



**CORPORATE  
GOVERNANCE  
REPORT**

**2008 FINANCIAL YEAR  
APPROVED ON 9 MARCH 2009**

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# CORPORATE GOVERNANCE REPORT

## INTRODUCTION

As part of the transfer of ERG Group wind power generation activities to ERG Renew S.p.A. (referred to hereinafter as “ERG Renew” or the “Company”), it has been decided to reorganise the Company so that management can focus its attention on integrated management of those activities.

Accordingly, the Board of Directors meeting held on 14 March 2008: *i)* resolved to appoint a General Manager, Francesco Del Balzo, who was delegated ordinary administrative authority; *ii)* following resignation on that date of Directors Salvatore Russo and Paolo Panella from their positions as Chief Executive Officers, it appointed Raffaele Tognacca as Chief Executive Officer of the Company; *iii)* it approved the formation of a Strategic Committee to provide advice and support to the Company’s Chief Executive Officer, Board of Directors and subsidiaries and/or affiliates.

To maintain continuity in the management of certain important business activities, Raffaele Tognacca delegated the Deputy Chairman, Salvatore Russo, to assist him with extraordinary transactions and investor and financial analyst relations, and Director Paolo Panella to assist him with operations in the “Water Services” division.

To facilitate the process of integrating ERG Power & Gas S.p.A. renewable energy activities with ERG Renew, the Shareholders’ Meeting of 22 April 2008 resolved as follows on a motion by the shareholder ERG S.p.A.: *i)* to increase the number of seats on the Board of Directors from nine to eleven; *ii)* to appoint Luca Bettonte and Vittoria Garrone to fill the new director seats, in light of their professional qualifications and experience; *iii)* pursuant to Article 2386 Italian Civil Code, to appoint as directors Raffaele Tognacca and Giorgio Mazzanti, who had been co-opted by the Board of Directors at its meetings on 21 September 2007 and 22 January 2008, respectively, to replace the resigned directors Massimo Pezzolo and Giulio Antonello.

On 30 June 2008, the Extraordinary Shareholders’ Meeting *i)* approved the project for partial demerger of ERG Power & Gas in favour of ERG Renew and consequent assignment of 37,789,734 newly issued shares to ERG S.p.A., the sole shareholder of the demerged company; *ii)* pursuant to Article 2443 Italian Civil Code, it resolved to grant the Board of Directors authority to increase the share capital up to Euro 200 million, including any share premium, through rights offers to shareholders for a maximum period of five years; *iii)* resolved to change the company name to “ERG Renew S.p.A.”, thereby reinforcing the identification of the Company with the ERG Group, particularly in reference to the renewable energy sector; *iv)* resolved to change the name of the Compensation Committee to the Nominations and Compensation Committee.

On 25 September the Board of Directors of ERG Renew approved the amendment to the Disclosure Document published on 19 June 2008, regarding the plan for demerger of the renewable energy source assets of ERG Power & Gas in favour of ERG Renew, in view of listing the shares issued to service the demerger pursuant to Article 57(1) of the CONSOB Issuers Regulation 11971/99. The demerger agreement, which was signed on 18 September 2008 and entered at the Milan Trade Register on 22 September, came into force on 1 October 2008.

Finally, the amendment to Article 23 “Statutory Auditors” of the Articles of Association, resolved by the Shareholders’ Meeting on 30 June 2008, and consisting in the addition of the new clauses 10 and 11 after clause 9, envisages that if no list is submitted or just one list of candidates is submitted for election to the Board of Statutory Auditors, the issue will be decided by majority vote.

The share capital of ERG Renew, totalling Euro 132,666,675.00, is 77.387% owned by ERG S.p.A. The Board of Directors three-year term will expire upon approval of the annual financial statements.

## CORPORATE GOVERNANCE REPORT

*(Disclosure pursuant to Section IA.2.6 of the Instructions to the Regulation of Markets Organised and Operated by Borsa Italiana S.p.A.)*

Pursuant to applicable laws and regulations, the Annual Corporate Governance Report provides a detailed description of the Corporate Governance system and actions taken by the Company in accordance with a fair and transparent corporate governance and control system. In particular, this report is focused on providing general information about the Company, including description of its ownership structure pursuant to Article 123 bis TUF (Consolidated Law on Finance), and illustrating the level of application of the recommendations contained in the individual principles and criteria set out in the Corporate Governance Code approved in March 2006 by the Committee on Corporate Governance for Listed Companies of Borsa Italiana S.p.A., and consistently with the best practises applied inside and outside Italy. Accordingly, a table is appended to the end of this report <sup>(1)</sup> that shows which of the recommendations contained in the Corporate Governance Code were actually adopted and, consequently, applied by the Company. Furthermore, data and information are provided in table format to ensure synoptic and intuitive disclosure.

The text of the Company Articles of Association, amended in accordance with the Corporate Law Reform pursuant to Legislative Decree 6/2003, as amended by Legislative Decree 37/2004 in co-ordination with Legislative Decree 385/1993 (Consolidated Law on Banking – TUB) and Legislative Decree 58/1998 (Consolidated Law on Finance - TUF), and approved by the Extraordinary Shareholders' Meeting on 29 September 2004, was further amended on 26 June 2007 in order to bring its content in line with Law 262 of 28 December 2005 (Savings Act), and Law 303 of 29 December 2006. Finally, Articles 1, 17 and 23 in the Articles of Association were amended by the Extraordinary Shareholders' Meeting on 30 June 2008.

The current Corporate Governance structure was created through the progressive introduction of rules of conduct that have gradually implemented the most advanced principles of relevance.

This corporate policy has taken material form through:

- the adoption of a Group Compensation Plan designed to align management interests with shareholder interests and reinforce the relationship between managers and the Company in terms of their sensitivity to the value of action and continuity over time;
- the adoption of a Code of Ethics, shared with the ERG Group, as a tool for defining and communicating the Company's duties and responsibilities to its stakeholders and as an essential element of an organisation and management model consistent with the provisions of Legislative Decree 231/2001, as amended;
- the presence of independent directors on the Board of Directors;
- adoption of the Corporate Governance Code for Listed Companies, as most recently amended in 2006 by the Committee on Corporate Governance of Borsa Italiana S.p.A.
- the adoption of a Code of Conduct for Directors of ERG Group companies;
- the definition of Guidelines for identification and execution of significant transactions and other corporate governance documents designed to ensure transparent and prompt management of Market relations;
- amendment of the Company Articles of Association to bring them into line with the statutory amendments introduced by the Corporate Law Reform.

The Company has always focused attention on fair relations between management and shareholders and the objective of creating value through its business operations. This policy has been implemented through:

1) See Table 3 hereunder.

- co-ordinated delegations of authority on the Board of Directors to ensure that management authority and responsibilities are clear and complete, on the one hand, and that the achieved results are monitored and assessed, on the other hand;
- systematic and adequate reports to the Board of Directors on actions taken in the course of exercising management authority and responsibilities;
- adoption of specific procedures to determine the compensation of directors and management.

This report is available in the specific section of the website [www.ergrenew.it](http://www.ergrenew.it)

## ORGANISATION OF COMPANY

Consistently with the Italian legislation governing listed companies, the Company has:

- 1) a Board of Directors that is responsible for ordinary and extraordinary management;
- 2) a Board of Statutory Auditors that is responsible for monitoring: *(i)* compliance with the law and the Articles of Association, *(ii)* compliance with the principles of fair management, and *(iii)* the adequacy of the organisational structure, internal control system and administrative and accounting system of the Company;
- 3) an Internal Control Committee and a Nominations and Compensation Committee that are responsible for: *(i)* proposing candidates on request to the Board of Directors, if it is necessary to replace an independent director pursuant to Article 2386(1) Italian Civil Code; *(ii)* assess, on specific request by the shareholders that intend to submit voting lists, the independence of Board of Director candidates to be proposed to the Company Shareholders' Meeting; *(iii)* provide the Board of Directors with an annual opinion on the size, composition and functions of the Board of Directors, possibly expressing its opinion on the professionals it believes should sit on the Board of Directors; *(iv)* express its opinion on the maximum number of positions as director or statutory auditor at other companies listed on regulated markets, including foreign markets, at financial, bank, insurance or large companies that might be considered compatible with effective performance of the role of Company director;
- 4) a Strategic Committee, delegated with consultative and advisory duties to the Board of Directors of the Company and the subsidiaries, to be implemented through the preparation of evaluations and expression of opinions on definition of business and financial strategies and individual significant transactions. The Strategic Committee maintains appropriate ties with the Committee set up at the parent company, ERG S.p.A., examines the multi-year strategic plans and investment budget of the Company and subsidiary and/or affiliated operating companies before their implementation, and evaluates the strategic appropriateness of major investments, defining any "toll gates," the specific Final Decision Process (FDP) and relevant follow-up.  
In regard to significant investments, the Committee also assesses the economic and financial analyses for the individual investment and, if necessary, material aspects of legal, corporate, administrative, tax and financial concern;
- 5) a General Manager delegated with authority for ordinary management of the Company;
- 6) a Shareholders' Meeting, which may resolve at ordinary and extraordinary meetings on, inter alia: *(i)* the appointment and dismissal of members of the Board of Directors and Board of Statutory Auditors, *(ii)* approval of the financial statements and allocation of profits, *(iii)* amendment to the articles of association, *(iv)* purchase and disposal of treasury shares.

An external auditor retained by the Shareholders' Meeting is responsible for auditing the Company accounts and books.

## COMPOSITION OF SHARE CAPITAL

The Company share capital, totalling Euro 132,666,675.00, consists entirely of ordinary shares, with a par value of Euro 11.00 each, fully paid in and with voting rights at the Company Ordinary and Extraordinary Shareholders' Meetings.

The Company is listed on the online market operated by Borsa Italiana S.p.A.

According to the register of shareholders and available information, ERG S.p.A. directly controls the Company on the basis of its 77.387% interest in share capital.

The other shareholders owning more than 2% of the share capital at the publication date of this document are:

Generali Investments France S.A.: 5.349%.

At the preparation date of this document, the Company is unaware that any Shareholders Agreements had been made pursuant to Article 122 TUF.

## SUBORDINATION TO MANAGEMENT AND CO-ORDINATION BY ANY OTHER COMPANY

At its meetings on 27 February 2007 and 9 November 2007, the Board of Directors took note that ERG S.p.A. manages and co-ordinates ERG Renew pursuant to Article 2497 Italian Civil Code by virtue of its majority stake in the share capital and the activities carried out by the former in favour of the Company.

## FUNCTION OF BOARD OF DIRECTORS

Pursuant to Article 17 of the Articles of Association, the Board of Directors has full authority for ordinary and extraordinary management of the Company.

In accordance with Company practise and clauses 1.C.1 et seq. of the Corporate Governance Code, the Company Board of Directors:

- a) examines and approves the strategic, business and financial plans of the issuer and the Group it heads, the issuer's own corporate governance system and the Group's own organisation;
- b) evaluates the adequacy of the organisational, administrative and general accounting system of the issuer and strategic subsidiaries that has been set up by the Chief Executive Officers, particularly in regard to the internal control system and management of conflicts of interest;
- c) grants and revokes delegations of authority to the Chief Executive Officers, defining their limits and terms and conditions for exercise; it also determines the frequency, but no more than once a quarter, with which the delegated officers must report to the board of directors on their activities pursuant to their delegations of authority;
- d) after examining the proposals made by the specific committee and consulting with the board of statutory auditors, determines the compensation of the Chief Executive Officers and the other directors that hold particular positions and, if the shareholders' meeting has not done so, the distribution of the aggregate compensation owed to the board members;
- e) reviews the company's general operating performance, considering in particular the information received from the delegated bodies, while periodically comparing the achieved results with the planned ones;
- f) examines and approves the issuer's and its subsidiaries' transactions in advance, when

these transactions are of material strategic, economic or financial relevance for the issuer, devoting special attention to the situations in which one or more directors have a personal interest or an interest on behalf of third parties and, more in general, transactions with related parties; accordingly, it determines general criteria for identifying significant transactions;

- g) at least once a year, it reviews the size, composition and performance of the board itself and its committees, possibly expressing opinions on the professionals whom it deems should be members of the board;
- h) provides information in the corporate governance report on the terms and conditions for application and, in particular, on the number of board and executive committee (if one exists) meetings held during the year and on the percentage of meetings attended by each director.

On the basis of the information received from the Directors, the Board of Directors takes an annual survey and discloses in the corporate governance report the positions of director or statutory auditor held by the Directors in companies listed on regulated markets, including foreign markets, in financial, bank, insurance or large companies.

The Board of Directors expresses its opinion on the maximum number of Director or Statutory Auditor positions in the companies referred to above that can be considered compatible with holding a Director's seat at the Company.

For this purpose, general criteria differentiated according to the commitment connected with each role (of Director with executive authority, without executive authority or independent) have been identified, including in regard to the nature and size of the companies and, if applicable, their belonging to the issuer's Group.

For current Directors, Article 18 of the Articles of Association authorises a waiver of the ban on competition pursuant to Section 2390 Italian Civil Code. This waiver was subsequently confirmed at the Shareholders' Meeting on 15 December 2006.

The Chief Executive Officers are delegated the duty of promptly informing the members of the Board of Directors about the principal statutory and regulatory changes affecting the Company, its subsidiaries and associates and corporate bodies.

The Board of Directors normally meets at least four times a year. During these meetings, it examines and resolves on operating performance in the various divisions, the final quarterly, half-yearly and annual results, the strategic plan, the budget, the proposals regarding its organisational structure and the proposals regarding material transactions presented by the directors with executive authority. The Board of Directors met 12 times during FY2008.

## **COMPOSITION OF BOARD OF DIRECTORS**

Pursuant to Article 16 of the Articles of Association, the Company is managed by a Board of Directors, which has between five and eleven members who serve for a term of three years. Their term expires on the day of the Shareholders' Meeting called to approve the financial statements for the last financial year. The Directors may be re-elected.

Pursuant to the Articles of Association, the members of the Board of Directors will be selected from lists submitted by Shareholders that, either alone or together with other Shareholders, represent at least 2.5% of the share capital, pursuant to CONSOB Resolution 16779/09.

The Board of Directors is currently comprised by eleven Directors, including five with executive authority and six without executive authority, and three of the latter have independent status. They serve for a three/year-term, which will expire upon approval of the 2008 annual report.

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

1. Giuseppe Gatti, Chairman of the Board of Directors (executive with delegation of management authority for supervision, policy and control of Institutional and International Relations, Corporate Affairs and Internal Audit), appointed by the Shareholders' Meeting on 16 December 2006;
2. Salvatore Russo, Deputy Chairman appointed by the Shareholders' Meeting of 16 December 2006 (he resigned as Chief Executive Officer effective 14 March 2008);
3. Raffaele Tognacca, Chief Executive Officer (executive with ordinary and extraordinary management authority), co-opted on 21 September 2007 and appointed by the Shareholders' Meeting on 22 April 2008;
4. Luca Bettonte, Director (executive<sup>(\*)</sup>), appointed by the Shareholders' Meeting on 22 April 2008;
5. Giancarlo Cimoli, Director (independent without executive authority) appointed by the Shareholders' Meeting on 16 December 2006;
6. Alessandro Garrone, Director (executive<sup>(\*)</sup>), appointed by the Shareholders' Meeting on 16 December 2006;
7. Vittorio Garrone, Director (without executive authority<sup>(\*)</sup>), appointed by the Shareholders' Meeting on 22 April 2008;
8. Pietro Giordano, Director (executive<sup>(\*)</sup>), appointed by the Shareholders' Meeting of 16 December 2006;
9. Giorgio Mazzanti, Director (independent without executive authority), co-opted by the Board of Directors on 22 January 2008 and appointed by the Shareholders' Meeting on 22 April 2008;
10. Ernesto Monti, Director (independent without executive authority) appointed by the Shareholders' Meeting on 16 December 2006;
11. Paolo Panella, Director (without executive authority), appointed by the Shareholders' Meeting on 16 December 2006 (he resigned as Chief Executive Officer on 14 March 2008);

As previously mentioned in the introduction, on 14 March 2008 the Board of Directors decided to make certain organisational changes to implement integrated management of the activities of the sector in which the Company operates. As part of this process, the directors Salvatore Russo and Paolo Panella resigned their positions as Chief Executive Officers and, consequently, the authority delegated to them. The Board of Directors then appointed Raffaele Tognacca as Chief Executive Officer of ERG Renew.

Given the composition of the Board of Directors and the distribution of positions and authority in it, it was not deemed necessary to designate a lead independent director.

Furthermore, in light of what is prescribed by, in particular, Article 147-ter, subsection 4 of Legislative Decree 58 of 24 February 1998 – according to which if the board of directors has more than seven members, at least two members must satisfy the requirements to be qualified as independent directors – and the Corporate Governance Code, it is believed that the number and responsibilities of the independent directors – Giancarlo Cimoli, Giorgio Mazzanti and Ernesto Monti – are adequate in terms of the size of the Board of Directors and the Company's activity, while also considering that the directors Salvatore Russo and Paolo Panella cannot be qualified as independent solely because they held the position of Chief Executive Officer until 14 March 2008.

(\*) These Directors must be considered as having executive authority pursuant to "application rule" 2.C.1 of the 2006 Corporate Governance Code, insofar as they hold positions at the parent company ERG S.p.A. that also involve the Company due to their importance at the Group.

Following is a list of the principal positions at other companies held by each member of the Board of Directors:

<b>Giuseppe Gatti</b>	<i>ERG S.p.A. – Director ACTELIOS S.p.A. – Director Iride Mercato S.p.A. – Chairman Grandi Reti S.p.A. – Chairman</i>
<b>Raffaele Tognacca</b>	<i>ERG Power &amp; Gas S.p.A. – Chief Executive Officer ERG Nuove Centrali S.p.A. – Chairman</i>
<b>Alessandro Garrone</b>	<i>ERG S.p.A. – Chief Executive Officer YARPA Investimenti SGR S.p.A. – Director Mutuonline S.p.A. – Director Banca Passadore &amp; C. S.p.A. – Director</i>
<b>Pietro Giordano</b>	<i>ERG S.p.A. – Deputy Chairman ERG Petroli S.p.A. – Chairman ERG Power &amp; Gas S.p.A. – Director</i>
<b>Ernesto Monti</b>	<i>Astaldi S.p.A. – Chairman Finanziaria Tosinvest S.p.A. – Chairman Unicredit Banca di Roma S.p.A. – Director Alitalia S.p.A. – Director Ariscom S.p.A. – Director</i>

## **CHAIRMAN OF THE BOARD OF DIRECTORS**

Pursuant to Article 19 of the Articles of Association, the Board of Directors meets at either the registered office of the Company or elsewhere whenever the Chairman or, if he is prevented from acting, the Deputy Chairman deems necessary or when at least three members of the Board so request in writing.

The Board of Directors is called by the Chairman by letter, to be sent at least five whole days before the meeting to each Director and Statutory Auditor and, in urgent cases, by telegram or fax, to be sent at last two days in advance. Nonetheless, the Board of Directors meeting shall be deemed to be valid if all Directors and all current Statutory Auditors attend.

Resolutions are passed by an absolute majority vote of those present, and they shall be confirmed by minutes transcribed in the specific book and signed by the Chairman and Secretary of the meeting.

The Board of Directors meetings may be held by videoconference and/or conference call, on condition that all participants can be identified, they can follow the discussion and speak in real time on the matters discussed. When these conditions are satisfied, the Board of Directors meeting is considered to be held in the place where the Chairman and Secretary of the meeting are located, so that the minutes can be drafted and signed.

The Chairman, Deputy Chairman, Chief Executive Officers and General Managers (if appointed) are the legal representatives of the Company and have several and separate signature authority on behalf of the Company.

The Chairman shall have the members of the Board of Directors be provided with documents and information reasonably in advance of the meeting date (except in urgent situations) so

that the Board members can express themselves on an informed basis in regard to the matters submitted for their examination and approval.

The Chairman co-ordinates the activities of the Board of Directors and manages its meetings.

## REPORTS TO THE BOARD OF DIRECTORS

The Chief Executive Officers report (at least once quarterly) to the Board of Directors and, at the same time, to the Board of Statutory Auditors, on their activity in accordance with the delegations of authority granted to them.

Furthermore, they provide adequate disclosures of atypical and unusual transactions, transactions involving potential conflicts of interest and/or transactions with related parties, as defined in the procedure adopted at the Board of Directors meeting of 22 January 2008 and as set out in the CONSOB regulations defining related parties.

## INDEPENDENT DIRECTORS

The New Corporate Governance Code envisages that “Independent Directors” normally be individuals to whom the following characteristics (but not limited to these) do not apply:

- a) if, either directly or indirectly, including through subsidiaries, trust companies or intermediaries, the Independent Director controls the issuer or has a significant influence over it, or is party to a Shareholders Agreement through which one or more parties can exercise control or significant influence over the issuer;
- b) if he is, or has been in the previous three financial years, a key person at the issuer, where this is construed to be the chairman of the entity, its legal representative, the chairman of the board of directors, directors with executive authority and executives with strategic responsibilities at the company or entity in question, of one of its subsidiaries with strategic importance or a company subject to joint control with the issuer, or a company or entity that, even together with others through a shareholders agreement, controls the issuer or can exercise significant influence over it;
- c) if, directly or indirectly, he has or has had a significant commercial, financial or professional relationship during the previous financial year:
  - with the issuer, one of its subsidiaries or with any of its key persons;
  - with a party that, either singly or together with others through a shareholders’ agreement, controls the issuer, or – when a company or entity is involved – with its key persons; or he is, or has been in the previous three years, an employee of one of the aforementioned parties;
- d) if he receives, or has received in the previous three financial years, from the issuer or from a subsidiary or parent company, significant compensation in addition to the “fixed” compensation for a director without executive authority of the issuer, including participation in incentive plans tied to company performance, including share based incentive plans;
- e) if he has been a director at the issuer for more than nine years over the last twelve years;
- f) if he holds the position of director with executive authority at another company where a director with executive authority of the issuer is director;
- g) if he is a shareholder or director of a company or entity belonging to the network of the firm retained as the issuer’s independent auditor;
- h) if he is a close relative of a person who is in one of the situations described at the preceding sub-indents.

Consequently, the Board of Directors has determined, on the basis of the foregoing definitions, recommended by the Committee on Corporate Governance of Listed Companies contained in the Code of March 2006, and on the basis of their professional qualifications and personal

characteristics, that the three directors without executive authority of the Company, Giancarlo Cimoli, Giorgio Mazzanti and Ernesto Monti, are "Independent Directors."

## PROCESSING OF CONFIDENTIAL INFORMATION

Proper management of confidential information, particularly in regard to price sensitive information, is assigned to the Chief Executive Officer, Raffaele Tognacca, who was specifically delegated by the Board of Directors to control the publication of documents and information regarding the Company.

The procedure, approved by the Board of Directors, envisages that the aforementioned Chief Executive Officer assume the position of Officer in charge of managing confidential information and external disclosure of "Material Information". The Chief Executive Officer proposed, and the Board of Directors approved, in a resolution dated 25 March 2002, the Internal Regulation for management of confidential information.

At its meeting on 21 March 2007, the Board of Directors approved the "Procedure for management and processing of privileged information and publication of press releases and information" already in force at the ERG Group.

In particular, the key points of this Regulation are:

- the management of confidential information, with a list of the obligations imposed on the directors, but also on top management of the Company, for the processing of confidential information, emphasising (i) both the ban on disclosure to third parties, (ii) the duties and procedures for transmission of documents (with specific rules applying to the following means: fax, e-mail, registered mail or courier) and (iii), furthermore, the processing of confidential information by third parties. Furthermore, the Officer is responsible for having the consultants, auditors and other independent contractors (non-employees) used by the Company sign a confidentiality agreement covering the confidential information regarding the Company that they acquire in the course of performing their duties. Finally, relations with the Investor Relator are regulated;
- the regulation of Material Information and its identification and processing, including the procedures for its publication, particularly price sensitive information: in this last instance, the Officer is obligated to determine on a case-by-case basis whether an act or circumstance can materially impact the price of the listed financial instruments and, therefore, determine whether or not that information must be disclosed;
- the press release in which the Officer must publish the Material Information, the rules governing its contents and the internal procedure for approving the press release;
- the Officer's duties in connection with publication of the press release.

In any event, all Directors are required to maintain confidentiality and carefully manage the documents and information that they acquire in the course of performing their duties, and to comply with the adopted procedure.

In regard to the activities undertaken by the Company pursuant to Legislative Decree 231/2001, as amended, entitled "Regulation of the administrative liability of legal entities, companies and associations, including those that are not legal entities, pursuant to Article 11 of law 300 of 29 September 2000", and to the new rules governing market abuse (Article 9 of Law 62 of 18 April 2005), reference is made to what was reported to the Shareholders' Meeting of 28 April 2007:

- on 10 April 2006, the Company Board of Directors approved the Company "Organisation and Management Model", whose purpose is to create an organised and organic structure of procedures and control activities to prevent commission of criminal offences pursuant to Legislative Decree 231/2001, through the identification of specific activities at risk of criminal offences and their consequent formalisation in procedures. At the same meeting, the Board of Directors also appointed the Supervisory Committee.

The Programme adopted by the Company is consistent with the provisions of the relevant guidelines prepared by business associations and offers shareholders the best assurance of efficient and fair management:

- finally, in reference to the new rules governing market abuse, Article 9 of Law 62 of 18 April 2005, which received Directive 2003/6/CE in our legal system, introduced inter alia the obligation for listed companies and the parties that have controlling relationships with them (parent companies and subsidiaries), to establish, maintain and regularly update the list of persons that, on the basis of their employment or professional activity, or the functions they perform, have access to privileged information regarding the listed issuer or its subsidiaries (hereinafter, the “Register”).

All the activities necessary for establishment and activation of the Register were completed in this regard and consistently with these regulations. In particular, an information system tool designed to manage the Register was created.

The Company adopted a new “Internal Dealing” Code of Conduct to regulate, on a compulsory basis, the disclosure obligations and any limits imposed on the transactions involving shares issued by the Company or other financial instruments connected with them, executed by key persons and persons closely related to them, pursuant to applicable laws and regulations (in particular, Legislative Decree 58 of 24 February 1998 – “Consolidated Law on Finance” – as amended by Law 262 of 28 December 2005; the Regulation for implementation of the Consolidated Law on Finance, concerning the regulation of issuers – “Issuers Regulation” – adopted by CONSOB with Resolution 11971 of 14 May 1999, as amended; and, finally, relevant and consequent CONSOB Regulations).

Finally, as previously mentioned, the Board of Directors resolution of 14 March 2008 confirmed and consequently granted the Chief Executive Officer, Raffaele Tognacca, full authority and power of decisions regarding the purposes and procedures for the processing of personal data, including the security profile. Consequently, the Chief Executive Officer was designated Data Controller pursuant to Article 28 of Legislative Decree 196/2003, as amended. Pursuant to that decree, the Chief Executive Officer designated a Data Processor pursuant to Article 29 of Legislative Decree 196/2003, as amended. The Data Controller and/or Data Processor will also be able to identify and/or confirm the Persons in Charge of Data Processing pursuant to Article 30 of Legislative Decree 196/2003, as amended.

## **APPOINTMENT OF DIRECTORS**

Pursuant to the Articles of Association, the members of the Board of Directors are elected on the basis of lists submitted by the Shareholders, in which the candidates must be listed in order by number. The lists submitted by the Shareholders, complete with the information about the candidates’ personal and professional descriptions, must be filed at the registered office of the Company 15 days before the scheduled date of the Shareholders’ Meeting on the first call, and mention thereof shall be made in the notice of call.

Only those Shareholders that alone or together with other Shareholders represent at least 2.5% of the share capital will be entitled to submit lists, pursuant to Resolution 16779/09, issued by CONSOB or, if a different amount, the shareholding in effect at the date that the list is submitted and that will be indicated in the notice of call for the Shareholders’ Meeting that will elect the Board of Directors.

To certify their ownership of the number of shares required to submit a list, the Shareholders must submit and/or have delivered to the Company registered office a copy of the certificates issued by the respective intermediaries pursuant to law and regulation at the same time that the list is submitted.

Each Shareholder may submit or participate in the submission of just one list and each candidate may appear in just one list, on penalty of ineligibility.

Every list must contain a number of candidates that does not exceed the maximum number of directors envisaged in the first paragraph of this article.

The lists shall indicate which Directors can be qualified as independent pursuant to law. At least one candidate on each list, or two candidates if the Board of Directors has more than seven members, must qualify as an independent director as indicated hereinabove.

All candidates must satisfy the integrity requirements set out for the members of supervisory bodies in applicable laws and regulations, and the professional qualifications required for the position to be assumed.

By the deadline indicated hereinabove, a statement by each candidate must be filed together with the list in which he accepts his candidacy and certifies, under his own responsibility, that he is not ineligible or incompatible, and satisfaction of the requirements prescribed by applicable laws and regulations and the Corporate Governance Code adopted by the Company, and provides any indication to be qualified as independent.

The Shareholders that are related to each other in any way pursuant to applicable laws and regulations may submit just one list.

Certification of the absence of any relation with the list submitted by the majority must be filed for the lists submitted by the minority shareholders by the aforementioned deadline, and before the date of the Shareholders' Meeting.

When awarding votes to the Directors to be elected, the lists that did not receive a percentage of votes that is at least equal to half of the percentage required for submitting them shall not be counted.

All Shareholders entitled to vote may vote for only one list.

The Directors shall be elected as follows:

- a) a number of Directors equal to the number of members to be elected minus one shall be taken from the list that obtained the majority of votes cast by the Shareholders, in the order in which they are listed on that list, without prejudice to what is envisaged for the appointment of independent Directors;
- b) the remaining Director will be taken from the minority list that obtained the highest number of votes;
- c) if just one list is submitted, or if the quorum required by the other lists is not reached, the Directors will be elected from the submitted list or from the list that reached the quorum up to the number of candidates presented on it.

At least one member of the Board of Directors is elected from the minority list that received the highest number of votes.

In any event, the candidate or, if the Board of Directors has more than seven members, at least two candidates, qualifying as independent shall be elected from the list that received the highest number of votes.

An independent Director who, after being elected, ceases to satisfy the prerequisites for independence pursuant to law must immediately notify the Board of Directors of this fact and in any case, he forfeits his position.

The Directors hold office for a term of three years, which expires on the date of the shareholders' meeting called to approve the financial statements for the last financial year of their term.

The Directors may be re-elected.

If one or more seats on the Board fall vacant, the Board of Directors shall fill them pursuant to law. However, if the majority of Directors appointed by the Shareholders' Meeting should leave office before the end of their term, the entire Board of Directors is vacated, and the Shareholders' Meeting must be urgently called by the remaining Directors so that a new Board can be appointed. However, the Board of Directors shall remain in office in order to handle ordinary administrative matters only until the Shareholders' Meeting has resolved to renew it and the majority of new Directors have accepted their appointments.

Pursuant to Article 16 of the Articles of Association, the Shareholders' Meeting shall appoint the Directors and periodically determine the number and duration of their term.

## NOMINATIONS AND COMPENSATION COMMITTEE

On 22 January 2008 the Board of Directors, with the favourable opinion of the Board of Statutory Auditors, resolved:

1. to change the name of the Compensation Committee to the Nominations and Compensation Committee;
2. in addition to the responsibilities already assigned to the Compensation Committee, which must be considered confirmed for all intents and purposes – *i*) submission to the Board of Directors of proposals for compensation of the Chief Executive Officers and the other Directors that hold certain positions, *ii*) monitoring of application of the decisions taken by the Board of Directors, *iii*) periodic assessment of the criteria adopted for compensation of directors with strategic responsibilities, *iv*) monitoring of their application according to the information provided by the Chief Executive Officers and making general recommendations to the board of directors as relevant – to delegate the following additional duties to the Nominations and Compensation Committee:
  - when requested by the Board of Directors, propose the candidates as director in the case envisaged in Section 2386(1) Italian Civil Code, if it is necessary to replace an independent director; assess, on specific request by the shareholders that wish to submit lists, the independence of director candidates to be submitted to the Company Shareholders' Meeting;
  - provide the Board of Directors with an annual opinion on the size, composition and performance of the Board of Directors, possibly expressing its opinion on the professionals whose membership on the Board of Directors is deemed appropriate;
  - express its own opinion on the maximum number of director or statutory auditor positions at other companies on listed markets, including foreign markets, in financial, bank, insurance or large companies that might be considered compatible with effective performance of the position of Company Director.

The Nominations and Compensation Committee may use external consultants in the course of performing its duties, at the Company's expense.

The Nominations and Compensation Committee is currently comprised of the following Directors:

<b>Ernesto Monti</b> (Chairman)	<i>independent/without executive authority</i>
<b>Giancarlo Cimoli</b>	<i>independent/without executive authority</i>
<b>Giorgio Mazzanti</b>	<i>independent/without executive authority</i>

On motion by the Nominations and Compensation Committee, after receiving the favourable opinion of the Board of Statutory Auditors, the Board of Directors resolved on 14 March 2008 to grant the Chairman of the Board of Directors and the Chief Executive Officer compensation pursuant to Section 2389(3) Italian Civil Code.

The Board of Directors assigned the Nominations and Compensation Committee the duty of providing an annual opinion on the size, composition and performance of the Board of Directors.

On 4 May 2008, the Nominations and Compensation Committee concluded and submitted its assessment of the Board of Director's performance for the 2008 financial year through the definition of the terms and conditions for making that assessment.

## INTERNAL CONTROL SYSTEM

The Internal Control System is the set of processes that monitors the efficiency of corporate transactions, the reliability of financial information, compliance with laws and regulations and the protection of corporate assets.

The Board of Directors is responsible for the Internal Control System. It periodically determines the guidelines for that system and reviews its adequacy and actual performance, ensuring that the principal risks faced by the Company are promptly identified and adequately managed. The Board of Directors publishes its assessments of the fitness of the internal control system in order to effectively monitor the effective risks of the principal activities carried on by the Company and its subsidiaries to monitor the economic and financial situation of the Company and the Group.

The Chief Executive Officer, Raffaele Tognacca, who is the director with executive authority in charge of supervising the performance of the Internal Control System, is delegated to identify the principal risks of the company by subjecting them to examination by the Board of Directors, and implements the guidelines of the Board of Directors through the design, management and monitoring of the internal control system, by appointing one or more internal-control officers and providing them with adequate means.

The head of internal control, Carlo Alfredo De Vita, does not report hierarchically to any manager at the operating units, but reports directly to the Chief Executive Officer and the Board of Statutory Auditors.

An Internal Audit Department has been established at the Company. This department reports directly to the Chairman of the Board of Directors of the parent company ERG S.p.A. The current head of this department is Carlo Alfredo De Vita.

## STRATEGIC COMMITTEE

The Strategic Committee shall carry out its activities in co-ordination with the parent company ERG S.p.A., in the ambit of the strategies and policies approved by the Board of Directors, through the definition of strategic business and portfolio guidelines and guidelines and policies for strategic finance and individual, extraordinary finance operations, while monitoring the progress of their implementation over time.

The Strategic Committee is currently comprised of the following Directors:

<b>Giuseppe Gatti</b> (Chairman)	<i>executive</i>
<b>Luca Bettonte</b>	<i>executive</i>
<b>Vittorio Garrone</b>	<i>executive</i>
<b>Pietro Giordano</b>	<i>executive</i>
<b>Raffaele Tognacca</b>	<i>executive</i>

## ORGANISATION AND MANAGEMENT MODEL

The Board of Directors adopted the Organisation and Management Model pursuant to Legislative Decree 231/2001, as amended.

The Programme has been periodically updated to comply with subsequent statutory amendments.

## EXTERNAL AUDITORS

Deloitte & Touche S.p.A. is the firm retained pursuant to Articles 155 et seq. TUF to audit the Statutory and Consolidated Financial Statements and to audit the statutory and consolidated half-year financial statements and interim report on operations. Its activity covers 100% of the subsidiaries included in the scope of consolidation.

The Shareholders' Meeting retained this firm for the 2006-2011 financial years at its meeting on 28 April 2006.

## MANAGER RESPONSIBLE FOR FINANCIAL REPORTING

The Board of Directors has designated the Chief Financial Officer, Luca Giorgerini, as the Manager responsible for financial reporting.

## INTERNAL CONTROL COMMITTEE

On 15 December 2006, the Board of Directors determined the duties of the Internal Control Committee. More specifically, the Committee has the duty of:

- a) together with the Manager responsible for financial reporting (when appointed) and the auditors, reviewing the fair use of accounting standards and their uniformity for the purposes of preparing the Consolidated Financial Statements;
- b) at the request of the specifically delegated director with executive authority, expressing opinions on specific aspects regarding identification of principal business risks and the design, realisation and management of the Internal Control System;
- c) examining the work plan prepared by the internal-control officers and the periodic reports that they prepare;
- d) assessing the proposals made by auditing firms to be retained as the external auditor, and the work plan prepared for audit and the results illustrated in the report and any letter of suggestions;
- e) monitoring the effectiveness of the audit process;
- f) performing the other duties that are assigned by the Board of Directors;
- g) reporting to the Board of Directors at least once every six months, when the annual and half-yearly financial reports are approved, in regard to the activity performed and the adequacy of the internal control system.

The Chairman of the Board of Statutory Auditors or another Statutory Auditor delegated by him shall participate at the Committee Meetings and, on invitation by the chairman of the Committee and in regard to the matters to be discussed, the representatives of corporate management.

The Internal Control Committee is currently comprised of the following Directors:

<b>Giancarlo Cimoli</b> (Chairman)	<i>independent/without executive authority</i>
<b>Giorgio Mazzanti</b>	<i>independent/without executive authority</i>
<b>Ernesto Monti</b>	<i>independent/without executive authority</i>

## SUPERVISORY COMMITTEE

The Supervisory Committee maintains direct and ongoing relations with the Internal Control Committee, and carries out its activity in the ambit of the parent company. When envisaged, a Supervisory Committee has been appointed at each sub-holding.

On 10 November 2008, the Board of Directors modified the structure of the Supervisory Committee following the new assignment of certain roles to the parent company ERG.

Carlo Alfredo De Vita, the head of the Internal Audit Department and head of internal control, was delegated the responsibilities and resources for compliance pursuant to Legislative Decree 231/01 that were previously assigned to the Corporate Security Department.

The Supervisory Committee currently has the following members:

<b>Paolo Lanzoni</b> (Chairman)	<i>Independent director of the parent company ERG S.p.A</i>
<b>Luigi Bricocoli</b>	<i>Group Corporate Security Officer</i>
<b>Carlo Alfredo De Vita</b>	<i>Head of Internal Control and Internal Audit Officer</i>
<b>Sebastiano Suraci</b>	<i>Company Human Resources Officer</i>

## TRANSACTIONS WITH RELATED PARTIES

On 22 January 2008 the Board of Directors of ERG Renew approved the new “Guidelines for Transactions with Related Parties.”

In particular, the Board of Directors:

1. approves in advance the transactions with related parties of ERG Renew carried out both by the Company and the operating sub-holding companies, including intercompany transactions, except for transactions whose value is Euro 0.3 million or less, typical or usual transactions, and those that are made at standard conditions;
2. related parties are the ones identified as such in IAS 24;
3. intercompany transactions are those made by the Company or subsidiaries with:
  - a) companies that directly or indirectly, or through trust companies or third parties, are subsidiaries or associated companies of the parent company ERG SpA pursuant to Article 2359 Italian Civil Code and Article 93 of the Consolidated Law on Finance;
  - b) companies that directly or indirectly, or through trust companies or third parties, are subsidiaries of ERG Renew S.p.A. pursuant to Article 2359(1, 2) Italian Civil Code and Article 93 of the Consolidated Law on Finance;
  - c) the companies associated with ERG Renew S.p.A. pursuant to Article 2359(3) Italian Civil Code.
4. typical or usual transactions are the ones defined as such in the “Guidelines for Identifying and Executing Significant Transactions,” i.e. those whose nature or object are not unrelated to the typical activity of both companies involved and do not pose criticalities in regard to their characteristics and time of execution;
5. transactions to be concluded at standard conditions, pursuant to the provisions of the “Guidelines,” are those whose economic conditions are at market values and nonetheless constitute conditions applied to third parties as well;
6. if it is decided to carry out a transaction with a related party, the Chief Executive Officer provides the Internal Control Committee with adequate disclosure on the nature of the correlation, the procedures to carry out the transaction, the economic and other conditions to carry it out, the review process followed, the underlying interest and reasons and any risks for the Company;
7. the Internal Control Committee expresses its opinion on the transaction and assesses whether the nature, value or other characteristics of the operation also require the opinion of one or more independent experts in regard to the economic conditions and formal and/or technical fairness of the transaction. In this case, the Internal Control Committee also chooses the expert or experts, who must have recognised professional expertise and competence, and whose independence and lack of conflicts of interest shall be carefully assessed;
8. in view of approving the resolution for authorisation to carry out the transaction, the Board of Directors receives the opinion of the Internal Control Committee (which may be supplemented by the opinion of the independent expert(s)) from the Chief Executive Officer, as well as adequate disclosure of the nature of the correlation, procedures for carrying out the operation, the economic and other conditions for carrying it out, the review process followed, the underlying interest and reasons and any risks for the Company;

If the relation is established with a Director, or with a party that is related through a Director, the Director involved shall disclose this circumstance and provide any explanations that he might be asked to give, pursuant to Article 2391(1) Italian Civil Code.

The transactions with related parties, including intercompany transactions that are not subject in advance to examination and approval by the Board of Directors, by virtue of their having a value equal to or less than Euro 0.3 million, typical or usual transactions or transactions to be concluded at standard conditions must still be disclosed to the parent company’s board of directors. For these transactions, the Chief Executive Officers of the parent company and the sub-holdings collect and retain adequate information on the nature of the relation, the

operating procedures for carrying out the transaction, the economic and other conditions for carrying it out, the review process applied, the underlying interest and reasons, and any risks to the Company. One or more experts may be designated for these transactions, pursuant to the rules given hereinabove.

In transactions with related parties, the directors that have a potential or indirect interest in the transaction shall promptly and exhaustively inform the Board of Directors as to the existence of the interest and its circumstances.

All transactions with related parties for any amount are the exclusive responsibility of the Board of Directors.

## **RELATIONS WITH INSTITUTIONAL INVESTORS AND OTHER SHAREHOLDERS**

The Company actively undertakes to establish a dialogue with Shareholders and institutional investors, based on comprehension of their mutual roles.

Although the Shareholders' Meeting represents the best possibility for the Board of Directors to inform shareholders about Company performance and its prospects, ERG Renew S.p.A. believes that the quality and timeliness of such disclosure can also be sought in the continuous flow of information on the website [www.ergrenew.it](http://www.ergrenew.it).

According to the respective subject matter handled, this site provides not only historic, documental, and accounting information (especially annual, half-year and quarterly reports), and information regarding significant events, corporate governance of the Company and shareholder pacts, but also information on the product line, its applications and issues of customer interest. Some of this information, particularly that published in press releases, is also available in English.

The Board of Directors has observed that, in reference to Article 11 of the Corporate Governance Code, considering the importance of relations with third parties, and particularly with institutional investors and minority shareholders, an investor relations manager should be appointed to handle relations with institutional investors and the other shareholders. The purpose of doing so is to ensure fairness and transparency, which are definitely appreciated by institutional investors and establish a "bond of trust" with other shareholders. All such relations are obviously subject to the approved procedure governing the processing of confidential information.

On 14 March 2008, the Board of Directors appointed Emanuela Delucchi to replace Michele Massimo Galipò and confirmed Danilo Lodola, on the basis of their technical expertise and experience, to manage relations with institutional investors and the other Shareholders, respectively.

## **SHAREHOLDERS' MEETINGS**

It is standard practice for the Company to provide shareholders with information about the Company and its prospects during Shareholders' Meetings. It obviously does so in compliance with the rules governing price sensitive information. Consequently, it promptly discloses this information to the market when appropriate.

All Directors and Standing Statutory Auditors normally attend the Shareholders' Meetings.

The Board of Directors has not drafted rules for the Shareholders' Meeting that must be submitted to the latter for approval, deeming that the conditions for adopting said rules have not actually materialised. Indeed, past experience with the Shareholders' Meetings has shown that they can be productive and fair without having to subject them to specific rules.

The Shareholders' Meeting may also be called to meet at a location other than the registered office, provided that it be held in Europe pursuant to the terms and conditions established by current law. The Chairman of the Shareholders' Meeting is responsible for confirming the right of Shareholders and proxies to attend the meeting.

The Shareholders' Meeting is chaired by the Chairman of the Board of Directors or, in lieu of him, the Deputy Chairman. Shareholders' Meeting resolutions must be confirmed in minutes prepared pursuant to Article 2375 Italian Civil Code, and be signed by the Chairman and the Secretary or notary public.

Pursuant to Article 14 of the Articles of Association, the Ordinary Shareholders' Meeting has a quorum on its first call when at least half of the share capital is represented, excluding non-voting shares from this calculation, and on the second call it has a quorum regardless of the capital represented by the participating Shareholders.

The Ordinary Shareholders' Meeting resolves by absolute majority vote, without counting abstentions from voting when calculating this majority.

The Extraordinary Shareholders' Meeting is regularly convened and resolves with the attendance and majorities established by law.

Shareholders' Meeting resolutions are voted upon pursuant to the terms and conditions established by current law. Voting by mail is not allowed. Corporate officers are elected by acclamation or relative majority vote, pursuant to law.

## **STATUTORY AUDITORS**

Pursuant to Article 23 of the Articles of Association, the nominations for the position of Statutory Auditor submitted to the Shareholders' Meeting, accompanied by detailed information on the personal and professional qualifications of the candidates, shall be filed at the registered office of the Company at least fifteen days before the date scheduled for the Shareholders' Meeting on its first call together with the filing of the candidate lists.

The Statutory Auditors act freely and independently, even of the Shareholders that elected them.

The Statutory Auditors are required to maintain the confidentiality of the documents and information acquired in the course of performing their duties and to comply with the procedure for disclosure of these documents and information outside the Company.

Pursuant to Article 23 of the Articles of Association, the Statutory Auditors are elected on the basis of voting lists. This system ensures that a standing Statutory Auditor will be designated by the minority (unless just one list is submitted), in accordance with the provisions of current laws and regulations.

The Statutory Auditors in office at 31 December 2008, who were appointed by the Shareholders' Meeting on 22 April 2008 for three financial years – 2008, 2009 and 2010 – and specifically until approval of the 2010 annual report, are as follows:

1. Lelio Fornabaio *Chairman of the Board of Statutory Auditors*
2. Francesco Gatti *Standing Auditor*
3. Andrea Manzitti *Standing Auditor*
4. Stefano Brunello *Alternate Auditor*
5. Carlo Ravazzin *Alternate Auditor*

The principal positions held by each member of the Board of Statutory Auditors in other companies listed on Italian or foreign regulated markets, and financial, bank, insurance or large companies are also listed as follows:

**Lelio FORNABAIO**     *ADR TEL S.p.A. – Standing Auditor*  
*HDI Assicurazioni S.p.A. – Standing Auditor*  
*Ansaldo Fuel Cells S.p.A. – Standing Auditor*  
*InChiaro Assicurazioni S.p.A. – Standing Auditor*  
*Lux Vide Finanziaria per iniziative audiovisive e telematiche S.p.A. – Director*  
*Ariscom Compagnia di assicurazioni S.p.A. – Director*  
*ERG Raffinerie Mediterranee S.p.A. – Standing Auditor*  
*ISAB S.r.l. – Standing Auditor*  
*Feudi di San Giorgio S.p.A. – Chairman of the Board of Statutory Auditors*

**Andrea MANZITTI**     *BNL S.p.A. – Standing Auditor*  
*Axa Italia S.p.A. – Standing Auditor*  
*Quixa S.p.A. – Standing Auditor*  
*AXA Partecipazioni S.p.A. – Standing Auditor*  
*Abbacus Sim S.p.A. – Standing Auditor*

Pursuant to applicable laws and regulations, and in particular to Ministry of Justice Regulation no. 162 of 30 March 2000, and Consob memorandum no. 1011407 of 15 February 2001, the Company has specified in its Articles of Association the sectors and matters that are strictly related to its business activity.

Milan, 9 March 2009

The Board of Directors  
ERG Renew S.p.A.