BENI STABILI S.p.A. SIIQ

ILLUSTRATIVE REPORT PREPARED BY THE BOARD OF DIRECTORS ON THE ITEM NO. 3 ON THE AGENDA OF THE ANNUAL GENERAL SHAREHOLDERS' MEETING OF BENI STABILI S.P.A. SIIQ OF 9 APRIL 2015, PURSUANT TO ART. 123-*TER* AND 125-*TER* OF THE ITALIAN LEGISLATIVE DECREE NO. 58/1998 AND TO ART. 84-*TER* OF THE CONSOB RESOLUTION NO. 11971/1999.

AGENDA

1. Financial statements as at 31 December 2014 and related Management Report. Board of Statutory Auditors Report on the period ended 31 December 2014. Dividend distribution to shareholders.

   Pertinent and consequent resolutions.

2. Appointment of the Board of Statutory Auditors for 2015, 2016 and 2017 by the list voting procedure envisaged in Article 20 of the Articles of Association.

   Appointment of the Chairman.

   Determination of remuneration.

   Pertinent and consequent resolutions.

3. Examination of the first part of the Remuneration Report.

   Pertinent and consequent resolutions.

ILLUSTRATIVE REPORT ON THE ITEM NO. 3 ON THE AGENDA

3. <u>Examination of the first part of the Remuneration Report.</u>

<u>Pertinent and consequent resolutions.</u>

Dear Shareholders,

This Remuneration Report shows, in compliance with the laws and regulatory provisions in force, the basic principles and guidelines to be pursued by Beni Stabili S.p.A. SIIQ with its Remuneration policy, approved by the Board of Directors on 10 February 2015, upon proposal by the Remuneration Committee and, subject to the opinion of the Chief Executive Officer, for what concerns the remuneration of Executives with Strategic Responsibilities.

In particular, in accordance with Art. 123-*ter* of Italian Legislative Decree 58/1998, in the first section of the Report, which is indicated in full below, the main contents of the Remuneration policy are pointed out (the powers conferred on the matter to the company bodies, the fixed and variable components of the remuneration, the methods for assigning the variable components and the *bonus*), as well as the information concerning the actual adoption and implementation of the policy itself.

With the Remuneration Report, the Company intends to submit to your attention a clear illustration of the overall top management remuneration system of Beni Stabili, so that you can consciously express your advisory vote on the first section of the Report, as provided by Art. 123-*ter*, paragraph 6, of Italian Legislative Decree 58/1998.

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"SECTION I - REMUNERATION POLICY

1. <u>CORPORATE BODIES AND OFFICERS INVOLVED IN THE PREPARATION AND APPROVAL OF THE REMUNERATION POLICY</u>

- Shareholders' Meeting -

The Shareholders' Meeting ("**Shareholders' Meeting**") of Beni Stabili S.p.A. SIIQ ("**Beni Stabili**" or "**the Company**"), called to approve the annual financial statements pursuant to

Art. 2364, paragraph 2 of the Italian Civil Code, shall in a purely advisory capacity resolve in favour of or against the first section of the Remuneration Report ("**Report**"), which illustrates the remuneration policy ("**Policy**") for members of the Board of Directors ("**Directors**") and executives with strategic responsibilities ("**Strategic Executives**") and the procedures used for the adoption and implementation of said Policy.

If the Policy should be significantly amended during the year by the Company Board of Directors ("**Board of Directors**") and as a result the Policy proves to have changed substantially from that on which the Shareholders' Meeting expressed its opinion pursuant to the previous paragraph, the Board of Directors shall call a Shareholders' Meeting to express opinion - in a purely advisory capacity, in favour or against - a special report on the Policy as amended.

- Board of Directors -

As proposed by the Company's Remuneration committee and subject to the opinion expressed by the Chief Executive Officer of Beni Stabili ("**Chief Executive Officer**"), the Board of Directors shall with particular regard to the remuneration of Strategic Executives approve the Policy and, on at least an annual basis, assess its effectiveness, duly reported to the Shareholders' Meeting in the context of the Report.

- Remuneration committee -

The Company has a Remuneration committee ("**Committee**"), established within the Board of Directors and composed of three independent Directors, one of which with appropriate knowledge and experience of financial matters.

On an annual basis and at the latest during the meeting of the Board of Directors resolving upon call of the Shareholders' Meeting to approve the annual financial statements and to express opinion on the first section of the Report illustrating the remuneration policy, the Committee shall formulate a proposal to the Board of Directors on the Policy adopted by the Company, pointing out any need to amend or add to the Policy. During the year and on any occasion deemed necessary, the Committee also reports to the Board of Directors on any need to amend or add to the Policy, and on any failure to implement the Policy and/or on the infringement of any one of its principles.

With regard to the operating method of the Committee, note that the Committee always operates through meetings, resolving in the absence of directly interested parties. Meetings are held at the request of any one of its members and the Committee has the option of accessing information and corporate departments as necessary to perform its duties. All Remuneration committee meetings are duly minuted. The Committee may make use of external consultants, with costs borne by the Company, in order to perform its duties.

The Committee submitted its proposal to the Board of Directors in relation to the current Policy on 10 February 2015. In its proposal, the Committee confirmed that the Policy is in line and consistent with existing corporate practices and is suitable for allowing a correct definition of competitive remuneration levels and for promoting equality and transparency. The Committee also emphasised that its assessments were performed independently and without requesting support from independent experts.

The aforementioned Committee proposal was assessed favourably by the Board of Directors, which fully approved the proposal on 10 February 2015. During this year the Committee will verify the correct implementation of the Policy, duly reporting to the Board of Directors.

- Chief Executive Officer -

When considered appropriate, the Chief Executive Officer may submit proposals to the Board of Directors relating to Policy adopted by the Company on remuneration for Strategic Executives, illustrating any need to amend or add to the Policy in this respect. If the Board of Directors should decide to accept the amendment or addition to the Policy proposed by the Chief Executive Officer, it must in any event obtain prior and binding opinion in favour from the Remuneration committee. The aforementioned option can be exercised by the Chief Executive Officer at the Board of Directors Meeting to resolve upon calling the Shareholders'

Meeting for approval of the financial statements pursuant to Art. 2364, paragraph 2 of the Italian Civil Code, or at any other Board of Directors Meeting resolving upon calling a Shareholders' Meeting, in order that a report on the amended Policy can be included if necessary in the agenda of the forthcoming Shareholders' Meeting.

With particular reference to Strategic Executives' remuneration, during the year the Chief Executive Officer will verify correct implementation of the Policy, duly reporting to the Board of Directors.

2. AIMS OF THE REMUNERATION POLICY AND UNDERLYING PRINCIPLES

The Policy is a key means of protecting and strengthening the reputation of Beni Stabili and creating long-term value for all Shareholders.

In compliance with regulations and in line with the values of transparency and responsibility always pursued by Beni Stabili, the Company intends to guarantee an appropriate disclosure on the strategies and procedures adopted to define and implement the remuneration policy.

By adopting the remuneration policy, the Company intends to:

a) guarantee, also through constant monitoring of market trends, a correct definition of competitive remuneration levels and with a view to promoting internal equality and transparency;
b) guarantee that the remuneration of Directors and Strategic Executives is established at a level sufficient to attract, retain and motivate staff with the appropriate professional skills to best perform their respective duties and to successfully manage and administer the Company;
c) structure remuneration in such a way as to promote medium/long-term sustainability and guarantee that the remuneration itself is also based on results achieved in the medium/long term.

The Policy approved by the Board of Directors on 10 February 2015 offers continuity and it fully consistent with the remuneration practices previously adopted by the Company. No significant changes have therefore been made in terms of content of the remuneration policy compared to the previous financial year.

3. POLICY ON FIXED AND VARIABLE COMPONENTS OF REMUNERATION

The remuneration of non-executive Directors comprises a fixed annual remuneration commensurate with the commitment required of each. This remuneration is determined as the same amount for all non-executive Directors, except for the Chairman to whom a higher remuneration is payable (for the reasons behind this higher amount, please refer to paragraph 11 below).

Remuneration of the Chief Executive Officer, the only Company Director considered "executive" currently includes managerial powers, and is determined in a fixed component and a variable component. In particular, the Chief Executive Officer receives:

- a fixed component for corporate offices held, determined by adding together: (i) the fixed remuneration assigned to all non-executive Directors, other than the Chairman, (ii) the fixed remuneration as member of a Committee established within the Board of Directors (Executive and Investments Committee) and (iii) an additional fixed component assigned to the role of Chief Executive Officer;

- a second component, the "loyalty and performance bonus", which aims to strengthen loyalty to the Company and qualifiable as:

  (i) a "fixed" component (the minimum guaranteed), allocated if in the twelve months prior to year end the CEO has not resigned from office and paid annually in the thirty days after year end, and
  (ii) a "variable" component, assigned in consideration of the achievement of specific predetermined objectives agreed in advance as objectively achievable;

- a gross annual remuneration as executive of a subsidiary.

Note that at present the Company has decided not to specifically distinguish short-term and medium/long-term variables, preferring to adopt a more flexible criterion which, according to the case and to economic and financial contingencies - external (i.e. market-related) and internal (i.e. related to the Company and the Group - assign a higher or lower equal weighting to the short-term and medium/long-term objectives.

In this respect, note that the Board of Directors considered the current remuneration structure for the CEO to be adequate, in that it separates the fixed and variable components.

As a whole, the remuneration of Strategic Executives is in line with the market average. In particular, this remuneration comprises a fixed remuneration dependent upon the terms of the related employment contracts. Strategic Executives can also be assigned a bonus of a variable amount - up to a maximum of 30% of their gross annual remuneration - essentially linked to the achievement of predetermined objectives and/or objectives in addition to those identifiable in advance, in consideration of performance based not only on annual service, but also on their medium/long-term impact.

At present the Company has no incentive schemes based on financial instruments.

To complete the information, note that (with effect from 2011) the Chief Executive Officer has the right to an annual allocation of 5,000 free ordinary Fonciére des Régions S.A. (FdR) shares as remuneration for his role as Strategic Manager of the parent company of Beni Stabili, FdR. The allocation of such shares does not relate in any way to his office as Director of the Company and does not constitute remuneration for that office. In any event, it should also be emphasised that, subject to resolutions being carried as necessary by the relevant corporate bodies, up to a maximum of 50% of these ordinary FdR shares can be replaced by ordinary Beni Stabili shares for a value corresponding exactly to the total value of ordinary FdR shares replaced.
Note, for the purpose of precision, that in 2014 the Chief Executive Officer was allocated in total up to a maximum of 6,000 free FdR shares (as remuneration for the task of Strategic executive covered by the same in FdR) regulated by a free share assignment plan resolved by the relevant corporate officers of the parent company.
The allocation of the 5,000 shares indicated above shall not be due in the event of fair dismissal from corporate office or fair dismissal by the Company from the executive employment contract with a company in the Beni Stabili Group, or in the event of voluntary resignation from office by the Chief Executive Officer. The assignment of free shares will also be due:

- in the event that, prior to approval of the financial statements as at 31 December 2015 (the "stability period"), the Chief Executive Officer should resign following unilateral amendment by the company that significantly reduces his powers, remuneration, office or duties, or following assignment to other officers of essentially similar powers or duties and are prejudicial to the Chief Executive Officer, or due to a change in direct control of the Company, including a new reference shareholder other than the current controlling shareholder;

- in the event of unfair dismissal by the Company or in any event termination (due to specific statutory clauses or due to the resignation of other Directors), unfair failure to confirm or renew the office of Chief Executive Officer for at least two financial years after 2015.

Furthermore, a number of FdR free share assignment plans ("**FdR Plans**") exist for which the beneficiaries include the Strategic Executives. According to the terms of the FdR Plans, each year the Board of Directors of FdR can resolve to assign free FdR shares to beneficiaries - identified on each occasion, based on Group performance. The assignment becomes final on completion of a four-year vesting period beginning on the date of the resolution regarding each annual assignment. For the entire duration of the vesting period, the beneficiaries, holders of a simple right to receive, are not owners of the shares and therefore cannot exercise the rights attributed to Shareholders.

4. Policy on non-cash benefits

For personal use and with tax withholdings pursuant to law, the Chief Executive Officer and the Strategic Executives are assigned certain fringe benefits qualifying as ordinary benefits assigned to persons holding similar positions in public limited companies similar in size and quality to the Company. In particular, the aforementioned officers benefit from (i) board and lodge expenses, (ii) company car and (iii) company mobile phone.

5. Criteria for assessment of results

The variable component of remuneration (including any bonuses to Strategic Executives) are assigned on the basis of an assessment of results achieved, performed using the benchmarks indicated in the Policy and with regard to the specific economic situation and specific real estate market situation in which the Group operates. Given the difficult economic and financial situation at present, the Company has decided to establish guidelines in the Policy for performance assessment, nevertheless maintaining a flexible system in relation to medium/long-term assessment. In effect, the Company considers that a case-by-case assessment, in any event based on company budget forecasts, can effectively respond to Beni Stabili's intention to reward persons who, despite an economic and financial crisis without precedent, make a positive contribution to the objective of creating value for all Company Shareholders. The system for assessing results currently used by the Company is therefore not anchored to a schematic correspondence between achievement of predetermined objectives and the variable remuneration payable. In fact, the number of predetermined objectives achieved, the relevance assigned to achieving each objective, and the achievement of any additional positive and/or objective results over and above those envisaged originally in the Policy can be taken into consideration in deciding on the assignment of variable remuneration components (including bonuses), by the corporate bodies responsible for performing the assessment, based on their prudent appreciation and discretion.

In general, performance assessment is based on profitability and on other sustainable business leverage. Beni Stabili also takes into consideration numerous other circumstances, including compliance with Group values, generating value and increasing EBIT, in any event maintaining unchanged the quality standards of the activities performed. The assessment is performed by applying different benchmarks, modelled on the characteristics of the individual business sectors concerned and ensuring firm implementation of corporate procedures, also with a view to guaranteeing coordination and improved operations of the various departments involved.

With regard to the Chief Executive Officer, part of the loyalty and performance bonus qualifies as a "variable" component (i.e. the part exceeding the minimum guaranteed) and can be assigned in consideration of the achievement of specific predetermined objectives agreed in advance and objectively achievable.

Specifically, on 10 February 2015 the Board of Directors established that the Chief Executive Officer's performance will be assessed in the light of the essential objective of generating value that is sustainable over time, in particular guaranteeing the generation of value, the achievement of an adequate level of remuneration for Shareholders, making it possible for the Company to benefit from sustainable financial leverage and a good reputation on the stock exchange and, lastly, ensuring the efficiency and effectiveness of the Company's Internal control and risk management system.

The Chief Executive Officer performance assessment is conducted by also taking into due consideration any positive performance results achieved that were not envisaged in advance, and by viewing the results in the light of the difficult economic and financial context still faced by the real estate market.

With regard to Strategic Executives, these can be assigned a bonus of a variable amount essentially linked to the achievement of predetermined objectives and/or objectives in addition to those identifiable in advance, in consideration of performance based not only on annual service, but also on their medium/long-term impact. Specifically, the Company may assign a variable bonus to each Strategic Executive, up to a maximum of 30% of the gross annual remuneration of the Strategic Executive in question.

The Chief Operating Officer and Chief Financial Officer are currently the Company's Strategic Executives.

The criteria for assessment of the results for these officers are provided below.

Provided the parameters for operation under the "SIIQ" Regime continue to be met, the performance objectives of the Chief Operating Officer are associated with:
(i) efficient strategic and operational planning;
(ii) achievement of the objective of constant corporate growth;
(iii) the efficiency of operational risk management;
(iv) improved profitability of the property assets, with a view to optimising the value of individual properties, also through asset rotation;
(v) the launch of new property development projects and renovation works to guarantee that a high quality standard of the real estate portfolio is maintained;
(vi) consolidation and improvement of relations with tenants.

The performance objectives of the Chief Financial Officer are associated with:
(i) cost control and reduction, provided that the quality of reporting (internal/management and external/institutional) and IT systems remains high;
(ii) the efficiency of financial risk management and, in general, financial planning (with regard to the deadlines for the closure of interim/annual reporting periods);
(iii) organisational and administrative process efficiency;
(iv) improvement in the level of cash flows and the capacity to obtain funding.

6. INFORMATION ON COMPLIANCE OF THE REMUNERATION POLICY WITH THE LONG-TERM INTERESTS OF THE COMPANY AND WITH RISK MANAGEMENT POLICY

The Company considers that the remuneration system as a whole is consistent with the objective of creating value for all Shareholders, despite the current difficult economic and financial scenario. The Policy is such that Directors and Strategic Executives are under no circumstances expected to assume risks to an extent exceeding the risk appetite envisaged in related corporate strategies, also taking into consideration the various levels of control exercised by the relevant corporate bodies, with particular reference to risk management.

7. MATURITY OF RIGHTS AND ANY DEFERRED PAYMENT SYSTEMS

The Company (i) identifies performance objectives to be achieved during the Board of Directors Meeting called to approve the draft annual financial statements and (ii) assesses the achievement of performance objectives at the last Board of Directors Meeting of the reporting period or, at the latest, at the Board of Directors Meeting called to approve the draft financial statements, which normally coincides with the first board meeting after closure of the financial year.

The Company has envisaged a deferred payment system in reference to the payment of the fixed component of the loyalty and performance bonus payable to the Chief Executive Officer. Specifically, this remuneration is assigned to the Chief Executive Officer 30 days after the start of the financial year after that to which the loyalty and performance bonus refers, provided that the Chief Executive Officer remains in office for the entire year in question.

No ex-post correction mechanisms are envisaged for variable remuneration.

8. INFORMATION ON ANY CLAUSES REQUIRING THAT FINANCIAL INSTRUMENTS BE HELD IN PORTFOLIO AFTER THEIR ACQUISITION, WITH AN INDICATION OF THE HOLDING PERIODS AND CRITERIA USED TO DETERMINE SUCH PERIODS

At present the Company has no incentive schemes based on financial instruments, or maturing plans that envisage clauses requiring that financial instruments be retained in the portfolio after acquisition.

Also with regard to the FdR Plans referred to in paragraph 3 above, note that these do not envisage that Strategic Executives retain the allocated FdR shares in portfolio.

9. **POLICY ON THE TREATMENT OF CASES OF TERMINATION OF OFFICE OR OF THE EMPLOYMENT CONTRACT**

In the event of unfair dismissal a lump-sum all-inclusive indemnity is payable to the Chief Executive Officer. The indemnity shall not be payable on fair dismissal from corporate office or on fair dismissal from managerial contracts with a company of the Beni Stabili Group, or in the case of the Chief Executive Officer’s voluntary resignation from office. The indemnity shall also be payable:

– in the event that, prior to approval of the financial statements as at 31 December 2015 (the “stability period”), the Chief Executive Officer should resign following unilateral amendment by the company that significantly reduces his powers, remuneration, office or duties, or following assignment to other officers of essentially similar powers or duties and are prejudicial to the Chief Executive Officer, or due to a change in direct control of the Company, including a new reference shareholder other than the current controlling shareholder;

– in the event of unfair cancellation by the Company or in any event termination (due to statutory clauses or the dismissal/resignation of other Directors), unfair failure to confirm or renew the office of Chief Executive Officer for at least two financial years after 2015.

Except in cases of interruption of duties for just cause, in all cases of termination of employment by the Company, Strategic Executives shall be paid an indemnity equal to 30 months of the cost of their total remuneration applicable as at the time of termination of the employment contract. Such indemnity shall also be payable in the event of fair dismissal and if the officers should resign within 180 days of certain events identified previously (e.g. unilateral amendment by the Company that significantly reduce the powers, office or duties of the Strategic Executives; change of control of Beni Stabili).

10. **INFORMATION ON ANY INSURANCE COVER, WELFARE OR PENSION CONTRIBUTIONS PROVIDED, OTHER THAN MANDATORY ELEMENTS**

The Chief Executive Officer and Strategic Executives shall benefit from the following insurance cover, other than mandatory cover:

– “Directors & Officers’ Liability” policy (D&O), amongst other things covering third party liability of the Chief Executive Officer and Strategic Executives for monetary losses deriving from claims for compensation for damages in relation to any offence committed by the insured during the course of his/her duties, except in the case of malice aforethought, and to the extent to which the Company has already compensated the insured;

– “Legal aid policy”, covering the costs relating to any legal aid provided as defence counsel to the insured, in court proceedings and in out-of-court settlements, in the specific cases envisaged.

In addition, the Chief Executive Officer and Strategic Executives shall benefit from the following mandatory insurance, but characterised by cover exceeding that applicable under the relevant National Collective Labour Agreement, the Company being liable for the difference between the maximum cover envisaged in the National Collective Labour Agreement and that specifically envisaged in the policy:

– “Executive life policy”, in their capacity as executives, with maximum cover exceeding that envisaged in the relevant National Pay Agreement. Specifically, the Company shall be liable for the difference between the maximum envisaged in the aforementioned policy and that in the relevant National Pay Agreement;

- “Professional and equivalent accident policy”, the maximum cover of which is calculated on the seriousness of the accident and the type of event involved, using a maximum multiplier of 5 or 6 times the gross annual remuneration of the insured. Note that, whereas professional accident cover is mandatory under the National Pay Agreement, equivalent accident cover is not mandatory;

- “Supplementary healthcare policy” covering medical, health and surgery costs that are not fully reimbursed under the mandatory health policy envisaged for the respective employment contracts.

11. OTHER INFORMATION

The Company has no specific remuneration policy for independent Directors.

For membership of each Committee within the Board of Directors, Directors shall receive a fixed annual remuneration. The amount of such fixed annual remuneration shall be the same, regardless of the specific internal Committee of which the Director is a member.

The fixed remuneration shall be payable to the Chairman, meeting also the requirements of independent Director, and certain highly important specific technical skills shall be determined and incorporated as an increase in the fixed remuneration for other non-executive Directors.

With regard to offices held in subsidiaries, in line with Beni Stabili Group policy the remuneration due as directors of the Company’s subsidiaries are charged back in full to Beni Stabili. Otherwise, in cases in which executive office is held in a subsidiary, a specific remuneration is payable. In line with this principle, the Chief Executive Officer receives a gross annual remuneration as executive of a subsidiary but receives no remuneration whatsoever for any of the (3) offices held as director of subsidiaries. In this respect, note that the Board of Directors and the Remuneration committee have decided to adopt a policy different to that of remuneration received as director of subsidiaries (charged back) and remuneration as executive of a subsidiary (not charged back), given (i) the different contractual positions associated with the office (and in particular the nature of the employee contract being subordinate to the contractual relations as executive) and (ii) the commitment required in terms of time, generally higher for an executive compared to that required of a non-executive Director.
The Policy shall be defined independently by Beni Stabili, without the use of remuneration policies of other companies as reference, provided that the policy generally complies with the guidelines on such matters existing within the Beni Stabili Group and, in particular, with directives of FdR, the Company exercising management and coordination”.

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Having regard to the above, we therefore invite you to express your vote on the first section of the Report that illustrates the Remuneration policy of the Company and the procedures used for adopting and implementing this policy.

Rome, 11 March 2015

For the Board of Directors

The Chairman

(Enrico Laghi)