



ANALYSIS OF DIRECTORS' REMUNERATION IN ITALIAN COMPANIES

THE FTSE MIB INDEX 2011

Highlights

- Despite the average Total Shareholder Return -19% in 2011, the average CEO's remuneration though out the FTSE MIB **increased by more than 14%**.
- **The CEO's base salary decreased by 11%**: only 5% less in financial companies that still results as the sector at with highest fixed compensation (€1.69 million on average).
- **The CEO's variable remuneration increased by 45%**, of which the cash bonus grew was 92%.
- **The average CEO's pay-mix** is made of: 42.7% fixed, 38.7% cash bonuses and 18.6% equity-based incentives: the compensation structure is **strongly focused on the short-term period**.
- Most of the remuneration policies still provide for **egregious severance payments**, higher than the equivalent of 2 years of base salary, as recommended by the EC on April 2009: in many cases Executives can count on real *golden parachutes*, such as the former Chairman of Generali Cesare Geronzi (**€16.65 million** of severance payment) and the former CEO and Chairman of Finmeccanica Pierfrancesco Guarguaglini (cumulative **€9.48 million** for the two offices).
- In 8 cases **Non-Executive** Chairmen's and Directors' remunerations were **higher than the Executives'** ones; in many of such cases, the NEDs are considered as independent by the company.
- **More than 83% of remuneration plans** were opposed by Frontis Governance in Italy, while ECGS opposed approximately 88% of European Executives' remuneration plans.

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Methodology

The target of the first Frontis Governance's analysis of Directors' remuneration was 38 components of the FTSE MIB Index (all components excluding STMicroelectronics N.V. and Tenaris S.A. that are not incorporated in Italy). All data refers to public information, that are available to all investors. Specifically, the following documents have been analyzed: Group's and Parent Company's Financial Statements, Remuneration Report and Corporate Governance Report. Figures related to 2010 are provided with a different level of details, as the Remuneration Reports were not available at that time. Anyway, the analysis' methodology is the same for both 2010 and 2011:

- The fixed remuneration includes all components that are not linked to performances, such as: base salary, additional remuneration for special responsibilities, remuneration from subsidiaries, benefits and all other compensation not defined as incentive or severance payment;
- The variable remuneration is made of all incentives received by the Director during the fiscal year, including short-term bonuses, relevant portion of the deferred incentive plans and the fair value of equity-based incentives allocated during the year, that are fully included regardless the eventual vesting period, as the definition of the fair value already includes potential returns and risks;
- Equity-based incentives are estimated: (i) in case of stock options, at their fair value at the (i) location date; (ii) if shares granted, at their market value at the allocation date or, in case such date is not disclosed, at their value at December 31st.

Eventual severance payments are not included in the global remuneration, to keep all data as much comparable as possible.

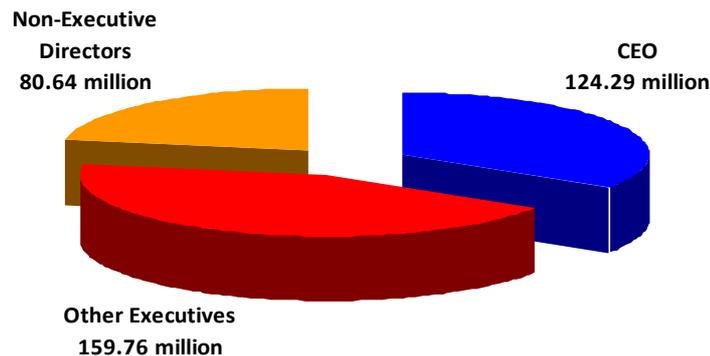
CEOs and Executives are not necessarily members of the Board of Directors, while Non-Executives exclusively include the Chairman, the non executive members of the Board of Directors and the members of the Supervisory Board (in the dual system companies).

Each Director has been considered for the portion of the year in charge: i.e. Directors who were not re-elected on April 2011 weight for 0,33 instead of 1.

Due to the different fiscal year, Mediobanca's figures are referred to June 2011.

The Directors remuneration

In 2011, Executive and Non-Executive Directors, together with other Executives not in the Boards (when disclosed in the Remuneration Report), received global remunerations equal to **€364.69 million**:



Severance payments are not included in the global amount. As per the Remuneration Reports, 11 Executives who ended their mandate in 2011 globally received €54.83 millions severance payments.

As per the article 3.5 of the European Recommendations on the remuneration of directors of listed companies, issued on April 2009: “termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof”. Further, no indemnity should be paid “if the termination is due to inadequate performance or if a director leaves on his own account”.

Despite the three-years old recommendation, several Italian issuers still provide for egregious indemnities. 21 Remuneration Reports clearly define an upper limit to severance payments, of which only 5 are capped at 2 years of global remuneration.

Termination indemnities paid in 2011

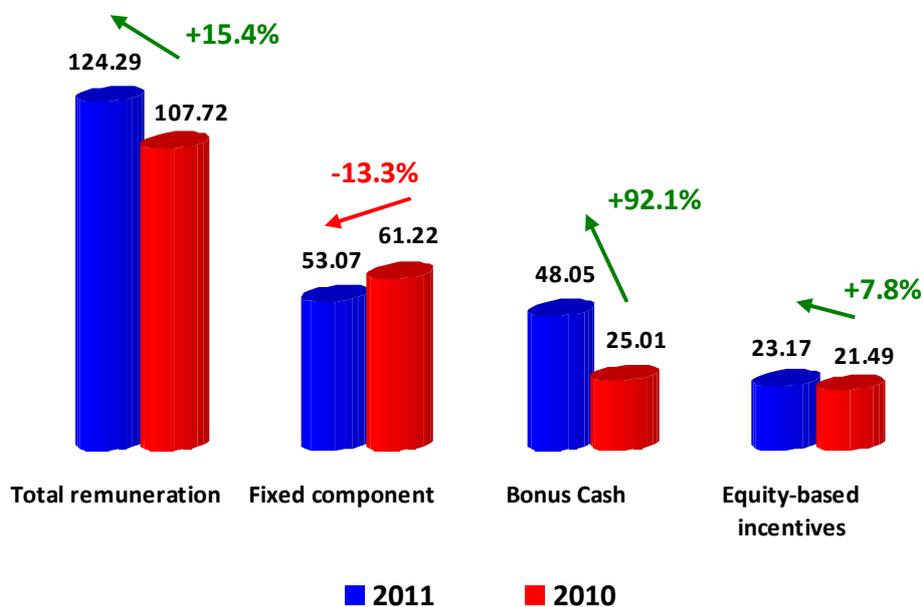
Director - Company	Role	Severance payment	Equivalent number of annual base salaries
Geronzi - Generali	Chairman	16,650,000	11.2
Zappa - Finmeccanica	COO	9,542,000	9.0
Guarguaglini - Finmeccanica	Chairman and CEO	9,481,000	6.0
Vigni - Banca MPS	COO	4,000,000	2.9
Bonavita - Parmalat	CFO	3,299,931	2.2
Dalu - Banca Popolare di Milano	COO	3,141,797	4.1
Viola - BPER	CEO	2,650,000	4.1
Sant'Albano - Exor	CEO	2,500,000	1.9
Passera - Intesa Sanpaolo	CEO	1,125,000	0.5
Caldiani - UBI Banca	COO	1,100,000	1.7
Poli - Eni	Chairman	1,000,000	2.0
Gnudi - Enel	Chairman	337,909	0.4

The CEO's remuneration

For the sake of simplicity, all Directors with the highest level of responsibilities will be defined as CEO (including, depending on the case, the COOs and the Executive Chairmen).

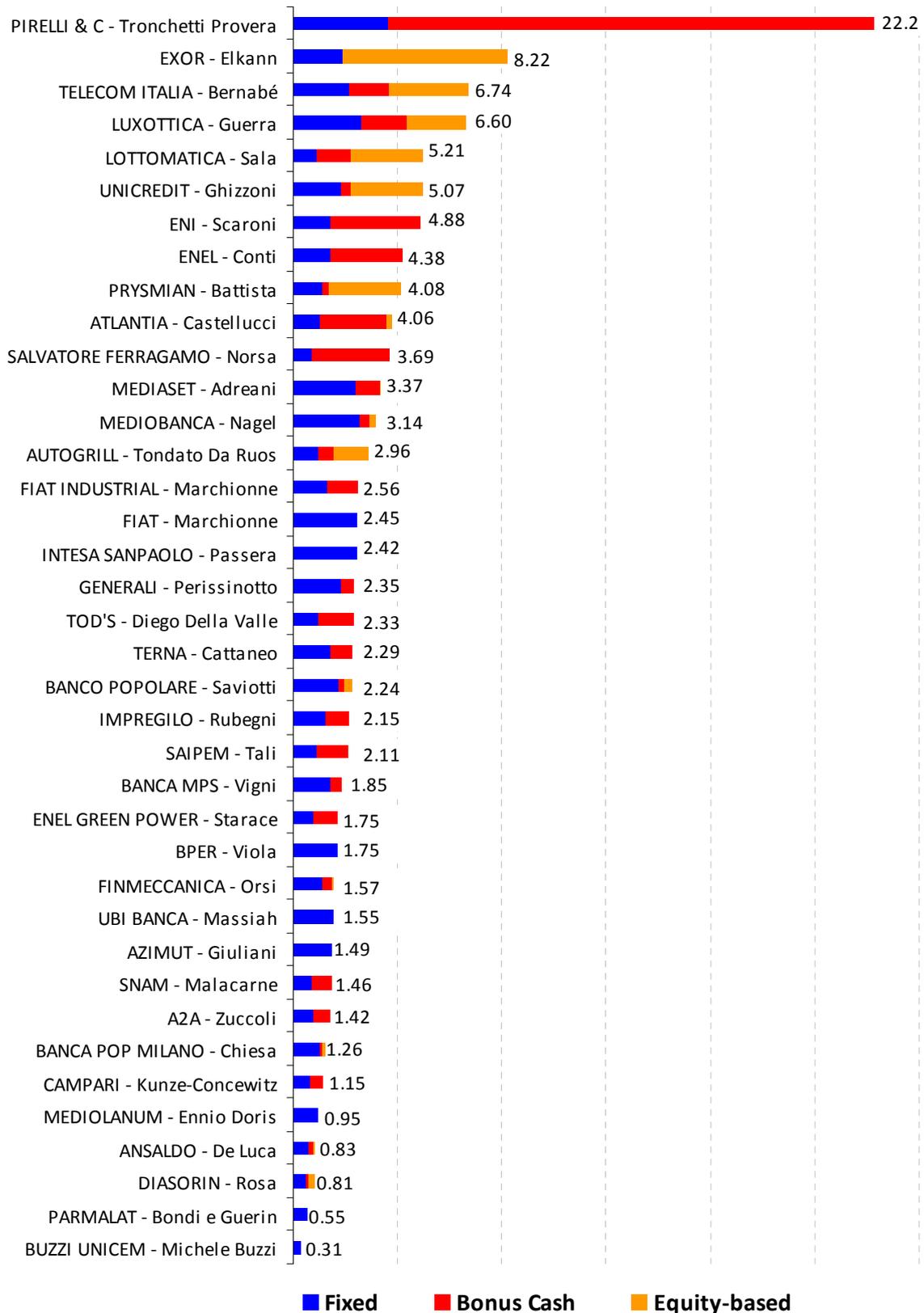
The aggregate remuneration of the CEOs at FTSE MIB companies reached €124.29 million in 2011, increasing of 15.4% versus the previous year (€107.72 million).

**CEOs' remuneration 2011 vs 2010: 38 FTSE MIB components
(total remuneration in million of Euros)**



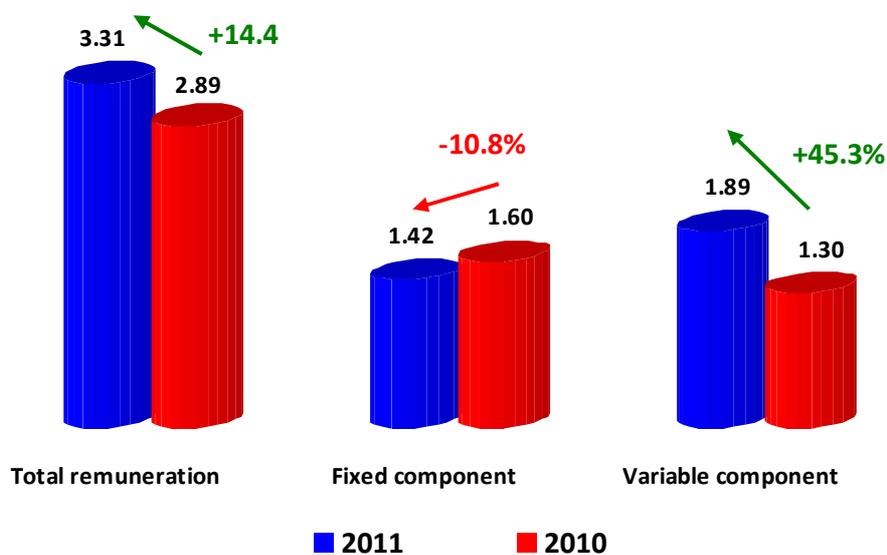
On average, each CEO received a total remuneration of €3,270,836 in 2011, versus €2,911,503 in the previous year.

CEO's remuneration 2011 (million of Euros)



As the FTSE MIB components slightly changed over the two years, Enel Green Power (whose 2010 remunerations are referred to only two months), Fiat Industrial and Salvatore Ferragamo, both listed in 2011, should be not considered in the comparison. Reducing the universe to 35 issuers, the trend of average remunerations is still increasing, even though at a lower rate:

**CEO's average remuneration in 2011 vs 2010: 35 issuers
(million of Euros)**



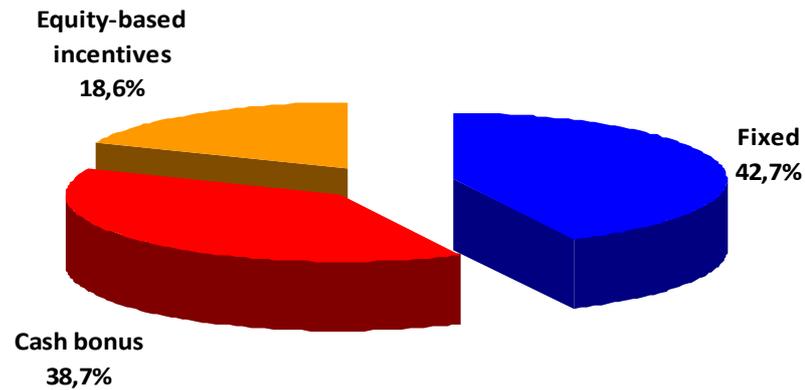
Looking at the individual compensation in the two years, of the 35 listed companies the average growth reached +26.2%, but at completely non homogeneous rates: from -86.1% of the Fiat's CEO Sergio Marchionne, due to the very high share-based incentive granted in 2010 (two million free shares at €7.08 value at the allocation date) up to +359% for the Chairman and CEO of Exor, John Elkann, thanks to the allocation of 3 million stock options for his new role (not linked to past performances).

The total remuneration decreased for 14 CEOs, other 19 increased while in Parmalat¹ and Azimut they did not change, as no incentives are provided in both companies.

¹ Both the former and the new CEO of Parmalat, Mr Bondi and Mr Guerin, are included in the analysis, as both Directors were in charge for 6 months in 2011 and their remunerations are exactly the same.

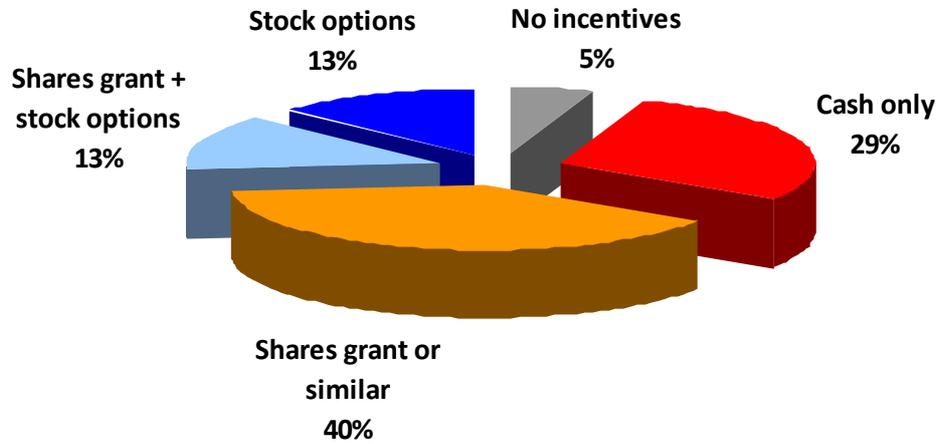
The growth of the CEOs' remuneration is due to the variable component and mostly to the cash bonuses, that are generally connected to short-term performances.

2011 CEO's average pay-mix



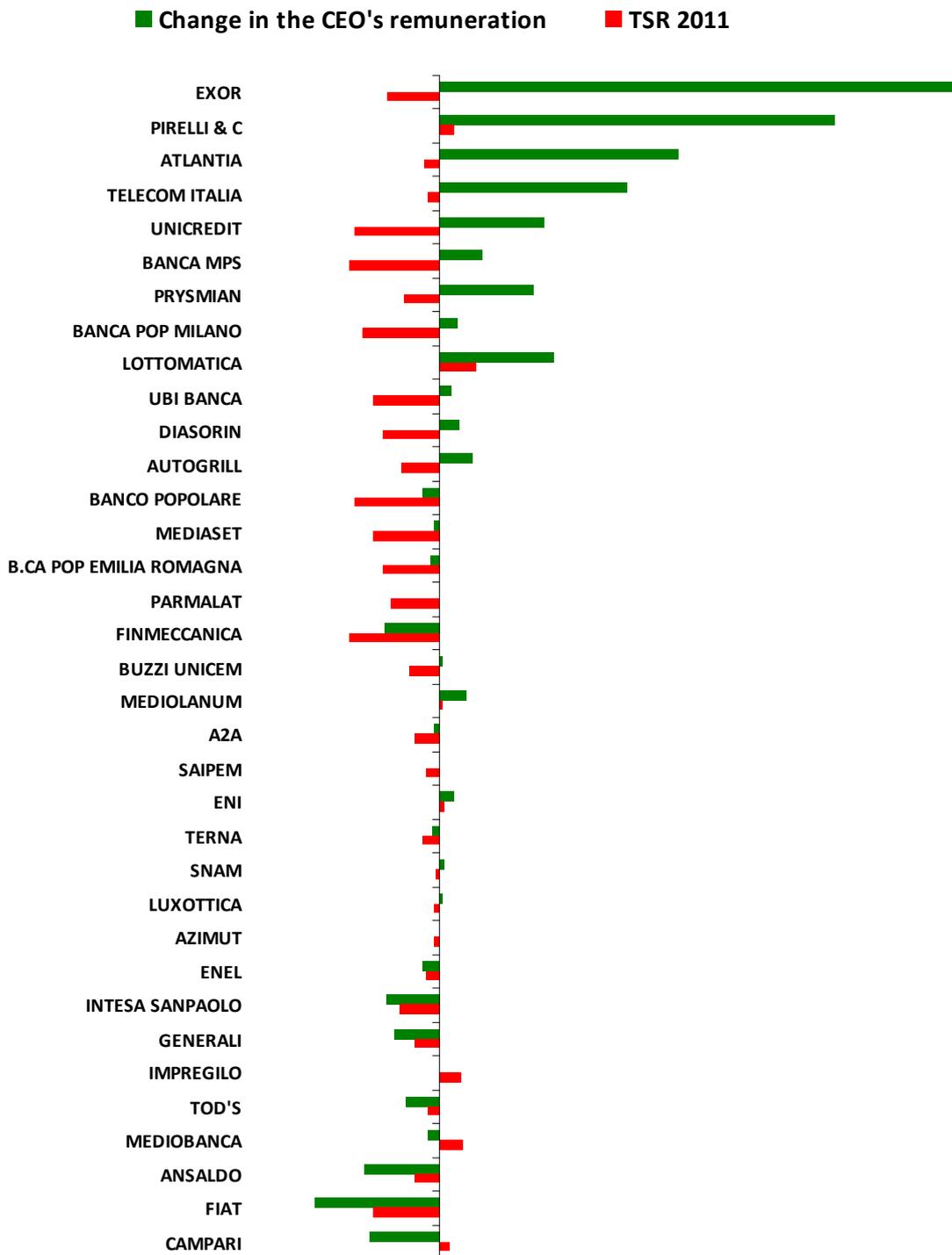
Eleven remuneration policies out of 38 (29%) do not provide any equity-based incentive, while 15 incentive plans provide for the allocation of free shares (in two cases through the so-called *phantom shares*, a cash bonus linked to the shares value at the allocation date). Five plans provide for both stock options and shares grant and in only 5 companies out of 38 (13%) the equity-based incentive is exclusively made of stock options. It is significant that many issuers (among which the State-owned companies) did not renew the stock option plans after the year 2008.

Incentive plans' structures



The amount of incentives paid in 2011, as well as the comparison with 2010, should be analyzed together with the relative performances of the issuers over the same period. As incentives are connected to different performance targets, in order to analyze all plans in the same way the comparison is made versus the Total Shareholder Return in 2011, as all plans should aim at the alignment of the CEO's and long-term shareholders' interests. In 2011, the average TSR of the FTSE MIB companies was equal to -19.1%: in 9 cases it was positive, while it was negative in 26 issuers.

Difference between the change in the CEO's remuneration and the Total Shareholder Return

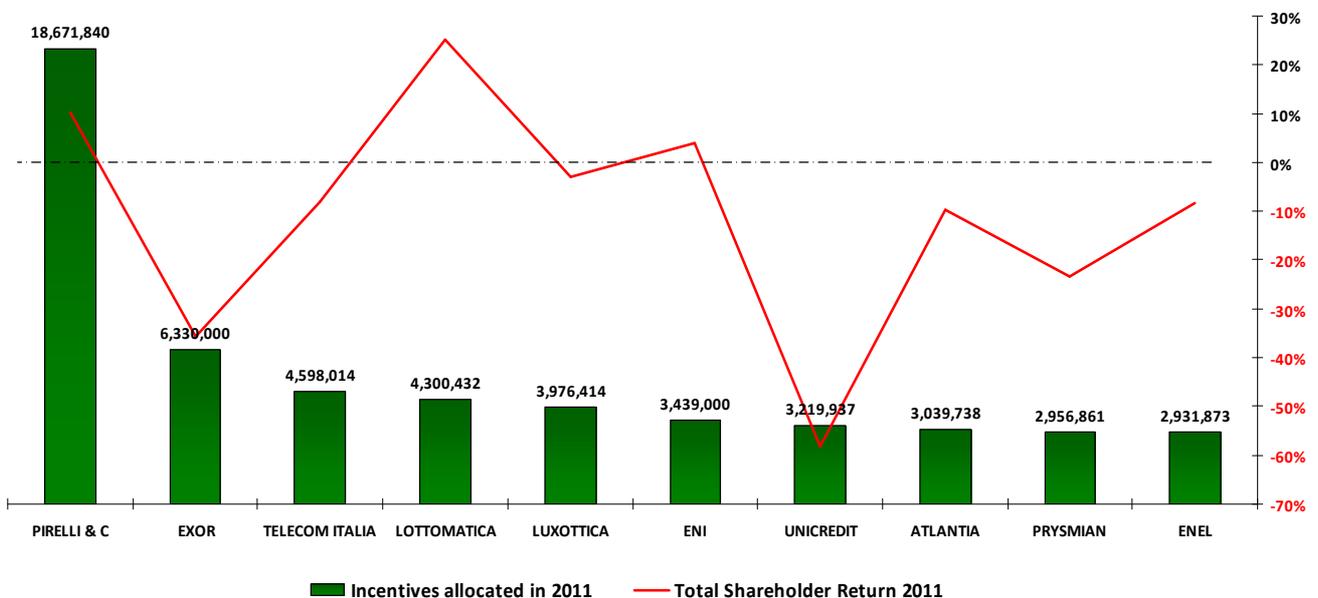


In the above graph, companies are sorted per the difference between the change in remuneration and the TSR. In 5 companies the difference is higher than 100%: Exor, Pirelli, Atlantia, Telecom Italia and UniCredit. In Pirelli, even if the TSR was positive, the CEO's remuneration grew much more than proportionally.

Less than one third of the CEO's remunerations (16 out of 35) changed in the same TSR's direction, in Azimut and Parmalat the remuneration did not change and only in Campari the remuneration decreased against a positive TSR. Without deeply analyzing the Campari's remuneration policy, it might be an example of incentives strongly linked to long-term targets and by this way not affected by the single year's performances.

To better define the analysis, the top 10 incentives awarded (both in cash and equities) are compared with the relevant Total Shareholder Return:

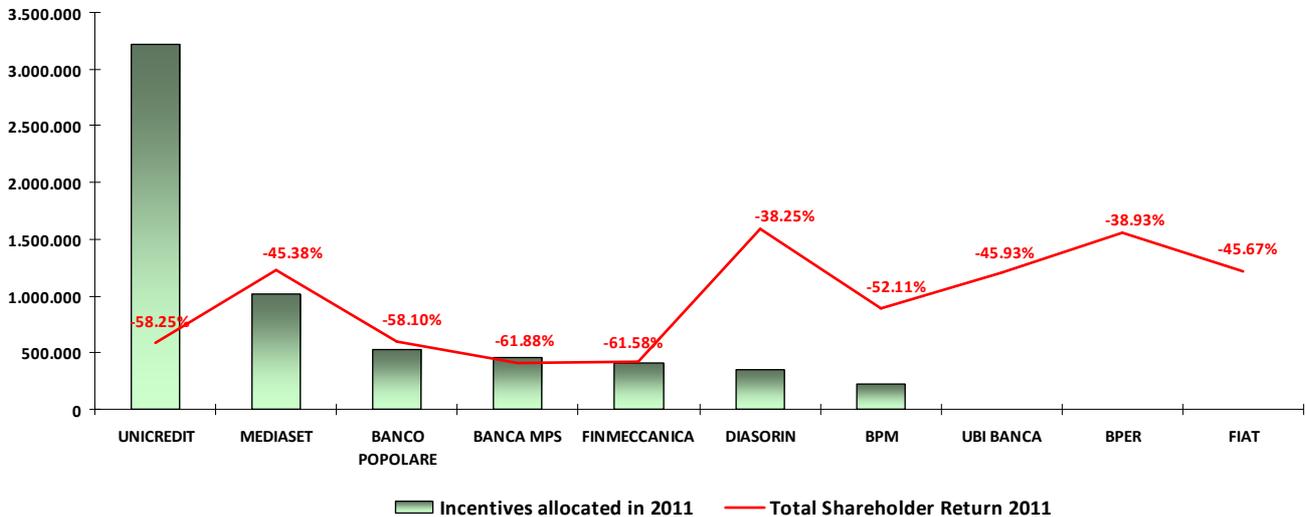
Top 10 incentives vs. TSR



As marked by the red line, in the only cases of Pirelli, Lottomatica and Eni incentives are justified by the value created for the shareholders (at least in principle).

The following graph shows the reverse analysis: the 10 lowest TSRs versus the relevant incentives paid.

Incentives paid to the CEO at the 10 companies with lowest TSR in 2011

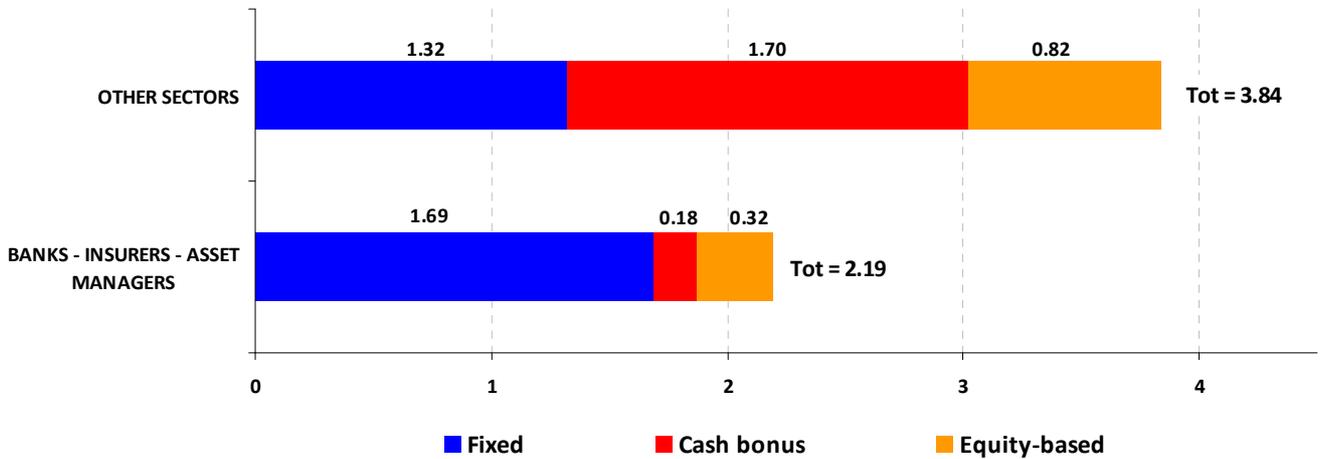


Banca Popolare dell'Emilia Romagna, Fiat and UBI Banca did not pay any incentive in 2011 to their CEOs. UniCredit's incentives also include equity rights allocated on April 29th, 2011, not yet vested, at a fair value equal to €2.88 million.

During 2011 the entire Italian market suffered the difficult economic situation, in particular the financial sector, whose Financials were affected by very high impairments of investments and intangible assets. Therefore, in order to further compare homogeneous situations, the Italian issuers have been divided in two macro-sectors: Banks, Insurers and Asset Managers versus the other sectors.

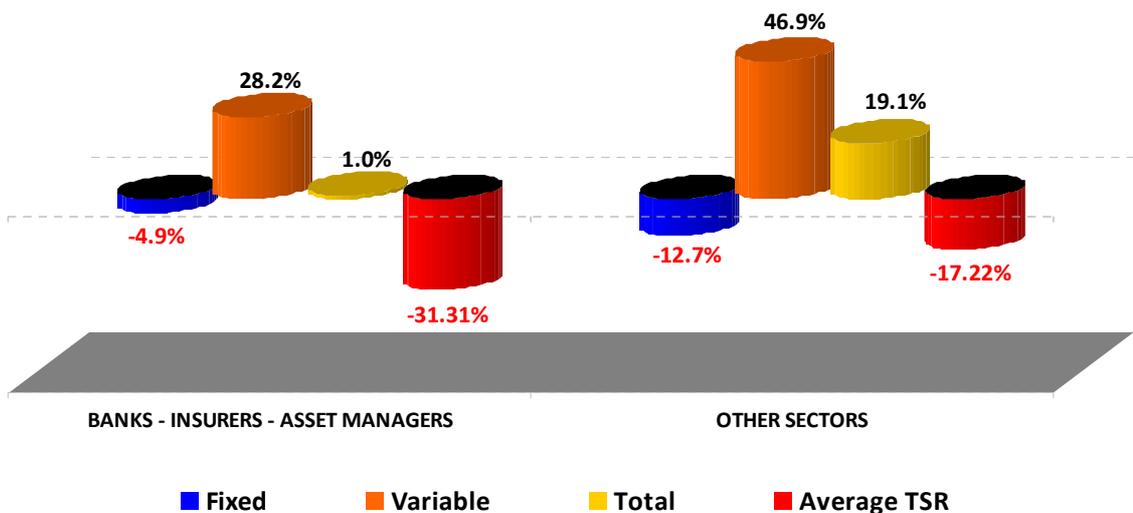
The sectors' comparison shows that the total remuneration were lower in the financial companies, due to a very low impact of the variable component. On the other side, the base salaries at financial companies are still higher than the others, weighting for 77% on the remuneration (versus 34% at the other sectors).

**Average CEO's remuneration: Financial sector vs. others
(million of Euros)**



Looking at the variation of the remuneration components, the scenario does not change too much among the various sectors: the incentives increased of 28% also at the financial companies, despite the very low performance in terms of TSR.

**CEO's remuneration components and TSR
Financial sector vs. others**

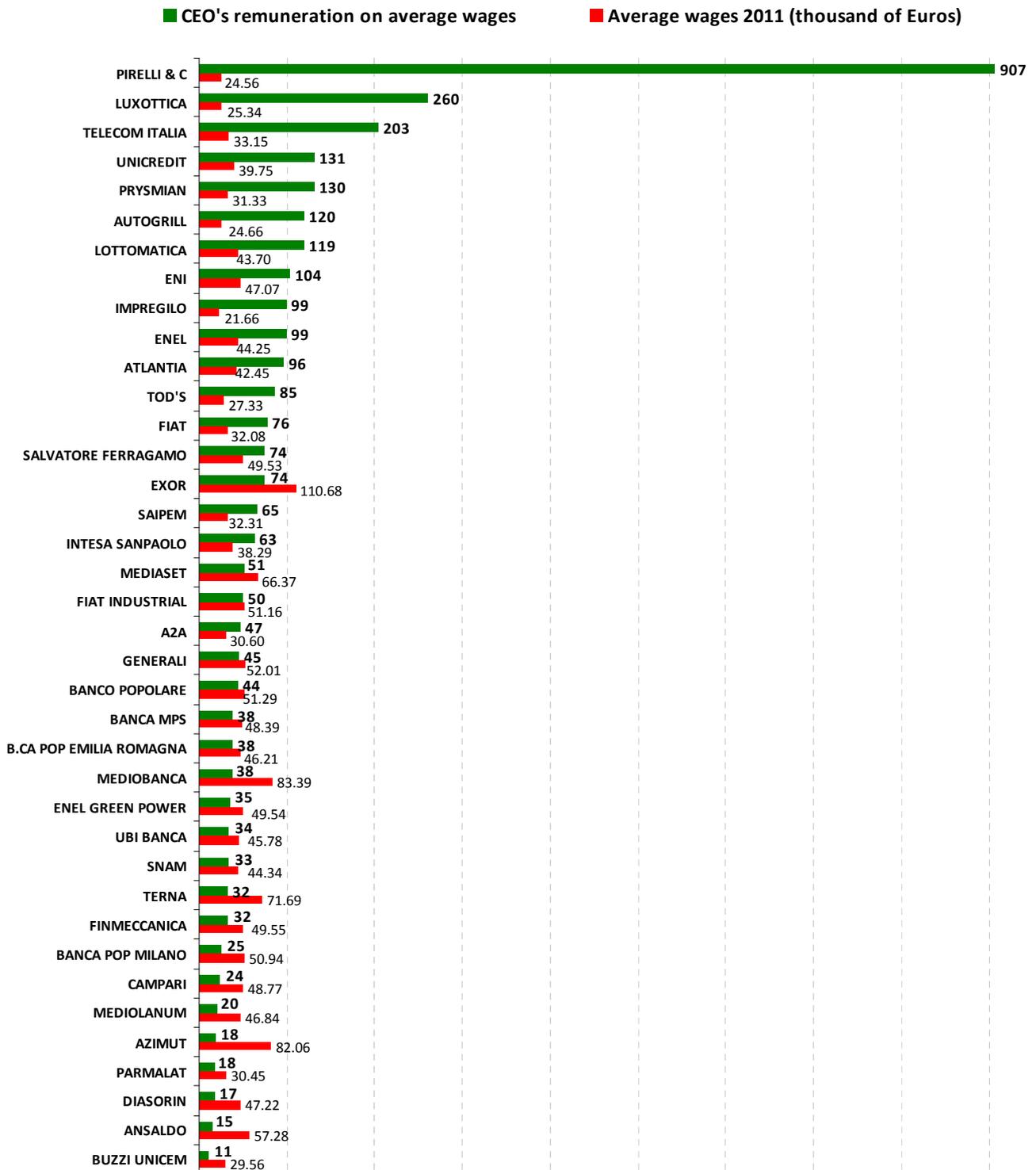


The listed companies included in the FTSE MIB index are very different one from the others, in terms of industry (15 different sectors, despite the relatively low number of components), operational structure and dimension. The market capitalization within the same index vary from less than 1 billion Euros (Azimut, Impregilo and Banco Popolare) up to Eni, that capitalizes 64 billion Euros (at December 31st, the second company in terms of capitalization was Enel, with less than €30 billion). Therefore, a unique weighting factor would be needed, in order to better evaluate whether a single remuneration is too high or too low.

A first “qualitative” weighting factor may be represented by the average wages paid to the employees at the Group during the same year. By this way we can compare the CEO's remuneration at companies with different dimensions and complexity.

The average wages at the 38 companies did not change during the two years under review: €46,093 in 2011 from €46,295 in 2010, or -0.44% versus +15.4% of the average CEO's remuneration. On average, in 2011 an Italian CEO was paid as much as 89 employees, in 2010 the same ratio was 76. As shown by the following graph, the average weight of the CEO's remuneration is affected by the egregious compensation of the CEO of Pirelli, equal to 907 times the average employees' salary. In order to dilute the effect of the highest and lowest levels, the median value can be considered instead of the average one. By this way, the 2011 CEO's remuneration results as 48 higher than the average wages, almost steady from 2010 when the same value was 49.

CEO's remuneration vs. average wages 2011



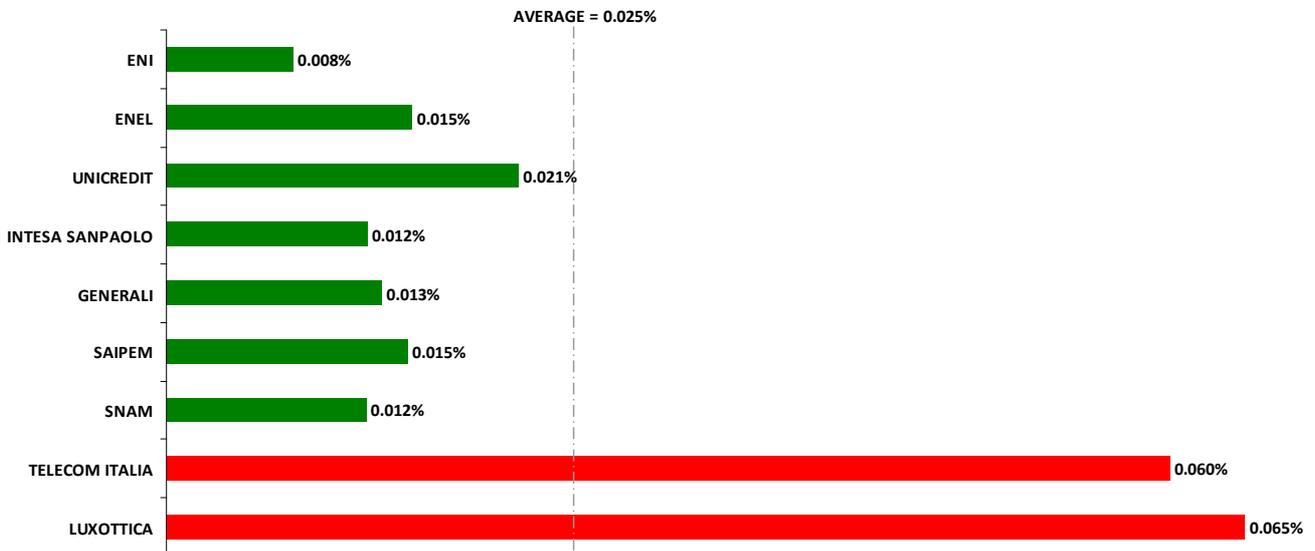
Excluding the incentives paid to the CEOs, the only fixed component of their remuneration is equal to 35 times the average wages: from a minimum of 10 times in Ansaldo, Buzzi Unicem and Diasorin to 147 times in Pirelli (therefore, also the base salary of Mr Tronchetti Provera should be considered as excessive), 103 times in Luxottica and 76 times in Fiat.

For the sake of completeness, it should be noted that the aggregate number of employees at the 38 Groups under review grew of approximately 5% in 2011, to 1.32 million from 1.25 million at December 31st, 2010. The increase is mostly due to acquisitions carried out by Italian companies on other markets: Fiat's workforce increased of approximately 62,000 employees (or 46%) also thanks to the acquisition of Chrysler Group and Prysmian almost doubled its staff (to 21,500 from 12,400) thanks to the incorporation of the Dutch company Draka.

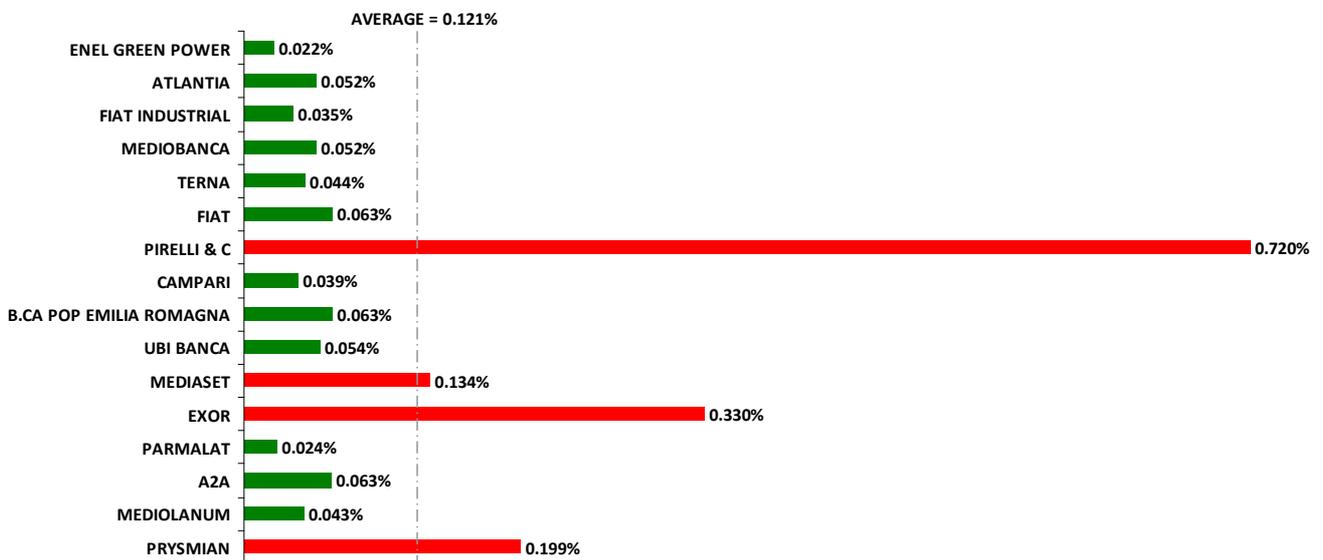
The following graphs take as additional parameter of comparison the market capitalization at December 31st, 2011. On average, the CEOs' remuneration weighted for 0.103% on the market capitalization at the FTSE MIB companies. Of course, also this figure is affected by the very high differences among the index components: if we apply the average weight on Eni, the CEO would be entitled to a remuneration of more than 113 million Euros, definitely too much.

To proceed at a fair comparison, the 38 companies under review have been included in three different groups: companies with a market capitalization lower than 10 billion Euros (9 issuers), higher than €2 billion and lower than €10 billion (16 issuers) and with a market cap lower than 2 billion Euros (13 issuers).

**CEO's remuneration weight on market capitalization at December 31st, 2011
Market Cap > €10 billion**

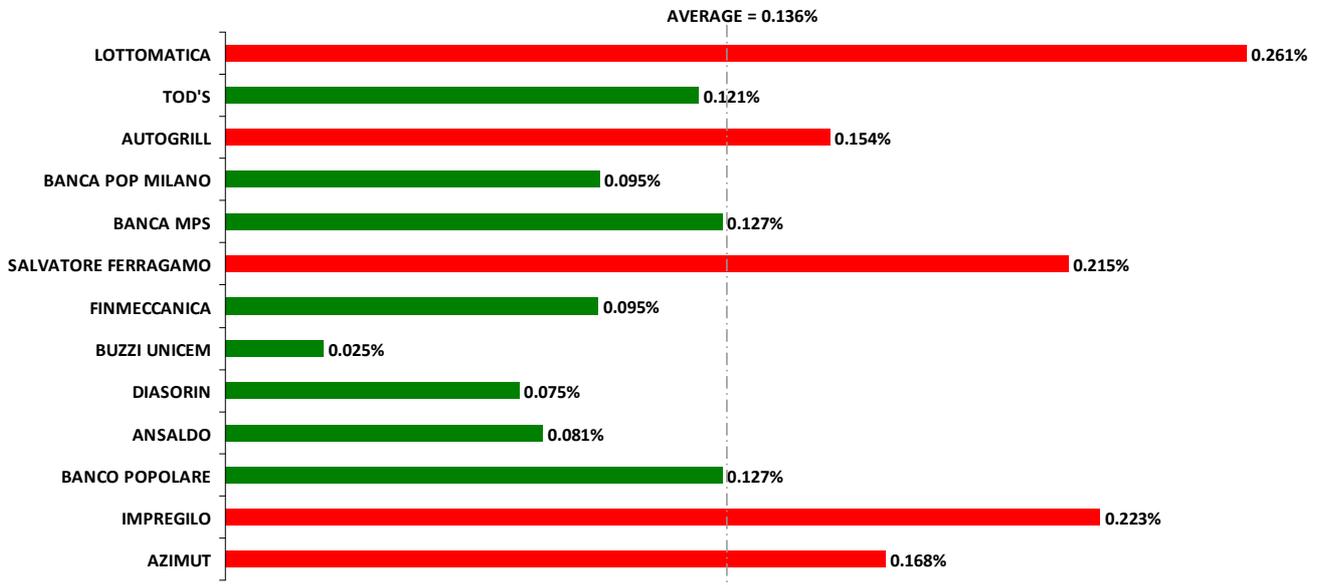


**CEO's remuneration weight on market capitalization at December 31st, 2011
€2 billion < Market Cap < €10 billion**



The inclusion of the very high remuneration of Pirelli in this group of companies strongly affects the average weight on the market capitalization, but also in this case it can be observed how the remunerations at Exor, Prysmian and Mediaset are higher than their peers.

CEO's remuneration weight on market capitalization at December 31st, 2011
Market Cap < €2 billion



Considering the difference between the individual weight and the relevant peer group average, we can obtain a special ranking where the companies with disproportionately higher remuneration are: Pirelli, Exor, Luxottica, Telecom Italia and Lottomatica. It should be noticed that the Total Shareholder Return at Pirelli and Lottomatica was positive (respectively of 10.25% and 25.18%), to the contrary of Exor, Luxottica and Telecom Italia.

The Chairmen's remuneration

The remuneration structure of the Chairman of the Board of Director can change depending on his specific role:

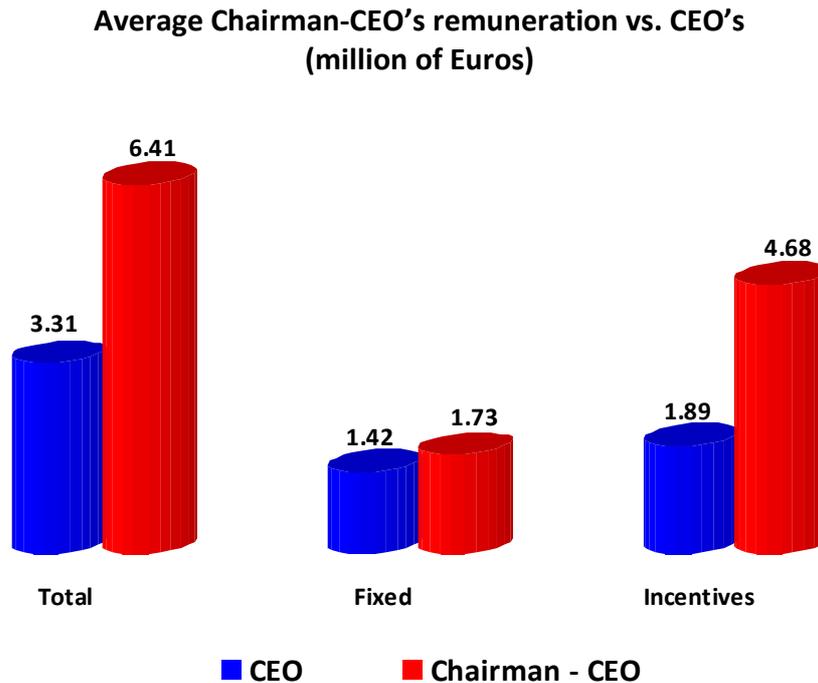
- Non Executive: his role is to guarantee the correct execution of the Board's tasks and the coordination between executive and non executive Directors, or
- Executive Chairman, who is in also responsible of executive functions;
 - in case the Chairman is also the CEO of the company, or in any case the main responsible of the management, his remuneration structure should be analyzed separately.

As per the above classification, the following analysis separately analyze three different groups of Chairmen:

- **Chairman-CEO**, 6 issuers: Azimut, Exor, Fiat Industrial, Finmeccanica, Pirelli and Tod's;
- **Executive Chairman** (not the CEO), 13 issuers: Ansaldo, Atlantia, Buzzi Unicem, Campari, Enel, Fiat, Lottomatica, Luxottica, Mediaset, Mediobanca, Saipem, Salvatore Ferragamo and Terna;
- **Non Executive Chairman**, 19 issuers: A2A, Autogrill, Banco Popolare, Banca MPS, Banca Popolare dell'Emilia Romagna, Banca Popolare di Milano, Diasorin, Enel Green Power, Eni, Generali, Impregilo, Intesa Sanpaolo, Mediolanum, Parmalat, Prysmian, Snam, Telecom Italia (until 2011), UBI Banca and UniCredit.

The Chairman-CEO

The remuneration of the Chairmen who are also the CEOs has to be compared with the previous analysis of the CEO's remuneration:



The reported figures are still affected by the remuneration of the Chairman and CEO (and main shareholder) of Pirelli, Marco Tronchetti Provera, that received a variable compensation of more than €18.6 million in 2011.

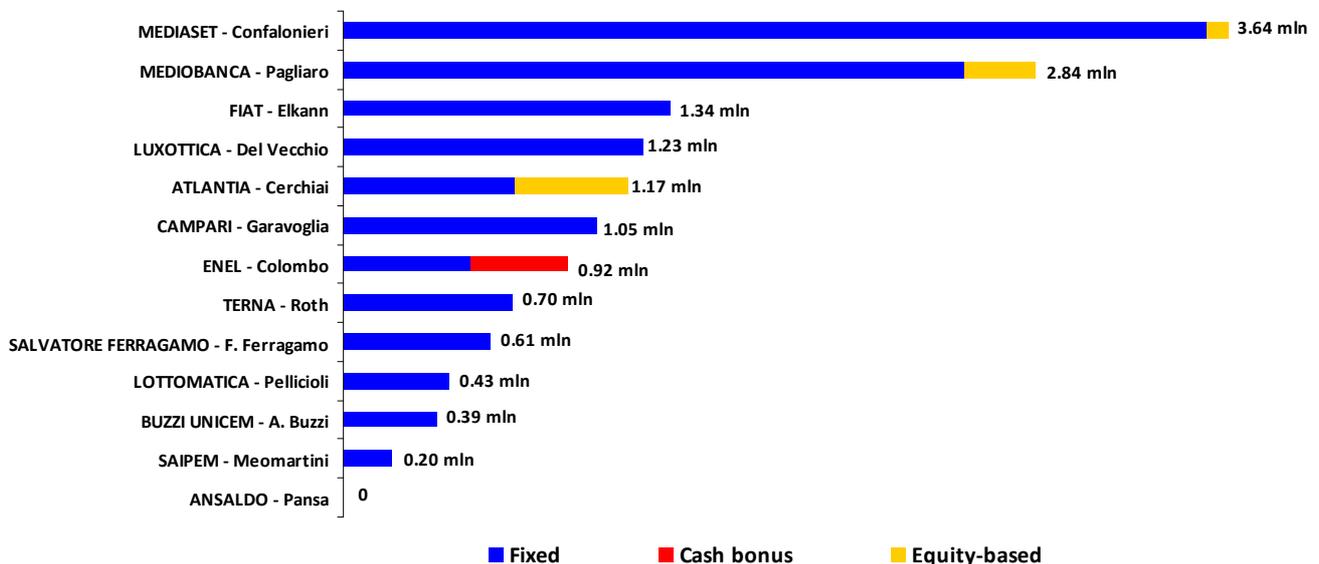
The base salary seems to be higher when the CEO is also the Chairman of the Board, but also in this case the fixed remuneration of Mr Tronchetti Provera, equal to €3.6 million, affects the analysis. Net of the Pirelli, the average fixed remuneration of the other 5 Chairmen-CEOs is equal to €1.35 million, lower than the ones received by the “only” CEOs. The reason of a lower base salary may be that many Chairmen-CEO are also the main shareholders (Exor and Tod's) or the CEO at another company at the same Group, such as Sergio Marchionne who is the CEO of Fiat.

The case of Finmeccanica is different, as the former Chairman and CEO, Pierfrancesco Guarguaglini, also received a real golden parachute represented by a double severance payment:

€3,891,000 as CEO and €5,590,000 as Chairman, equal to total 9.48 million Euros, or more than 6 times his base salary (totally contradicting the EU recommendations issued in 2009). As already mentioned at the methodology description, the severance payments are not included in the analysis in order to keep all compared data as homogeneous.

The Executive Chairman

**Executive Chairmen (not CEO) remuneration structure 2011
(million of Euros)**



The average remuneration of the Executive Chairmen, who are not the CEOs, reached €1.12 million in 2011. Also in case the amounts are not homogeneous, going from the maximum of €3.6 million for the Chairman of Mediaset Fedele Confalonieri to Ansaldo, where the Chairman Alessandro Pansa did not receive any remuneration. Actually, Mr Pansa, who is also the CFO and COO of the parent company Finmeccanica, renounced to the €71,096 compensation approved by the Shareholder Meeting. For the sake of completeness, Mr Pansa received a total remuneration of €4.1 million from Finmeccanica, of which €3.03 million as base salary and €1.1 million as variable component.

The presence of several controlling shareholders (Elkann in Fiat, Del Vecchio in Luxottica, Garavoglia in Campari, Ferragamo and Buzzi in respective companies) seems to affect also the remuneration of the Executive Chairmen, that provide for definitely lower incentives.

The Non Executive Chairman

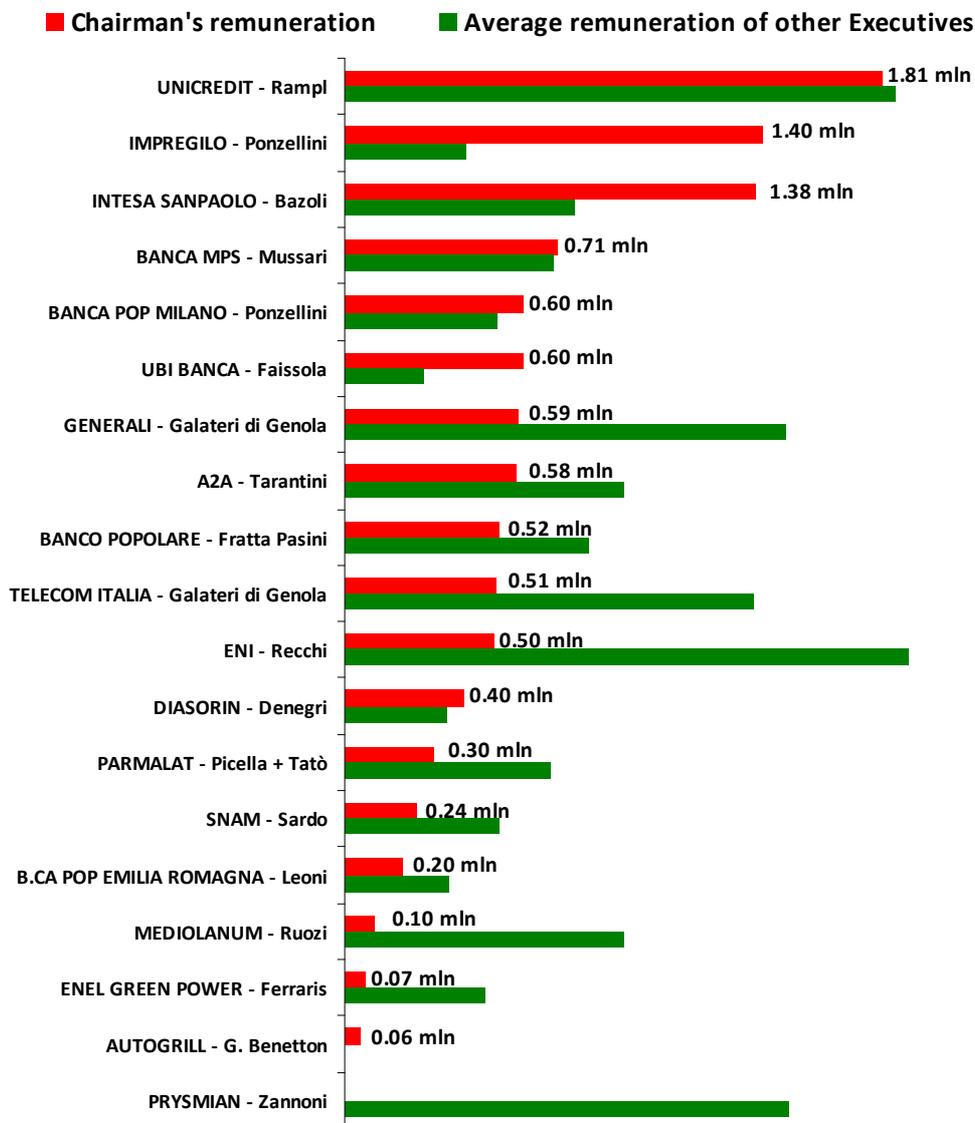
Due to their specific role, the non-executive Chairmen's remuneration is not linked to any performance, therefore it should be considered as exclusively made by the base salary. As the main task of the Chairman is to guarantee the correct workflow of the Board and the coordination between executive and non-executive Directors, most of the time his role is held by independent Directors. His remuneration should be higher than the NEDs' but lower than the Executives' ones, therefore the following graph compares the base salary of the non-executive Chairmen with the total remuneration paid to the executive managers. By this way it is possible to compare the amount received at different companies and also to evaluate, in some cases, the real independence of the Chairman from the company.

On average, the 19 non-executive Chairmen received a fixed remuneration of €556,031.

As per the following graph, the Chairmen of Impregilo, Intesa Sanpaolo, Banca MPS, Banca Popolare di Milano, UBI Banca and Diasorin were paid more than the average of the executive managers.

The higher levels are reached by the Chairmen at banks, probably because their office is perceived as more delicate. Despite the Chairman of UniCredit Dieter Rampl results as the most paid, his remuneration is slightly lower than the executives at the same bank.

Non-executive Chairman's remuneration vs. other executives (no CEO)



A special comment is needed with regards to the Chairman of Prysmian, Paolo Zannoni, who does not receive any compensation for his role at the company, as partner of the former main shareholder Goldman Sachs. Such policy does not comply with the guidelines of Frontis Governance, as the Director should always be adequately remunerated for his office, otherwise concerns may arise over the real commitment within the issuer against the company that pays him (Goldman Sachs in this case). The cases of Autogrill and Enel Green Power (where also the Chairman's remuneration may be seen as symbolic) are different, as the relevant Chairmen are adequately remunerated by the same Groups.

Non Executive Directors' remuneration

To complete the analysis, the fixed remuneration of the non-executive members of the Board of Directors and of the members of the Supervisory Boards (in case of dual governance system) are compared with the base salary of the Executives at the same company.

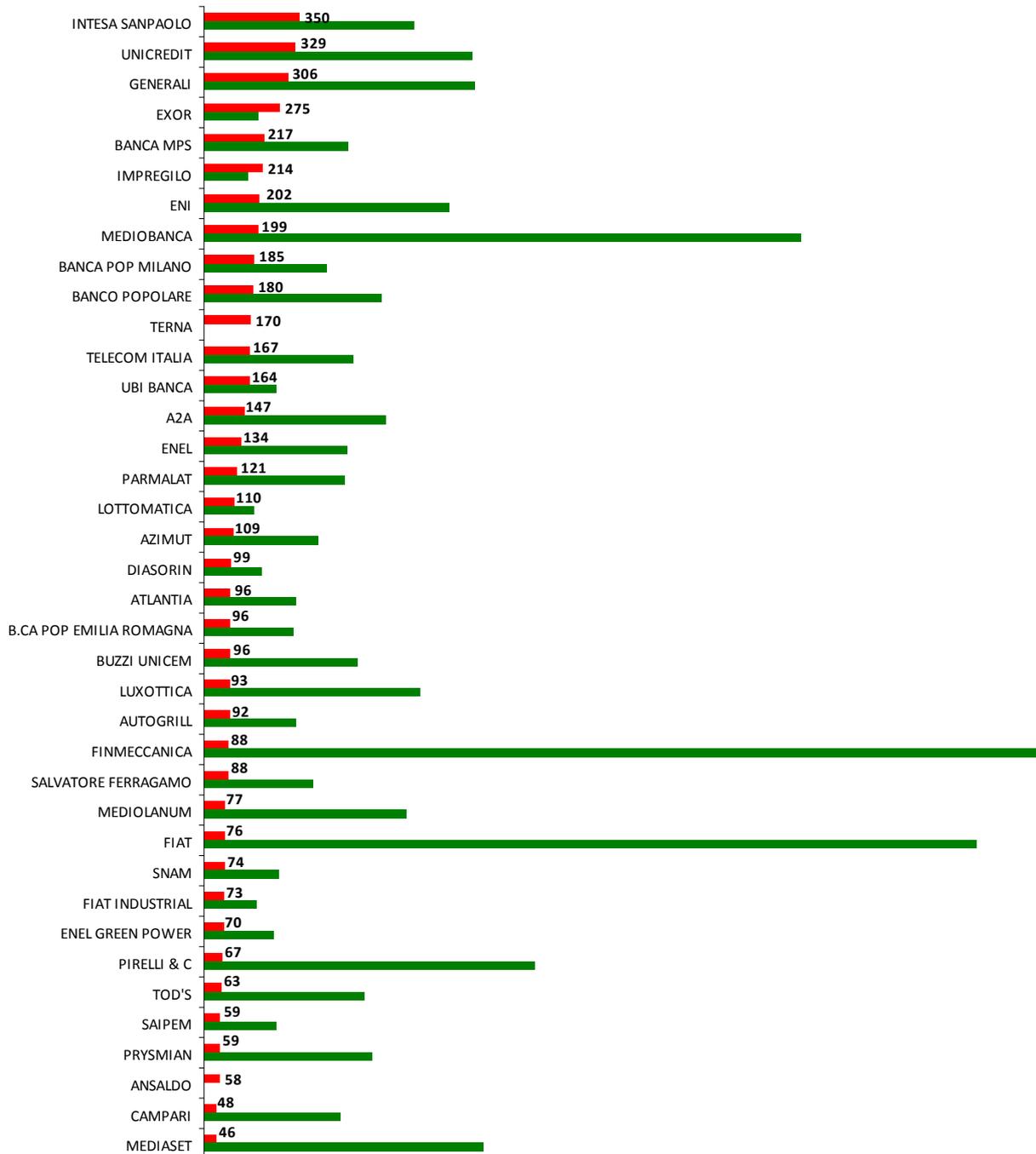
On average, 11 Board members are non-executive at the FTSE MIB companies: from a minimum of 4 NEDs at Azimut to a maximum of 23 at UBI Banca (Supervisory Board) and of 22 at Pirelli (Board of Directors).

The 421 NEDs received an average fixed remuneration of €165,473 in 2011. As per the non-executive Chairmen, the comparison with the other executives' remuneration may be helpful to evaluate the adequate amounts and, in some cases, the real independence of the Directors. As in this case the remuneration does not aim at compensating special offices, the comparison is made with the executives' base salary, excluding the variable component.

As shown by the following graph, the cases of Exor and Impregilo are particularly significant of excessive non-executives' remunerations. Nonetheless, also in the case of Intesa Sanpaolo, where the averages are lower, some members of the Supervisory Board were paid more than the managers at the same bank, despite they were defined as independent Directors.

Non-executive Directors' remuneration vs. other executives' (thousand of Euros)

■ Average remuneration of Non-executive Directors ■ Average base salary of other executives (no CEO or Chairman)



The evaluations of Frontis Governance and ECGS

During the proxy season 2011, Frontis Governance issued an opposing recommendation to approximately 83% of the analyzed Remuneration Reports, while such percentage was equal to 56% with regards to the incentive plans. The difference between the two percentages is an evidence of the pretty good level of disclosure and the fair structure of almost the half of the incentive plans, against overall Remuneration Reports strongly focused on short-term bonuses and still providing for egregious severance payments.

Anyway, by analyzing the policies we took into account the relatively new regulatory provisions and the binding nature of the vote for the financial companies. Therefore, in some cases the recommendation was positive also in case of non adequately structured plans, because the very low level of incentives did not represent a real risk for the long-term shareholders.

At the same time, the ECGS network recommended to oppose or to abstain to more than 88% European remuneration items. The reasons of the negative votes are almost the same as the Italian ones.

Frontis Governance was born on September 2011 as the first proxy advisor completely focused on the Italian market. The mission of Frontis Governance is to provide a professional and independent support to all minority shareholders in exercising their shareholder rights and in analyzing the corporate governance in investee companies.

Since its birth, Frontis Governance joined ECGS (Expert Corporate Governance Service), the only international partnership of local governance experts, in order to provide the most accurate and specialized local market expertise also on foreign markets. The other members of the ECGS' network are: Proxinvest – Managing Partner (France), DSW (Germany), Ethos (Switzerland), Shareholder Support (Netherlands) and Group Investissement Responsable (GIR – Canada).

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Disclaimer

All analyses rely on information gathered from sources available to investors and the general public, e.g. the companies' reports, websites and direct contacts with company officers. Despite multiple verification, the information provided cannot be guaranteed accurate. The voting positions are prepared by Frontis Governance according to general best practice standards in corporate governance. They also take into consideration local market practice. The analyses are intended to help investors (clients of Frontis Governance or any other potential users) make informed decisions at companies' general meetings but cannot, in any way, be considered as a portfolio investment tool or advice for investing in securities.

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