



**Ordinary Shareholders' Meeting of 13 and 20 May 2020 (I and II call)**

**Explanatory reports pursuant to Article 125-ter of Legislative Decree No. 58/98**

**Agenda**

1. Financial Statements at 31 December 2019 of Sistemi Dinamici S.p.A. and relevant Reports of the Board of Directors, Board of Statutory Auditors and Independent Auditors. Resolutions related thereto.
2. Financial Statements at 31 December 2019 of Leonardo S.p.a. and relevant Reports of the Board of Directors, Board of Statutory Auditors and Independent Auditors. Resolutions related thereto. Presentation of the Consolidated Financial Statements at 31 December 2019.
3. Determination of the number of members of the Board of Directors.
4. Determination of the term of office of the Board of Directors.
5. Appointment of the members of the Board of Directors.
6. Appointment of the Chairman of the Board of Directors.
7. Determination of the remuneration of the Board of Directors.
8. Report on the policy regarding remuneration and fees paid: resolution on the first section pursuant to Art. 123-ter, paragraph 3-ter, of Legislative Decree No. 58/98.
9. Report on the policy regarding remuneration and fees paid: resolution on the second section pursuant to Art. 123-ter, paragraph 6, of Legislative Decree No. 58/98.
10. Appointment of the independent auditors for the 2021-2029 nine-year period. Resolutions related thereto.

*Disclaimer*

*These Explanatory Reports have 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 Explanatory Reports and the English version, the Italian version shall prevail, as the Italian version constitutes the official document.*

## **Explanatory Report of the Board of Directors on item 1 on the Agenda**

Financial Statements at 31 December 2019 of Sistemi Dinamici S.p.A. and relevant Reports of the Board of Directors, Board of Statutory Auditors and Independent Auditors. Resolutions related thereto.

Dear Shareholders,

We remind you that, with effect from 1 January 2020, the merger by incorporation of the subsidiary Sistemi Dinamici S.p.A. into Leonardo S.p.a. became effective, in execution of the resolution passed by the Board of Directors on 26 September 2019 and the consequent deed of merger signed on 11 December 2019.

You are therefore invited to deliberate on the proposal to approve the 2019 financial statements of the merged company which recorded a loss of Euro 2,528,651.00.

In light of the foregoing, we submit the following proposed resolution for Your approval:

*“The Ordinary Shareholders’ Meeting of Leonardo - Società per azioni:*

- *considering the Report of the Board of Directors;*
- *considering the Report of the Board of Statutory Auditors;*
- *having examined the financial statements at 31 December 2019;*
- *having acknowledged the report of KPMG S.p.A.*

*resolves*

*to approve the Directors’ Report and the financial statements of Sistemi Dinamici S.p.A. at 31 December 2019”.*

The financial statements documents are made available to the public at the Company's registered office in Rome, Piazza Monte Grappa No. 4, at Borsa Italiana S.p.A., on the Company's website [www.leonardocompany.com](http://www.leonardocompany.com) (section "2020 Shareholders' Meeting") and on the website of the eMarket STORAGE authorized storage mechanism ([www.emarketstorage.com](http://www.emarketstorage.com)) in accordance with the law.

## **Explanatory Report of the Board of Directors on item 2 on the Agenda**

Financial Statements at 31 December 2019 of Leonardo S.p.a. and relevant Reports of the Board of Directors, Board of Statutory Auditors and Independent Auditors. Resolutions related thereto. Presentation of the Consolidated Financial Statements at 31 December 2019.

Dear Shareholders,

considering that the financial statements for the year 2019 close with a profit of Euro 389,777,585.94, we submit the following proposed resolution for your approval:

*“The Ordinary Shareholders’ Meeting of Leonardo - Società per azioni:*

- *considering the Report of the Board of Directors;*
- *considering the Report of the Board of Statutory Auditors;*
- *having examined the financial statements at 31 December 2019;*
- *having acknowledged the report of KPMG S.p.A.*

*resolves*

- *to approve the Directors’ Report on operations and the financial statements of Leonardo - Società per azioni at 31 December 2019;*
- *to approve the proposal posed by the Board of Directors of allocating the 2019 net profit of Euro 389,777,585.94 as follows:*
  - *Euro 19,488,879.30 equal to 5% of the net profit, to legal reserve;*
  - *Euro 0.14 as the dividend to be paid – before tax, if any – starting from 24 June 2020, with the exdividend date of coupon no. 11 falling on 22 June 2020 and the record date (i.e., the date in which shareholders are entitled to receive the dividend payment, pursuant to article 83-terdecies of Legislative Decree no. 58 of 24 February, 1998 and article 2.6.6, paragraph 2, of the Rules of the markets organised and managed by Borsa Italiana S.p.A.) falling on 23 June 2020; the foregoing is with reference to each ordinary share held and outstanding at the ex-dividend date, excluding own shares held in portfolio at that date, without prejudice to the regime of those actually assigned in the current financial year based on the incentive plans in force;*
  - *the residual as retained earnings.”*

**Leonardo S.p.a.**

The financial statements documents are made available to the public at the Company's registered office in Rome, Piazza Monte Grappa no. 4, at Borsa Italiana S.p.A., on the Company's website [www.leonardocompany.com](http://www.leonardocompany.com) (section "2020 Shareholders' Meeting") and on the website of the eMarket STORAGE authorized storage mechanism ([www.emarketstorage.com](http://www.emarketstorage.com)) in accordance with the law.

## **Explanatory Report of the Board of Directors on item 3 on the Agenda**

### Determination of the number of members of the Board of Directors.

Dear Shareholders,

With the Shareholders' Meeting convened to approve the financial statements for the 2019 financial year, the three-year mandate granted to the Board of Directors by the Shareholders' Meeting of 16 May 2017 expires.

In order to proceed with the appointment of the new Board of Directors, it is necessary to preliminarily determine the number of its members.

In this regard, it is recalled that, in accordance with the provisions of Article 18.1 of the Articles of Association, the Board of Directors must consist of a number of members no less than eight and no more than twelve, it being the duty of the Shareholders' Meeting to determine the number within these limits.

The expiring Board of Directors refrains from making specific proposals on this item on the agenda (as well as with regard to subsequent issues related to the appointment of the Board of Directors and the determination of its fees) and therefore requests the Shareholders to make proposal to determine the number of members of the Board of Directors, in the manner and within the time limits indicated in the notice of call.

Shareholders are therefore invited to read the document "Guidelines of the Board of Directors of Leonardo S.p.a. to the Shareholders on the size and composition of the Board of Directors" attached to these Reports, prepared by the Board of Directors, in the light of the recommendations of the current Corporate Governance Code for Listed Companies to which Leonardo adheres, on the basis of the indications expressed by the Nominating, Governance and Sustainability Committee and taking into account the results of the self-assessment process carried out.

**Report of the Board of Directors on item 4 on the Agenda**

Determination of the term of office of the Board of Directors.

Dear Shareholders,

Article 18.2 of the Articles of Association provides that the Board of Directors shall be appointed for a period not exceeding three financial years and that the Directors may be re-elected pursuant to Article 2383 of the Italian Civil Code.

In relation to the foregoing, the shareholders are requested to make proposal to determine the term of office of the Board of Directors in the manner and within the time limits indicated in the notice of call.

Shareholders are invited to read the document "Guidelines of the Board of Directors of Leonardo S.p.a. to the Shareholders on the size and composition of the Board of Directors" attached to these Reports, prepared by the Board of Directors.

**Report of the Board of Directors on item 5 on the Agenda**

Appointment of the members of the Board of Directors.

Dear Shareholders,

You are called to proceed with the appointment of the new Board of Directors, as the mandate conferred on the current Board of Directors expires with the Shareholders' Meeting convened to approve the financial statements for the 2019 financial year.

It should be noted that the members of the Board of Directors are appointed by the Shareholders' Meeting – pursuant to Article 18.3 of the Articles of Association – according to the list voting mechanism and therefore on the basis of lists submitted by the Shareholders and the outgoing Board of Directors, in which the candidates must be numbered in progressive order. In this regard, the outgoing Board of Directors decided to abstain from submitting its own list of candidates.

With regard to the procedures for the presentation, filing and publication of the lists prepared by the Shareholders, please refer to the provisions of Article 18.3 of the Articles of Association and the notice of call of the Ordinary Shareholders' Meeting.

In particular, the following should be noted.

The right to submit lists is held exclusively by those Shareholders who, alone or together with other Shareholders, represent at least 1% of the shares having voting rights in the Ordinary Shareholders' Meeting.

Each Shareholder may present or contribute to the presentation of only one list and each candidate may appear on only one list under penalty of ineligibility.

The Company Articles of Association provide that at least two Directors must meet the independence requirements established for Statutory Auditors in accordance with the law (Article 148, paragraph 3, Legislative Decree no. 58/98).

It should be noted that all candidates must also meet the requirements of integrity prescribed by current legislation.

In addition, lists with three or more candidates must include candidates of different gender in order to ensure the gender balance required by current legislation. In particular, for the next term of office, pursuant to paragraph 1-ter of Article 147-ter of Legislative Decree No. 58/98, at least two-fifth of the Directors must be elected from among those of the less represented gender; in the event that, in consideration of the total number of members of the Board of Directors established by the Shareholders' Meeting, the number of members of the less represented gender to be elected results in a fractional number, the latter shall be rounded up to the higher unit.

In view of the fact that the number of members of the Board of Directors may be determined by the Shareholders' Meeting up to a maximum of twelve and that, in the event of early termination of the Directors' term of office, the special replacement system provided for in Art. 18.4 of the Articles of Association shall be applied (which provides in advance for the replacement of unelected candidates taken from the same list as the Directors who have ceased to hold office), it should be noted that Shareholders should include an adequate number of candidates on the lists.

The lists submitted by the Shareholders must be sent to the Company, in the manner indicated in the Notice of Call of the Shareholders' Meeting, within 20 April 2020 (first business day following the twenty-fifth day before the date of the Shareholders' Meeting on first call), accompanied by information on the Shareholders who submitted them, including an indication of the percentage of the total share capital held by them, and the following documentation:

- a) a declaration by which the interested party accepts his/her candidacy and certifies, under his/her own responsibility, that there are no grounds for ineligibility and incompatibility, that he/she meets the requirements prescribed by current legislation and by the Articles of Association (including, if applicable, the requirements of independence as per Art. 18.3 of the Articles of Association and that he/she meets the requirements of good repute prescribed for Directors of listed companies by the Decree of the Ministry of Justice of 30 March 2000 No.162, pursuant to Articles 147-quinquies and 148 of Legislative Decree no. 58/98), as well as any eligibility to qualify



as "independent" pursuant to Article 3 of the Corporate Governance Code for Listed Companies, to which Leonardo adheres; in this regard, Shareholders are also invited to indicate in the list of candidates those who meet the above-mentioned independence requirements pursuant to the Articles of Association and the Corporate Governance Code;

- b) a "curriculum vitae" containing exhaustive information on the personal and professional characteristics of the candidates; Shareholders are also invited to indicate for each candidate the positions as director and auditor held in other companies listed on regulated markets (including foreign markets), in financial, banking and insurance companies or of significant size;
- c) a declaration by the Shareholders, other than those who also jointly hold a controlling or relative majority interest, certifying the absence of any connection, even indirectly, with the latter, pursuant to the provisions of Article 147-ter, paragraph 3, of Legislative Decree No. 58/98 and Article 144-quinquies of Consob Regulation No. 11971/99; with regard to the contents of the latter declaration, the attention of the Shareholders is drawn to the recommendations of Consob Communication No. DEM/9017893 of 26 February 2009.

The minimum shareholding required to submit lists of candidates is determined by taking into account the shares which are registered in name of any shareholder on the day on which the lists are filed with the Company. The Shareholders should send to the Company, in the manner provided for the transmission of the lists, the certification proving the ownership of the number of shares represented, even after the transmission of the list, provided that within the deadline provided for the publication of the lists by the Company (and therefore by 22 April 2020).

Shareholders are invited to read the document "Guidelines of the Board of Directors of Leonardo S.p.a. to the Shareholders on the size and composition of the Board of Directors" attached to these Reports, which contains guidelines and suggestions that the outgoing Board of Directors of Leonardo makes available to Shareholders, with a view to helping them formulate proposals for the composition of the Company's Board of Directors.

With regard to the mechanism for the appointment of Directors elected by list voting, reference should be made to the notice of call of the Shareholders' Meeting and Article 18.3 of the Articles of Association, which provides in particular for the following:

- each person entitled to vote in the Shareholders' Meeting may vote for only one list;

- two-thirds of the Directors to be elected will be taken from the list that will have obtained the majority of the votes cast by the Shareholders, in the progressive order in which they are listed on the list itself (rounded down to the nearest whole number in the case of a fractional number);
- the remaining Directors shall be taken from the other lists in the manner prescribed by Article 18.3 subparagraph b) e b-bis).

If the Majority List does not contain a sufficient number of candidates to ensure that the number of directors to be elected pursuant to Article 18.3, letter a), it will proceed to: i) draw from the List all the candidates listed therein, in the progressive order indicated in that List, ii) draw the other directors from the Minority Lists, for the number of positions equal to one third of the total, provided for such lists, iii) draw the remaining directors, for the positions not covered by the Majority List, from the Minority List that has obtained the highest number of votes among the Minority Lists (the "First Minority List") in relation to the capacity of that List; in the event of insufficient capacity, the remaining directors shall be drawn, in the same manner, from the following list or, where applicable, from the following lists, depending on the number of votes and the capacity of the Lists themselves. Finally, if the total number of candidates included in the Lists submitted, both Majority and Minority, is lower than the number of directors to be elected, the remaining directors shall be elected at the Shareholders' Meeting by resolution passed pursuant to Article 18.4.

If, as a result of the application of the provisions of letters a), b) and b-bis) of the Articles of Association, the presence of at least two independent Directors pursuant to Article 18.3 of the Articles of Association and at least two fifth of Directors of the gender less represented is not guaranteed on the Board of Directors, the letters c) and c-bis) of the said Article 18 provide for a specific sliding mechanism (for which reference should be made to the notice of call of the Shareholders' Meeting) within a single decreasing ranking list formed, among the candidates on all the lists, according to the quotient system indicated in letters b) and b-bis) of the same article 18.3. If not even this mechanism is successful, the Shareholders' Meeting shall resolve with the majorities required by law in order to ensure the presence of the necessary number of Directors meeting the requirements of independence pursuant to art. 18.3 of the Articles of Association, as well as compliance with current legislation on gender balance.

**Leonardo S.p.a.**

In relation to the foregoing, Shareholders are requested to vote for one of the lists of candidates for the position of Director among the submitted, filed and published lists, in compliance with the above provisions.

Finally, it should be noted that for the appointment of Directors for any reason not elected by the procedures indicated above, the Shareholders' Meeting, pursuant to art. 18.4 of the Articles of Association, resolves with the majorities required by law, so as to ensure compliance with the criteria mentioned above.

**Report of the Board of Directors on item 6 on the agenda**

Appointment of the Chairman of the Board of Directors

Dear Shareholders,

The Shareholders' Meeting is vested with the power to appoint the Chairman of the Board of Directors; Article 19.1 of the Articles of Association in fact provides that the Board of Directors appoints among its members the Chairman only if the Shareholders' Meeting has not resolved upon this matter.

Shareholders are therefore invited to make proposal to appoint the Chairman of the Board of Directors in the manner and within the time limits indicated in the notice of call.

Shareholders are invited to read the document "Guidelines of the Board of Directors of Leonardo S.p.a. to the Shareholders on the size and composition of the Board of Directors" attached to these Reports.

**Report of the Board of Directors on Item 7 on the Agenda**

Determination of the remuneration of the Board of Directors

Dear Shareholders,

Article 27.1 of the Articles of Association provides that the Chairman and the other members of the Board of Directors are entitled, in addition to the reimbursement of expenses incurred for reasons of their office, to a compensation determined by the Ordinary Shareholders' Meeting and that the related resolution remains valid for subsequent financial years until otherwise determined by the Shareholders' Meeting.

In this regard, it should be noted that the Ordinary Shareholders' Meeting of 16 May 2017 determined the remuneration of the Board of Directors, which has now expired, in the following terms: Euro 90,000.00 gross per year for the Chairman of the Board of Directors and Euro 80,000.00 gross per year for each of the other Directors.

In relation to the above, Shareholders are invited to make proposal to determine the remuneration due to the Chairman and the other members of the Board of Directors in the manner and within the time limits indicated in the notice of call.

**Explanatory Report of the Board of Directors on item 8 on the Agenda**

Report on the policy regarding remuneration and fees paid: resolution on the first section pursuant to Art. 123-ter, paragraph 3-ter, of Legislative Decree No. 58/98.

Dear Shareholders,

pursuant to Art. 123-ter, paragraph 3-ter, of Legislative Decree No. 58/98 ("Consolidated Law on Finance - TUF") you are called to express, with a binding resolution, Your vote on the first section of the Report on the policy regarding remuneration and fees paid pursuant to Art. 123-ter, paragraph 3, of Legislative Decree No. 58/98, which explains the corporate policy for the 2020 year regarding remuneration of the members of the Board of Directors, the General Managers and other Executives with Strategic Responsibilities and, without prejudice to the provisions of Art. 2402 of the Italian Civil Code, of the members of the Board of Statutory Auditors, as well as the procedures used for the adoption and implementation of this policy.

The resolution on the first section of the Report will have binding effect for the first time, while implementing the changes introduced by Legislative Decree of 10 May 2019, No. 49 - which came into force on 10 June 2019 - which transposed Directive 2017/828 of the European Parliament and of the Council of 17 May 2017 ("Shareholders' Rights II Directive") defining new rules for the policies regarding remuneration of listed companies.

In line with the provisions of Art. 123-ter, paragraph 3-bis, the 2020 policy is submitted to Your attention.

The Report on the policy regarding remuneration and fees paid, which includes the first section, is provided to the public at the registered office, at Borsa Italiana S.p.A., on the Company's website [www.leonardocompany.com](http://www.leonardocompany.com) (section "2020 Shareholders' Meeting") and on the website of the eMarket STORAGE ([www.emarketstorage.com](http://www.emarketstorage.com)) authorized storage mechanism, in accordance with the law.

In view of the foregoing, we submit for Your approval the following binding resolution proposal on the eighth item on the agenda:

*“The Ordinary Shareholders' Meeting of Leonardo - Società per azioni:*

- having regard to Articles 123-ter of Legislative Decree No. 58/98 and 84-quater of Consob Regulation No. 11971/99;*
- having examined the first section of the "Report on the policy regarding remuneration and fees paid", approved by the Board of Directors on 12 March 2020 pursuant to Arts. 123-ter of Legislative Decree No. 58/98 and 84-quater of Consob Regulation No. 11971/99" and published by the Company in accordance with the law;*
- having taken into account the binding nature of this resolution, pursuant to Art. 123-ter, paragraph 3-ter, of Legislative Decree No. 58/98,*

*resolves*

*to approve the first section of the "Report on the policy regarding remuneration and fees paid by Leonardo S.p.a."*

**Explanatory Report of the Board of Directors on item 9 on the Agenda**

Report on the policy regarding remuneration and fees paid: resolution on the second section pursuant to Art. 123-ter, paragraph 6, of Legislative Decree No. 58/98.

Dear Shareholders,

pursuant to Art. 123-ter, paragraph 6, of Legislative Decree No. 58/98, you are called to express, with a non-binding resolution, Your vote on the second section of the Report on the policy regarding remuneration and fees paid pursuant to Art. 123-ter, paragraph 4, of Legislative Decree No. 58/98 that:

- a) provides the representation of each of the items comprising remuneration of the Members of the Board of Directors and the Board of Statutory Auditors, the General Managers and the other Executives with Strategic Responsibilities;
- b) analytically illustrates fees paid to the subjects listed above in 2019 for any title and in any form by the company and by its subsidiaries or associates.

The second section of the Report is submitted for the first time to your resolution, while implementing the changes introduced by Legislative Decree of 10 May 2019, No. 49 - which came into force on 10 June 2019 - which transposed Directive 2017/828 of the European Parliament and of the Council of 17 May 2017 ("Shareholders' Rights II Directive") defining new rules for the policies regarding remuneration of listed companies. The resolution will have non-binding effect as provided for by Art. 123-ter, paragraph 6, of Legislative Decree No. 58/98.

The Report on the policy regarding remuneration and fees paid, which includes the second section, is provided to the public at the registered office, at Borsa Italiana S.p.A, on the Company's website [www.leonardocompany.com](http://www.leonardocompany.com) (section "2020 Shareholders' Meeting") and on the website of the eMarket STORAGE ([www.emarketstorage.com](http://www.emarketstorage.com)) authorized storage mechanism in accordance with the law.

In view of the foregoing, we submit for Your approval the following non-binding resolution proposal on the ninth item on the agenda:

*"The Ordinary Shareholders' Meeting of Leonardo - Società per azioni:*



**Leonardo S.p.a.**

- *having regard to Articles 123-ter of Legislative Decree No. 58/98 and 84-quater of Consob Regulation No. 11971/99;*
- *having examined the second section of the "Report on the policy regarding remuneration and fees paid", approved by the Board of Directors on 12 March 2020 pursuant to Arts. 123-ter of Legislative Decree No. 58/98 and 84-quater of Consob Regulation No. 11971/99" and published by the Company in accordance with the law;*
- *having taken into account the binding nature of this resolution, pursuant to Art. 123-ter, paragraph 6, of Legislative Decree No. 58/98,*

*resolves*

*in favour of the second section of the "Report on the policy regarding remuneration and fees paid by Leonardo S.p.a."*

## **Report of the Board of Directors on item 10 on the agenda**

### Appointment of the independent auditors for the 2021-2029 nine-year period. Resolutions related thereto.

Dear Shareholders,

the Shareholders' Meeting approving the Financial Statements as at 31 December 2020 will let expire the statutory audit task granted by Leonardo S.p.a. to the Independent Auditors KPMG S.p.A. (hereinafter referred to as KPMG) on 16 May 2012, for the years 2012 to 2020. Given the current regulation – as last amended by (EU) Regulation No. 537 of 16 April 2014 (hereinafter referred to as "EU Regulation") and by Legislative Decree No. 135 of 17 July 2016 – the task to KPMG will not be renewable, nor re-assignable, unless at least four years have passed since its termination. This regulation also states that the incoming auditor is prohibited from providing some services even during the financial year immediately before the beginning of the period under review (the so-called "cooling in period"). Therefore, in order to prevent any causes of incompatibility in the presence of banned services, the Board of Statutory Auditors, in its capacity as of "Auditing Committee" pursuant to paragraph 1, subpara. f) of Article 19 of Legislative Decree No. 39/2010, shared the proposal of Leonardo's competent corporate structures to anticipate the selective procedure for the assignment of the statutory audit task for the 2021-2029 nine-year period so as to allow this Shareholders' Meeting to timely state the assignment of the related task.

Article 16, paragraph 2, subpara. 2, of (EU) Regulation No. 537/2014 provides that the Board of Statutory Auditors, in its capacity as of Auditing Committee submits a motivated proposal to the Shareholders' Meeting containing at least two possible alternate proposals for granting, thus expressing a duly justified preference for one of the two proposals.

Given the above, the motivated proposal of the Board of Statutory Auditors prepared pursuant to Art. 13, paragraph 1, of Legislative Decree No. 39/2010 as amended and supplemented, to which the Board of Directors refers, is submitted to the Shareholders' General Meeting, published within the terms and with the methods of law at the registered office, at Borsa Italiana S.p.A., on the Company's website [www.leonardocompany.com](http://www.leonardocompany.com)

**Leonardo S.p.a.**

(section "2020 Shareholders' Meeting") and on the website of the authorized storage eMarket STORAGE ([www.emarketstorage.com](http://www.emarketstorage.com)) mechanism in accordance with the law.

On behalf of the Board of Directors  
The Chairman  
(Mr. Giovanni De Gennaro)



**Guidelines of the Board of Directors of Leonardo S.p.a. to the  
Shareholders on the size and composition of the Board of  
Directors**

**2 March 2020**

***[www.leonardocompany.com](http://www.leonardocompany.com)***

## Introduction

Leonardo SpA (“Leonardo”, the “Company” or the “Group”) subscribes to the Code of Practice of Borsa Italiana, which, in Art. 1.C.1., letter h, of the current July 2018 version<sup>1</sup>, recommends that Boards of Administration of listed companies, on reaching expiry, should manifest - bearing in mind self-assessment results - their opinion and position to the Shareholders on the size and composition of the new Board and, consequently, on the formation of lists of candidate Directors to be elected.

In this respect, it should be noted that the Corporate Governance Committee of Borsa Italiana, which also ensures year-by-year monitoring of the state of implementation by listed companies of the Code of Practice, to which Leonardo subscribes, has - in the 7<sup>th</sup> Report on the application of the Code of Practice, published on 9 December 2019, and anticipating the provisions embodied in the new Code of Practice which will come into force next year - put forward the following recommendation concerning the “guidelines”: *“The Committee sees a significant margin for improvement in listed companies, above all those of large dimensions and those with a less concentrated ownership, in adopting the Code’s recommendation, which seeks to make the outgoing board responsible for the due formation of the next board of directors. Due and timely information for shareholders concerning the professional skills and competences needed within the board are, in fact, basic elements when it comes to ensuring efficient and competent business management in the medium to long term.*

*In order to ensure the instrument’s efficiency, the Committee recommends that those who submit lists for renewing the board of directors should specify that the selection of the candidates has complied with the guidelines and policies expressed by the outgoing board on its ideal composition”.*

The Board of Directors of Leonardo, whose term of office expires on the approval of the financial statements for 2019, having

- involved the Nomination, Governance and Sustainability Committee, which it has entrusted with carrying out an initial assessment of the size and composition of the Board, and
- bearing in mind the findings of the Board’s Self-assessment, conducted on the basis of the 2019 financial year and in continuity with the three-year period which has come to an end,

makes available to the Shareholders - in order to facilitate a pathway establishing the best proposals for the Shareholders’ Meeting in terms of the quantitative and qualitative composition of Leonardo’s Board of Directors on renewing the Body for the next term of office:

---

<sup>1</sup> As in Art. 4, Principle XIII, Recommendation no. 23 of the new Corporate Governance Code of 31 January 2020, which will be in force in the first financial year after 31 December 2020.

- the current strategic and operational elements of Leonardo's situation, that have been realised during the expiring term of office and that are to be realised in the next term of office, as set out, and notified to the market, in the Business Plan for 2018-2022;
- the experience and the skills indicated in the 2019 Self-assessment - as top priority or very important, duly distributed and diversified - for the composition of the new Board, bearing in mind its possible renewal and the need to ensure the Body's future continuity;
- the guidelines on the size of the new Board of Directors and on the professional roles whose presence is deemed opportune, in such a way that each member - within Committees and in collective decisions - can effectively contribute towards ensuring sound governance of the Company in terms of pursuing the established strategies and ensuring effective safeguards against risks in all the Group's areas.

## Context

The existing term of office started in May 2017 - with:

- the now expiring Board of Directors, formed by the Non-executive and Non-independent Chairman, the then new Executive Director and 10 members: 1 Non-executive and Non-independent Director, 9 Non-executive and Independent Directors;
- the new Executive Director, *the fourth change in Senior Management since 2011*, who contributed wide-ranging, top-level and consolidated managerial and entrepreneurial competence, as acknowledged by the Board in the course of the Self-assessment;
- the value of the stock at high levels, spurred on by the results achieved and by the return to a dividend after 6 years;
- the launched, and ongoing, process of Leonardo's transformation into a "One Company", with central structures yet to be aligned to the needs of the business, focusing on *Aerospace, Defense and Security*;
- the surfacing, in the same year, i.e., 2017, of non-structural difficulties in the Helicopters Division;

evolved with the implementation and development of the new Business Plan for 2018 - 2022, aimed at recovering and increasing value generation and achieving sustainable growth in the medium to long term; the Plan was implemented with a new process - i.e., *best-in-class* - proposed, accepted and approved by the Board;

The Business Plan for 2018 - 2022 rests on, and currently operates in, four macro-areas of intervention: optimising the model of operation, adopting a more effective approach towards clients, making investments geared to boosting growth, and improving performance.

The first two years of the Business Plan, which ended in 2019, saw Leonardo's Executive Director implement, with the Board's full agreement and support, the initiatives and measures required to attain the Group's objectives and operating results.

The "One Company" model is nearing completion. The implementation of processes and the use of standard tools, shared and across-the-board, in support of the business Divisions, are proceeding well. The focus on innovative technological issues - ranging from digital transformation to artificial intelligence, advanced analytics, and cyber security - has led to the introduction of new, top-level, front-line managerial roles: the Chief Technology and Innovation Officer, the Managing Director for Cyber Security and the Chief Strategy and Market Intelligence Officer.

The setting up of cross-divisional Centres of Expertise, which blend and share technologies and platforms, is at an advanced stage, in parallel with the wide-ranging cost control and performance improvement programme relating to production units and dealings with the Group's suppliers and partners.

On the basis of a preliminary analysis, the economic and financial results/elements for 2019 highlight an excellent group performance, in line with expectations for a particularly significant fourth quarter.

On such a basis, at the exchange rates of the Guidance, the Group forecasts Orders and Revenues in excess of the 2019 Guidance. The EBITA value is expected to be in the medium to high segment of the Guidance, thanks to the excellent performance of the main areas of business, which has offset the lower contribution of the Joint Ventures (Space and ATR manufacturing segment). The FOCF is expected to be slightly higher than expected thanks to a significant fourth quarter. The effective exchange rates will lead to further benefits in relation to the expected results in 2019.

	Guidance 2019	Revised expectations
Revenues (€ b.)	12.5 – 13.5	
Proceeds (€ b.)	12.5 – 13.0	<b>Above the high segment</b>
EBITA (€ m.)	1,175 – 1,225	In the medium to high segment
FOCF (€ m.)	ca. 200	Slightly above expectations

The financial analysts appreciate the path followed by Leonardo, showing trust in the Group's current top management and in the Board of Directors, and confidence that all the defining objectives of the Business Plan will be reached at the end of the next term of office.

**In the next term of office**, the new Board of Directors and the Executive Director will be required to face challenges that are still open:

- the full implementation of the “One Company” model
- the Digital Transformation pathway
- the model and strategy of the **Electronics and Cyber Security** Division
- the definition of the **model for the optimal planning of resources** for each operational function
- increasing the **commercial drive** arising from **cross-selling** opportunities
- making Leonardo the MoD's “**Partner of Choice**”
- further developing and **reinforcing internationalisation**



- realising the launched **performance improvement** and **cost control** projects and adopting **innovative technologies** geared to increasing levels of competitiveness and quality
- completing the process of **consolidating the products portfolio**
- completing the **integration of Vitrociset**
- going ahead with the **transformation** of the “**Fully Integrated Service Provider**” **business model**
- ensuring a **leading role over future European military platforms** from the initial stages.

## Size

Conscious of Leonardo’s dimensions and organisational complexities and of the positive operational dynamics expressed by the Administrative Board and by the Board of Statutory Auditors over the last three years, the Board of Directors - after examining, with the support of the Nomination, Governance and Sustainability Committee, the results of the Self-assessment for the 2019 financial year, the last year of the term of office - considers

- appropriate the current number of twelve Directors, the maximum envisaged by the current Bylaws;
- adequate the existing ratio between Executive Directors (1), Non-executive/Non-independent Directors (2) and Non-executive and Independent Directors (9), bearing in mind the complexity of governance and the characteristics of the activities carried out by Leonardo in the various sectors in which it operates;
- adequate the current size and structure, which facilitate a correct composition of the four Committees envisaged within the board, with the Chair and majority of members always being independent, while ensuring due involvement and making it possible to thoroughly examine the matters discussed and the decisions to be adopted;
- that the size of the Board of Directors and the overall number of independent directors is in line with international best practices and with best corporate governance practices.

## Gender Diversity

Leonardo’s Board of Directors, after noting that

- on 1 January 2020, the provisions of the 2020 Budget Law came into force, which amend Art. 147-ter, paragraph 1-ter, and Art. 148, paragraph 1-bis, of the TUF, introduced by Law no. 20 of 12 July 2011 (so-called “Golfo-Mosca” law), on gender balance in the bodies of companies with listed shares, that were required to observe a gender composition criterion, in which “*at least one third*” of the members of the administrative and supervisory bodies were reserved for the less represented gender;

- the new provisions of the Budget Law contemplate a different quota reserved for the less represented gender, corresponding to *“at least two fifths”* of the members of administrative and supervisory bodies;
- the *“at least two fifths”* distribution criterion applies, within the meaning of the Budget Law, *“with effect from the first renewal of the administrative and supervisory bodies of companies listed on regulated markets, after the date on which the law comes into force”* for *“six consecutive terms of office”*;

points out to the Shareholders that, in compliance with these new provisions, on drawing up the lists of candidate Directors to be elected, it is operating in such a way as to ensure that the number of candidates of the less represented gender is at least not less than the number (rounded upwards, where necessary, to the next whole number) corresponding to two fifths of the size they have chosen for the body. The Board hopes that, on selecting candidatures, a broad gender diversity is ensured and, at the same time, a diversification in terms of the age groups of the Directors.

## Experience, Skills and Period of Office

In the 2019 Self-assessment, the Board of Directors has underlined the numerous elements of continuity that are necessary in order to implement strategic policies and operational and organisational projects, in such a way as to achieve and consolidate results and meet the objectives of the Business Plan.

Leonardo’s Board of Directors, on the basis of the work carried out and its evaluation of the work the new Board will be required to carry out in order to complete the Plan, recommends, when electing the new Board, forming lists of candidates, with reconfirmed and new members who, with diverse skills, reflect experience and skills which, considered together, duly confirm and fortify the composition of the Board in terms of quality.

The Board provides an outline, in the **Skills Directory** provided below, of the complete range of **distinctive**<sup>2</sup> experience and skills which it considers the new Board will need to have, each with a different **availability**<sup>3</sup>: sufficiently broad, average, or even limited (if specialist).

More specifically, it indicates as **Skills** for which a **broad availability** is recommended:

- Business experience acquired in multinational corporate organisations

---

<sup>2</sup> The term **distinctive** is used to define knowledge, experience or competence that have been acquired either at an executive level, during an assignment where they have been developed over a significant period of time or via a specific training curriculum reflected in an acknowledged cultural background or, in any case, through professional experience (here again, clearly on Boards and Committees, if, for two or more terms of office), which has led to their acquisition and proven possession. Generally speaking, distinctive knowledge and competence are knowledge, skills and expertise geared to comprehending and managing the relevant contents and/or making it possible to explain/pass on such contents.

<sup>3</sup> The term **broad availability** is defined as the existence of distinctive experience or competence possessed by several members of the Board; average availability is defined such when it possessed by one third or more of the Board’s members; the term limited, yet adequate, availability on account of specialistic contents is defined as the existence of distinctive experience or competence possessed by one quarter or more of the Board’s members.

- Experience in top-level roles at listed companies in sectors, and with operating weaknesses, comparable to those of Leonardo
- Financial expertise, skills in interpreting corporate management data and skills in evaluating exceptional operations
- Planning skills and/or strategic assessment skills

**Skills** for which even just an **average availability** is recommended:

- Risk oversight/management skills
- HR skills and/or skills in developing/transferring complex organisations
- Knowledge of international geopolitical situations and of issues involving Governmental, Institutional and/or Public Relations
- Experience in situations or in projects characterised by innovation and/or advanced technological contents

**Skills** for which even just a **limited availability** is recommended:

- Legal skills and skills in international agreements and contracts
- Knowledge of issues inherent in digital information technology and cyber security
- Knowledge of *CSR/ESG* issues.

The Board wishes to stress that the past term of office has provided confirmation of the business drive, operating skills, prestige and leadership of the CEO, as indeed of the distinctive skills which the Board has internally, and which have produced positive effects on the work of the Committees, on the Board's discussions and on interactions with management.

The Board recommends carefully evaluating opportunities for reconfirming the members of the outgoing Board who have consolidated experience and skills in line with those set out in the Skills Directory for the optimal composition of the new administrative Body, in such a way as to ensure - in compliance with the requisites and criteria of independence, as established by the Code of Practice - the necessary continuity of the Board in its functions of strategic orientation and, with the Executive Director, in monitoring operations.

It recommends giving priority to candidates who, alongside the advanced professional skills indicated above, have the capacity to understand, and express themselves in, English, and who are endowed with suitable personal characteristics geared to transparency, commitment and inclusion; and who have soft skills, challenging but important, such as: skills in standing-up, communication and influence; leadership, spirit of cooperation; focusing on achieving results; business judgment capacity and the capacity to constructively make decisions.

The Board, while recommending the criteria to be followed in the renewal, has taken account of the three main indicators considered by stable investors: formal independence and independence of judgment; competence, which explains the importance, for investors too, of

the existence and application of a Skills Directory; diversity, in its various forms, such as gender, background, nationality, etc.

It has evaluated the importance attached by stable investors to the continuity of top management, in the presence of positive economic, financial and business results and in line with the objectives of the Business Plan and relevant updates.

With regard to the judgment criteria applied by proxy advisors and hence by institutional investors, the outgoing Board recommends evaluating possible discontinuities in the composition of the Body in cases where they aim to achieve a sought-after diversification of existing skills.

### **Time Availability**

All candidates considered for election as future Directors must make quite clear that they *guarantee* the time needed to participate, either physically or at any rate by video-conference, and to prepare for Board and Committees meetings, while also taking part in informal meetings and seminars with the other Directors.

In the course of the expiring term of office, each year the Directors were engaged in an average of 10 Board meetings and in around 22 meetings of Committees within the Board, as indeed in the days dedicated to the Shareholders' Meeting and to such activities as onboarding, induction, visiting industrial sites or venues for training in specific matters, as well as seminars and conferences of interest to the Company.

### **Director's Overboarding**

As far as the maximum number of assignments as Director or Auditor is concerned, the Board of Directors deems compatible with an efficient performance of the Directorship - such as to ensure an appropriate commitment in line with the duties inherent in the position - a number of not more than three assignments in companies listed on regulated markets, including foreign markets, or in financial, banking, insurance or major companies.

The Rules of the Board also envisage that further assessments of the maximum number of assignments may be conducted by the administrative body, where appropriate in the course of the term of office, on the basis of any recommendations that are submitted by the Nomination, Governance and Sustainability Committee.

### **Profiles of Particular Importance**

Leonardo's Board of Directors, conscious of the particular importance of certain internal roles, indicates the main characteristics which the representatives called on to occupy such roles should specifically have:

#### The Chairman of the Board of Directors

- must be a figure with a highly valued professional profile and with the prestige and credibility needed to perform a role as guarantor vis-à-vis Leonardo's shareholders and stakeholders
- must be capable of ensuring transparent and proper management of the functioning of the Board of Directors
- must be capable of integrating the various skills and experience of the Directors
- must have previous experience in guiding the Board or as a Head of structures with dimensions and complexities comparable to those of Leonardo
- must have interest and experience in matters of corporate governance
- must have acknowledged international and/or institutional standing

#### The Executive Director

- must have full personal and professional prestige in performing the assignment
- must have gained significant managerial experience, including at the business level, and have achieved acknowledged success at the highest operational level (as CEO) in companies with dimensions and complexities comparable to those of Leonardo
- must dispose of due competence in economic and financial matters and in matters of corporate strategy
- must have, and know how to pass on, top-level strategic insight and thought
- must have top-level team leadership capacities

The Lead Independent Director - a role whose advisability is underscored by the Board (even in the absence of the specific situations covered by the Code), but whose presence on the Board is nonetheless recommended, in view of the excellent contribution made by this figure in the course of the expiring term of office -

- must ideally have important managerial experience in industrial companies with a significant international profile and with dimensions and complexities comparable to those of Leonardo
- must have seniority and personal prestige, in such a way as to provide a point of reference and coordination for the Non-executive and Independent Directors
- must have experience on Boards of Directors of major listed companies, whether Italian or international.

#### The other nine Directors

They should all be Non-executive, and in the main Independent, in accordance with the criteria laid down by the law and by the recommendations contained in the Code of Practice.

The independence requisite, which is monitored closely by proxy advisors and investors, will have to be assessed at both the substantial and formal level.

Indicatively, in the framework of the proposed Skills Directory, five professional roles out of nine should ideally have profiles, and have acquired managerial/business experience, in listed companies of international dimensions with complexities comparable to those of Leonardo. The other four professional roles should have acquired academic, professional and/or advisory and/or institutional experience and be in a position to contribute - with their experience, skills and knowledge - to the completion of the proposed Skills Directory.

### **Letter confirming the position**

On submitting their candidature, all candidates to the position of Board Director must prepare their curriculum, specifying the professional skills and the distinctive knowledge and experience they have acquired and, to be precise, in terms of:

- training (specifying both the guidance and training programmes they have followed);
- the professional skills acquired through practical experience, indicating the positions previously occupied, clarifying the sectors of operation and the positions occupied, above all in carrying out managerial activities (specifying the duration and the size of the company), and academic and/or advisory and/or institutional activities, as well as any positions on Boards and Committees and/or Panels.

The Board recommends that, on accepting the position and in the letter of acceptance, all candidate Directors should be asked to declare which distinctive skills, experience and/or competence they have - as set out in these Guidelines for Shareholders - while also signing a specific declaration confirming that there are no conflicts of interest between the Director and the Company, and undertaking to provide immediate notification if they find themselves in a situation of effective or potential conflict of interest in the course of performing their functions.