



2

# REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP

# REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP

## 1. EVOLUTION OF APPROACH

The current governance structure of ERG S.p.A. (hereafter, also “ERG” and the “Company”) has been developed over time by gradually introducing, into the ERG corporate approach, rules of conduct reflecting the most advanced, widely recognised principles of Corporate Governance. Even before the company was listed in October 1997, one of its key features was a focus on a proper relationship between management and shareholders and on ensuring that business operations be directed towards value creation.

This corporate policy was implemented via:

- coordinated delegation of powers within the Board of Directors of ERG (“Board of Directors”) in such a way as to assure, on one hand, clarity and completeness of executive accountability and, on the other hand, monitoring of activities and assessment of results achieved;
- regular and adequate reporting to the Board of Directors on actions taken in the exercise of powers and of managerial responsibilities;
- adoption of specific procedures to determine remuneration for directors and management.

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

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

- amendments to the Articles of Incorporation to bring them into line with the regulatory changes introduced by the Italian Company Law Reform, by law provisions on the matter of Shareholders' Rights on transactions with related parties and, lastly, on gender balance in the composition of corporate bodies;
- adoption of a Code of Ethics, revised on 14 May 2014, as a tool for defining and communicating the duties and responsibilities of ERG towards its stakeholders, and as an imperative element of an organisation and management model consistent with the requirements of Italian Legislative Decree no. 231/2001;
- acceptance of the Italian Corporate Governance Code for Listed Companies, promoted by Borsa Italiana S.p.A. (“Corporate Governance Code”)<sup>1</sup> since its first edition in 1999;
- adoption of a Code of Conduct for the Directors of ERG Group companies, revised on 14 May 2014;
- appointment of independent directors and non executive directors to the Board;
- adoption of a Policy for the compensation of members of the Board of Directors, and of the Executives with Strategic Responsibilities as prescribed by the Corporate Governance Code, revised on 11 March 2015, to align the interests of management with those of shareholders and strengthen the relationship between managers and the Company, both in terms of awareness of the importance of the stock value and its continuity over time;
- definition of Guidelines for the identification and execution of significant transactions, revised on 1 July 2014, and of other governance documents designed to assure transparent and timely management of the ERG Group's relationship with the market;
- adoption of a Procedure for handling and processing privileged information and for the public dissemination of statements and information, revised on 14 May 2014;

---

<sup>1</sup> On 12 November 2014, the Board of Directors resolved to adhere to the new edition of the Corporate Governance Code published in July 2014; consequently, all references to the provisions of the Corporate Governance Code shall be deemed to refer to the aforesaid edition of the Code.

- Guidelines of the Internal Control and Risk Management System, revised on 11 March 2014;
- adoption of an integrated risk management model, with the objective of identifying, as exhaustively as possible, the risks inherent in the ERG Group's full range of business activities;
- adoption of a specific Procedure to assure the transparency and the substantial and procedural correctness of transactions with related parties carried out by ERG directly or through its subsidiaries, revised on 1 July 2014;
- definition of a Code of Conduct for internal dealing, revised on 1 July 2014, directed at regulating the obligations of disclosure to the market, the Company and CONSOB with reference to transactions involving ERG shares or connected financial instruments carried out, directly or indirectly, by members of the administrative and control bodies of ERG and of significant subsidiaries, by the top managers of the ERG Group and by persons closely connected with them;
- adoption of the Anti-corruption Guidelines and of the Guidelines for compliance with Italian Legislative Decree no.231/01 and the anti-corruption laws in Group companies.

## 2. INFORMATION ABOUT THE OWNERSHIP STRUCTURE AS OF 31 DECEMBER 2014 (PURSUANT TO ARTICLE 123-BIS OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (ITALIAN CONSOLIDATED FINANCE ACT OR "CFA"))

### Share capital structure at 31 December 2014

	NUMBER OF SHARES	AMOUNT OF SUBSCRIBED AND PAID UP SHARE CAPITAL	% OF SHARE CAPITAL	LISTED (MARKET)/ UNLISTED	RIGHTS AND OBLIGATIONS
ORDINARY SHARES	150,320,000	EUR 15,032,000	100	MTA/FTSE ITALY MID CAP INDEX	–
SHARES WITH LIMITED VOTING RIGHT	–	–	–	–	–
SHARES WITHOUT VOTING RIGHT	–	–	–	–	–

### Significant equity inv. in the share capital at 31 December 2014

DECLARANT	DIRECT SHAREHOLDER	% OF ORDINARY SHARE CAPITAL	% OF VOTING SHARE CAPITAL
SAN QUIRICO S.P.A.	SAN QUIRICO S.P.A.	55.942	55.942
SAN QUIRICO S.P.A.	POLCEVERA S.A.	6.905	6.905
ERG S.P.A.	ERG S.P.A.	5.000	5.000

### Other information at 31 December 2014

	YES	NO	NO KNOWN INFORMATION ON THE MATTER
RESTRICTIONS TO THE TRANSFER OF SECURITIES		X	
RESTRICTIONS TO VOTING RIGHT		X	
SHAREHOLDER AGREEMENTS			X
AGREEMENTS UNDER ARTICLE 123-BIS PAR. 1 LETTER I) T.U.F. (1)	X		

(1) the information is contained in the Remuneration Report published in accordance with Article 123-ter of the CFA

Note that:

- there are no securities conferring special control rights;
- there are no employee stock option plans;
- with regard to the provisions of Article 123-bis, paragraph 1, letter h) of the Consolidated Finance Act, it is necessary to point out that there are in existence partnership agreements with third parties relating to certain investee companies, which allow for the possibility, but not the obligation, as is frequently the case in such agreements, for third parties that are shareholders of the above-mentioned investee companies, to acquire, usually at market conditions, the shares or stakes of the shareholder belonging to the ERG Group if there is a change in control at ERG. In this regard, of particular note is the case of TotalErg S.p.A., in relation to which the shareholders' agreements provide the possibility, for the other shareholder, when the circumstances occur and in accordance with the procedures prescribed by said agreements, to purchase an equity investment, owned by the ERG Group, representing 2% of TotalErg S.p.A. if control of ERG changes;
- for rules applicable to the appointment and replacement of the members of the Board of Directors and of the Board of Statutory Auditors, and to amendments to the Articles of Incorporation, please refer to the relevant sections of this report (hereafter also the "Report");
- no powers have been granted to Directors in relation to capital contributions pursuant to Article 2443 of the Italian Civil Code;
- the Directors have no powers to issue equity instruments;
- the Shareholders' Meeting held on 15 April 2014 authorised the Board of Directors, in accordance with Article 2357 of the Italian Civil Code, to purchase treasury shares for a period of 12 months from the date of the related resolution (after the revocation of the previous authorisation voted by the Shareholders' Meeting on 23 April 2013), up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 30,064,000 (thirty million, sixty-four thousand) shares of ERG common stock with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.

### 3. CORPORATE GOVERNANCE

ERG S.p.A.'s corporate governance system complies with the requirements of the Italian Civil Code and of other specific laws and regulations relating to companies – particularly those contained in the Consolidated Finance Act and it is consistent overall with the Italian Corporate Governance Code for Listed Companies, which has been revised and updated over the years<sup>2</sup>. The edition of the Corporate Governance Code to which the Company adheres is available to the public at the Website of Borsa Italiana S.p.A. ([www.borsaitaliana.it](http://www.borsaitaliana.it)).

ERG corporate governance comprises the **Statutory Bodies, Board Committees and Corporate Governance documents** that regulate their operation.

#### 3.1 STATUTORY BODIES

##### BOARD OF DIRECTORS

The current Board of Directors, comprising twelve members, was appointed by the Shareholders' Meeting of 20 April 2012<sup>3</sup>; consequently, the appointment to the Board of Directors shall expire at the date of the Shareholders' Meeting convened to approve the Financial Statements at 31 December 2014.

<sup>2</sup> Please refer to the information provided in Note no. 1.

<sup>3</sup> With reference to the provisions of application standard 1.C.4. of the Corporate Governance Code, it is pointed out that the Shareholders' Meeting has not generally and preventively authorised waivers from the competition prohibition set out in Article 2390 of the Italian Civil Code.

For the appointment of the Board of Directors only one list of candidates was presented by the shareholder San Quirico S.p.A.<sup>4</sup>, i.e.:

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

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

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

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

The lists may only be presented by shareholders who, either individually or with other shareholders, represent the minimum percentage of share capital (currently, 1%)<sup>6</sup> established in accordance with Article 144-quater of the Regulations implementing the Consolidated Finance Act, adopted by CONSOB with its resolution no. 11971 of 14 May 1999 (“Issuers’ Regulations”).

At the time of appointment of the Board of Directors currently in office, the shareholding required in order to present the lists was equal to 2% of the share capital<sup>7</sup>.

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

In accordance with Article 147-ter, paragraph 1-ter of the Consolidated Finance Act, for the first mandate in compliance with Italian Law no. 120 of 27 July 2011, at least one fifth of the elected Directors shall be reserved to the less represented gender.

<sup>4</sup> For the percentage of votes received by the list with respect to the voting share capital, please see the minutes of the Shareholders' Meeting of 20 April 2012, available in the Corporate Governance section of the website [www.erg.it](http://www.erg.it)

<sup>5</sup> It is hereby specified in this connection that the appointment of the current Board of Directors, whose term of office expires on the date of the Shareholders' Meeting convened to approve the Financial Statements at 31 December 2014, took place before the entry into force of the regulations per Article 147-ter, paragraph 1-ter, of the Consolidated Finance Act. The composition of the Board of Directors to be appointed shall be in compliance with the aforesaid 147-ter, paragraph 1-ter, of the Consolidated Finance Act.

<sup>6</sup> In accordance with CONSOB Resolution no. 19109 of 28 January 2015.

<sup>7</sup> In accordance with CONSOB Resolution no. 18083 of 25 January 2012.

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

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

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

Each person entitled to vote may vote only one list.

The election of the Directors takes place as follows:

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

In any case, the election will be won by the candidate or, if the Board has more than seven members, the first two candidates from the list that received the highest number of votes, who fulfil the independence requirements, in the progressive order in which they were entered in the list<sup>8</sup>.

---

<sup>8</sup> For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Directors, please refer to the Articles of Incorporation, available in the Corporate Governance section of the website [www.erg.it](http://www.erg.it).

The Directors in office at the date of approval of the Report are <sup>9</sup>:

Edoardo Garrone - *Chairman*  
Alessandro Garrone - *Deputy Chairman*  
Giovanni Mondini - *Deputy Chairman*  
Luca Bettonte - *Chief Executive Officer*  
Massimo Belcredi - *Director*  
Pasquale Cardarelli - *Director*  
Alessandro Careri - *Director*  
Marco Costaguta - *Director*  
Antonio Guastoni - *Director*  
Paolo Francesco Lanzoni - *Director*  
Graziella Merello <sup>10</sup> - *Director*  
Umberto Quadrino - *Director*

**Executive directors**

Edoardo Garrone  
Alessandro Garrone  
Luca Bettonte  
Graziella Merello

**Non-executive directors** <sup>11</sup>

Giovanni Mondini  
Alessandro Careri  
Marco Costaguta

**Independent directors** <sup>12</sup>

Massimo Belcredi  
Pasquale Cardarelli  
Antonio Guastoni  
Paolo Francesco Lanzoni  
Umberto Quadrino

The Board of Directors, both in the first meeting after the appointment – held on 20 April 2012 – and in the following meetings held on 6 August 2013 and 16 July 2014, positively assessed the Directors' independence both with reference to the provisions of Article 148, third paragraph, of the Italian Consolidated Finance Act and with reference to the Corporate Governance Code, thus preferring substance over form <sup>13</sup>.

<sup>9</sup> For the personal and professional characteristics of each director in office, please see their CVs available in the Corporate Governance section of the website [www.erg.it](http://www.erg.it).

<sup>10</sup> Serves as Director in charge of the Internal Control and Risk Management System.

<sup>11</sup> Taking into account application standard 2.C.1 of the Corporate Governance Code.

<sup>12</sup> Independence was assessed by the Board of Directors in accordance with the Consolidated Finance Act and with the Corporate Governance Code.

<sup>13</sup> The Board of Directors, most recently in the course of its meeting of 16 June 2014, confirmed its assessment made during the meetings held on 20 April 2012 and 6 August 2013. In particular, with reference to the fact that Directors Massimo Belcredi, Antonio Guastoni and Paolo Francesco Lanzoni exceeded, during their term in office, the nine-year limit set out by application standard 3.C.1 letter e) of the Corporate Governance Code, the Board of Directors continued to deem that the automatic enforcement of this limit for the purposes of assessing independence would not have been in line with the spirit of the Corporate Governance Code and the overall profile of the aforesaid Directors – and their history with the Company – offered sufficient guarantees in terms of their independent mindedness. Moreover, the Board of Directors, consistently with the decisions made in the course of meetings of 20 April 2012 and of 6 August 2013, confirmed that the offices held by Director Paolo Francesco Lanzoni in the Supervisory Bodies as per Italian Legislative Decree no. 231/2001 (control bodies with external relevance) have no influence on his independence and that the compensation he receives for participation in the aforesaid Bodies was akin to the case contemplated by application standard 3.C.1 letter d) of the Corporate Governance Code, which explicitly refers to additional compensation for participation in committees within the Board, recommended by the Code itself.

The Board of Statutory Auditors verified the correct application of the criteria and verification procedures adopted by the Board of Directors to assess the independence of its members. With regard to the composition of the Board of Directors and the distribution of offices and powers within it, it was not considered necessary to designate a lead independent director as provided by application criterion 2.C.3 of the Corporate Governance Code. During 2014 the independent Directors held their own meeting without the other Directors present, but remained in contact and regularly consulted each other in advance on the principal matters examined by the Board of Directors.

**Other appointments as Director or Statutory Auditor held by Directors in other companies listed in regulated markets, also abroad, in finance companies, banking and insurance companies or companies of significant size at 31 December 2014<sup>14</sup>:**

Edoardo Garrone	<i>Chairman of the Supervisory Board of San Quirico S.p.A. Director of Pininfarina S.p.A.</i>
Alessandro Garrone	<i>Director of Banca Passadore e C. S.p.A. Director of Gruppo MutuiOnline S.p.A.</i>
Giovanni Mondini	<i>Chairman of the Management Board of San Quirico S.p.A.</i>
Marco Costaguta	<i>Member of the Management Board of San Quirico S.p.A. Director of OTB S.p.A. Director of Goglio S.p.A. Director of Rimorchiatori Riuniti S.p.A.</i>
Antonio Guastoni	<i>Chairman of the Board of Statutory Auditors of Futurimpresa Sgr S.p.A. Chairman of the Board of Statutory Auditors of Parcam S.r.l. Director of Comoi Sim S.p.A. Standing Auditor of Giulio Fiocchi S.p.A. Standing Auditor of Rina S.p.A.</i>
Umberto Quadrino	<i>Director of Ambienta Sgr S.p.A. Director of Italsconsult S.p.A. Chairman of the Board of Directors of Tages Holding S.p.A. Director of Tages Capital SGR S.p.A. Chairman of the Board of Directors of Valvitalia S.p.A.</i>

**Other attendees of Board of Directors meetings**

Depending on the matters under discussion, ERG Group management representatives also take part in Board of Directors meetings. In 2014, the average attendance of managers, present at 7 of the 9 meetings of the Board of Directors and in several cases in support of the discussion of multiple agenda items, was 78%.

**Directors' compensation and remuneration**

In accordance with the Corporate Governance Code, the Board of Directors, at the proposal of the Nominations and Remuneration Committee, on 20 December 2011 approved its Policy for the remuneration of the members of the Board of Directors and of Executives with Strategic Responsibilities<sup>15</sup> taking into account, in particular:

- Article 6 of the Corporate Governance Code;
- the provisions of the Consolidated Finance Act and of the Issuers' Regulations on the transparency of the remuneration of the directors of listed companies and of Executives with Strategic Responsibilities;
- the current Procedure for transactions with related parties and the principles expressed in the Code of Ethics of the ERG Group.

<sup>14</sup> Other than offices held in companies of the ERG Group.

<sup>15</sup> The Shareholders' Meeting held on 15 April 2014 voted in favour of the first section of the Remuneration Report prepared in accordance with Article 123-ter of the Consolidated Finance Act.

The Remuneration Policy was revised by the Board of Directors, at the proposal of the Nominations and Remuneration Committee:

- on 18 December 2012, to take into account the powers delegated by the Board of Directors itself (appointed by the Shareholders' Meeting of 20 April 2012) and the adoption of the 2012-2014 Medium/Long Term Incentive System ("LTI System");
- on 11 March 2015, to take into account, with effect from the year 2015<sup>16</sup>, the Company's acceptance of the current Corporate Governance Code and of the general principles of the 2015-2017 LTI System.

During 2014, with reference to the Directors in office, the members of the Nominations and Remuneration Committee formulated the aforesaid proposals on the basis of the provisions of the current Remuneration Policy<sup>17</sup>.

### **Powers**

The Board of Directors vested:

- the Chairman Edoardo Garrone with the power to manage the staff functions carried out by the Institutional & International Relations Division with respect to external relations and to Corporate Social Responsibility and the General Secretariat functions within the scope of the Corporate Affairs Division, with responsibility for supervision, direction and control<sup>18</sup>;
- the Deputy Chairman Alessandro Garrone with the power to supervise preliminary and functional activities for the definition of the Company's and of the Group's strategic objectives and for the preparation of the related Strategic Plan, to be submitted to the Board of Directors for review and approval or disapproval; consequently, to provide strategic coordination to subsidiaries; to exercise supervision and control over activities for the preparation of draft budgets to be submitted for review and approval or disapproval by the Board of Directors; to conduct direction and supervision activities in the search, preparation and negotiation with third parties of Merger & Acquisition projects and in structured finance transactions, which in view of their significance are subject to the approval of the Board of Directors; to supervise the definition of the Company's organisational structure to the second reporting level down from the Chief Executive Officer, concurring with the CEO on decisions pertaining to the appointment of directors and executives, to the termination of any employee and to remuneration and incentive policies;
- the Company's Chief Executive Officer Luca Bettonte<sup>19</sup> with the powers necessary to carry out all actions pertaining to the company's business;
- Director Graziella Merello with the power to oversee the Internal Audit, Risk and Compliance activities, with responsibility for supervision, direction and control.

---

<sup>16</sup> Since the 2015-2017 LTI System is expected to be connected also to the performance of the ERG share, it will be submitted to shareholders for their approval at the Shareholders' Meeting to be convened for the approval of the Financial Statements at 31 December 2014.

<sup>17</sup> For any additional information in this matter, please refer to the Remuneration Report per Article 123-ter of the Consolidated Finance Act, to be presented to the Shareholders' Meeting convened in April 2014, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.

<sup>18</sup> Assignment of these managerial powers, with particular but not exclusive reference to the activities of the General Secretariat within the Corporate Affairs Division, takes into account the role carried out as Chairman of the Board of Directors and by the provisions of the Corporate Governance Code (Comment to Article 2, fifth paragraph).

<sup>19</sup> The interlocking directorate situation, contemplated by application standard 2.C.5. of the Corporate Governance Code, does not apply.

In accordance with the Articles of Incorporation, the authority to represent the Company in accordance with Article 2384 of the Italian Civil Code rests with Chairman. It also rests separately with the Chief Executive Officer or with the Chief Executive Officers within the limits of the powers vested in them.

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

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

### **Frequency of Board meetings**

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

During the 2014 financial year the Board of Directors held **9** meetings, while for the year 2015 there are expected to be no fewer than **9** meetings.

In the 2014 meetings, the Board of Directors passed resolutions pertaining to **48** issues and for **39** of them the related documentation was sent to Directors and Statutory Auditors beforehand (at least 48 hours before the meeting, barring exceptions) said advance notice being deemed suitable to enable Directors and Auditors to acquire adequate knowledge of the items on the agenda.

In some exceptional cases the Members of the Board of Directors and the Board of Statutory Auditors were informed in advance through the delivery (48 hours before the Board meeting, barring exceptions) of summary documents on matters which were then thoroughly discussed in the course of the meeting.

In the resolutions with respect to which the related documentation was not sent to Directors and Statutory Auditors beforehand, **5** pertained to topics with respect to which the Nominations and Remuneration Committee or the Internal Control and Risk Committee had carried out preparatory work.

The average duration of the meetings held by the Board of Directors was **approximately 2 hours**.

As of the date of approval of this document, the Board of Directors had held **2** meetings.

### **Activities pursued**

Directors made a significant contribution to the work of the Board of Directors and Committees in 2014, in terms of meeting attendance and effective participation in proceedings.

In the course of 2014, the Board of Directors performed the activities and responsibilities referred to in application criterion 1.C.1 of the Corporate Governance Code in accordance with the role that the Code attributes to the Board of a listed company.

With regard in particular to paragraph g) of said criterion, the Board of Directors, at its meeting of 24 February 2015, carried out a review, partly on the basis of a document prepared for this purpose by the Nominations and Remuneration Committee, of the size, composition and functions of the Board of Directors and Committees during 2014, expressing, in this regard, an overall favourable opinion accompanied by specific indications with respect to the operation of the Board of Directors and of its committees. This document was prepared applying the

assessment criteria already used last year, as well as the results of a self-assessment questionnaire prepared by the Corporate Affairs Division at the request of the Nominations and Remuneration Committee and sent to members of the Board of Directors and of the Board of Statutory Auditors.

Pursuant to application criterion 1.C.3. of the Corporate Governance Code, the Board of Directors acknowledged that, in light of the findings set out in the document prepared by the Nominations and Remuneration Committee and taking into account the number of directorships and auditorships held by the individual Directors in other listed companies and in finance, banking, insurance companies or companies of significant size, it does not appear to be necessary to set, in this regard, a maximum number of directorships and auditorships. The Board of Directors, moreover, on the basis of the indications emerged from the aforesaid self-assessment questionnaires, in light of the recommendations of application criterion 1.C.1. letter h) of the Corporate Governance Code, decided to point out that in the Board of Directors to be appointed by the Shareholders' Meeting called to approve the Financial Statements at 31 December 2014 the powers already represented in the current Board of Directors should be confirmed, if necessary appropriately supplemented consistently with the current and expected evolution of the Group's asset portfolio, having regard also to its growing international dimension.

Lastly, the Board of Directors, with reference to the recommendations of application criterion 5.C.2 of the Corporate Governance Code, taking into account the current composition of the Board itself, acknowledged, in the course of the meeting of last 24 February, that the adoption of a plan for the succession of the executive directors is not deemed necessary as matters stand.

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

## **BOARD OF STATUTORY AUDITORS**

The current Board of Statutory Auditors, comprising 3 Standing Auditors and 3 Substitute Auditors, was appointed by the Shareholders' Meeting of 23 April 2013; consequently, the appointment to the Board of Statutory Auditors shall expire at the date of the Shareholders' Meeting to approve the Financial Statements at 31 December 2015.

For the appointment of the Board of Statutory Auditors, only one list of candidates was presented by the shareholder San Quirico S.p.A.<sup>20</sup>, i.e.:

Mario Pacciani - *Standing Auditor*

Lelio Fornabaio - *Standing Auditor*

Elisabetta Barisone - *Standing Auditor*

Vincenzo Campo Antico - *Alternate auditor*

Stefano Remondini - *Alternate auditor*

Luisella Bergero - *Alternate auditor*

In accordance with the Articles of Incorporation, the Board of Statutory Auditors consists of three standing auditors and three alternate auditors in compliance with the gender balance criterion prescribed by current laws and regulations.

---

<sup>20</sup> For the percentage of votes received by the list with respect to the voting share capital, please see the minutes of the Shareholders' Meeting of 23 April 2013, available in the Corporate Governance section of the Website [www.erg.it](http://www.erg.it).

The Board of Statutory Auditors is appointed on the basis of lists presented by Shareholders, which, in compliance with Article 147-ter, paragraph 1-bis of the Consolidated Finance Act (referenced by Article 148, paragraph 2 of the Consolidated Finance Act), must be filed at least twenty-five days prior to the date of the Shareholders' Meeting and shall be made available to the public at least twenty-one days prior to the Meeting.

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

Candidate lists may only be presented by shareholders who, at the time of presenting the list, hold a shareholding equal to that required for the presentation of lists for the election of Directors, currently equal to 1%<sup>21</sup>.

At the time of appointment of the Board of Statutory Auditors currently in office, the shareholding required in order to present the lists was equal to 2.5% of the share capital<sup>22</sup>.

No shareholder may present or vote for more than one list and each candidate may be included in only one list, failing which he or she shall be disqualified.

The lists contain not only information about the Shareholders who submitted them and the statements made by them pursuant to the applicable regulations, but also exhaustive information about the candidates' personal and professional characteristics and their statements pursuant to the Articles of Incorporation. Candidates may not be elected to the office of Statutory Auditor unless they fulfil the requirements of independence, professionalism and integrity as provided by Article 148, paragraph 3 of the Italian Consolidated Finance Act or if they already serve as Standing Auditor in five listed companies<sup>23</sup>.

If, at the expiration of the term for the presentation of the lists as indicated above, a single list was filed, or only lists presented by mutually connected shareholders, according to the definition set out in the applicable regulations, were filed, then lists may be presented – in accordance with Article 144-sexies, paragraph 5 of the Issuers' Regulations – until the third day after that date. In this case, the thresholds required for presentation of the lists are halved. Any list presented without compliance with the required prescriptions<sup>24</sup> shall be considered not to have been presented.

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

If no second list is presented or voted, the entire Board of Statutory Auditors shall comprise, in the order of presentation, the candidates of the single list voted. The first person on the list is elected Chairman. If more than one list is presented, the following candidates shall be elected: from the list that received the highest number of votes, in the progressive order in which they are listed, two standing auditors and two alternate auditors; the third standing auditor and the third alternate auditor are elected choosing the candidates to the respective offices indicated at the top of the list that obtained the second-highest number of votes after

21 In accordance with CONSOB Resolution no. 19109 of 28 January 2015.

22 In accordance with CONSOB Resolution no. 18452 of 30 January 2013.

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

24 For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Statutory Auditors, please refer to the Articles of Incorporation, available in the Corporate Governance section of the website [www.erg.it](http://www.erg.it).

the first one, among those presented and voted by minority shareholders who are not connected – even indirectly – with the shareholders who presented or voted the list that received the highest number of votes, according to current regulations and subject to the provisions of paragraph 13-bis of the Articles of Incorporation pertaining to compliance with the gender balance criterion in the composition of the Board of Statutory Auditors. The standing auditor drawn from the minority list shall be appointed Chairman.

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

The Statutory Auditors in office at the date of approval of the Report are<sup>25</sup>:

Mario Pacciani - *Chairman*

Lelio Fornabaio - *Standing Auditor*

Elisabetto Barisone - *Standing Auditor*

Vincenzo Campo Antico - *Alternate Auditor*

Luisella Bergero - *Alternate Auditor*

Mario Lamprati - *Alternate Auditor*

The Shareholders' Meeting of 15 April 2014 appointed Mr. Mario Lamprati as Alternate Auditor following the resignation, on 12 December 2013, of the Alternate Auditor Mr. Stefano Remondini. The Board of Statutory Auditors, having examined the personal and professional characteristics of each auditor, has concluded that its members can be designated as independent, partly based on the criteria set forth in the Corporate Governance Code for Directors.

The Board of Directors, in light of the information provided in this regard by the members of the Board of Statutory Auditors and of the statements by the Chairman of the Board of Statutory Auditors, during its meeting of 13 May 2013, positively assessed the independence of the members of the Board of Statutory Auditors, both with reference to the provisions of Article 148, third paragraph, of the Italian Consolidated Finance Act and with reference to the rules of behaviour of the Board of Statutory Auditors prepared by the National Board of Chartered Accountants and with the Corporate Governance Code for listed companies promulgated by Borsa Italiana S.p.A. The Board of Directors made the aforesaid assessment, with reference to the Alternate Auditor Mr. Mario Lamprati, during the meeting of 14 May 2014.

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

The Board of Statutory Auditors also supervised the process of financial disclosure, the effectiveness of the internal control, internal audit and risk management systems and the legal auditing of annual accounts and of consolidated accounts. The Board of Statutory Auditors, in the performance of its activities, was supported by the Internal Audit, Risk and Compliance Division, coordinating with the Internal Control and Risk Committee.

During the 2014 financial year the Board of Statutory Auditors held **10** meetings, while for the year 2015 there are expected to be no fewer than **9** meetings. The average duration of the meetings held by the Board of Statutory Auditors was **2 hours and 30 minutes**.

At the date of approval of this document, the Board of Statutory Auditors had met **3** times.

---

<sup>25</sup> For the personal and professional characteristics of each auditor in office, please see their CVs available in the Corporate Governance section of the website [www.erg.it](http://www.erg.it).

**Other appointments as Director or Statutory Auditor held by the Statutory Auditors in other companies listed in regulated markets, also abroad, in finance companies, banking and insurance companies or companies of significant size at 31 December 2014<sup>26</sup>:**

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

Lelio Fornabaio      *Standing Auditor of Astaldi S.p.A.*  
*Standing Auditor of Italferr S.p.A.*  
*Standing Auditor of Expo 2015 S.p.A.*  
*Director of Ariscom Compagnia di assicurazioni S.p.A.*  
*Chairman of the Board of Statutory Auditors of Essediese S.p.A.*

## **SHAREHOLDERS' MEETINGS**

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

Article 11 of the Articles of Incorporation states that the Shareholders' Meeting shall be convened by the administrative body at least once a year, no later than one hundred twenty days from the closing date of the financial year or no later than one hundred eighty days, if the Company must prepare Consolidated Financial Statements and if required by specific provisions related to the organisation or the purpose of the Company.

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

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

### **Meeting Regulations**

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

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

## **3.2 BOARD COMMITTEES**

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

### **INTERNAL CONTROL AND RISK COMMITTEE**

#### **Members**

Massimo Belcredi - *Chairman*

Antonio Guastoni

Paolo Francesco Lanzoni

---

<sup>26</sup> Other than offices held in companies of the ERG Group.

In accordance with best practices and with the indications of the Corporate Governance Code, the Internal Control and Risk Committee consists of three independent directors.

The Committee shall appoint a Chairman among its members and a Secretary who may be a non-member. The Chairman, with the collaboration of the Secretary, shall coordinate the activities of the Committee and shall chair its meetings.

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

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

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

The Head of Internal Audit, Risk & Compliance shall be invited to attend the meetings in order to inform the Committee, at least once a quarter, about the activity carried out from time to time.

The Manager responsible for preparing the Company's financial reports shall be invited to attend the meetings in order to inform the Committee, at least once per quarter, about the accounting standards applied in the preparation of Financial Statements and, at least once per half-year, about the activity carried out from time to time in accordance with Article 154-bis of the Consolidated Finance Act.

The Committee shall meet at least once every quarter, according to a schedule set with sufficient advance notice.

Committee members shall be provided, with reasonable advance notice with respect to the date of the meeting (barring cases of necessity and urgency), with the documentation and information required to enable the Committee to express itself with sufficient knowledge of the matters submitted for its review.

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

In particular, resolutions are taken without other parties being present.

### **Tasks**

The Internal Control and Risk Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code. In general, it supports - through an adequate preliminary analysis activity - the assessments and decisions of the Board of Directors pertaining to the Internal Control and Risk Management System (also, "ICRM System"), as well as those pertaining to the approval of periodic financial reports.

In particular:

- it assists the Board of Directors in the following tasks prescribed by the Corporate Governance Code: definition of the guidelines of the ICRM System; periodic audit of the adequacy, actual operation and effectiveness of the ICRM System; verification that the main corporate risks are correctly identified, adequately measured, managed and monitored;
- it expresses opinions on specific aspects pertaining to the identification of the main corporate risks as well as to the design, implementation and management of the ICRM System;

- it expresses its own opinion on the appointment and revocation of the Head of Internal Audit, Risk & Compliance and on the proposal for its remuneration formulated by the Director in charge of the Internal Control and Risk Management System;
- it monitors the independence, adequacy, effectiveness and efficiency of the Internal Audit, Risk and Compliance;
- it assesses the annual work plan and the related budget prepared by the Head of Internal Audit, Risk and Compliance and his/her periodic reports requesting, if the case warrants it, audits on specific operating areas;
- examine the results of the activities of the Manager responsible for preparing the Company's financial reports;
- it assesses, together with the Manager responsible for preparing the Company's financial reports, with the input of the independent auditor and the Board of Statutory Auditors, the proper use of the accounting standards and their consistency for the preparation of the Consolidated Financial Statements, of the draft separate Financial Statements, of the condensed half-year financial report and of the interim reports on operations;
- it maintains the appropriate connections with the independent auditor, with the Board of Statutory Auditors, with the Director in Charge of the Internal Control and Risk Management System, with the Head of Internal Audit, Risk & Compliance and with the other functions that, within the Group's organisational structure, interface with these parties, in such a way as to contribute to a coordinated and effective performance of their respective activities in the areas of common intervention;
- it informs the Board of Directors, at least once per half year, upon approval of the annual and half-year financial reports, about the work carried out and about the adequacy of the ICRM System;
- it reviews the annual work plan prepared by the Supervisory Committee, established in accordance with the provisions of Italian Legislative Decree no. 231/01, and its half-year reports;
- it assesses the constant adequacy over time of the corporate procedure directed at regulating, in operational terms, the external communication of documents and information pertaining to the Company and the Group, with particular reference to price sensitive information;
- it provides the Board of Directors, the Chairman, the Executive Deputy Chairman and the Chief Executive Officer with all other advice and proposals, which the Committee deems necessary or appropriate for them to better carry out their respective duties in the areas of control, risk management and corporate disclosure;
- it provides the Board of Directors and the delegated bodies with the opinions required by the procedure for transactions with related parties both with reference to transactions of "Minor Relevance" and with reference to transactions of "Major Relevance" about the Company's interest in completing the transaction with the related party and about the advisability and about the substantial correctness of the related conditions constituted by the members of the Internal Control and Risk Committee<sup>27</sup>. If a member of the Committee is the counterparty of the transaction to be assessed or a related party thereof, the other Committee members shall call upon another non related independent director to participate in the meeting or, if none is available, a non related standing member of the Board of Statutory Auditor;
- it performs any additional duties assigned to it by the Board of Directors.

<sup>27</sup> For transactions pertaining to the allocation or increase of remuneration and economic benefits, in any form, to a member of an administrative or control body of the Company or to an Executive with strategic responsibilities of the Company or otherwise to one of the persons who hold the offices indicated in Annex 1 to the Procedure for transactions with related parties, the Committee called upon to issue its opinion on the interest of the Company in the completion of the transaction with the related party and on the advantagefulness and substantial correctness of the related conditions comprises the members of the Nominations and Remuneration Committee, provided that the afore-mentioned transactions pursuant to Article 3.2, letter c) of said Procedure are not excluded from the sphere of application of the same procedure.

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

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

In 2014, the Committee held **11** meetings – all duly recorded in minutes – during which, in addition to the preventive review of the Financial Statements, of the half-year report and of the economic and financial data of interim reports on operations, it examined topics pertaining to the following macro-issues:

- Group Governance;
- Control and risk management system;
- Compliance requirements connected with Italian Legislative Decree no. 231/01;
- The Group's administrative and accounting processes.

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

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

The most significant issues covered by the Committee are:

#### **Concerning Group Governance:**

##### *Remuneration of the Chief Audit, Risk & Compliance Officer*

- it expressed a favourable opinion on the proposed remuneration of the Chief Audit, Risk & Compliance Officer, formulated by the Director in charge of the Internal control and risk management system with reference to the variable remuneration relating to 2013 as well as the fixed and variable remuneration relating to 2014.

##### *Guidelines, procedures and standards*

- it shared the activity of revising the Corporate Governance documents as a result of the organisational/corporate changes that involved the Group and, with specific reference to the Procedure for transactions with related parties, it expressed its favourable opinion on the proposed changes;
- it examined the proposed revisions to the Code of Ethics deriving also from the advisability of taking into account changes in the laws and regulations.

##### *Specific analyses carried out*

- it examined the approach followed in the drafting of the Remuneration report relating to 2013;
- it examined the controls and activities carried out by the Group in order to comply with the provisions of the EMIR Regulation;
- it examined the audits made on the thresholds set forth in the Procedure for transactions with related parties and acknowledged the consistency of the same;
- it acknowledged the principles that steered the Group's corporate/organisational restructuring (**Fast Steering**) and the simplification of the structure and composition of the Group's companies;
- it checked the scope of application of Articles 2497 et seq. of the Italian Civil Code relating to (i) relations between ERG and its parent San Quirico S.p.A.; (ii) the scope of the management and coordination of ERG; (iii) the list of companies with which these activities are carried out;
- it received advanced information about the terms and conditions negotiated for the renewal of the advisory agreement with the company IEC S.r.l., a related party of ERG;
- on the express request of the Board of Directors, it conducted an analysis on the main changes made with regard to the new edition of the Corporate Governance Code, as

well as on the measures to be set in place if the Company should decide to subscribe to it, informing the Board of Directors about it.

#### **With regard to the Internal control and risk management system:**

##### *Dealings with Internal Audit, Risk & Compliance*

- it examined and shared the Risk Report on the activity carried out in 2013 and in the first half of del 2014;
- it examined and shared the proposals to revise the Internal Audit Appointment in light of international best practices, of the results of the self-assessment carried out by the Internal Audit itself and of some recommendations contained in the Corporate Governance Code;
- after the appointment of the new Manager responsible for preparing the Company's financial reports, it examined the Risk Assessment carried out by the Internal Audit, Risk & Compliance to identify the Companies and the processes to be included in the scope of intervention for the execution of the compliance activities required by Italian Law no.262/05;
- it examined the quarterly updates on the activity conducted by the Internal Audit, Risk & Compliance Division (in accordance with Italian Legislative Decree no. 231/01 and Italian Law no. 262/05) and their results, recommending specific actions and requesting follow-up information;
- it examined the plan of activities and the budget of the Internal Audit, Risk and Compliance Division for the year 2015, recommending to promptly report any needs that may have emerged during the year with reference to the budget.

##### *Guidelines, procedures and standards*

- it examined the proposed revision of the Guidelines for the Internal Control and Risk Management System in light of the corporate and organisational changes made in the Group.

##### *Specific analyses carried out*

- it received constant updates on ongoing audits and analyses within the scope of the investigations for alleged tax irregularities pertaining to the measure by the Prosecutor's Office served to ERG on 3 December 2013;
- it required specific analyses on individual audits and examined the results of the audit activities carried out.

#### **Obligations in connection with Italian Legislative Decree no. 231/01:**

##### *Dealings with the Supervisory Committee*

- it examined, on a six-monthly basis, the periodic reports on the activity carried out by the Supervisory Committee;
- it examined the schedule of activities and the budget of the ERG Supervisory Committee for 2015.

#### **Concerning the Group's administrative and accounting processes**

##### *Dealings with the Manager responsible for preparing the Company's financial reports*

- it examined the impairment test procedure on the Financial Statements at 31 December 2013, the most important general aspects emerging from the application of the same and the reasons underlying the write-downs made;
- it assessed, together with the Manager responsible for preparing the Company's financial reports, having consulted the Independent Auditor Deloitte & Touche and the Board of Statutory Auditors, the correct use of the accounting standards and their consistency for the purpose of drawing up the periodic reporting.
- it acknowledged the appointment of the new Manager responsible for preparing the Company's financial reports as a result of the reorganisation of the Group's corporate/organisational structure;

- it examined the organisation and assignment of responsibilities for the purposes of managing compliance with Italian Law no. 262/05 by the new Manager responsible for preparing the Company's financial reports and by the Chief Audit Risk & Compliance Officer as well as the details of the actions and of the expected reporting procedures.

*Specific analyses carried out*

- it examined the main aspects pertaining to the domestic tax consolidation of ERG;
- examined the methods for the renewal of the Group VAT liquidation procedure for tax year 2014;
- it acknowledged the process for revising the inter-company service agreements for the year 2014 as a result of the Group's corporate reorganisation.

The Committee deemed it possible to confirm, in light of the activities carried out in 2014, its positive appraisal with regard to the adequacy of the Internal control and risk management system.

## NOMINATIONS AND REMUNERATION COMMITTEE

### Members

Paolo Francesco Lanzoni - *Chairman*

Massimo Belcredi

Pasquale Cardarelli

In accordance with best practices and with the indications of the Corporate Governance Code, the Nominations and Remuneration Committee consists of three independent directors.

The Committee shall appoint a Chairman among its members and a Secretary who may be a non-member. The Chairman, with the collaboration of the Secretary, shall coordinate the activities of the Committee and shall chair its meetings. The members of the Nominations and Remuneration Committee have adequate accounting and financial expertise.

The Chairman, Executive Deputy Chairman and CEO take part in the Committee's work.

Employees of ERG Group companies, representatives of the independent auditor, members of the Board of Statutory Auditors and, in general, persons whose presence is deemed necessary or appropriate for the discussion of the agenda items may be invited to attend Committee meetings. The Committee shall meet once every quarter, according to a schedule set with sufficient advance notice. Committee members shall be provided, with reasonable advance notice with respect to the date of the meeting (barring cases of necessity and urgency), with the documentation and information required to enable the Committee to express itself with sufficient knowledge of the matters submitted for its review.

### Tasks

The Nominations and Remuneration Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code for the Nominations Committee and for the Remuneration Committee<sup>28</sup>.

In particular:

- it makes recommendations to the Board of Directors regarding the remuneration of the Chairman, Deputy Chairmen, CEO and, more in general, of Directors with powers or specific duties and of the Directors called to serve on the Strategic Committee who do not hold positions in the Board of Directors and, upon indication of the CEO, regarding the determination of criteria for the remuneration of the Company's top managers and for the definition of incentive plans for the ERG Group's management;

<sup>28</sup> Complying with the conditions set out for both Committees by the Corporate Governance Code.

- it periodically assesses the adequacy, overall consistency and concrete application of the Remuneration Policy for members of the Board of Directors and Executives with Strategic Responsibilities;
- it proposes to the Board of Directors the candidates for the office of Director in the case provided by Article 2386, first paragraph, of the Italian Civil Code, if it is necessary to replace and Independent Director;
- it assesses, at the specific request of the shareholders who intend to present lists, the independence of candidates for the office of Director to be submitted to the Shareholders' Meeting of the Company;
- it provides the Board of Directors, with annual periodicity, with an evaluation of the size, composition and operation of the Board itself, and it may express its indications on the professional profiles that should be included in the Board;
- it expresses its indications with regard to the maximum numbers of directorships or auditorships in other companies listed on regulated markets, including foreign ones, in financial, banking, insurance companies or companies of significant size that can be considered compatible with an effective performance of the duties of a director of the Company;
- in accordance with the Procedure for transactions with related parties, it issues its opinion both with reference to transactions of "Minor Relevance" and with reference to transactions of "Major Relevance" (i) on the Company's interest in the completion of transactions involving the assignment or increase of remuneration and economic benefits, under any form, to a member of an administrative or control body of the Company or to an Executive with strategic responsibilities thereof or otherwise to one of the persons who hold the offices indicated in Annex 1 to the Procedure for transactions with related parties and (ii) on the advisability and the substantial correctness of their conditions is constituted by the members of the Nominations and Remuneration Committee, unless the aforesaid transactions under Article 3.2, letter c) of the Procedure are excluded from the scope of the Procedure itself<sup>29</sup>. If a member of the Committee is the counterparty of the transaction to be assessed or a related party thereof, the other Committee members shall call upon another non related independent director to participate in the meeting or, if none is available, a non related standing member of the Board of Statutory Auditors.

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

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

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

In 2014, the Committee held **6** meetings – duly recorded in minutes – during which, in particular, it:

- formulated proposals for setting the remuneration of the Chairman, Deputy Chairmen, CEO and, more in general, of Directors with powers or specific duties and of the Directors called to serve on the Strategic Committee who do not hold positions in the Board of Directors;

<sup>29</sup> If the conditions per Article 3.2 letter c) of the Procedure for transactions with related parties are met, i.e. (i) that the Company has adopted a remuneration policy; (ii) that the Nominations and Remuneration Committee was involved in the definition of the remuneration policy; (iii) that a report illustrating the remuneration policy has been submitted for the Shareholders' Meeting consultative vote; (iv) that the remuneration assigned is consistent with said policy – subject to the disclosure obligations per Article 154-ter of the Consolidated Finance Act, the Procedure shall not apply to transactions pertaining to the assignment or increase of remuneration and economic benefits, in any form, to a member of an administrative or control body of the Company or to an Executive with strategic responsibilities thereof or otherwise to one of the persons who hold the offices indicated in Annex 1 to the Procedure for transactions with related parties.

- made determinations on the definition of the targets for the year 2014 with reference to the short and long term incentive system and to the value creation achieved in 2013;
  - issued opinions – and proposals, when warranted – as to the recognition and setting of bonuses to some of the Company's managers. The members of the Nominations and Remuneration Committee formulated the aforesaid proposals or assessments also taking into account the provisions of the current Procedure for transactions with related parties;
  - prepared a support document for the evaluation of the Board of Directors with regard to the size, composition and operation of the Board itself and of the Committees in 2014 using the evaluation criteria already applied in the past year and the results of a self-assessment questionnaire sent to the members of the Board of Directors and of the Board of Statutory Auditors;
  - actively participated in the process for the formulation of the Company's Remuneration Policy, in force from 2015 onwards, in order to take into account the Company's adoption of the current Corporate Governance Code and the general principles of the 2015-2017 LTI System.
- The average duration of the meetings held by the Committee was approximately **1 hour**.  
At the date of approval of this document, the Nominations and Remuneration Committee had met **3** times.

## STRATEGIC COMMITTEE

### Members

Alessandro Garrone - *Chairman*

Giovanni Mondini

Luca Bettonte

Alessandro Careri

Marco Costaguta

Paolo Luigi Merli - *Secretary*

The Committee advises and issues recommendations to the CEO and to the Board of Directors of ERG S.p.A. and to the Boards of Directors of the operating companies of the ERG Group. It operates, within strategies and policies approved by the Board of Directors, by defining strategic business and portfolio guidelines, and guidelines and policies on strategic finance and for individual finance operations, monitoring the progress of their implementation over time. The Committee also examines the long-term strategic plans and capital expenditures budgets of the ERG Group and of the operating companies, as well as the strategic benefits of significant capital expenditures effected at the ERG Group level. In 2014, the Committee held **9** meetings.

## 3.3. INTERNAL COMMITTEES

Following the entry into force of the new organisation of the ERG Group (1 January 2014), the structure and composition of the Internal Committees (non-board committees comprised of ERG Group Managers), existing at the time, was revised in order to align them to the new operating model of the organisation.

### LEADERS MEETING

Committee tasked with advising and making recommendations to the Chief Executive Officer; in particular:

- it shares the activities, characteristics and performance of the Group's businesses;
- it ensures that there is a shared vision and teamworking;
- it enhances the Group's human and relational assets and it promotes the managerial culture and values;
- it provides opportunities to compare with best practices outside the Group through witness accounts and benchmarking.

#### **HUMAN CAPITAL COMMITTEE**

Committee tasked with advising and making recommendations to the Executive Deputy Chairman and to the Chief Executive Officer; in particular:

- it defines and monitors the main programmes and activities for human capital development;
- it supports the Executive Deputy Chairman and the Chief Executive Officer in decision concerning the development of personnel and the variable remuneration and medium-long term incentive systems, as well as for the proposals to be submitted to the Nominations and Remuneration Committee.

#### **CORPORATE COMMITTEE**

Committee tasked with advising and making recommendations to the Chief Executive Officer; in particular:

- it monitors the Corporate results;
- it ensures that the Group's strategies and business models are aligned;
- it creates value by proposing, defining and implementing specific projects in the fields of finance, human capital, public affairs and communications.

#### **INVESTMENT COMMITTEE**

Committee tasked with advising and making recommendations to the Chief Executive Officer; in particular:

- it supports the Chief Executive Officer in assessing the Business Units' investment proposals;
- it expresses a reasoned technical and economic-financial opinion for the Strategic Committee in the various stages of the investment process.

#### **RISK COMMITTEE**

Committee tasked with advising and making recommendations to the Chief Executive Officer; in particular:

- it supports the Chief Executive Officer in the definition of the strategies and policies for managing financial and market risks;
- it provides the Chief Executive Officer with information useful for the authorisation of operations for managing financial and market risks, for monitoring the execution of transactions of major relevance and for verifying their effects.

#### **BUSINESS REVIEW COMMITTEE**

Committee tasked with advising and making recommendations to the Chief Executive Officer; in particular:

- it monitors the operating performance of the reference Business Unit with the respective Managing Director;
- it identifies the opportunities to create value in the business "as is";
- it preliminarily assesses any investment / divestment opportunities.

### **3.4. CORPORATE GOVERNANCE DOCUMENTS**

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

- the Articles of Incorporation;
- the Code of Ethics;
- the Corporate Governance Code;
- the Procedure for handling and processing privileged information and for the public dissemination of statements and information;
- the Code of Conduct for Internal Dealing;
- the Guidelines for the identification and execution of significant transactions;

- the Code of Conduct for Directors of Group companies;
- the Procedure for transactions with related parties;
- the Policy for the remuneration of members of the Board of Directors and of Executives with Strategic Responsibilities;
- the Guidelines for compliance with Italian Legislative Decree 231/01 and the anti-corruption laws in the companies of the ERG Group;
- the Organisation and Management Model pursuant to Italian Legislative Decree no.231/01;
- the Anti-corruption Guidelines.

#### **ARTICLES OF INCORPORATION**

The Articles of Incorporation, as illustrated in detail in the report, contains the main rules for the operation of ERG's corporate bodies and it has been amended recently to make it comply with the changes in laws and regulations on the matter of gender balance in the composition of the administrative and control bodies.

#### **CODE OF ETHICS**

The Code of Ethics represents an instrument for raising the awareness of all employees and contractors and of all other stakeholders so that, when carrying out their activities, they adopt correct and transparent conduct in line with the ethical-social values to which ERG aspires. The Code of Ethics therefore represents an essential part of the Organisation and Management Model pursuant to Italian Legislative Decree no. 231/01. The Code of Ethics was revised in 2014 to take into account regulatory changes (introduction of the offenses of bribery among private parties) and to improve the representation and communication of the ethical principles promoted by the ERG Group. The latest revision to the Code of Ethics was approved by ERG's Board of Directors on 14 May 2014. The Code of Ethics is adopted by all companies in the Group, both Italian and foreign, and it is available in English and French.

The Code of Ethics is communicated to the contractors of the ERG Group not only through its publication on the Group's website, but also by being referenced in the contractual clauses. Employees of the ERG Group are administered both a classroom training activity and an e-learning course tracked in the system.

#### **CORPORATE GOVERNANCE CODE**

The Company has adopted the Corporate Governance Code of Listed Companies promoted by Borsa Italiana S.p.A. since its first edition in 1999. On 12 November 2014 the Board of Directors, after the Internal Control and Risk Committee's preliminary evaluation of the main amendments made, decided to adopt the new edition of the Corporate Governance Code published in July 2014.

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

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

The procedure, most recently revised on 14 May 2014, defines the tasks and responsibilities of the functions involved, identifies the criteria, methods and timing of the various procedural stages, and establishes the appropriate decision-making levels for the dissemination of statements and information. For this purpose, it contains prescriptions aimed at assuring an exhaustive and timely flow of information within the companies of the ERG Group and between them and the listed Parent Company for the purposes of compliance with information obligations pertaining to "price sensitive" events, vis-à-vis the market and the organisations tasked with its supervision.

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

The Board of Directors has adopted a Code of Conduct, revised on 1 July 2014, in order to give transparency to financial transactions carried out by Relevant Persons, i.e. those persons who, by virtue of their roles within the ERG Group, have significant decision-making powers or considerable knowledge of corporate strategies which would help them in making investment decisions regarding the financial instruments issued by the Company.

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

### **GUIDELINES FOR THE IDENTIFICATION AND EXECUTION OF SIGNIFICANT TRANSACTIONS**

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

The Guidelines, most recently revised on 1 July 2014, set out the criteria to be used to identify significant transactions, in accordance with Article 1 of the Corporate Governance Code, consisting of quantitative and qualitative criteria, and criteria deriving from the specific requirements of the parties involved (related-party transactions and intra-group transactions).

The document also indicates the standards of conduct to be followed in carrying out the aforesaid transactions, with particular reference to the transactions carried out by the subsidiaries over which ERG exercises management and coordination in accordance with Article 2497 et seq. of the Italian Civil Code which must be preventively examined and approved by the Board of Directors.

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

The Board of Directors has adopted a Code of Conduct for Directors appointed in ERG Group companies, revised on 14 May 2014, in order to provide them with uniform rules of conduct for performing their duties within a systematic framework of reference and in compliance with Corporate Governance principles.

### **PROCEDURE FOR TRANSACTIONS WITH RELATED PARTIES**

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

The Procedure was most recently revised on 1 July 2014.

### **POLICY FOR THE REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS AND OF EXECUTIVES WITH STRATEGIC RESPONSIBILITIES.**

The Board of Directors adopted, with its resolution of 20 December 2011, at the proposal of the Nominations and Remuneration Committee, a Remuneration Policy for the members of the Board of Directors and for Executives with Strategic Responsibilities in line with the provisions of the Corporate Governance Code, revised – at the proposal of the Nominations and Remuneration Committee:

- on 18 December 2012, to take into account the powers delegated by the Board of Directors itself (appointed by the Shareholders' Meeting of 20 April 2012) and the adoption of the 2012-2014 Medium/Long Term Incentive System ("LTI System");
- on 11 March 2015, to take into account, with effect from the year 2015, the Company's acceptance of the current Corporate Governance Code and of the general principles of the 2015-2017 LTI System<sup>30</sup>.

<sup>30</sup> For any additional information in this matter, please refer to the Remuneration Report per Article 123-ter of the Consolidated Finance Act, to be presented to the Shareholders' Meeting convened in April 2014, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.

## COMPLIANCE GUIDELINES AS PER ITALIAN LEGISLATIVE DECREE 231/01 AND THE ANTI-CORRUPTION LAWS IN THE ERG GROUP COMPANIES

The Guidelines for Compliance with Italian Legislative Decree no. 231/2001 and with Anti-corruption Laws in the Companies of the ERG Group, whose purpose is to provide (Italian and foreign) Companies of the ERG Group with methodological indications on the adoption of the Code of Ethics and on the procedures for managing Compliance with the provisions of Italian Legislative Decree no. 231/01, as well as to provide the principles and rules to follow to assure Compliance with Anti-corruption Laws, without constituting management and coordination activities and subject to the liability of individual legal entities in the decision as to whether to adopt a Model or otherwise on the basis of their own risk assessment. The Guidelines were adopted in the conviction that their adoption can provide a valid instrument to protect the Company, and to sensitise all those who, internally or externally, work for the ERG Group.

The Guidelines approved by ERG's Board of Directors on 12 November 2013 set out the general principles and rules with reference:

- to the adoption of the Group's Code of Ethics by all direct and indirect Italian and foreign subsidiaries;
- to the management of the subsidiaries' criminal liability, in order to provide a framework of rules, obligations and prohibitions pertaining to:
  - “231 compliance”, for Italian companies (without prejudice to the individual legal entities' liability in the decision as to whether or not to adopt a Model 231 prepared according to their own specific company);
  - “compliance with applicable domestic and international anti-corruption laws” to prevent their violation and in order to assure complete compliance.

## ORGANISATION AND MANAGEMENT MODEL PURSUANT TO ITALIAN LEGISLATIVE DECREE NO. 231/01 AND SUPERVISORY COMMITTEE

The Organisation and Management Model pursuant to Italian Legislative Decree no. 231/2001 has the aim of ensuring the conditions of correctness and accountability in the performance of the corporate activities and of therefore serving as a valid instrument aimed at preventing the risk that offences specified by Italian Legislative Decree no. 231/01 may be committed.

In its meeting of 21 December 2004, ERG's Board of Directors decided to adopt for the first time a model of organisation, management and control in accordance with Italian Legislative Decree no. 231/01 and it established the Supervisory Committee. After the initial approval, the Model 231 has been constantly revised and improved in light of regulatory and jurisprudential changes, as well as of the organisational corporate changes that have taken place within the ERG Group.

The Model was designed according to the Guidelines of Confindustria. In accordance with laws and regulations, the Model 231 includes a disciplinary system aimed at sanctioning any violations of the Model, of the Code of Ethics and the failure to comply with the corporate procedures that provide the safeguards. The version of the Model 231 currently in force was approved by the Board of Directors on 26 February 2013 and it includes the offences introduced in 2012 (“employment of citizens of third party countries with irregular permits of stay”, “undue incitement to give or promise benefits” and “corruption between private individuals”). An excerpt of the document is available for viewing in the “Corporate Governance” section of the website [www.erg.it](http://www.erg.it).

The Model was developed considering the main positions expressed by jurisprudence in relation to the characteristics it must have:

- *effectiveness*: i.e. the adequacy of the set of controls established to prevent the perpetration of offences;
- *specificity*: the forecasts of the Model take into account the characteristics and size of the Company and the type of activities carried out, as well as the history of the Company;
- *up-to-dateness*: i.e. the ability to reduce the risks of offences in reference to the character of the structure and of the business, also with the work of the Supervisory Committee which keeps it up to date and current over time.

The structure of the Model adopted by ERG is characterised by the presence of the following significant components:

- *Code of Ethics*, which expresses the reference principles which must guide the activity of all those who contribute, with their work, to the performance of the corporate activities;
- *general part*, which defines the overall set-up of the Model, in relation to the provisions of the Decree and to the specific decisions made by the Company in its preparation referring to the disciplinary system, to be enforced in the event of violation of the prescribed rules and procedures;
- *special part*, which defines the rules to be followed in the performance of sensitive activities.

Together with the adoption of the Model 231, the decision to comply with Italian Legislative Decree no. 231/01 led to the appointment of the Supervisory Committee, tasked with overseeing the observance of the Code of Ethics and assuring the adequacy and actual implementation of the Model, and to evaluate whether it is necessary subsequently to update it.

The Committee, as a result of the decisions reached by the Board of Directors during its meeting of 18 December 2012, comprises:

- an external member, identified as an Independent Director of the Company, serving as Chairman (P.F. Lanzoni);
- two internal members, identified as the Chief Human Capital Officer (A. Fusi) and as the Chief Audit, Risk & Compliance Officer (D. De Paolis).

The members of the Supervisory Committee shall remain in office for a period preferably no longer than three years and may be confirmed in office. If the Board of Directors that appointed them is removed from office, they shall remain in office until new members are appointed, or the previous ones are confirmed, by the new Administrative Body. The Supervisory Committee shall carry out its work within the Parent Company ERG, whereas Subsidiaries, provided with their own Model, have appointed their own Supervisory Committee. The synergies between Code of Ethics and Model 231 are highlighted by the assignment to the Supervisory Committee of ERG of the functions of Guarantor of the Code of Ethics. Similarly, each subsidiary, that has its own Supervisory Committee, also assigns it the function as Guarantor of the Code of Ethics. The Supervisory Bodies of ERG and of its subsidiaries shall rely, in their audit activities on the Model 231 and on the Code of Ethics, on the Internal Audit, Risk & Compliance of ERG. To make the organisational and internal control safeguards within the Company more effective, information shall be provided to the Supervisory Committee. The primary function of the information flows is to enable the Supervisory Committee continuously to oversee the functionality of the Model 231 and the identification of possible interventions to update the Internal Control and Risk Management System. For this purpose the Supervisory Committee has adopted a dedicated procedure that identifies the relevant information flows, the times for their transmission and the responsible individuals. To manage communications to the Supervisory Committee, dedicated electronic mail address as established. The Supervisory Committee shall prepare the annual Plan of the supervisory activity that is submitted to the Board of Directors of ERG and it shall periodically report on the implementation of the Code of Ethics and of Model 231 to the Control and Risks Committee.

The Supervisory Committee shall manage the training activities through:

- classroom training to all employees (including managers and executives) on issues pertaining to Italian Legislative Decree no. 231/01, the Model 231 adopted by the Company, the Supervisory Committee and the activities it carries out, the information flows to the Supervisory Committee;
- an e-learning course dedicated to the Code of Ethics, expected to be attended by employees and newly hired personnel;
- an e-learning course dedicated to 231-related issues, intended for newly hired personnel.

## **ANTI-CORRUPTION GUIDELINES**

ERG carries out its activity in compliance with the highest domestic and international standards of healthy Corporate Governance. The ERG Group is therefore committed to comply with and enforce the principles of integrity, impartiality and transparency.

These principles become yet more important when it is necessary to confront in a structured manner the problem of corruption, a global phenomenon that irreparably destroys the integrity of both public and private enterprises.

ERG, in order further to stress that it conducts all aspects of its activity in strict compliance with applicable domestic and international laws and regulations, *inter alia*, with respect to anti-corruption and further to demonstrate its adoption of the values described above, has decided to adopt, in addition to the Code of Ethics, the Anti-corruption Guidelines. The goal is to provide all personnel and, in particular, those who work abroad in favour or on behalf of companies of the ERG Group, the principles and rules to follow to assure compliance with Anti-corruption Laws.

The Anti-corruption Guidelines in force were approved by ERG's Board of Directors on 12 November 2013, translated into English and adopted by all foreign Companies of the Group.

## **4. MANAGEMENT AND COORDINATION**

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

This circumstance is periodically evaluated by the Board of Directors, also on the basis of a preliminary review carried out by the Internal Control and Risk Committee. ERG S.p.A. in turn performs management and coordination on direct or indirect subsidiaries.

The scope of involved companies and the content of any activity carried out on each of them are periodically reviewed by the Board of Directors, also on the basis of a preliminary review carried out by the Internal Control and Risk Committee.

In particular, the Board of Directors, at its meeting of 16 July 2014, acknowledged that ERG carries out management and coordination on direct and indirect subsidiaries - respecting the managerial and operating independence of said companies, which benefit from the advantages, the synergies and the economies of scale deriving from their inclusion in the Group – represented by the definition of business strategies, of the corporate governance system and of the corporate structures, as well as by the determination of shared general policies pertaining to human resources, accounting, Financial Statements, taxation, finance, risk management, communication, institutional relations, environment, health and safety.

## **5. THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP<sup>31</sup>:**

The full version of the document "Guidelines for the Internal Control and Risk Management System" approved by the Board of Directors of 11 March 2014 and currently in force in ERG Group.

---

<sup>31</sup> Guidelines of the Internal Control and Risk Management System.

## 5.1. THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP: GENERAL PRINCIPLES

The ICRM System conforms with the principles contained in the current edition of the Corporate Governance Code and, more in general, with the best domestic and international best practices.

The Guidelines – defined and kept up to date by the Board of Directors – dictate, on one hand, the general principles for the management of the main risks in the Group, consistently with the strategic objectives identified on the other hand the coordinating procedures among the parties listed below in order to maximise the effectiveness and efficiency of the ICRM System. The ICRM System, in particular, consists of a set of rules, procedures and organisational structures aimed at proactively contributing – through an adequate process of identifying, measuring, managing and monitoring the main risks – to the protection of the ERG Group's assets, to the efficient and effective management of the Group in line with the corporate strategies defined by the Board of Directors, to the trustworthiness, accuracy and reliability of financial disclosure and, more in general, to compliance with current laws and regulations. The System, as an integral part of the enterprise, involves and hence is applied to the entire organisational structure of the ERG Group: by the Board of Directors of ERG and of its subsidiaries<sup>32</sup> (hereafter, "Subsidiaries"), to the Group Management (hereafter, "Management") and to the company's personnel.

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

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

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

### Board of Directors

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

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

- define the Guidelines<sup>33</sup>, so that the main risks are correctly identified and adequately measured, managed and monitored, determining their compatibility with enterprise management that is consistent with the identified strategic objectives;
- assess, at least once a year, the adequacy of the ICRM System with respect to the characteristics of the company and to the risk profile assumed, as well as its effectiveness;

<sup>32</sup> For the purposes of the Guidelines, the meaning of the term "control" is as set out in Article 93 of the Italian Consolidated Finance Act. Consequently, Joint Ventures with joint control are excluded.

<sup>33</sup> With the opinion of the Internal Control and Risk Committee.

- appoint the Chief Audit, Risk & Compliance Officer, define his/her compensation<sup>34</sup> and approve, at least once a year, the work plan prepared by him/her;
- identify within it
  - one or more directors appointed to set up and maintain an effective Internal Control and Risk Management System
  - the Internal Control and Risk Committee
 with whose support it carries out the assessments and makes the decisions pertaining to the ICRM System and assures that duties and responsibilities are allocated clearly and appropriately and that the Chief Audit, Risk & Compliance Officer, the Supervisory Committee and the Manager responsible for preparing the Company's financial reports, have adequate resources available for the performance of their duties and enjoy an appropriate level of autonomy within the organisation.

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

#### **Chief Executive Officer**

The CEO has the powers necessary to carry out all actions pertaining to the company's business.

Within ERG's organisational structure, the following report to the CEO: the Chief Human Capital Officer, the Chief Public Affairs & Communication Officer, the General Counsel, the Chief Financial Officer, the Renewable Energy Sources Business Units (ERG Renew S.p.A.), the Power Business Unit (ERG Power Generation S.p.A.), the Supply & Trading Business Unit (ERG Supply & Trading S.p.A.), the Downstream Business Unit (TotalErg S.p.A.).

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

The Investment Committee supports the Chief Executive Officer in the assessment of the investment proposals by the BUs/Companies and expresses a reasoned technical and economic-financial opinion for the Strategic Committee in the various stages of the investment process.

#### **Director in charge of the Internal Control and Risk Management System**

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

For this purpose, the Director in charge of the Internal Control and Risk Management System, shall, in particular:

- implement the Guidelines defined by the Board of Directors, providing for the design, implementation and management of the Internal Control and Risk Management System and constantly verifying its adequacy and effectiveness;
- manage the adaptation of this system to the dynamics of operating conditions and of the legal and regulatory environment;
- verify, through the Internal Audit, Risk & Compliance activity, that Management has identified the main risks, that the risks were assessed with consistent procedures, that the mitigating actions have been defined and are being carried out, and that the risks are management in accordance with the decisions of the Board of Directors;

<sup>34</sup> At the proposal of the Director in charge of the Internal Control and Risk Management System and with the favourable opinion of the Internal Control and Risk Committee, taking into consideration the input of the Board of Statutory Auditors.

- propose to the Board of Directors the appointment and compensation of the Chief Audit, Risk and Compliance<sup>35</sup>, assuring his/her independence and operating autonomy with respect to each manager in charge of operating areas and verifying that the (s)he is provided with suitable means to perform his/her duties effectively;
- rely on the Internal Audit, Risk & Compliance Division to perform audits on specific operating areas and on compliance with rules and internal procedures in the execution of corporate operations;
- promptly report to the Internal Control and Risk Committee (or to the Board of Directors) on any problems and critical issues noted in the course of his/her activity, or of which (s)he has otherwise become aware, so that the Committee (or the Board of Directors) can undertake the appropriate initiatives.

The Director in Charge of the Internal Control and Risk Management System does not carry out operational activities. (S)he is empowered by the Board of Directors to supervise, through oversight, guidance and control duties, the Internal Audit, Risk & Compliance activities.

#### **Internal Control and Risk Committee**

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

For this purpose, the Committee shall, in particular:

- examine the work plan and the periodic reports prepared by the Chief Audit, Risk & Compliance Officer;
- express opinions on specific aspects pertaining to the identification of the main corporate risks;
- report to the Board of Directors, on a half-yearly basis, on the activity performed and on the adequacy of the ICRM System;
- monitor the autonomy, adequacy and effectiveness of Internal Audit, Risk & Compliance;
- examine the results of the activities of the Manager responsible for preparing the Company's financial reports;
- assess the proper use of the accounting standards<sup>36</sup> and their consistency for the preparation of the Consolidated Financial Statements, of the separate Financial Statements, of the condensed half-year financial report and of the interim reports on operations.

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

#### **Chief Audit, Risk & Compliance Officer**

Internal Audit, Risk & Compliance performs the role and duties prescribed by the Corporate Governance Code, verifying the functionality and suitability of the ICRM System and, in particular, that Management has identified the main risks, that the risks were assessed with consistent procedures and that the appropriate mitigating actions have been defined and carried out. It also verifies that the risks have been managed consistently with the decisions of the Board of Directors, with external rules and with the Group's internal rules.

The Chief Audit, Risk & Compliance Officer is not responsible for any operating area; (s)he reports hierarchically to the Board of Directors through the Director in Charge of the Internal Control and Risk Management System and assures the information due to the Internal Control and Risk Committee and to the Board of Statutory Auditors. The Board of Directors, at the proposal of the Director in Charge of the Internal Control and Risk Management System and

<sup>35</sup> With the favourable opinion of the Internal Control and Risk Committee and taking into consideration the input of the Board of Statutory Auditors.

<sup>36</sup> Together with the Manager responsible for preparing the Company's financial reports and taking into consideration the opinion of the Independent Auditor and of the Board of Statutory Auditors.

with the favourable opinion of the Internal Control and Risk Committee, and with the input of the Board of Statutory Auditors, shall:

- appoint and revoke the Chief Audit, Risk & Compliance Officer;
- assure that the Chief Audit, Risk & Compliance Officer is provided with adequate resources for the performance of his/her duties and the fulfilment of his/her responsibilities;
- assess the adequacy of the activities carried out defining their remuneration consistently with the corporate policies.

The annual work plan, based on a structured process of analysis and prioritisation of the main risks ("Audit Plan"), similarly to the budget, is subject to the approval of the Board of Directors<sup>37</sup>. Moreover, within the scope of the audit plan, Internal Audit Risk and Compliance shall verify the reliability of the information systems including the accounting measurement systems.

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

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

### **5.3. OTHER RELEVANT PLAYERS WITH SPECIFIC INTERNAL CONTROL AND RISK MANAGEMENT DUTIES**

#### **Chairman of the Board of Directors**

The Chairman supervises and oversees the activities carried out by:

- Public Affairs & Communication with regard to External Relations and to Corporate Social Responsibility;
- General Counsel with regard to Corporate Affairs activities.

#### **Executive Deputy Chairman**

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

The Executive Deputy Chairman is also the Chairman of the Strategy Committee.

#### **Chief Financial Officer**

With a view to the proper operation of the ICRM System (both in terms of effectiveness and efficiency), the Chief Financial Officer through his/her structure assures:

- the enhancement of the business portfolio within the scope of the defined development strategies, ensuring the directional control processes and the optimal allocation of financial resources;
- operating excellence in the performance of support services for the Group's Companies through the Service Company for which (s)he serves as Chairman of the Board of Directors;
- support to the Chief Executive Officer in the identification of the main corporate risks.

<sup>37</sup> With the opinion of the Director in charge of the Internal Control and Risk Management System, taking into consideration the input of the Internal Control and Risk Committee and of the Board of Statutory Auditors.

### **Manager responsible for preparing the Company's financial reports**

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

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

### **Board of Statutory Auditors**

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

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

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

### **Supervisory Committee**

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

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

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

## **5.4. IMPLEMENTATION OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

ERG considers proper risk management and mitigation to be of fundamental importance: for this reason, Top Management has deemed it appropriate to define a risk management Policy able to explain the relationships between risk management and processes to identify objectives and management plans in order to define the procedures to select the different strategies and risk protection techniques, assigning formal management responsibilities within the organisation. This framework has entailed setting up, on one hand, an organisation able to provide a clear allocation of the governance, monitoring and reporting responsibilities, on the other hand to institute an inter-relationship between the functions and the bodies assigned to carry out risk management and control activities. More in detail, the Corporate Governance System adopted

by ERG entails the institution of specific committees within the Board of Directors (e.g. Strategic Committee) and outside it (Corporate Committee, Investment Committee, Risk Committee, Human Capital Committee, Business Review Committee), tasked with studying issues, providing advice and/or making proposals in relation to particular "sensitive" and economically, financially and strategically relevant matters, so that on such issues it will be possible both to conduct a debate and a series of checks that will lead to the adoption, by the Board of Directors, of well-informed, clearly represented decisions. These committees concur in the definition of the methods for measuring, identifying, assessing and controlling risks, and they provide advice and make proposals to the Chief Executive Officer in relation to:

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

Within this scope, the risk management process develops through:

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

The aforementioned steps are described in detail below.

#### **Management of Strategic and Discontinuity Risks**

In relation to the management of the risks tied to the Business Plan and to extraordinary transactions, it should be pointed out that decisions of a strategic nature are made by the Board of Directors on the basis of a risk assessment carried out with the support of the Strategic Committee and of the Investment Committee. The Executive Deputy Chairman and the Chief Executive Officer, members of these Committees, periodically report to the Board of Directors also with regard to the main prospective risks, in terms of strategic decisions and investment.

The process, aimed at the definition of the strategic risks related to the Group's investments and to significant transactions, initially involves the Investment Committee, which expresses a technical and economic-financial opinion on them, and subsequently the Strategic Committee, which assesses the desirability of proceeding with them. The process, following these assessment steps, enables the Board of Directors to perform its duties concerning the strategic decisions, and in relation to the significant investments the Group intends to make. The Board of Directors decides both with respect to investments and in relation to the risks to be assumed, overseeing the ex post management of the transactions and of the related risks.

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

#### **Management of Process Risks**

The management of process risks is performed by the company's Management, which is responsible for their assessment and for the definition of the mitigating instruments. To manage process risks, Management uses a risk self-assessment instrument: the Business Process Risk Assessment. The Business Process Risk Assessment (BPPRA) enables the Management to monitor the riskiest areas on the basis of an assessment of the level of adequacy of the design of the controls, in order to mitigate the associated risks, pointing out areas deserving attention, towards which the most appropriate action plans should be adopted. This activity, with the aid of Internal Audit Risk and Compliance, involves the entire Management of the ERG Group in the identification of the process risks (business and corporate) and of the related associated controls.

Therefore, the BPRA is a valid support that enables the Management to manage the riskiest areas effectively. A contribution to assure the effective operation of the ICRM System shall also be provided by the Manager responsible for preparing the Company's financial reports, who assesses the adequacy and operation of the controls on the administrative-accounting processes, the Risk Committee, which provides advice and support to the Chief Executive Officer, in particular for the definition of the strategies and policies to manage financial and market risks. The significance of the risks, classified in categories and sub-categories, is determined on the basis of parameters measuring the likelihood of their occurrence and the impact, not just in economic terms, but also in terms of market share, competitive advantage and reputation.

The assessment of the control environment pertains to:

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

#### **Continuous verification of the effectiveness of the risk management process**

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

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

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

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

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

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

## **5.5. STRUCTURE AND OPERATION OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN THE ERG GROUP**

The ERG Group is aware that an effective Internal Control and Risk Management System contributes to a healthy management of the company, consistent with the corporate objectives defined by the Board of Directors, promoting well-informed decisions and contributing to safeguarding the assets, to the efficiency and effectiveness of the processes, to the reliability of

the financial disclosure, to compliance with rules, with the articles of incorporation and with internal procedures. To promote and maintain an adequate ICRM System, the ERG Group uses organisational, informational and regulatory instruments, which allow to identify, measure, manage and monitor the main risks. This system is integrated in the organisational, administrative and accounting structure and, more in general, in the corporate governance structure and it is based on the recommendations of the Corporate Governance Code which the ERG Group has adopted, taking as references the domestic and international models and best practices, aimed at consolidating the overall effectiveness and efficiency.

#### **The System of Rules and Procedures**

The definition of the structure of the Internal Control and Risk Management System and of the rules that govern it takes place through the definition of appropriate internal corporate rules (Policies, Guidelines, Procedures and Operating Note) which regulate the processes and activities carried out by ERG and its subsidiaries.

In relation to each regulation, the related recipients are defined below:

- Policies: they are intended for all stakeholders and on the basis of the values expressed in the Code of Ethics they define the fundamental management principles in the performance of corporate activities;
- Guidelines: they are intended mainly for those who must set up operations and control them and they define the principles for the execution of such activities;
- Procedures: they are intended for the persons involved in the operating processes regulated by them;
- Operating Notes: they are intended for the persons who operatively carry out the activity or stages of activity regulated by the document.

Moreover, a specific procedure was formalised in the Group with the goal of defining a method for the uniform, integrated, effective and efficient management of the corporate rules and for regulating the activities performed by the involved parties, in terms of:

- responsibility of the players involved in the process;
- (electronic and hardcopy) communication flows among the various players involved in the process;
- control activities connected with the operations reported in the process.

#### **The System for assigning Powers**

A correct and effective Corporate Governance system requires a formal assignment of powers consistent with the company's own organisational system.

A correct attribution of powers entails assessing whether the validity requirements exist, determining its limits and identifying matters that can be delegated.

The system adopted in the ERG Group provides:

- the assignment of powers by the Board of Directors of the Group's different Companies, through Board resolutions, to the Chief Executive Officers for the ordinary management of the Companies;
- the assignment of powers of attorney, normally to the first-level executives reporting to Chief Executive Officers, vesting them with powers of signature, representation and external negotiation;
- the assignment of special powers of attorney for the performance of a specific, well-defined action, upon completion whereof the validity of the power of attorney is voided;
- the assignment to the heads of organisational positions of internal powers of attorney in relation to the power to adopt deeds that have no external enforceability.

The system of delegated powers and powers of attorney in force in the Group is structured to continuously assure consistency among the organisational structures, the assigned powers and the corporate regulatory system (Policies, Guidelines, Procedures, Operating Notes and Job Descriptions), all in compliance with the Segregation of Duties ("SoD").

## **6. INFORMATION ON THE MAIN FEATURES OF THE EXISTING INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS OF FINANCIAL DISCLOSURE, INCLUDING AT A CONSOLIDATED LEVEL**

The ways in which the ERG Group has defined its Internal Control and Risk Management System in relation to the process of financial disclosure (henceforth, "System") at the consolidated level are illustrated below. The purpose of the System is to mitigate risks significantly in terms of trustworthiness, reliability, accuracy and timeliness of financial disclosures.

In particular, the Board of Directors of ERG, at its meeting of 11 March 2014, appointed Mr. Paolo Luigi Merli, Chief Financial Officer, as the Financial Reporting Officer, calling him to serve in the aforesaid office with reference to the information and accounting records relating to the year 2014 and thus assigning him responsibility for:

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

The Manager responsible for preparing the Company's financial reports shall rely on the support of the Chief Audit, Risk & Compliance Officer in verifying the operation of the administrative and accounting procedures by testing the controls.

This organisational structure enables to assure the full segregation between the activities for devising the administrative and accounting procedures and the activities for verifying their adequacy and their actual enforcement.

In such a context, all personnel of the ERG Group shall collaborate, in particular personnel in the administrative functions that are more directly involved in the preparation of corporate accounting documents, but also those in other functions that, directly or indirectly, contribute to the process through the preparation of documents and information, the inputting or updating of data in the company's information systems, in normal operations.

The Compliance under Italian Law no. 262/05 was presented to the Internal Control and Risk Committee and it applies, from a viewpoint of logic, of methodology and with regard to the principles of process control and correctness, to the companies of the ERG Group.

### **Role, Appointment and Requirements of the Manager responsible for preparing the Company's financial reports**

#### *Role of the Manager responsible for preparing the Company's financial reports*

The main responsibility of the Manager responsible for preparing the Company's financial reports of ERG is, as was stressed above, to implement the administrative-accounting procedures that govern the process for the production of periodic corporate financial reporting, to monitor their application and, together with the Chief Executive Officer, to certify to the market that the above principles were followed and that the financial documentation circulated is reliable. The figure of Manager Responsible fits into the wider framework of Corporate Governance, structured according to the traditional model with the presence of corporate bodies with diverse functions of control.

#### *Appointment and Requirements of the Manager responsible for preparing the Company's financial reports*

The Board of Directors, with the mandatory opinion of the Board of Statutory Auditors, shall appoint the Manager responsible for preparing the Company's financial reports, setting his/her compensation and assigning him/her adequate powers and means, among those who have at least three years of experience in positions of adequate responsibility in the administrative, financial or accounting area of enterprises or entities, both public and private, or among those who have adequate competence and experience in legal, economic, administrative-accounting or financial matters.

## Elements of the system

### *Methodological approach*

The working methodology adopted within the ERG Group comprises the following logical steps:

- a. identification and evaluation of the risks applicable to financial reporting;
- b. identification of controls for risks identified both at the Company/Group level (entity level) and at the process level;
- c. evaluation of controls and management of the monitoring process both in terms of design, and in terms of operations and effectiveness, with the aim of reducing risks to a level considered "acceptable" (information flows, gap management, plan for remedial action, reporting system, etc.).

The activity is carried out by Internal Audit, Risk & Compliance and it is periodically shared with the Manager responsible for preparing the Company's financial reports.

### *Risk identification and assessment*

Risk Assessment is conducted annually and has the goal of identifying, on the basis of a quantitative analysis and following evaluations and parameters of a qualitative nature:

1. the Companies within the ERG Group scope of consolidation to include in the analysis;
2. the risks at the level of the selected operating Company/Group (Company/Entity Level Controls) relating to the general corporate context of the Internal Control System, with reference to the five components of the CoSO model developed by the Committee of Sponsoring Organizations of the Treadway Commission, leading practice at the international level and recognised within Italy as a reference model by the Italian Stock Exchange Corporate Governance Code (control environment, risk assessment, information and communication, control activities, monitoring);
3. the general risks for the Company's information systems supporting related processes (IT General Controls);
4. the processes that generate, with inherent risk, the accounts of the Consolidated Financial Statements for each company selected;
5. for each relevant process, the specific risks for financial reporting, with particular reference to so-called financial statement assertions (existence and occurrence, completeness, rights and obligations, valuation and allocation, presentation and disclosure).

The process of Risk Assessment carried out at the level of consolidated Group Financial Statements in order to determine the appropriate scope of analysis, is based on the combined application of two analytical parameters, one quantitative and the other one qualitative. As regards the fully quantitative part of the analysis, the following elements are determined:

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

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

- to complement the exclusively quantitative part of the analysis, so as to include or exclude accounts-processes from the scope of the activity on the basis of knowledge the management has, from a historical point of view and also considering the expected evolution of the business, of companies making up the ERG Group, and on the basis of the professional judgement by management concerning risk levels relating to financial disclosures;

- to define the “level of depth” to which the analysed accounts-processes must be taken into consideration within the scope of the activity and at what level the related controls must be mapped, documented and monitored.

The final result of the Risk Assessment process consists of a document that is circulated to the various functions involved, validated by the Manager Responsible and presented to the Internal Control and Risk Committee.

#### **Identification of controls**

Once the main risks at the process level are identified, the actions to be taken in order to monitor the associated control objective are identified.

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

- significant processes and their principal associated risks are represented as defined within the scope of Risk Assessment, as are the controls that are prescribed for the management of such risks;
- the chart of mapped controls is evaluated to ascertain the capacity of each control to manage and mitigate an identified risk and, in particular, the underlying Financial Statements assertion;
- the operation and representation of a control is shared with its owners, as are the risks and control activities;
- monitoring activities, needed to support the representations that must be made by the Manager Responsible, are carried out.

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

- observance of authorised limits;
- the segregation of duties and responsibilities for operations and control;
- the physical security and existence of the company's assets;
- activities of fraud prevention that have an impact on financial disclosure;
- the security of company information systems and the protection of personal data.

The mapping generated from time to time for a specific process is also used as the basis for periodic testing activities whose goal is to evaluate and monitor both the chart and the effectiveness of controls in place.

#### **Assessment of controls and monitoring processes**

In accordance with the provisions of the law regarding formal compliance and in line with the best practices previously referred to, the adopted methodology prescribes constant monitoring of the relevant processes and effective execution of the mapped controls.

The objective of such monitoring is the evaluation of the operating effectiveness of the controls – in other words the effective functioning during the period of the controls mapped for the purpose of analysis. To this end, a plan is prepared annually of monitoring activities (also refining and optimising these, where necessary). The plan is formalised in a document that is presented to the Internal Control and Risk Committee and in which strategies and timing are defined for carrying out monitoring tests. Among the activities carried out, updates are continuously made in relation to the mapping of processes, risks and controls in accordance with Law no. 262/05 and tests for the purposes of certifications.

Periodically, reports are produced on the results of the activities, providing the support on the basis of which the Manager responsible for preparing the Company's financial reports releases legal declarations, and the Internal Control and Risk Committee, as regards the most important deadlines for annual and half-year financial reporting, evaluates and participates in the work of the Manager responsible for preparing the Company's financial reports and the functions through which (s)he operates.

## **7. THE INDEPENDENT AUDITORS**

Auditing is carried out in accordance with the law by a company enrolled in the Register of Auditors maintained by the Italian Ministry of the Economy and Finance.

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

In the course of the year, the Independent Auditors have the duty to verify:

- that the corporate accounts are properly maintained and all operations are properly accounted for in the accounting records;
- that the Separate Financial Statements and the Consolidated Financial Statements match the results of the accounting records and of the inspections carried out and comply with the rules that govern them.

The engagement of Deloitte & Touche S.p.A. includes the limited scope audit of the Half-Year Financial Report.

In the performance of its activities, the Independent Auditors have access to the information, the documental and computerised data, the archives and the assets of the Company and of the Companies of the ERG Group.

## **8. INVESTOR RELATIONS**

The Company manages relations with its shareholders, institutional investors and the market through the Investor Relations function, which operates within the Division headed by the Chief Financial Officer.

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, including through constant innovation and updating of its website. The person in charge of managing investor relations is Ms. Emanuela Delucchi.

## **9. COMMITMENTS**

The Company intends to confirm its commitment:

- to pursue as its primary objective, in its formal acts and conduct, the creation of shareholder value;
- to model its business on total compliance with the ERG Group's ethical principles, which are based on that combination of values consisting of personal integrity, correctness of relationships inside and outside the Company, and transparency vis-à-vis shareholders, related stakeholders, and the market – as outlined and explained in the Code of Ethics, adopted in December 2003 and whose most recent version was approved by ERG's Board of Directors on 14 May 2014, to reflect not only the organisational-corporate changes that have taken place in the ERG Group, but also the regulatory changes that have taken place and the evolution in reference best practices;
- to ensure, by means of constant attention to the ongoing evolution of corporate governance principles, observance of such principles by its organisation, in order to ensure, in turn, the transparent and efficient operation of the organisation over time.

The main documents concerning Corporate Governance, to which reference is made in the Report, are available in the Corporate Governance section of our website [www.erg.it](http://www.erg.it).

# STRUCTURE OF THE BOARD OF DIRECTORS AND OF COMMITTEES

**TABLE 1**

<b>BOARD OF DIRECTORS</b>							
<b>OFFICE</b>	<b>MEMBERS</b>	<b>YEAR OF BIRTH</b>	<b>IN OFFICE SINCE</b>	<b>IN OFFICE UNTIL</b>	<b>LIST (M/m)*</b>	<b>EXECUTIVE</b>	<b>NON EXECUTIVE</b>
CHAIRMAN	EDOARDO GARRONE	1961	20/04/2012	Appr. Fin. St. 31/12/2014	M	YES	
DEPUTY CHAIRMAN	ALESSANDRO GARRONE	1963	20/04/2012	Appr. Fin. St. 31/12/2014	M	YES	
DEPUTY CHAIRMAN	GIOVANNI MONDINI	1966	20/04/2012	Appr. Fin. St. 31/12/2014	M		YES
CEO	LUCA BETTONTE	1963	20/04/2012	Appr. Fin. St. 31/12/2014	M	YES	
DIRECTOR	MASSIMO BELCREDI	1962	20/04/2012	Appr. Fin. St. 31/12/2014	M		
DIRECTOR	PASQUALE CARDARELLI	1934	20/04/2012	Appr. Fin. St. 31/12/2014	M		
DIRECTOR	ALESSANDRO CARERI	1950	20/04/2012	Appr. Fin. St. 31/12/2014	M		YES
DIRECTOR	MARCO COSTAGUTA	1959	20/04/2012	Appr. Fin. St. 31/12/2014	M		YES
DIRECTOR	ANTONIO GUASTONI	1951	20/04/2012	Appr. Fin. St. 31/12/2014	M		
DIRECTOR	PAOLO FRANCESCO LANZONI	1953	20/04/2012	Appr. Fin. St. 31/12/2014	M		
DIRECTOR	GRAZIELLA MERELLO	1947	20/04/2012	Appr. Fin. St. 31/12/2014	M	YES	
DIRECTOR	UMBERTO QUADRINO	1946	20/04/2012	Appr. Fin. St. 31/12/2014	M		
<b>DIRECTORS WHO LEFT OFFICE DURING THE REFERENCE YEAR</b>							
NONE							
QUORUM REQUIRED FOR LIST PRESENTATION AT THE TIME OF LAST APPOINTMENT: <b>2%</b>							
NUMBER OF MEETINGS HELD DURING THE REFERENCE YEAR				BOD: <b>9</b>			
<b>NOTES</b>							
* This column indicates M/m depending on whether the member was elected from the list voted by the majority (M) or by a minority (m).							
** This column indicates the percentage of attendance of the Directors in the meetings respectively of the Board of Directors and of the Committees (no. of meetings attended/no. of meetings held during the actual term of office of the relevant individual).							
*** This column indicates the number of appointments as Director or Statutory Auditor held by the relevant individual in other companies listed on regulated markets, also abroad, in financial, banking, insurance companies or in companies of significant size other than those held in companies of the ERG Group.							
**** This column indicates whether the member of the Board of Directors is a Committee member.							
***** This column indicates the date of first appointment of the Directors starting on 16 October 1997, i.e. the listing date of the Company.							

INDEPENDENT AS PER CODE	INDEPENDENT AS PER CFA	% ATTENDANCE <sup>(**)</sup>	NUMBER OF OTHER OFFICES <sup>(***)</sup>	LENGTH OF OFFICE AS FROM FIRST APPOINTMENT <sup>(****)</sup>	INTERNAL CONTROL AND RISK COMMITTEE		NOMINATIONS AND REMUNERATION COMMITTEE	
					<sup>(****)</sup>	<sup>(**)</sup>	<sup>(****)</sup>	<sup>(**)</sup>
		100%	2	16/10/1997				
		100%	2	16/10/1997				
		100%	1	16/10/1997				
		100%	–	15/12/2009				
YES	YES	100%	–	29/04/2003	YES	100%	YES	100%
YES	YES	89%	–	28/04/2006			YES	83%
		100%	–	21/06/2011				
		89%	4	20/04/2012				
YES	YES	100%	5	29/04/2003	YES	100%		
YES	YES	100%	–	29/04/2003	YES	100%	YES	100%
		100%	–	23/04/2009				
YES	YES	89%	5	20/04/2012				
ICRC: 11					NRC: 6			

# STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

TABLE 2

BOARD OF STATUTORY AUDITORS									
OFFICE	MEMBERS	YEAR OF BIRTH	IN OFFICE SINCE	IN OFFICE UNTIL	LIST (M/m) <sup>(*)</sup>	INDEPENDENCE AS PER CODE	% OF ATTENDANCE <sup>(**)</sup>	NUMBER OF OTHER OFFICES <sup>(***)</sup>	LENGTH OF OFFICE AS FROM FIRST APPOINTMENT <sup>(****)</sup>
CHAIRMAN	MARIO PACCIANI	1944	23/04/2013	Appr. Fin. St. 31/12/2015	M	YES	100%	1	29/04/2004
STANDING AUDITOR	LELIO FORNABAIO	1970	23/04/2013	Appr. Fin. St. 31/12/2015	M	YES	90%	5	15/04/2010
STANDING AUDITOR	ELISABETTA BARISONE	1967	23/04/2013	Appr. Fin. St. 31/12/2015	M	YES	100%	–	23/04/2013
ALTERNATE AUDITOR	VINCENZO CAMPO ANTICO	1966	23/04/2013	Appr. Fin. St. 31/12/2015	M	YES	–	–	15/04/2010
ALTERNATE AUDITOR	LUISELLA BERGERO	1971	23/04/2013	Appr. Fin. St. 31/12/2015	M	YES	–	–	23/04/2013
ALTERNATE AUDITOR	MARIO LAMPRATI	1949	23/04/2013	Appr. Fin. St. 31/12/2015	M	YES	–	–	15/04/2014
<b>STATUTORY AUDITORS WHO LEFT OFFICE DURING THE REFERENCE YEAR</b>									
NONE									
QUORUM REQUIRED FOR LIST PRESENTATION AT THE TIME OF LAST APPOINTMENT: <b>2,5%</b>									
NUMBER OF MEETINGS HELD DURING THE REFERENCE YEAR: <b>10</b>									
<b>NOTES</b>									
* This column indicates M/m depending on whether the member was elected from the list voted by the majority (M) or by a minority (m).									
** This column indicates the percentage of attendance of the statutory auditors in the meetings of the Board of Statutory Auditors (no. of meetings attended/no. of meetings held during the actual term of office of the relevant individual).									
*** This column indicates the number of appointments as Director or Statutory Auditor held by the Auditors in other companies listed on regulated market, including foreign ones, in financial, banking, insurance companies or in companies of significant size other than those held in companies of the ERG Group. The full list of the offices held is enclosed, in accordance with Article 144-quinquiesdecies of the CONSOB Issuers' Regulations, to the report on the supervisory activity, prepared by the statutory auditors in accordance with Article 153, paragraph 1 of the Consolidated Finance Act.									
**** This column indicates the date of first appointment of the Statutory Auditors.									