



**Guidelines of the Board of Statutory Auditors of AVIO
S.p.A.
on the composition and remuneration of the new Board
of Statutory Auditors to be appointed by the
Shareholders' Meeting
of 28 April 2023**

DOCUMENT APPROVED BY THE BOARD OF STATUTORY AUDITORS AT ITS MEETING OF 06 MARCH 2023
IN LINE WITH THE RULES OF CONDUCT OF THE BOARD OF STATUTORY AUDITORS OF LISTED
COMPANIES ISSUED
FROM THE NATIONAL COUNCIL OF CHARTERED ACCOUNTANTS AND ACCOUNTING EXPERTS
ON 26 APRIL 2018

Foreword

Dear Shareholders,

with the approval of the financial statements as of 31 December 2022, the mandate of this Board of Statutory Auditors expires.

The next Shareholders' Meeting of Avio S.p.A. ("Avio" or "Company"), convened for 28 April 2023, in single call, will therefore be called upon to appoint the Company's supervisory body for the years 2023 to 2025 and will determine its remuneration.

In this regard, it should first be remembered that:

- a) Standard Q.1.6. of the "Rules of conduct of the Board of Statutory Auditors of listed companies" (April 2018 edition – "Rules of Conduct"), dealing with remuneration, recommends, inter alia, to the outgoing Auditors to send the listed Issuer, in view of the renewal of the control body, a summary document of the activities carried out, in order to allow Shareholders and candidates for Statutory Auditors to assess the breadth and complexity of the assignment to be held by assume, the commitment and time required, as well as the adequacy of the related remuneration;
- b) Principle VIII of the Corporate Governance Code, prepared by the Italian Corporate Governance Committee of Borsa Italiana S.p.A. (January 2020 edition), to which Avio adheres, provides that "the supervisory body has an adequate composition to ensure the independence and professionalism of its function".

Given the above, this Board, which has reached the end of its mandate, hereby intends to provide Avio Shareholders, on the basis of its experience, as well as on the basis of the results of the self-assessment procedures completed at the beginning of 2021 and early 2022, as well as, more recently, on the basis of the positive results of the Board of Statutory Auditors Evaluation conducted by an independent company, a synthetic representation of skills and professionalism, additional to those provided for by law, which can determine the efficient and effective functioning of the Board that will be appointed by the Shareholders' Meeting called to approve the 2022 financial statements.

In addition, it is intended here to bring to the attention of the Shareholders also some considerations and reflections aimed at: (i) framing the complexity of the assignment in terms of time commitment that is required of the members of the control body, (ii) at optimizing the qualitative and quantitative composition of the appointing control body, as well as (iii) to allow specific assessments regarding the adequacy of the remuneration recognized for the performance of the assignment.

The Board of Statutory Auditors of Avio approved this document at its meeting held on 06 March 2023.

Complexity of the assignment in terms of time commitment

First of all, it should be considered that the next Board of Statutory Auditors may be burdened with a significant commitment, not separated from the consequent responsibilities, also in relation to the obligations towards the various Supervisory Authorities, in consideration of the size of the Group, its structure, its operational specificities, as well as the relevance and complexity of the reference legislation.

The control body of a listed parent company, such as Avio, is in fact required, as part of its control activities, to monitor the dynamics of the management and coordination activities with regard to subsidiaries. This involves careful supervision of the overall internal regulatory system and an adequate exchange of information with the Boards of Statutory Auditors of the subsidiaries.

Of particular importance are the tasks of the supervisory body related to:

- a) the rules governing statutory audit, implemented at European level, which assigned specific responsibilities to the supervisory body with regard to the exchange of information with the

statutory auditors;

- b) the introduction of non-financial reporting legislation, which has included additional supervisory activities on compliance with the relevant provisions, and the most recent regulations on Environmental Social Governance (ESG).

Furthermore, it should be kept in mind that, also in the next three years, the Board will continue, in an evolutionary key, the monitoring of (i) the progressive improvement of the structural components of the Internal Control and Risk Management System and (ii) their integration into the more general organizational and corporate governance structures.

It is therefore clear that the members of the Board of Statutory Auditors who will be appointed must be aware that the office will commit a non-negligible part of their time, as a result of their participation in the meetings of the same Board, those of the Board of Directors, as well as those Steering Committee, in which all members of the Board of Statutory Auditors participate. Moreover, in the opinion of the Board of Statutory Auditors, punctual and constant participation in these meetings is of essential importance for the adequacy of the overall supervisory activity falling within the competence of the supervisory body.

In this connection, it should also be stressed that the effort does not end with participation in the above-mentioned meetings; even more important is the time that must be devoted individually to examining the documentation that is produced in advance, so that the internal committees the Board of Directors are adequately informed, for the purpose of taking measures within their respective competences.

In addition, participation in sessions or days of induction on various topics of interest, aimed at allowing updates and in-depth analysis on governance issues or related to the specific activities of the Group.

In order to allow an assessment of the commitment deemed necessary for effective participation in the meetings of Avio's corporate bodies, the following table summarizes the frequency of participation of this Board in the related meetings in the three-year period 2020 – 2022. It should of course be considered that the number of meetings in which this Board of Statutory Auditors participated in 2020 reflects the fact that his appointment took place on 6 May 2020.

Corporate Bodies and Board Committees	Meetings 2020	Meetings 2021	Meetings 2022
Assembly	-	1	1
Board of Statutory Auditors	10	14	18
Board of Directors	7	7	10
Control and Risk Committee	4	7	7
Nomination and Compensation Committee	1	8	7
Sustainability Committee	2	8	3
Committee on Transactions with Parties Correlate	-	5	1
Induction Sessions	-	1	-

It is therefore necessary to take into consideration how, during the three-year period 2020-2022,

the Board of Statutory Auditors participated, normally in its entirety, in the aforementioned meetings of the Board of Directors and the internal board committees, and in the induction sessions. In addition, the Board of Statutory Auditors also met the "Organismo di Vigilanza" (ex. D.Lgs. 231/2001, the Internal Audit Function and Board Statutory Auditor of the subsidiary company.

In addition to the foregoing, it should also be taken into account of the time to be devoted to the subsequent revision of the minutes of the meetings, in particular those of meetings of the Board itself.

The outgoing Board of Statutory Auditors therefore invites the Shareholders' Meeting to take into adequate consideration the above, in the interest of the Company and of the members of the new Control Body themselves, who will have to guarantee an adequate time to carry out their duties, taking into account the number and complexity of the positions they may hold in the corporate bodies of other companies, also in compliance with the legislation, including statutory legislation, pro tempore in force regarding the accumulation of assignments, as well as the commitment required of them by the additional professional activities carried out.

Qualitative and quantitative composition of the supervisory body

Article 17 of the Articles of Association of the Articles of Association provides that the Board of Auditors consists of 3 standing auditors, including the Chairman, and 2 substitutes.

The professionalism and independence of the Statutory Auditors are known to favour the supervision of the internal control system.

With reference to the requirements of independence and professionalism, to the profiles inherent to compliance with gender quotas, as well as to the causes of ineligibility, incompatibility and forfeiture, reference should be made in full to current legislation, the Corporate Governance Code (1) and Article 17 of the Articles of Association.

The activities required of the Board of Statutory Auditors require that the selected professionals have adequate previous experience in similar roles assumed in large companies, including listed companies, with articulated governance.

The Board of Statutory Auditors also recognizes the value of diversity in its composition, not only with regard to gender, but also with regard to professional diversity.

The Board of Statutory Auditors therefore invites Shareholders to consider the importance of the new Supervisory Body being composed of professionals with diversified skills and, as far as possible, including members with proven experience and knowledge in the field of:

- i) corporate governance;
- ii) internal control and risk management systems;
- iii) accounting and auditing standards;
- iv) legislation, primary and secondary, applicable to listed companies;
- v) standards and regulations related to ESG issues;
- vi) cybersecurity, innovation and corporate information systems;
- vii) Management remuneration policies.

In addition to the above requirements, this Board recommends that the characteristics and personal abilities of the exponent (so-called "soft skills") be appropriately considered in the selection of candidates, among which the following deserve to be highlighted:

- ability to manage conflicts constructively;

¹ Recommendation 9 – "All members of the supervisory body meet the independence requirements set out in Recommendation 7 for directors".

- ability to work in a team;
- ability to interact with management;
- ability to evaluate the integration of sustainability issues into the conduct of business activities;
- Good knowledge of English.

With specific reference to the figure of the President, the Board recommends that the same be equipped with adequate experience, competence and authority for the performance of his tasks of organization and coordination of the activities of the control body.

Finally, the Board of Statutory Auditors hopes that the renewal will take into account the benefits deriving from a structure that ensures, if possible, continuity in the performance of the supervisory tasks entrusted to it, enhancing the commitment already made and the experience gained.

Adequacy of the remuneration recognized for the performance of the assignment

The remuneration of the Board of Statutory Auditors in office was set by the Avio Shareholders' Meeting of May 6, 2020, providing for an annual remuneration of Euro 50,000.00 for the Chairman of the Board of Statutory Auditors and Euro 35,000.00 for each Standing Auditor, gross of withholding taxes.

The remuneration to be resolved in favour of the new Board of Statutory Auditors should be commensurate with the increasing commitment required of the same control body, its tasks and its responsibilities, also in terms of the necessary constant updating.

This aspect is reflected in a clear recommendation of both the Corporate Governance Code (2) and the Rules of Conduct, as well as was the subject of positive discussion with the independent company that conducted the Board of Statutory Auditors Evaluation.

Therefore, this Board believes that it must represent to Avio's Shareholders the opportunity to define a consequent adequate remuneration, with a view to making the remuneration of the Board of Statutory Auditors consistent with the competences and commitment required of the Auditors to carry out the office and taking into account the related responsibilities.

* * * * *

The outgoing Board of Statutory Auditors hopes that the "Guidelines" brought to the attention of the Shareholders' Meeting can be considered a concrete aid in the selection process of candidates to hold the office of Chairman and Statutory Auditor of the new Board of Statutory Auditors, as well as for the purpose of determining the remuneration for the performance of the assignment.

The Board of Statutory Auditors

Vito Di Battista

Mario Busso

Michela Zeme

2 Recommendation 30 - "The remuneration of the members of the supervisory body shall provide for remuneration appropriate to the competence, professionalism and commitment required by the importance of the role held and to the dimensional and sectoral characteristics of the company and its situation".