**ERG S.p.A.**

**Remuneration Policy**

# Contents

# Glossary

**2012-2014 LTI System**: 2012-2014 Medium/Long-Term Monetary Incentive System.
**2015 Remuneration Policy or 2015 Policy**: ERG's Policy for the remuneration of members of the Board of Directors and Executives with strategic responsibilities for the year 2015.
**2015-2017 LTI System**: 2015-2017 Medium/Long-Term Monetary Incentive System.
**Board of Directors**: the Board of Directors of ERG S.p.A.
**Board of Statutory Auditors**: the Board of Statutory Auditors of ERG S.p.A.
**CARCO**: Chief Audit, Risk & Compliance Officer.
**CEO**: Chief Executive Officer.
**CFA**: Legislative Decree no. 58 dated 24 February 1998, as amended (Consolidated Finance Act).
**CHCO**: Chief Human Capital Officer.
**Corporate Governance Code**: the Italian Corporate Governance Code for listed companies in force, promoted by Borsa Italiana S.p.A. (version published in July 2014) which the Board of Directors resolved to comply with on 12 November 2014.
**CRC**: Internal Control and Risk Committee, a board committee comprising three independent directors.
**DCICRMS**: Director in Charge of the Internal Control and Risk Management System.
**EDC**: Executive Deputy Chairman.
**ERG or the Company**: ERG S.p.A.
**EVA**: Economic Value Added, i.e. "residual" monetary value after all production factors have been remunerated, including the cost of capital employed.
**Executives with strategic responsibilities**: parties that hold the functions/ offices indicated in Annex 1 to the Procedure for transactions with Related Parties of the ERG Group in force (except for the members of the Board of Directors and the Board of Statutory Auditors of ERG S.p.A.), available on the Company's website (www.erg.it) in the section "Corporate Governance/Governance documents".
**IR**: Regulation implementing Legislative Decree no. 58 dated 24 February 1998, as amended (Issuers Regulations).
**MBO System**: Short-Term Monetary Incentive System.
**NRC**: Nominations and Remuneration Committee, a board committee comprising three independent directors.
**Policy or Remuneration Policy**: the Policy for the remuneration of members of the Board of Directors and of Executives with strategic responsibilities.
**Procedure**: Procedure for transactions with Related Parties, adopted by 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, most recently updated on 1 July 2014.

**Report**: Report on remuneration of the members of the Board of Directors and Executives with strategic responsibilities, approved by the Board of Directors on 11 March 2015.
**Shareholders' Meeting**: Shareholders' Meeting of ERG S.p.A.
**TSR**: Total Shareholder Return, i.e. the overall return on investment for shareholders, which is calculated by summing the increase in price of the share in a specific time interval with the effect of dividends per share paid in the same period.

# 2015 Remuneration Policy

## 1. 1. Evolution of Approach

In line with the provisions of the Corporate Governance Code[1], on 20 December 2011, the Board of Directors of ERG **adopted**, upon recommendation by the NRC[2], its own Remuneration Policy, effective from 2012. The Policy's structure was independently defined by ERG at the time, without using as reference remuneration policies pertaining to other companies.

The Policy underwent an **initial revision** by the Board of Directors, upon recommendation by the NRC, on 18 December 2012, to take account the powers assigned by the Board of Directors – appointed by the Shareholders' Meeting of 20 April 2012 – and the adoption of the 2012-2014 LTI System. To that end, ERG availed of the consulting firm The European House – Ambrosetti.

As part of said revision of the Policy, several remuneration policies of non-financial FTSE Mib index companies were used as reference, since these were considered most representative of Italian best practices, as well as a peer group of parties (comparable to ERG based on their size and operating in sectors where the ERG Group is active) proposed by consulting firm The European House – Ambrosetti.

The Policy was subject to a **second revision** by the Board of Directors, upon recommendation by the NRC, on 11 March 2015, to take account, effective from 2015, of the Company's acceptance of the version of the Corporate Governance Code in force and the general principles of the 2015-2017 LTI System, to guarantee greater alignment of the management's interest to the priority goal of creating value for shareholders over the medium/long-term, in line with the strategic guidelines of the ERG Group. To that end, the Company is availing of the consulting firm The European House – Ambrosetti.

For the purposes of the second revision of the Policy, in line with the previous actions, the Company used several remuneration policies of non-financial FTSE Mib index companies as reference, since these were considered most representative of Italian best practices, as well as a peer group of parties (comparable to ERG based on their size and operating in sectors where the ERG Group is active) proposed by consulting firm The European House – Ambrosetti.

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1 This was the version of the Corporate Governance Code published in December 2011.

2 Further information regarding bodies and persons involved in the preparation and approval of the Policy and the NRC's composition, competences and working procedures is set out in the Report on Governance and Ownership drawn up pursuant to Article 123-*bis* of the Consolidated Finance Act (CFA).

- **Changes deriving from acceptance of the July 2014 version of the Corporate Governance Code**

In line with the provisions of the Corporate Governance Code in force, which the Company has accepted, the Policy was modified in order to introduce a clause which expressly recognises the Company's right to request the return of the variable remuneration (or to withhold deferred amounts) where said remuneration is found to have been disbursed based on data what was subsequently deemed clearly incorrect (**clawback clause**).

- **Changes deriving from the general principles of the 2015-2017 LTI System currently being approved**

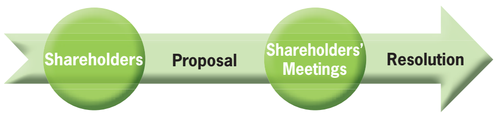
The main changes in the 2015-2017 LTI System, currently being approved, in the advanced development phase in continuity with the 2012-2014 LTI System, include the introduction of a performance target linked to the performance of the ERG share in the three years of the reference period and the amount of dividends per share paid in the same period (Total Shareholder Return). The purpose is to align the interests of the beneficiaries with the interests of shareholders, which is thus added to the performance target expressed using the indicator EVA (Economic Value Added), a parameter previously used in the 2012-2014 LTI System.

As the general principles of the 2015-2017 LTI System currently being approved require that said System be linked to the performance of the ERG share, it shall be submitted for voting at the Shareholders' Meeting to be convened to approve the financial statements as at 31 December 2014. To that end, the System will be described in the information document to be made available to the public at the registered office of the Company in Genoa, Via De Marini 1, on the Company's website (www.erg.it) in the section "Corporate Governance/Shareholders' Meeting 2015", at Borsa Italiana S.p.A. and on the authorised storage platform Nis-Storage (www.emarketstorage.com).

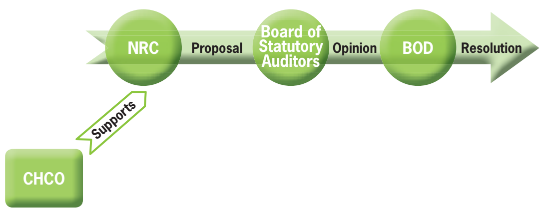
## 2. Parties involved

In keeping with relevant legislative and regulatory provisions in force and the recommendations of the Corporate Governance Code, the decisions behind the implementation of the 2015 Remuneration Policy and the responsibility for its correct application are the result of a joint process involving numerous parties:

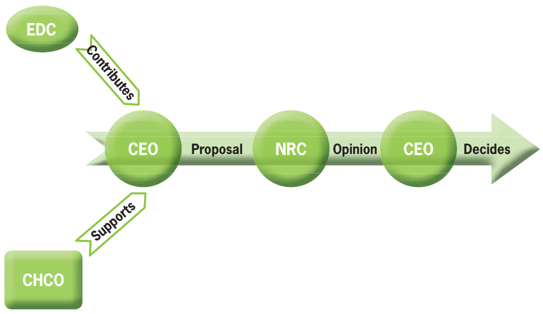
a) the Shareholders' Meeting, as regards the *Directors fees* and those of the Directors called upon to sit on the NRC or the CRC;



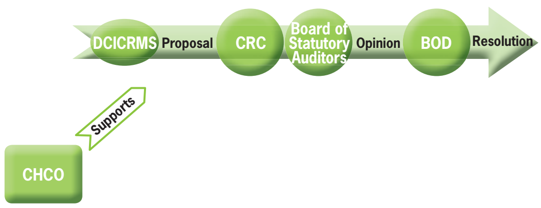

b) the Board of Directors, upon recommendation by the NRC, with the support of the CHCO and having consulted the Board of Statutory Auditors, as regards the *remuneration* of *Executive Directors* or Directors holding specific offices as well as, if necessary, the Directors called upon to sit on the Strategic Committee, where these are not employees of the Group and do not hold offices on the Board of Directors;



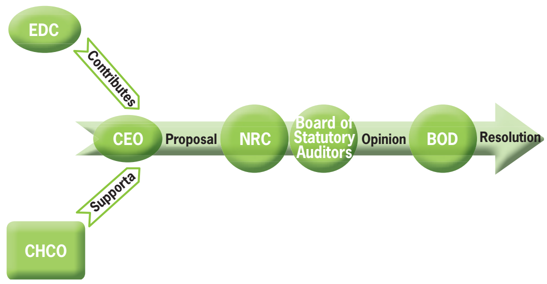

c) the Chief Executive Officer, jointly with the Executive Deputy Chairman and with the support of the CHCO, having consulted the NRC, concerning the *remuneration of Executives with strategic responsibilities;*




d) the Board of Directors, upon recommendation by the Direct responsible for the Internal Control and Risk Management System, based on a favourable proposal by the CRC and the support of the CHCO, having consulted the Board of Statutory Auditors, for the *remuneration* of the *Chief Audit, Risk & Compliance Officer*, who is also an Executive with strategic responsibilities;




e) the Board of Directors, upon recommendation by the Chief Executive Officer, jointly with the Executive Deputy Chairman and with the support of the CHCO, having consulted the NRC and the Board of Statutory Auditors, for the *remuneration of the Manager Responsible for Preparing the Company's Financial Reports*, also an Executive with strategic responsibilities.



## Elements of the Remuneration Policy

| Component | Purposes and characteristics | Conditions for disbursement | Relative weight |
|---|---|---|---|
| **Fixed remuneration** | Assigns value to the responsibilities, skills and contribution required by the role.<br>Remunerates activities performed in the event that the variable component is not disbursed.<br>Ensures retention through continuous market benchmarking. | Not subject to conditions. | Differentiated based on the role covered, with the following ranges<br>• CEO, from 50% to 60% of Total Annual Remuneration.<br>• Executives with strategic responsibilities, from 50% to 60% of Total Annual Remuneration. |
| **Short-term variable remuneration (MBO)** | Aimed at the achievement of pre-set economic-financial and strategic targets that can be measured and are consistent with the budget. | Disbursement based on the achievement of the targets for the year, broken down into<br>• 1 Group target with a minimum threshold of 50% and a maximum of 150%<br>• additional targets. (maximum of 3) to assign value to the business performance and the area of responsibility of the role, with a minimum threshold of 80% and a maximum of 120%. | Target amounts differentiated based on the characteristics and functions of the role<br>• Executives with strategic responsibilities, from 15% to 35% of Total Annual Remuneration*. |
| **Medium/long-term variable remuneration (LTI)** | Aimed at aligning the management's interests with those of shareholders, supporting the improvement in performance in creating sustainable value for the Company. | Performance measured in terms of improvement in the EVA index and in TSR. | Target amounts differentiated based on the characteristics and functions of the role<br>• CEO, from 40% to 50% of Total Annual Remuneration*.<br>• Executives with strategic responsibilities, from 25% to 30% of Total Annual Remuneration*. |
| **Non-monetary benefits** | These supplement the remuneration package from a *Total Reward* point of view, through primarily pension and healthcare benefits. | Conditions envisaged in the national collective labour agreement and supplementary company agreements. | • Supplementary pension plans.<br>• Supplementary healthcare benefits.<br>• Insurance coverage.<br>• Vehicle for business and personal use. |

* If the minimum performance is not achieved, no compensation is paid

### 2.1 Nominations and Remuneration Committee

The Nominations and Remuneration Committee comprises three independent directors qualified as independent pursuant to both the related provisions set forth by the CFA and those set forth by the Corporate Governance Code, who have adequate accounting and financial experience.
The Committee meets on a quarterly basis. The Chairman of the Board of Statutory Auditors, the Chairman of the Board of Directors, the Executive Deputy Chairman and Chief Exsecutive Officer take part in the Committee's work. No directors participate in the meetings of the NRC where recommendations are formulated to the Board of Directors relating to Directors' remuneration. 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.

On the issue of remuneration of members of the Board of Directors, the Committee:

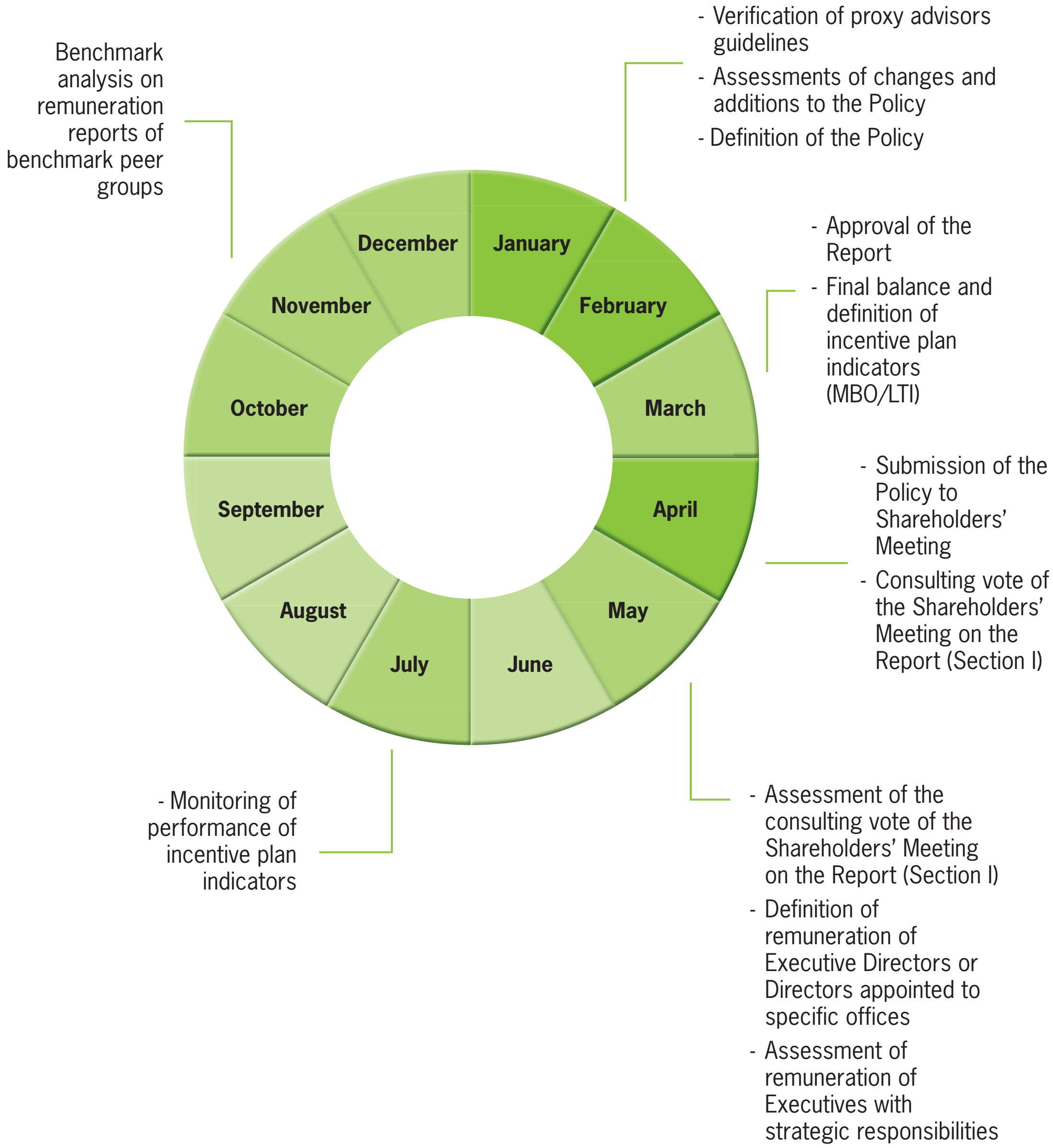
- periodically assesses the adequacy, overall consistency and concrete application of the Remuneration Policy and report to the members of the Board of Directors;
- submits recommendations or expresses opinions to the Board of Directors as regards the remuneration of Executive Directors or Directors holding specific offices as well as, if necessary, the remuneration of the Directors called upon to sit on the Strategic Committee, where these are not employees of the Group and do not hold offices on the Board of Directors;
- submits proposals or expresses opinions to the Board of Directors on the setting of performance targets linked to the variable component of the medium/long-term incentive systems;
- monitors the application of the decisions taken by the Board of Directors, verifying the actual achievement of the performance targets.

As regards the remuneration of Executives with strategic responsibilities:

- periodically assesses the adequacy, overall consistency and concrete application of the Remuneration Policy;
- expresses opinions to the Chief Executive Officer on their remuneration;
- submits proposals or expresses opinions on the setting of performance targets of the Group linked to the variable component of the short-term incentive systems;
- verifies the actual achievement of the performance targets of the Group.

The Committee actively participates in defining the short and medium/long-term variable incentive systems.
In particular, the Committee has been actively involved in the process of preparation and subsequent adoption of the MBO System, the 2012-2014 LTI System and the general principles of the 2015-2017 LTI System.

## Schedule of work of the Nominations and Remuneration Committee



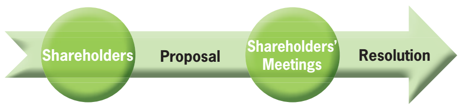
## 3. Structure of the 2015 Remuneration Policy

The 2015 Policy sets general guidelines for determining the remuneration of Board of Directors members and Executives with strategic responsibilities, in the course of their business, with a view to attracting, retaining and motivating highly qualified managers and aligning their interests to the pursuance of the priority objective of creating sustainable value for shareholders over a medium/long-term horizon.
The company is defining, in the 2015-2017 Strategic Plan being approved, its policy for managing the risk that will be associated with the targets that will be given, the achievement of which will be linked to the part of incentive comprising the 2015-2017 LTI System which, once approved, will be an integral and essential part of the 2015 Policy.
Where, in exceptional cases, the Board of Directors considers it necessary to deviate from the Policy previously approved and subjected to the vote of the shareholders' meeting, any decisions on the matter shall be fully subject to the Procedure for transactions with Related Parties and information on such decisions shall be provided to the market, pursuant to regulations and said Procedure.
The 2015 Policy is structured differently according to whether the remuneration in question is intended for Board Members or Executives with strategic responsibilities.

### 3.1 Board of Directors

#### 3.1.1 Fees

The Shareholders' Meeting is called upon annually to resolve, upon recommendation by the Shareholders, the assignment of fixed annual compensation for all members of the Board of Directors.
The Shareholders' Meeting is also called upon annually to resolve, upon recommendation by the Shareholders, the assignment of additional fixed annual compensation for independent directors called upon to sit on the NRC or the CRC.




The Board of Directors recommends that these fees be consistent with the professional commitment required by the office, as well as with the relative responsibilities.
The Board of Directors also recommends that the relative fee proposals be presented to the Shareholders (also pursuant to art. 126-*bis* of the CFA) so that they may be disclosed to the public sufficiently in advance with respect to the Shareholders' Meeting convened to resolve upon them.

It is noted that starting from 2013 the majority shareholder began submitting proposals in line with the above recommendations, which were therefore communicated to the public suitably in advance of the Shareholders' Meeting called upon to resolve on such recommendations.

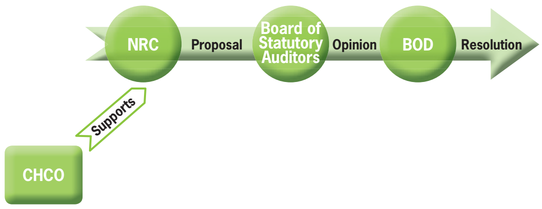
#### 3.1.2 Remuneration

The remuneration paid to Executive Directors or Directors appointed to specific offices shall be suitable to attracting, retaining and motivating highly qualified individuals and aims at assigning a value to their skills, in line with the contribution required by the role.

#### Fixed component

The Board of Directors, upon recommendation by the NRC, with the support of the CHCO, having consulted the Board of Statutory Auditors, resolves to assign annual fixed remuneration to Executive Directors or Directors holding specific offices.
The Board of Directors, also upon

recommendation by the NRC, with the support of the CHCO and having consulted the Board of Statutory Auditors, may assign annual fixed remuneration to the Directors called upon to sit on the Strategic Committee, where these are not employees of the Group and do not hold offices on the Board of Directors. Their remuneration is thus not linked to the Company's income statement results.




The Board of Directors may, in the interest of the Company, provide for the fixed component to be established still using the same criteria but on a three-year basis.

The amount of the annual fixed remuneration is measured in proportion to the commitment required of each beneficiary for their relative offices, and is defined (based on the opinion of specialised consulting firms) through market benchmarking with listed companies. The comparison is made considering, within the ambit of the reference stock market, firms that are similar in terms of their type, size and complexity and by comparing individual roles.

### Variable component

The Board of Directors, upon recommendation by the NRC, with the support of the CHCO, having consulted the Board of Statutory Auditors, resolves to assign variable remuneration of the Chief Executive Officer in the form of a monetary incentive linked to the achievement of specific performance targets correlated to the creation of sustainable value over the medium/long term, indicated in advance and determined based on the general principles of the 2015-2017 LTI System, currently being approved.
The beneficiaries do not include Executive Directors whose interests are deemed to be intrinsically aligned with the pursuit of the priority objective of creating value for all shareholders. At the approval date of the Report, these individuals are the Chairman and the Executive Deputy Chairman.

The target value bonus is determined taking account of external salary benchmarks (relating to the long-term variable component of the salary) and the forecast value creation.

### General principles of the 2015-2017 LTI System currently being approved

The objective of the 2015-2017 LTI System is to stimulate maximum alignment, in terms of objectives, of the interests of the beneficiaries with pursuit of the priority goal of creating sustainable value for Shareholders over the medium/long-term.
The performance targets which will be concurrently applied to each beneficiary of the plan are the **Economic Value Added** of the ERG Group and the **Total Shareholder Return**.

- Economic Value Added of the ERG Group is a performance target that represents the “residual” monetary value after all production factors have been remunerated, including the cost of capital employed. Thus by expressing income net of the cost of capital, the EVA considers the equity and financial components alongside the income component;
- Total Shareholder Return is a performance target linked to the performance of the ERG share in the reference three-year period and the amount of dividends per share paid in the same period.

The performance targets may vary within the range of values indicated below:

| % weight of parameters | TSR | ΔEVA |
|---|---|---|
| Corporate Resources | 40%–60% | 60%–40% |

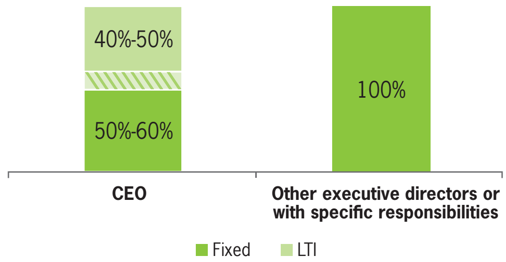
The compensation paid in the event of outstanding performance cannot exceed a **pre-set cap**.
If the **minimum performance** is not achieved, no compensation is paid.
The entire compensation, where accrued, will be fully **settled at the end of the 2015-2017 Three-Year Plan**.


The System also envisages the following:

- the Company has the right to exercise the clawback clause, i.e. the option to request the partial or total return of the LTI compensation paid (or to withhold deferred amounts), within 3 years from its accrual, where the incentive is found to have been determined based on data that was subsequently deemed clearly incorrect;
- specific clauses that govern the consequences of termination of employment while the LTI System is in force[3].

### 3.1.2 Balancing remuneration

Balancing the fixed and variable components of remuneration aims to align the interest of the specific beneficiaries with the Company's medium/long-term strategic objectives and the sustainable creation of value for Shareholders in compliance with the risk management policy of the ERG Group.
The weight of the fixed component of the Chief Executive Officer's remuneration, on an annual basis, may vary in the range of 50% to 60% of his total target remuneration. The variable component of the Chief Executive Officer's remuneration, on a three-year basis, considering its annualised amount, has a weight of 40% to 50%[4] of his total target remuneration.
The fixed component of remuneration is sufficient to remunerate the services of the Chief Executive Officer in cases where the variable component is not paid owing to failure to achieve the objectives.




### 3.1.3 Non-recurring remuneration

Non-recurring remuneration may be assigned through a highly rigorous procedure involving the various boards and committees, such as the NRC and the Board of Statutory Auditors, fully composed of independent directors and statutory auditors, respectively[5].
In particular, upon recommendation by the NRC, with the support of the CHCO, having consulted the Board of Statutory Auditors, in the case of extraordinary transactions that

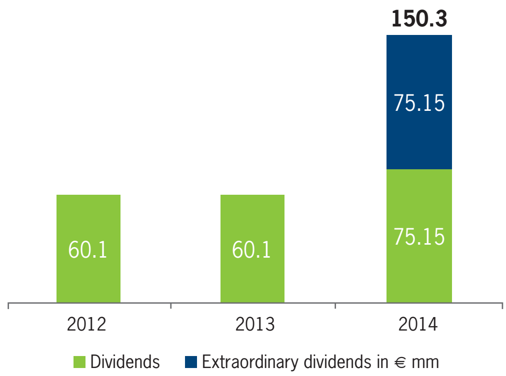
3 Illustrated in detail in the information document that will be made available to the public at the registered office of the Company in Via De Marini 1, Genoa on the Company's website (www.erg.it) in the section "Corporate Governance/Shareholders' Meeting 2015", at Borsa Italiana S.p.A. and on the authorised storage platform Nis-Storage (www.emarketstorage.com).
4 This refers to the target value of the bonus.
5 Deemed independent in accordance with the provisions of the CFA and the Corporate Governance Code as well as referring to the statutory auditors pursuant to the standards of behaviour of Boards of Statutory Auditors prepared by the National Board of Chartered Accountants.

result in significant transformation of the Group while creating considerable value for the Company and shareholders, the Board of Directors may decide to pay non-recurring remuneration to the Executive Directors that participated in the transaction.
The amount of said remuneration is proportionate to:
- the economic benefit and strategic importance of the transaction;
- the contribution effectively given by each individual Director.

Note that in the three-year period 2012-2014, in accordance with the guidelines of the 2012-2014 Business Plan, the Company continued the transformation process which began in 2008 with the sale of 49% of the ISAB refinery in Sicily, which gradually resulted in the ERG Group positioning itself on more profitable operations which have less exposure to the volatility of scenarios.
That process, which created significant value for the Company and shareholders, was only made possible due to the completion of the extraordinary transactions indicated below, for which non-recurring remuneration was assigned to the Executive Directors that played a key role in the execution of such transactions.

- **Progressive exit from refining**: begun in 2008 and completed in 2013, with the sale of the last equity investment of 20%.
- **Acquisition of IP Maestrale Investments Ltd.**: in February 2013, ERG Renew acquired 80% of the capital of IP Maestrale Investments Ltd, thus increasing its installed power by 636 MW, of which 550 MW in Italy and 86 MW in Germany, and, as a result, becoming the leading wind power operator in Italy and among the top ten in Europe. ERG Renew thus reached a suitable industrial size and financial level to autonomously continue in its growth process.
- **Sale of the IGCC of ISAB Energy plant**: in June 2014, ERG sold to ISAB (Lukoil) the business units ISAB Energy and ISAB Energy Services, mainly comprising the IGCC generation plant. The operation, in line with the definitive exit from refining, is an additional fundamental step forward in the strategy to reposition the asset portfolio. It concurrently strengthened the Group's capital structure to support future development plans.

During the three-year period 2012-2014, also owing to these extraordinary operations and the consequent strategic repositioning of the Group, the ERG share had a TSR of 32% and distributed dividends of EUR 270 million in the same period.




### 3.1.4 Non-monetary benefits

The Shareholders' Meeting may decide, upon recommendation by the Shareholders, that all members of the Board of Directors are entitled to receive certain non-monetary benefits (health and life insurance policies) the amount of which is withheld from the fixed annual compensation also approved by the Shareholders' Meeting.
The Board of Directors, upon recommendation by the NRC, with the support of the CHCO, having consulted the Board of Statutory Auditors, may resolve to assign benefits such as cars and living accommodation to Executive Directors or Directors holding specific offices, not withheld from the fixed annual compensation or remuneration.

### 3.1.5 Indemnity for early termination or non-renewal of the office

The Board of Directors, upon recommendation of NRC, with the support of the CHCO, having consulted the Board of Statutory Auditors, may resolve to assign the Chief Executive Officer, as a non-employee of the Company, indemnity in the event of early termination or non-renewal of his office. The amount of said indemnity usually and save for exceptional cases, may not exceed the total amount of related fixed remuneration paid to said party under the relationship over a period of 24 months. The indemnity must be determined in advance along with the overall remuneration and the related resolution must be taken in line with the strategy, values and medium/long-term interests of the ERG Group.

### 3.1.6 Severance indemnities

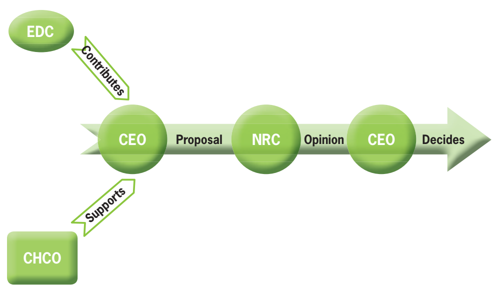
The Board of Directors, upon recommendation of NRC, with the support of the CHCO, having consulted the Board of Statutory Auditors, may resolve to assign the Chief Executive Officer severance indemnities as a non-employee of the Company. The amount of said indemnities usually and save for exceptional cases, may not exceed a total equal to 40% of the related total fixed remuneration paid to said party over his term of office. The indemnities must be determined in advance along with the overall remuneration and the related resolution must be taken in line with the strategy, values and medium/long-term interests of the ERG Group.

## 3.2 Executives with strategic responsibilities

### 3.2.1 Remuneration

The remuneration paid to Executives with strategic responsibilities shall be suitable to attracting, retaining and motivating highly qualified individuals and aims at assigning a value to their skills, in line with the contribution required by the role, as well as to align their interests with the priority objective of creating sustainable value for Shareholders over the medium/long-term. The remuneration is broken down into two components, a fixed and a variable component. The variable remuneration is, in turn, broken down into two components, in the form of a monetary incentive linked to the achievement of specific performance targets, indicated and determined in advance, correlated to the creation of value over the short-term (based on the rules of the MBO System) and the medium/long-term (according to the general principles of the 2015-2017 LTI System, currently being approved). The following parties are involved in defining the overall remuneration of Executive with strategic responsibilities (as previously indicated in Chapter 2):

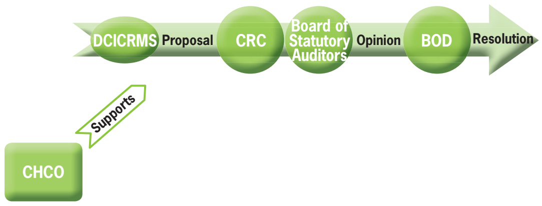
- the Chief Executive Officer, jointly with the Executive Deputy Chairman and with the support of the CHCO, having consulted the NRC, determines the remuneration to be assigned to Executives with strategic responsibilities;



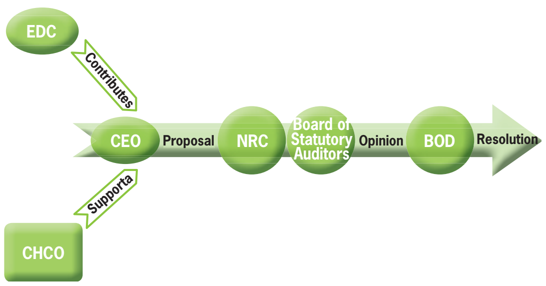

- the Board of Directors, based on recommendation by the Director responsible for the Internal Control and Risk Management System and having obtained the favourable opinion of the CRC[6] and the support of the CHCO, having consulted the

6 As the body assigned by the Corporate Governance Code to monitor the autonomy, adequacy, effectiveness and efficiency of the internal audit function.

Board of Statutory Auditors, determines the remuneration of the Chief Audit, Risk and Compliance Officer;




- the Board of Directors, upon recommendation by the Chief Executive Officer, jointly with the Executive Deputy Chairman and supported by the CHCO, having consulted the NRC and the Board of Statutory Auditors, determines the remuneration of the Manager Responsible for Preparing the Company's Financial Reports.




## Fixed component

The amount of the fixed remuneration is measured in proportion to the commitment required of each beneficiary for their relative offices, and is defined (based on the opinion of specialised consulting firms) through market benchmarking with listed companies. The comparison is made considering, within the ambit of the reference stock market, firms that are similar in terms of their type, size and complexity and by comparing individual roles.

## Short-term variable component

The short-term variable component is aimed at the achievement of pre-set economic/financial and strategic targets and is governed by the MBO System.
The variable component assigned to the Chief Audit, Risk & Compliance Officer is linked to targets not correlated to economic performance indicators and is parameterised on the implementation of the annual audit plan. The target value bonus is determined taking account of external salary benchmarks.

## Main characteristics of the MBO System

The MBO system is designed to encourage participants to achieve annual objectives.
The system envisages assigning participants in the scheme performance targets structured as follows:

- 1 Group target, equivalent for all participants, with a weight corresponding to 30% of the incentive target amount and is measured using the indicator “Consolidated IAS result before tax at adjusted replacement cost" ;
- additional individual targets (maximum of 3) linked to the role held, with a weight corresponding to 70% of the incentive target amount and measured according to quantitative indicators linked to economic/financial and/or project parameters.

Associated with each objective is a weight and a relative share of the overall monetary incentive.
The compensation paid in the event of outstanding performance cannot exceed a **pre-set cap** - i.e. 150% of the target value for the company target and 120% of the target value for individual targets.
If the **minimum performance** is not achieved, i.e. 80% of the target value for individual targets and 50% of the target value for the company target, **no compensation is paid**.
Based on the system, the Company has the right to exercise the **clawback clause**, i.e. the

option to request the partial or total return of the MBO compensation paid (or to withhold deferred amounts), within 3 years from its accrual, where the incentive is found to have been determined based on data that was subsequently deemed clearly incorrect.

### Operation of the MBO Scheme

| Type | Definition | Breakdown of target incentive | Level of target achieved | Incentive Paid |
|---|---|---|---|---|
| **Company Target** | Consolidated IAS result before tax at adjusted replacement cost | 30% | < Threshold Indicator<br>= Threshold Indicator<br>≥ Outstanding Indicator | 0% target value<br>50% target value<br>150% target value |
| **Individual Target** | Individual targets linked to the business and differentiated for each Executive with strategic responsibilities, based on their functions and responsibilities | 70% | < Threshold Indicator<br>= Threshold Indicator<br>≥ Outstanding Indicator | 0% target value<br>80% target value<br>120% target value |

### Medium/long-term Variable Component

The medium/long-term variable component is structured in such a way as to align the interests of the beneficiaries with pursuit of the priority goal of creating sustainable value for Shareholders over the medium/long-term.
The Chief Audit, Risk & Compliance Officer does not participate in the 2015-2017 LTI System.
The target value bonus is determined taking account of external salary benchmarks (relating to the long-term variable component of the salary) and the forecast value creation.

### General principles of the 2015-2017 LTI System currently being approved

The objective of the 2015-2017 LTI System is to stimulate maximum alignment, in terms of objectives, of the interests of the beneficiaries with pursuit of the priority goal of creating sustainable value for Shareholders over the medium/long-term.

The performance targets which will be concurrently applied to each beneficiary of the plan are the **Economic Value Added** of the ERG Group and the **Total Shareholder Return**.

- Economic Value Added of the ERG Group is a performance target that represents the "residual" monetary value after all production factors have been remunerated, including the cost of capital employed. Thus by expressing income net of the cost of capital, the EVA considers the equity and financial components alongside the income component;
- Total Shareholder Return is a performance target linked to the performance of the ERG share in the reference three-year period and the amount of dividends per share paid in the same period.

The performance targets set may vary within the range of values indicated below:

| % weight of parameters | TSR | ΔEVA |
|---|---|---|
| Corporate Resources | 40%–60% | 60%–40% |
| Business Resources | 10%–40% | 90%–60% |

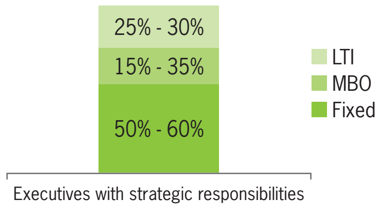
The compensation paid in the event of outstanding performance cannot exceed a **pre-set cap**.
If the **minimum performance** is not achieved, **no compensation is paid**.
The entire compensation, where accrued, will be fully **settled at the end of the 2015-2017 Three-Year Plan**.


The System also envisages the following:

- the Company has the right to exercise the **clawback clause**, i.e. the option to request the partial or total return of the LTI compensation paid (or to withhold deferred amounts), within 3 years from its accrual, where the incentive is found to have been determined based on data that was subsequently deemed clearly incorrect;
- specific clauses that govern the consequences of termination of employment while the LTI System is in force[7].

### 3.2.2 Balancing remuneration

Balancing the fixed and variable components of remuneration aims to align the interest of the specific beneficiaries with the Company's medium/long-term strategic objectives and the sustainable creation of value for Shareholders in compliance with the risk management policy of the ERG Group.
The weight of the fixed component of remuneration for each Executive with strategic responsibilities, on an annual basis, amounting to 50% to 60% of his overall remuneration. The annual variable component (MBO) of the remuneration considering its annualised amount, has a weight of 15% to 35%[8] of the total target remuneration, while the medium/long-term variable component (LTI), considering its annualised amount, has a weight of 25% to 30%[9] of the total target remuneration.




The fixed portion is sufficient to remunerate the services of the Executive with strategic responsibilities in cases where the variable portion is not paid owing to failure to achieve the performance targets.

### 3.2.3 Non-recurring remuneration

Non-recurring remuneration may be assigned through a highly rigorous procedure involving the NRC, fully composed of independent directors both in accordance with the provisions of the CFA and the Corporate Governance Code.
In particular, the Chief Executive Officer, jointly with the Executive Deputy Chairman, with the support of the CHCO, having consulted the NRC, in the case of extraordinary transactions that result in significant transformation of the Group while creating considerable value for the Company and shareholders, may resolve to pay non-recurring remuneration to the Executives with strategic responsibilities that participated in the transaction.

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7 Illustrated in detail in the information document that will be made available to the public at the registered office of the Company in Via De Marini 1, Genoa on the Company's website (www.erg.it) in the section "Corporate Governance/Shareholders' Meeting 2015", at Borsa Italiana S.p.A. and on the authorised storage platform Nis-Storage (www.emarketstorage.com).
8 This refers to the target value of the bonus.
9 This refers to the target value of the bonus.

The amount of said remuneration is proportionate to:

- al beneficio economico e alla portata strategica dell'operazione stessa;
- al contributo effettivamente prestato da ogni singolo Dirigente con responsabilità strategiche.

### 3.2.4 Non-monetary benefits

The Chief Executive Officer, jointly with the Executive Deputy Chairman and with the support of the CHCO, having consulted the NRC, may decide to assign benefits such as insurance policies (health and life insurance), pension benefits, cars and living accommodation to Executives with strategic responsibilities, not withheld from remuneration.
The Board of Directors, based on recommendation by the Director responsible for the Internal Control and Risk Management System and having obtained the favourable opinion of the CRC and the support of the CHCO, having consulted the Board of Statutory Auditors, may decide to assign benefits such as insurance policies (health and life insurance), pension benefits, cars and living accommodation to the Chief Audit, Risk & Compliance Officer, not withheld from remuneration.
The Board of Directors, upon recommendation by the Chief Executive Officer, jointly with the Executive Deputy Chairman, with the support of the CHCO, having consulted the NRC and the Board of Statutory Auditors, may decide to assign benefits such as insurance policies (health and life insurance), pension benefits, cars and living accommodation to the Manager Responsible for Preparing the Company's Financial Reports, not withheld from remuneration.

### 3.2.5 Resignation from office or termination of the employment relationship

Insofar as concerns Executives with strategic responsibilities, as employees, in the event that employment is terminated for justified motive or just cause, the terms and conditions of the national collective agreement for industrial managers of companies producing goods and services shall apply.

### 3.3 Incentive plans based on financial instruments

It should be noted that the current Policy does not provide for incentive plans based on financial instruments.
The general principles of the 2015-2017 LTI System (monetary incentive system) establish the introduction of a performance target linked to the performance of the ERG share in the reference three-year period and the amount of dividends per share paid in the same period (Total Shareholder Return).

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