internal Control and Risk 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

Deloitte & Touche S.p.A. was appointed as independent auditor for the years 2009-2017 by the Shareholders' Meeting held on 23 April 2009.

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 of ERG S.p.A. pursuant to Italian Legislative Decree 231/2001; since then, the Model has been updated periodically to adapt it to the regulatory changes subsequently introduced. In the second half of 2012, the Model was updated, in particular to take into account the organisational changes that took place during the year and the introduction of the following offences to the existing ones: "employment of citizens of third party countries with irregular permits of stay", "undue incitement to give or promise benefits" and "corruption between private individuals". The Board of Directors, with its meeting of [26 February 2013], approved the new version of the Model, an excerpt whereof is published in the "Governance" section of the website www.erg.it.

Together with the new version of the 231 Model, the Board of Directors also approved the "Guidelines for the adoption of the organisation and management model pursuant to Legislative Decree 231/2001 in the Companies of the ERG Group", whose purpose is to provide the ERG Group companies with methodological indications on the management of "231 compliance", without constituting management and coordination activities and subject to the liability of individual legal entities in the decision as to whether or not to devise a Model on the basis of their own risk assessment.

SUPERVISORY COMMITTEE

Introduction of the Model led to the appointment of the Supervisory Committee, tasked with assuring the adequacy and actual implementation of the Model, and to evaluate whether it is necessary subsequently to update it.

The Committee, as a result of the decisions reached by the Board of Directors during its meeting of 18 December 2012, comprises: Paolo Francesco Lanzoni, Chairman, Devan De Paolis, and Alberto Fusi.

The Supervisory Committee carries out its work within the Parent Company ERG S.p.A., whereas Subsidiaries, provided with their own Model, have appointed their own Supervisory Committee. The Supervisory Committee of ERG S.p.A. met 5 times in 2012.

Investor relations

The company manages relations with its Shareholders, institutional investors and the market through the Investor Relations function, which is a part of the Finance and Control Division. As part of investor relations activities, meetings are regularly arranged both in Italy and abroad with representatives of the financial community. ERG S.p.A.'s policy is to provide the fullest possible information on its activities and strategies, including through constant innovation and updating of its website. The person in charge of managing investor relations is Ms. Emanuela Delucchi.

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 evaluated by the Board of Directors, also on the basis of a preliminary review carried out by the Internal Control and Risk Committee.

ERG S.p.A. in turn performs management and coordination on direct or indirect subsidiaries. The scope of involved companies and the content of any activity carried out on each of them are periodically reviewed by the Board of Directors, also on the basis of a preliminary review carried out by the Internal Control and Risk Committee.

Commitment

The Company intends to confirm its commitment:

- to pursue as its primary objective, in its formal acts and conduct, the creation of Shareholders value;
- to model its business on total compliance with the ERG Group's ethical principles, which are based on that combination of values consisting of personal integrity, correctness of relationships inside and outside the Company, and transparency vis-à-vis Shareholders, related stakeholders, and the market – as outlined and explained in the Code of Ethics, adopted in December 2003 and most recently updated on 10 November 2011, to reflect not only the organisational-corporate changes that have taken place in the ERG Group, but also the regulatory changes that have taken place and the evolution in reference best practices;
- to 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 the Report, are available in the Governance section of our website www.erg.it.

COMPOSITION OF THE BOARD OF DIRECTORS AND OF COMMITTEES

TABLE 1

BOARD OF DIRECTORS						
OFFICE	MEMBERS	IN OFFICE SINCE	IN OFFICE UNTIL	LIST (M/m)*	EXECUTIVE	NON EXECUTIVE
CHAIRMAN	EDOARDO GARRONE	20/04/2012	App. Fin. Stat. 31/12/2014	M	YES	
DEPUTY CHAIRMAN	ALESSANDRO GARRONE	20/04/2012	App. Fin. Stat. 31/12/2014	M	YES	
DEPUTY CHAIRMAN	GIOVANNI MONDINI	20/04/2012	App. Fin. Stat. 31/12/2014	M		YES
CEO	LUCA BETTENTE	20/04/2012	App. Fin. Stat. 31/12/2014	M	YES	
DIRECTOR	MASSIMO BELCREDI	20/04/2012	App. Fin. Stat. 31/12/2014	M		
DIRECTOR	PASQUALE CARDARELLI	20/04/2012	App. Fin. Stat. 31/12/2014	M		
DIRECTOR	ALESSANDRO CARERI	20/04/2012	App. Fin. Stat. 31/12/2014	M		YES
DIRECTOR	MARCO COSTAGUTA	20/04/2012	App. Fin. Stat. 31/12/2014	M		YES
DIRECTOR	ANTONIO GUASTONI	20/04/2012	App. Fin. Stat. 31/12/2014	M		
DIRECTOR	PAOLO FRANCESCO LANZONI	20/04/2012	App. Fin. Stat. 31/12/2014	M		
DIRECTOR	GRAZIELLA MERELLO	20/04/2012	App. Fin. Stat. 31/12/2014	M	YES	
DIRECTOR	UMBERTO QUADRINO	20/04/2012	App. Fin. Stat. 31/12/2014	M		
DIRECTORS WHO LEFT OFFICE DURING THE REFERENCE YEAR						
DIRECTOR	GIUSEPPE GATTI	23/04/2009	06/03/2012	M	YES	
DIRECTOR	ALDO GAROZZO	23/04/2009	20/04/2012	M		YES
QUORUM REQUIRED FOR LIST PRESENTATION ON THE OCCASION OF THE LATEST APPOINTMENT 2%						
NUMBER OF MEETINGS HELD DURING THE REFERENCE YEAR			BOARD OF DIRECTORS 10			
NOTES						
* In this column, M/m is indicated depending on whether the member was elected from the list voted by the majority (M) or by a minority (m).						
** This column shows the percentage of Directors' attendance at the meetings, respectively, of the Board of Directors and of the Committees (no. of presences/no. of meetings held during the person's actual period in office).						
*** This column shows the number of appointments as Director or Statutory Auditor held by the person in other companies listed on regulated markets, also abroad, in financial, banking, insurance companies or in companies of significant size.						
**** This column shows whether the member of the Board of Directors is also member of the Committee						
***** This column shows the date of first appointment of the directors since 16 October 1997, the date of the Company's initial listing.						

COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

TABLE 2

BOARD OF STATUTORY AUDITORS								
OFFICE	MEMBERS	IN OFFICE SINCE	IN OFFICE UNTIL	LIST (M/m) ⁺	INDIPEN- DENT IN ACCORDANCE WITH THE CODE	% ATTEND- ANCE (**)	NUMBER OF OTHER APPOINTMENTS (***)	SENIORITY IN OFFICE SINCE THE FIRST APPOINTMENT (****)
CHAIRMAN	MARIO PACCIANI	15/04/2010	App. Fin. Stat. 31/12/2012	M	YES	100%	1	29/04/2004
STANDING AUDITOR	LELIO FORNABAIO	15/04/2010	App. Fin. Stat. 31/12/2012	M	YES	100%	5	15/04/2010
STANDING AUDITOR	PAOLO FASCE	15/04/2010	App. Fin. Stat. 31/12/2012	M	YES	100%	4	27/04/2007
ALTERNATE AUDITOR	VINCENZO CAMPO ANTICO	15/04/2010	App. Fin. Stat. 31/12/2012	M	YES	–	–	15/04/2010
ALTERNATE AUDITOR	FABIO PORFIRI	15/04/2010	App. Fin. Stat. 31/12/2012	M	YES	–	–	15/04/2010
ALTERNATE AUDITOR	STEFANO REMONDINI	15/04/2010	App. Fin. Stat. 31/12/2012	M	YES	–	–	15/04/2010
AUDITORS WHO LEFT OFFICE DURING THE REFERENCE YEAR								
NONE								
QUORUM REQUIRED FOR LIST PRESENTATION ON THE OCCASION OF THE LATEST APPOINTMENT 2%								
NUMBER OF MEETINGS HELD DURING THE REFERENCE YEAR 10								
NOTES								
* In this column, M/m is indicated depending on whether the member was elected from the list voted by the majority (M) or by a minority (m).								
** This column shows the percentage of Auditors' attendance at the meetings of the Board of Statutory Auditors (no. of presences/no. of meetings held during the person's actual period in office).								
*** This column shows the number of appointments as Director or Statutory Auditor held by the Auditors in other companies listed on regulated markets, also abroad, in financial, banking, insurance companies or in companies of significant size. Complete list of appointments in attached, in accordance with Article 144-quinquiesdecies of the CONSOB Issuers' Regulation, to the report on supervisory activities, prepared by the auditors in accordance with Article 153, paragraph 1 of the Consolidated Finance Act.								
**** This columns shows the date of first appointment of the auditors.								