



Opinion on the size and composition of the Board of Directors of Avio S.p.A. for the 2020-2022 three-year period

1. Introduction

In compliance with the recommendations of the Self-Governance Code, in view of the renewal of the corporate boards, on February 28, 2020 the Board of Directors of Avio S.p.A. ("**Avio**"), after consulting the Appointments and Remuneration Committee, and taking into account the results of its self-assessment, approved this opinion on the size and composition of the Board.

As per Article 11.4 of the company's by-laws, shareholders can present a slate for the appointment of Directors, in addition to the outgoing Board of Directors, who, alone or together with other presenting shareholders, have a shareholding at least equal to that determined by Consob in accordance with applicable provisions and regulations (4.5% for 2020).

On February 28, 2020, Avio's Board of Directors announced to the market of its intention to present its own slate of candidates to be submitted to the Shareholders' Meeting that will be called to approve the draft financial statements at December 31, 2019 and to appoint the board of directors.

In the light of the above, this opinion illustrates the view of the Board of Directors on the qualitative and quantitative composition of the Board of Directors, which the Board will take into account for the preparation of its slate and which is also provided to Avio's shareholders in support of their assessments when presenting the slates.

In particular, this opinion contains guidance on:

- the size of the new Board of Directors,
- the composition of the managerial and professional roles whose presence on the new Board of Directors is deemed appropriate, as well as
- the personal and professional characteristics deemed suitable for the office of Chairperson of the Board of Directors and Chief Executive Officer.

The presentation of a slate by the Board and the issue of this opinion for shareholders is based on the wish of the outgoing Board of Directors to maintain and develop the experience and knowledge of the company acquired by the directors during their mandate, in view of the complexities of the sector in which the company operates and the major development path undertaken by Avio following the merger by incorporation of Avio S.p.A. into Space2 S.p.A. (the "**Merger**") and the simultaneous listing on the Italian Stock Exchange.

In the view of the Board of Directors, maintaining substantial governance continuity within the company will allow it to better tackle the business challenges that will face Avio over the coming years, also in view of the rapid technological development of the aerospace sector.

The long-term nature of the investment programmes and the development of new products over the last three years and which will engage the company over the coming 3-4 years, suggests that the strategies put in place leveraging on the Board's know-how in these matters should be continued in order to develop them to the full.

The Board of Directors, while respecting the rights of the Shareholders when appointing the members of the Board of Statutory Auditors, also hopes that the continuity outlined above will be fully reflected in the composition of the slates for the renewal of the Board of Statutory Auditors, in order to adequately draw on the knowledge of Avio's operating characteristics and the specific nature of the sector in which it operates, acquired by the outgoing members of the Board of Statutory Auditors.

With regards to the composition of the Board of Statutory Auditors, reference should be made to the Diversity Policy adopted by the Board of Directors on February 28, 2020 and available on the company website at www.avio.com.

2. Size of the Board of Directors

Article 11.1 of Avio's By-Laws establishes that the company is governed by a Board of Directors comprising of between nine members and eleven members according to that decided by the Shareholders' Meeting.

According to well-established rules of corporate governance, the number of members of the board must be adequate to the size and complexity of the organizational structure of the companies, in order to effectively oversee the entirety of business operations, both in terms of management and control.

The correct size of the Board of Directors is in addition based on the number and composition of the Internal Board Committees, in which a decisive role is assigned to its independent members.

The Shareholders' Meeting of Space2 S.p.A. (now Avio) of December 1, 2016 appointed the Board of Directors, with effect from the merger by incorporation efficacy date of Avio S.p.A. into Space2 S.p.A. (i.e. April 10, 2017) (the "**Merger**"), establishing the number of Board members as nine, with conclusion of mandate on the date of the approval of the 2019 Annual Accounts.

Avio's governance also consists of the following committees of the Board of Directors: (i) the Control, Risks and Sustainability Committee; (ii) the Appointments and Remuneration Committee; (iii) the "Investments Committee"); and (iv) the committee for Strategic Activities pursuant to the Golden Power Regulation.

As indicated above, in order to continue on the path of development and value creation initiated by the company and to allow the efficient pursuit of the strategic medium/long-term strategic objectives, the Board of Directors considers it of fundamental importance to guarantee, on renewing the Board, substantial continuity in the company's management.

With this in mind, the Board of Directors recommends increasing the number of its members from nine to eleven in order to reconcile the stated need for continuity with the

need to ensure the representation of minorities pursuant to slate voting and to allow for an increase in the number of independent directors, while enriching the composition of the Board of Directors, also for the purposes of the gender quota rules, taking into account the results of the self-assessment.

In particular, as per the provisions of Article 11.9 of Avio's By-Laws in force from the effective merger date, the Board of Directors is elected according to the following criteria: (i) from the slate which obtained the highest number of votes, all the directors shall be elected, less three; and (ii) from the slate which obtained the second highest number of votes and that is not associated, even indirectly, with the shareholders who presented or voted for the slate receiving the highest number of votes, the remaining three directors are elected.

Moreover, in line with that emerging at the self-assessment of the Board of Directors, the increase in the number of directors from nine to eleven will provide a greater presence on the Board of non-executive and independent directors, as well as individuals with technical expertise in the aerospace sector or in related sectors.

The increase in the number of directors from nine to eleven will also allow (i) a more balanced composition of the internal committees and a more adequate distribution of offices among directors, also taking into account the availability of time for candidates for the position of director, in addition to (ii) full alignment with the current gender quota regulations (as recently amended by Law No. 160 of December 27, 2019) and the Diversity Policy adopted by the Board of Directors, so as to provide an opportunity for the entry of suitably diversified skills in terms of background, roles covered, sectors of origin, governance experience, seniority, etc., as set out in the following paragraph.

3. Composition of the Board of Directors

As per Article 11 of Avio's By-Laws, all directors shall possess the eligibility and standing requirements provided for by law and other applicable provisions, as well as the integrity requirements provided for by Italian Ministerial Decree No. 162 of March 30, 2000 and the applicable legislation in force.

In addition, each slate shall contain and expressly indicate at least two directors considered independent as per the applicable laws and the Self-Governance Code.

Furthermore, the Self-Governance Code recommends that the Board adequately represents, in relation to the issuer's operations, the various components (executive, non-executive, independent) and a range of professional and managerial expertise and experience, also of an international extent, taking account of the benefit from the existence of a Board with diversity in terms of gender, geographic, training and cultural origin, age and seniority of office. It is also recommended that the number, the expertise, the authority and the availability of time of the non-executive directors is such to guarantee that their opinion can have a significant impact on board motions.

As indicated above, the Board of Directors of Avio wishes that its renewal is carried out in substantial continuity in order to ensure the stable and efficient management of the company.

Subject to Avio's By-Laws, the personal and professional characteristics considered appropriate for the various roles on the Board of Directors, largely in line with those currently in place, are the following:

The Chairperson should:

- have sufficient experience and authority in order to ensure the correct and transparent functioning of the Board of Directors, in order to support integration among the various skill-sets on the Board and synergy with the Chief Executive Officer;
- be of suitable standing and reputation to enable it to act as an effective guarantee for all shareholders and stakeholders, bearing in mind that the company features a broad shareholder base (free float in excess of 65%);
- have personal characteristics which support the creation of a strong sense of cohesion among the Board of Directors and mutual trust;
- have adequate knowledge on corporate governance matters, having gained previous and significant experience in the field of governance;
- have expertise in the economic-financial field, with previous experience in corporate transactions, as well as experience and ability in the management, within the board of directors, of issues of strategic and business relevance.
- have adequate knowledge of the aerospace sector and its main dynamics, preferably with direct experience in the various constituent segments.

The Chief Executive Officer should:

- have consolidated prior experience as a Chief Executive Officer at multinational enterprises or however have experience in managing international businesses, with a level of complexity in terms of geographic locations, markets/products and technology, preferably in the aerospace and defence sector;
- have specific knowledge of the aerospace sector and its main dynamics, preferably with direct experience in the various constituent segments;
- have a considerable capacity to develop a strategic vision to define Avio's role and future positioning in the sector, taking into account existing and future constraints and market opportunities;
- have the ability to manage relations with Avio's main stakeholders and with domestic and international institutions (governmental and private institutional clients on an international basis, international industrial partners, domestic and international institutions);
- have a capacity to manage relations with stock exchange investors and with investment management companies on regulated capital markets, considering that the company has a very broad shareholder base in terms of the type of investor and geographic location (free float in excess of 65%);
- have a vision and a capacity to oversee the entire industrial chain, managing the main aspects considering operational and industrial activities, in addition to international industrial partnership management experience. In addition, the knowledge of production processes and platforms over many years and experience

in companies that have had to adapt to new technological and production paradigms is considered positively;

- have experience in growth-focused M&A's/acquisitions and/or for the acquisition of new skills and technologies, as well as experience in project financing;
- have personal qualities suited to leadership and a management style focused on teamwork, including an ability to motivate and express technical and managerial authority, a strong aptitude to communicate ideals and values, transparency, an ability to engender a strong sense of belonging, to interpret and adapt to outside changes, as well as an ability to take a business-focused approach to growth prospects.

In addition, in view of the strategic importance of the company's sector, the renewal of the Board of Directors should comply with the conditions established by the President of the Council of Ministers, as per Article 1, paragraph 1, letter a) of Legislative Decree No. 21 of March 15, 2012, converted by Law No. 56 of May 11, 2012 ("golden power decree"). In this regard, Ministerial Decree of November 24, 2016 establishes that the Chief Executive Officer should be an Italian citizen.

The other nine directors should all be non-executive, **mostly independent**.

In general, such directors should:

- a) have diversified managerial and/or professional skills, as specified below, so as to ensure a set of complementary skills and experience;
- b) belong to different genders and age groups, in line with the provisions of the Diversity Policy adopted by Avio;
- c) possess adequate seniority, i.e. proven experience in complex organizational spheres in the corporate and/or professional and/or institutional environment;
- d) have gained experience on the boards of directors of companies, preferably listed companies, and/or internationally.

The other nine directors should, in addition, collectively have the following professional characteristics:

- experience and expertise in the aerospace sector or in related sectors;
- experience in the top management of listed companies or in any case of a complexity and size comparable to Avio;
- experience and expertise in environmental and social sustainability;
- experience and expertise in legal, corporate and/or compliance matters;
- experience and expertise in financial, accounting and/or risk management;
- experience and expertise in technology, with particular regard to cybersecurity, research and development and innovation.

The outgoing Board of Directors wishes that a Lead Independent Director will be appointed when the Board of Directors is renewed - although not in the case where such appointment is recommended pursuant to the Self-Governance Code - in order to facilitate coordination between the non-executive and independent Directors, on the one

hand, and the Chairperson and the other executive members of the Board, on the other. With this in mind, it is even more important that among the newly appointed independent Directors there is a profile of seniority, authority and capacity that acts as a reference and coordination point for the Non-Executive and Independent Directors.

3.1 Gender quotas

Avio's by-laws provide that the appointment of the Board of Directors shall be made in such a way as to ensure that the composition of the Board complies with the provisions of the applicable gender balance law and regulations.

In this regard, in accordance with Article 147-ter of the CFA, as amended by Law No. 160/2019, the under-represented gender should account for at least two-fifths of the directors to be elected. For the next renewal of the board following the date of commencement of negotiations, this criterion shall be one-fifth.

As per Article 11.6 of the By-Laws, the slates for the renewal of the board of directors containing three or more candidates may not be composed of candidates only from the same gender; these slates should include a number of candidates of the under-represented gender to guarantee the composition of the Board of Directors in accordance with legal and regulatory provisions in relation to gender equality rules, rounded upwards.

3.2 Multiple appointments

The availability of the time necessary for the undertaking of the appointment is a fundamental requirement that directors must be able to satisfy, also taking into account any positions as members of internal committees of the Board of Directors that they may be called upon to undertake.

The Self-Governance Code recommends that candidates for the position of director only accept the appointment when they believe that they can dedicate the necessary time to diligently carry out their duties, also taking into account their work and professional commitments and offices held in financial, banking and insurance companies or companies of significant size listed on regulated markets (including abroad).

In compliance with the provisions of the Self-Governance Code, within the Diversity Policy, Avio's Board of Directors has indicated its position with regard to the maximum number of positions as director or statutory auditor in other companies that may be considered compatible with the effective performance of the position of director of Avio.

THE BOARD OF DIRECTORS