

ERG S.p.A.

REMUNERATION POLICY
For the members of the Board of Directors
and Managers with strategic responsibilities

Document approved by the ERG S.p.A. Board of Directors on 18 December 2012



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INTRODUCTION

This policy defines the criteria and guidelines for the remuneration of the Members of the ERG S.p.A. Board of Directors and Managers with strategic responsibilities¹ in the normal course of their work.

The text and contents have been prepared taking into account:

- article 6 of the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A. (December 2011 edition);
- the provisions of the Consolidated Finance Act (*Testo Unico della Finanza – T.U.F.*) and the Issuers' Regulations (*Regolamento Emittenti*) on the matter of transparency with regard to the remuneration of listed company directors;
- the current Procedure on Related Party Transactions and the principles expressed in the ERG Group's Code of Ethics.

This policy is effective starting from the 2012 financial period².

1 For the purposes of this policy "Managers with strategic responsibilities" shall refer to the persons holding the functions/positions indicated in Annex 1 of the current Procedure on ERG Group Related Party Transactions, excluding the members of the ERG S.p.A. Board of Directors and Board of Statutory Auditors.

2 This policy – approved by the ERG S.p.A. Board of Directors on the basis of the proposal made by the Nominations and Remuneration Committee on 20 December 2011 – was supplemented on 18 December 2012 in order to take account of the assignment of powers resolved by ERG's new Board of Directors appointed by the Shareholders Meeting on 20 April 2012 and the medium/long term incentive System (LTI System) finalised on the same date.

PART I

Description of the general remuneration policy lines with regard to the Members of the Board of Directors and Managers with strategic responsibilities.

1.1. Remuneration policy for the members of the Board of Directors

All members of the Board of Directors are paid a fixed annual remuneration – resolved by the Shareholders' Meeting – and may be assigned non-monetary benefits, as more clearly explained below.

The Directors called upon to participate in the Nominations and Remuneration Committee or the Internal Control and Risk Committee receive an additional fixed annual fee – resolved by the Shareholders' Meeting – in proportion to the commitment required of each of them in their aforesaid respective positions.

As regards the Executive Directors or Directors vested with special powers and the Non Executive Directors called upon to participate in the Strategic Committee, the fixed annual fee is supplemented with a fixed remuneration, in proportion to the commitment required of each of them in their aforesaid respective positions.

The Chief Executive Officer, in addition to the fixed component, is paid a variable remuneration in the form of a monetary incentive, linked to the achievement of specific value creation targets over the medium/long term, as indicated and determined in advance in accordance with these guidelines. This variable component provides for a maximum limit, as described in greater detail hereinafter.

1.2. Remuneration policy for Managers with strategic responsibilities

The remuneration paid by ERG S.p.A. and the companies subject to its control³ is such as to attract, maintain and motivate highly qualified Managers with strategic responsibilities⁴. The remuneration is broken down into two components, one fixed and one variable⁵, determined by way of benchmarking with other listed Companies operating on the Italian market. The two components are suitably balanced according to the strategic objectives and risk management policy of ERG S.p.A. The fixed portion is sufficient to remunerate the services of the Manager with strategic responsibilities in the event that the variable portion is not paid following failure to attain the performance objectives. The variable portion is linked to the achievement of specific value creation targets over the medium/long term, indicated and determined beforehand in keeping with these guidelines. Moreover, according to contractual practice, certain non-monetary benefits are provided for all Managers with strategic responsibilities, as more clearly explained below.

³ For the purposes of this policy, "control" shall have the meaning set forth in article 93 of the Consolidated Finance Act (T.U.F.)

⁴ It should be noted in this regard that the incentive mechanisms pertaining to the Internal Audit Manager and the Manager Responsible for preparing the Company's financial reports are in keeping with the tasks assigned to them.

⁵ The objectives insofar as concerns the variable component assigned to the Internal Audit Manager are not tied to economic performance indicators. The Internal Audit Manager does not participate in the LTI System.

PART II

Items making up the remuneration of the Members of the Board of Directors and Managers with strategic responsibilities.

2.1. Board of Directors

2.1.1. Fixed component

The remuneration of Executive Directors or Directors vested with special powers comprises a fixed annual component established (based on the opinion of specialised companies) 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.

The Board of Directors may, in the interest of the Company, provide for the fixed component to be established, using the same criteria, for periods of three years.

2.1.2. Variable component

For the Chief Executive Officer, in addition to the fixed portion, a significant variable monetary component is also provided, based on the creation of value over the medium/long term, calculated according to the rules laid down within the LTI (Long-term Incentive) System. The fixed portion is sufficient to remunerate the Chief Executive Officer's services in the event that the variable portion is not paid following failure to attain the performance objectives.

Medium/long-term incentives – LTI System

The aim of this system is to promote maximum alignment of management and shareholder objectives. For such purpose the variable component of remuneration is based on improvement in the performance of value created, over a three-year time span, as expressed via the ERG Group EVA (Economic Value Added) indicator. The EVA represents the "residual" monetary value following the remuneration of all production factors, including the cost of capital employed. Hence, by expressing an income net of the cost of capital, the EVA considers the equity and financial components alongside the income component. A bonus is paid upon achievement of the performance improvement objectives (in terms of EVA) contained in the Group's Three-year Plan. The target value of such bonus is determined taking account of external salary benchmarks (relating to the long-term variable component of salaries) and the forecast value creation. According to the level of achievement of the objective, the bonus actually paid may vary between a minimum of 50% (threshold performance) and a maximum of 130% (outstanding performance) with respect to the target value; the intermediate performance bonus varies according to a linear relationship. In the case of failure to achieve the threshold performance, the bonus will be equal to zero, in the event of exceeding outstanding performance the bonus will correspond to 130% of the target value (cap). The bonus earned is paid in full at the end of the Three Year Plan.

2.1.3. Non-monetary benefits

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 deducted from the annual remuneration resolved by the Shareholders' Meeting. As regards the Executive Directors or Directors vested with special powers, other benefits may be provided, such as a car and living accommodation, which are not deducted from the fixed component.

2.2. Managers with strategic responsibilities

The remuneration package of the Managers with strategic responsibilities, in addition to the so-called "non-monetary benefits", comprises a fixed component and a variable component, the latter being substantial and in turn subdivided between short-term (MBO) and medium/long-term (LTI) incentives. The Company considers that the balancing of the fixed and variable component is in keeping with its strategic objectives, which aim to maximise the results of each business and, therefore, of the ERG Group overall. This balancing ensures a fixed component that is sufficient to remunerate Managers with strategic responsibilities in cases where the variable component is not paid owing to failure to achieve the objectives.

2.2.1. Fixed component

The fixed remuneration of the Managers with strategic responsibilities is reviewed annually based on market salary surveys provided by specialised companies. The comparison is made considering the reference market, the size and complexity of the business, the level of responsibility, experience and skill associated with the individual positions.

2.2.2. Variable component

The variable component of remuneration as regards the Managers with strategic responsibilities is composed of short-term incentives (MBO) and medium/long-term incentives (LTI), as shown below.

Short-term incentives – The MBO System

The MBO System is designed to encourage participants to achieve annual objectives. Each participant is assessed on a maximum of 4 objectives:

- 1 Group objective, which is the same for all system participants;
- 3 objectives connected with the position held.

Associated with each objective is a weight and a relative share of the overall monetary incentive, the amount of which is determined via a comparison against the reference salary market.

The Group objective has a weight corresponding to 30% of the incentive amount and is measured using the indicator "Consolidated IAS result before tax at adjusted replacement cost". Individual objectives have a weight corresponding to 70% of the incentive amount and are measured based on quantitative indicators linked to economic/financial and/or project parameters.

In order to objectively assess the performance of participants, at the beginning of the year, for each objective, a forecast target value is identified as well as a minimum and maximum threshold within which the objective is considered achieved. The monetary incentive amount

associated with each objective may vary between 80% and 120% for individual objectives and between 50% and 150% for the corporate objective.

In the event that the result associated with an objective is below the minimum threshold defined at the outset, the incentive amount relating to such objective will be zero; in cases where the result associated with an objective is above the maximum threshold defined at the outset, the incentive amount relating to such objective cannot in any case exceed the established cap.

Medium/long-term incentives – The LTI System

Participation in the above described LTI System is also envisaged for the Managers with strategic responsibilities.

2.2.3. Non-monetary benefits

The Managers with strategic responsibilities may be assigned some non-monetary benefits including, by way of mere example, insurance cover (health and life policies), pension benefits, car and living accommodation.

FINAL NOTES

In the case of Managers with strategic responsibilities, whenever the employment relationship 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.

The Board of Directors may, in the interest of the Company, provide for specific compensation to be assigned to Executive Directors in the event of early termination or non-renewal of office or, in general, as an end-of-term indemnity; the required resolution by the Board of Directors shall be adopted taking into account the strategy, values and medium/long term interests of the ERG Group.

With reference to the benefits potentially assignable to the Executive Directors in the event of early termination or non-renewal of office, the sums payable for such purpose may not normally and save in exceptional circumstances exceed the total fixed remuneration respectively paid to same during the employment relationship over a period of 24 months.

Insofar as concerns the benefits potentially assignable to the Executive Directors by way of end-of-term indemnity, the sums payable for such purpose may not normally and save in exceptional circumstances exceed an amount corresponding to 40% of the total fixed remuneration respectively paid to same during their term of office.

ERG S.p.A.

Torre WTC
via De Marini, 1
16149 Genoa
Phone +39 01024011
Fax +39 0102401585
www.erg.it

Registered Office:
via De Marini, 1
16149 Genoa

Share Capital Euro 15,032,000 fully paid.
R.E.A. Genoa n. 354265
Company Register Genoa and
Fiscal Code 94040720107
VAT 10122410151

