



**Guidelines of the Board of Directors of Leonardo SpA  
to the Shareholders on the size and composition  
of the new Board of Directors**



## Introduction

Leonardo SpA (herein “Leonardo” or the “Company” or the “Group”) complies with the Corporate Governance Code of Borsa Italiana, which recommends (in Article 1.C.1, paragraph h) that, when the terms of the Boards of Directors of listed companies expire, the outgoing Boards provide their Shareholders with guidance on the size and composition of the new Board of Directors, i.e. on the composition of the slates of candidates to be elected as new Directors.

The Board of Directors of Leonardo, whose term expires upon approval of the annual financial report 2016, having

- received the opinion of the Nomination, Governance and Sustainability Committee, which it commissioned to conduct an initial review on the size and composition of the Board of Directors itself;
- considering the results of the Board of Directors’ own Self-Assessment for the financial year 2016;

provides the Shareholders, in view of election of the new Board of Directors for the 2017-2019 term:

- with a description of the new status of Leonardo, achieved during the term that is about to expire, and its evolution to be pursued during the 2017-2019 term, as outlined and announced to the market with the existing Business Plan 2015-2019;
- experience, expertise and opportunities for ensuring continuity within the Board of Directors deemed by the Self-Assessment 2016 to be priorities or highly relevant for the composition of the new Board of Directors;
- guidelines on the size of the new Board of Directors and the professionals deemed appropriate by the new Board of Directors.

## Description of the new status of Leonardo and its evolution

Part of the existing Business Plan 2015-2019, being prepared by the Executive Director, approved by the Board of Directors, and shared with and positively received by the market has been fulfilled during the current Board term. And by the market It is expected that that Business Plan will be fully achieved by the end of the 2017-2019 term.

The Group has been restructured and the pre-existing Finmeccanica has been radically modified from a holding company of investments in subsidiary operating companies, into the integrated and global industrial “One Company” Leonardo, focused on high technology and in the Aerospace, Defence and Security sectors.



In accordance with the Board of Directors, and exercising his functions, the Executive Director of Leonardo has modified its strategies, business model, industrial processes and business portfolio. He has promoted the development of skills and technologies, integrity and good governance; he has boosted the profitability of invested capital and generation of cash flow, investment capacity and earnings prospects for the Shareholders.

The earnings, financial position and capitalization of the Group have also been turned around during the recent Board term.

All leading indicators have shown marked improvement, consistently with, if not exceeding expectations. EBITA rose from 878 million in 2013 to 1,208 million in 2015, and it is expected to be between 1,220 and 1,270 million in 2016. Even net income (loss) from continuing operations rose from -649 million in 2013 to 253 million in 2015, with a forecast of between 500 and 600 million for 2016.

Financially, the Group has started generating positive cash flow again, with an improvement from -220 million in 2013 to 307 million in 2015. An even greater improvement is expected for 2016, with the generation of between 500 and 600 million in positive cash flow. This has also caused a drastic reduction in the Group's Net Debt, which fell from 3.9 billion at 31 December 2013 to 3.3 billion at 31 December 2015. It is expected that the Net Debt falls to 2.8 billion in 2016, thus meeting its target of falling below 3 billion a year earlier than planned.

All of these positive results are reflected in the Group's stock price, which rose from **5.98** euro coinciding with the beginning of the Board of Directors' term in 2014, to **13.34** euro on 31 December 2016, representing an increase of **123.26%**.

During the 2017-2019 term, the new Board of Directors and, under its management, the Executive Director will have to meet the challenges posed by the completion of the Business Plan 2015-2019, which pursues multiple objectives.

These consist of insuring full continuity of the strategic vision, operating policy and execution for the punctual, complete implementation of: the new organizational model, any needed actions to wind up activities that are not achieving the desired level of profitability, the undertaking of the development plan and alliances or non-recurring transactions that, within the European competitive framework and international markets, develop and exploit the excellence and strengths of Leonardo in its own business segments.

The company's objectives also include promoting the innovation, development and global reach of Leonardo: by consolidating its new management team; stimulating the research, new technologies and the development of products and systems of growing complexity and commercial initiatives that contribute to the firm's expertise in an integrated manner; streamlining the Group's investments in subsidiaries and the international exposure; negotiating cooperation agreements and seizing opportunities for industrial consolidation in the sector.



Finally, the objectives also call for: the development of Leonardo to affirm its role as global leader in the Aerospace, Defence and Security industry businesses as set out in the Plan, i.e. Defence and Security Electronics guaranteeing its competitiveness and sustainability in a global context fraught with severe discontinuities, where competitors have a critical mass, economic and financial leverage and governmental support that are comparatively greater than Leonardo's .

**Experience, expertise and choices for the Board of Directors' continuity, considered following the Self-Assessment 2016 to be priorities, or extremely important for an improved composition of the Board of Directors during the 2017-2019 term**

During the Self-Assessment 2016, the Board of Directors emphasizes the discontinuity with the past, established by the Industrial Plan 2015-2019. Its fulfilment is tied to the market, with success thus far. It also points out that the restructuring has also perfected the governance system of the company and of the Board of Directors. The results achieved have shown that the current Board perfectly matched the needs of the Company in its new configuration.

The outgoing Board suggests that the Shareholders draw up slates of candidates for the election of the new Board of Directors on the basis of their experience and assessment of the foreseen activities needed to complete the Plan. The Board advises to select those candidates who *jointly* have the experience and expertise that the outgoing Board of Directors has considered to be of primary or major importance, such as:

- business management experience and/or business and corporate managerial experience;
- familiarity with businesses, strategies and risks in sectors comparable to those of Leonardo;
- business judgement and capacity for analysis and decision-making;
- strategic orientation aimed at the understanding of the medium-long term scenarios;
- financial expertise and non-recurring transactions;
- international experience and familiarity with foreign markets of interest to Leonardo;
- experience in the management of innovation processes and transfer of advanced technologies;
- capacity to read and interpret the financial data of a complex business;
- expertise with complex organizations and change management;
- expertise in the relevant law, international agreements and contracts;
- risk management expertise.

It also suggests to closely assess the opportunity for reconfirming members of the outgoing Board of Directors, ensuring that their experience and expertise are consistent and relevant for improving the composition of the new Board of Directors, in order to guarantee the adequate continuity for the Board of Directors' policy-making and, with the Executive Director, for its operating management.



## **Size and professional characteristics considered to be important for the new Board of Directors**

The Board of Directors unanimously believes that:

- the current number of eleven Directors is appropriate; this is the maximum number allowed under the current By-laws;
- the current ratio between the number of Executive Directors (2) and Non-Executive and Independent Directors (9) is appropriate, considering the complexity of Leonardo's governance and the specific nature of the activities performed by Leonardo and the Group.

### **The Chairman**

- in continuity with his role on the current Board of Directors, the Chair should: have leadership qualities, convey authority, be at ease in dealing with institutional representatives both domestically and internationally and have extensive experience in performing the duties of this position; have a reputation for integrity and intellectual independence, and preferably be independent when first appointed; possess personal and professional credibility to guarantee fair and transparent management of the Board of Directors during his mandate, promote integration of the different skills and experience of the Board directors and synergy with the Executive Director, while acting as a guarantor for all Shareholders, Investors and other Stakeholders;
- he/she should have prior experience acting on the boards of directors of listed multinational companies or large organisations, preferably of international scope, size and complexity comparable to those of Leonardo;
- he/she should have adequate experience in corporate governance issues.

### **The Executive Director**

- in continuity with the executive profile relative to the expiring of the current Board of Directors, he/she should possess recognized leadership and entrepreneurial and managerial capacity, whom the new Board of Directors would want to delegate to act as Executive Director; have demonstrated authority, a reputation for intellectual independence and personal integrity;
- he/she should have accumulated significant managerial experience and recognized success at the head of management (or operation) of a company or companies whose size and complexity are ideally comparable, or at least not too different from those of Leonardo, and significant international reach;
- he/she should have also accumulated adequate experience in one or more businesses in the A,D&S sector or in other sectors related to it in terms of technological level and innovation, industrial characteristics, international scope and geopolitical relevance, market scope and size of its major competitors and analogous strategic problems.



## The other nine Directors

They all have to be Non-Executive, and most of them must be Independent, as defined by the Law and the recommendations set out in the Corporate Governance Code. Their independence should be assessed in terms of both substance and form.

The nine non-executive directors should be chosen on the basis of their recognized personal integrity, and they *jointly* should :

- have accumulated managerial experience at industrial companies operating in an international context, whose size and complexity are not too different from that of Leonardo. These professionals should be capable of contributing solid management and organization experience with a drive to achieve results on the economic and industrial level, including by means of agreements and alliances with suppliers and industrial partners;
- have accumulated experience in sectors not too different from that of aerospace, defence and security electronics, and otherwise characterized by high technology and innovation, research, and development levels;
- have highly developed skills in
  - finance and control
  - risk management or auditing
  - legal and corporate compliance
  - the management of companies having dimensions similar to that of Leonardo
- possess distinctive skills in geo-political analysis and international relations, economic studies, strategic vision, comprehension of the scenarios in which Leonardo and its direct competitors operate, and the capacity to interact in those contexts.

Shareholders supporting the respective slates of candidates to the Board of Directors should pursue the objective of including diverse professional skills in the composition of the Board of Directors, recognizing the importance of complementary experiences and skills for the effective functioning of the overall Board, combining this with diversity in terms of gender, age and seniority.

Moreover, given the international scope of the business of Leonardo, it would be *preferable* that the future Board members have international experience, ideally in countries of major strategic interest to the Group.

Upon accepting their own candidacy, each candidate should be openly asked to assess carefully their *realistic* time availability to dedicate themselves to the diligent performance of their important duties to Leonardo, considering both the number and quality of the positions they hold on boards of directors and boards of statutory auditors at other large companies, and the commitment demanded of them by their other professional activities and affiliations. Relative to



this aspect, candidates are asked in particular to verify that their own situation is consistent with the policy adopted by Leonardo in this regard, as set out in the Regulations of the Board of Directors (available on the Company website).

Rome, January 26, 2017

**Disclaimer**

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