



# Remuneration Report

# 2014

**Disclaimer**

This Report has been translated into English solely for the convenience of the international reader. In the event of conflict or inconsistency between the terms used in the Italian version of the Report and the English version, the Italian version shall prevail, as the Italian version constitutes the sole official document.

# Remuneration Report 2014

Drafted pursuant to Article 123-ter of Legislative Decree no. 58  
of 24 February 1998 (Consolidated Financial Act - TUF)  
and pursuant to Article 84-quater of CONSOB Resolution  
no. 11971 of 14 May 1999 (Issuers' Regulation)

In presenting the Remuneration Report 2014, it is worth pointing out the Company's efforts to ensure the increasingly high degree of transparency, competitiveness and alignment of the policies adopted with best practices.

In particular, during the three-year mandate the Board of Directors was faced with circumstances that significantly transformed the reference scenario, in terms of both external environment and Finmeccanica Group structure, also in connection with the considerable developments in the governance structure, which only found its permanent equilibrium in the last financial year.

Owing to the constant contact with the market, operating in conformity to long-established practice, based on certain fundamental principles (the remuneration of performance and potential, the enhancement of responsibility and accountability of managerial resources with respect to the Company, self-financing of variable compensation, curbing overheads) the Company has progressively refined the tools that it uses, at the same time considering possible further improvements that would prepare the way for an even more highly developed implementation of the policy adopted.

For this purpose, the Company has planned to propose, in the course of the next three year-period, new incentive systems to introduce additional distinctive features with a view to increasingly align internal practices to the expectations of the market, in accordance with the Company's business requirements.

This Report, which is the main tool for participation in the compensation decisions that have been taken, bears witness to the Company's constant efforts to ensure that the Group constantly assures compliance with the values of equity, meritocracy and competitiveness that are distinguishing marks of the management and growth of all the persons who contribute with their work to the success of Finmeccanica.





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## INTRODUCTION

This Report has been prepared in compliance with the regulatory provisions in force and in line with the Corporate Governance Code for Listed Companies.

In fact the Company's Board of Directors' Resolution of 19 March 2014 approved the Remuneration Report pursuant to Article 123-ter of the TUF, which illustrates, among other things, the policy adopted with regard to the remuneration of members of the administrative bodies, of General Managers and any other Executives with Strategic Responsibilities, also in accordance with the recommendations expressed by the Corporate Governance Code regarding remuneration, which the Company complies with.

The initial Section of the document illustrates the remuneration policy adopted as of financial year 2014, setting out the criteria and guidelines that the Company has adopted in relation to the remuneration of its administrative bodies' members, its General Managers and any other Executives with Strategic Responsibilities. Said Section is subject to the non-binding resolution of the Shareholders' Meeting, pursuant to Article 123-ter, paragraph 6, of the TUF.

The second Section analyses and details the fees actually paid to, or in any case assigned to, members of administrative and control bodies, as well as to General Managers and Executives with Strategic Responsibilities, during the course of 2013.

The Remuneration Policy set out in this Report has been adopted by the Company, as provided for by Consob Regulation no. 17221/2010 with regard to related-party transactions, also in accordance with and for the purposes of Article 11.2(b) of the Procedure for Related-Party Transactions approved by the Board of Directors on 26 November 2010 and subsequently updated on 13 December 2011 and on 19 December 2013.

The implementation of this policy, after the renewal of the Board of Directors on the part of the next Shareholders' Meeting, will also take account of the regulatory constraints under article 23-bis of Decree Law no. 201/2011, as illustrated in the Board of Directors' report on the related item on the agenda of the ordinary Shareholders' Meeting, to which reference is made.

This document is available at the Company's registered office and on its website ([www.finmeccanica.com](http://www.finmeccanica.com), Corporate Governance Section, Remuneration area).

## SUMMARY

(ESR = Executives with Strategic Responsibilities)

2014 REMUNERATION POLICY			
COMPONENT	PURPOSES AND BASIC FEATURES	DETERMINATION CRITERIA AND PERFORMANCE CONDITIONS	AMOUNTS AND PAYOUT (ON AN ANNUAL BASIS)
<b>FIXED REMUNERATION</b>	<p>It is an adequate return for services rendered and is proportionate to the duties and responsibilities assigned, with the purpose of retaining talented resources for the performance of the specific duties awarded to them</p>	<p>It is determined with reference to pay market benchmarks and periodically reviewed, also in relation to the pay mix policies (fixed/variable ratio) adopted from time to time.</p> <p><b>CHAIRMAN'S PAY-MIX</b> = 100% Fixed remuneration</p> <p><b>CEO/GM'S PAY-MIX</b> = 42% Fixed remuneration; 58% Variable remuneration (of which 30% short-term variable remuneration and 28% medium/long-term variable remuneration)</p> <p><b>ESR' AND OTHER MANAGERIAL RESOURCES' PAY-MIX</b>                      ESR' and other top managers = Fixed remuneration of between 30% and 45%; Variable remuneration of between 70% and 55%                      Key Executives and talents = Fixed remuneration of between 45% and 60%; Variable remuneration of between 55% and 40%                      Other managerial resources = Fixed remuneration of between 60% and 85%; Variable remuneration of between 40% and 15%</p>	<p><b>CHAIRMAN</b> = gross remuneration of € 210,000 p.a. (in addition to gross fees of € 90,000 p.a. set by the Shareholders' Meeting)</p> <p><b>CEO/GM</b> = gross remuneration of € 920,000 p.a. (in addition to gross fees of € 60,000 p.a. set by the Shareholders' Meeting)</p> <p><b>ESR AND OTHER MANAGERIAL RESOURCES</b> = remuneration set in relation to the responsibility of the person concerned and the target positioning on the market</p>
<b>SHORT-TERM VARIABLE REMUNERATION (FINMECCANICA GROUP MBO SYSTEM)</b>	<p>It is an incentive to achieve the annual objectives set in the Company's budget</p> <p>The participation in the MBO System extends to all the managerial population of the Group (Managers and Executives)</p> <p>Financial and role-specific objectives are set in relation to the responsibility in the Company's organisation</p> <p>The achievement of budget targets is the minimum threshold for incentive payments (lower performance equals zero performance and, accordingly, zero incentives)</p> <p>A maximum payout cap is applied to all the participants in the MBO system, to an extent that varies from 20% to 90% of fixed remuneration, in relation to the responsibility in the Company's organisation</p> <p>A performance gate is introduced which is linked to the business' overall profitability ratios</p> <p><b>CLAW-BACK</b>                      A claw-back clause will be provided for all the variable incentives assigned starting from FY 2014; under such clause the Company will be entitled to request repayment of the variable remuneration paid out vis-à-vis such incentives in the event that the payout was awarded on the basis of data which is afterwards proved to be incorrect or misstated</p>	<p><b>CEO/GM OBJECTIVES</b>                      THRESHOLDS: two strategic objectives set by the Board of Directors (deconsolidation of the Railway Transport sector and definition of the new Group Organizational and Operating model for A,&amp;D,S); their achievement allows access to the MBO incentive, which is structured as follows</p> <ol style="list-style-type: none"> <li>1) Group EBITA (weight 35%)</li> <li>2) Group FOCF (weight 35%)</li> <li>3) Group G&amp;As expenditure (weight 30%)</li> </ol> <p><b>ESR' S OBJECTIVES</b></p> <ol style="list-style-type: none"> <li>1) Group EBITA (weight 25%)</li> <li>2) Group FOCF (weight 25%)</li> <li>3) Group Working Capital (weight 25%)</li> <li>4) Quantitative and qualitative objectives correlated to specific business areas (weight 25%)</li> </ol> <p><b>OTHER MANAGERIAL RESOURCES' OBJECTIVES</b>                      These are assigned in relation to the person's responsibility in the organisation among the following objectives:</p> <ol style="list-style-type: none"> <li>1) Group and Operating Company's EBITA</li> <li>2) Group and Operating Company's FOCF</li> <li>3) % ratio between Turnover and Revenues per Operating Company</li> <li>4) Working Capital per Operating Company</li> <li>5) Group and Operating Company's G&amp;As expenditure</li> <li>6) Improvement-efficiency plans</li> <li>7) Quantitative and qualitative objectives correlated to specific business areas</li> <li>8) "GEAR" managerial objective for the evaluation of leadership and of managerial behaviours in achieving results</li> </ol> <p><b>CORRECTION FACTOR</b>                      The MBO system envisages a correction factor of <math>\pm 10\%</math> of the final payout associated with the EVA (<i>Economic Value Added</i>) ratio budget objective</p>	<p><b>CEO/GM'S PAYOUT</b>                      failure to achieve the PAYOUT THRESHOLDS: no payout                      BELOW BUDGET: no payout                      BUDGET: 43% base pay (€ 396,000)                      AVERAGE: 57% base pay (€ 528,000)                      MAX: 72% base pay (€ 660,000)                      ABOVE MAX: no additional payout</p> <p><b>ESR' AND OTHER MANAGERIAL RESOURCES' PAYOUT</b>                      "CAP" on the maximum payout included between 20% and 90% of the base pay in relation to the responsibility of the person concerned</p> <p><b>PERFORMANCE CURVE</b>                      BELOW BUDGET: no payout                      BUDGET: 60% of maximum payout                      AVERAGE: 80% of maximum payout                      MAX: 100% of maximum payout                      ABOVE MAX: no additional payout                      Payouts payable for performance results between the set maximum and medium budget targets will be calculated under the linear interpolation method (see page 18 of this Report)</p>

## SCHEMA DI SINTESI

(ESR = Executives with Strategic Responsibilities)

2014 REMUNERATION POLICY			
COMPONENT	PURPOSES AND BASIC FEATURES	DETERMINATION CRITERIA AND PERFORMANCE CONDITIONS	AMOUNTS AND PAYOUT (ON AN ANNUAL BASIS)
<b>MEDIUM/LONG-TERM VARIABLE REMUNERATION: PERFORMANCE CASH PLAN 2012-2014 (CASH PLAN)</b>	<p>It leads management services towards medium/long-term business profitability through the achievement of exclusively financial objectives specifically related to the creation of value for the Group and the individual Operating Companies</p> <p>Participation extends to key resources filling leading roles in the Company and resources with very high management potential</p> <p>Closed-cycle plan for the three-year period 2012-2014.</p> <p>The plan objectives are assigned at inception for the subsequent three-year period and may not be modified throughout the entire term of the plan</p>	<p><b>OBJECTIVES</b></p> <p>1) Orders consistent with the related budget margin (weight 60%)</p> <p>2) Funds from Operations - FFO (weight 40%)</p> <p>Vesting period: over 3 years</p>	<p><b>CEO/GM'S PAYOUT</b> 33.5% base pay (€ 310,000)</p> <p><b>ESR' AND OTHER MANAGERIAL RESOURCES' PAYOUT</b> Payout between 30% and 40% of fixed remuneration, in relation to the responsibility of the person concerned</p> <p><b>PERFORMANCE CURVE</b> BELOW BUDGET: no payout BUDGET: 100% incentive ABOVE BUDGET: no additional payout (on-off objectives)</p>
<b>MEDIUM/LONG-TERM VARIABLE REMUNERATION: LONG TERM INCENTIVE PLAN (CASH PLAN)</b>	<p>It leads management services towards the creation of sustainable value for the Group and the Shareholders in the medium/long-term</p> <p>Participation is limited only to those executive resources who fill strategic roles in the organisation</p> <p>A rolling plan applies which envisages a new 3-year cycle in each Financial Year</p> <p>The plan objectives are assigned at inception for the subsequent three-year period and may not be modified throughout the entire term of the plan</p> <p><b>CLAW-BACK</b> A claw-back clause will be provided for all the variable incentives assigned starting from the FY 2014; under such clause the Company will be entitled to request repayment of the variable remuneration paid out vis-à-vis such incentives in the event that the payout was awarded on the basis of data which is afterwards proved to be incorrect or misstated</p>	<p><b>OBJECTIVES</b></p> <p><b>THRESHOLD:</b> Group Net Profit</p> <p>1) Group Net Financial Debt (weight 50%)</p> <p>2) Increase in value of the Finmeccanica stock against a set target (weight 50%)</p> <p>Vesting period: over 3 years</p>	<p><b>CEO/GM'S PAYOUT</b> 33.5% base pay (€ 310,000)</p> <p><b>ESR' AND OTHER MANAGERIAL RESOURCES' PAYOUT</b> Maximum payout of 30%, 50% and 20%, respectively, of fixed remuneration in the three-year term of each plan cycle, and in any case in proportion to the responsibility</p> <p><b>PERFORMANCE CURVE</b> BELOW BUDGET: no payout BUDGET: 100% incentive ABOVE BUDGET: no additional payout (on-off objectives)</p>
<b>BENEFITS</b>	<p>Benefits are granted consistently with the total reward policies applied at the Finmeccanica Group level, primarily focused on ensuring that resources are covered by welfare and social security schemes</p>	<p>Benefits are defined in accordance with provisions of law, collective bargaining agreements and any other applicable union agreements</p>	<p>The benefits that can be assigned include:</p> <ul style="list-style-type: none"> <li>- FNM Group Pension Scheme</li> <li>- FNM Group Health Insurance Fund</li> <li>- Insurance Covers</li> <li>- Company Car</li> <li>- Accommodation</li> </ul>
<b>PAY IN THE EVENT OF EARLY TERMINATION OF OFFICE OR EMPLOYMENT</b>	<p>Retention purposes connected with the role in line with long-term strategies, values and interests set by the Board of Directors</p>	<p>They are set in relation to added value with respect to business development and maintenance, as well as to the extension of non-competition obligations (if any)</p>	<p><b>CHAIRMAN</b> No pay</p> <p><b>CEO/GM</b></p> <ul style="list-style-type: none"> <li>• Termination of office of CEO = no pay as a result of the express waiver by the CEO/GM</li> <li>• Termination of employment contract = 2 years pay + allowances as provided for by the National Collective Bargaining Agreement</li> </ul> <p><b>ESR</b> Allowances under the National Collective Bargaining Agreement, plus any pay defined on an individual basis - within the limit of a maximum of 2 years pay</p>





## SECTION I

### 1. PROCEDURES FOR THE ADOPTION AND IMPLEMENTATION OF THE REMUNERATION POLICY

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With regard to the governance of the remuneration systems, the following is a more detailed description of the related management activities and the respective responsibilities, divided according to the role played by each body involved in the formulation and approval of the remuneration policy regarding the members of the Company's administrative bodies, the General Managers and any other Executives with Strategic Responsibilities.

#### A) SHAREHOLDERS' MEETING

On remuneration matters, the Shareholders' Meeting:

- determines the fees payable to the members of the Board of Directors and of the Board of Statutory Auditors;
- resolves on any remuneration plans based on financial instruments assigned to Directors, employees, consultants or any other Executives with Strategic Responsibilities, pursuant to Article 114-*bis* of the TUF.

#### B) BOARD OF DIRECTORS

- has set up an internal Remuneration Committee, the composition and functions of which are fully described in section C) below;
- delegates to the Remuneration Committee the task of determining the remuneration of those Directors with mandates granted by the Company and of any other Directors vested with specific functions following the opinion of the Board of Statutory Auditors;
- defines the Company's policy in relation to the remuneration of Directors and Executives with Strategic Responsibilities, in compliance with the legal provisions in force and with the Corporate Governance Code for Listed Companies;
- approves this Remuneration Report and submits it to the Shareholders' Meeting pursuant to, and within the limits set out in, Article 123-*ter*, paragraph 6, of the TUF;
- draws up, upon proposal from the Remuneration Committee, potential incentive plans based on the allotment of shares or other financial instruments, and submits said plans to the Shareholders' Meeting for its approval;
- implements the aforesaid incentive plans based on shares or other financial instruments,

with the support of the Remuneration Committee, in accordance with the authorization of the Shareholders' Meeting.

### **C) REMUNERATION COMMITTEE**

The Board of Directors has set up its own internal Remuneration Committee, composed of the following members:

*Dario Galli* CHAIRMAN ( INDEPENDENT DIRECTOR)

*Dario Frigerio* (INDEPENDENT DIRECTOR)

*Silvia Merlo* (INDEPENDENT DIRECTOR)

*Francesco Parlato*

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The Committee is composed of non-executive Directors, the majority of whom, including the Chairman, are "independent".

The Committee performs the functions and duties specified below:

- to submit proposals to the Board of Directors concerning the definition of the Company's remuneration policy of Directors and Executives with Strategic Responsibilities, in compliance with the legal provisions in force and with the Corporate Governance Code for Listed Companies;
- to determine, by virtue of the powers expressly delegated by the Board of Directors and in the implementation of the remuneration policy established by the same:
  - the remuneration and regulatory treatment of Directors with delegated powers and of any other Directors vested with specific functions (following the opinion of the Board of Statutory Auditors, when required by Article 2389 of the Italian Civil Code);
  - the performance targets related to the variable element of the remuneration of Directors with delegated powers and of any other Directors vested with specific functions, monitoring the implementation of the decisions adopted and verifying, in particular, the actual achievement of performance targets;
- to support the Company in defining the best policies for the management of the Group executives as well as the development plans and systems for the Group's key personnel;
- to draw up compensation plans based on the allotment of shares or of options for the purchase of the Company's shares in favour of Directors and Executives of the Company and of the Group companies, to be submitted to the Board for its approval and then to the Shareholders' Meeting for its approval pursuant to the legal provisions, while also defining the implementing provisions;
- to periodically evaluate the adequacy, overall consistency and actual implementation of the policy for the remuneration of Directors and Executives with Strategic Responsibilities.

The Committee reports to the Board of Directors, at least on a six-monthly basis, about the activity carried out, as well as to the annual Shareholders' Meeting about the performance of its functions on remuneration issues.

The Committee's operations are governed by special Regulations, which acknowledge the principles and implementation criteria recommended by the Corporate Governance Code.

Since its initial set up in December 2000, the Remuneration Committee has provided support to the Company's Top Management with regard to certain key issues pertaining to the strategic management of the Group's human resources, as well as to its remuneration and retention policy.

To this end, incentive schemes were defined, aimed at achieving results and targets relating to the growth of the Group's share and value.

Furthermore, in line with the strategic aim of expanding and consolidating the managerial development process, the Committee lent its support to the development of a qualified, structured and regular process of management appraisal <sup>1</sup>, also in order to select the beneficiaries of any long-term incentive schemes through an objective and unbiased process.

With specific reference to the remuneration policy outlined in this Report, the Remuneration Committee has defined the principles and practical methodology of application of the policy and has submitted it to the Board of Directors, which, having examined and approved the policy, then submits it to the Shareholders' Meeting for a non-binding resolution, pursuant to Article 123-ter, paragraph 6, of the TUF.

The policy proposed by the Remuneration Committee was approved by the Board of Directors at its meeting held on 19 March 2014.

#### **D) BOARD OF STATUTORY AUDITORS**

On remuneration matters, the Board of Statutory Auditors, which regularly participates in the Remuneration Committee's meetings through the Chairman or a regular Auditor specified by the same, expresses the opinions required by the regulations in force, with particular reference to the remuneration of those Directors vested with specific functions pursuant to Article 2389 of the Italian Civil Code, and it also verifies that said remuneration is in line with the general policy adopted by the Company.

#### **E) INDEPENDENT EXPERTS**

Within the activities carried out in 2013 in support of the Remuneration Committee, the Group Human Resources Organisational Unit made use of specific benchmarks provided by HayGroup in the capacity as external independent experts.

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**1.** The Management Appraisal process, which was started in 2002 and has been enhanced over the last ten years (Finmeccanica Elite Management System), provides a fundamental opportunity for analyzing, sharing and verifying the Company's policies and initiatives in the field of Human Resources, as well as the opportunity of choice for Finmeccanica to acquire any and all information and assessments needed to start processes of meritocratic and sustainable management of the Group's human capital, with particular regard to the executive population and the succession plans.

## **2. AIMS AND PRINCIPLES OF THE REMUNERATION POLICY**

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The Remuneration Policy sets out the principles and guidelines to determine the remuneration of the members of the Board of Directors, as well as the specific criteria through which the remuneration of the Group's management is established, with specific reference to the executive population.

The policy is designed to attract and motivate human resources capable of carrying out their assigned duties and tasks to an excellent level, guaranteeing an appropriate balance between the variable element of remuneration (if any) and the fixed element, as well as a balance between short-term and medium/long-term incentives, in order to ensure the sustainability of the policy itself in the long term.

At the same time, the policy is designed to effectively align the remuneration and incentive system with the pursuit of the Company's long-term interests, by ensuring that the variable element of remuneration is connected to actual results, through the introduction of not only a direct link between performance and remuneration but also by paying particular attention to the objectivity and measurability of the performance conditions which the remuneration is subject to, and to the indicators used to measure the remuneration, without prejudice to the existence of an upper limit on incentives.

The Company implements the remuneration policy taking into account the specific needs of the business of the different sectors which the Company is active in.

### **REFERENCE TO THE REMUNERATION POLICIES OF OTHER COMPANIES**

The remuneration policy, as defined in relation to the specific needs of the Company and of the Group, is determined following a thorough analysis of the remuneration systems and best practices both at national and international level, also in relation to aggregate external benchmarks.

The remuneration policy of Executive Directors and of any other Executives with Strategic Responsibilities<sup>2</sup> has been formulated according to the principles that are described below.

### **FIXED REMUNERATION AND NON-CASH BENEFITS**

The fixed element of remuneration is such that it adequately remunerates the services provided by the members of the Company's Administrative Bodies and by the Executives with Strategic Responsibilities and is proportioned to the assigned duties and responsibilities.

For those Directors not entrusted with specific duties, the remuneration consists exclusively of a fixed element, to be determined by the Shareholders' Meeting, and it is in no way linked to the achievement of performance targets.

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2. Pursuant to the "Procedure for Related Parties Transactions", which was approved by the Board of Directors on 26 November 2010 and subsequently updated on 13 December 2011 and on 19 December 2013, the concept of "Executive with Strategic Responsibilities" of Finmeccanica includes the members of the Board of Directors, the Regular Statutory Auditors and any persons who hold the position of General Manager of the Company and the Officer in charge of the Company's financial reporting, pursuant to article 154-bis of the Consolidated Law.

For Executive Directors and Executives with Strategic Responsibilities, the remuneration is composed of a fixed element and a variable element.

In principle, the fixed element of remuneration is set at a level that sufficiently compensate the performance of the Director or Executives with Strategic Responsibilities in the event that the variable element is not paid out, due to the failure to achieve the underlying performance targets.

In any case, the fixed element of remuneration is determined by taking into account the scope and nature of the specific powers assigned to the individuals, also on the basis of external benchmarks, at national and international level.

Within the fixed elements of remuneration, non-cash benefits are provided for, also for Executive Directors and Executives with Strategic Responsibilities, in line with the Company's policies for the Top Management, guaranteeing equitable treatment in relation to internal practices, and, at the same time, adequate levels of competitiveness against the market. Such rewards and benefits may include insurance provisions, welfare or pension benefits, and other forms of company benefits.

#### **VARIABLE REMUNERATION**

Similarly, the variable element of remuneration, provided for Executive Directors and Executives with Strategic Responsibilities, is determined by taking into account the scope and nature of the specific powers assigned to the individuals, as well as in relation to external benchmarks that are defined also on the basis of the practices in place at comparable companies at national and international level.

Specifically, in order to reduce any excessively risky forms of behaviour and to encourage behaviours leading to sustainable results and the creation of value for shareholders in the medium/long term, the variable part of remuneration is composed of a short-term element (typically an annual incentive) and a medium/long-term element granted through cash incentive plans set up for the Finmeccanica Group's management.

It is the Company's policy not to award discretionary bonuses to Directors, as their incentives are provided through the aforementioned instruments. Such bonuses may be awarded to Directors by the Board of Directors, upon proposal from the Remuneration Committee - and to Executives with Strategic Responsibilities by the Top Management, with the support of the Group Human Resources Organisational Unit-, only in exceptional cases of operations of particular strategic importance to the Group having a significant impact on the Company's results.

Finally, the variable remuneration systems provide for "self-funding" mechanisms designed to ensure that all costs associated with the incentive plans – be they short or medium/long-term – are included in the profitability criteria conditioning the awarding of incentives.

In line with best practices, the variable incentive plans effectively translate into "profit-sharing" instruments which guarantee control mechanisms designed to ensure that the costs of the plans themselves do not negatively impact the planned economic results; profit-sharing effecti-

vely representing one of the many aspects of the alignment of interests of both the Top Management and the Shareholders.

#### **PAY IN THE EVENT OF EARLY TERMINATION OF OFFICE AND NON-COMPETITION AGREEMENT**

As a rule, the Company does not stipulate agreements covering, ex ante, the financial aspects of early termination of the management's employment with the Company, without prejudice however to the obligations provided for by law and by the applicable collective bargaining agreement. Nevertheless, for Executive Directors and Executives with Strategic Responsibilities, in light of their specific professional skills and of the importance of retention in relation to their positions, the Company may establish special clauses that govern ex ante the effects of the early termination of their office or employment, in line with the long-term strategies, values and interests established by the Board of Directors.

In particular, after careful consideration, the Company may determine, with reference to Executive Directors and Executives with Strategic Responsibilities, that they are entitled to a specific severance payments, should their office as directors be terminated in advance, or in the event of their resignation and/or dismissal as employees of the Company, without prejudice to the obligations provided for by law and by the applicable collective bargaining agreement.

Such severance pay shall be, in any case, determined in relation to the value added and to the contribution given to the growth and maintenance of the business, as well as to the associated retention interests of the Company.

The specific early termination provisions will also identify the methodology for the calculation of the variable part of remuneration due, in connection to the participation in the short and medium-long term incentive plans of the Company.

Furthermore, with regard to Executive Directors and Executives with Strategic Responsibilities and in case of individuals with particularly significant professional skills (such that termination of their employment could represent a risk for the Company), the Company reserves the right to enter, from time to time, into non-competition agreements, providing for the payment of a compensation commensurate with the duration and scope of the obligations arising from the agreement itself.

### 3. REMUNERATION POLICY

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#### DEVELOPMENT OF THE GOVERNANCE STRUCTURE

On 13 February 2013, after unforeseen circumstances of great importance occurred independently of the Company's intentions, the Board of Directors revoked the powers that had been previously granted to Mr. Giuseppe Orsi as Chief Executive Officer of Finmeccanica and granted them to the Director-General Manager Mr. Alessandro Pansa; at the same meeting, the Board also resolved to appoint the senior Director and Lead Independent Director, Admiral Guido Venturoni, as Vice-Chairman.

On 15 February 2013 Mr. Orsi resigned from the position of Director and, accordingly, from the position of Chairman of the Company.

At the meeting held on 4 July, with regard to the position of Chairman of the Board of Directors, left vacant as a result of the resignation of Mr. Orsi, the Board of Directors acknowledged the decisions taken by the Shareholders' Meeting, appointing Prefect Giovanni De Gennaro as Chairman of Finmeccanica vesting him with responsibilities in the areas of: External & Institutional Relations and Communication; Group Security and ICT; Group Internal Audit.

Furthermore, with effect from 1 January 2014, Mr. Sergio De Luca was appointed Chief Operating Officer, responsible for the supervision performed by the Parent Company over the activities of the Group's Operating Companies.

#### MEMBERS OF THE BOARD OF DIRECTORS AND OF THE BOARD OF STATUTORY AUDITORS

The remuneration of the members of the Board of Directors and of the Board of Statutory Auditors shall be determined by the Shareholders' Meeting.

The Shareholders' Meeting held on 4 May 2011 set, for the three-year period 2011-2013, the remuneration of the Chairman of the Board of Directors at € 90,000 per year before tax and that of the other members of the Board at € 60,000 per year before tax.

Furthermore, at the meeting held on 4 July 2013, the Board of Directors gave the Remuneration Committee special instructions to determine the amount of a supplementary payment to the Chairman for the responsibilities vested in him pursuant to article 2389, paragraph 3, of the Italian Civil Code.

The Chairman expressly requested for the fees to not exceed the maximum amount set for the position of First President of the Supreme Court, equal to € 301,320.29 (*"Remuneration limits article 23-ter of Decree Law no. 201 of 2011, as converted by Law no. 214 of 2011 – Prime Minister's Decree of 23 March 2012"*), even if this rule did not apply to Finmeccanica.

In light of this request and having considered that the fees of non-executive Chairmen of FTSE MIB 2013 Companies on the basis of market benchmarks were broadly higher, the Committee agreed on the determination of additional gross annual fees of € 210,000, in addition to the fees set by the Shareholders' Meeting referred to above.

No severance payments were determined for the event of early termination of the office or for the event of non-renewal of his mandate.

Finally, the Chairman benefits from insurance and welfare policies.

In line with best practices, the remuneration awarded to those Directors who are not entrusted with specific duties is not linked in any way to the achievement of specific performance targets, and thus consists of a fixed element only, rather than of a variable element as well.

The remuneration for the Lead Independent Director was set at € 7,500 per year before tax.

The Shareholders' Meeting held on 16 May 2012 set, for the three-year period 2012-2014, the remuneration of the Chairman of the Board of Statutory Auditors at € 78,000 per year before tax and that of the other regular Auditors at € 52,000 per year before tax.

The Company's Board of Directors, with its resolution of 26 May 2011, set the following levels of remuneration for the members of the Committees set up within the Board itself:

- € 2,500 per year before tax for each member and € 7,500 per year before tax for the Chairman of the Committee;
- € 2,000 attendance fee, payable on the occasion of each Committee meeting.

## **CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER**

### **1) OVERALL REMUNERATION STRUCTURE AND PAY-MIX**

Following the developments in the governance structure referred to above, in February 2013 the delegated powers as Chief Executive Officer were granted to the Director-General Manager Mr. Alessandro Pansa.

Even after being assigned these powers, Mr. Pansa expressly requested for no additional fees to be awarded to him in relation to the new responsibilities and, in light of this request, the Committee decided not to review his remuneration, without this affecting the terms and conditions of his employment agreement as an Executive, as regulated by the applicable legislation and the National Collective Agreement for industrial companies' Executives.

The delegation on Mr. Pansa of both the powers of Chief Executive Officer and those of General Manager has also resulted in a further substantial reduction in costs.

On 25 September 2013 the Remuneration Committee decided to carry out an objective assessment of the adequacy of the fees due to Mr. Pansa with respect to the said responsibilities, even if he confirmed, also on that occasion, that he was not requesting to have his pay reviewed. Therefore, the Committee asked the competent Company's units to carry out an analysis in that regard, also through external independent experts.

To this end, the Group Human Resources Organisational Unit asked consulting firm HayGroup for a benchmark to support the Committee's assessment. Taking as reference the pay of the CEOs of companies comparable to the Finmeccanica Group at Italian level<sup>3</sup> and at international level<sup>4</sup>

.....  
3. 11 Groups belonging to the FTSE MIB 40 index in Italy.

4. 15 international listed companies operating in the sectors: Defence, Industrial Engineering, Technology Hardware and Equipment.



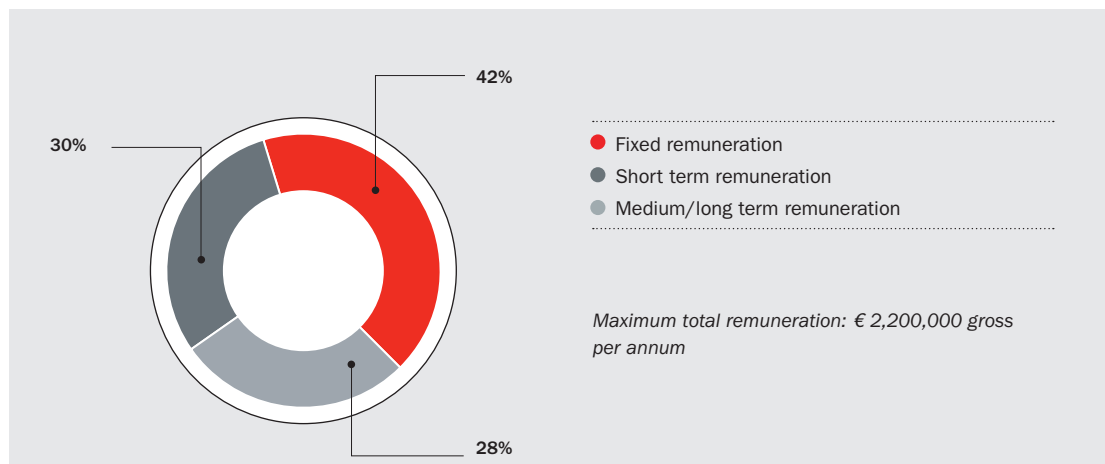
in terms of capitalisation, sales, revenue and workforce (including Enel, Eni, Fiat, Saipem and Telecom Italia for the national panel and EADS, Alcatel-Lucent, Thales, Safran, BAE for the international panel), the benchmark showed that the fixed and variable components of Mr. Pansa's pay was positioned on the lowest quartile of the market with the Italian panel as reference and below the lowest quartile of the market with the international panel as reference.

Also considering that Mr. Pansa's salary had not been reviewed since 2007, in spite of the steadily increasing responsibilities that he had taken on in the organisation, a simulation was carried out of the adjustment of his salary on the basis of the increase in the ISTAT consumer price index (NIC - consumer price index for the whole nation), on a pro rata temporis basis for the period after 2007.

In light of the above calculations and in coherence with the Majority Shareholder's pay restraint recommendation, the Committee decided to keep the maximum overall remuneration unchanged and determined the pay mix as follows:

- FIXED REMUNERATION: 42% of the overall maximum remuneration attainable;
- VARIABLE REMUNERATION: 58% of the overall maximum remuneration attainable (divided into 30% short-term incentive and 28% medium/long-term incentive)

#### PAY-MIX



Therefore, Mr. Pansa's pay with effect from 1 October 2013 is as follows:

- FIXED REMUNERATION = gross annual salary of € 920,000;
- MAXIMUM VARIABLE REMUNERATION = gross annual potential pay of € 1,280,000 (of which € 660,000 as short-term maximum variable payout per annum and € 620,000 as medium/long-term maximum variable payout per annum).

#### 2) SHORT-TERM VARIABLE REMUNERATION

The short-term variable remuneration is equal to gross annual maximum overall fees of € 660,000.00 (equal to 71.7% of fixed remuneration) and is subject to performance conditions substantially in line with that of the previous financial year, specifically:

### **THRESHOLDS**

The Company confirmed the introduction of two thresholds to the incentive system connected to strategic objectives set by the Board of Directors.

For financial year 2014, these thresholds consist in the two objectives below:

- deconsolidation of the Railway Transport sector;
- definition of the Implementation Plan of the New Group Organisational and Operating Model.

Failure to achieve even just one of the two thresholds above will entail the zeroing of the whole short-term variable payout.

### **PERFORMANCE TARGETS**

In consideration of the objectives relating to the Group's growth sustainability, to the achievement of competitive costs and margins, and to the achievement of the levels of Operating Profit and Free Operating Cash Flow determined in the Company's budget-plan, the short-term incentive system is based on the achievement of performance targets connected to financial indicators in line with the set strategic targets.

For 2014, the following performance indicators were confirmed:

- Group EBITA - potential payout of 35% of the maximum payout;
- Group Free Operating Cash Flow - potential payout of 35% of the maximum payout;
- Group G&As expenditure - potential payout of 30% of the maximum payout.

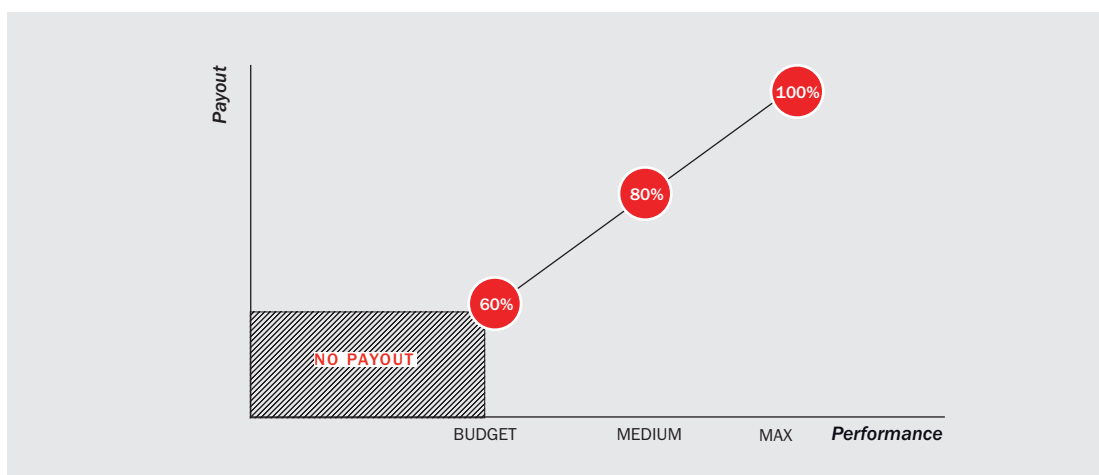
### **PERFORMANCE CURVE**

The achievement of the budget targets is the minimum threshold for incentive payments (lower performance equals zero performance and, accordingly, zero incentive).

The achievement of budget targets identified in the budget-plan for each indicator will trigger the payment of 60% of the incentive associated with each target.

The remaining part of the incentive will be payable exclusively in case of overperformance with respect to the targets set in the budget-plan, up to a maximum cap above which no other payments can be made.

*Performance* results falling within the set targets at budget, medium and max level will result in payments based on the performance curve reported below under the linear interpolation method.



The actual performance intervals in percentages between the budget, medium and max levels vary in relation to the nature of each objective, in accordance with the budget targets reported in the Guidance published by the Company and the overperformance parameters envisaged in the budget-plan of the Company.

#### **CLAW-BACK CLAUSES**

A claw-back clause will be provided for all the variable incentives assigned starting from the year 2014; under such clause the Company will be entitled to request repayment of the variable remuneration paid out vis-à-vis such incentives in the event that the payout was awarded on the basis of data which afterwards proved to be incorrect or misstated.

#### **3) MEDIUM/LONG-TERM VARIABLE REMUNERATION**

The part of variable remuneration connected to medium/long-term objectives comes from the participation of the Chief Executive Officer and General Manager in the Finmeccanica Group medium/long-term cash incentive plans, namely the “Performance Cash Plan” and the “Long Term Incentive Plan”, up to an annual overall maximum gross amount of € 620,000 (equal to 67.4% of fixed remuneration).

A claw-back clause will be provided for all the variable incentives assigned starting from the year 2014; under such clause the Company will be entitled to request repayment of the variable remuneration paid out vis-à-vis such incentives in the event that the pay-out was awarded on the basis of data which afterwards proved to be incorrect or misstated.

Participation in the “**Performance Cash Plan**” will enable the Chief Executive Officer and General Manager to earn a total maximum gross annual bonus of € 310,000 (equal to 33.7% of the fixed annual salary).

The incentive is of a monetary nature and its payment is subject to the achievement of the specific performance conditions provided for in the plan’s Regulations:

- “Orders” in accordance with the related margins (60% of the total incentive)
- “Funds from Operations” (40% of the total incentive)

Payouts are only paid if objectives are achieved in full. Any performance lower than the budget targets is considered zero and higher performance does not give rise to higher payments (on-off objectives).

Subsequent to the end of each financial year, following approval of the consolidated accounts by the Board of Directors, the Remuneration Committee shall review the achievement of performance targets and calculate the cash sum due.

The payout is subject to a vesting period over 3 years and, following the aforesaid review, the amount due shall be paid in the month of December of the year subsequent to each financial year within the duration period of the plan.

For further details, see the 2013 Remuneration Report (Section I, point 2, page 11).

Participation in the “**Long Term Incentive Plan**” will enable the Chief Executive Officer and General Manager to earn a total maximum gross annual bonus of € 310,000 (equal to 33.7% of fixed annual salary), which is structured, for financial year 2014, into the 3 cycles of the 2012-2014, 2013-2015 and 2014-2016 rolling plans.

The incentive is of a monetary nature and its payment is subject to the achievement of the specific performance conditions provided for in the Plan’s Regulations:

- Thresholds: “Group Net Profit (Loss)”
- “Group Net Financial Debt” (50% of the total incentive)
- “Appreciation of the Finmeccanica share on the stock market with respect to a predetermined target” (50% of the total incentive)

Payouts are only paid if objectives are achieved in full. Any performance lower than the budget targets is considered zero and higher performance does not give rise to higher payments (on-off objectives).

Subsequent to the end of each financial year, following approval of the consolidated accounts by the Board of Directors, the Remuneration Committee shall review the achievement of performance targets and calculate the cash sum due.

The payout is subject to vesting period over 3 years and, following the aforesaid review, the amount due shall be paid in the year subsequent to each financial year within the duration period of the plan.

For further details, see the 2013 Remuneration Report (Section I, point 2, page 12).

#### **4) PAY IN THE EVENT OF TERMINATION OF OFFICE OR EMPLOYMENT**

With reference to the position of Chief Executive Officer, Mr. Pansa has expressly waived the applicability of any severance payment, both in the event of the early termination of his office and in the event of the non-renewal of the mandate itself.

With reference to the employment contract of Mr. Pansa as a Company executive, it has been agreed, also in accordance with the provisions under the national collective bargaining agreement, that he will be paid - as an indemnity and compensation payment - a sum equal to 2 years

of his total remuneration, in addition to the amount which he is entitled to as a payment in lieu of notice, in accordance with the national collective bargaining agreement (equal to one annual instalment), in the cases of early and unjustified termination of employment (early termination by the Company, except termination for cause, and/or in the event that Mr. Pansa resigns upon written request by the Company, or in the event of resignation for cause).

These amounts will be calculated, as regards the fixed element, on the basis of the annual pre-tax remuneration effectively received at the time of termination of employment, while the variable element thereof shall be calculated on the basis of the average variable incentives received over the course of the previous three years.

## 5) BENEFITS

Mr. Pansa benefits from the mandatory forms of insurance cover, in compliance with the provisions of law, of the national collective bargaining agreement and of the union agreements that apply to his employment as an executive of the Company, as well as any other benefits envisaged for top management positions in line with the Company's practices (accommodation, company car etc.).

In line with the provisions applicable to all Executives within Finmeccanica, Mr. Pansa also benefits from the pension provisions guaranteed by the Finmeccanica Group's Executives Pension Fund – Supplementary Pension Scheme, as a replacement of the pension provisions of the applicable national collective bargaining agreement.

## EXECUTIVES WITH STRATEGIC RESPONSIBILITIES AND OTHER MANAGERIAL RESOURCES

### 1) OVERALL REMUNERATION STRUCTURE AND PAY-MIX

The fixed remuneration of Executives with Strategic Responsibilities and other managerial resources is proportionate to the role and responsibilities assigned to them, also considering the market positioning with respect to comparable Italian and international companies, as well as in relation to individual benchmarks for positions with similar levels of responsibility and managerial complexity.

The pay-mix of fixed and variable remuneration components is consistent with the position assigned to the person concerned: the weight of the variable component increases for positions that have greater impact on the Company's results.

The current average pay-mix is defined as follows:

	TOTAL	FIXED COMPONENT	VARIABLE COMPONENT	OF WHICH SHORT-TERM
EXECUTIVES WITH STRATEGIC RESPONSIBILITIES AND OTHER TOP MANAGERS	100%	30% - 45%	70% - 55%	about 40%
KEY EXECUTIVES AND TALENTS	100%	45% - 60%	55% - 40%	about 60%
OTHER EXECUTIVES	100%	60% - 85%	40% - 15%	100%

## 2) SHORT-TERM VARIABLE REMUNERATION

Executives with Strategic Responsibilities participate in Finmeccanica's short-term incentive system, the MBO (Management by Objectives) System, which applies to the Group's entire managerial population.

A key aspect of short-term incentives is the **modulation of performance targets** depending on the participants' role and organisational responsibility.

The objectives that are set are selected from the following:

- Group and Operating Company's EBITA
- Group and Operating Company's FOCF
- % Ratio between Turnover and Revenues per Operating Company
- Group and Operating Company's Working Capital
- Group and Operating Company's G&As expenditure
- Efficiency-improvement plans
- Quantitative and qualitative objectives correlated to specific business areas
- "GEAR" managerial objective for the evaluation of leadership and of managerial behaviours in achieving results.

The general structure of the short-term incentive system is still in line with that described in the Remuneration Report that was prepared at the time of the Shareholders' Meeting in financial year 2013, which should be referred to for further details (Section I, point 2, page 11) and that is summarised in the main points stated below:

- 1) A maximum incentive cap is applied to all participants in an amount varying from 20% to 90% of fixed remuneration according to the person's responsibility in the organisation as assessed in the managerial roles grading system through the HayGroup method;
- 2) The maximum incentive cap for the Executives with Strategic Responsibilities is between 70% and 90% of fixed remuneration depending on the person's responsibility in the organisation;
- 3) The achievement of the budget targets is the minimum threshold for incentive payments (lower performance equals zero performance and, accordingly, zero incentives) and the performance curve reported in paragraph 2, page 18 above applies;
- 4) The incentive is subject to overall business profitability ratios ("performance gate"), the failure to achieve which entails the zeroing of the entire bonus linked to financial/management objectives;
- 5) The MBO system envisages a correction factor of  $\pm 10\%$  of the final payout associated with the EVA (Economic Value Added) ratio budget target;
- 6) The variable remuneration systems provide for "self-funding" mechanisms designed to ensure that all costs associated with the incentive plans are included in the profitability criteria conditioning the awarding of incentives;

7) A claw-back clause will be provided for all the variable incentives assigned starting from the year 2014; under such clause the Company will be entitled to request repayment of the variable remuneration paid out vis-à-vis such incentives in the event that the pay-out was awarded on the basis of data which afterwards proved to be incorrect or misstated.

### **3) MEDIUM/LONG-TERM VARIABLE REMUNERATION**

Executives with Strategic Responsibilities and other Managerial Resources, selected on the basis of the responsibilities assigned to them and their growth potential, participate in the cash incentive plans of the Finmeccanica Group named “Performance Cash Plan” and “Long Term Incentive Plan”.

The maximum annual incentive to which Executives with Strategic Responsibilities and other managerial resources are entitled in connection with their participation in the “Performance Cash Plan” is between 30% and 40% of fixed remuneration, in relation to the responsibilities assigned to them.

The maximum annual incentive to which Executives with Strategic Responsibilities and other managerial resources are entitled in connection with their participation in the “Long Term Incentive Plan” is within 30%, 50% and 20% of fixed remuneration respectively in the three years of the duration of each cycle of the plan, and is proportionate to the responsibilities assigned to them.

A claw-back clause will be provided for all the variable incentives assigned starting from the year 2014; under such clause the Company will be entitled to request repayment of the variable remuneration paid out vis-à-vis such incentives in the event that the pay-out was awarded on the basis of data which afterwards proved to be incorrect or misstated.

For a description of the performance ratios and of the operation mechanisms of the plans, see paragraph 3 above, pages 19 and 20.

For further details, see the 2013 Remuneration Report (Section I, point 2, page11-12).

### **4) PAY IN THE EVENT OF TERMINATION OF OFFICE OR EMPLOYMENT AND NON-COMPETITION AGREEMENT**

In the event of termination of their employment contracts, Executives with Strategic Responsibilities are entitled to severance benefits as determined in the applicable national collective bargaining agreement and to supplementary benefits (if any) defined on an individual basis, to a maximum extent of two years pay, in addition to any amounts due under the national collective bargaining agreement.

Furthermore, specific fees may be envisaged with reference to non-competition agreements in the event of these agreements being entered into at the time of the termination of employment, to a maximum extent of one year pay.

## **5) BENEFITS**

Executives with Strategic Responsibilities benefit from mandatory insurance covers in compliance with the law, with the National collective bargaining agreement and the trade union agreements applicable to their executive employment contract with the Company, as well as any other benefits envisaged for top management positions in line with the Company's practices (accommodation, company car, etc.).

In line with the arrangements applicable to all Executives of Finmeccanica, Executives with Strategic Responsibilities are eligible to participate in the Company Executives Pension Fund - Supplementary Pension Scheme of the Finmeccanica Group, in lieu of the social security schemes prescribed in the National collective bargaining agreement applicable to industrial companies' Executives.

## **DEFERRED REMUNERATION SCHEMES**

Within its incentive schemes, the Company has not made any provisions for deferred payment systems.

## **INCENTIVE PLANS BASED ON FINANCIAL INSTRUMENTS**

As of the date of this Report, the Company has no incentive schemes based on financial instruments.



## **RESOLUTION PROPOSAL**

Dear Shareholders,

pursuant to Article 123-ter, paragraph 6, of Legislative Decree no. 58/98, you are invited to express your vote, in the form of a non-binding resolution, regarding the first section of the Remuneration Report as per Article 123-ter, paragraph 3, of Legislative Decree no. 58/98, published in accordance with terms and conditions required by law, illustrating the Company's policy on the remuneration of the members of its administrative bodies, of its general managers and of its executive management with strategic responsibilities, as well as the procedures adopted for the implementation of said policy.

In the light of the above, the following proposed non-binding resolution regarding the ninth item on the agenda is hereby submitted to the Ordinary Shareholders' Meeting:

“the Ordinary Shareholders' Meeting of Finmeccanica – Società per azioni

- having regard to Articles 123-ter of Legislative Decree no. 58/98 and 84-quater of CONSOB Regulation no. 11971/99;
- having acknowledged the Remuneration Report approved by the Board of Directors on 19 March 2014, drafted pursuant to Articles 123-ter of Legislative Decree no. 58/98 and 84-quater of CONSOB Resolution no. 11971/99 and in compliance with the provisions of the Corporate Governance Code of Listed Companies to which the Company adheres, as well as published within the prescribed deadline of twenty-one days before the date of the Meeting, in first call, convened for the approval of Annual Financial Statements at 31 December 2013;
- having examined, in particular, the first section of the above mentioned Report, illustrating the Company's policy on the remuneration of the members of its administrative bodies, of its general managers and of its executive management with strategic responsibilities, as well as the procedures adopted for the implementation of said policy;
- taking into consideration the non-binding nature of this resolution, pursuant to Article 123-ter, paragraph 6, of Legislative Decree no. 58/98;

### **HEREBY RESOLVES**

to vote in favour of the first section of the Remuneration Report drafted and approved by the Board of Directors pursuant to Articles 123-ter of Legislative Decree no. 58/98 and 84-quater of CONSOB Resolution no. 11971/99.”

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## **SECTION II**

This Section II is divided into two parts and reports the remuneration paid to the members of the Administrative and Supervisory Bodies and to the Executives with Strategic Responsibilities during the course of financial year 2013.

### **PART ONE**

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#### **IMPLEMENTATION OF 2013 REMUNERATION POLICIES**

Also having regard to the periodic assessment of the implementation of the remuneration policy as required by the Corporate Governance Code, the Remuneration Committee considered that the remuneration paid in 2013 was consistent with the policy adopted, and that the principles and practical application were consistent with the market benchmarks in terms of positioning and pay mix, without prejudice to the assessment already described in the previous Section I of this Report.

With reference to financial year 2013, the following elements constituted the remuneration paid to the members of the Administrative and Supervisory Bodies and to the Executives with Strategic Responsibilities.

#### **FIXED REMUNERATION**

*(Table 1)*

The members of the Board of Directors and the members of the Board of Statutory Auditors received the fixed remuneration determined by the Shareholders' Meeting. The Directors vested with specific functions also received the fixed element of their remuneration, as determined by the Company's Remuneration Committee (Table 1, "Fixed Remuneration" column).

The fixed remuneration of Mr. Pansa includes paid public holidays and travel allowances (pursuant to Article 10 of the National Collective Bargaining Agreement).

At the meeting of 25 September 2013 the Remuneration Committee decided to propose to the Board of Directors that a special one-off gross payment of € 20,000 be paid to the Vice-Chairman Admiral Guido Venturoni who actually performed the functions of Chairman for the entire period when the position was left vacant. The Board of Directors approved the proposal and gave instructions for the amount to be paid.

Directors who are members of a Committee received the fixed remuneration determined by the Company's Board of Directors, together with the sums paid as attendance fees, on the occasion of each Committee meeting (Table 1, "Remuneration for participation in Committees" column).

Executives with Strategic Responsibilities received the fixed element of their salary as set forth in their respective employment contracts (Table 1, "Fixed Remuneration" column).

## **NON-EQUITY VARIABLE REMUNERATION (BONUSES AND OTHER INCENTIVES)**

*(Table 1 and Table 3B)*

Payments reported in Table 3B relate to the short and medium/long-term incentive plans described in the Remuneration Report of the previous financial year.

### **SHORT-TERM VARIABLE REMUNERATION**

Executive Directors and Executives with Strategic Responsibilities receive a variable element of remuneration upon the achievement of specific performance targets determined in relation to the strategic targets set by the Board of Directors.

Specifically, payment of the short-term part of the variable remuneration due to Executive Directors is subject to the achievement of certain targets set by the Remuneration Committee, on the basis of the delegated powers granted to them by the Board of Directors. Such targets are objectively measurable and closely related to the targets set in the Company budget-plan and are subject to the achievement of two thresholds established consistently with the Group's key objectives.

For a description of the objectives set and the mechanisms underlying the plans, see the 2013 Remuneration Report, Section I, pages 15 and 16.

With reference to FY 2013, for the Chief Executive Officer and the General Manager the final amount was determined on the basis of a proportional calculation for the 9/12 of the maximum amount that had been previously defined and for 3/12 of the new maximum amount applicable from October 2013, in line with the decisions taken, as set forth in Section I.

Executives with Strategic Responsibilities participated in the Finmeccanica annual bonus scheme (MBO short-term incentive system) as senior Executives of the Group.

### **MEDIUM/LONG-TERM VARIABLE REMUNERATION**

The medium/long-term component of the variable remuneration of Executive Directors is subject to the achievement of the objectives assigned on the basis of their participation in the medium/long-term incentive plans approved by the Remuneration Committee and established for the management of the Finmeccanica Group.

Executives with Strategic Responsibilities also participate in the medium/long-term incentive plans approved by the Remuneration Committee and established for the management of the Finmeccanica Group and the medium/long-term component of their variable remuneration is subject to the achievement of the objectives assigned within the context of the plans.

Executive Directors and Executives with Strategic Responsibilities are entitled to receive the sums payable on the basis of their achievements with respect to the targets assigned within the "Long Term Incentive Plan" and the "Performance Cash Plan" with reference to FY 2013. These targets, which are exclusively of a financial nature, and thus objectively measurable and verifiable, are set strictly on the basis of the targets set forth in the Company budget-plan.

For a description of the objectives set and the mechanisms underlying the plans, see the 2013 Remuneration Report, Section I, pages 16 and 17.

With reference to FY 2013, the amount for the Chief Executive Officer and General Manager was determined on the basis of a proportional calculation for the 9/12 of the maximum amount that had been previously defined and for 3/12 of the new maximum amount applicable from October 2013, in line with the decisions taken, as set forth in Section I.

The amounts relating to the variable remuneration shown in Tables 1 and 3B that follow are calculated on an accrual basis and are subject to the approval of Financial Statements by the Shareholders' Meeting.

#### **NON CASH-BENEFITS AND OTHER FEES**

*(Table 1)*

Non-cash benefits of Directors vested with specific functions refer to the participation in the Finmeccanica Group Executives Pension Fund - Supplementary Company Pension Scheme, to the Supplemental Health Insurance for Executives (ASID), to the assignment of an accommodation, to the assignment of a company car for business and personal use, as well as to insurance covers.

Non-cash benefits of Executives with Strategic Responsibilities include their participation in the Finmeccanica Group Executives Pension Fund – Supplementary Company Pension Scheme, the Supplemental Health Insurance for Executives (ASID), the assignment of an accommodation, the assignment of a company car for business and personal use, insurance covers and the residual amount of a personal loan in accordance with Company practices.

#### **STOCK OPTIONS**

*(Table 2)*

As at the date of this Report, the Company has no stock option plans in place.

#### **INCENTIVE PLANS BASED ON FINANCIAL INSTRUMENTS OTHER THAN STOCK OPTIONS**

*(Table 3A)*

As at the date of this Report, the Company has no incentive plans based on financial instruments in place.

## **PART TWO**

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Part two of Section II provides an analytical summary of all the amounts paid during the course of financial year 2013, regardless of their nature or form, to those persons who held, during said year, even for a fraction of the period, the position of member of the Administrative or Supervisory bodies, General Manager or Executives with Strategic Responsibilities.

on behalf of the Board of Directors

**The Chairman**

**Giovanni De Gennaro**

**TABLE 1.** REMUNERATION PAID TO MEMBERS OF THE ADMINISTRATIVE AND SUPERVISORY BODIES, GENERAL MANAGERS AND ANY OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES.  
(amounts in thousands of euro)

LAST AND FIRST NAME(S)	POSITION HELD IN FINANCIAL YEAR 2013	TERM OF OFFICE	EXPIRY OF THE TERM OF OFFICE	FIXED REMUNERATION	REMUNERATION FOR PARTICIPATION IN COMMITTEES	NON-EQUITY VARIABLE REMUNERATION		NON-CASH BENEFITS	OTHER FEES	TOTAL	FAIR VALUE OF EQUITY PAYMENTS	TERMINATION OR SEVERANCE INDEMNITY	
						BONUSES AND OTHER INCENTIVES	PROFIT-SHARING						
Orsi Giuseppe	Chairman (a)	1.1/15.02.2013	15.02.2013	11									
	CEO (a)	1.1/13.02.2013	13.02.2013	196				(5)		207		(*)	
Pansa Alessandro	Director	1.1/31.12.2013	FY 2013	60						1.579			
	Chief Executive Officer and General Manager (b)	13.2/31.12.2013		873		535		85	26	(5)			
De Gennaro Giovanni	Chairman (c)	4.7/31.12.2013	FY 2013	45						151			
				105	(1)			1					
Baldocci Carlo	Director	1.1/11.09.2013	FY 2013	42		4				46			
Cantarella Paolo	Director	1.1/31.12.2013	FY 2013	60		32				92			
Catanzaro Giovanni	Director	1.1/31.12.2013	FY 2013	60		19				79			
Galli Dario	Director	1.1/31.12.2013	FY 2013	60		28				88			
Lo Bello Ivanhoe	Director	1.1/31.12.2013	FY 2013	60		9				69			
Merlo Silvia	Director	1.1/31.12.2013	FY 2013	60		26				86			
Parlato Francesco	Director	1.1/31.12.2013	FY 2013	60	(2)	23	(4)			83			
Streff Christian	Director	1.1/04.07.2013	FY 2013	30		5				35			
Venturoni Guido	Director	1.1/31.12.2013	FY 2013	60		34				114			
				20	(3)								
Frigerio Dario	Director	4.7/31.12.2013	FY 2013	30		3				33			
Minuto Rizzo Alessandro	Director	4.7/31.12.2013	FY 2013	30		5				35			
Bauer Riccardo Raul	Chairman Board of St. Aud.	1.1/31.12.2013	FY 2014	78						78			
Abriani Niccolò	Regular Auditor	1.1/31.12.2013	FY 2014	52						52			
Fratino Maurizio	Regular Auditor	1.1/31.12.2013	FY 2014	52					20	(6)	72		
Montaldo Silvano	Regular Auditor	1.1/31.12.2013	FY 2014	52						52			
Pinto Eugenio	Regular Auditor	1.1/31.12.2013	FY 2014	52					6	(6)	58		
Executive with Strat. Resp.		1.1/31.12.2013	FY 2013	512			485	63	28	1.088			
(I) Remuneration in the Company drawing up the financial statements				2.660		188	1.020	0	149	54	4.071	0	0
(II) Remuneration from subsidiaries and affiliates									26	26			
(III) Total				2.660		188	1.020	0	149	80	4.097	0	0

(a) Resignation from the office of Chairman from 15/02/2013, termination of office of Chief Executive Officer from 13/02/2013.

(S) Mr Orsi received non-cash benefits for a total amount of €/k 0.1.

(\*) Mr Orsi has asked to be paid an amount as indemnity and compensation (including any fees accrued until the natural expiry date of the term of office and the remuneration to be paid in consideration of a non-competition agreement), but the Company has considered that said amount is not due. A dispute is pending on the issue.

(b) Chief Executive Officer and General Manager from 13/02/2013

(c) Holding office from 04/07/2013

(1) Supplementary payment due pursuant to article 2389, paragraph 3, of the Italian Civil Code by virtue of the responsibilities vested in him.

(2) Transferred to the Ministry of Economy and Finance.

(3) Special one-off fee set by the Remuneration Committee

(4) Of which €/k 5 transferred to the Ministry of Economy and Finance.

(5) Remuneration for position held in other Group Company until 06/05/2013. It should be noted that Mr Pansa waived these fees.

(6) Refund of lump-sum expenses.

**TABLE 2. STOCK OPTIONS ALLOCATED TO THE MEMBERS OF THE ADMINISTRATIVE BODY, GENERAL MANAGERS AND ANY OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES**

LAST AND FIRST NAME	POSITION HELD IN FINANCIAL YEAR 2013	PLAN	OPTIONS HELD AT THE BEGINNING OF THE FINANCIAL YEAR			OPTIONS ALLOCATED DURING THE FINANCIAL YEAR						OPTIONS EXERCISED DURING THE FINANCIAL YEAR			OPTIONS EXPIRED DURING THE FINANCIAL YEAR	OPTIONS HELD AT THE END OF THE FINANCIAL YEAR	OPTIONS FOR THE FINANCIAL YEAR	
			NUMBER OF OPTIONS	STRIKE PRICE	POSSIBLE PERIOD OF EXERCISE (FROM/TO)	NUMBER OF OPTIONS	STRIKE PRICE	POSSIBLE PERIOD OF EXERCISE (FROM/TO)	FAIR VALUE AT THE DATE OF ALLOCATION)	DATE OF ALLOCATION	MARKET PRICE OF THE SHARES UNDERLYING ALLOCATION OF THE OPTIONS	NUMBER OF OPTIONS	STRIKE PRICE	MARKET PRICE OF THE UNDERLYING SHARES AT THE DATE OF EXERCISE	NUMBER OF OPTIONS	NUMBER OF OPTIONS	FAIR VALUE	
De Gennaro Giovanni	Chairman (1)		0			0							0			0	0	
Pansa Alessandro	Chief Executive Officer and General Manager (2)		0			0							0			0	0	
Orsi Giuseppe	Chairman and CEO (3)		0			0							0			0	0	
Executive with strategic responsibilities			0			0							0			0	0	

(1) Holding office from 04/07/2013

(2) Chief Executive Officer and General Manager from 13/02/2013

(3) Resignation from the office of Chairman from 15/02/2013, termination of office of Chief Executive Officer from 13/02/2013.

**TABLE 3A. INCENTIVE PLANS BASED ON FINANCIAL INSTRUMENTS OTHER THAN STOCK OPTIONS, FOR THE BENEFIT OF THE MEMBERS OF THE ADMINISTRATIVE BODY, GENERAL MANAGERS AND ANY OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES**

LAST AND FIRST NAME	POSITION HELD IN FINANCIAL YEAR 2013	PLAN	FINANCIAL INSTRUMENTS ALLOCATED DURING PREVIOUS FINANCIAL YEARS THAT ARE NOT VESTED DURING THE FINANCIAL YEAR		FINANCIAL INSTRUMENTS ALLOCATED DURING THE FINANCIAL YEAR					FINANCIAL INSTRUMENTS VESTED DURING THE FINANCIAL YEAR BUT NOT IMPUTED	FINANCIAL INSTRUMENTS VESTED DURING THE FINANCIAL YEAR AND IMPUTABLE		FINANCIAL INSTRUMENTS FOR THE FINANCIAL YEAR
			NUMBER AND TYPE OF FINANCIAL INSTRUMENTS	VESTING PERIOD	NUMBER AND TYPE OF FINANCIAL INSTRUMENTS	FAIR VALUE AT THE DATE OF ALLOCATION	VESTING PERIOD	DATE OF ALLOCATION	MARKET PRICE AT ALLOCATION	NUMBER AND TYPE OF FINANCIAL INSTRUMENTS	NUMBER AND TYPE OF FINANCIAL INSTRUMENTS	VALUE AT THE VESTING DATE	FAIR VALUE
De Gennaro Giovanni	Chairman (1)		0		0					0	0		
Pansa Alessandro	Chief Executive Officer - General Manager (2)		0		0					0	0		
Orsi Giuseppe	Chairman and CEO (3)		0		0					0	0		
Executive with strategic responsibilities			0		0					0	0		

(1) Holding office from 04/07/2013

(2) Chief Executive Officer and General Manager from 13/02/2013

(3) Resignation from the office of Chairman from 15/02/2013, termination of office of Chief Executive Officer from 13/02/2013.



**TABLE 3B. CASH INCENTIVE PLANS FOR THE BENEFIT OF THE MEMBERS OF THE ADMINISTRATIVE BODY, GENERAL MANAGERS AND ANY OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES**

LAST AND FIRST NAME	POSITION HELD IN FINANCIAL YEAR 2013	PLAN	ANNUAL BONUS			PREVIOUS YEARS' BONUSES			OTHER BONUSES
			PAYABLE/PAID	DEFERRED	PERIOD OF DEFERRAL	NO LONGER PAYABLE	PAYABLE/PAID	STILL DEFERRED	
Pansa Alessandro	Chief Executive Officer - General Manager (1)	MBO 2013	161.263	0	0	0	0	0	
Pansa Alessandro	Chief Executive Officer - General Manager (1)	Long Term Incentive Plan 2012-2014 resolution of 20/09/2005	0	0	0	0	0	0	
Pansa Alessandro	Chief Executive Officer - General Manager (1))	Long Term Incentive Plan 2013-2015 resolution of 20/09/2005	170.000	0	0	0	0	0	
Pansa Alessandro	Chief Executive Officer - General Manager (1)	Performance Cash Plan 2012-2014 resolution of 26/01/2012	204.000	0	0	0	0	0	
Orsi Giuseppe	Chairman and Chief Executive Officer (2)	Long Term Incentive Plan 2012-2014 resolution of 20/09/2005	0	0	0	0	0	0	
Orsi Giuseppe	Chairman and Chief Executive Officer (2)	Performance Cash Plan 2012-2014 resolution of 26/01/2012	(*)			0	0	0	
Executive with Strategic Responsibilities		MBO 2013	226.552	0	0	0	0	0	
Executive with Strategic Responsibilities		Long Term Incentive Plan 2012-2014 resolution of 20/09/2005	0	0	0	0	0	0	
Executive with Strategic Responsibilities		Long Term Incentive Plan 2013-2015 resolution of 20/09/2005	144.000	0	0	0	0	0	
Executive with Strategic Responsibilities		Performance Cash Plan 2012-2014 resolution of 26/01/2012	114.048	0	0	0	0	0	

(1) From 13/02/2013

(2) Resignation from the office of Chairman from 15/02/2013, termination of office of Chief Executive Officer from 13/02/2013.

(\*) Not payable on the basis of the Plan's Regulations. MBO 2013 and LTIP 2013-2015 not assigned.

SECTION III

The following tables show the shareholdings in the Company or in its subsidiaries, which are held by persons who held the position of member of the Governing and Supervisory Bodies, General Manager or Executive with Strategic Responsibilities in the course of the 2013 financial year, even if only for a fraction of the period in question, as well as by their respective spouses that are not legally separated and minor children. Except as otherwise specified, said shareholdings must be deemed to be held indirectly and by way of property.

SHAREHOLDINGS OF MEMBERS OF ADMINISTRATIVE AND SUPERVISORY BODIES, GENERAL MANAGERS AND ANY OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

LAST AND FIRST NAME	POSITION HELD IN THE 2013 FINANCIAL YEAR	INVESTEE COMPANY	NUMBER OF SHARES HELD AT THE END OF THE PREVIOUS FINANCIAL YEAR (2012)	NUMBER OF SHARES PURCHASED	NUMBER OF SHARES SOLD	NUMBER OF SHARES HELD AT THE END OF THE YEAR IN QUESTION (2013)
De Gennaro Giovanni	Chairman (1)	Finmeccanica	30 (2)	0	0	30 (2)
Pansa Alessandro	Chief Executive Officer and General Manager (3)	Finmeccanica	74.442	0	0	74.442
Orsi Giuseppe	Chairman and CEO (4)	Finmeccanica	77.673	0	0	77.673 (5)
Executive with Strategic Responsibilities	–	Finmeccanica	19.063	0	0	19.063

(1) Chairman from 04/07/2013

(2) Shares held by the spouse at the date of the appointment (04/07/2013)

(3) Chief Executive Officer and General Manager from 13/02/2013

(4) Resignation from the office of Chairman from 15/02/2013, termination of office of Chief Executive Officer from 13/02/2013

(5) Shares held at the date of resignation (15/02/2013)



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