

# Remuneration Report

2015



# Remuneration Report 2015

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

*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.*

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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 25 March 2015 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 governing bodies, of General Managers and all Executives with Strategic Responsibilities, also in accordance with the recommendations expressed by the Corporate Governance Code, which the Company complies with.

The initial Section of the document illustrates the remuneration policy adopted as of the 2015 financial year, setting out the criteria and guidelines that the Company has adopted in relation to the remuneration of its governing bodies' members, its General Manager and all 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 governing and control bodies, as well as to General Managers and Executives with Strategic Responsibilities, during the course of 2014.

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 Parties Transactions approved by the Board of Directors on 26 November 2010 and subsequently updated on 13 December 2011 and on 19 December 2013.

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

# SUMMARY

(ESR = Executives with Strategic Responsibilities)

## 2015 REMUNERATION POLICY

| COMPONENT  | PURPOSES AND BASIC FEATURES  | DETERMINATION CRITERIA AND PERFORMANCE CONDITIONS  | AMOUNTS AND PAYOUT   |
|--|--|--|--|
| <b>FIXED REMUNERATION</b>  | 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.  | 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.<br><br><b>CHAIRMAN'S PAY-MIX</b> = 100% Fixed remuneration<br><br><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)<br><br><b>ESR'S AND OTHER MANAGERIAL RESOURCES' PAY-MIX</b><br>ESR'S and other top managers = Fixed between 30% and 45%; Variable between 70% and 55%<br>Key Executives = Fixed between 45% and 60%; Variable between 55% and 40%<br>Other managerial resources = Fixed between 60% and 85%; Variable between 40% and 15%  | <b>CHAIRMAN</b> = gross remuneration of € 148,000 p.a. (in addition to gross fees of € 90,000 p.a. set by the Shareholders' Meeting)<br><br><b>CEO/GM</b> = gross remuneration of € 920,000 p.a. (in addition to gross fees of € 80,000 p.a. set by the Shareholders' Meeting)<br><br><b>ESR AND OTHER MANAGERIAL RESOURCES</b> = remuneration set in relation to the responsibility of the person concerned and the target market positioning, included between 1st quartile and median quartile  |
| <b>SHORT-TERM VARIABLE REMUNERATION (FINMECCANICA GROUP MBO SYSTEM) AND CO-INVESTMENT PLAN</b> | <p><b>MBO SYSTEM</b><br/>It is an incentive to achieve the annual objectives set in the Company's budget.</p> <p>Financial and role-specific objectives are set in relation to the responsibility in the Company's organisation.</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 provided which is linked to the business' overall profitability ratios.</p> <p>A <b>claw-back</b> clause is provided for all the variable incentives. 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>CO-INVESTMENT PLAN</b><br/>This consists in voluntarily deferring the payment of a portion of the annual bonus earned from a minimum of 25% up to a maximum percentage of 100%. The deferred portion of bonus is converted into ordinary Finmeccanica shares that will remain restricted throughout the 3- year period. At the end of the vesting period, provided that the performance threshold set in the MBO scheme has been constantly achieved (the "performance gate"), bonus shares ("matching shares") are to be assigned in the proportion of 1 free share for each 3 shares held.</p> | <p><b>CEO/MD'S OBJECTIVES</b><br/>THRESHOLD: a strategic objective set by the BoD ("One Company" Divisionalisation process: the assessment as to whether the objective has been attained will be conducted on the basis of the progress of the process according to the time schedule of the project's implementation plan that will be defined by the CEO and GM and that will be submitted for approval of the BoD); when the objective is attained, the MBO plan provides as follows:<br/>1) Group EBITA (35% weight)<br/>2) Group FOCF (35% weight)<br/>3) Group Order Intake (consistently with the related margin) (30% weight)</p> <p><b>ESR'S OBJECTIVES</b><br/>1) Group's EBITA (25% weight)<br/>2) Group's FOCF (25% weight)<br/>3) Group's Working Capital (25% weight)<br/>4) Group's SG&amp;A expenses (25% weight)</p> <p><b>OTHER MANAGERIAL RESOURCES' OBJECTIVES</b><br/>These are assigned in relation to the person's responsibility in the organisation among the following objectives:<br/>1) Group's EBITA<br/>2) Operating Company's EBITA with gates on EBIT-Investments+depreciation<br/>3) Group, Operating Company, Business Unit and Business Line's FOCF<br/>4) Group, Operating Company, Business Unit and Business Line's Working Capital<br/>5) Group and Operating Company's SG&amp;A expenses<br/>6) When there are no profit or operational measurements, other quantitative objectives will be linked to individual areas of activity and specific objectively measurable tasks</p> <p><b>CORRECTION FACTOR</b><br/>The MBO system envisages a correction factor of ± 10% of the final payout alternatively associated with budget targets set for specific indicators (such as SG&amp;A expenses, Order Intake etc.) in relation to the actual impact of management on these measurements.</p> | <p><b>CEO/GM'S PAYOUT</b><br/>Failure to achieve the PAYOUT THRESHOLD: no payout<br/>BELOW BUDGET: no payout<br/>BUDGET: 43% base pay (€ 396,000)<br/>AVERAGE: 57% base pay (€ 528,000)<br/>MAX: 72% base pay (€ 660,000)<br/>ABOVE MAX: no additional payout</p> <p><b>ESR'S AND OTHER MANAGERIAL RESOURCES' PAYOUT</b><br/>"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><br/>BELOW BUDGET: no payout<br/>BUDGET: 60% of maximum payout<br/>AVERAGE: 80% of maximum payout<br/>MAX: 100% of maximum payout<br/>ABOVE MAX: no additional payout</p> <p>Payouts payable for performance results between the set maximum and medium budget targets will be calculated under the linear interpolation method.</p> |

## SUMMARY

(ESR = Executives with Strategic Responsibilities)

## 2015 REMUNERATION POLICY

| COMPONENT  | PURPOSES AND BASIC FEATURES   | DETERMINATION CRITERIA AND PERFORMANCE CONDITIONS   | AMOUNTS AND PAYOUT   |
|--|---|---|--|
| <b>MEDIUM/LONG-TERM INCENTIVE PLAN</b>                         | <p><b>PURPOSES</b><br/>Focusing the key managerial positions on the achievement of the objectives under the 2015-2019 Industrial Plan.<br/>Creating the conditions for increasing the convergence of the interests of management and those of shareholders.<br/>Bringing the system more in line with the practices of the sector peers and, more generally, with the practices adopted by the major European listed companies.<br/>Fulfilling the investors' expectations regarding management remuneration.</p> <p><b>VESTING</b><br/>The system consists of recurring three-year cycles which will commence from each of the years 2015, 2016 and 2017. The incentive is conditional upon the achievement of targets over a three-year term. The achievement of the targets to which the incentive is linked will be verified at the end of each three-year period.</p> <p><b>LOCK-UP</b><br/>Once the three-year vesting period is elapsed, the plan provides for a one-year lock-up period for the Company's Top Management. The 50% of shares is not transferable during this period.</p> | <p>1) Finmeccanica <b>Total Shareholder Return</b> (TSR) compared to the TSR of a peer group - weight of 50% of total incentive<br/>2) <b>Group Return on Sales</b> (ROS) - weight of 25% of total incentive<br/>3) <b>Group Net Financial Position</b> (NFP) - weight of 25% of total incentive</p> <p>The TSR performance will be measured on the basis of Finmeccanica's positioning compared to the peer group:<br/>- above 3rd quartile: 100% of bonus<br/>- between 3rd quartile and Median quartile: 50% of bonus<br/>- between Median quartile and 1st quartile: 25% of bonus<br/>- below 1st quartile: no payout</p> <p>A minimum result target is set for ROS and NFP, which earns a 50% portion of the bonus, and a maximum result target, which earns the entire bonus. Intermediate results give bonuses calculated proportionately.</p> | <p>The incentive is structured into a monetary component and a component expressed in ordinary Finmeccanica shares, based on a different proportion between cash and shares according to the managerial positions involved:<br/><b>Executives, ESR and other top managers:</b> 100% in shares<br/><b>Senior Managers:</b> 70% in shares and 30% in cash<br/><b>Other participants:</b> 70% in cash and 30% in shares</p> <p><b>PAYOUT TO CEO/GM</b><br/>Three-year allocation for the first 2015-2017 plan cycle of 132,210 shares (obtained by dividing the maximum payout of € 1,137,000 by the price of € 8.60 taken as a reference for the determination of incentives in the first of phase of implementation of the plan).</p> <p><b>PAYOUT TO ESR</b><br/>Three-year allocation in the first 2015-2017 plan cycle of a number of shares equal to 140% of the annual gross remuneration (calculated taking as a reference the unit price of € 8.60 per share used for the determination of incentives in the first phase of implementation of the Plan).</p> |
| <b>BENEFITS</b>  | Benefits are granted consistently with the total reward policies applied at the Finmeccanica Group level.   | Benefits are defined in accordance with provisions of law, collective bargaining agreements and any other applicable union agreements.  | The benefits that can be assigned include:<br>- Supplementary pension funds<br>- Supplementary healthcare benefits<br>- Insurance Covers<br>- Company Car<br>- Accommodation   |
| <b>PAY IN THE EVENT OF TERMINATION OF OFFICE OR EMPLOYMENT</b> | Retention purposes connected with the role in line with long-term strategies, values and interests set by the Board of Directors.   | 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><b>CHAIRMAN</b><br/>No severance pay.</p> <p><b>CEO/GM</b><br/>Upon termination of executive employment contract =3 years pays + allowances as provided for by the National Collective Bargaining Agreement.</p> <p><b>ESR</b><br/>Allowances under the National Collective Bargaining Agreement, plus severance payment defined on an individual basis (if any) - within the limit of a maximum of 2 years pay.</p>  |

## SECTION I

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

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 governing bodies, the General Managers and all 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, General Managers, employees, consultants or 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;
- sets, on the proposal of the Remuneration Committee, the remuneration of those Directors with delegated powers granted by the Company and of any other Director 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, General Managers 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;
- approves, 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:

|                                  |                        |
|----------------------------------|------------------------|
| <b>Dario Frigerio – Chairman</b> | (Independent Director) |
| <b>Marina Elvira Calderone</b>   | (Independent Director) |



**Alessandro De Nicola** (Independent Director)  
**Marina Rubini** (Independent Director)

The Committee is composed of non-executive Directors, who are all “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, General Managers and Executives with Strategic Responsibilities, in compliance with the legal provisions in force and with the Corporate Governance Code for Listed Companies;
- to put forward proposals to the Board of Directors for related resolutions and implementation of the remuneration policy established by the same, with reference to:
  - the remuneration and regulatory treatment of Directors with delegated powers and of all 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 Director 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, General Managers 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, General Managers 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.

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 them to the Board of Directors, which, having examined 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 25 March 2015.

#### **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**

In the course of 2014 the "Human Resources and Organization" Organizational Unit made use, as external independent experts, of *HayGroup* for activities concerning Remuneration, and *Egon Zehnder* for individual appraisal activities involving the Group's Top Management.

## 2. AIMS AND PRINCIPLES OF THE REMUNERATION POLICY

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 setting a balance between short-term and medium/long-term remuneration policies, 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 remuneration policy principles described herein have been set out in relation to the present organizational structure of the Finmeccanica Group, which will conduct ongoing monitoring of their application in terms of pay levels and the combination of fixed and variable remuneration components. This activity shall also consider a gradual implementation of the Industrial Plan and the scheduled review of the Group's organization. Accordingly, the principles may be amended by taking account of the distribution of responsibilities within the future structure, both as regards the Top Management and any other executive positions.

### ■ 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, General Managers and of all Executives with Strategic Responsibilities<sup>1</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 Governing Bodies, the General Managers and by the Executives with Strategic Responsibilities and is proportioned to the assigned duties and responsibilities.

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<sup>1</sup> 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 on Financial Intermediation.



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.

For Executive Directors, General Managers 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 compensates the performance of the Director, the General Manager 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, General Managers 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, General Managers 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 incentive plans set up for the Finmeccanica Group's management. The use of financial instruments will be structured on the basis of essential principles in line with the Corporate Governance Code (vesting period, performance conditions, etc.).

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 Executive 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 and Organization Unit - only in 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. Furthermore, claw-back clauses are envisaged for all the short- and long-term variable remuneration systems.

■ **Pay in the event of early termination of employment 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 other top management staff members, 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 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, General Managers 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.

Furthermore, with regard to Executive Directors, General Managers 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 may define, from time to time, 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

#### Development of the Governance structure

On 15 May 2014 the Company's Shareholders' Meeting appointed the Board of Directors for the three-year term of office of 2014-2016, as well as Giovanni De Gennaro as Chairman and Mauro Moretti as a member of the Board of Directors.

Mr De Gennaro had also been appointed Chairman by the previous Board of Directors on 4 July 2013.

On 15 May 2014 the Board of Directors approved the Chairman's proposal to engage Mauro Moretti as an executive on an indefinite term employment contract and to appoint him as the Company's General Manager with the responsibilities and prerogatives proper to this position.

At the same meeting the Board also appointed Mr Moretti as Chief Executive Officer, granting him the relative powers.

#### 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 15 May 2014 set, for the three-year period 2014-2016, 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 € 80,000 per year before tax.

Furthermore, at the meeting held on 15 May 2014, the Board of Directors also granted Mr De Gennaro, as Chairman, some specific responsibilities whose exercise attracts the special remuneration referred to in Article 2389, paragraph 3, of the Italian Civil Code.

During the Shareholders' Meeting, the majority shareholder, the Ministry of Economy and Finance, recommended that the Board of Directors should limit the total fees for the position of Chairman, who is granted special delegated powers, to at most € 238,000 per year, including the emoluments applicable pursuant to Article 2389, paragraph 1, of the Italian Civil Code. At the meeting held on 15 May 2014, the Board of Directors resolved to accept this recommendation, instructing the Remuneration Committee to determine the Chairman's fees<sup>2</sup>.

On 19 June 2014 the Remuneration Committee decided on the Chairman's remuneration as per Article 2389, paragraph 3, of the Italian Civil Code for carrying out the further specific responsibilities assigned to him by the Board, setting the gross amount at € 148,000 per year, additional to the gross annual fees that the Shareholders' Meeting set for the position of Chairman.

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

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<sup>2</sup> In relation to the previous period the supplementary fees payable pursuant to art. 2389 par. 3 of the Italian Civil Code in connection with the responsibilities assigned were set by the Board of Directors in the gross annual amount of € 300,000, including the fee due under art. 2389 par. 1 of the Italian Civil Code.



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 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 15 May 2014, 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

### Overall remuneration structure and pay-mix

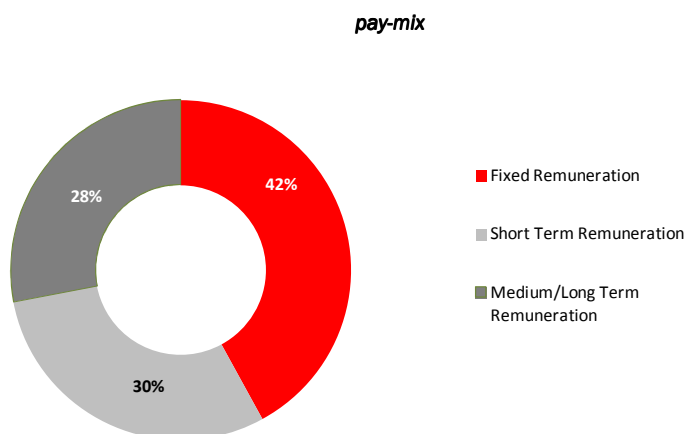
As a result of the decisions taken by the Board of Directors, the Company entered into an executive employment contract with Mr Moretti, also appointing him as General Manager.

The remuneration package proposed for Mr Moretti was determined in line with the previous organizational structure, focusing on the position of Finmeccanica as the Group's Holding Company.

In terms of market positioning, specific analyses on remuneration<sup>3</sup>, which were conducted with the help of the consulting firm *HayGroup*, showed that the fixed and variable components of the remuneration proposed for Mr Moretti were 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.

The pay-mix of the annual fees due to Mr Moretti was set 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).



*Maximum total remuneration: € 2,200,000 gross per annum*

The remuneration set in absolute values 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).

<sup>3</sup> The benchmark considered the fees paid to the CEOs of Companies comparable with the Finmeccanica Group both at national (large Groups included in the FTSE MIB 40 Italia index) and international (listed international Companies operating in the sectors of Defence, Industrial Engineering, Technology Hardware and Equipment) level by capitalization, turnover and number of employees (including Enel, Eni, Fiat, Saipem and Telecom Italia for the Italian panel and Airbus Group, Alcatel-Lucent, Thales, Safran, BAE for the international panel).



Mr Moretti expressly waived other fees payable for the position of CEO pursuant to Article 2389, paragraph 3, of the Italian Civil Code.

### **Short-term variable remuneration**

The short-term variable remuneration for Mr Moretti consists of maximum overall gross fees of € 660,000.00 per year (equal to 71.7% of fixed remuneration) and is subject to the following performance conditions:

- **Threshold**

The Company has confirmed the application of a threshold for incentive payments, linked to strategic objectives set by the Board of Directors.

For the 2015 financial year this threshold has been identified in the “One Company Divisionalisation process”.

The assessment as to whether the objective has been attained or not will be conducted on the basis of the progress of the process according to the time schedule of the project’s implementation plan that will be defined by the CEO and General Manager and that will be submitted for approval of the Board of Directors.

The failure to achieve the threshold will entail the zeroing of the entire short-term variable incentive.

- **Performance Targets**

In consideration of the Group’s targets of sustainable development, competitive costs and margins, as well as the achievement of the levels of Operating Profit and Free Operating Cash Flow, in close connection with the strategic objectives behind the Industrial Plan, the following performance indicators have been set for the 2015 financial year:

- ✓ Group EBITA, which is linked to a 35% share of the maximum incentive achievable;
- ✓ Group Free Operating Cash Flow, which is linked to a 35% share of the maximum incentive attainable;
- ✓ Group Order Intake (consistently with the related margin), which is linked to a 30% share of the maximum incentive attainable.

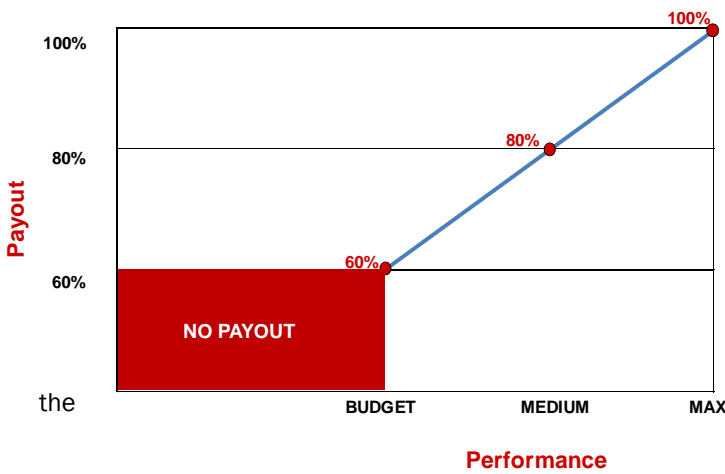
- **Performance curve**

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 associated incentive.

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.



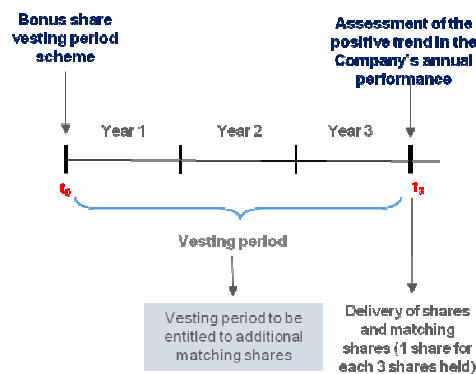
The actual performance intervals in percentages between the budget, medium and max levels vary in relation to the nature of each objective, in accordance with the budget targets reported in the Guidance published by the Company and the overperformance parameters envisaged in budget-plan of the Company.

- **Claw-back clauses**

Claw-back clauses have been provided as regards short-term variable incentives. 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.

### Annual bonus deferral – Co-Investment Plan

Subject to the approval of the Shareholders' Meeting, the Company intends to apply a plan for the conversion of the annual bonus into shares, which consists in voluntarily deferring the payment of a portion of the annual bonus earned from a minimum of 25% up to a maximum percentage of 100%. The deferred portion of bonus is converted into ordinary Finmeccanica shares that will remain restricted for a term of 3 years. At the end of the vesting period, provided that the performance threshold set in the short-term variable remuneration scheme has been constantly achieved (the “performance gate”<sup>4</sup>), bonus shares (“matching shares”) are to be assigned in the proportion of 1 bonus share for each 3 shares held.



<sup>4</sup> The short-term variable incentive is subject to overall business profitability ratios (“performance gate”), the failure to achieve which entails the zeroing of the entire portion of bonus linked to financial/management objectives.

## Medium/long-term variable remuneration

The part of medium/long-term variable remuneration, up to an annual overall maximum gross amount of € 620,000 (equal to 67.4% of fixed remuneration), comes from the participation of Mr Moretti in the Company's medium/long-term share incentive plan reserved for the Group's management.

In the light of the System's rolling mechanism, and in consideration of the amount of annual remuneration paid in relation to the medium/long-term variable portion envisaged in the employment contract of the CEO and General Manager, the sum allocated for the first plan cycle for the three-year period 2015-2017 is set at a maximum amount of € 1,137,000. Therefore, as at the date of allocation of the plan, the maximum number of shares attributable to Mr Moretti had been set at 132,210, obtained by dividing the maximum incentive of € 1,137,000 by the price of € 8.60 taken as a reference for the determination of the incentive in the first implementation phase of the plan<sup>5</sup>.

The payment of the incentive is conditional on the achievement of three-year targets linked to the following performance indicators:

|   |   |
|---|---|
| <b>Relative Finmeccanica Total Shareholder Return (TSR)</b> | Determines 50% of the maximum number of shares that can be assigned |
| <b>Return on Sales (ROS)</b>                                | Determines 25% of the maximum number of shares that can be assigned |
| <b>Net Financial Position (NFP)</b>                         | Determines 25% of the maximum number of shares that can be assigned |

The performance indicators targets have a term of 3 years and will be finally measured at the end of each three-year period.

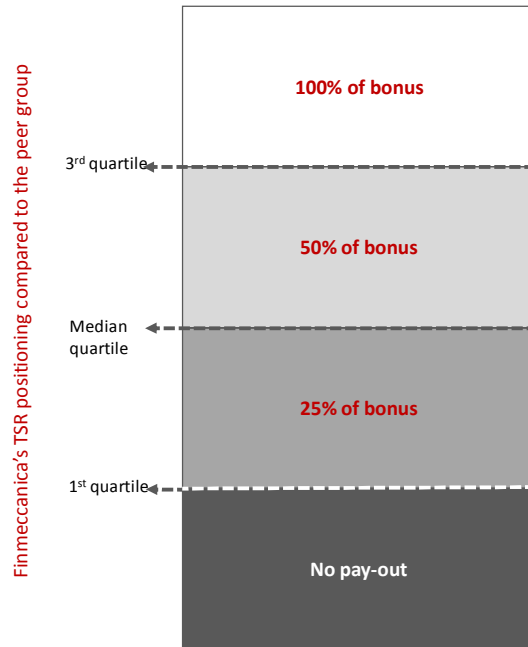
With reference to the TSR indicator, the Finmeccanica's performance will be measured in relation to a "peer group" selected on the basis of comparability analyses of the stock, including companies in the Aerospace and Defence sector at global level and the industrial companies in the FTSE MIB index. The panel consists of companies in the relevant sector in Europe and North America for two thirds and of Italian listed companies for one third, as represented below:

| <b>European Competitors</b>   | <b>North-American competitors</b>                       | <b>Italian companies</b>  |
|---|---|---|
| 1. Airbus<br>2. Bae Systems<br>3. Rolls Royce<br>4. Thales<br>5. Cobham | 1. L-3<br>2. United Technologies<br>3. Rockwell Collins | 1. Telecom Italia<br>2. STMicroelectronics<br>3. Enel<br>4. Fiat Chrysler Automobiles (FCA) |

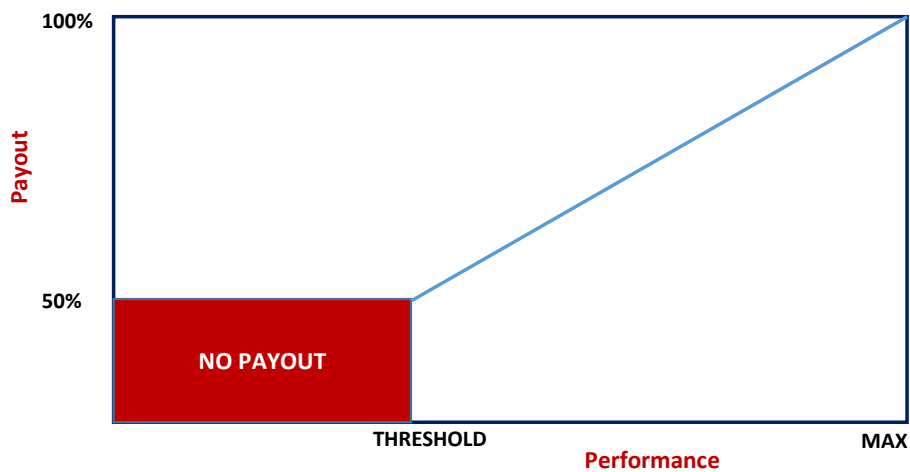
<sup>5</sup> Average price of ordinary Finmeccanica shares in the period from 1 October 2014 to 24 March 2015 (the previous day of the approval of the plan on the part of the Board of Directors).



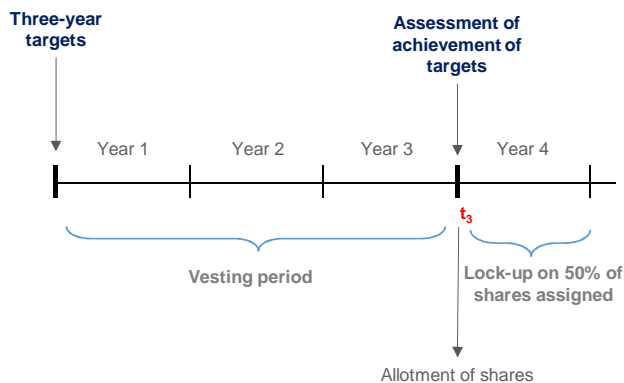
The portion of bonus earned in relation to the TSR performance is determined on the basis of the Finmeccanica's positioning with respect to the "peer group", as illustrated below.



A minimum result target is set for Return On Sales and Net Financial Position objectives, which earns a 50% portion of the bonus, and a maximum result target, which earns the entire bonus. Intermediate results give bonuses calculated proportionately, as shown below.



Once the three-year vesting period is elapsed, the plan provides for a one-year lock-up period for the Company's Top Management. The 50% of shares is not transferable during this period.



### Pay in the event of termination of office or employment

With reference to the employment contract of Mr Moretti as a Company executive, it has been agreed that he will be paid - as an indemnity and compensation payment - a sum equal to 36 months of his total remuneration, in addition to severance pay benefits, in the case of termination of employment<sup>6</sup>.

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 fees received over the course of the previous three years.

If the contract is terminated before the end of the third year, the Company will pay the better of 60% of the maximum variable remuneration and the average variable pay actually received or earned during the previous two years.

Furthermore, at the time of termination for any reason, the Company will pay, in the name and on behalf of Mr Moretti, an amount equal to the total cost to be borne by the latter for the aggregation of contributions paid to the "Ferrovie dello Stato Special Pension Scheme" within the INPS Fund, in order for him to earn entitlement to pension scheme benefits for the position of General Manager.

### Benefits

Mr Moretti 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

<sup>6</sup> Except in the case of termination by the Company for cause, and/or in the event that Mr Moretti resigns without cause (a just cause for resignation can arise from his removal from the office of CEO and the revocation of the related delegated powers or from the request for resignation on the part of the Company).



an executive of the Company, as well as any other kind of benefits envisaged for top management positions in line with the Company's practices (supplementary healthcare, accommodation, company car etc.).

In line with the provisions applicable to all Executives within Finmeccanica, Mr Moretti also benefits from the supplementary pension benefits provided by the Company, as a replacement of the pension provisions of the applicable National Collective Bargaining Agreement.

## Executives with Strategic Responsibilities and other managerial resources

### 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 Company's position in its market is between the first and median quartile.

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 directly.

The current average pay-mix is determined as follows:

|   | TOTAL | FIXED COMPONENT | VARIABLE COMPONENT | of which SHORT-TERM variable |
|---|-------|-----------------|--------------------|------------------------------|
| Executives with Strategic Responsibilities and other top managers | 100%  | 30% - 45%       | 70% - 55%          | approximately 35%            |
| Key Executives  | 100%  | 45% - 60%       | 55% - 40%          | approximately 50%            |
| Other executives  | 100%  | 60% - 85%       | 40% - 15%          | 100%                         |

### 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's EBITA
- ✓ Operating Company's EBITA with gates on EBIT-Investments+depreciation
- ✓ Group, Operating Company, Business Unit and Business Line's FOCF
- ✓ Group, Operating Company, Business Unit and Business Line's Working Capital
- ✓ Group and Operating Company's SG&A expenses
- ✓ In the absence of profit or operational measurements, other quantitative objectives will be linked to individual areas of activity and specific objectively measurable tasks.

The general structure of the short-term incentive system is in line with that described in the 2014 Remuneration Report, which should be referred to for further details (Section I, point 2, page 12 ) and which is summarised in the main points stated below:

- 1) A maximum incentive cap is applied to all participants in the MBO system 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 equal to 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). Regarding higher performances it is applicable the performance curve previously reported (page 17).
- 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 alternatively associated with budget targets set for specific indicators (such as SG&A expenses, Order intake etc.) in relation to the actual impact of management on these measurements.
- 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 is envisaged for all the variable incentives; 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.

#### **Annual bonus deferral – Co-Investment Plan**

Executives with Strategic Responsibilities and other managers participate in the co-investment plan submitted for approval of the Shareholders' Meeting that is described, as regards its essential elements, on page 18. For any details on the methods and mechanisms of operation, reference should be made to the Disclosure Document relating to the plan that has been filed with the registered company located in Rome, at Piazza Monte Grappa no. 4, on the Company's website ([www.finmeccanica.com](http://www.finmeccanica.com)), with the market management company Borsa Italiana S.p.A., as well as through the authorised storage device NIS-Storage ([www.emarketstorage.com](http://www.emarketstorage.com)).

#### **Medium/long-term variable remuneration**

Executives with Strategic Responsibilities and other managers participate in the medium/long-term incentive plan which has been submitted for approval of the Shareholders' Meeting and which is reserved for key



managers, to be selected, on a priority basis, according to a criterion that considers the positions of greatest impact on the Group's business in the medium term.

This plan provides for the assignment of incentives structured into a monetary component and a component expressed in ordinary Finmeccanica shares, based on a different proportion between cash and shares according to the managerial positions involved. Incentives payable to Executives with Strategic Responsibilities are fully expressed in ordinary Finmeccanica shares.

|   | SHARES | CASH |
|---|--------|------|
| EXECUTIVES WITH STRATEGIC RESPONSIBILITIES AND OTHER TOP MANAGERS | 100%   | -    |
| SENIOR MANAGERS   | 70%    | 30%  |
| OTHER PARTICIPANTS  | 30%    | 70%  |

As regards Executives with Strategic Responsibilities the maximum incentive over the three-year period allocation in the first 2015-2017 plan cycle is set at a number of shares equal to 140% of the annual gross remuneration, calculated taking as a reference the unit price of € 8.60 per share used for the determination of incentives within the first phase of implementation of the plan Plan<sup>7</sup>.

The methods and mechanisms of operation of the Plan are described on page 19. For more details, reference should be made to the Disclosure Document relating to the plan that has been filed with the registered company located in Rome, at Piazza Monte Grappa no. 4, on the Company's website ([www.finmeccanica.com](http://www.finmeccanica.com)), with the market management company Borsa Italiana S.p.A., as well as through the authorised storage device NIS-Storage ([www.emarketstorage.com](http://www.emarketstorage.com)).

#### **Pay in the event of termination of office or employment**

In the event of termination of their employment contracts, Executives with Strategic Responsibilities will be paid any fees set in the National Collective Bargaining Agreement, in addition to benefits (if any) defined on an individual basis to a maximum extent of 2 years pay.

#### **Benefits**

Executives with Strategic Responsibilities benefit from mandatory social security and 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 kind of benefits

<sup>7</sup> Average price of ordinary Finmeccanica shares in the period from 1 October 2014 to 24 March 2015 (the previous day of the approval of the plan on the part of the Board of Directors).



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's supplementary pension funds, in lieu of the social security schemes prescribed in the National Collective Bargaining Agreement.

### **Deferred remuneration schemes**

As regards Executive Directors, General Managers, Executives with Strategic Responsibilities and other top managers, subject to the approval of the Shareholders' Meeting, the Company intends to propose a deferment scheme of the annual bonus in shares (Co-Investment Plan). For any details on the methods and mechanisms of operation, reference should be made to page 18, and to the Disclosure Document relating to the Co-Investment Plan that has been filed with the registered company located in Rome, at Piazza Monte Grappa no. 4, on the Company's website ([www.finmeccanica.com](http://www.finmeccanica.com)), with the market management company Borsa Italiana S.p.A., as well as through the authorised storage device NIS-Storage ([www.emarketstorage.com](http://www.emarketstorage.com)).

### **Incentive plans based on financial instruments**

As regards Executive Directors, General Managers, Executives with Strategic Responsibilities and other top managers, during 2015 the Company intends to launch a long-term incentive scheme that is also based on the award of ordinary Finmeccanica shares, as described on page 19.

Furthermore, as detailed in the paragraph above ("Deferred remuneration schemes"), the Company also wishes to propose a scheme for the deferment of the actual annual bonus, through its conversion into Finmeccanica shares, which must also provide for the award of bonus shares at the end of the vesting period, provided minimum result thresholds have been reached.

The actual implementation of the above schemes is subject to approval by the Shareholders' Meeting.

For any details on the methods and mechanisms of operation, reference should be made to the Disclosure Document made available by the Company at the registered office located in Rome, at Piazza Monte Grappa no. 4, on the Company's website ([www.finmeccanica.com](http://www.finmeccanica.com)), with the market management company Borsa Italiana S.p.A., as well as through the authorised storage device NIS-Storage ([www.emarketstorage.com](http://www.emarketstorage.com)).

### **Remuneration of the Head of the Group Internal Audit Organisational Unit**

In accordance with the Corporate Governance Code of Listed Companies, point 7.C.1., on 27 October 2014, on a motion by the Chief Executive Officer in his capacity as the Director in charge of the Internal Control and Risk Management System, with the prior agreement of the Control and Risks Committee and in consultation with the Board of Statutory Auditors, the Board of Directors appointed the new Head of the Group Internal Audit organizational unit and set his pay as proposed, in line with the corporate policies and ensuring him of sufficient resources to perform his duties.

Furthermore, on 18 December 2014, in conformity to the procedures that are to be adopted as explained above, the Board of Directors determined the details for the calculation of variable incentives.



Specifically, the short-term incentive (MBO) is conditional, in line with the best practices, on objectives that are exclusively linked to the efficacy and efficiency of the organisational structure of the Group Internal Audit on the basis of the duties assigned to this unit.

## Resolution proposal

Dear Shareholders,

pursuant to Article 123-ter, paragraph 6, of Legislative Decree 58/98 you are called upon to vote, with a non-binding resolution, on the first section of the Report on Remuneration referred to in Article 123-ter, paragraph 3, of Legislative Decree 58/98, subject to publication in accordance with the provisions of law, which discusses the Company's policy on the remuneration of the members of the governing bodies, General Managers and all the Executives with Strategic Responsibilities, as well as the procedures used to adopt and implement that policy.

In view of the foregoing, we submit for approval of the Ordinary Shareholders' Meeting the following proposed non-binding resolution on point 6 of the agenda:

"The Ordinary Shareholders' Meeting of "Finmeccanica – Società per azioni":

- having regard to Articles 123-ter of Legislative Decree 58/98 and 84-quater of Consob Regulation 11971/99;
- having regard to the Report on Remuneration approved by the Board of Directors on 25 March 2015, prepared pursuant to Articles 123-ter of Legislative Decree 58/98 and 84-quater of Consob Regulation 11971/99 and in accordance with the recommendations of the Corporate Governance Code for listed companies, which the Company has adopted, and published within the time limit of 21 days prior to the first call of the Shareholders' meeting to approve the financial statements at 31 December 2014;
- having examined in particular the first section of that Report, which discusses the Company policy concerning the remuneration of the members of the governing bodies, General Managers and all the Executives with Strategic Responsibilities, as well as the procedures used to adopt and implement that policy;
- having regard to the non-binding nature of this resolution, pursuant to Article 123-ter, paragraph 6, of Legislative Decree 58/98;

## RESOLVES

to approve the first section of the Report on Remuneration prepared and approved by the Board of Directors pursuant to Articles 123-ter of Legislative Decree 58/98 and 84-quater of Consob Regulation 11971/99."

## SECTION II

This Section II is divided into two parts and reports the remuneration paid to the members of the Governing and Supervisory Bodies, to General Managers and to the Executives with Strategic Responsibilities during the course of the 2014 financial year.

### Part One

#### IMPLEMENTATION OF 2014 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 2014 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.

With reference to the 2014 financial year, the following elements constituted the remuneration paid to the members of the Governing and Supervisory Bodies, to the General Managers 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).

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).

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

Since in the year 2014 the Board of Directors was renewed and new corporate positions were assigned with a change to the related emoluments, the numbers reported in the table take into account the different remuneration paid during the 2014 financial year. The portion of fees paid between 1 January 2014 and 15 May 2014 (date of the Shareholders' Meeting) reflected the emoluments pertaining to such period and disclosed in the Remuneration Report submitted to the 2014 Shareholders' Meeting.

#### 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, General Managers 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 the Chief Executive Officer and General Manager is subject to the achievement of certain targets set 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 the 2014 financial year, these thresholds consist in the two objectives below:

- Deconsolidation of AnsaldoBreda, considering, for the purposes of achieving the target, binding agreements for both parties by the date of the approval of the 2014 consolidated financial statements
- Implementation of the Organisational and Operating Model, which results in the efficiency objectives in the 2015-2018 Budget Plan being more challenging than those in the 2014-2017 Budget Plan

Furthermore, the short-term incentive system is based on the achievement of performance targets connected to financial and operational 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 SG&A expenditure - potential payout of 30% of the maximum payout.


For the mechanism underlying the short-term plan, reference is made to Section I page 17.

### **Short-term incentives for Executives with Strategic Responsibilities**

Executives with Strategic Responsibilities participated in the Finmeccanica annual bonus scheme (MBO short-term incentive system) as senior Executives of the Group, according to the terms and conditions laid down in the applicable corporate policy, as described in the 2014 Remuneration Report, to which reference is fully made.

### **Medium/long-term variable remuneration**

The medium/long-term component of the variable remuneration of Executive Directors, General Managers and Executives with Strategic Responsibilities is subject to the achievement of the objectives assigned on the basis of their participation in the medium/long-term incentive plans in place in the course of the 2014 financial year.



Therefore, Executive Directors, General Managers 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 the 2014 financial year. 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 the mechanisms underlying the plans, see the 2014 Remuneration Report, Section I.

On the other hand, in the light of the process of the overall review of the Group’s system of incentives, according to which the new plans will start at the beginning of the 2015 financial year, at the suggestion of the Remuneration Committee the Board of Directors decided not to start a new 2014-2016 cycle of the Long-term Incentive Plan.

At the same time, in view of the circumstances, it was considered advisable to adopt a transitional system to take the place of the plan so that an adequate level of incentives for the Group’s top management could be maintained for the 2014 financial year in line with the remuneration policy without compromising the definition of new medium- and long-term incentive systems which are consistent with the Industrial Plan, which will come into effect with the 2015 financial year.

The Board of Directors therefore resolved to grant the Chief Executive Officer and General Manager, as well as the Executives with Strategic Responsibilities, a variable one-off incentive in a maximum theoretical amount equivalent to what they would have been entitled to for the 2014 financial year had they taken part in the 2014-2016 cycle of the Long-term Incentive Plan. The amount actually earned was calculated according to the achievement of the objectives to which the MBO payment was linked.

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.



## SEVERANCE PAY

### (Table 1)

In the meeting held on 15 May 2014 the Company's Board of Directors established that the requirements were met for paying Mr Pansa an indemnity and compensation amount equal to € 5,450,000, in addition to severance pay benefits and any amount due in relation to the rights accrued under the short- and medium/long-term incentive plans applied in 2013, to be paid in cash, as stated in the Company's Remuneration Report for the 2014 financial year.

This award was determined in line with the applicable provisions of law and contract, as well as in compliance and in accordance with the guidelines set out in the remuneration policy adopted by Finmeccanica with the involvement of the Remuneration Committee.

Specifically, the employment relationship was terminated through a settlement agreement aimed at making the relevant terms and conditions final in the interests of the Company following the occurrence of an event of termination for cause<sup>8</sup>.

The indemnity was determined on the basis of criteria linked to the total fees due to the executive, including, as expressly provided for by law and the collective bargaining agreement, any benefits additional to monetary remuneration.

Specifically, the two years pay and the compensation in lieu of notice were determined, in the application of the abovementioned regulatory provisions, by including any and all remuneration items in the calculation basis, and specifically any and all fees payable by reason of employment.


Therefore, the conventional monthly pay, as prescribed by law under Article 2121 of the Italian Civil Code, includes the following elements, in cash or in kind, as the basis for the calculation of indemnity and compensation: the fixed component of remuneration (to the amount actually received at the time of the termination of employment); the variable component of remuneration (assuming an average of all fees actually received for this reason in the last three years); benefits (car, accommodation, etc., the value of which has been determined with reference to the cost of the actual replacement benefit) and the contributions payable by the company to the benefit of the executive for welfare and social security benefits (specifically the Welfare and Supplementary Healthcare Fund).

Furthermore, the amount (one yearly instalment) paid out to replace the compensation in lieu of notice was increased by the amount the Company would have had to pay on account of contributions both for the General Compulsory Insurance (*Assicurazione Generale Obbligatoria*) purposes and to the Company's funds (which are payable under the collective bargaining agreement).

To this indemnity must be added an amount of € 80,000, against specific waivers made by Mr Pansa at the time of the termination of the relationship.

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<sup>8</sup> The just cause for the termination by Mr Pansa of his subordinate employment relationship arose from the loss of office as General Manager and of the related powers in line with the contractual provisions additional to the letter of engagement dated 2001, which had been regulating the relationship since 2005.



There is no non-competition obligation to be complied with after the termination of the relationship and, therefore, no fees will be payable for this reason.

As a result of the waiver made at the time by Mr Pansa in relation to the fees payable for his position as CEO, no amount is due to him on termination of this office.

\* \* \*

With reference to any possible indemnity and compensation amounts relating to the termination of the relationship with Mr Orsi, three disputes are still pending on the issue, one of which has been brought by Mr Orsi within the arbitration proceeding, while the other two disputes have been brought by the Company before the Labour Court in order to refer the entire case to the ordinary court.

## **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)**

With reference to the 2014 financial year, the Company had no incentive plans based on financial instruments in place.



## Part Two

Part two of Section II provides an analytical summary of all the amounts paid during the course of the 2014 financial year, 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 Governing 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 GOVERNING AND SUPERVISORY BODIES, GENERAL MANAGERS AND ALL EXECUTIVES WITH STRATEGIC RESPONSIBILITIES**  
(amounts in thousands of euro)

| LAST AND FIRST NAME(S)  | POSITION HELD IN FINANCIAL YEAR 2014                        | 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 |                   |                   |       |                               |                                    |
| De Gennaro Giovanni   | Chairman  | 1.1/31.12.2014  | FY 2016                      | 90<br>171          |  |                                  |                | 2                 |                   | 263   |                               |                                    |
| Moretti Mauro   | Director<br>Chief Executive Officer and General Manager (a) | 15.5/31.12.2014 | FY 2016                      | 51<br>594          |  | 797                              |                | 52                |                   | 1.494 |                               |                                    |
| Pansa Alessandro  | Director<br>Chief Executive Officer and General Manager (b) | 1.1/15.05.2014  | 15.05.2014                   | 22<br>385          |  |                                  |                | 60                |                   | 467   |                               | 5.530<br>(*)                       |
| Cantarella Paolo  | Director  | 1.1/31.12.2014  | FY 2016                      | 72                 | 31   |                                  |                |                   |                   | 103   |                               |                                    |
| Catanzaro Giovanni  | Director  | 1.1/15.05.2014  | FY 2014                      | 22                 | 6  |                                  |                |                   |                   | 28    |                               |                                    |
| Galli Dario   | Director  | 1.1/15.05.2014  | FY 2014                      | 22                 | 12   |                                  |                |                   |                   | 34    |                               |                                    |
| Lo Bello Ivanhoe  | Director  | 1.1/15.05.2014  | FY 2014                      | 22                 | 5  |                                  |                |                   |                   | 27    |                               |                                    |
| Merio Silvia  | Director  | 1.1/31.12.2014  | FY 2016                      | 73                 | 28   |                                  |                |                   |                   | 101   |                               |                                    |
| Parlato Francesco   | Director  | 1.1/15.05.2014  | FY 2014                      | 22 <sup>(1)</sup>  | 11 <sup>(2)</sup>                            |                                  |                |                   |                   | 33    |                               |                                    |
| Venturoni Guido   | Director  | 1.1/15.05.2014  | FY 2014                      | 22                 | 15   |                                  |                |                   |                   | 37    |                               |                                    |
| Frigerio Dario  | Director  | 1.1/31.12.2014  | FY 2016                      | 72                 | 21   |                                  |                |                   |                   | 93    |                               |                                    |
| Minuto Rizzo Alessandro   | Director  | 1.1/15.05.2014  | FY 2014                      | 22                 | 7  |                                  |                |                   |                   | 29    |                               |                                    |
| Alpa Guido  | Director  | 15.5/31.12.2014 | FY 2016                      | 51                 | 12   |                                  |                |                   |                   | 63    |                               |                                    |
| Calderone Marina Elvira   | Director  | 15.5/31.12.2014 | FY 2016                      | 51                 | 11   |                                  |                |                   |                   | 62    |                               |                                    |
| Dassù Marta   | Director  | 15.5/31.12.2014 | FY 2016                      | 51                 | 12   |                                  |                |                   |                   | 63    |                               |                                    |
| De Nicola Alessandro  | Director  | 15.5/31.12.2014 | FY 2016                      | 51                 | 21   |                                  |                |                   |                   | 72    |                               |                                    |
| Landi Fabrizio  | Director  | 15.5/31.12.2014 | FY 2016                      | 51                 | 19   |                                  |                |                   |                   | 70    |                               |                                    |
| Rubini Marina   | Director  | 15.5/31.12.2014 | FY 2016                      | 51                 | 15   |                                  |                |                   |                   | 66    |                               |                                    |
| Bauer Riccardo Raul   | Chairman Board of St. Aud.                                  | 1.1/31.12.2014  | FY 2014                      | 78                 |  |                                  |                |                   |                   | 78    |                               |                                    |
| Abriani Niccolò   | Regular Auditor   | 1.1/31.12.2014  | FY 2014                      | 52                 |  |                                  |                |                   | 20 <sup>(3)</sup> | 72    |                               |                                    |
| Fratino Maurizio  | Regular Auditor   | 1.1/31.12.2014  | FY 2014                      | 52                 |  |                                  |                |                   | 32 <sup>(4)</sup> | 84    |                               |                                    |
| Montaldo Silvano  | Regular Auditor   | 1.1/31.12.2014  | FY 2014                      | 52                 |  |                                  |                |                   | 25 <sup>(5)</sup> | 77    |                               |                                    |
| Pinto Eugenio   | Regular Auditor   | 1.1/31.12.2014  | FY 2014                      | 52                 |  |                                  |                |                   | 31 <sup>(6)</sup> | 83    |                               |                                    |
| Executive with Strategic Responsibilities                           |   |                 | FY 2016                      | 488                |  | 679                              |                | 63                | 22                | 1.252 |                               |                                    |
| (I) Remuneration in the Company drawing up the financial statements |   |                 |                              | 2.742              | 226  | 1.476                            | 0              | 177               | 46                | 4.667 | 0                             | 5.530                              |
| (II) Remuneration from subsidiaries and associates                  |   |                 |                              |                    |  |                                  |                |                   | 84                | 84    |                               |                                    |
| (III) Total   |   |                 |                              | 2.742              | 226  | 1.476                            | 0              | 177               | 130               | 4.751 | 0                             | 5.530                              |

(a) Chief Executive Officer and General Manager from 15/05/2014

(b) Chief Executive Officer and General Manager until 15/05/2014

(\*) Of which €/k 5,450 as indemnity and compensation and €/k 80 against specific waivers made by Mr Pansa upon termination of employment.

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

(2) Of which €/k 3 transferred to the Ministry of Economy and Finance.

(3) €/k 2 for refund of lump-sum expenses and €/k 18 for remuneration for position held in other Group Company from 08/04/2014 to 31/12/2014.

(4) €/k 17 for refund of lump-sum expenses and €/k 15 for remuneration for position held in other Group Company from 01/08/2014 to 31/12/2014.

(5) Remuneration for position held in other Group Company from 11/04/2014 to 31/12/2014.

(6) €/k 5 for refund of lump-sum expenses and €/k 26 for remuneration for position held in other Group Company from 10/04/2014 to 31/12/2014.

**TABLE 2 STOCK OPTIONS ALLOCATED TO THE MEMBERS OF THE GOVERNING BODY, GENERAL MANAGERS AND ALL EXECUTIVES WITH STRATEGIC RESPONSIBILITIES**

| A   | B   | 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 |
|---|---|---|-------------------|--------------|---|-------------------|--------------|---------------------------------------|--------------------------------------|--------------------|---|---|--------------|---|---|---|--------------------------------|
|   |   | (1)   | (2)               | (3)          | (4)   | (5)               | (6)          | (7)                                   | (8)                                  | (9)                | (10)  | (11)  | (12)         | (13)  | (14)                                      | (15) = (2)+(5)-(11)-(14)                      | (16)                           |
| LAST AND FIRST NAME                       | POSITION HELD IN FINANCIAL YEAR 2014          | PLAN  | 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 AT THE | 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                                      |   | 0                 |              |   | 0                 |              |                                       |                                      |                    |   | 0   |              |   | 0   | 0   |                                |
| Moretti Mauro                             | Chief Executive Officer - General Manager (1) |   | 0                 |              |   | 0                 |              |                                       |                                      |                    |   | 0   |              |   | 0   | 0   |                                |
| Pansa Alessandro                          | Chief Executive Officer - General Manager (2) |   | 0                 |              |   | 0                 |              |                                       |                                      |                    |   | 0   |              |   | 0   | 0   |                                |
| Executive with strategic responsibilities |   |   | 0                 |              |   | 0                 |              |                                       |                                      |                    |   | 0   |              |   | 0   | 0   |                                |

(1) Chief Executive Officer and General Manager from 15/05/2014  
 (2) Chief Executive Officer and General Manager until 15/05/2014

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

| A  | B   | 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 |
|--|---|---|--|----------------|---|--------------------------------------|----------------|--------------------|----------------------------|--|--|---------------------------|--|
|  |   | (1)   | (2)                                      | (3)            | (4)   | (5)                                  | (6)            | (7)                | (8)                        | (9)  | (10)   | (11)                      | (12)   |
| LAST AND FIRST NAME                        | POSITION HELD IN FINANCIAL YEAR 2014          | PLAN  | 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                                      |   | 0  |                | 0   |                                      |                |                    |                            | 0  | 0  |                           |  |
| Moretti Mauro                              | Chief Executive Officer - General Manager (1) |   | 0  |                | 0   |                                      |                |                    |                            | 0  | 0  |                           |  |
| Pansa Alessandro                           | Chief Executive Officer - General Manager (2) |   | 0  |                | 0   |                                      |                |                    |                            | 0  | 0  |                           |  |
| Executives with strategic responsibilities |   |   | 0  |                | 0   |                                      |                |                    |                            | 0  | 0  |                           |  |

(1) Chief Executive Officer and General Manager from 15/05/2014  
(2) Chief Executive Officer and General Manager until 15/05/2014

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

| A  | B   | (1)   | (2)          |          |                | (3)                     |              |                | (4)           |
|--|---|---|--------------|----------|----------------|-------------------------|--------------|----------------|---------------|
| LAST AND FIRST NAME                        | POSITION HELD IN FINANCIAL YEAR 2014          | PLAN  | Annual Bonus |          |                | Previous Years' Bonuses |              |                | Other Bonuses |
|  |   |   | (A)          | (B)      | (C)            | (A)                     | (B)          | (C)            |               |
|  |   |   | Payable/paid | Deferred | Vesting period | No longer payable       | Payable/paid | Still deferred |               |
| Moretti Mauro                              | Chief Executive Officer - General Manager (1) | MBO 2014  | 410.520      | 0        | 0              | 0                       | 0            | 0              |               |
| Moretti Mauro                              | Chief Executive Officer - General Manager (1) | One-off incentive in place of Long Term Incentive Plan 2014-2016 resolution 4/11/2014 | 193.258      | 0        | 0              | 0                       | 0            | 0              |               |
| Moretti Mauro                              | Chief Executive Officer - General Manager (1) | Performance Cash Plan 2012-2014 resolution 26/01/2012                                 | 193.750      | 0        | 0              | 0                       | 0            | 0              |               |
| Pansa Alessandro                           | Chief Executive Officer - General Manager (2) | MBO 2014  | Not Assigned | 0        | 0              | 0                       | 0            | 0              |               |
| Pansa Alessandro                           | Chief Executive Officer - General Manager (2) | Performance Cash Plan 2012-2014 resolution 26/01/2012                                 | (*)          | 0        | 0              | 0                       | 0            | 0              |               |
| Executives with Strategic Responsibilities |   | MBO 2014  | 347.435      | 0        | 0              | 0                       | 0            | 0              |               |
| Executives with Strategic Responsibilities |   | Long Term Incentive Plan 2012-2014 resolution 20/09/2005                              | 0            | 0        | 0              | 0                       | 0            | 0              |               |
| Executives with Strategic Responsibilities |   | Long Term Incentive Plan 2013-2015 resolution 20/09/2005                              | 0            | 0        | 0              | 0                       | 0            | 0              |               |
| Executives with Strategic Responsibilities |   | One-off incentive in place of Long Term Incentive Plan 2014-2016 resolution 4/11/2014 | 135.420      | 0        | 0              | 0                       | 0            | 0              |               |
| Executives with Strategic Responsibilities |   | Performance Cash Plan 2012-2014 resolution 26/01/2012                                 | 195.840      | 0        | 0              | 0                       | 0            | 0              |               |

(1) Chief Executive Officer and General Manager from 15/05/2014

(2) Chief Executive Officer and General Manager until 15/05/2014

(\*) Fee not paid in relation to the early termination of employment and in consideration of the settlement agreement reached

### SECTION III

The following table shows 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 2014 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 GOVERNING AND SUPERVISORY BODIES, GENERAL MANAGERS AND ALL EXECUTIVES WITH STRATEGIC RESPONSIBILITIES**

| LAST AND FIRST NAME                       | POSITION HELD IN FINANCIAL YEAR 2014            | INVESTEE COMPANY | NUMBER OF SHARES HELD AT THE END OF THE PREVIOUS FINANCIAL YEAR (2013) | NUMBER OF SHARES PURCHASED | NUMBER OF SHARES SOLD | NUMBER OF SHARES HELD AT THE END OF THE YEAR IN QUESTION (2014) |
|---|---|------------------|--|----------------------------|-----------------------|---|
| De Gennaro Giovanni                       | Chairman  | Finmeccanica     | 30 (1)   | 0                          | 30 (1)                | 0   |
| Pansa Alessandro                          | Chief Executive Officer and General Manager (2) | Finmeccanica     | 74.442   | 0                          | 0                     | 74.442 (3)  |
| Executive with Strategic Responsibilities | ---   | Finmeccanica     | 19.063   | 0                          | 0                     | 19.063  |

(1) Shares held by the spouse

(2) Chief Executive Officer and General Manager until 15/05/2014

(3) Shares held based on what reported to the Company at the date of termination of office (15/05/2014)



