

GENERAL REMUNERATION POLICY  
2011

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*EU Recommendations*



GENERAL REMUNERATION POLICY  
Related to the 2011 Financial Year

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## INTRODUCTION

### 1. Legislative basis and scope of the document

On 3<sup>rd</sup> March 2010, the Italian Corporate Governance Committee approved new principles about remuneration of directors and key management personnel and published the revised version of Article 7 of the Italian Corporate Governance Code published on March 2006 related to such remuneration encouraging issuers to apply the new principles by the end of the year that begins in 2011.

At the European level, the European Commission adopted on December 2004 a Recommendation (2004/913/EC) fostering an appropriate regime for the remuneration of directors of listed companies, on February 2005 a Recommendation (2005/162/EC) on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board, and, on April 2009 a Recommendation (2009/385/EC) complementing Recommendations 2004/913/EC and 2005/162/EC as regards the regime for the remuneration of directors of listed companies.

Since the d'Amico International Shipping S.A. (hereinafter, the "Company"), a Luxembourg incorporated company subject to the Luxembourg Laws and regulations, is listed on the Borsa Italiana's equity market and is admitted to the STAR segment of the Mercato Telematico Azionario of Borsa Italiana's equity market, is further subject to apply, to the extent of possible, the corporate governance criteria and principles stated by the Corporate Governance Code for the Italian Listed Companies issued by Borsa Italiana on March 2006 (hereinafter, the "Corporate Governance Code"), among which the new principles on remuneration.

That being stated, in accordance with the Corporate Governance Code this document sets forth the General Remuneration Policy of d'Amico International Shipping S.A. and the guidelines for the year 2011 on remuneration of executive directors, other directors covering particular offices and key management personnel of the Company and its operative fully owned subsidiaries (the Key Management Personnel).

The position used by d'Amico International Shipping S.A. in its policy is that remuneration of executive directors, other directors covering particular offices and Key Management Personnel is defined in a way to align their interests with pursuing the priority objective of the creation of value for the shareholders in a medium-long term timeframe.

This General Remuneration Policy has been approved by the Board of Director in its meeting held on February 22<sup>nd</sup>, 2011, upon proposal submitted by the Nomination & Remuneration Committee, with the involvement of all the relevant corporate bodies, and is submitted to the resolution of the Annual Shareholders' Meeting to be held on March 29<sup>th</sup>, 2011.



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## 1. GOVERNANCE OF REMUNERATION

According to this General Remuneration Policy, the approving process of the remuneration of executive directors, other directors covering particular offices and key management personnel involves more corporate bodies at different levels, each of them on the strength of its duties and responsibilities. In particular:

- Nomination & Remuneration Committee;
- Internal Control functions;
- Board of Directors;
- Shareholders' meeting.

Special attention is also given to public disclosure of adopted criteria.

### 1.1. NOMINATION & REMUNERATION COMMITTEE

In compliance with the recommendations contained in Articles 5, 6 and 7 of the Corporate Governance Code, and with the article 2.2.3 of the Rules of the markets organized and managed by Borsa Italiana S.p.A., the Board of Directors meeting held on 6th May 2008 resolved to institute, inter alia, the setting up of a Nomination and a Remuneration Committee.

On 28<sup>th</sup> April 2009 the Board of Directors resolved to approve the merger of the Nomination Committee and Remuneration Committee into one single committee, namely the Nomination & Remuneration Committee in charge with all the functions referred to in the Corporate Governance Code as applicable to the Company as well as with the functions referred to in the Regulations respectively of the Nomination Committee and the Remuneration one.

#### 1.1.1. Composition

The Nomination & Remuneration Committee is composed of non-executive members of the Board of Directors the majority of which are independent directors, one of them having an adequate experience in accounting and finance as assessed by the Board of Directors.

#### 1.1.2. Role

The Nomination & Remuneration Committee is governed by a Regulation duly approved on 29<sup>th</sup> July 2009 and, in compliance with the recommendations contained in Articles 5 and 7 of the Corporate Governance Code and with the abovementioned Regulation, is entitled to

- submit proposal to the Board of Directors regarding the establishment of a general policy for the remuneration of executive directors, other directors who cover particular offices and Key Management Personnel and periodically evaluate the adequacy, overall consistency and actual application of the general policy adopted for the remuneration;

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- formulate proposals to the Board of Directors in that regard, also on the basis of the information provided by the managing directors;
- monitor the implementation of decisions adopted by the Board of Directors and verify, in particular, the actual achievement of performance objectives.

In particular, with respect to remuneration of executive directors or other directors who cover particular offices, the Nomination & Remuneration Committee:

- makes proposals, for the approval of the Board of Directors, on the remuneration policy for executive directors or other directors who cover particular offices. Such policy addresses all forms of compensation, including in particular the fixed remuneration and performance-related remuneration schemes. Proposals related to performance-related remuneration schemes are accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive or managing directors with the long-term interests of the shareholders and the objectives set by the Board of Directors for the Company;
- makes proposals to the Board of Directors on the individual remuneration to be attributed to executive directors or other directors who cover particular offices, ensuring that they are consistent with the general remuneration policy adopted by the Company and the evaluation of the performance of the directors concerned. In doing so, the Nomination & Remuneration Committee is properly informed as to the total compensation obtained by the directors from other subsidiaries of the Company
- makes proposals to the Board of Directors forms of contract for executive directors or other directors who cover particular offices;
- assists the Board of Directors in overseeing the process whereby the Company complies with existing provisions regarding disclosure of remuneration-related items (in particular the remuneration policy applied and the individual remuneration attributed to directors).

With respect to remuneration of Key Management Personnel, as defined from time to time by the Board of Directors, the Nomination & Remuneration Committee:

- makes general recommendations to the executive directors or other directors who cover particular offices on the level and structure of remuneration for Key Management Personnel;
- monitors the level and structure of remuneration for Key Management Personnel, on the basis of adequate information provided by executive directors or other directors who cover particular offices.

With respect to stock options and other share-based remuneration which may be granted to directors, Key Management Personnel, or other employees, the Nomination & Remuneration Committee:



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- debates the general policy regarding the granting of such schemes, in particular stock options, and make any related proposals to the Board of Directors;
- reviews the information provided on this topic in the Financial Statements report and to the shareholders meeting where relevant; make proposals to the Board of Directors concerning the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.

The Nomination & Remuneration Committee reports to the shareholders on the exercise of its functions; for this purpose the chairman or another committee's member attend the Annual Shareholders' Meeting.

**1.2. INTERNAL CONTROL FUNCTIONS**

Working closely with the Nomination & Remuneration Committee and the Board of Directors, the Internal Control Functions assists in determining the overall Remuneration Strategy applicable to the Company, having regard to the promotion of effective risk management; this include establishing an effective frame work to determine role descriptions.

The involved Internal Control Functions include Internal Audit and Human resources:

- the Internal Audit function may carry out independent audit of the design, implementation and effects of the Company's Remuneration Policies;
- the Human Resources function:
  - examines how the remuneration structure affects (i) the Company's compliance (i) with internal policies and (ii) with legislation and regulations in force with the support of the Legal function;
  - support in drawing up the Company's General Remuneration Policy for all categories within the company to which the remuneration principles apply, taking into account the impact on staff behaviors;
  - coordinates the monitoring of the consistent application of the General Remuneration Policy;
  - is the custodian of contractual terms.

**1.3. BOARD OF DIRECTORS**

According to the Company's Articles of Association and in compliance with the recommendations contained in Article 7 of the Corporate Governance Code and the applicable law, the Board of Directors, upon proposal of the Nomination & Remuneration Committee, determines the remuneration of executive directors, other directors covering particular offices within the Company and Key Management Personnel and coherently with the approved Company's General Remuneration Policy.

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**1.4. SHAREHOLDERS' MEETING**

According to the Company's Articles of Association, the compensation of the members of the Board of Directors is determined by the Shareholders' meeting and the Board of Directors determines the remuneration of the directors covering particular offices. Nevertheless, the Shareholders' Meeting shall determine an aggregate amount for compensation of all Directors, including those covering particular offices.

The Company's Shareholders' Meeting yearly settles the maximum total annual remuneration for the Board of Directors and empowers and authorizes the Board of Directors to allocate such total amount between all its members (non-executive, executive and covering particular offices), upon recommendation of the Nomination & Remuneration Committee.

The Shareholders' Meeting is involved in the approval of the Company's General Remuneration Policy.

**1.5. DISCLOSURE**

Information regarding the Company Remuneration Policy and practices are provided in the report of corporate governance & ownership structure while detailed information regarding the emoluments to executive directors, other directors who cover particular offices and key management personnel are provided in the notes to the annual financial statements.

The Company's General Remuneration Policy is published on the Company's web site at shareholders' disposal.



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## 2. GENERAL REMUNERATION POLICY

### 2.1. DESIGN, APPROVAL AND OVERSIGHT OF THE REMUNERATION POLICY

The Board of Directors is responsible for approving and maintaining the Remuneration Policy of the Company, overseeing its implementation and also for approving any exemption or changes to the Remuneration Policy. Procedures to determine remuneration are clear, well documented and internally transparent.

In the design and oversight of the Company's General Remuneration Policy, the Board of Directors takes into account the inputs provided by all competent corporate functions and committees (i.e. Human resources, Nominations & Remuneration Committee, etc.). Those functions are properly involved in the design of general remuneration policy of the Company.

#### 2.1.1. Review of the Remuneration Policy

The General Remuneration Policy of the Company will be reviewed on an annual basis in order to ensure that a timely remedial plan will be put in place where reviews reveal that the remuneration system does not operate as prescribed.

Such reviews must assess, inter alia, whether the overall Remuneration System:

- operates as prescribed (i.e. that all agreed programs are being covered, that the remuneration payouts are appropriate, that the long-term goals of the company are adequately reflected); and
- is compliant with regulations, principles and standards as applicable from time to time.

Internal Control functions as well as Nomination & Remuneration Committee are closely involved in reviewing the General Remuneration Policy of the Company.

The periodic review of the General Remuneration Policy may be, partially or totally, externally commissioned. Though external consultants may complement and support the Company in carrying out such reviews, the Board of Directors remains responsible for the results of the review.

#### 2.1.2. Shareholders' involvement and general requirement on disclosure

The Company's Shareholders' Meeting is involved in the approval of the General Remuneration Policy. Shareholders are provided with adequate information in order that they might be able to make informed decisions. To this end, the Board of Directors submits to the Shareholders' Meeting a report outlining the General Policy on Remuneration of executive directors, of other directors who cover particular offices and of Key Management Personnel. This report:

- 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;

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- contains an overview of the manner in which the Remuneration Policy has been implemented in the previous financial year.

The Shareholders' vote is non-binding.

The Board of Directors remains responsible for the proposal submitted to the Shareholders' Meeting, as well as for the actual implementation and oversight any changes to the Remuneration Policy.

**2.1.3. Internal disclosure**

The Remuneration Policy of the Company is accessible to all members of the Company and its operative fully owned subsidiaries that are dealt with the Policy. Members know in advance the criteria that will be used to determine their remuneration.

Confidential quantitative aspects of the remuneration of staff member are not subjected to internal disclosure.

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## 2.2. GUIDELINES

### 2.2.1. Scope of the Remuneration Policy

The Company's General Remuneration Policy is consistent with the principles and criteria hereinafter noted and defines the guidelines to be followed in order to consolidate a sustainable (in the medium and long term) compensation package, strengthening its link to the economic result of the Company.

The Policy, proposed by the Nomination & Remuneration Committee and approved by the Board of Directors, is referred to the compensation of:

- executive directors and other directors who cover particular offices;
- top managers with strategic responsibility (Key Management Personnel)

The policy is compliant with the legal frame work and with the provisions of the published new art. 7 of the Corporate Governance Code, stating that:

- [...]
- for directors significantly involved in the management of the company and/or charged with strategic responsibilities, a share of the total compensation is linked with the company performance objectives, even not economic ones, set in advance and coherent with the company compensation policy guidelines;
- the base fee is appropriately balanced with a variable fee, in the light of core business strategic objectives and the issuing company risk management policy;
- yearly, a "bonus pool" has to be set, in order to fix a maximum total amount of variable components not to be exceeded;
- performance objectives are supposed to be preconceived, measurable and in a strong connection with the creation of value for shareholders in the medium-long term;
- a significant part of the bonus shall be postponed with a minimum deferment period.

For the purpose of this Remuneration Policy:

- remuneration consists of all form of payments or benefits made directly by, or indirectly, but on behalf of, d'Amico International Shipping S.A. within scope, in exchange for professional service rendered. All remuneration can be divided into either fixed remuneration (payments or benefits without consideration of any performance criteria) or variable remuneration (additional payments or benefits depending on performance or, in certain cases, other contractual criteria). Both components of remuneration (fixed and variable) may include monetary payments of benefit (such as cash, shares, options, cancellation of loans, pension contributions, remuneration by third parties) or non (directly) monetary benefits (such as health insurance, discounts, fringe benefits or special allowance for car, mobile phone, etc.);



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- the following categories must be included into the scope of the Remuneration Policy:
  - executive directors and other directors covering particular offices, such as the president and any vice-presidents;
  - Key Management Personnel such as Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Operation Manager, Fleet Manager, Manager charged with preparing the Company's financial reports.

The Key Management Personnel is from time to time identified by the respective involved company of the d'Amico Group.

Non-executive directors are not included into the scope of this General Remuneration Policy and its guidelines, since remuneration of non executive directors is not linked to the economic results achieved by the Company and non-executive directors are not beneficiaries of share-based compensation plans, unless it is so decided by the annual shareholders' meeting, which shall also give the relevant reasons.

### 2.2.2. Fixed and variable remuneration

The Company's adopts a fully-flexible policy on variable remuneration.

Having a fully-flexible policy on variable remuneration implies not only that variable remuneration should decrease as a result of negative performance but also that it can go down to zero in some cases. For its practical implementation, it also implies that the fixed remuneration should be a sufficiently high proportion of total remuneration, to remunerate the professional services rendered in line with the level of expertise and skill required and the relevant business sector and region and to allow the operation of a fully flexible variable remuneration policy, including the possibility to pay no variable remuneration.

These guidelines are not directly concerned with setting numerical levels of fixed remuneration, since the fixed remuneration is primarily the result of shareholders' meeting resolutions and, in other cases, of negotiations between a staff member and the Company.

Variable remuneration is linked to target threshold related to the Company's EBITDA as recorded in the Consolidated Financial Statements approved by the Company's Shareholders.

### 2.2.3. Ratio between fixed and variable remuneration

Meeting a fully flexible variable Remuneration Policy implies as a prerequisite the accomplishment of several mechanisms, including:

- the maximum ratio on the variable remuneration compared to the fixed remuneration, and
- proper performance measurement and associated risk adjustment.

On the first point, fixed and variable components of total remuneration are appropriately balanced in order to provide an incentive to pursue the goals and interests of the company, shareholders and stakeholders, and in order to avoid the inducement to assume inappropriate risks; the higher the possible variable

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remuneration compared to the fixed remuneration, the stronger the incentive will be to deliver the needed performance, and the bigger the associated risks may become.

The Company sets its ratio between fixed and variable remuneration considering the appropriate balance depends on:

- the quality of performance measurement;
- the length of the deferral and retention period;
- the legal structure of the Company and scope of the activities;
- business types and which risks are involved.

The ratio between fixed and variable remuneration is settled at the moment of initial performance measurement; the variable part of remuneration falls in the range of 30% and 50% of the global remuneration.

#### 2.2.4. Payout process

In case the person is entitled to the variable remuneration, the payment of a significant part of such remuneration is delayed of six-twelve (6-12) months.

#### 2.2.5. Non monetary benefits

The remuneration of executive director and other directors who cover particular offices and the compensation of Key Management Personnel may includes benefit such as car, housing allowance, school fees and health insurance.

#### 2.2.6. Share based remuneration

At present, share-based remuneration is not included into the Company's General Remuneration Policy and is not part of the remuneration of executive directors, other directors covering particular offices and Key Management Personnel.

#### 2.2.7. Termination payments

At present, termination payment is not included into the Company's General Remuneration Policy and is not part of remuneration of executive directors, other directors covering particular offices and Key Management Personnel.

### 2.3. REMUNERATION OF EXECUTIVE DIRECTORS AND OTHER DIRECTORS COVERING PARTICULAR OFFICES

Accordingly the principles stated above, total compensation for the executive directors and other directors who cover particular offices is composed of two different parts:

- a base fee, namely a fixed amount identified;



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- an individual and variable bonus to be allotted depending upon the Company performance, set as a share of the base fee.

For each director, the individual bonus is set as a share of the base fee. Such share is of a minimum of 20% up to a maximum of 30% of the base fee, in order to reach an adequate trade off of base and variable fee, in the light of core business strategic objectives and the risk management policy.

As far as the individual bonus is concerned, based on the proposal of the Remuneration & Nomination Committee, the Board of Directors provides for an “ability to pay” condition defined in terms of Company EBITDA Result, as recorded in the Consolidated Financial Statements approved by the Company’s Shareholders.

The payment of a significant part of the variable part of remuneration is delayed of six-twelve (6-12) months.

Moreover:

- members of the Board of Directors involved in Company’s internal committees are entitled to further compensation;
- members of the Board of Directors shall in addition be reimbursed for all other expenses whatsoever incurred by the members of the Board of Directors in relation with such management of the Company or the pursuit of the Company’s corporate object;
- the remuneration may also includes benefit such as car, housing allowance, school fees and health insurance.

**2.4. REMUNERATION OF KEY MANAGEMENT PERSONNEL**

The Key Management Personnel is involved in the Company managerial incentive system.

The Key Management Personnel includes:

- Chief Executive Officer;
- Chief Operating Officer;
- Chief Financial Officer;
- Operation Manager;
- Fleet Manager.

The top managers’ remuneration (compensation package) consists of a fixed component (base salary) and a variable component (bonus) subjected to the achievement of the target thresholds. The target thresholds are related to the EBITDA as recorded in the Consolidated Financial Statements approved by the Company’s Shareholders.

The payment of a significant part of the individual bonus is delayed of six-twelve (6-12) months.



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The compensation package may include benefit such as car, housing allowance, school fees and health insurance.

## 2.5. REMUNERATION OF SUPERVISORY DIRECTOR, PERSONS IN CHARGE OF INTERNAL CONTROL AND FOR RESPONSIBLE FOR THE PREPARATION OF THE CORPORATE FINANCIAL DOCUMENTS.

Since the Supervisory Director (Executive Director in charge for supervising the functionality of the Internal Control System) coincides with the Chairman of the Company, there are not further relevant provisions for his remuneration and no further remuneration is settled for this role unless a change may occur.

Since the person responsible for the preparation of the corporate financial documents coincides with the Chief Financial Officer, there are not further relevant provisions for his remuneration and no further remuneration is settled for this role.

The Internal Control Officer (person in charge of Internal Control) is also in charge of the Internal Audit function and is a person external to the Company, employed by the indirect controlling shareholder of the Company. The internal control officer's remuneration consists of a base salary plus a bonus and is paid by the controlling shareholder of the Company.

### ANNEX 1 – REMUNERATION FOR THE FISCAL YEAR 2010

Remuneration of executive directors and other directors covering particular offices for the fiscal year 2010

By means of resolution adopted by the Annual General Meeting of Shareholders of the Company held on March 30th, 2010, the aggregate fixed gross amount of Directors' fees ("tantièmes") for the financial year 2010 were set at Euro 725,000.00 and the Board of Directors was empowered and authorized to allocate such amount between all the Directors including those vested with additional offices.

As regards the executive directors, the Board of Directors, upon proposal of Nomination & Remuneration Committee, resolved a 2010 variable compensation system being the following:

- the amount of fees allocated by the Board of Directors to each of the executive directors upon proposal of Nomination & Remuneration Committee is considered as the maximum amount payable in that financial year;
- part of the said amount (25%) is considered as variable;
- the allotment of the variable part is subjected to the Company's performances and the target threshold is related to the EBITDA as recorded in the 2010 Consolidated Financial Statements approved by the Company's Shareholders.

Further information on the compensation paid to the directors and the senior managers with strategic responsibilities of the Company and its Subsidiaries can be found in the relevant table in the "Other Disclosures" section of the Company's 2010 Financial Statements.