

## **REPORT OF THE BOARD OF DIRECTORS TO THE ORDINARY GENERAL MEETING OF APRIL 27, 2010**

**Approval pursuant to art. 114-*bis* of the Italian Consolidated Finance Act of the guidelines: (i) of the stock option plan benefiting the directors and managers of the Company and of its subsidiaries, and (ii) of the stock option plan benefiting the collaborators of the Company and of its subsidiaries. Delegated authorities for the implementation of the plans.**

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Board of Directors' Report of the Shareholders' Ordinary Meeting convened on 27<sup>th</sup> April 2010, on first call, and on 28<sup>th</sup> April 2010 on second call, drawn up pursuant to art. 114-*bis* of the Italian legislative decree of 24<sup>th</sup> February 1998, no. 58 (T.U.F. Italian Consolidated Finance Act)

Shareholders,

you have been invited to attend the ordinary meeting to resolve, *inter alia*, on the following agenda item:

3) Approval pursuant to art. 114-*bis* of the Italian Consolidated Finance Act of the guidelines: (i) of the stock option plan benefiting the directors and managers of the Company and of its subsidiaries, and (ii) of the stock option plan benefiting the collaborators of the Company and of its subsidiaries. Delegated authorities for the implementation of the plans.

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With reference to the aforesaid item in the agenda, you have been invited to attend the ordinary meeting to discuss the proposal to adopt: (i) the stock option plan benefiting the directors and the managers of the Company and of its subsidiaries (the "**Top Management Plan 2010**") and (ii) the stock option plan benefiting the collaborators - namely the sales personnel - of the Company and of its subsidiaries (the "**2010 Collaborators' Plan**") (collectively referred to as the

"Plan").

The Board of Directors, having acknowledged the proposals made by the Remuneration Committee concerning long-term incentives of the Group key resources, believes that the implementation of the aforementioned Plans allows to make available to the Company and to the subsidiary companies the most effective instrument to promote the incentives and the retention of those directors, managers and collaborators (hereinafter collectively referred to as the "**Beneficiaries**"), who effectively help towards the Company's and the Group's success.

The Plans, the implementation and management of which is referred to the Board of Directors, upon a proposal from the Company's Remuneration Committee, are based on the granting to the Beneficiaries, over several yearly cycles, of rights to subscribe Mediolanum S.p.A. newly-issued ordinary shares (the "**Options**"). The Options shall be personal and non transferable *inter vivos* and will confer the right to subscribe the Mediolanum S.p.A. shares issued in pursuance of increases of capital resolved in favour of the Plans by the Board of Directors, in the ratio of one dividend-bearing share for every exercised Option.

The Plans shall be therefore implemented through two

capital increases reserved to each of the Beneficiaries of each Plan, pursuant to art. 2441, fifth paragraph, of the Italian civil code, resolved by the Board of Directors authorised to do so under art. 2443 of the Italian civil code. We propose to set for all the increases of capital the duration of the delegation to the directors for a maximum period referred to in art. 2443 of the Italian civil code and, therefore, for five years starting from the date of the meeting's resolution.

The exercise of the Options assigned to the Beneficiaries of the Plans shall be conditional upon the achievement of economic and/ or financial performance targets, as well as to the keeping of the relationship existing between the Beneficiaries and the Company or other companies within the Group: these obligations shall be specifically identified by the Board of Directors upon a proposal from the Remuneration Committee in compliance with the guidelines set out hereinbelow, and shall be governed by the regulations of the respective Plans.

**Top Management Plan 2010.** The identification of the Top Management Plan Beneficiaries and the number of Options to be assigned to the single Beneficiaries in relation to each annual cycle of grant shall be made by the

Board of Directors, upon a proposal from the Remuneration Committee, which will express its opinion taking account of the proposals of the competent offices of the Company or of its subsidiaries.

The exercise of the Options granted to the Top Management shall be conditional upon the achievement of specific business performance targets, measured with reference to the three-year period following the granting of the Options of specific consolidated economic/income parameters, such as the Normalised Consolidated Revenue, the Cost/Income Ratio, or other similar parameters regarded as suitable (the "**Three-Year Period Performance Targets**"), in case amended by factors of risk and cost of capital.

In particular, the maximum quantity of exercisable Option (the "**Potentially Exercisable Options**") shall be determined according to the level of achievement of the Three-Year Period Targets; The Plan, therefore, provides for: (i) exercisability of all the granted Options in case the Three-Year Period Performance Targets are exceeded, (ii) partial exercisability of the granted Options in case the Three-Year Period Performance Targets are achieved (or in case of failure to achieve the Three-Year Period Performance Targets without significant deviations) and (iii) full non-

exercisability of the granted Options in case of failure to achieve the Three-Year Period Performance Targets with significant deviations.

The quantity of Potentially Exercisable Options, determined as above in relation to the Three-Year Period Targets, may be further reduced depending on whether the individual targets granted to each Beneficiary according to the "Management Appraisal" system adopted by the Group are achieved or not. In particular, in case the average of the individual evaluations calculated for each Beneficiary according to the aforesaid Appraisal Management system in the three-year period of reference is lower than specific levels, the Potentially Exercisable Options may be exercised only partially, or may not be exercised.

The fixing of the Three-Year Period Targets, the determination of the exercisability percentages of the Options depending on whether the aforesaid Three-Year Period Targets and the individual appraisals are reached or not, as well as the verification of the implementation of the aforesaid exercise conditions, is referred to the Board of Directors, upon a proposal from the Remuneration Committee, which will give its opinion taking account of the proposals made by the competent positions of the Company or of its

subsidiaries.

The Top Management Plan 2010 provides that the Options, which have become actually exercisable further to the occurrence of the conditions of exercise, will have a vesting period of three to five years from the relevant grant date; the Board of Directors - subject to prior agreement with the subsidiaries - will fix the vesting period of the granted Options in the context of the Top Management Plan 2010. After the vesting period, the Options shall be exercisable for a period of three years, provided that as at the date of exercise of the Options the relationships between the Beneficiary and the Company or other companies within the Group be still existing.

The aforesaid Top Management Plan 2010 structure is regarded as suitable for linking the incentives of the Top Management both to the medium-term performance of the Group and to their individual performance, aligning targets and maximizing value creation in favour of the shareholders.

**Collaborators' Plan Guidelines 2010.** The identification of the Beneficiaries of the Collaborators' Plan - namely the sales personnel - and the determination of the number of Options to grant to the single Beneficiaries in relation to each yearly cycle of

granting shall be made by the Board of Directors, upon a proposal from the Remuneration Committee, which will express its opinion, in view of the proposals of the competent positions of the Company or of its subsidiaries, according to whether the single targets assigned to them during the previous year have been achieved or not.

The exercise of the Options granted to the Collaborators shall be conditional upon the achievement of specific business performance targets, calculated with reference to the trend in the two-year period following the granting of the Options of consolidated economic/income parameters such as the Normalised Consolidated Revenue, the Cost/Income Ratio, or other similar parameters regarded as suitable (the "**Two-Year Period Performance Targets**"), and in case amended by factors of risk and cost of capital.

In particular, the maximum number of exercisable Options (the "**Potentially Exercisable Options**") shall be determined according to the level of achievement of the Two-Year Period Targets; the Plan, therefore, provides for: (i) exercisability of all the granted Options in case the Two-Year Period Targets are exceeded, (ii) partial exercisability of the granted Options in case the Two-Year Period Targets are



achieved (or in case of failure to achieve the Two-Year Period Targets without significant deviations) and (iii) full non-exercisability of the granted Options in case of failure to achieve the Two-Year Period Targets with significant deviations.

The fixing of the Two-Year Period Targets, the determination of the exercisability percentages of the Options depending on whether the aforesaid Two-Year Period Targets and the individual appraisals are reached or not, as well as the verification of the implementation of the aforesaid exercise conditions, is referred to the Board of Directors, upon a proposal from the Remuneration Committee, which will give its opinion taking account of the proposals made by the competent positions of the Company or of its subsidiaries.

The Collaborators' Plan 2010 provides that the Options, which have become actually exercisable further to the occurrence of the conditions of exercise, will have a vesting period of five to ten years from the relevant grant date; the Board of Directors - also upon a proposal from the Board of Directors of the subsidiary Banca Mediolanum S.p.A., which most collaborators benefiting the Plan depend on, and with the agreement with the other subsidiaries, which may be interested -

will fix the vesting period of the granted Options in the context of the Collaborators' Plan 2010. After the vesting period, the Options shall be exercisable for a period of three years, provided that as at the date of exercise of the Options the relationships between the Beneficiary and the Company or other companies within the Group be still existing. The choice of the aforesaid structure of the Collaborators' Plan is regarded as suitable for linking the incentives of the collaborators both to the individual results and to the medium-term performance of the Company or of the Group and after the creation of value for the benefit of the shareholders; further, the timeframe structure of the Collaborators' Plan has a strong retention value, in view of the proposed vesting period.

In relation to the Options to be granted to the potential Beneficiaries in the different yearly cycles of the Plans and, accordingly, to the maximum extent of increases of capital reserved to each class of Beneficiaries, we propose what follows:

- the directors and managers will be assigned with up to 5,000,000 Options, which vest the right to subscribe an equal number of dividend-bearing ordinary shares, each with a nominal value of €0.10 and that, accordingly, the divisible corporate capital increase

reserved to the directors is for a maximum total amount of €500,000.00;

- the collaborators will be assigned with up to 7,000,000 Options, which vest the right to subscribe an equal number of dividend-bearing ordinary shares, each with a nominal value of €0.10 and that, accordingly, the divisible corporate capital increase reserved to the collaborators is for a maximum nominal amount of €700,000.00.

For all the Beneficiaries of the Plans (directors, managers and collaborators) the Board of Directors proposes that the unit subscription price of the new shares intended for the Plans, against the exercise of the Options, be equal to the weighted average of (i) the Company's equity value per share as reported in the last financial statements approved prior to the allotment of the Options and (ii) the average stock market price of Mediolanum S.p.A. shares in the six-month period preceding the grant date of the Options applying a weight equal to 90% of the equity value and a weight equal to 10% of the average stock market price in the last six-month period, respectively.

Shareholders,

we therefore invite you to pass the following resolutions:

"The meeting (ordinary):

- having examined the Board of Directors' report;

resolves

1) to approve the establishment of the stock option plan benefiting the directors and managers of the Company and of its subsidiaries and the stock option plan benefiting the collaborators of the Company and of its subsidiaries, according to the guidelines set out in the Board of Directors' report;

2) to confer upon the Board of Directors any power for the implementation of the Plans (including, *inter alia*, the power to draw up the respective regulations, to establish the principles for the identification of the Beneficiaries, to fix the principles for the identification of the Beneficiaries and the identification / quantification of the performance parameters, the achievement of which is conditional upon the exercise of the Options). In general, to invest the Board of Directors with any power to implement the aforesaid resolutions and, in particular, to fulfil any requested obligation so that the passed resolutions may be approved by law, with the authority to make any possible amendment or addition, which may be necessary or advisable for that purposes.

Basiglio - Milan - 3<sup>rd</sup>, 9<sup>th</sup> March 2010

On behalf of the Board of Directors  
The Deputy Chairman (Alfredo Messina)