



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

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*[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:

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<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.

	<b>Guidance 2019</b>	<b>Revised expectations</b>
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

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<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 is 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/transforming 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.