



**REMUNERATION
POLICY REPORT**



CONTENTS

• Purposes and general principles	page 3
• Persons involved in the remuneration process (Process governance)	page 3
• Remuneration components	page 4
- Fixed remuneration	page 4
- Merit-based remuneration	page 4
- Benefits	page 5
- Termination benefits	page 6
- Non-competition clause	page 6
• Policy recipients	page 6
• Remuneration positioning and pay-mix	page 6



1. PURPOSES AND GENERAL PRINCIPLES

Remuneration and incentive policies are an essential means to support Group's strategies.

They are aimed at attracting, motivating and retaining people, by creating a sense of identity and developing a culture rooted in performance and merit.

The key principles are:

PRINCIPLES	CRITERIA
FAIRNESS AND CONSISTENCY	<ul style="list-style-type: none"> ➤ Balanced remuneration packages based on one's position, responsibilities, expertise and demonstrated abilities; ➤ Consistent approach in the various countries/businesses/functions.
ALIGNMENT WITH BUSINESS STRATEGIES	<ul style="list-style-type: none"> ➤ Structured incentive systems, related to the achievement of sustainable results for the Group; ➤ Definition of individual objectives to maintain sustainable levels of performance in terms of results and risks.
COMPETITIVENESS	<ul style="list-style-type: none"> ➤ Ongoing analysis of peers' remuneration practices and general market trends; ➤ Competitive salaries in terms of amount and distribution; ➤ Alignment with the business strategy and goals.
REWARDING MERIT AND PERFORMANCE	<ul style="list-style-type: none"> ➤ Bonuses based on performance, distinction and selectivity; ➤ Close link between remuneration and Group results; ➤ Fixed and merit-based remuneration seen as a key driver for motivating and retaining employees and for aligning performance with organisational objectives.
GOVERNANCE AND COMPLIANCE	<ul style="list-style-type: none"> ➤ Transparent governance; ➤ Remuneration guidelines that are consistent with the national/international practices and the Group's values.

2. PERSONS INVOLVED IN THE REMUNERATION PROCESS (PROCESS GOVERNANCE)

Governance systems and rules are designed to ensure clarity, transparency and effectiveness in the definition and management of the Group's remuneration and incentive policies.

The main parties in the process are:

- the shareholders' meeting;
- the board of directors;
- the appointment and remuneration committee.



Upon the proposal of the board of directors and having heard the opinion of the appointment and remuneration committee, the **shareholders' meeting** determines the maximum total amount, including both remuneration fees and payments for meeting participation, of board members' remuneration.

Upon the proposal of the appointment and remuneration committee and having heard the opinion of the statutory auditors, the **board of directors** determines the fees for directors with specific duties, within the aforementioned amount.

Upon the proposal of the appointment and remuneration committee and in accordance with the budget, the board of directors defines a merit-based plan (MBO) for:

- Executive directors;
- Top managers (CEO and Division Managers)
- Other key managers;
- Managers heading functions or projects.

The **appointment and remuneration committee** is entrusted with carrying out the preliminary work and submit proposals with reference to setting the fees and the remuneration criteria within subsidiaries, in order to favour consistent criteria across the Group.

The appointment and remuneration committee, set up within the board of directors, consists of at least two non-executive and/or independent members.

The term served by the committee's members coincides with the board's tenure. In the event of early board's termination, for any cause, the committee is immediately disqualified. The board of directors can at any time revoke the function conferred to the committee's members.

The Chairman of the board of statutory auditors is entitled to attend the committee's meetings.

No directors attend the meeting of the appointment and remuneration committee discussing the proposals for board's remuneration to be submitted to the board of directors.

The committee's secretary is the head of the HR Department, which is tasked with enacting, after board's approval, the proposals expressed by the committee.

3. REMUNERATION COMPONENTS

3.1 Fixed remuneration

It is defined based on the organisational role played and as a function of the rewarding principles of skills and merit.

The following parameters specifically apply:

- the objectives and responsibilities assigned to the role;
- the reference remuneration benchmarks, with special attention for job profiles involving greater market risk, the business sector and the reference context;
- the coverage degree of the role held by the person in terms of performance levels and the skills demonstrated;
- the potential for growth for key job profiles and critical skills for which supply is low on the labour market;
- the experience accrued and career path developed.

3.2 Merit-based remuneration

The merit-based component of remuneration is essentially based on performance measurement, over one-year or multi-year time horizons.

The aim is to engage and guide people towards business strategies and recognise the value of individual and team inputs.



In order to ensure a more direct relation between business results and bonuses, a prerequisite for participation (gate) is adopted as well as a system of business objective at Group or single-business level, whose measurement is pegged to economic and financial indicators.

The merit-based remuneration based on performance features:

- the short-term incentive system (annual MBO)
Unless otherwise stated by the appointment and remuneration committee, the short-term merit-based component may constitute up to 40% of gross annual remuneration and may be paid in part if only some of the collective or individual targets are achieved. It is paid in the month following that in which the shareholders approve the financial statements for the year to which the targets relate. The merit-based component is linked to a merit-based plan (MBO). This plan entails the definition of a shared target (i.e.: EBITDA, considered to be the main indicator of the Group's performance, Operating Cash Flow, Total Sales, which usually also constitute a prerequisite for plan participation), and the definition of determinable, measurable individual targets that are either related to results/financial or technical/productive. The structure of the short-term merit-based plan is defined by the board, upon proposal of the appointment and remuneration committee.
- the long-medium term incentive system for top managers
At present, no long-term merit-based components have been included in the incentive system, although the Group plans to use them in the future as they create a greater sense of belonging and loyalty that may generate and are reserved to CEO, Head of Divisions and other key functions)
- the corporate performance bonus
It is related to productivity and profitability components of the year. The conditions and criteria underpinning application are defined every year as part of the further wage negotiation. It applies to workers, employees, and junior managers who do not join the MBO policy.
- other one-off benefits
Furthermore, as a supplement to the merit-based remuneration component, in light of an excellent performance and in motivation and retention perspective, one-off payments may be offered, consistently with the selectivity and merit principles and in line with the costs included in the budget.

3.3 Benefits (non-monetary benefits)

Further element of a non-monetary nature are included in the Group's welfare system and fall within a much broader notion of remuneration:

- **Third-party liability insurance policy (D&O)**, offered to directors, statutory auditors and managers for liability for illegal acts or the violation of obligations in the performance of their duties;
- **Term life and disability/illness insurance policy**, offered to executive directors and managers, including optional integration in addition to the mandatory collective life insurance coverage required by the national labour agreement for industrial managers;
- **Health insurance policy**, offered to managers who, in addition to the provisions of the national labour agreement for industrial managers, also benefit from an extra policy for medical expenses not covered by the integrative healthcare fund (FASI).

For the successful completion of the specific staff functions, instrumental equipment may be allocated to staff, as as such will be regulated according to the various application profiles and tax liability. The cases include, for example, company cars for business and personal use and guest accommodation assigned to some members of staff within the Group for any needs that may arise in connection with the performance of their duties, geographical mobility and management.



3.4 Termination benefits

No special remuneration is planned for early work termination or for early term cessation. This does not apply to payments and benefits resulting from law regulations or collective agreement or based on individual transactions conducted as part and within the limits of such entities in order to avoid any risks on objectively grounded opinions.

3.5 Non-competition clause

By way of protecting job profiles involving high market risk and the owners of know-how that is critical for company's success non-competition clauses were defined with a consideration agreed upon and paid during the employment relationship.

4. POLICY RECIPIENTS

Board of directors. The overall remuneration amount for the board's members consists of a compensation fee and payments for meeting participation.

Board of statutory auditors. Statutory auditors' remuneration is determined by the shareholders' meeting as a fixed amount.

Key managers. The fees relate to employment relationships falling under the national labour agreement for industrial managers.

5. REMUNERATION POSITIONING AND PAY-MIX

Depending on the relevant category, differentiated and competitive remuneration packages are defined, in terms of fixed and merit-based components and benefits.

The aim is to position Group's remuneration in line with the market, by rewarding through a competitive approach the resources with the best performances, the highest potential or holding strategic positions and with high attrition risk.

The Group intends to reach a balanced ratio between fixed and merit-based remuneration components, offering balanced pay-mixes. The merit-based remuneration may not exceed the fixed component and therefore a 1:1 ratio is the ceiling.

Recipients	Fixed remuneration	Short-term merit-based	Long-term merit-based
Top managers	Yes	25%-40% of RAL	Under evaluation
Other key managers	Yes	20-25% of RAL	-
Other managers	Yes	10-20% of RAL	-
Other Group's staff	Yes	-	-