

ERG S.p.A.

REMUNERATION POLICY

for members of the Board of Directors, the General Manager
and the other Managers with strategic responsibilities

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Contents

INTRODUCTION	2
PART I	3
1.1. Remuneration policy for the Board of Directors	3
1.2. Remuneration policy for the Group's other Managers with strategic responsibilities	3
PART II	4
2.1. Board of Directors	4
2.1.1. Fixed component	4
2.1.2. Variable component	4
2.1.3. Non-monetary benefits	4
2.2. General Manager and other Managers with strategic responsibilities	5
2.2.1. Fixed component	5
2.2.2. Variable component	5
2.2.3. Non-monetary benefits	6
FINAL NOTES	7

INTRODUCTION

This policy defines the criteria and guidelines for the remuneration of the Board of Directors Members, the General Manager and the other Managers with strategic responsibilities in the normal course of their work.

The text and contents have been prepared taking into account:

- Article 7 of the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A., insofar as concerns the remuneration of listed companies' Board Members and Managers with strategic responsibilities, in the version dated 24 March 2010;
- the Consultation Paper issued by CONSOB (Italian National Commission for Companies and the Stock Exchange) on 10 October 2011 implementing Article 123-ter of Legislative Decree 58/1998 on the matter of transparency with regard to the remuneration of listed company directors [the "Consolidated Finance Act (Testo Unico della Finanza)"];
- ERG's Procedure on Related Party Transactions dated 11 November 2010 and the principles expressed in the Group's Code of Ethics.

This policy is effective starting from the 2012 financial period.

PART I

Description of the general remuneration policy lines with reference to the Board of Directors Members, the General Manager and the other Managers with strategic responsibilities

1.1. Remuneration policy for the Board of Directors

All Directors are paid a fixed annual remuneration 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 Committee receive an additional fixed fee, in proportion to the commitment required of each of them in their respective positions as above.

As regards the Executive Directors, the fixed annual fee is supplemented with an additional fixed remuneration.

In the case of an Executive Director holding the position of General Manager, the remuneration, comprising both a fixed and variable component, adopts the logic of the remuneration policy described for the Group's other Managers with strategic responsibilities.

The Chairman and the Chief Executive Officer, in addition to the fixed component, are paid a variable remuneration in the form of a monetary incentive, linked to the creation of value over the medium/long-term. This variable component provides for a maximum limit.

1.2. Remuneration policy for the Group's other Managers with strategic responsibilities

The remuneration paid by the Company and its subsidiaries is such as to attract, maintain and motivate highly qualified Managers with strategic responsibilities. The remuneration is broken down into two components, one fixed and one variable, determined by way of benchmarking with other listed Companies operating on the Italian market. The two components are suitably balanced according to the Company's strategic objectives and risk management policy and the fixed portion is sufficient to remunerate the Manager's services in the event that the variable portion is not paid following failure to attain the performance objectives. Moreover, according to normal practice, certain non-monetary benefits are provided for all Managers with strategic responsibilities, as more clearly explained below.

PART II

Items making up the remuneration of the Board of Directors Members, the General Manager and the other Managers with strategic responsibilities

2.1. Board of Directors

2.1.1. Fixed component

The remuneration of Executive Directors 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.

2.1.2. Variable component

For the Chairman and Chief Executive Officer a 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

LTI System – Medium/long-term incentives

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 the forecast value created, over a three-year time span, as expressed via the ERG Group EP (Economic Profit) indicator. The EP 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 EP considers the equity and financial components alongside the income component. A bonus is paid upon achievement of the EP target values 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. The bonus actually paid may increase according to the level of achievement of the objective up to a maximum of 200% (cap) with respect to the target value. In the case of group EPs that are negative or equal to zero, the bonus will be zero. The LTI system provides for a bonus payment mechanism that is deferred and conditional over time, using an account (bonus Bank) which each year withholds a significant portion of the bonus accrued to be paid in the third year only in the event that, over the three-year period, the forecast value creation achieved is in line with the predetermined target intervals.

2.1.3. Non-monetary benefits

The Executive and non-Executive Directors are entitled to receive certain non-monetary benefits (health and life insurance policies) the amount of which is deducted from the annual remuneration. As regards the Executive Directors, other benefits may be provided, such as a car and living, which are not deducted from the fixed component.

2.2. General Manager and other Managers with strategic responsibilities

The remuneration package of the General Manager and the other Managers with strategic responsibilities, in addition to the so-called “non-monetary benefits”, comprises a fixed component and a variable component, the latter in turn being 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 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 General Manager and the other 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 the remuneration of the General Manager and the Managers with strategic responsibilities in general 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

For the General Manager and for Managers with strategic responsibilities in general, participation in the above described LTI system is also envisaged, subject to the following differentiation:

- in the case of anyone who, for organisational purposes, does not form part of the Business Units, the value creation objective is 100% represented by Group EP, as set forth in the three-year plan;
- in the case of anyone who, for organisational purposes, forms part of the Business Units, the value creation objective is represented 30% by Group EP and 70% by the Business Unit's EP, both as set forth in the three-year plan.

2.2.3. Non-monetary benefits

The General Manager and the other Managers with strategic responsibilities are assigned some non-monetary benefits including, by way of mere example, insurance cover (health and life policies), pension benefits, car and living.

FINAL NOTES

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. There are no specific agreements envisaged that provide for indemnities in case of cessation of office or termination of the employment relationship.

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