Corporate Governance Committee

CORPORATE GOVERNANCE CODE

ART. 7 - REMUNERATION OF DIRECTORS

March 2010

Introduction

The Corporate Governance Committee - which met on March 3, 2010 in Borsa Italiana's premises - approved the revised version of Article 7 of the Corporate Governance Code of 2006 on remuneration of directors and key management personnel.

Issuers are encouraged to apply the new Article 7 by the end of the year that begins in 2011, and to inform the market with the report on corporate governance to be published during 2012.

The recommendations contained in the criteria 7.C.1, 7.C.2 and 7.C.3 shall apply without prejudice to the rights acquired from contracts or regulations adopted before March 31, 2010. The issuer shall inform the market in the report on corporate governance (or with the different modalities which may be provided by applicable law) of any case in which those recommendations are not applicable due to the contractual arrangements referred to above.

Milan, 24 March 2010

7. REMUNERATION OF DIRECTORS

Principles

7.P.1. The remuneration of directors and key management personnel shall be established in a sufficient amount to attract, retain and motivate people with the professional skills necessary to successfully manage the issuer.

7.P.2. The remuneration of executive directors and key management personnel shall be defined in such a way as to align their interests with pursuing the priority objective of the creation of value for the shareholders in a medium-long term timeframe. With regard to directors with managerial powers or performing, also *de-facto*, functions related to business management, as well as with regard to key management personnel, a significant part of the remuneration shall be linked to achieving specific performance objectives, possibly including non-economic objectives, identified in advance and determined in line with the guidelines contained in the general policy described in principle 7.P.4.

The remuneration of non-executive directors shall be proportionate to the commitment required from each of them, also taking into account their possible participation in one or more committees.

7.P.3. The Board of Directors shall establish among its members a remuneration committee, made up of non-executives directors, the majority of which are independent. At least one committee member shall have an adequate knowledge and experience in finance, to be assessed by the Board of Directors at the time of his/her appointment.

7.P.4. The Board of Directors shall, upon proposal of the remuneration committee, establish a general policy for the remuneration of executive directors, other directors who cover particular offices and key management personnel. The directors shall submit a yearly report describing such a policy at the annual shareholders' meeting.

Criteria

7.C.1. The general policy for the remuneration of executive directors and other directors covering particular offices shall define guidelines on the issues and consistently with the criteria detailed below:

a) the non-variable component and the variable component are properly balanced according to issuer's strategic objectives and risk management policy, taking into account the business sector in which it operates and the nature of the business carried out;

b) upper limits for variable components shall be established;

c) the non-variable component shall be sufficient to reward the director when the variable component was not delivered because of the failure to achieve the performance objectives specified by the Board of Directors;

d) the performance objectives – i.e. the economic performance and any other specific objectives to which the payment of variable components (including the objectives for the share-based compensation plans) is linked – shall be predetermined, measurable and linked to the creation of value for the shareholders in the medium-long term;

e) the payment of a significant portion of the variable component of the remuneration shall be deferred for an appropriate period of time; the amount of that portion and the length of that deferral shall be consistent with the characteristics of the issuer's business and associated risk profile;

f) termination payments shall not exceed a fixed amount or fixed number of years of annual remuneration. Termination payments shall not be paid if the termination is due to inadequate performance.

7.C.2. In preparing plans for share-based remuneration, the Board of Directors shall ensure that:

a) shares, options and all other rights granted to directors to buy shares or to be remunerated on the basis of share price movements shall have a vesting period of at least three years;

b) the vesting referred to in paragraph a) shall be subject to predetermined and measurable performance criteria;

c) directors shall retain a certain number of shares granted or purchased through the exercise of the rights referred to in paragraph a), until the end of their mandate.

7.C.3. The criteria 7.C.1 and 7.C.2 shall apply, *mutatis mutandis*, also to the definition - by the bodies entrusted with that task – of the remuneration of key management personnel.

Any incentive plan for the persons in charge of internal controls and for the executive responsible for the preparation of the corporate financial documents shall be consistent with their role.

7.C.4. The remuneration of non-executive directors shall not be – other than for an insignificant portion – linked to the economic results achieved by the issuer. Non-executive directors shall not be beneficiaries of share-based compensation plans, unless it is so decided by the annual shareholders' meeting, which shall also give the relevant reasons.

7.C.5. The remuneration committee shall:

- periodically evaluate the adequacy, overall consistency and actual application of the general policy adopted for the remuneration of executive directors, other directors who cover particular offices and key management personnel, also on the basis of the information provided by the managing directors; it shall formulate proposals to the Board of Directors in that regard;

- submit to the Board of Directors proposals for the remuneration of executive directors and other directors who cover particular offices as well as for the identification of performance objectives related to the variable component of that remuneration; it shall monitor the implementation of decisions adopted by the Board of Directors and verify, in particular, the actual achievement of performance objectives.

7.C.6. No director shall participate in meetings of the remuneration committee in which proposals are formulated to the Board of Directors relating to his/her remuneration.

7.C.7. When using the services of an external consultant in order to obtain information on market standards for remuneration policies, the remuneration committee shall previously verify that the consultant concerned is not in a position which might compromise its independence.

Comment

The Committee recommends that directors submits to the annual shareholders' general meeting a report outlining the general policy on remuneration of executive directors, of other directors who cover particular offices (in particular, the president and any vice-presidents), and of key management personnel. This report should:

- be clear and easily understandable;
- mainly focus on the remuneration policy planned for the following financial year and, if deemed appropriate, for the subsequent years, highlighting in particular any significant changes in the remuneration policy introduced from the previous financial year;
- contain an overview of the manner in which the remuneration policy has been implemented in the previous financial year.

The annual shareholders' meeting is involved in the approval of the general policy mentioned above.

The general policy establishes the guidelines according to which the remunerations shall be determined by the Board of Directors with reference to the remuneration of executive directors and other directors covering particular offices, and by the managing directors with reference to the key management personnel. The statutory auditors, in expressing the opinion pursuant to article 2389, paragraph 3, of the Italian Civil Code, shall also verify the consistency of the proposals with the general policy on remuneration.

The structure of the remuneration of executive directors and key management personnel should promote the sustainability of the issuer in the medium-long term and ensure that the remuneration is based on results actually delivered. To this end, it is recommended that the variable components are linked to predetermined and measurable criteria; the general policy may not determine in detail the formula expressing the correlation between variable component and objectives: it is sufficient that the policy indicates the elements (in particular the economic variables) to which the variable components are linked and their methods of measurement.

The Committee also recommends that the general policy establishes limits on the variable component, which need not necessarily be construed as caps expressed in absolute values.

A reference to the average remuneration for similar offices may be useful to define the level of remuneration; however it should also be consistent with adequate parameters linked to the performance of the company.

The Committee believes that the share-based compensation plans, if properly structured, can also be a suitable way to align the interests of executive directors and key management personnel with those of the shareholders. The Code recommends the adoption of certain measures aimed at discouraging their beneficiaries from seeking to increase the short term market value of the shares, undermining the creation of value in the medium-long term.

In particular, it is recommended that a predetermined portion of the shares granted or purchased should remain locked-in until the end of the mandate. This constraint, however, should not apply to the shares already held by the beneficiaries of the plan. With reference to the key management personnel that have an open-ended contract with the company, the plan should identify an appropriate expiration date of the constraint, for example three years from the date of grant or purchase of shares.

Some share-based compensation plans (e.g. phantom stock plans or phantom stock option plans) do not actually provide the assignment or purchase of shares, but only a cash settlement linked to the shares' performance. In such cases it is necessary to establish appropriate mechanisms for share retention, e.g. by providing that a portion of the cash awarded shall be reinvested into shares of the company that, according with section 7.C.2, letter c), shall be maintained until the end of the mandate.

The complexity of the remuneration issues require that the related decisions of the Board of Directors shall be supported by the preliminary activity and proposals of a remuneration committee.

According to the general recommendations applicable to all committees pursuant to the criteria 5.C.1, e), the remuneration committee, in carrying out its tasks, shall ensure appropriate links with all relevant functional and operational departments of the issuer. It is also appropriate that the chairman of the board of statutory auditors or another auditor designated by the chairman of the board participates in the works of the committee.

In the performance of its duties, the remuneration committee should use the services of external consultants that are experts on compensation policies. Such consultants shall not simultaneously provide the human resources department, the directors or the key management personnel, with significant services which might compromise their independence.

The remuneration committee shall report to the shareholders on the exercise of its functions; for this purpose the chairman or another committee member should be present to the annual shareholders' meeting.

Corporate Governance Committee

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