

DIRECTORS' REPORT TO THE ORDINARY SHAREHOLDERS' MEETING OF MAY 6, 2020 DRAFTED AS PER ART. 125-TER OF LEGISLATIVE DECREE 58 OF FEBRUARY 24, 1998, AS AMENDED.

INTRODUCTION

Article 125-ter of Legislative Decree 58 of February 24, 1998 (the “Consolidated Finance Act” or “CFA”) requires the governing body – where not already so required by other statutes – to make a report on the orders of business on the agenda available to the public at the company’s registered office, on its website and according to the other methods established by CONSOB in specific regulations by the deadline for publishing the call notice for the Shareholders’ Meeting.

In respect of this obligation, this report (hereinafter the “**Report**”), prepared in accordance with Article 125-ter of the CFA, references:

- i. to the third agenda point regarding the “*Appointment of the Board of Directors; resolutions thereon. 3.1 Establishment of the number of Directors. 3.2 Establishment of the duration of mandate of the Board of Directors. 3.3 Appointment of the members of the Board of Directors. 3.4 Establishment of the remuneration of the Board of Directors.*”
- ii. to the fourth agenda point for the Shareholders’ Meeting regarding “*Appointment of the Board of Statutory Auditors. Resolutions thereon. 4.1. Appointment of three Statutory Auditors and two Alternate Auditors. 4.2. Appointment of the Chairman of the Board of Statutory Auditors. 4.3. Establishment of the remuneration of the Board of Statutory Auditors.*”

This Report has been sent to Borsa Italiana S.p.A. and filed at the registered office within the period set out in Article 125-ter of the CFA, with copies available to shareholders who so request; the Report is also available from the Company’s website, www.avio.com, in the section “*Corporate Governance/2020 Shareholders' Meeting*”.

Point 3 of the Agenda

Appointment of the Board of Directors. Resolutions thereon. 3.1 Establishment of the number of Directors. 3.2 Establishment of the duration of mandate of the Board of Directors. 3.3 Appointment of the members of the Board of Directors. 3.4 Establishment of the remuneration of the Board of Directors.

Dear Shareholders,

the approval of the financial statements at and for the year ended December 31, 2019 marks the end of the term of office of the Company’s Directors appointed by the Shareholders’ Meeting of December 1, 2016, with effect from the merger by incorporation efficacy date of Avio S.p.A. into Space2 S.p.A. (i.e. April 10, 2017). As we extend our heartfelt gratitude and appreciation to the members of the Board of Directors for their valuable efforts on the Company’s behalf, you are called upon to resolve, pursuant to Art. 11 of the By-Laws, on the appointment of a new Board of Directors, after first determining the number of its members, to remain in office until the date of actual holding of the Shareholders’ Meeting that is to be called to approve the financial statements at and for the year ending on December 31, 2022.

The members of the Board of Directors are appointed by the Shareholders' Meeting in accordance with Article 11 of the By-Laws, on the basis of slates presented by shareholders, and, where applicable, by the outgoing Board of Directors, in which the candidates must be listed by progressive numbering.

In accordance with Article 11.4 of the By-Laws, the Board of Directors has resolved to present a slate of candidates that will be made available to the public within the legally allotted period from the Company's registered office and the website at the address www.avio.com, in the section "Corporate Governance/2020 Shareholders' Meeting".

On a favourable opinion from the Appointments and Remuneration Committee, the Board of Directors has also formulated its position on the size and composition of the new Board for the shareholders (the "**Opinion**").

In addition, on a favourable opinion from the Appointments and Remuneration Committee, the Board of Directors has also approved a diversity policy that identifies the optimal composition of company boards and ensures that they are able to perform their assigned functions effectively, through the inclusion of individuals capable of contributing a wide range of points of view, skills and experiences. The diversity policy also sets out the Board of Directors' view of the maximum number of directorships and auditorships that directors may hold at other companies listed on regulated markets.

These documents are available at the registered office and on the Avio website, in the Investor Relations section, under 2020 Shareholders' AGM, in addition to the "eMarket STORAGE" authorized storage mechanism (www.emarketstorage.com).

In view of the strategic importance of the Company's activity for the Italian national security and defence system, the renewal of the Board of Directors must comply with the Golden Power rules established by Decree-Law No. 21 of March 15, 2012, converted by Law No. 56 of May 11, 2012. In accordance with these rules, Prime Ministerial Decree of November 24, 2016 requires that the Chief Executive Officer of Avio be an Italian citizen appointed in consultation with the Italian government.

Finally, it should be noted that the next Board of Directors' meeting will be called upon to consider the appointment of the Company's Chief Executive Officer, as per Article 12.2 of the By-Laws, and, unless otherwise resolved by the Shareholders' Meeting, on the appointment of the Chairman of the Board of Directors, pursuant to Article 11.1 of the By-Laws.

In this regard, the outgoing Board, in line with the considerations set out in its Opinion, considers that the principle of continuity should also apply to the roles of the Chief Executive Officer and the Chairman.

3.1 Establishment of the number of Directors.

Dear Shareholders,

as per Article 11.1 of the By-Laws, "the Company is managed by a Board of Directors consisting of 9 (nine) members or 11 (eleven) members, as decided by the Ordinary Shareholders' Meeting".

The Self-Governance Code of listed companies, which our Company has adopted, recommends that boards of directors express an opinion for the shareholders regarding the size and composition of the board, also considering the results of the self-assessment process that is conducted with annual frequency.

In this regard, the Board of Directors' Opinion offers the following recommendation with regard to the size of the governing body: *"the Board of Directors recommends increasing the number of its members from nine to*

elevated 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”.

Avio’s Board of Directors therefore submits the following draft resolution for approval by an ordinary session of the Shareholders’ Meeting:

“The Ordinary Shareholders’ Meeting of Avio S.p.A. held on May 6, 2020, having acknowledged the powers granted by the By-Laws and the report drafted by the Directors,

RESOLVES

to set the number of members of the Board of Directors in office for the three-year period 2020-2022 at 11.”

With regard to the appointment of the Board of Directors, you are asked to vote for one of the slates that is presented by the shareholders and Board of Directors in accordance with the By-Laws and applicable legislation.

3.2 Establishment of the duration of mandate of the Board of Directors.

Dear Shareholders,

pursuant to Article 11.1 of the By-Laws, *“the directors remain in office for 3 (three) years, unless a lesser term is set out by the appointment motion, with the term concluding on the date of the Shareholders’ Meeting called to approve the financial statements pertaining to the last financial year of their term, and may be reappointed.”*

You are therefore asked to set the term of office of the Board of Directors.

Avio’s Board of Directors submits the following draft resolution for approval by an ordinary session of the Shareholders’ Meeting:

“The Ordinary Shareholders’ Meeting of Avio S.p.A. held on May 6, 2020, having acknowledged the powers granted by the By-Laws and the report drafted by the Directors,

RESOLVES

“to set the term of office of the Board of Directors as the three-year period 2020-2022 and, in any event, until the Shareholders’ Meeting called for the approval of the financial statements at and for the year ending December 31, 2022.”

3.3 Appointment of the members of the Board of Directors.

Dear Shareholders,

pursuant to Article 11.3, *“the Board of Directors is appointed by the Shareholders’ Meeting on the basis of slates presented by the outgoing Board of Directors or the shareholders [...] unless otherwise or further provided by mandatory provisions of law or regulations.”*

Slates may only be presented by shareholders who, at the time of presentation of the slate, hold – alone or together with other shareholders – a shareholding of at least 4.5%. Ownership of the minimum shareholding is

determined according to the shares that are registered in favour of the shareholder on the day in which the slates are filed with the issuer; certification can also be presented subsequent to the filing provided that it is within the deadline for the publication of the slates.

Each slate shall contain and expressly indicate at least 2 (two) directors considered as per applicable laws and the Corporate Governance Code of Borsa Italiana S.p.A..

Where the slates contain 3 or more candidates, both genders should be represented. Specifically, with regard to 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.

The slates, signed by the entitled shareholders, must be filed twenty-five days before the date fixed for the Shareholders' Meeting in first call and must be accompanied by the following documentation:

- i. the curriculum vitae of the candidates;
- ii. declarations of the individual candidates, in which they accept their candidature and certify, under their own responsibility, the inexistence of any cause of ineligibility or incompatibility, as well as the satisfaction of the requirements prescribed by applicable regulations for the office of Director of the company, including where applicable, declarations on the independence of candidates;
- iii. the shareholders who have presented the slates and their total shareholding;
- iv. any other further declaration, disclosure and/or document required by law and applicable regulatory rules.

The procedure for electing the Directors is set out in Article 11 of the By-Laws. Where only one slate is presented, the Shareholders' Meeting will vote on that slate and, where this slate receives the majority of the votes, all the members of the Board of Directors will be taken from this slate. However, if two or more slates are presented, at the end of the voting process, the candidates of the two slates that have obtained the highest number of votes shall be elected directors, on the basis of the following criteria: (i) from the slate obtaining the majority of votes cast, a number of Directors equal to the total number of the members to be appointed less 3 (three) shall be taken; and (ii) from the slate obtaining the second highest number of votes cast and not linked even indirectly with the Shareholders that submitted or voted the slate that achieved the highest number of votes, 3 (three) Directors shall be taken, including at least one Independent Director, according to the progressive order of the candidates on the slate.

Slates presented without complying with Article 11 of the By-Laws are considered as not presented.

In addition, those wishing to present slates for the appointment of the Board of Directors are requested to comply with the recommendations drawn up by Consob in Communication No. DEM/9017893 of 26.2.2009 concerning linked slates as per Article 147-*ter*, paragraph 3 of the CFA and Article 144-*quinquies* of the Issuers' Regulation, to which reference should be made.

For all matters not expressly mentioned in this Report, reference should be made to Article 11 of the By-Laws.

On the basis of the foregoing, you are asked to resolve on the appointment of the members of the Board of Directors, after determining their number, by expressing your preference for one of the slates presented by the authorised parties in conformity with the By-Laws.

3.4 Establishment of the remuneration of the Board of Directors.

Dear Shareholders,

pursuant to Article 15.1 By-Laws, members of the Board are entitled to a fixed annual fee that is wholly determined by the shareholders' meeting and distributed by the Board itself among its members, in addition to the provisions of Art. 2389 of the Civil Code for Senior Directors, as well as the reimbursement of expenses incurred by them in the course of their duties. The Shareholders' Meeting may determine the total amount of the remuneration for all directors, including senior directors.

You are reminded that, in implementation of Article 15.1 of the By-Laws, as cited above, on December 1, 2016 the Shareholders' Meeting had set the remuneration for the Directors for the three-year period 2017-2019 at Euro 35,000.00 per Director and Euro 120,000.00 for the Chairman of the Board of Directors, to be allocated to the costs for the year concerned.

In continuity with the resolution passed by the aforementioned Shareholders' Meeting, Avio's Board of Directors submits the following draft resolution for approval by an ordinary session of the Shareholders' Meeting:

“The Ordinary Shareholders' Meeting of Avio S.p.A. held on May 6, 2020, having acknowledged the powers granted by the By-Laws and the Report drafted by the Directors,

resolves

to assign the Directors remuneration for the three-year period 2020-2022 of Euro:

- 35,000 for each director;*
- 120,000 to the Chairman of the Board of Directors”*

In the light of the above, you are asked to appoint the members and Chairman of the Board of Directors on the basis of the slates of candidates for the Board of Directors that are presented and published in accordance with the law and By-Laws.

Point 4 of the Agenda

Appointment of the Board of Statutory Auditors for the 2020-2022 period. Resolutions thereon. 4.1 Appointment of three Statutory Auditors and two Alternate Auditors. 4.2 Appointment of the Chairman of the Board of Statutory Auditors. 4.3 Establishment of the remuneration of the Board of Statutory Auditors.

Dear Shareholders,

Be advised that the Shareholders' Meeting that approves the financial statements at and for the year ended December 31, 2019 will mark the end of the term of office of the Company's Board of Statutory Auditors appointed by resolution of the Shareholders' Meeting of December 1, 2016, with effect from the effective date of the merger by incorporation of Avio S.p.A. into Space2 S.p.A. (i.e. April 10, 2017). As we extend our

heartfelt gratitude and appreciation to the members of the Board of Statutory Auditors for their valuable efforts on the Company's behalf, you are called upon to resolve, pursuant to Art. 17 of the By-Laws, on the appointment of a new Board of Statutory Auditors, after first determining the number of its members, to remain in office until the date of actual holding of the Shareholders' Meeting that is to be called to approve the financial statements at and for the year ending on December 31, 2022.

4.1 Appointment of three Statutory Auditors and two Alternate Auditors

Dear Shareholders,

pursuant to Article 17.1 of the By-Laws, *“the Board of Statutory Auditors is composed of 3 (three) statutory auditors and 2 (two) alternate auditors, elected by the Shareholders' Meeting on the basis of slates presented by shareholders [...] subject to any differing and additional provisions provided for by mandatory laws or regulations.”*

In particular, slates may be presented by shareholders who, at the time of presentation of the slate, hold – alone or together with other shareholders – a shareholding of at least 4.5%. Ownership of the minimum shareholding is determined according to the shares that are registered in favour of the shareholder on the day in which the slates are filed with the issuer; certification can also be made subsequent to the filing provided that it is within the deadline for the publication of the slates.

Each slate must include the names of one or more candidates for the position of auditor and one or more candidates for the position of alternate auditor. The names of candidates are marked in each section ("statutory auditors" section, "alternate auditors" section) by progressive order and are, in any case, not greater in number than the members of the body to be elected.

The slates, if they contain, in both sections, a number of candidates equal to or greater than 3 (three), must contain a number of candidates in both sections to ensure that the composition of the Board of Statutory Auditors, both for statutory auditors and alternate auditors, complies with the legal and regulatory provisions that are in force in relation to gender equality (male and female). In this regard, in accordance with Article 148-ter, paragraph 1-bis, of the CFA, as amended by Law No. 160/2019, the under-represented gender should account for at least two-fifths of the standing members of the Board of Statutory Auditors. In respect of this requirement, pursuant to Consob Communication No. 1/20 of January 30, 2020, where the Board of Statutory Auditors is composed of three standing members, the rounding-up criterion set out in paragraph 3 of Article 144-undecies of the Consob Regulation adopted by Resolution No. 11971 of May 14, 1999, as amended, will be regarded as inapplicable. Accordingly, where the Board of Statutory Auditors is composed of three members, Consob has indicated that it will consider rounding-down to be in compliance with the new rule.

The slates, signed by the entitled shareholders, must be filed twenty-five days before the date fixed for the Shareholders' Meeting in first call and must be accompanied by the following documentation:

- i. information relating to the identities of the shareholders presenting the slates and of their shareholdings;
- ii. the declaration of the shareholders other than those who hold, including jointly, a controlling or relative majority shareholding, stating the absence of connecting relationships with these latter in accordance with applicable legislation;
- iii. comprehensive information on the personal and professional characteristics of the candidates, as well as a declaration from these candidates attesting that they have the requisites provided by law and their

acceptance of the candidature, complete with the list of the appointments of administration and control they have with other companies;

iv. any other further declaration, disclosure and/or document required by law and applicable regulatory rules.

Candidates for the office of Statutory Auditor must meet the legal requirements. Specifically, they must satisfy the requirements of professionalism and integrity, as established by the Decree of the Minister of Justice of March 30, 2000, No. 162.

Candidates should also be considered independent as per the applicable law (Article 148, paragraph 3 of the CFA). With reference to situations of ineligibility and the limits on the number of administration and control positions that may be held by members of the Board of Statutory Auditors, Article 148, paragraph 3 of the CFA and Article 148-*bis* of the CFA apply, respectively, in addition to the implementing provisions of Articles 144-*duodecies* and subsequent of the Consob Regulation adopted with resolution No. 11971 of May 14, 1999, as amended and supplemented.

For the purposes of submitting nominations, shareholders are also invited to take into account the recommendations regarding the independence of the members of the Board of Statutory Auditors, as per from the combined provisions of Articles 8 and 3 of the Self-Governance Code for Listed Companies of Borsa Italiana S.p.A.

The procedure for electing Statutory Auditors is as set out in Article 17 of the By-Laws. In the event that only one slate is presented, the Shareholders' Meeting shall vote on it and should this slate obtain the statutory majority, the candidates listed in progressive order shall be elected as Statutory Auditors. Where, on the other hand, two or more slates are presented, the candidates elected statutory auditors shall be those on the two slates that have obtained the higher number of votes, with the following criteria: (i) from the slate that obtained the largest number of votes ("Majority Slate") taken in the progressive order in which they appear in the slate, two statutory auditors and one alternate auditor; (ii) from the slate that obtained the second largest number of votes and are not connected, even indirectly, with the shareholders who presented or voted for the Majority Slate in accordance with the applicable provisions and taken in the progressive order in which they appear on the slate, the third statutory auditor will be chosen ("Minority Statutory Auditor"), who will chair the Board of Statutory Auditors, and the second alternate auditor ("Minority Alternate Auditor"). Finally, in the absence of slates, or where it is not possible for whatever reason to appoint the Board of Statutory Auditors with the procedures indicated above and in line with Article 17 of the By-Laws, the three standing auditors and the two alternate auditors will be appointed by the shareholders' meeting through the majority provided for by law, in accordance with the laws and regulations in force also in relation to the gender equality quota.

Slates presented without complying with Article 17 of the By-Laws and the applicable regulation are considered as not presented.

In addition, those wishing to present slates for the appointment of the Board of Statutory Auditors are requested to comply with the recommendations drawn up by Consob in Communication No. DEM/9017893 of 26.2.2009 concerning linked slates, without prejudice to compliance with Articles 144-*quinquies et seq.* of the Consob Issuers' Regulation, to which reference should be made.

With regard to the composition of Board of Statutory Auditors, the reader is also referred to the Diversity Policy adopted by the Board of Directors on February 28, 2020 and available at the registered office and on

the Avio website, in the Investor Relations section, under 2020 Shareholders' AGM, in addition to the “eMarket STORAGE” authorised storage facility (www.emarketstorage.com).

For all matters not expressly mentioned in this Report, reference should be made to Article 17 of the By-Laws.

On the basis of the foregoing, you are asked to resolve on the appointment of the members of the Board of Statutory Auditors, comprising three (3) standing auditors and two (2) alternate auditors, by expressing your preference for one of the slates presented by the authorised parties in conformity with the law and By-Laws.

4.2 Appointment of the Chairman of the Board of Statutory Auditors

Dear Shareholders,

It bears recalling that, pursuant to Article 148, paragraph 2-*bis*, of the CFA and Article 17.8 of the By-Laws, the Chairman of the Board of Statutory Auditors is appointed by the Shareholders' Meeting from among the Statutory Auditors elected by the minority.

The shareholders are also reminded that, in the case of an equal number of votes between one or more slates from which the Board of Statutory Auditors is elected, a fresh ballot shall take place, considering only the slates receiving the same number of votes and, in any case, ensuring compliance with the gender parity regulation. Where only one slate is presented, the Shareholders' Meeting shall vote on it and should this slate obtain the statutory majority, the candidates listed in progressive order shall be elected as Statutory Auditors.

In relation to the above, the Shareholders' Meeting is asked to appoint the Chairman of the Board of Statutory Auditors from among the directors elected on the basis of the results of the votes indicated in point 4.1 of the agenda.

4.3 Establishment of the remuneration of the Board of Statutory Auditors.

Dear Shareholders,

pursuant to Article 2402 of the Civil Code "*the annual remuneration of statutory auditors, where not established in the By-Laws, should be set by the shareholders' meeting on their appointment for the entire duration of office.*"

It bears recalling that the remuneration of the Board of Statutory Auditors now at the end of their term was originally set by the ordinary session of the Shareholders' Meeting on December 1, 2016 at Euro 50,000.00 per annum for the Chairman and at Euro 35,000.00 per annum for the other Standing Auditors.

On the basis of the foregoing, you are asked to resolve on the remuneration for the standing members of the Board of Statutory Auditors on the basis of the proposals submitted by the shareholders.

In the light of the above, you are asked to appoint the members and Chairman of the Board of Statutory Auditors on the basis of the slates of candidates for the Board of Statutory Auditors that are presented and published in accordance with the By-Laws and applicable legislation.

Rome, March 27, 2020

On behalf of the Board of Directors

The Chairman of the Board of Directors

Mr. Roberto Italia