

Corporate Governance Report

Evolution of approach

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

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

This corporate policy was implemented via:

- Coordinated delegation of powers within the Board of Directors in such a way as to assure (a) clarity and completeness of executive accountabilities and (b) monitoring of activities and assessment of results achieved;
- Regular and adequate reporting to the Board on actions taken in the exercise of powers and of managerial responsibilities;
- Adoption of specific procedures to determine remuneration for directors and management.

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

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

- Adoption of a Group Compensation Plan to align the interests of management with those of shareholders, and strengthen the relationship between managers and the company in terms of awareness of the importance of ERG stock's value and of continuity over time;
- Appointment of independent directors on the Board;
- Approval of a Code of Conduct for the directors of Group companies;
- Acceptance of the Italian Corporate Governance Code for Listed Companies since its first edition in 1999, reviewed in 2002;
- ERG's presence from 2001 to 2005 in STAR, a segment of the stock market introduced by Borsa Italiana S.p.A. (the company managing the Milan Bourse) to give significant visibility to companies prominent for the special attention paid to corporate governance matters;
- Definition of (a) guidelines for the identification and execution of significant transactions and of (b) other governance documents designed to assure transparent and timely management of the Group's relationship with the market;
- Introduction of Code of Business Ethics as a tool for defining and communicating ERG's duties and responsibilities towards its stakeholders, as well as being an imperative element of an organisation and management model consistent with the requirements of Italian Legislative Decree no. 231/2001.
- Amendment of the Articles of Association to bring them into line with the regulatory changes introduced by way of the Italian Company Law Reform.
- Acceptance of the third edition (2006) of the Italian Corporate Governance Code for Listed Companies.

**Information on shareholdings at 31 December 2007
(pursuant to Article 123-bis of the Italian Consolidated Finance Act).**

Share capital structure

	no. of shares	% of c.s.	Listed (indicate markets) / unlisted	Rights and obligations
Ordinary shares	150,320,000	100	Italian Stock Exchange/Blue Chips segment	
Shares with limited voting rights	0	0		
Shares without voting rights	0	0		

Significant investors in the share capital

Declarant	Direct shareholder	% of ordinary capital held	% of voting capital held
San Quirico S.p.A.	San Quirico S.p.A.	55.9420	55.9420
San Quirico S.p.A.	Polcevera S.A.	6.9053	6.9053

Authorisation to increase the share capital and purchase treasury shares

The Board of Directors has the right to issue convertible bonds, in one or more stages, up to an overall maximum amount of Euro 150,000,000 (one hundred and fifty million), even excluding pre-emption rights provided that the bonds to be issued are acquired by institutional investors without subsequent placement with the public market, subject to a conversion ratio determined based on the nominal value of each bond divided by the ERG official price on the day of placement of the bonds, multiplied by a factor between 1.2 and 1.6, over a period of five years from the date of the shareholders' resolution adopted on 29 April 2004, all in observance of the procedure and limits set forth by Article 2420-ter of the Italian Civil Code.

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 – in particular with those contained in Italian Legislative Decree no. 58 of 24 February 1998 (the Italian Consolidated Finance Act) – and, overall, reflects adherence to the Italian Corporate Governance Code for Listed Companies in its various editions, which have succeeded each other over the years.

ERG corporate governance comprises the Statutory Bodies, the Board committees, and the documents that regulate their operation.

Statutory bodies

Board of Directors

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

In accordance with the Articles of Association, directors are appointed on the basis of lists presented by shareholders which, accompanied by information on the personal and professional characteristics of the candidates and the declaration relating to their possession of independence requirements, if appropriate, must be lodged at the Company's registered office at least fifteen days prior to the Shareholders' Meeting.

The lists may only be presented by shareholders who, either individually or with other shareholders, represent at least the percentage of share capital established in accordance with the CONSOB Regulation prevailing as at the date of convocation of the Shareholders' Meeting (currently 2%).

As regards the renewal of the Board of Directors which took place during the Shareholders' Meeting held on 28 April 2006, it should be noted that, whilst the voting list procedure was introduced by way of resolution of the Extraordinary Shareholders' Meeting held on 29 June 2007, the recommendations of the Italian Corporate Governance Code with regard to transparency of the election procedure in appointing the Board of Directors were already observed when appointing the Board of Directors currently in office.

Specifically, the curricula vitae of candidates were lodged at the company's registered office 15 days prior to the shareholders' meeting and at the same time were published on the website www.erg.it in the Shareholders / Corporate Governance section.

Members:

Riccardo Garrone	Honorary Chairman
Edoardo Garrone	Chairman
Giovanni Mondini	Vice Chairman
Pietro Giordano	Vice Chairman
Alessandro Garrone	Chief Executive Officer
Massimo Belcredi	Director
Lino Cardarelli	Director
Aldo Garozzo	Director
Giuseppe Gatti	Director
Antonio Guastoni	Director
Paolo Francesco Lanzoni	Director
Gian Piero Mondini	Director
Guido Sebastiano Zerbino	Director

Non-executive directors:

Riccardo Garrone
Gian Piero Mondini
Guido Sebastiano Zerbino

Independent directors:

Massimo Belcredi
Lino Cardarelli
Antonio Guastoni
Paolo Francesco Lanzoni

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

The Board of Directors conducted this assessment in its first meeting subsequent to appointment and periodically proceeds (during the board meeting called to examine the first quarterly report) to check that these requirements are still valid.

In 2008, the assessment of independence was carried out during the Board meeting on 10 March.

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

With regard to the composition of the Board of Directors and the distribution within same of offices and powers, it was not considered necessary to designate a lead independent director. Although the independent directors did not hold their own meetings without the other directors in 2008, they maintained contact with each other as necessary and regularly consulted with each other in advance on the principal matters examined by the Board of Directors.

Other offices held by directors:

Edoardo Garrone	Director of Pininfarina S.p.A.
Alessandro Garrone	Director of ERG Renew S.p.A. Director of YARPA Investimenti SGR S.p.A. Director of Banca Passadore e C. S.p.A. Director of MutuiOnline S.p.A.
Massimo Belcredi	Director of Arca SGR S.p.A. Director of Banca Italease S.p.A.
Lino Cardarelli	Deputy Chairman of Ambromobiliare S.p.A.
Riccardo Garrone	Chairman of Banco San Giorgio S.p.A. Chairman of Capitalimpresa S.p.A. Chairman of U.C. Sampdoria S.p.A.
Giuseppe Gatti	Chairman of ERG Renew S.p.A. Chairman of Iride Mercato S.p.A. Chairman of Grandi Reti S.c.a.r.l. Director of Actelios S.p.A.
Pietro Giordano	Director of ERG Renew S.p.A.
Antonio Guastoni	Chairman of the Board of Statutory Auditors, Leonardo Alternative Sgr S.p.A. Standing Auditor of Leonardo Sgr S.p.A. Standing Auditor of Grande Jolly S.p.A. Standing Auditor of Finlombarda Sgr Chairman of the Board of Auditors of the Milan Chamber of Commerce (CCIAA)
Paolo Francesco Lanzoni	Chief Executive Officer of FIN. SAG S.r.l. Director of Effusia S.G.R. S.p.A. Director of Finservice S.p.A. Director of Dolphin Tanker S.p.A

Other attendees of Board meetings

The head of Administration, Finance and Control attends Board of Directors meetings. Depending on the topics discussed, Group management representatives also take part in the Board meetings.

Directors' remuneration

Directors' remuneration is determined, for each financial year, by the Ordinary General Shareholders' Meeting called to approve year-end financial statements. The Shareholders' Meeting also fixes the remuneration of the directors serving on committees within the Board. The emoluments of the Chairman, Deputy Chairmen, and Chief Executive Officer are determined by the Board of Directors on the basis of a recommendation made by the Nominations and Remuneration Committee.

Powers

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

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

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

Frequency of Board meetings

As envisaged by the Articles of Association, the Board of Directors meets on at least a quarterly basis to inform the Board of Statutory Auditors on the Group's activities and on the most important business, financial and capital transactions undertaken by the company or its subsidiaries, and particularly those where there may be a potential conflict of interest.

During the 2008 financial year the Board of Directors held 13 meetings, while for the year 2009 there are expected to be no fewer than 9 meetings.

In 2008, the Board of Directors passed resolutions on 36 different matters and for 33 of these, the related informational documentation was transmitted beforehand to Directors and Auditors.

Activities performed

The participation of directors in the activity of the Board and the Committees during 2008 was high in terms of presence at meetings and actual involvement in the works.

In the course of 2008, the Board of Directors performed the activities and responsibilities referred to in application criterion 1C.1 of the Italian Corporate Governance Code for listed companies in accordance with the role that the Code attributes to the Board of a listed company.

Particularly in regard to sub-indent g) of this application criterion, the Board of Directors meeting held on 13 August carried out a review, partly on the basis of a document prepared for this purpose by the Nominations and Remuneration Committee, of the size, composition and functions of the Board of Directors and Committees. This review concluded with a favourable opinion.

Pursuant to application criterion 1.C.3. of the Italian Corporate Governance Code, the Board of Directors also acknowledged that, in light of the findings set out in the document prepared by the Nominations and Remuneration Committee, it no longer appears necessary to set a maximum number of management and control positions that Board of Directors members may hold that is different and greater than what they hold on the basis of the information set out in the Report on Corporate Governance.

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

The guidelines – the original text of which was amended for the first time with a Board resolution passed on 6 August 2004 and by subsequent resolutions passed on 13 February and 10 August 2006 – indicate the criteria to be used to identify major significant transactions.

These criteria are quantitative and qualitative, stemming from the specific nature of the parties involved (transactions with related parties and infragroup transactions). The document also identifies the principles of conduct to be applied in execution of transactions, with special reference to transactions initiated by subsidiaries, which must be examined and approved beforehand by ERG S.p.A.'s Board of Directors, and to those with related parties, for which the direct involvement of the Internal Control Committee is required. The Internal Control Committee is called upon, inter alia, to evaluate the need or opportunity to obtain the opinion of independent experts and, if so, to name such experts.

Board of Statutory Auditors

The present Board of Statutory Auditors was appointed by the Shareholders' Meeting held on 27 April 2007 and will remain in office until approval of the Financial Statements for the year ending on 31 December 2009.

In compliance with the Articles of Association, the Board of Statutory Auditors is appointed on the basis of lists presented by Shareholders at least 15 days before the Shareholders' Meeting, which must set out the names of candidates in numbered, sequential order.

Candidate lists may only be presented by shareholders who, at the time of presenting the list, are in possession of a shareholding equal to that required for the presentation of lists for the election of directors.

At the time of appointment of the Board of Statutory Auditors presently in office, the shareholding required in order to present the lists was equal to 3% of share capital whereas the current minimum shareholding is 2%.

No shareholder may present or vote for more than one list and each candidate may be included in only one list, on pain of ineligibility.

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

Candidates cannot be elected to the position of Statutory Auditor unless they possess the requirements of independence, professionalism, and integrity as provided by Article 148 section 3, of the Consolidated Finance Act or if they already hold the position of Standing Auditor in more than five listed companies.

Members:

Mario Pacciani	Chairman
Fabrizio Cavalli	Standing Auditor
Paolo Fasce	Standing Auditor
Umberto Trenti	Alternate Auditor
Michele Cipriani	Alternate Auditor
Lello Fornabaio	Alternate Auditor

The Board of Statutory Auditors, having evaluated the personal and professional characteristics of each auditor, has concluded that its members can be qualified as independent, also based on the criteria set forth by the Corporate Governance Code for directors.

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

Mario Pacciani	Chairman of Board of Statutory Auditors of Boero Bartolomeo S.p.A.
Paolo Fasce	Standing Auditor of Boero Bartolomeo S.p.A.

Shareholders' Meetings

Article 10 of the Articles of Association states that holders of voting rights who, based on the procedures laid down in the notice of meeting, exhibit a pass certificate issued in compliance with current legislation at least two working days before the meeting, shall be entitled to attend the meeting.

Meeting Regulation

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

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

Board committees

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

Internal Control Committee

Members:

Massimo Belcredi Chairman
Antonio Guastoni
Paolo Francesco Lanzoni

The members of the Internal Control Committee have adequate experience in accounting and finance. The Chairman of the Board of Statutory Auditors or another Statutory Auditor takes part in this Committee's work. In addition, the Chairman of the Board of Directors (in his role as director appointed to oversee the functioning of the internal control system), the Chief Executive Officer and the Director of Finance, Administration and Control may also participate.

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

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

In particular, the resolution phase takes place in the absence of other parties.

Tasks

The Internal Control Committee has consultative and propositive functions vis-à-vis the Board of Directors and performs the role and responsibilities provided by the Corporate Governance Code.

To enhance its performance of the tasks assigned, the Committee may use external consultants, at the company's expense.

In 2008, the Committee held 10 meetings during which, besides prior review of the Annual Report and Accounts and the half-yearly report, matters relating to the following macro-issues were also discussed: Corporate Governance, the Control System, Italian Law 231/01, Risk Management and Administration Area.

Below are the most relevant issues dealt with by the Committee:

1) Regarding Group Governance

- it carried out the periodic audit of application of Sections 2497 et seq. Italian Civil Code, regarding relations between ERG and the parent company S. Quirico S.p.A., the scope within which management and co-ordination of ERG is carried out and the list of companies subject to this activity, while proposing to the Board of Directors that it resolve, on the one hand, to further specify the scope within which subsidiaries are actually subject to management and co-ordination and, on the other hand, emphasizing that ERG is not subject to management and co-ordination by the parent company San Quirico S.p.A.;
- in application of the "Rules of Conduct for Transactions with Related Parties," it reviewed the partial demerger of ERG Power & Gas ("ERG P&G") with the beneficiary ERG Renew, submitting its favourable opinion of the formal and technical fairness of the transaction to the Board of Directors, supported by the opinion of an independent expert;
- examined and approved the operating Guidelines for the Internal Control Committee, as amended to reflect inclusion of the position of Chief Financial Officer (CFO) in the parent company's organisational structure and the name change of the listed subsidiary Enertad (now ERG Renew);
- after having taken note of the essential elements of the transfer of assets by ERG Nuove Centrali to ERG Raffinerie Mediterranee, in conformity with the "Rules of Conduct in Transactions with Related Parties," it expressed its favourable opinion on the transaction, holding that in light of the particular characteristics that distinguish the transaction, expression of an opinion on it by an independent expert was unnecessary.

2) Regarding the Control System

- it examined the final report by the Audit Department in FY 2007 and the plan of activities for FY 2008, taking note of the results of the audits carried out during the 2007 audit and, in particular, the activities carried out in the framework of the project for revision of the Internal Control System, which had already been monitored and agreed to by the Committee during the year;
- in regard to the programme of activities for 2008, it expressed its appreciation for the methods used to define its ambit, particularly in regard to definition of objectives through, inter alia, the elaboration of comparative historic data;
- it prepared a report on the activities carried out by the Committee during the year 2007 and on the adequacy of the internal control system and communicated such information to the Board of Directors;
- it examined the project for modification of the Group Internal Control System in compliance with Law 262/05, the conclusions reached in this project and the actions to be taken, and approved its framework and conclusions;
- it approved the general framework of the organisational changes made in the Internal Control System, expressing its appreciation for the enhancements made to the organisation of the risk control system and full compliance with the principle of separating management and risk control that are at the basis of the changes;
- it approved the framework and content of the report by the compliance officer for 2007, while pointing out that the actions taken for complete configuration of the Group's Internal Control System are currently underway and that information about the conclusion thereof can be given in the compliance officer's report for 2008;
- it prepared a report on the activities carried out by the Committee during the first half of 2008 and on the adequacy of the internal control system and communicated such information to the Board of Directors;
- it examined the report by the Compliance Officer on activities performed in the first half of 2008, recommending that the structure of the Audit Department be reinforced qualitatively and quantitatively so that a programme of activities could be defined for 2009 that would guarantee adequate monitoring of the principal areas of risk;
- it examined a document containing the salient points of the framework for audit activities in 2009, expressing its approval thereof.

3) Regarding the obligations related to Italian Legislative Decree 231/01

- it examined a document prepared by the Corporate Security Department and approved by the Supervisory Committee, regarding the changes to be made to the Organisation and Management Model of ERG S.p.A. to take account of inclusion in Legislative Decree 231/01 of the criminal offences of market abuse and occupational health and safety;
- it expressed its approval of the revised and Management Model of ERG S.p.A., which amended the Model to include appropriate references to the offences of market abuse and occupational health and safety, and notified the Board of Directors of its approval;
- it examined the report of the Supervisory Committee on the activities carried out in the first half of 2008;
- it examined a document illustrating the programme of activity of Group company Supervisory Committees for 2009.

4) Regarding Risk Management

- it took note of an initial progress report on the "Enterprise Risk Management" project and, in particular, the formal steps that will lead to its conclusion through the approval of policies that must ensure its full operation, while reserving the right to assess them;
- it examined a document prepared by the Risk Management function that is still subject to possible revisions before final approval and which, in addition to a further update on the progress of the "Enterprise Risk Management" Project, also contains a section detailing hedging of refining margins.

5) Regarding the Administration and Tax Area

- it assessed the correct use of accounting policies in preparing the draft statutory and consolidated financial statements for the period ended 31 December 2007 and informed the Board of Directors accordingly;
- it examined and approved a document prepared by the Controller's Office setting out its assessment of the benefits realised by the company and the Group in consequence of the national and global tax consolidation programme;
- it examined and approved a document prepared by the Controller's Office that sets out the highlights of the intercompany services agreements for FY 2008 and, in particular, the analytical level according to which the criteria for rebilling of services envisaged therein are specified;
- it assessed the correct use of accounting policies in preparing the Half-yearly Financial Report as at 30 June 2008, and informed the Board of Directors accordingly;
- it examined a document prepared by the Administration and Tax Department containing a summary of the principal aspects of the tax consolidation programme at the ERG Group and approved its contents.

Nominations and Remuneration Committee

Members:

Massimo Belcredi

Paolo Francesco Lanzoni

Guido Sebastiano Zerbino

The Chairman and the CEO takes part in this committee's work.

Tasks

The Nominations and Remuneration Committee makes recommendations to the Board regarding the remuneration of the CEO and directors holding specific offices, as well as recommendations, at the CEO's request, for setting criteria for remuneration of the company's senior management and for the definition of the Group management incentive scheme.

The Committee also (i) submits to the Board of Directors, where requested, the candidates to the office of Board member in the cases set forth by Article 2386, first paragraph, of the Italian Civil Code, whenever it is necessary to replace an independent director; (ii) assesses, on the specific request of shareholders who intend to submit lists, the independence of the candidates to the role of director to submit to the shareholders' meeting; and (iii) performs preliminary activities in order to allow the Board of Directors to carry out their annual evaluation regarding the size, composition and functioning of the Board as effectively as possible. To this end, it can express its opinion on the professional figures whose presence in the Board is considered appropriate.

In order to optimise performance of these tasks, the Committee may use the services of outside consultants, paid by the company.

Whenever the Committee discusses elaboration of its recommendations for remuneration of the Chairman and the CEO, such persons leave the meeting.

In FY 2008 the Committee, in its previous configuration as the Remuneration Committee, held six meetings where proposals were made to determine the compensation of the Chief Executive Officer and the other Directors who hold seats on the Board of Directors, definition of the objectives for FY 2008 in regard to the short-term incentive system and the creation of value in FY 2007.

The Committee also prepared a supporting document for the Board of Directors regarding the Board Performance Review carried out by it, and it examined a preliminary document containing the fundamental elements and operating criteria for a new incentive plan (Long Term Incentive Plan) for Group management.

Strategic Committee

Members:

Edoardo Garrone
Alessandro Garrone
Giovanni Mondini
Pietro Giordano
Giuseppe Gatti
Luca Bettonte

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

It performs its work within the scope of the 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 operations of extraordinary finance, monitoring the progress of their implementation over time.

The Committee also examines the multi-year strategic plans and the investment budgets of the Group and the operating companies as well as the significant investments at Group level, evaluating their strategic congruence.

Rules of Corporate Governance

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

- Rules concerning the handling of sensitive and confidential information;
- Procedure for public dissemination of announcements and information;
- Code of Conduct for Internal Dealing;
- Guidelines for identification and execution of significant transactions;
- Code of Conduct for directors of Group companies;
- Subholding company reporting procedure for significant transactions;
- Procedure for carrying out transactions with related parties.

Rules for the handling of sensitive and confidential information

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

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

Procedure for public dissemination of statements and information

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

The procedure defines the tasks and responsibilities of the functions involved, identifies the criteria, methods and timing of the various procedural stages, and establishes the appropriate decision-making levels for the dissemination of statements and information.

Code of Conduct for Internal Dealing

With its resolution of 9 August 2007, the Board of Directors adopted a Code of Conduct which aims to give transparency to financial operations carried out by Relevant Persons, namely those persons who, by virtue of their roles within the Group have significant decision-making power or considerable knowledge of the company strategies such as to help them in investment decisions regarding the financial instruments issued by the Company.

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

Guidelines for identification and execution of significant transactions

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

Code of Conduct for directors of Group companies

With a resolution dated 21 March 2000, the Board of Directors adopted a Code of Conduct for directors appointed in Group companies, in order to provide them with uniform rules of conduct for performing their duties within a systematic framework of reference and in observance of corporate governance principles. Bearing in mind, however, the formal aspects inherent in directors' responsibilities and the relationship between the individual companies appointing them and the Group, it was decided not to make the Code compulsory, instead accentuating its spirit of moral suasion, the aim of this being to assure that its application, when the Code requires directors to conduct themselves in specific ways, is the result of spontaneous support for the Code rather than mere performance of a duty.

Subholding company reporting procedure for significant transactions

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

Procedure for execution of related-party transactions

On 14 March 2006, the Board of Directors passed a resolution adopting principles of conduct which, completing the provisions made in the Guidelines for identification and execution of significant transactions, set out the criteria and approach to be applied in executing related- party transactions.

In a resolution on 21 December 2007, the Board of Directors amended the rules of conduct by determining the criteria to be used for identifying the transactions that must be approved on the basis of an opinion by the Internal Control Committee and/or with the assistance of independent experts. The criteria for selecting them were also defined.

Other information

Set out below is information concerning the internal control system, the supervisory committee, investor relations, the organisation and management model, the independent auditors, the Manager responsible for preparing the company's financial reports, and the management and coordination activity.

The internal control system

The Board of Directors passed a resolution on 14 May 2007 identifying the executive director appointed to oversee the functioning of the internal control system in the person of the Chairman, Edoardo Garrone. Upon the proposal by Mr. Garrone, the person in charge of the Audit function, Carlo Alfredo De Vita, was appointed as head of Internal Control.

The proposal was formulated by the Internal Control Committee following an in-depth preliminary enquiry in terms of both benchmarking and examination of the existing and prospective structure of the internal control system.

The internal control system operating within the Group is not an autonomous and specific corporate function, but comprises the coordinated operations of various functions to which, within the organisational structure, are assigned the responsibilities pertaining to the overall control activity.

These functions are, above all, the Audit Department and the Administration, Finance and Control Division. They are joined by other functions whose responsibilities include monitoring the compliance of corporate actions with current laws and regulations.

The director in charge of overseeing the internal control system constantly ascertains its overall adequacy, effectiveness and efficiency, also requesting for such purpose the opinion of the Internal Control Committee.

The Board of Directors evaluates on an annual basis the functionality of the internal control system based on the elements made available to it by the director in charge of overseeing the functioning of the system and the Internal Control Committee.

In FY2008 a project initiated in 2007 was completed that defined the Guidelines of the Internal Control System, approved by the Board of Directors on 12 December 2007. It was designed to rationalise the overall internal control system by mapping and classifying the parties belonging to it, defining the flow chart of the principal reports in the system, and describing the responsibilities and ambits of existing activities.

In the ambit of this project, certain organisational changes were made in 2008, including in particular the establishment of the Risk Office, whose mission is to ensure the implementation of procedures, processes, and series of controls to identify and assess corporate risks and define policies for management thereof.

Supervisory Committee

On 10 March 2005, the Board of Directors of ERG S.p.A. changed the structure of the Supervisory Committee, previously enshrined in the Internal Auditing function, by creating a committee of five members, i.e. the independent director Paolo Francesco Lanzoni, as Chairman, and the heads of the company's Auditing, Corporate Security, Human Resources and Legal & Corporate Affairs functions.

The Supervisory Committee, which maintains direct and ongoing relations with the Internal Control Committee, performs its activity at the Parent Company while, in regard to the subholding, including ERG Renew, a Supervisory Committee was appointed to each, comprised of the independent director of ERG S.p.A., Paolo Francesco Lanzoni, as Chairman, the Internal Audit Officer of the holding company, Carlo Alfredo De Vita, the Corporate Security Officer of the holding company, Luigi Bricocoli, and the respective Human Resources Officer.

The Supervisory Committee of ERG S.p.A. met five times in 2008.

Investor relations

The company manages relationships with its shareholders, institutional investors and the market by means of the investor relations function, which is part of the Administration, 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 policy is to provide the fullest possible information on its activities and strategies, also via constant updating and innovation of its website.

The Organisation and Management Model

With resolution on 21 December 2004, the Board of Directors adopted the Organisation and Management Model pursuant to Legislative Decree 231/2001.

The Model has since been periodically updated to adapt it to the regulatory changes subsequently introduced.

The Independent auditors

The assignment for the accounting audit relating to the financial years 2006, 2007, and 2008 was granted by the Shareholders' Meeting of 28 April 2006 to Reconta Ernst & Young.

Manager responsible for preparing the company's financial reports

The Chief Financial Officer, Luca Bettonte, was appointed as manager responsible for preparing the company's financial reports in a resolution dated 14 February 2008.

Management and coordination

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

Acknowledgement of this circumstance is given in the resolution of the ERG S.p.A. Board of Directors dated 10 March 2008.

Commitment

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

- Pursue as its primary objective, in its formal acts and conduct, creation of shareholder value;
- Model its business on total observance of the Group's ethical principles, which are based on that combination of values consisting of personal honesty, correctness of relationships inside and outside the company, and transparency vis-à-vis shareholders, related stakeholders, and the market – as outlined and explained in the Code of Ethics adopted in December 2003;
- Assure, by means of constant attention to the ongoing evolution of corporate governance principles, observance of such principles by its organisation, to assure, in turn, transparent and efficient operation of the organisation over time.

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

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

TABLE 1: Structure of Board of Directors and Committees

Board of Directors							Internal Control Committee		Appointments & Remuneration Committee			
Office	Members	Executive	Non-executive	Independent	****	Number of other offices **	***	****	***	****		
Honorary Chairman ^{a)}	Riccardo Garrone		yes		100%	3						
Chairman	Edoardo Garrone	yes			92%	1						
Deputy Chairman	Giovanni Mondini	yes			100%							
Deputy Chairman	Pietro Giordano	yes			100%	1						
Chief Executive Officer	Alessandro Garrone	yes			100%	4						
Director	Massimo Belcredi			yes	85%	2	yes	100%	yes	100%		
Director	Lino Cardarelli			yes	77%	1						
Director ^{b)}	Aldo Garozzo	yes			100%							
Director	Giuseppe Gatti	yes			92%	4						
Director	Antonio Guastoni			yes	100%	5	yes	100%				
Director	Paolo Francesco Lanzoni			yes	100%	4	yes	89%	yes	100%		
Director	Gian Piero Mondini		yes		92%							
Director	Guido Sebastiano Zerbino		yes		100%				yes	100%		
Number of meetings held during the year in question		Board of Directors				13	Internal Control Committee		10	App & Remuner. Committee		6

NOTES

* The asterisk indicates whether the director has been designated via lists presented by minority shareholders

** This column shows the number of directorships or statutory auditor appointments held by the person concerned in other companies listed in Italian or foreign regulated markets, in financial/banking/insurance companies, or in companies of major size. In the annual corporate governance report any such offices are indicated in full detail

*** In this column an "YES" indicates a Board member's membership of a given committee

**** This column indicates directors' percent attendance respectively of BoD and Committee meetings

a) Appointed Honorary President on 13/11/2008

b) In office from 10/03/2008

TABLE 2: Board of Statutory Auditors

Office	Members	% attendance of meetings of Board of Statutory Auditors	Number of other offices*
Chairman	Mario Pacciani	100%	1
Standing Auditor	Fabrizio Cavalli	100%	
Standing Auditor	Paolo Fasce	100%	1
Alternate Auditor	Umberto Trenti	=	=
Alternate Auditor	Michele Cipriani	=	=
Alternate Auditor since 24/04/2008	Lelio Fornabaio	=	=
Number of meetings held during the year in question: 11			
Quorum required for submittal of lists by minority shareholders for the election of one or more Standing Auditors (as per art. 148 fo the Italian Consolidated Finance Act): 2%			

NOTES

* The asterisk indicates whether the statutory auditor has been designated via lists presented by minority shareholders

** This column shows the number of directorships or statutory auditor appointments held by the person concerned in other companies listed in Italian regulated markets. In the annual corporate governance report any such offices are indicated in full detail

TABLE 3: Other provisions of the Italian Corporate Governance Code

	YES	NO	Summary of reasons for any departures from Code recommendations
Power delegation and related-party transaction system			
Has the BoD delegated powers defining their:	x		
a) limits?	x		
b) method of exercise?	x		
c) frequency of reporting?	x		
Has the BoD reserved as its prerogative the review and approval of transactions particularly important in business, capital and financial terms (including related-party transactions)?	x		
Has the BoD defined guidelines and criteria for identification of "significant" transactions?	x		
Are the above guidelines and criteria described in the report?	x		Summarily
Does the BoD have appropriate procedures for the examination and approval of transactions with associated parties?	x		
Are the procedures for approval of transactions with associated parties described in the report?	x		Summarily
Procedures for most recent appointment of Directors and Statutory Auditors			
Were candidacies for directorship lodged at least 10 days beforehand?	x		
Were candidacies for directorship accompanied by exhaustive information?	x		
Were candidacies for directorship accompanied by an indication of eligibility for classification as independent directors?	x		
Were candidacies for the office of Statutory Auditor lodged at least 10 days beforehand?	x		
Were candidacies for the office of Statutory Auditor accompanied by exhaustive information?	x		
Shareholders' Meetings			
Has the company approved a regulation for Shareholders' Meetings?	x		
Is the regulation attached to the report (or is it indicated where it can be obtained/downloaded)?	x		
Internal control			
Has the company appointed internal controllers?	x		
Are the internal controllers free of hierarchical relationships with the heads of operating areas?	x		
Organizational unit responsible for internal control (as per art. 9.3 of the Code)	Internal Audit		
Investor relations			
Has the company appointed an Investor Relations Manager?	x		
Organizational unit and contact details (address/telephone/fax/e-mail) of Investor Relations Manager	Investor Relations - Paolo Merli Tel. 010/2401376 – Fax 010/2401598 – e-mail: pmerli@erg.it		

Management incentive schemes

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

When the company's shares were first listed on the Stock Exchange, a new Compensation Plan was introduced, designed to align the interests of the management with those of the company and its shareholders, and strengthen their relationship, also in terms of continuity over time.

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

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

The Remuneration Committee (now the Nominations and Remuneration Committee) found it necessary to subject the plan adopted at the time of stock market entry to general review, in order to evaluate its adequacy as regards both the new company structure and the change in the market's sensitivity to the most frequently-used management incentive tools.

To this end, during 2004, using the services of qualified experts, the Committee completed its review of the plan. It did so defining a new short-term incentive system, which envisaged payment to executives and top management, based on a differentiated approach, of annual bonuses, calculated on the basis both of company performance and of achievement of individual goals.

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

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

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

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

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

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

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

For each business area (Corporate, Coastal Refining, Integrated Downstream, Power Generation and Renewable Energy) a distinct bonus pool is created. The pool is the sum of the individual bonuses of the executives belonging to each area, so as to use performance indicators specific to each individual area.

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

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

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

The other characteristic features of the scheme are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Considering the fact that the three-year long-term incentive programme illustrated hereinabove had expired (although the options granted under it still remained exercisable), the Nominations and Remuneration Committee, with the assistance of an outside consultant, undertook study of a new Long Term Incentive Plan which will be defined and adopted in 2009.

Board of Directors' Proposal

Shareholders,

We close this report by inviting you to:

- approve the financial statements of your company for the period ended 31 December 2008 which close with a net profit of Euro 266,581,407.03.
- approve the payment to shareholders of a dividend of Euro 0.90 per share, including a non-recurring component of Euro 0.50 per share following the positive result of the joint venture with LUKOIL. The dividend will be payable for each share with dividend rights outstanding at the coupon detachment date, excluding the company's own shares, in accordance with Article 2357-*ter* of the Italian Civil Code, via use of the year's earnings;
- allocate the remaining profit for the year to be carried forward as retained earnings;
- approve the payment of the dividend as from 7 May 2009, subject to detachment of coupon as from 4 May 2009.

Genoa, 10 March 2009

On behalf of the Board of Directors

The Chairman

Edoardo Garrone