



## **REPORT ON THE REMUNERATION POLICY AND COMPENSATION PAID**

in accordance with article 123-*ter* of the TUF and article 84-*quater* of the  
Consob Issuers' Regulation

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**Approved by the Board of Directors on March 25, 2020**

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## Letter of the Chairman of Nominations and Remuneration Committee.Nominations

Dear Shareholders,

In my capacity as Chairman of the Nominations and Remuneration CommitteeNominations, and also on behalf of the Committee and the Board, I am proud to present you with the "*Report on the remuneration policy and compensation paid*" by Avio.

This Committee met 6 times in 2019 and 3 times in 2020.

The Committee acknowledges that remuneration is an effective tool to align the interests of top management to those of the shareholders, contributing to the pursuit of corporate strategy and long-term interests, as well as to the sustainability of the Company.

The ability to attract, retain and motivate top management is a key factor for any Company which, like Avio, operates in a highly-specialised sector requiring constant and rapid alignment to the requirements imposed by the market and technological development.

Furthermore, Legislative Decree No. 49 of 2019 introduced and implemented into Italian law the principles and provisions included in the Shareholder Rights Directive II, approved in 2017. Certain amendments were introduced to Article 123-*ter* of the TUF through this decree, among which, the binding vote of the Shareholders' Meeting on the first section of the report relating to the remuneration policy, and the non-binding vote on the second section of the report concerning compensation paid.

In this perspective, the Committee prepared and submitted for the approval of the Board of Directors a remuneration policy for 2020 (illustrated in the first section of this Report),

With reference to the second section of this Report, the target values set out in the incentive plans and the final results for 2019 have been expressly indicated.

In conclusion, the NominationsNominations and Remuneration Committee considers that the remuneration policy described in this Report takes into consideration the recommendations of Company stakeholders in order to incentivise the achievement of strategic objectives by the Company and to align the interests of the the corporate bodies and top management to the overriding objective of creating sustainable value for shareholders in the long-term. To this end, it should be recalled that top management is directly involved in business risk by means of holdings in the share capital of Avio SpA, these are held through the investment vehicle In Orbit S.p.A. which, to date, represents 4% of share capital at 31.12.2019.

## **GLOSSARY**

For the purposes of this document, the following definitions are used:

**Executive Directors:** Directors of the Company assigned operational or managerial powers or to whom the Board of Directors confers specific roles. At the Reporting date, the Executive Director of the Company was the Chief Executive Officer/General Manager Giulio Ranzo.

**Avio pre-Merger:** Avio S.p.A., incorporated into Space 2 through the Merger, with registered office at via Antonio Salandra No. 18, Rome, operating office at SP Ariana Km 5.2, Colleferro (RM), Tax, VAT and Rome Companies Office Registration No. 05515080967, REA No. 1177979.

**Self-Governance Code:** the “Self-Governance Code of listed companies concerning Corporate Governance” approved by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, ANIA, Assogestioni, Assonime and Confindustria; in force at the date of the Report

**Nominations and Remuneration Committee:** established within the Board of Directors and with the duty, among other matters, of presenting to the Board of Directors a proposal on the General Policy for the remuneration of Executive Directors, Senior Directors and Executives with strategic responsibilities.

**Effective Merger Date:** April 10, 2017

**Executives with strategic responsibilities:** those with the authority and responsibility, directly or indirectly, for planning, directing and controlling the Company’s activities. At the Reporting date, in addition to the Chief Executive Officer/General Manager, Giulio Ranzo, and an additional 4 Executives were identified as Executives with strategic responsibilities.

**Merger:** the merger by incorporation of Avio pre-Merger into Space2, approved by the Extraordinary Shareholders' Meeting of Space2 and that of Avio pre-Merger on December 1, 2016, and completed on the Effective Merger Date.

**Group:** collectively Avio and its subsidiaries pursuant to Article 2359 of the Civil Code and Article 93 of the TUF.

**“Industrial Plan”:** the Industrial Plan approved by the Board of Directors of the Company. In this regard, it should be noted that on June 25, 2018, the Board of Directors of Avio S.p.A. approved the 2018-2022 Industrial Plan.

**Policy or Remuneration Policy:** the remuneration policy applicable to Directors and Executives with strategic responsibilities for Financial Year 2020, as specified in Section I of the Report.

**Issuers' Regulation:** the Regulation issued by CONSOB with resolution No. 11971 of May 14, 1999 (and subsequent amendments) concerning issuers.

**Report:** this Remuneration Report of the Avio Group drafted in accordance with Article 123-ter and Article 84-*quater* of the Issuers' Regulation.

**Company or Avio:** Avio S.p.A., the Company resulting from the Merger, with registered office at via Leonida Bissolati No.76, No. 27 Rome, Rome Companies Registration and Tax No. 09105940960.

**Space 2:** Space2 S.p.A. until the Effective Merger Date, with registered office in Milan, Via Mauro Macchi 27, VAT, Tax and Milan Companies Registration Office No. 09105940960.

**TUF:** Legislative Decree No. 58 of February 24, 1998 (Consolidated Finance Act) and subsequent amendments.

## **INTRODUCTION**

This Report was prepared by Avio in accordance with Article 123-ter of the TUF, Article 84-quater of the Issuers' Regulation, in addition to, on the basis of self-regulation, Article 6 of the Self-Governance Code, of which Avio complies with the majority of its provisions.

The Report comprises, according to Article 123-ter of the TUF, two sections.

Section I outlines the Remuneration Policy adopted by the Company for Financial Year 2020, with regards to the following parties:

- (i) Members of the Board of Directors of the Company, distinguishing between Executive and non-Executive Directors.
- (ii) Members of the Board of Statutory Auditors
- (iii) Executives with strategic responsibilities within the Group. Executives with strategic responsibilities.

Section I of the Report also outlines the procedures utilised for the preparation and adoption of the Remuneration Policy, in addition to the bodies and parties responsible for the Policy's correct implementation.

The Remuneration Policy was approved by the Board of Directors of the Company on March 25, 2020, on the proposal of the Nominations and Remuneration Committee. As resolved, the Remuneration Policy will be updated on an annual basis.

The drafting of the Remuneration Policy as regards the comparisons of the remuneration of the Chief Executive Officer/General Manager, the members of the Board of Directors and Company Committees, was supported by Willis Towers Watson, a leading human resources development and organisation consultancy firm, with reference made to the remuneration policies of 35 Italian and European companies which are overall comparable to Avio and, particularly, to the following more significant peers belonging to the STAR segment, Italian Stock Exchange of Borsa Italiana: Bologna Airport, Brembo, Fiera di Milano, Cairo Communication, Interpump Group, IMA, Mondadori, Elica, ERG, Cementir, Datalogic, Gefran, BIESSE, Exprivia, Unieuro, OpenJobMetis and Prima Industrie.

As regards the assessments in relation to the remuneration of Executives with strategic responsibilities, the Company was supported by the Korn Ferry consultancy firm and utilised the Top Executive Italia market as a reference. This includes people in Top Management positions in Italian companies operating in comparable sectors to Avio.

With regard to 2019, Section II of the Report outlines each of the items comprising the remuneration of the individuals listed at points (i), (ii) and (iii), as well as an analysis (in a specific table) of the remuneration paid to these parties, in any regard and in any form by the Company or by its subsidiaries in 2019, in addition to remuneration not yet paid at the Report approval date, although relating to 2019.

A relative table, as per Article 84-quater, paragraph 4 of the Issuers' Regulation, presents holdings in the Company or its subsidiaries by these parties (and by parties related to them).

This Report is sent to Borsa Italiana and is made available to the public at the registered office of Avio (via Leonida Bissolati 76, Rome) and on the Company's website [www.avio.com](http://www.avio.com) "Corporate Governance" section, at least twenty-one days before the Shareholders' Meeting called to approve the annual financial statements at December 31, 2019.

## EXECUTIVE SUMMARY

### Principles and elements of Avio's remuneration

Avio's Remuneration Policy for Executive Directors and Executives with strategic responsibilities is based on the following principles and criteria:

- this policy seeks to attract, retain and motivate individuals of high professional standing, with particular regard to key positions for the development and management of the business;
- a link with Company's performance and risk profile;
- the alignment of the interests of Company Management with the pursuit of the objective to contribute to the corporate strategy, to create value for shareholders over the long-term and to achieve sustainable performance over time.

The remuneration values of the Chief Executive Officer and the Executives with strategic responsibilities are compared to benchmarks prepared by Korn Ferry (for Executives with strategic responsibilities) and by Willis Towers Watson (for the Chief Executive Officer/General Manager/CEO, the Chairman and members of the Board of Directors) relative to a panel of sector companies. The characteristics of the panels of companies utilised for benchmarking are listed in the introduction above.

The following table outlines the key elements regarding the remuneration of the Chief Executive Officer/General Manager and Executives with strategic responsibilities explored subsequently in the Report.

<b>Member</b>	<b>Characteristics</b>
Fixed remuneration component.	The continuative component, established taking account of the breadth and strategic nature of the role, measured through the application of an independent evaluation methodology of the roles (Hay Method), its characteristics, the individual expertise, and market practices for comparable positions.
Short-term variable component	<p>The payment of a monetary bonus on the reaching of the pre-set annual objectives.</p> <p><u>Beneficiaries:</u> The Chief Executive Officer/General Manager, Executives with strategic responsibilities, Managers and key professionals.</p> <p><u>Amount:</u> the target bonus is based on the level of responsibility of the role; a maximum amount is set for the achievement of performance objectives in excess of the target.</p> <p><u>Performance objectives:</u> the issue of the bonus is linked to company performance indicators in terms of Adjusted EBITDA and the Net Financial Position of the Group. The bonus is not issued where the minimum performance</p>

	<p>objective is not met<sup>1</sup>.</p> <p>For the Chief Executive Officer/General Manager, the bonus is exclusively linked on the objectives set in terms of Adjusted EBITDA and the Net Financial Position; for Executives with strategic responsibilities Executives with strategic responsibilities, the bonus is issued also on the basis of department/function objectives, principally of a quantitative, economic-financial and operating nature.</p> <p>Matured bonuses are subject to a claw-back clause.</p>
<p>Medium/long-term variable component</p>	<p>It makes reference to the three-year monetary plan launched in 2017, which establishes annual cycles, each of a three-year duration. The plan's architecture was also defined on the basis of peer benchmarking. The adoption of a monetary plan was assessed by mainly taking account that management are already "shareholders" of Avio: in fact, through the Avio SpA shareholding held through In Orbit, management are considerably involved in business risk.</p> <p><u>Beneficiaries:</u> the Chief Executive Officer/General Manager, the Executives with strategic responsibilities and a limited number of other Managers executing important roles within the Company.</p> <p><u>Performance objectives:</u> the monetary bonus, assigned to beneficiaries at the beginning of each performance cycle, maturing on the achievement of the cumulative three-year objectives. The parameters taken as a basis for the evaluation of the three-year incentive are the cumulative three-year Reported EBITDA and the cumulative three-year Operating Free Cash Flow<sup>2</sup>. As from the 2020-2022 cycle, the Return on Capital was introduced instead of the Operating Free Cash Flow. Four ESG performance objectives (Gender Diversity, Gender Pay Gap, Waste Management and Employee Training) were also introduced<sup>3</sup></p> <p>The objectives are broken down over a number of performance levels (minimum, target and maximum), to</p>

<sup>1</sup> Performance for the short-term variable component is measured in terms of Adjusted EBITDA, which makes it possible to measure the Company's profitability without the influence of non-recurring components, and of the Net Financial Position, which responds to the need to measure management's ability to maintain a liquidity level that is appropriate to current operations during the year of reference.

<sup>2</sup> The cumulative Reported EBITDA allows the measurement of medium-term profitability which does not take account of non-recurring components; the cumulative Operating Free Cash Flow measures the ability to generate adequate cash flows net of any unexpected elements relative to a specific given year. The two indicators were also selected in line with peer practices, to take account of the economic and financial performance of the Company.

<sup>3</sup> The Return on Capital (EBIT/Net Invested Capital) expresses the profit generation capacity in comparison to the Net Invested Capital; the Gender Diversity and Gender Pay Gap parameters measure the capacity to improve gender equality and employee remuneration in respect of gender; Waste Management measures waste recovery capacity, and Employee Training, the ability to develop employees; in general, the ESG parameters introduced in 2020 aim to spur the Company towards sustainable performance in accordance with the highest standards.



	<p>which the amount of the effectively issued bonus is connected. One economic and one financial variable were chosen which aim overall to measure management's ability to generate profitability and ensure satisfactory cash flows net of any unexpected elements over a single year.</p> <p>The plan includes a claw-back clause.</p>
<i>Benefits</i>	Non-monetary benefits supplementing social security plans and the minimum contractual conditions, such as a company car.
<i>Allowances in the case of an early resolution of contract</i>	Benefits in the case of resolution of contract by the Company for any reason other than dismissal for just cause. The sole beneficiary of a specific agreement is the Chief Executive Officer/General Manager. The provisions of the national contract for industrial executives apply to Executives with strategic responsibilities.
<i>Non-competition agreement</i>	The Chief Executive Officer/General Manager is subject to a non-competition agreement.

(\*) Percentage figures calculated by considering the maximum bonus payable for short-term and long-term variable components.

The details for the Chief Executive Officer/General Manager are provided below:

<b>Member</b>	<b>Chief Executive Officer/General Manager</b>
Fixed remuneration component.	<p>Euro 448,000</p> <p>Fixed remuneration is above the first market quartile and below the market median (Willis Towers Watson 2019 research).</p>
Short-term variable component	<p>Target: Euro 336,000, equal to 75% of the fixed remuneration component.</p> <p>Maximum: Euro 448,000, equal to 100% of the fixed remuneration component.</p> <p>Total annual remuneration, which includes fixed remuneration and target-based short-term variable remuneration, is in line with the market median (Willis Towers Watson 2019 research).</p>
Medium/long-term variable component	<p>Target: Euro 269,000, equal to 60% of the fixed remuneration component</p> <p>Maximum: Euro 336,000, equal to 75% of the fixed remuneration component.</p>

	<p>The value of the long-term incentive is in line with the market median. Annual direct remuneration, comprising the fixed, short-term variable and long-term variable remuneration, is also positioned aligned with the market median (source: Willis Towers Watson 2019).</p>
<i>Benefits</i>	
<i>Allowances in the case of an early resolution of contract</i>	<p>With regard to allowances in the case of resolution of contract by the Company for any reason other than dismissal for just cause, the Chief Executive Officer will be entitled to receive the payment of an all-inclusive gross amount equal to two years of the sum of fixed remuneration and the short-term variable bonus (conventionally calculated at 100% of fixed remuneration).</p> <p>According to the Willis Towers Watson research, the most common practices utilised by reference companies is to establish an indemnity through a value calculated on the basis of fixed and average variable remuneration, allocating a sum between 24 and 30 monthly salaries. In light of this market research, it was considered appropriate to settle on the value of 24 monthly salaries, as calculated above.</p>
<i>Non-competition agreement</i>	<p>A non-compete agreement with the Chief Executive Officer/General Manager is applicable. This is equal to a total gross amount of 50% of the fixed remuneration of Euro 224,000 gross.</p> <p>According to the Willis Towers Watson research, the median value of the indemnity envisaged for the non-competition agreement is approx. Euro 450,000.</p>

The following is also reported for completeness of information, according to the Willis Towers Watson analysis:

- the remuneration of the **Chairman of the Board of Directors** is positioned within the first quartile of the peer group;
- the remuneration of the **Chairmans of the Control, Risks and Sustainability Committee and the NominationsNominations and Remuneration Committee** is positioned within the average of the peer group considered.

**Pay-mix of the Chief Executive Officer/General Manager and Executives with strategic responsibilities**

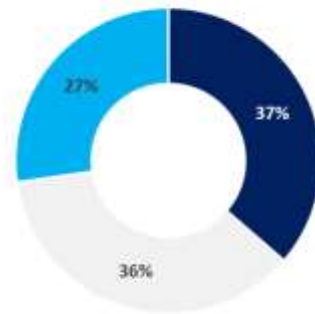
The make-up of the remuneration package of the Chief Executive Officer/General Manager and the Executives with strategic responsibilities, in the case of achieving the target and maximum performance levels, is as follows:

Chief Executive Officer/General Manager

Pay-mix - performance target

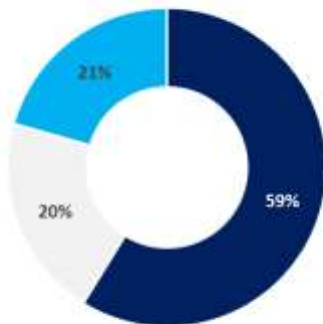


Pay-mix, maximum performance

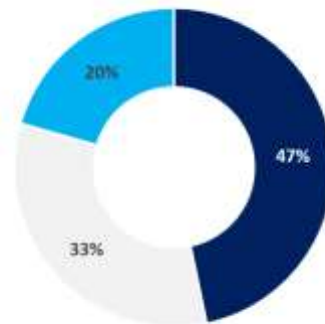


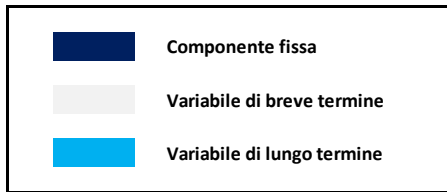
Executives with strategic responsibilities

Pay-mix - performance target



Pay-mix, maximum performance





### **Principal developments in the Remuneration Policies**

Certain aspects of the Avio Remuneration Policies were changed in 2019, taking account of the voting results on the 2018 Remuneration Report and the recommendations provided by shareholders during engagement. Specifically, the principal changes relate to:

- **Post-employment allowances for the Chief Executive Officer/General Manager:** With regard to allowances in the case of resolution of contract by the Company for any reason other than dismissal for just cause, the Chief Executive Officer will be entitled to receive the payment of an all-inclusive gross amount equal to two years of fixed remuneration and the variable bonus (conventionally calculated at 100% of fixed remuneration); this amount was reduced with respect to the original contract which instead envisaged 2/3 of the global remuneration;
- **Claw-back:** the claw-back clause, which provides for the reimbursement, in five years from disbursement, of any bonuses disbursed on the basis of manifestly erroneous or false data, was already in place for the long-term variable component; its application was extended to the annual variable component of the Chief Executive Officer/General Manager for 2019 and, as from 2020, for Executives with strategic responsibilities and all Avio employees included in the incentive system;
- The Policies exclude the possibility of disbursing **discretionary bonuses** to the Chief Executive Officer/General Manager and to Executives with strategic responsibilities.

## SECTION I

The Remuneration Policy defines the principles and guidelines adopted by Avio for the remuneration of the members of the Board of Directors and Executives with strategic responsibilities.

### **1. GOVERNANCE - PROCEDURES FOR THE ADOPTION AND IMPLEMENTATION OF THE REMUNERATION POLICY**

#### **1.1. Parties involved in the preparation, approval and implementation of the Remuneration Policy**

The principal parties and bodies involved in the preparation and approval of the Remuneration Policy are the Shareholders' Meeting, the Board of Directors, the Nominations and Remuneration Committee and the Board of Statutory Auditors. The Board of Directors, the Board of Statutory Auditors and the Nominations and Remuneration Committee are also responsible for the correct implementation of the Remuneration policy and oversee its correct implementation. A brief description of the duties, which in accordance with the applicable regulation and the Company By-Laws are required of these Boards with regards to the remuneration of the Directors, is provided below.

##### Shareholders' Meeting

The Shareholders' Meeting:

- (i) establishes the total remuneration of the members of the Board of Directors in accordance with Article 2364, paragraph 1, No. 3) of the Civil Code, possibly also in accordance with Article 2389, paragraph 3 of the Civil Code and Article 15 of the By-Laws;
- (ii) resolves, with a binding vote, as regards Section I of the Report, in accordance with Article 123-ter, paragraph 3-ter of the TUF;
- (iii) resolves, with a non-binding vote, as regards Section II of the Report, in accordance with Article 123-ter, paragraph 6 of the TUF;
- (iv) establishes any remuneration plans based on shares or other financial instruments for Directors, employees or collaborators, including Executives with strategic responsibilities, where existing, in accordance with Article 114-bis of the TUF.

##### Board of Directors

The Board of Directors:

- (i) establishes internally the Nominations and Remuneration Committee;
- (ii) establishes the remuneration of the Executive Directors on the proposal of the Nominations and Remuneration Committee (and, where established, of the Related Parties Committee), with prior opinion from the Board of Statutory Auditors, within any remuneration established by the Shareholders' Meeting in accordance with Article 2389, paragraph 3 of the Civil Code and breaks down the fixed annual remuneration for execution of office, established in totality by the Shareholders' Meeting for Non-Executive Directors, as set out by Article 15 of the By-Laws;
- (iii) defines and reviews, on the proposal of the Nominations and Remuneration Committee, the Remuneration Policy;
- (iv) approves the Report in accordance with Articles 123-ter of the TUF and 84-quater of the Issuers' Regulation;

- (v) prepares any remuneration plans based on shares or other financial instruments for Directors, employees and collaborators, including Executives with strategic responsibilities, where existing, submitting such for the approval of the Shareholders' Meeting in accordance with Article 114-*bis* of the TUF and oversees their implementation.

#### Nominations and Remuneration Committee

The Nominations and Remuneration Committee provides consultation and proposals, and in terms of remuneration:

- a. presents proposals to the Board of Directors in relation to approval of the Remuneration Policy and its review;
- b. periodically evaluates the adequacy, the overall consistency and the concrete application of the remuneration policy of senior Directors and Executives of the Company, utilising for this latter the information provided by the Chief Executive Officer/ General Manager and draws up for the Board of Directors related proposals;
- c. presents proposals or expresses opinions to the Board of Directors on the remuneration of Executive Directors and other senior Directors in office, as well as establishing the performance objectives related to the variable component of this remuneration and monitors the application of the decisions adopted by the Board verifying, in particular, the achievement of the performance objectives;
- d. reviews in advance the annual remuneration report to be made available to the public as per the applicable regulation;
- e. reports to the Shareholders' Meeting called to approve the financial statements - through the Chair of the Committee or another member appointed by the latter - upon the means to perform their duties, with respect to remuneration-related tasks attributed to the Committee.

The Committee is also assigned, with respect only to remuneration issues,, the duties allocated to the committee responsible for related party transactions as per the Related Party Transactions Policy adopted by the Company. For transactions with significant related parties, where the committee does not include at least three Independent Directors, the controls at Article 14 of the stated Policy apply.

This committee guarantees the broadest scope of information and transparency on the remuneration of the Executive Directors, as well as the manner for determining their remuneration. In any case, as per Article 2389, paragraph 3 of the Civil Code, the Nominations and Remuneration Committee has solely the function of presenting proposals, while the power of determining the remuneration of Executive Directors remains with the Board of Directors, having consulted with the Board of Statutory Auditors and in any case with the abstention of the interested Directors regarding decisions upon their own remuneration.

The Nominations and Remuneration Committee consists of three non-Executive Directors, the majority of whom independent, appointed by Board of Directors' motion of April 10, 2017, namely:

- Giovanni Gorno Tempini (Chairman);
- Maria Rosaria Bonifacio;
- Stefano Ratti.

Upon election and, most recently, on March 16, 2020, the Board of Directors considered the Independent Director Giovanni Gorno Tempini to possess the financial field expertise required and the Independent Director Maria Rosaria Bonifacio to have sufficient remuneration policy experience.

The composition, tasks and procedures of the Nominations and Remuneration Committee are governed by the Self-Governance Code and the appropriate regulation.

The meetings of the Nominations and Remuneration Committee are chaired by the Chairman or, in his/her absence or impediment, the oldest member of the Committee. The meetings are held as a collective and are appropriately minuted.

The Directors do not take part in meetings of the Nominations and Remuneration Committee at which proposals upon their specific remuneration of the Board of Directors are drawn up.

Meetings of the Nominations and Remuneration Committee are attended by the Chairman of the Board of Statutory and, on invitation, by representatives of Company departments and independent experts and/or other parties, whose participation is considered beneficial for the discussion of the matters at issue.

Where considered necessary or beneficial for the execution of its duties, the Nominations and Remuneration Committee may utilise outside remuneration policy consultants. In 2019, the Nominations and Remuneration Committee met on six occasions. The meeting attendance of Committee members is reported in the table at the bottom of Section 4.2.1 of the Corporate Governance and Ownership Structure Report, available on the Company website [www.avio.com](http://www.avio.com), "Corporate Governance" section.

The Chairman of the Board of Statutory Auditors, the Chief Executive Officer/General Manager, the Human Resources Director, the General Counsel, the Legal Department collaborators, in addition to consultants supporting the Company on specific projects reviewed by the Committee, usually attended the Nominations and Remuneration Committee meetings, on its invitation. The Chief Executive Officer/General Manager did not take part in the Committee's discussions concerning decisions upon his remuneration or which would put him in a conflict of interest situation.

In 2019 the Committee business principally concerned:

- the assessment and the monitoring of the adequacy, overall consistency and concrete application of the remuneration policy for Executives with strategic responsibilities, with reference to 2019;
- the introduction of certain changes to the Company's Remuneration Policy, also defined by taking account of the dialogue with shareholders and, in particular: the review and reduction of the post-employment allowance of the Chief Executive Officer/General Manager; the introduction of the claw-back clause also in relation to the annual variable component of the remuneration of the Chief Executive Officer/General Manager and Executives with strategic responsibilities; the adjustment of the fixed remuneration envisaged for the Chief Executive Officer/General Manager and one of the Executives with strategic responsibilities; the adjustment of the remuneration established for the Chairman of the Nominations and Remuneration Committee and the Chairman of the Control, Risks and Sustainability Committee, in accordance with the overall budget established and approved for the remuneration of the Board of Directors;
- the assessment regarding the degree of annual performance objective achievement under the incentive system for 2019 and the setting of the objectives for 2020;
- establishing the performance objectives for the third cycle of the long-term incentive plan;
- the Board's self-assessment process, carried out with the support of the company Boardclit, as the independent external advisor;
- the updating by Management on the amendments to the Company's organisational structure, on the key remuneration activities, on the main HR initiatives;
- The introduction of a Succession Plan for the Chief Executive Officer/General Manager;

- the drawing up of the proposal to the Board with regards to the 2020 Remuneration Policy.

#### Executive Director

The Executive Director is tasked with:

- providing the Nominations and Remuneration Committee, with the support of the Group Human Resources Department, with any useful information for this latter to assess the adequacy and concrete implementation of the Policy, with specific regard to the remuneration of Executives with strategic responsibilities;
- submitting to the Nominations and Remuneration Committee the draft share-based incentive plans, stock option plans, stock ownership plans and incentive and loyalty plans established for the management of Group companies or, where appropriate, assists the Committee in drafting such, also with the support of the Group Human Resources Department;
- implementing the Remuneration Policy of the Company in accordance with this document.

#### Board of Statutory Auditors

The Board of Statutory Auditors expresses an opinion upon the remuneration proposals of the Executive Directors, in accordance with Article 2389, paragraph 3 of the Civil Code, verifying the consistency of such with the Remuneration Policy adopted by the Company.

#### Independent Audit Firm

The independent audit firm of Avio verifies that the Directors have prepared the second section of the Report, as required by Article 123-ter, paragraph 8-bis of the TUF.

## **2. INDEPENDENT EXPERTS INVOLVED IN PREPARING THE REMUNERATION POLICY**

In preparing the Remuneration Policy, the Company was assisted by the independent experts Willis Towers Watson and Korn Ferry, leading consultancy firms in salary benchmarking and in the area of human resources development and organisation.

## **3. REMUNERATION POLICY**

### **3.1. OBJECTIVES AND PRINCIPLES OF THE REMUNERATION POLICY**

Avio's Remuneration Policy is based on the following key principles and is defined according to the following criteria:

- This policy seeks to attract, retain and motivate individuals of high professional standing, with particular regard to key positions for the development and management of the business, through a remuneration structure which recognises the value of the individual and their contribution to company growth.
- The link with performance and corporate strategy: remuneration recognises the achievement of performance objectives, both individual and company, principally referring to quantitative economic-financial indicators and, to a lesser extent, the operating objectives set by the Company's industrial plan. They are pre-set and measurable, establishing differentiated bonus levels according to the relative achievement of objectives.
- The alignment of the interests of Company Management with the pursuit of the objective to create value for the shareholders of Avio over the long-term through an appropriately balanced system of fixed and



variable components, on the basis of the strategic objectives and the risk management policy of the Company, and the setting of limits for the variable components which also reward results which exceed the assigned targets.

In line with the above principles, the Company shall propose approval of this document to the Shareholders' Meeting of May 6, 2020.

### **3.2. OUTLINE OF THE REMUNERATION POLICY**

The Remuneration Policy provides that the fixed and variable components (this latter in turn split between short and long-term) are established on the basis of principles and processes according to the beneficiary category.

In this regards, on June 28, 2017, the Board of Directors of the Company, on the proposal of the Nominations and Remuneration Committee, identified - in light of the positions and respective roles held within the Group - the Executives with strategic responsibilities.

The Company in any case considered it appropriate to create a remuneration system based on the Executive / managerial responsibilities of the parties concerned and therefore independently set the criteria for determining the remuneration of:

- (i) Directors, and more specifically:
  - (a) Non-Executive Directors; and
  - (b) Executive Director;
- (ii) Board of Statutory Auditors
- (iii) Executives with strategic responsibilities.

#### **(i) DIRECTORS**

All Directors receive a fixed remuneration which appropriately compensates the work and commitment provided by the Directors to the Company.

The Shareholders' Meeting of December 1, 2016, with regards to the setting of the Directors' remuneration, assigned to the Board of Directors to remain in office for the three years following that in which the Merger becomes effective, remuneration of, as per Article 2389 of the Civil Code, Euro 500,000 annually, to be divided among its members in accordance with the motions to be taken by the Board of Directors, subject to any additional remuneration for senior Directors, as may be established by the Board of Directors pursuant to Article 2389, third paragraph of the Civil Code.

In fulfilment of that stated above, the Board of Directors of April 10, 2017 decided to recognise to each Director, with the exception of the sole Executive Director (the Chief Executive Officer/General Manager), gross annual remuneration of Euro 35,000, while proposing to recognise gross annual remuneration of Euro 120,000 to the Chairman of the Board of Directors.

The above Board of Directors proposed, in addition, to allocate to the Internal Board Committees (Nominations and Remuneration Committee, Control, Risks and Sustainability Committee and Strategic Activities Committee), with the exclusion of the only Executive Director (the Chief Executive Officer/General Manager), remuneration for the Chairmen of Euro 15,000 each and for the other members of Euro 10,000 each. On May 13, 2019, the

Board of Directors resolved on a change in the remuneration of the Chairmans of the Nominations and Remuneration Committee and the Control, Risks and Sustainability Committee, establishing the remuneration amount at Euro 25,000 each. The Board adjusted the remuneration of the Chairmans of the Committees in order to align the remuneration for these offices with that of companies comparable to Avio, in accordance with the aforementioned research carried out by Willis Towers Watson in 2019.

As of the date of this Report reversibility agreements are in place for the remuneration of some Directors. Specifically:

- Mr. Roberto Italia, Chairman of the Board of Directors of Avio, and the company Space Holding S.r.l. signed a reversibility agreement, under which the remuneration matured for the office held by him is paid to the company Space Holding S.r.l. In relation to that indicated above, at December 31, 2019 the payable of the company to Space Holding S.r.l. amounts to Euro 120,000;
- Mr. Stefano Ratti - member (i) of the Board of Directors; (ii) of the Nominations and Remuneration Committee and (iii) of the Strategic Activities Committee of Avio - and the company Leonardo Finmeccanica S.p.A. signed a reversibility agreement, under which the remuneration matured for the offices held by him is paid to the company Leonardo Finmeccanica S.p.A.;
- Mr. Luigi Pasquali - member (i) of the Board of Directors and Chairman of the Investment Committees of Avio - and the company Leonardo Finmeccanica S.p.A. signed a reversibility agreement, under which the remuneration matured for the offices held by him is paid to the company Leonardo Finmeccanica S.p.A..

(a) NON-EXECUTIVE DIRECTORS

The non-Executive Directors (whether independent or not) are granted a fixed remuneration, the overall amount of which is established by the Shareholders' Meeting, allocated on an individual basis by the Board of Directors pursuant to Article 2389 of the Civil Code.

The remuneration of these Directors is not based on any financial results or specific objectives of the Company and is commensurate with the commitment required, also in relation to participation on Board Committees, for which specific remuneration is allocated.

(b) EXECUTIVE DIRECTORS

The remuneration of the Executive Director (Chief Executive Officer/General Manager) is adequately balanced between short-term development objectives and the sustainable creation of value for Shareholders over the long-term period.

Specifically, the Executive Director's remuneration structure is made up of:

- a fixed component: this component takes into account the breadth and strategic relevance of the role played and the distinctive subjective characteristics and strategic skills of the managers assigned to the role. The amount is sufficient to remunerate the service also in the case of the partial reaching of the performance objectives upon which the variable remuneration component is based, and therefore - among other issues - discourages the undertaking of conduct not consistent with the risk propensity of the Company. More specifically, the fixed component is calculated according to the size of the managed business, the various areas of responsibility covered, the Avio Group's complex corporate structure, including internationally, also taking account of market practice for similar positions at industrial sector companies (benchmark by Willis Towers Watson). In 2019, the BoD - in light of the analyses carried out by Willis Towers Watson, according to which the remuneration of the Chief Executive Officer/General Manager was lower than at major peers comparable to AVIO S.p.A. - resolved to change the individual remuneration of the Chief Executive Officer/General Manager to fixed remuneration of Euro 448,000.00 (four hundred forty-eight thousand/00), and simultaneously

eliminated the accommodation indemnity. Furthermore, it was resolved to reduce the termination

payments, establishing an all-inclusive gross amount equal to two annual remunerations of the sum of the fixed remuneration and the variable bonus (conventionally calculated as 100% of the fixed remuneration) as opposed to the 2.3 years envisaged under the original contract.

- a short-term variable component: the purpose of this component is to encourage management to work towards the achievement of annual targets that maximize the Avio Group's value, in line with shareholders' interests. This component is conditional upon reaching a minimum performance threshold with respect to the annual targets set by the Board of Directors, upon proposal by the Nominations and Remuneration Committee. The indicators used to define the annual business performance targets (and to calculate the actual amount of the short-term variable component) are the Group's financial and earning parameters, as described below.

The value of the annual variable component for the Chief Executive Officer/General Manager of Avio is 75% of the fixed remuneration on achievement of the target, with a maximum of 100% of the fixed remuneration. The payment of discretionary bonuses is not envisaged;

- a long-term variable component: this component seeks to incentivise the Executives with strategic responsibilities to maximise the value of the Group and to align their interests with those of the shareholders. The payment of this remuneration may be deferred to the conclusion of a three-year timeframe, subject to the achievement of the performance conditions (as per the following paragraphs) measured over a multi-year period.

The target bonus value for the Chief Executive Officer/General Manager:

- the value of the target assigned for the cycle 2017-2019 was 72% of fixed remuneration: the Board of Directors in fact established that this value was higher than the bonuses concerning the subsequent cycles in order to put more emphasis on the initial stage of the long-term incentive plan;
  - with regard to the 2018-2020 and 2019-2021 cycles, is equal to 54% of the fixed remuneration;
  - with regard to the 2020-2022 cycle, will be equal to 60% of the fixed remuneration, as the system is now operational.
- fringe benefit: fringe benefits provide for the provisions of goods and/or services in line with market practice and applicable regulations. In particular, the Chief Executive Officer of Avio, in addition to the benefits under the Industry Executives Collective Bargaining Agreement, is assigned two company cars and supplementary life and total and permanent invalidity accident insurance.

For a description of the short-term variable component and of the long-term component of the remuneration of the Chief Executive Officer/General Manager, reference should be made to Paragraph 3.3.

## **(ii) BOARD OF STATUTORY AUDITORS**

All the members of the Board of Statutory Auditors receive a fixed remuneration which appropriately compensates the work and commitment provided by the Statutory Auditors to the Company.

The Ordinary Shareholders' Meeting of December 1, 2016, with regards to the setting of the Board of Statutory Auditors' remuneration, resolved to assign remuneration of Euro 120,000 annually to the Board of Statutory Auditors which will remain in office for the three years following that in which the Merger becomes effective.

Remuneration for the Chairman of the Board of Statutory Auditors amounts to Euro 50,000 annually; remuneration for each of the other two members of the Board of Statutory Auditors is Euro 35,000 annually.

This remuneration is in line with the earnings of the members of the Board of Statutory Auditors of companies listed on the STAR segment having a capitalisation ranging between Euro 300 million and Euro 600 million, according to the analysis carried out by Studio Legale Chiomenti based on Remuneration Reports for the year 2018.

### **(iii) EXECUTIVES WITH STRATEGIC RESPONSIBILITIES**

The remuneration of Executives with strategic responsibilities is structured so as to focus management on Company results and the creation of value.

The remuneration of Executives with strategic responsibilities is composed of:

- a *fixed component*: this component takes into account the breadth and strategic relevance of the role played and the distinctive subjective characteristics and strategic skills of the beneficiary, in addition to market practice for comparable positions. The amount is sufficient to remunerate the service also in the case of the non-reaching of the performance objectives upon which the variable remuneration component is based; Based on the Korn Ferry research, the fixed component is positioned within the first reference quartile;
- a *short-term variable component*: the purpose of this component is to encourage management to work towards the achievement of annual targets that maximize the Avio Group's value, in line with shareholders' interests. This component is conditional upon reaching a minimum performance threshold with respect to the annual targets set by the Board of Directors, upon proposal by the Nominations and Remuneration Committee. The indicators used to define the annual business performance targets (and to calculate the actual amount of the short-term variable component) are the Group's financial and earning parameters. Each Executive is also assigned individual objectives specifically related to specific areas of responsibility, measured according to predominantly quantitative, financial and earnings indicators, or operating indicators. In determining the short-term variable component, the achievement of business results and individual/area/function results are therefore combined.

The average value of the annual variable component for Avio Executives with strategic responsibilities is 35% of the fixed remuneration on achievement of targets, with a maximum amount (capped) of 50% of the fixed remuneration;

No forms of discretionary variable remuneration are envisaged.

- a *long-term variable component*: this component seeks to incentivise Executives with strategic responsibilities to maximise the value of the Group and to align their interests with those of the shareholders. The payment of this remuneration may be deferred to the conclusion of a three-year timeframe, subject to the achievement of the multi-year performance conditions. On the basis of the Korn Ferry research, with the fixed component plus the short-term and the long-term variable components, global remuneration is positioned between the first and second reference quartile.

The target bonus amount:

- the value of the target assigned for the 2017-2019 cycle was 42% of the fixed remuneration: the Board of Directors in fact established that this value was higher than the bonuses concerning the subsequent cycles in order to put more emphasis on the initial stage of the long-term incentive plan;
  - with regard to the 2018-2020 and 2019-2021 cycles, it amounts to 32% of the fixed remuneration;
  - with regard to the 2020-2022 cycle, it will be equal to 35% for each cycle. The percentage will be stable as from this cycle, given that the system is operational.
- *fringe benefits*: fringe benefits concern the supply of goods and/or services assigned in accordance with market practice and as per applicable legislation. In particular, the Executives with strategic responsibilities of Avio, in addition to the benefits under the Industry Executives Collective Bargaining Agreement, are assigned a company car and supplementary life and total and permanent invalidity accident insurance.

For the description of the short-term variable component and the long-term variable component for Executives with strategic responsibilities, reference should be made to Paragraph 3.3.

### **3.3. VARIABLE REMUNERATION COMPONENT**

The variable remuneration system of Avio includes a short-term variable component and a medium/long-term variable component.

#### **3.3.1 SHORT-TERM VARIABLE COMPONENT**

The annual incentive system provides for the payment of a monetary bonus on the reaching of the pre-set annual objectives. This system is reviewed every year by the Nominations and Remuneration Committee, which proposes to the Board of Directors the objectives for the Chief Executive Officer/General Manager and the Executives with strategic responsibilities, identifying the metrics.

The beneficiaries of the system are, in addition to the Chief Executive Officer/General Manager and the Executives with strategic responsibilities, Avio's managers and professionals. The value of the target bonus is based also on the level of responsibility of the role, according to pre-set "brackets"; each beneficiary, depending on their bracket, is assigned a variable target bonus expressed as a percentage of the fixed remuneration on achieving the pre-set targets; a maximum amount is established where the objectives are exceeded.

The right to receive a variable bonus is conditional upon achieving a minimum performance threshold with respect to the company's predetermined objectives. The business performance indicators used are the Group's Adjusted EBITDA and Net Financial Position, each equally weighted. For both of these parameters, business objectives are set with respect to the budget approved by the Board of Directors.

The selection of the two parameters is motivated by the fact that these include one economic and one financial parameter, as generally adopted by reference benchmark companies (Korn Ferry).

In particular, the Adjusted EBITDA expresses the capacity to generate profits independently of any non-recurring effects attributable to a single year; the Net Financial Position expresses the ability to maintain the net cash position within the value pre-set for the reference year.

For the Chief Executive Officer/General Manager, the bonus is exclusively linked to company objectives in terms of Adjusted EBITDA and Net Financial Position, establishing:

- a minimum performance level (threshold) of 95% of the target value for Adjusted EBITDA and 78% for the Group Net Financial Position parameter, on achievement of which 40% of the bonus is issued; no bonus is recognised under the threshold level;
- a target performance level, on the achievement of which the target bonus of 75% of the fixed remuneration is recognised;
- a maximum performance level, on achievement of which the maximum value of the relative bonus, equal to 100% of the fixed remuneration (cap), is recognised.

The table reports the objectives-bonus link envisaged on achieving the minimum, target and maximum objective:

		<Threshold value	Minimum (threshold value)	Target	Maximum	>Maximum
50% of the total bonus	<b>2020 Adjusted EBITDA</b>	<95.5% of the target	95.5% of the target	100%	104.5% of the target	>104.5% of the target
	<b>Bonus value as a % of the GAR</b>	No bonus	40% of the target bonus (30% of the GAR)	100% of the target bonus (75% of the GAR)	133% of the target bonus (100% of the GAR)	133% of the target bonus (100% of the GAR)

50% of the total bonus	<b>2020 Net financial position</b>	<78% of the target	78% of the target	100%	122% of the target	>122% of the target
	<b>Bonus value</b>	No bonus	40% of the target bonus (30% of the GAR)	100% of the target bonus (75% of the GAR)	133% of the target bonus (100% of the GAR)	133% of the target bonus (100% of the GAR)

For Executives with strategic responsibilities, the bonus is linked for 50% to Company objectives (Adjusted EBITDA, Net Financial Position) and for 50% to individual objectives: between four and five specific management objectives, to which economic-financial indicators are linked, or rather annual operating indicators. In determining the overall individual performance, each objective is assigned a differing weight.

The annual average theoretical bonus for Executives with strategic responsibilities is 35% of the fixed remuneration on achieving the target objectives; the maximum amount (capped) is 50% while the minimum amount is 8% (corresponding to the threshold value below which no bonus is earned).

In the grids defined above, in the case of particularly challenging annual objectives, the Board may establish a (de)multiplier which may increase or reduce the value of the final bonus issued; the adoption of the (de)multiplier does not modify the maximum values of the disburseable bonuses in any case, equal to 50% of the fixed remuneration for Executives with strategic responsibilities and 100% of the fixed remuneration for the Chief Executive Officer and General Manager, respectively.

The annual incentive plan includes a claw-back clause which permits the recovery in the 5 years subsequent to issue of amounts issued on the basis of manifestly erroneous or false data. This clause was already applied to the bonuses disbursed to the Chief Executive Officer/General Manager in 2019 and shall apply to all the Executives with strategic responsibilities and, in general, to Avio employees included in the annual incentive system as from 2020.

~~In the event of a Material Adverse Change which makes achieving the objectives impossible, the Board of Directors reserves the right to decide on a different criterion.~~

Upon the occurrence of extraordinary events that render the performance scenarios used to formulate the targets set in the plan essentially out of date, the Company's Board of Directors may, by proposal of the Nominations and Remuneration Committee, make the corrections to those targets required to ensure that the plan's substantial and economic contents remain unchanged.

For the purposes of the above, “extraordinary events” are defined as: (i) events of an extraordinary and/or non-recurring nature and/or not attributable to the core business of the Avio Group (including, without limitation, acquisitions or disposals of equity investments or business units) considered of particular importance and/or currently not provided for in company planning that entail a significant change in the scope of the Company or the Avio Group; (ii) significant changes in the macroeconomic and/or competitive scenario or other extraordinary factors with a significant impact beyond the actions within the management’s control; and/or (iii) significant events, not only of an economic or financial nature, such as those arising from the Covid-19 health emergency.

Any changes to performance targets must safeguard the principles and guidelines according to which the plan has been formulated by not introducing undue advantages or penalties for either the beneficiaries of the plan or the Company.

### **3.3.2 LONG-TERM VARIABLE COMPONENT**

On June 28, 2017, the Board of Directors approved the establishment of a monetary long-term incentive plan. The plan comprises three cycles, respectively beginning 2017, 2018 and 2019 and establishes, for each cycle, the awarding to each beneficiary of a monetary bonus which shall mature on achieving the performance objectives measurable over a three-year period; the bonus is issued only at the end of the three-year cycle. The long-term incentive plan table was defined with the support of the consultancy firm Korn Ferry, also as a result of peer benchmarking with comparable companies and taking account of the qualities of Avio's top management who hold a share of the Company's risk capital. The latter circumstance, combined with the benchmarking results, prompted the adoption of a three-year monetary plan.

The beneficiaries of the first cycle of 2017-2019 long-term incentive plan numbered thirteen, including the Chief Executive Officer/General and four Executives with strategic responsibilities.

The beneficiaries of the second cycle of the 2018-2020 long-term incentive plan are the Chief Executive Officer/General Manager, four Executives with strategic responsibilities and a further ten Managers with strategic impact roles.

Similarly to the third cycle, the beneficiaries of the cycle of the 2019-2021 long-term incentive plan are the Chief Executive Officer/General Manager, four Executives with strategic responsibilities and a further ten Managers with strategic impact roles.

The Plan was linked to economic-financial targets. In particular, for the first 2017-2019 cycle, the indicators were the cumulative Adjusted EBITDA and the Operating Free Cash Flow, each with a weighting of 50%. For the 2018-2020 second cycle and the 2019-2021 third cycle, the economic-financial indicators are the cumulative three-year Reported EBITDA and the cumulative three-year Operating Free Cash Flow, each with a weighting of 50%. On March 25, 2020, the Board of Directors approved the new 2020-2022 incentive Plan, whose beneficiaries are the Chief Executive Officer/General Manager, Executives with strategic responsibilities and other Managers with strategic impact roles.

The Plan comprises three cycles, beginning 2020, 2021 and 2022, respectively.

The new long-term incentive Plan is linked to two cumulative three-year financial performance indicators of the Industrial plan and ESG indicators.

For the new 2020-2022 Plan, the economic-financial indicators are the cumulative three-year Reported EBITDA and the Return on Invested Capital<sup>4</sup>, each with a weighting of 45%, and 4 ESG indicators each with a weighting of 2.5%, as follows: (i) Gender diversity<sup>5</sup>; (ii) Gender pay gap<sup>6</sup>; (iii) Waste Management<sup>7</sup>; (iv) Employee Training<sup>8</sup>.

There are a total of 15 beneficiaries of the first cycle of the 2020-2022 long-term incentive plan, including the Chief Executive Officer/General Manager and Executives with strategic responsibilities.

With regard to the economic-financial performance levels linked to the highlighted indicators, it was decided to utilise the three-year target values of the Industrial Plan. For ESG indicators, it was decided to refer to the objectives resolved by the Board of Directors during the assignment of cycles. In particular, the performance targets for ESG indicators are formulated as follows:

- The gender diversity target is defined by the target level to be reached in the third year of the three-year cycle;
- The gender pay gap target is defined by the target in terms of the average pay gap to be achieved in the three years of the cycle;
- The waste management target is defined by the target level to be reached in the third year of the three-year cycle;
- The employee training target is defined by the target level to be reached on average in the three years of the three-year cycle;

The following is established for each of the two economic-financial indicators selected:

- a minimum performance level (threshold) of 90% of the target value for the cumulative three-year Reported EBITDA, 85% for the average three-year Return on Invested Capital, 90% for Gender Diversity, 96% for the Gender Pay Gap, 90% for Waste Management and 90% for Employee Training, on achievement of which 75% of the bonus is issued; no bonus is recognised below the threshold level;
- a target performance level, on the achievement of which the target bonus (100%) is recognised for each of the two indicators considered;
- a maximum performance level, equal to 110% of the target value for the cumulative three-year Reported EBITDA and 115% for the average three-year Return on Invested Capital, 110% for Gender Diversity, 102% for the Gender Pay Gap, 110% for Waste Management and 110% for Employee Training, on achievement of which the maximum relative bonus value (capped) is recognised, equal to 125% of the target bonus.

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<sup>4</sup> Defined as the Reported EBIT/Net Invested Capital

<sup>5</sup> Defined as the ratio between the no. of female employees / the no. of male employees

<sup>6</sup> Defined as the ratio between the remuneration of female employees / the remuneration of male employees in the same grade

<sup>7</sup> Defined as the % of waste recovery

<sup>8</sup> Defined as the total number of hours of training performed



On achieving the interim performance levels, the bonus value is calculated for the linear interpolation.

The table reports the objectives-bonus link envisaged on achieving the minimum, target and maximum objective:

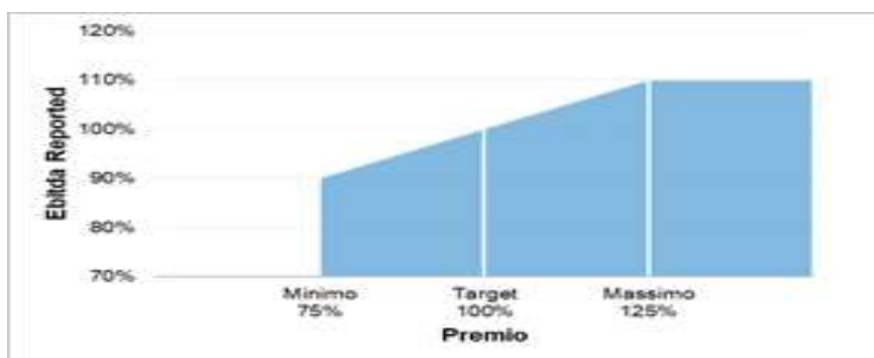
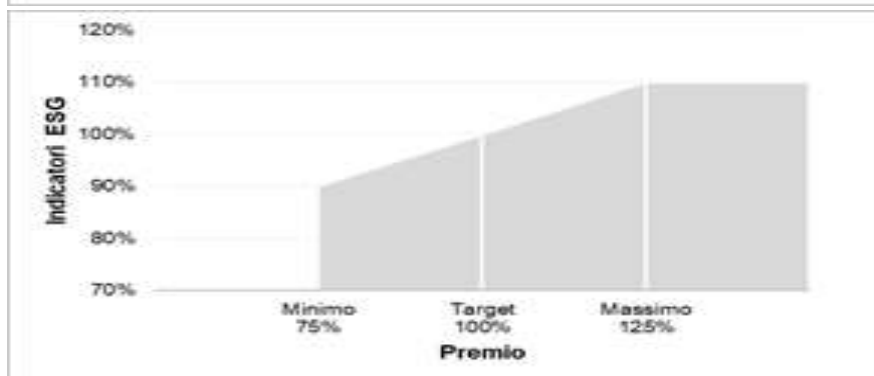
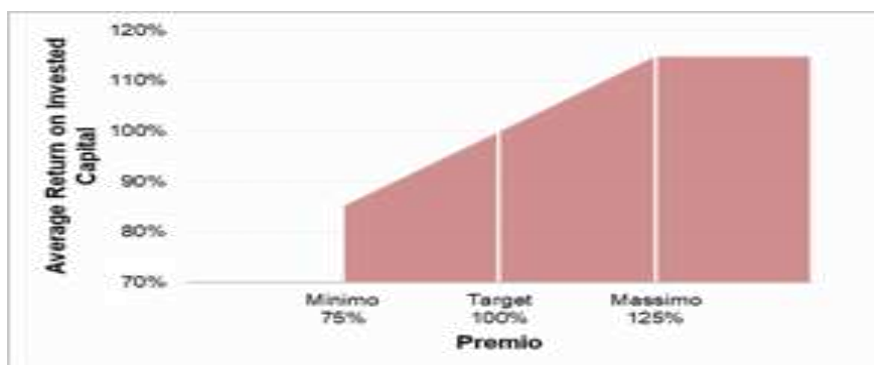
		<Threshold value	Minimum (threshold value)	Target	Maximum	>Maximum
45% of the total bonus	<b>Cumulative three-year reported EBITDA</b>	<90% of the target	90% of the target	100%	110% of the target	>110% of the target
	<b>Bonus value</b>	<b>No bonus</b>	<b>75% of the target bonus</b>	<b>100% of the target bonus</b>	<b>125% of the target bonus</b>	<b>125% of the target bonus</b>

45% of the total bonus	<b>Average Return on Invested Capital</b>	<85% of the target	85% of the target	100%	115% of the target	>115% of the target
	<b>Bonus value</b>	<b>No bonus</b>	<b>75% of the target bonus</b>	<b>100% of the target bonus</b>	<b>125% of the target bonus</b>	<b>125% of the target bonus</b>

10% of the total bonus	<b>ESG Indicators<sup>9</sup></b>	<90% of the target	90% of the target	100%	110% of the target	>110% of the target
	<b>Bonus value</b>	<b>No bonus</b>	<b>75% of the target bonus</b>	<b>100% of the target bonus</b>	<b>125% of the target bonus</b>	<b>125% of the target bonus</b>

On achieving the interim performance levels, the bonus value is calculated for the linear interpolation. The following graphs outline the bonus-performance link, in relation to the two types of indicators considered:

<sup>9</sup> The minimum and maximum performance range for the Gender Pay Gap, as an exception with respect to the other ESG indicators, is 96% at the minimum value and 102% at the maximum value



The performance levels are in line with that established by the Group's Industrial Plan.

The long-term incentive plan includes a claw-back clause which permits the recovery of amounts issued on the basis of manifestly erroneous or false data in the 5 years subsequent to issue.

In the case of a change of control, the long-term incentive plan establishes an accelerated bonus assignment, with *pro rata temporis* reduction and on the basis of the degree to which the objectives linked to the maturation of the bonus are achieved.

Upon the occurrence of extraordinary events that render the performance scenarios used to formulate the targets set in the plan essentially out of date, the Company's Board of Directors may, by proposal of the Nominations and Remuneration Committee, make the corrections to those targets required to ensure that the plan's substantial and economic contents remain unchanged.

For the purposes of the above, "extraordinary events" are defined as: (i) events of an extraordinary and/or non-recurring nature and/or not attributable to the core business of the Avio Group (including, without limitation,

acquisitions or disposals of equity investments or business units) considered of particular importance and/or currently not provided for in company planning that entail a significant change in the scope of the Company or the Avio Group; (ii) significant changes in the macroeconomic and/or competitive scenario or other extraordinary factors with a significant impact beyond the actions within the management's control; and/or (iii) significant events, not only of an economic or financial nature, such as those arising from the Covid-19 health emergency.

Any changes to performance targets must safeguard the principles and guidelines according to which the plan has been formulated by not introducing undue advantages or penalties for either the beneficiaries of the plan or the Company.

The value of the target bonus, with regards to the 2017-2019 cycle, was:

- for the Chief Executive Officer/General Manager, 72% of the fixed remuneration;
- for the Executives with strategic responsibilities, 42% of the fixed remuneration.

This amount is higher than for subsequent cycles in order to strengthen the incentive at the beginning of the plan. The value of the target bonus, for the 2018-2020 and 2019-2021 cycles, was:

- for the Chief Executive Officer/General Manager, 54% of the fixed remuneration;
- for the Executives with strategic responsibilities, 31.5% of the fixed remuneration.

As from the 2020-2022 cycle, the plan is operational and the value of the target bonus will therefore be

- For the Chief Executive Officer/General Manager, 60% of the fixed remuneration;
- For the Executives with strategic responsibilities, 35% of the fixed remuneration.

#### **POLICY RELATED TO TREATMENTS ESTABLISHED IN THE EVENT OF TERMINATION OF THE OFFICE OR EMPLOYMENT**

For the Chief Executive Officer/General Manager alone, in the case of resolution of contract by the Company or dismissal for just cause, the payment of an all-inclusive indemnity is envisaged equal to two gross annual remunerations, that is, the sum of the gross annual fixed remuneration and the short-term variable remuneration at 100% of the fixed remuneration. These values include any component concerning obligatory contractual provisions, which shall not be paid in the case of resolution of contract by the Company or dismissal for just cause.

The effects of the early resolution of contract on long-term incentives are described in paragraph 3.3.2.

Similar agreements governing *ex-ante* the financial aspects in the case of termination of the office, or with regards to any early resolution of contract at the initiative of y the Company or of the interested party, are not in place for Executives with strategic responsibilities.

The Company in addition reserves the right to sign non-competition agreements involving specific roles requiring strategic knowledge, for whom this restriction is necessary in compliance with the statutory provisions and limitations. Currently, a non-competition agreement with the Chief Executive Officer and the General Manager is applicable for a total gross amount of 50% of fixed remuneration. There are no specific insurance coverage, social security and pension payments for the Chief Executive Officer/General Manager following resolution of contract with the Company, except for those provided for by the National Collective Labour Agreement for Industrial Executives.

Directors are not assigned non-monetary benefits, except for insurance coverage for liability arising from the performance of their duties (D&O insurance coverage).

The Chief Executive Officer/General Manager, in addition to the Executives with strategic responsibilities, are covered by a temporary one-year single premium constant capital life and total and permanent invalidity insurance contract for industrial Company Executives.

## **SECTION II**

### **PART 1**

The first part of Section II of this Report provides an adequate outline of each of the items comprising the remuneration matured for FY 2019 by:

- (i) the members of the Board of Directors;
- (ii) the members of the Board of Statutory Auditors;
- (iii) the other Executives with strategic responsibilities (information provided at aggregate level).

On December 1, 2016, the Shareholders' Meeting of Avio approved fixed remuneration in favour of the Board of Directors (Euro 500,000.00 annually) and the Board of Statutory Auditors (Euro 50,000.00 for the Chairman and Euro 35,000.00 for each statutory auditor), who will remain in office for the three years from the year in which the Merger becomes effective.

The Board of Directors of April 10, 2017 decided to recognise to each Director, with the exception of the sole Executive Director (the Chief Executive Officer/General Manager), gross annual remuneration of Euro 35,000.00, while proposing to recognise gross annual remuneration of Euro 120,000.00 to the Chairman of the Board of Directors.

On April 10, 2017, the Board of Directors in addition approved the remuneration of the Control, Risks and Sustainability Committee, of the Nominations and Remuneration Committee and of the Strategic Activities Committee, while on September 13, 2017 the remuneration of the members of the Investments Committee.

As of the date of this Report reversibility agreements are in place for the remuneration of some Directors. Specifically:

- Mr. Roberto Italia, Chairman of the Board of Directors of Avio S.p.A., and the company Space Holding S.r.l. signed a reversibility agreement, under which the remuneration matured for the office held by him is paid to the company Space Holding S.r.l.
- Mr. Stefano Ratti - member (i) of the Board of Directors; (ii) of the Nominations and Remuneration Committee and (iii) of the Strategic Activities Committee of Avio - and the company Leonardo S.p.A. signed a reversibility agreement, under which the remuneration matured for the offices held by him is paid to the company Leonardo Finmeccanica S.p.A.;

- Mr. Luigi Pasquali - member (i) of the Board of Directors and Chairman of the Investment Committees of Avio S.p.A. - and the company Leonardo S.p.A. signed a reversibility agreement, under which the remuneration matured for the offices held by him is paid to the Leonardo S.p.A..

For the three-year period 2017-2019, the only Executive Director (i.e. the Chief Executive Officer/General Manager) will not receive any additional remuneration for the positions taken on the Board of Directors and its internal Committees, as already receiving remuneration for the position of General Manager.

Finally, the Board of Directors of the Company in 2017 identified, further to the Executive Director of the Company, an additional 4 Executives with strategic responsibilities.

## 1. Items comprising 2019 remuneration

### Members of the Board of Directors

- Roberto Italia (Chairman): (i) reversed the remuneration for the position to the Company Space Holding S.r.l..
- Giulio Ranzo (Chief Executive Officer/General Manager): (i) fixed remuneration as Executive of the Company; (ii) variable remuneration for 2019 - for the company objectives on which the annual bonus is based the maximum performance level was achieved; (iii) non-monetary benefit. In addition, Giulio Ranzo is covered by a non-competition agreement which establishes, against a restriction lasting 12 months from resolution of contract, the payment of 50% of the fixed remuneration. In the case of resolution of contract by the Company or dismissal for just cause, the payment of an all-inclusive indemnity equal to two gross annual remunerations is also envisaged, that is, the sum of the gross annual fixed remuneration and the average short-term variable remuneration earned during the time in office. These values include any component concerning obligatory contractual provisions, which shall not be paid in the case of resolution of contract by the Company or dismissal for just cause.

With regard to the short-term variable remuneration recognised to the Chief Executive Officer/General Manager for the year 2019, the following table contains a comparison between the target values set by the annual incentive plan and actual results.

Objectives 2019	Weight	Target 2019	2019 Result	Performance level
<b>Adjusted EBITDA</b>	50%	Euro 44.7 million	44.0	98% of the target
<b>Net Financial Position</b>	50%	Euro 45.2 million	57.9	128% of the target (capped at 122% as the maximum value)
Premium		Euro 322,153 equal to 75% of the fixed component	Euro 396,973.00	

With regard to the long-term variable remuneration recognised to the Chief Executive Officer/General Manager for the 2017-19 cycle, the following table contains a comparison between the target values set by the long-term incentive plan and actual results.

2017-19 three-year objectives cycle	Weight	2017-2019 cumulative targets	Net Result 2017-2019	Performance level
Adjusted EBITDA	50%	Euro 115.7 million	137.8	119% of the target (capped at 110% as the maximum value)
Operating Free Cash Flow	50%	Euro 57 million	58.5	102% of the target
Premium		Euro 288,000	Euro 300,614.00	

With regard to the three-year incentive relating to the 2017-2019 cycle, in view of the scenario of pronounced uncertainty associated with the COVID-19 emergency, the Chief Executive Officer/General Manager informed the Nominations and Remuneration Committee, which took note, that he has notified the Company that he will postpone payment of the amount accrued until 2021, so as to contribute to maintaining adequate cash and cash equivalents for the Company.

- Luigi Pasquali (Director): reversed (i) the fixed remuneration as Director and (ii) the remuneration as Chairman of the Investments Committee of Avio S.p.A. to the company Leonardo Finmeccanica S.p.A.;
- Vittorio Rabajoli (Director): (i) fixed remuneration as Avio Director; (ii) remuneration as member of the Control, Risks and Sustainability Committee; (iii) remuneration as Chairman of the Board of Directors of an Avio subsidiary; (iv) remuneration for consultancy in favour of the Company (“other remuneration”);
- Stefano Ratti (Director): reversed (i) the fixed remuneration as Director; (ii) the remuneration as member of the Nominations and Remuneration Committee; and (iii) the remuneration as member of the Strategic Activities Committee of Avio to the company Leonardo Finmeccanica S.p.A.;
- Monica Auteri (Director): (i) fixed remuneration as Avio Director; (ii) remuneration as Chairman of the Risks Control and Sustainability Committee;
- Maria Rosaria Bonifacio (Director): (i) fixed remuneration as Avio Director; (ii) remuneration as member of Nominations and Remuneration Committee;
- Donatella Sciuto (Director): (i) fixed remuneration as Avio Director; (ii) remuneration as member of Control, Risks and Sustainability Committee; (iii) remuneration as member of Strategic Activities Committee;
- Giovanni Gorno Tempini (Director): (i) fixed remuneration as Avio Director; (ii) remuneration as Chairman of Nominations and Remuneration Committee; (iii) remuneration as member of Investments Committee;

#### **Members of the Board of Statutory Auditors**

- Riccardo Bauer (Chairman): remuneration as Statutory Auditor of Avio, set by the Shareholders’ Meeting on appointment;
- Claudia Mezzabotta (Statutory Auditor): remuneration as Statutory Auditor of Avio, set by the Shareholders’ Meeting on appointment;

- Maurizio Salom (Statutory Auditor): remuneration as Statutory Auditor of Avio, set by the Shareholders' Meeting on appointment.

**Other Executives with strategic responsibilities**

- 4 Company Executives with strategic responsibilities: (i) fixed remuneration as Executives; (ii) variable remuneration for 2019; (iii) long-term variable remuneration relating to the 2017-2019 first cycle; (iv) other non-monetary benefits.
- With regard to the three-year incentive relating to the 2017-2019 cycle, in view of the scenario of pronounced uncertainty associated with the COVID-19 emergency, the Executives with strategic responsibilities informed the Nominations and Remuneration Committee, which took note, that they have notified the Company that they will postpone payment of the amount accrued to each of them until 2021, so as to contribute to maintaining adequate cash and cash equivalents for the Company.

The remuneration policy in 2019, as verified by the Nominations and Remuneration Committee through the periodic assessment under the Self-Governance Code, was implemented in line with the general standards approved by the Board of Directors and shared by the Nominations and Remuneration Committee.

PART 2 - TABLES

TABLE 1: REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT AUDIT COMMITTEE, GENERAL MANAGERS AND SENIOR MANAGEMENT

Board of Directors	Description of office			Remuneration								
(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name	Office	Period of office	Concl. of office	Fixed Remuneration €	Remuneration for committee participation €	Non-equity variable remuneration €		Non-monetary benefits €	Other remuneration €	Total (*) €	Fair Value of equity remuneration €	Post-employment benefits €
						Bonuses and other incentives	Profit sharing					
<b>Remuneration at AVIO S.p.A.</b>												
Roberto Italia	Chairman	1/1/2019 - 31/12/2019	Approval 2019 Accounts	(1) 120,000	0							
Giulio Ranzo	CEO and General Manager	1/1/2019 - 31/12/2019	Approval 2019 Accounts	448,000		(H) 697,597		(I) 16,014		1,171,601		
Luigi Pasquali	Director	1/1/2019 - 31/12/2019	Approval 2019 Accounts	(i) (2) 35,000	(f) (3) 15,000					50,000		
Vittorio Rabajoli	Director	1/1/2019 - 31/12/2019	Approval 2019 Accounts	(i) 35,000	(d) 10,000					45,000		
Stefano Ratti	Director	1/1/2019 - 31/12/2019	Approval 2019 Accounts	(i) (4) 35.000	(b) (5) 10.000 (e) (6) 10.000					55,000		



Monica Auteri	Director	1/1/2019 - 31/12/2019	Approval 2019 Accounts	(i) 35,000	(c) 21,342					56,342		
Maria Rosaria Bonifacio	Director	1/1/2019 - 31/12/2019	Approval 2019 Accounts	(i) 35,000	(b) 10,000					45,000		
Donatella Sciuto	Director	1/1/2019 - 31/12/2019	Approval 2019 Accounts	(i) 35,000	(d) 10,000 (e) 10,000					55,000		
Giovanni Gorno Tempini	Director	1/1/2019 - 31/12/2019	Approval 2019 Accounts	(i) 35,000	(a) 21,342 (g) 10,000					66,342		
<b>Remuneration at subsidiaries &amp; associates</b>												
Vittorio Rabajoli				(m) 22,000				(n) 2,986		24,986		
<b>Total</b>												
Vittorio Rabajoli										69,986		

(\* \*) Column (6) "Total" aggregates accounts (1) to (5).

**KEY**

**FIXED REMUNERATION**

(i) Emoluments within the remit of the Shareholders' Meeting.

**REMUNERATION FOR COMMITTEE PARTICIPATION**

(a) As Chairman of the Nominations and Remuneration Committee.

(b) As member of the Nominations and Remuneration Committee.

(c) As Chairman of the Control, Risks and Sustainability Committee.

(d) As member of the Control, Risks and Sustainability Committee.

(e) As member of the Strategic Activities Committee.

(f) As Chairman of the Investments Committee.

(g) As member of the Investments Committee.

**NON-EQUITY VARIABLE REMUNERATION**

(h) annual bonus value for the period considered (2019 short-term incentive plan) and the first tranche of the 2017-2019 LTI, which will be paid in fiscal year 2021.

**NON-MONETARY BENEFITS**

(l) Car benefit, life and invalidity insurance

(n) Company cars

**OTHER REMUNERATION**

(m) For a consultancy contract with the Company for the period from 1/01/2019 to 31/05/2019 for consultancy activities.

**FURTHER INFORMATION**

- (1) remuneration reversed to the company Space Holding S.r.l.
- (2) remuneration reversed to the company Leonardo S.p.A.
- (3) remuneration reversed to the company Leonardo S.p.A.
- (4) remuneration reversed to the company Leonardo S.p.A.
- (5) remuneration reversed to the company Leonardo S.p.A.
- (6) remuneration reversed to the company Leonardo S.p.A.

Board of Statutory Auditors	Description of office			Remuneration										
	(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)	
	Name	Office	Period of office	Concl. of office	Fixed Remuneration €	Remuneration for committee participation €	Non-equity variable remuneration €	Bonuses and other incentives	Profit sharing	Non-monetary benefits €	Other remuneration €	Total €	Fair Value of equity remuneration €	Post-employment benefits €
<b>Remuneration at AVIO S.p.A.</b>														
Riccardo Raul Bauer	Chairman	1/1/2019 - 31/12/2019	Approval 2019 Accounts		50,000							50,000		
Claudia Mezzabotta	Statutory Auditor	1/1/2019 - 31/12/2019	Approval 2019 Accounts		35,000							35,000		
Maurizio Salom	Statutory Auditor	1/1/2019 - 31/12/2019	Approval 2019 Accounts		35,000							35,000		
<b>Remuneration at Subsidiaries &amp; associates</b>														
Riccardo Raul Bauer					(m) 4,380									
<b>Total</b>														
Riccardo Raul Bauer												54,380		

(m) For the position of Statutory Auditor of Spacelab for the period from July 10, 2019 to December 31, 2019

<b>Other Executives with strategic responsibilities</b>	<b>Fees</b>								
<b>(A)</b>	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>		<b>(4)</b>	<b>(5)</b>	<b>(6)</b>	<b>(7)</b>	<b>(8)</b>
	<b>Fixed Remuneration €</b>	<b>Remuneration for committee participation €</b>	<b>Non-equity variable remuneration €</b>		<b>Non- monetary benefits €</b>	<b>Other remunerati on €</b>	<b>Total (**) €</b>	<b>Fair Value of equity remuneration €</b>	<b>Post- employment benefits €</b>
			<b>Bonuses and other incentive s</b>	<b>Profit sharing</b>					
4 Executives with strategic responsibilities (*)	602,394		(H) 504,636		(I) 49,270		1,156,300		

(\*) At December 31, 2019, further to the Chief Executive Officer/General Manager, an additional 4 Executives/Executives with strategic responsibilities employees of the Company and no other Executives with strategic responsibilities of the subsidiaries were in office.

(\*\*\*) Column (6) "Total" aggregates accounts (1) to (5).

**KEY**

**NON-EQUITY VARIABLE REMUNERATION**

(H) annual bonus value for the period considered (2019 short-term incentive plan) and the first tranche of the 2017-2019 LTI, which will be paid in fiscal year 2021.

**NON-MONETARY BENEFITS**

(I) Car benefit, life and invalidity insurance

**MONETARY INCENTIVE FOR DIRECTORS, GENERAL MANAGERS AND OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES**

<b>Board of Directors</b>									
(A)	(B)	(1)	(2)			(3)			(4)
Name	Office at 31 December 2018	Incentive plans	2019 Bonus			Prior year bonuses			Other Bonuses
			(A)	(B)	(C)	(A)	(B)	(C)	
			Issuable/Issued	Deferred	Period of deferment	No longer issuable	Issuable/Issued	Still deferred	
<b>Remuneration at AVIO S.p.A.</b>									
Giulio Ranzo	CEO and General Manager	Short-term variable incentive plan	396,973						
		Long-term variable incentive plan		216,000	1/1/2019- 31/12/2021		300,614	216,000	

Other Executives with strategic responsibilities								
Name	Plan	2019 Bonus			Prior year bonuses			Other Bonuses
		(A)	(B)	(C)	(A)	(B)	(C)	
		Issuable/Issued	Deferred	Period of deferment	No longer issuable	Issuable/Issued	Still deferred	
<b>Remuneration at AVIO S.p.A.</b>								
4 Executives with strategic responsibilities (*)	Short-term variable incentive plan	246,068						
	Long-term variable incentive plan		185,789	1/1/2019-31/12/2021		258,568	185,789	

(\*) At December 31, 2019, further to the Chief Executive Officer/General Manager, an additional 4 Executives with strategic responsibilities employees of the Company and no other Executives with strategic responsibilities of the subsidiaries were in office.

**TABLE 4: HOLDINGS OF DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS AND OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES**

<b>Board of Directors</b>	<b>Office</b>	<b>Investee Avio/Subsidiaries</b>	<b>Number of shares held at 31.12.2018</b>	<b>No. of shares acquired in 2019</b>	<b>No. of shares sold in 2019</b>	<b>Number of shares held at 31.12.2019</b>
Roberto Italia	Chairman	-	-	-	-	-
Giulio Ranzo	CEO and General Manager	-	-	-	-	-
Luigi Pasquali	Director	-	-	-	-	-
Vittorio Rabajoli	Director	-	-	-	-	-
Stefano Ratti	Director	-	-	-	-	-
Monica Auteri	Director	-	-	-	-	-
Maria Rosaria Bonifacio	Director	-	-	-	-	-
Donatella Sciuto	Director	-	-	-	-	-
Giovanni Gorno Tempini	Director	-	-	-	-	-

<b>Board of Statutory Auditors</b>	<b>Office</b>	<b>Investee Avio/Subsidiaries</b>	<b>Number of shares held at 31.12.2018</b>	<b>No. of shares acquired in 2019</b>	<b>No. of shares sold in 2019</b>	<b>Number of shares held at 31.12.2019</b>
Riccardo Raul Bauer	Chairman	-	-	-	-	-
Claudia Mezzabotta	Statutory Auditor	-	-	-	-	-
Maurizio Salom	Statutory Auditor	-	-	-	-	-

<b>Other Executives with strategic responsibilities</b>	<b>Investee Avio/Subsidiaries</b>	<b>Number of shares held at 31.12.2018</b>	<b>No. of shares acquired in 2019</b>	<b>No. of shares sold in 2019</b>	<b>Number of shares held at 31.12.2019</b>
4 Executives with strategic responsibilities (*)	-	-	-	-	-

(\*) At December 31, 2019, further to the Chief Executive Officer/General Manager, an additional 4 Executives with strategic responsibilities employees of the Company and no other Executives with strategic responsibilities of the subsidiaries were in office.