Value Creation

**Driving success
by executing our goals**
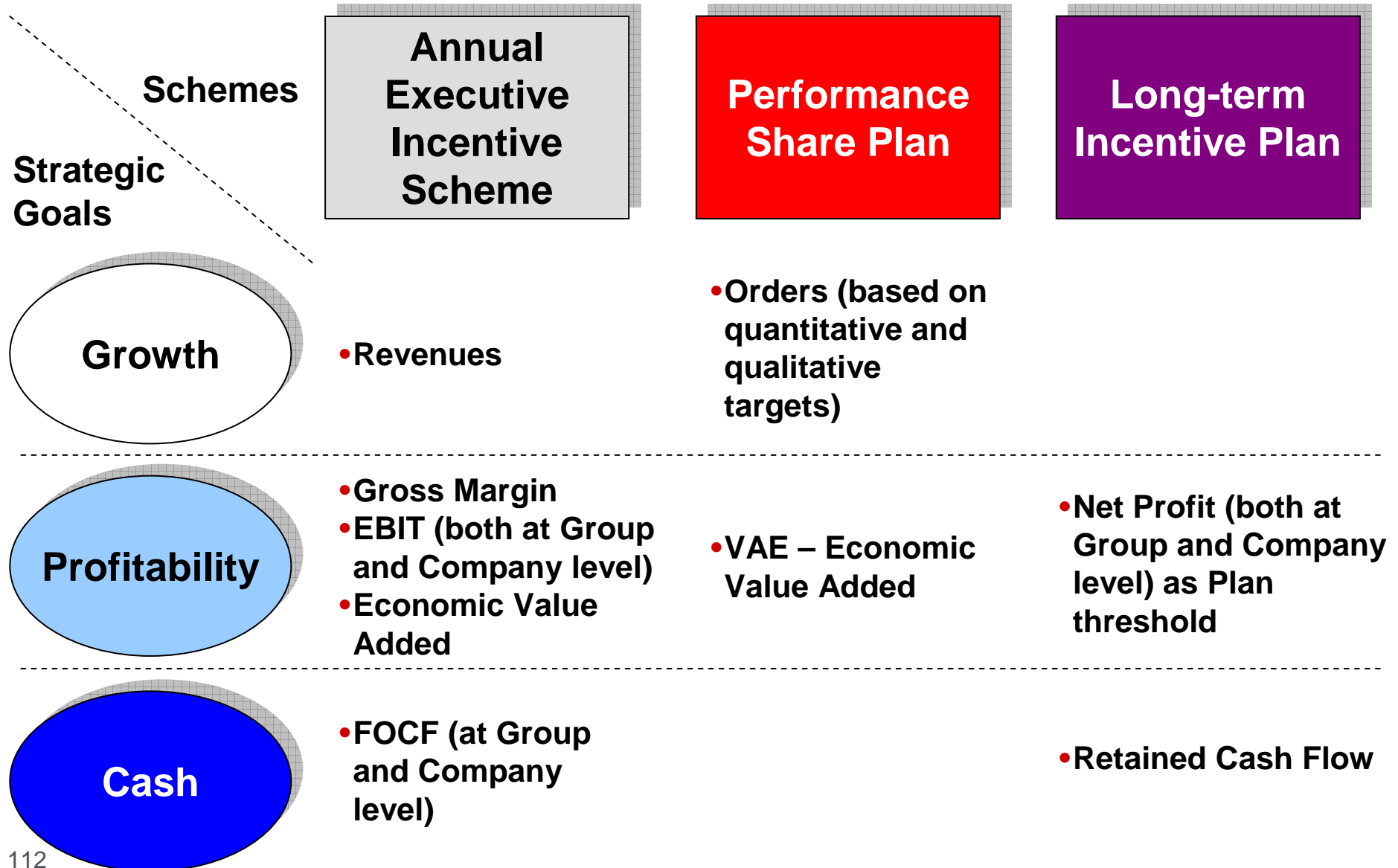
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System aligned with strategic goals

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	Annual Executive Incentive Scheme	Performance Share Plan	Long-term Incentive Plan
Schemes / **Strategic Goals**			
Growth	• Revenues	• Orders (based on quantitative and qualitative targets)	
Profitability	• Gross Margin • EBIT (both at Group and Company level) • Economic Value Added	• VAE – Economic Value Added	• Net Profit (both at Group and Company level) as Plan threshold
Cash	• FOCF (at Group and Company level)		• Retained Cash Flow

Addressing right individuals to deliver superior results (1/2)

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Number of Participants

Approx. 1800 — **Annual Executive Incentive Scheme**
- 90% of FNM Group Executives

Approx. 600 — **Performance Share Plan**
- Strategic Executives
- A selection of Key Executives and High Potential Executives

Approx. 60 — **Long Term Incentive Plan**
- Strategic Executives only

**Long Term Incentive Plan (cash) = LTIP
Pay out July next year**

**Performance Stock Plan (stock grants) = PSP
Pay out December next year**

**Annual Bonus (cash)
Pay Out May next year**

**Group
Executives**

**Selection of
Key and High
Potential
Executives**

**Strategic
Executives**
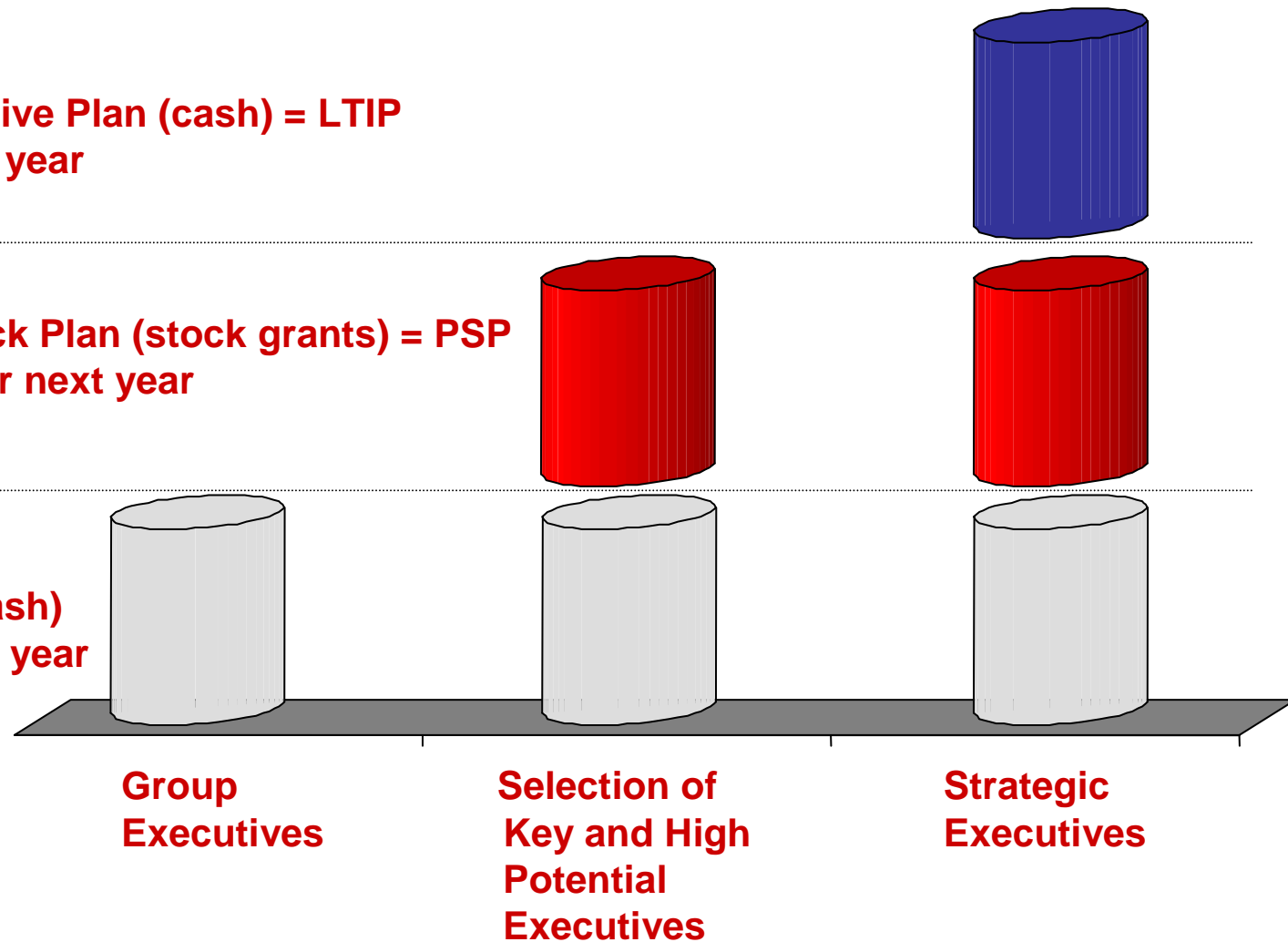
2007 Annual Executive Incentive Scheme

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**90% Executives
(including all Strategic, Key and High Potential Executives)**

Geared towards efficiency gains

G&A Costs

- Keep under control G&A costs
- Cost efficiencies to fund export market growth
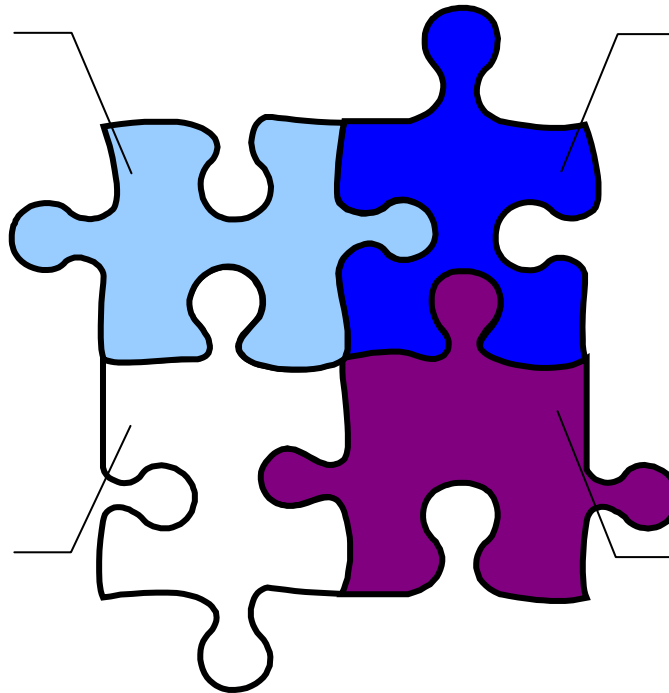
Efficiency Projects

- "Quality" in profitability
- Contribute towards EBIT and FOCF targets achievement

% Ratio Sales / Value of Production

- Focus on Working Capital Reduction and Stocks
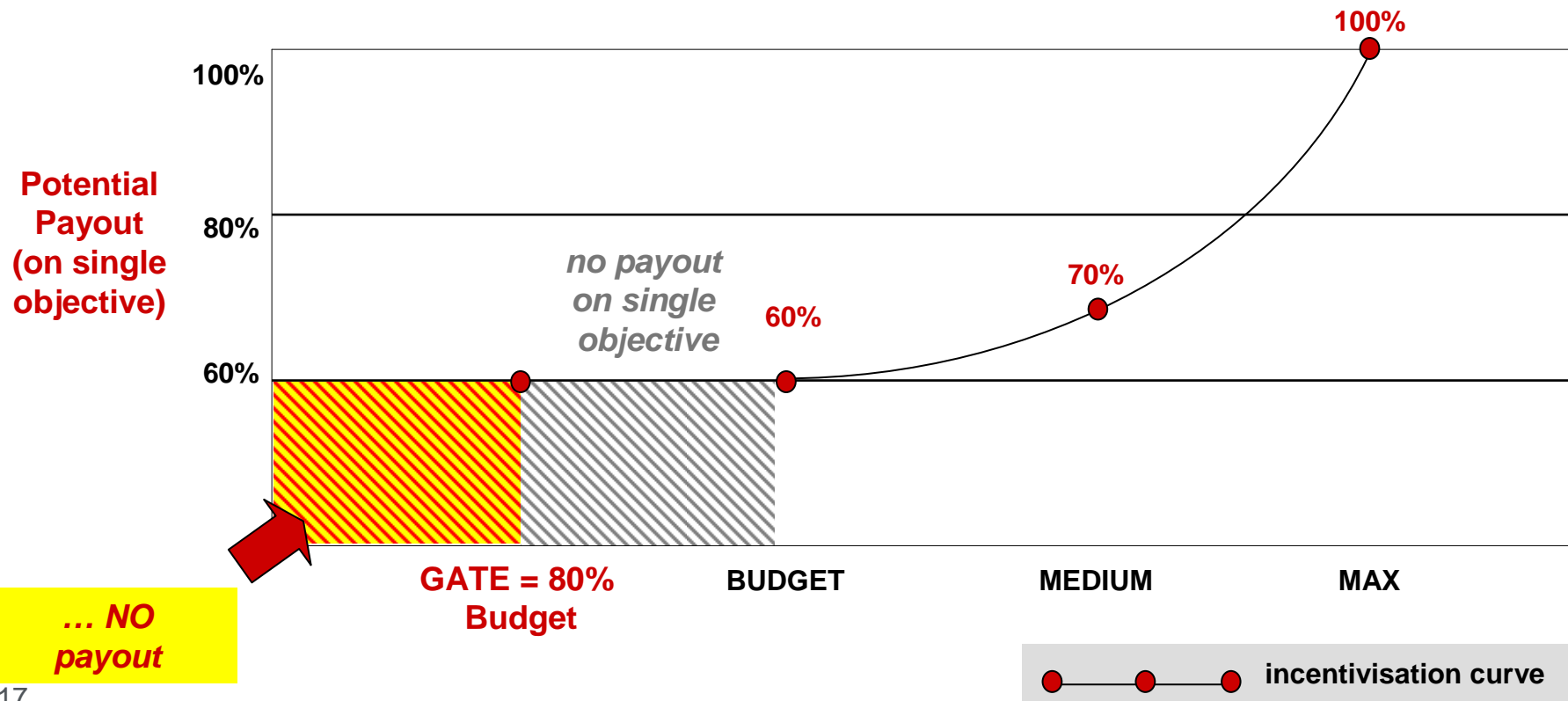- Achievement of planned milestones to deliver on commitments

Group Special Projects

- Develop processes to support growth in volumes and profitability

- ❑ **Achievement of budget target triggers 60% of payout on each objective**

- ❑ **No payout below budget**

- ❑ **"Gate principle": in the case of a performance level below 80% of budget on just one objective, all potential payouts cancelled**

Potential Payout (on single objective)
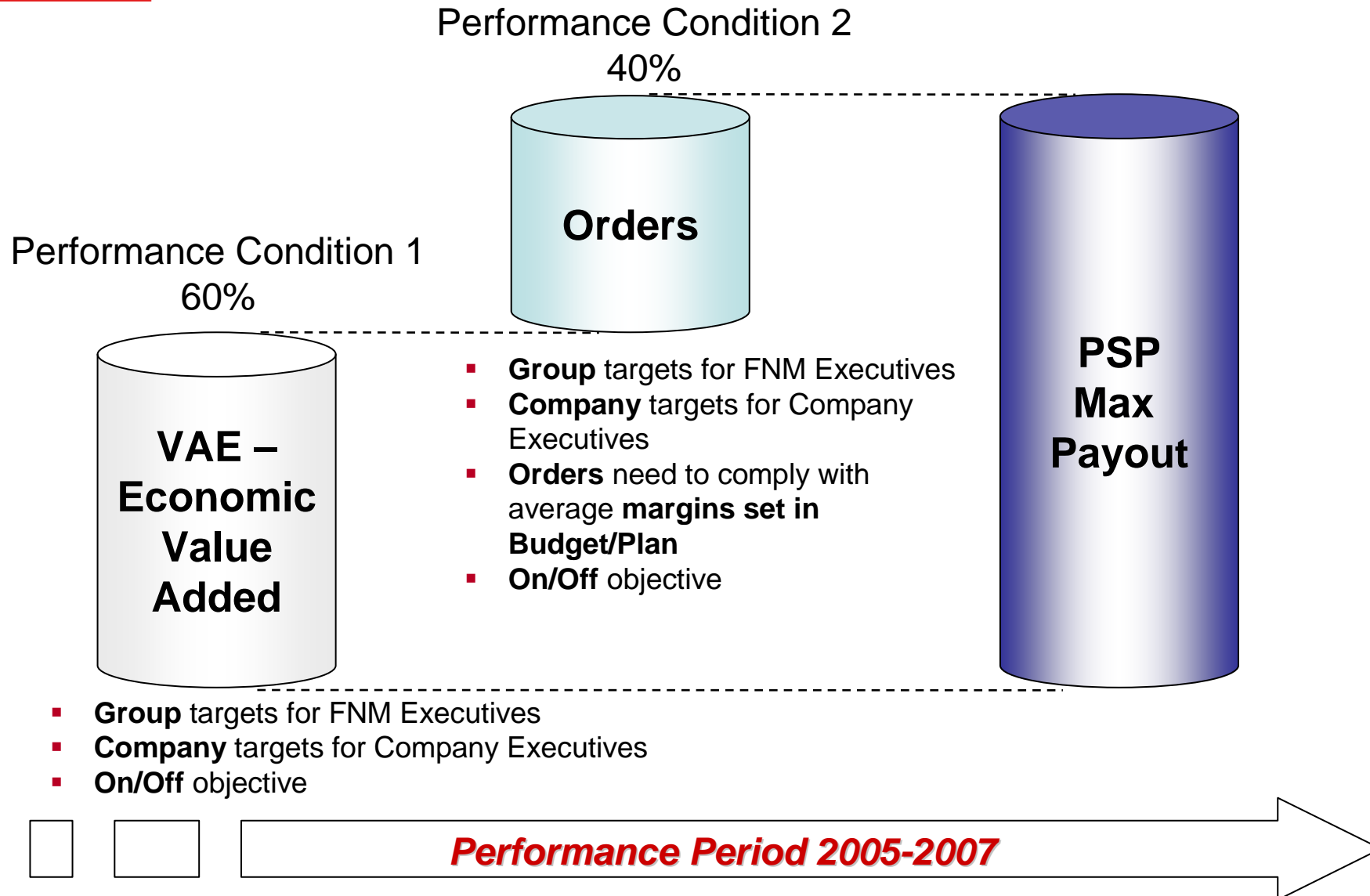
no payout on single objective

GATE = 80% Budget

BUDGET

MEDIUM

MAX

… NO payout

incentivisation curve

2005-2007 Performance Share Plan

600 Key and High Potential Executives + Strategic Executives

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Performance Condition 2
40%

Orders

Performance Condition 1
60%

VAE – Economic Value Added

PSP Max Payout

- **Group** targets for FNM Executives
- **Company** targets for Company Executives
- **Orders** need to comply with average **margins set in Budget/Plan**
- **On/Off** objective

- **Group** targets for FNM Executives
- **Company** targets for Company Executives
- **On/Off** objective

Performance Period 2005-2007

Long-Term Incentive Plan

60 Strategic Executives only

A rolling cash scheme

2005 **2006** **2007** **2008** **2009**

LTIP 2005-2007
- **RCF** — 50%
- **FNM Share appreciation target** — 25%
- **FNM Share vs. Panel** — 25%

LTIP 2006-2008
- **RCF** — 35%
- **FNM Share appreciation target** — 35%
- **FNM Share vs. Panel** — 30%

LTIP 2007-2009
- **RCF** — 35%
- **FNM Share appreciation target** — 35%
- **FNM Share vs. Panel** — 30%
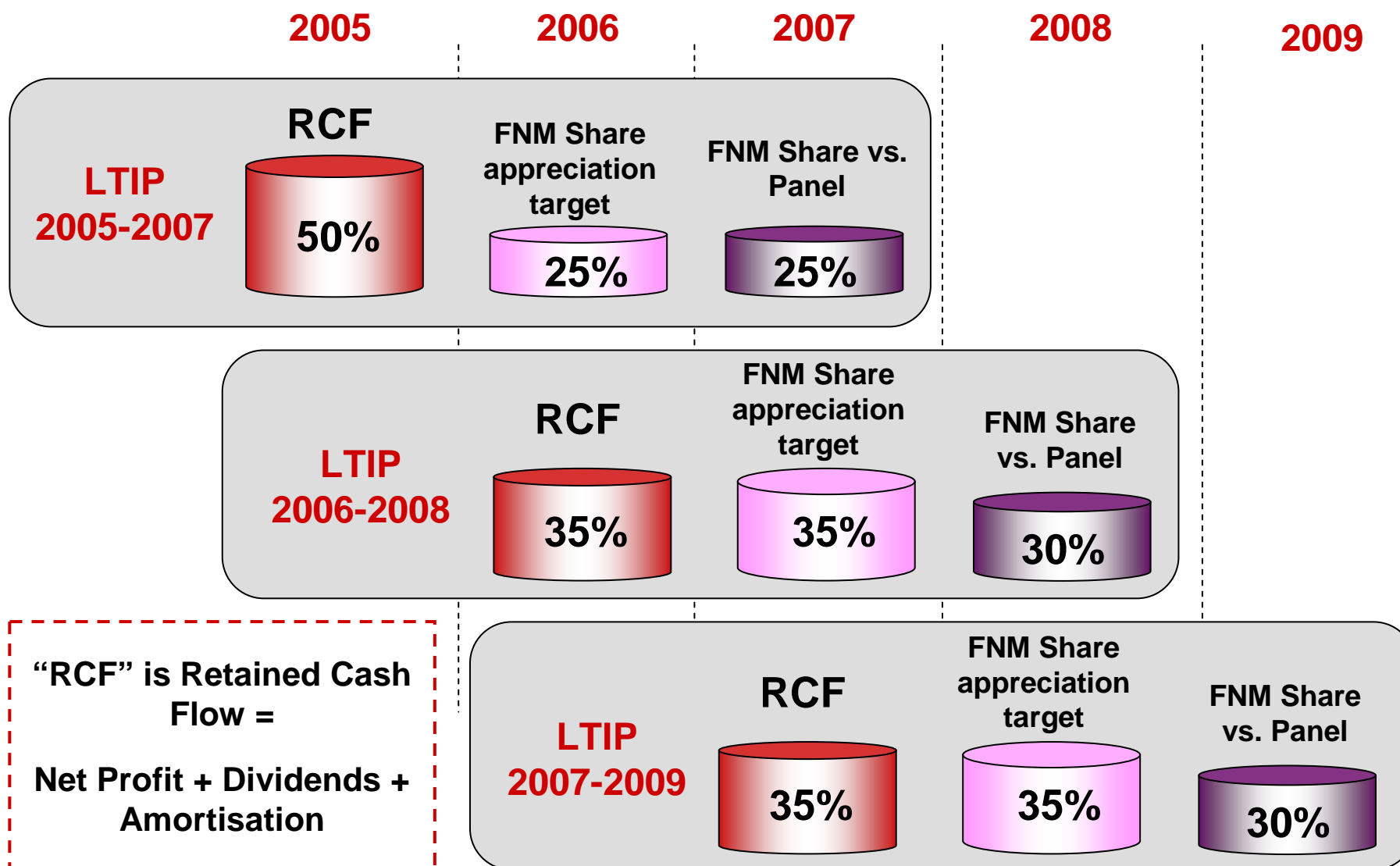
"RCF" is Retained Cash Flow =

Net Profit + Dividends + Amortisation

Funding the Schemes

Total Reward Costs:

- **Base Salaries**

  +

- **Annual Executive Incentive Scheme**

  +

- **Long Term Incentive Schemes**

are entirely incorporated in the EBIT Budget target

SELF-FUNDING and PROFIT-SHARING

- We are enhancing **Management Accountability** by increasing Performance-related Remuneration

- Executives **highly incentivised to achieve our strategic targets**: Revenue Growth, Profitability and Cash Flow

- A Reward System that enables Finmeccanica to **attract, motivate and retain talented Executives** globally

- Senior Finmeccanica Executives can earn up to more than **twice the base salary if all objectives are fully achieved**