

## **DIRECTORS' REPORT TO THE ORDINARY SHAREHOLDERS' MEETING OF APRIL 28, 2023 DRAFTED AS PER ARTICLE 125-TER OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998, AS AMENDED.**

### **INTRODUCTION**

Article 125-ter of Legislative Decree No. 58 of February 24, 1998 (the “CFA”) requires the governing body – where not already so required by other statutes – to make a report on the orders of business on the Agenda available to the public at the company’s registered office, on its website and according to the other methods established by Consob in specific regulations by the deadline for publishing the call notice for the Shareholders’ Meeting.

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

- i. to the third item on the Shareholders’ Meeting Agenda regarding the “*Appointment of the Board of Directors; resolutions thereon. 3.1 Establishment of the number of Directors. 3.2 Establishment of the duration of mandate of the Board of Directors. 3.3 Appointment of the members of the Board of Directors. 3.4 Establishment of the remuneration of the Board of Directors.*”
- ii. to the fourth item on the Shareholders’ Meeting Agenda regarding the “*Appointment of the Board of Statutory Auditors for the years 2023-2025. Resolutions thereon. 4.1. Appointment of three Statutory Auditors and two Alternate Auditors. 4.2. Appointment of the Chairperson of the Board of Statutory Auditors. 4.3. Establishment of the remuneration of the Board of Statutory Auditors.*”

This Report has been sent to Borsa Italiana S.p.A. and filed at the registered office within the period set out in Article 125-ter of the CFA, with copies available to shareholders who so request; the Report is also available from the Company’s website, [www.avio.com](http://www.avio.com), in the section “*Corporate Governance/2023 Shareholders’ Meeting*”.

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### **Item 3 on the Agenda**

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

Dear Shareholders,

the approval of the financial statements at and for the year ended December 31, 2022 marks the end of the term of office of the Company’s Directors appointed by the Shareholders’ Meeting of May 6, 2020.

As we extend our heartfelt gratitude and appreciation to the members of the Board of Directors for their valuable efforts on the Company’s behalf, you are called upon to resolve, pursuant to Article 11 of the By-Laws, on the appointment of a new Board of Directors, after first determining the number of its members, to remain in office until the date of actual holding of the Shareholders’ Meeting that is to be called to approve the financial statements at and for the year ending on December 31, 2025.

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

In this regard, we note that the Board of Directors, with the support of the Appointments and Remuneration Committee, has approved a procedure for the presentation of a slate for the renewal of the Board of Directors by the outgoing Board of Directors (the “**Procedure**”). In accordance with Article 11.4 of the By-Laws, it has therefore resolved to present a slate of candidates that will be made available to the public within the legally allotted period from the Company’s registered office and the website at the address [www.avio.com](http://www.avio.com), in the section “*Corporate Governance/2023 Shareholders’ Meeting*”.

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

available on the Company's website at the address [www.avio.com](http://www.avio.com), in the section "Corporate Governance/2023 Shareholders' Meeting".

In addition, on a favourable opinion from the Appointments and Remuneration Committee, the Board of Directors has also approved a diversity policy that identifies the optimal composition of corporate bodies and ensures that they are able to perform their assigned functions effectively, through the inclusion of individuals capable of contributing a wide range of points of view, skills and experiences (the "**Diversity Policy**"). The Diversity Policy also sets out the Board of Directors' view of the maximum number of directorships and auditorships that Directors may hold at other companies listed on regulated markets. The Policy is available from Avio's registered office and its website at [www.avio.com](http://www.avio.com).

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

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

In this regard, the outgoing Board, in line with the considerations set out in its Opinion on the optimal qualitative-quantitative profile, considers that the principle of continuity should also apply to the roles of the Chief Executive Officer and the Chairperson.

Also in line with the considerations set out in its Opinion on the optimal qualitative-quantitative profile, the outgoing Board views positively the possibility that the new Board of Directors, in accordance with Article 11.1 of the By-Laws, appoint a Vice-Chairperson of the Board of Directors, who can assist the Chairperson in carrying out his or her functions.

### **3.1 Establishment of the number of Directors.**

Dear Shareholders,

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

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

As such, the Board of Directors' Opinion on the profile of the size of the administrative body states that: "*on the whole, the Board considers the current size of the administrative body to be adequate, both in relation to the current number of eleven Directors and the number of internal Board committees, given that it allows for (i) a balanced composition of internal committees and an appropriate distribution of positions among Directors, and (ii) full alignment with the Diversity Policy, offering room for skills that are appropriately diversified by background, roles held, sectors of origin, governance experience and seniority.*"

In light of the above, in inviting you to pass a motion on the establishment of the number of members of the Board of Directors in line with the indications provided by the outgoing Board and contained in the Opinion of the same Board on the optimal qualitative-quantitative profile, we note that the text of the relevant Shareholders' Meeting motion will reflect the outcome of the vote.

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

Dear Shareholders,

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

In light of the above, in inviting you to pass a motion on the establishment of the duration of mandate of the Board of Directors, we note that the text of the relevant Shareholders' Meeting motion will reflect the outcome of the vote.

### 3.3 Appointment of the members of the Board of Directors

Dear Shareholders,

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

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

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

Where the slates contain 3 or more candidates, both genders should be represented. Specifically, with regard to gender quotas, Avio's By-Laws provide that the appointment of the Board of Directors shall be made in such a way as to ensure that the composition of the Board complies with the provisions of the applicable gender balance law and regulations. In this regard, in accordance with Article 147-ter of the CFA, as amended by Law No. 160/2019, the under-represented gender should account for at least two-fifths of the Directors to be elected.

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

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

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

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

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

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

In light of the above, in inviting you to pass a motion on the appointment of the members of the Board of Directors, after establishing that they shall number 11 (eleven) in line with the indications provided by the outgoing Board and contained in its Opinion on the optimal qualitative-quantitative profile, and expressing

your preference for one of the three slates presented by the competent parties in compliance with the By-Laws as described above, we note that the text of the relevant Shareholders' Meeting motion will reflect the outcome of the vote.

### **3.4 Establishment of the remuneration of the Board of Directors.**

Dear Shareholders,

*pursuant to Article 15.1 By-Laws, members of the Board are entitled to a fixed annual fee that is wholly determined by the Shareholders' Meeting and distributed by the Board itself among its members, in addition to the provisions of Article 2389 of the Civil Code for Senior Directors, in addition to the reimbursement of expenses incurred by them in the course of their duties.*

*The Shareholders' Meeting may determine the total amount of the remuneration for all Directors, including Senior Directors.*

You are reminded that, in implementation of Article 15.1 of the By-Laws, as cited above, on May 6, 2020 the Shareholders' Meeting had set the remuneration for the Directors for the three-year period 2020-2022 at Euro 35,000.00 per Director and Euro 120,000.00 for the Chairperson of the Board of Directors, to be allocated to the costs for the year concerned.

In view of the Board renewal, the Company commissioned an independent external expert to conduct a benchmark analysis against a panel of listed Italian companies comparable to Avio in terms of size, which was carefully examined in formulating this proposal.

In light of the changes within Avio, the challenges it will have to face in the future, and its need to secure the contribution of outstanding professionals who can devote to the performance of their function the time necessary to ensure that the decisions taken collectively are effective, the outgoing Board of Directors proposes to refer to the Shareholders the formulation - alongside the presentation of a possible slate of candidates - of the proposed emolument to be attributed to the Chairperson of the Board of Directors (not exceeding Euro 130,000.00 gross per annum) and to each Director (not exceeding Euro 40,000.00 gross per annum), in addition to the reimbursement of expenses incurred in the performance of the office. These figures refer to the entire three-year term of office of the Board of Directors and therefore until the date of approval of the financial statements for the year ending December 31, 2025, and are in addition to any additional compensation due to Directors holding special offices that may be established pursuant to Article 2389, paragraph three of the Civil Code.

In light of the above, in inviting you to pass a motion on the establishment of the remuneration of the Board of Directors and of the Chairperson of the Board of Directors, we note that the text of the relevant Shareholders' Meeting motion will reflect the outcome of the proposals made and the related vote.

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### **Point 4 of the Agenda**

**Appointment of the Board of Statutory Auditors for the 2023-2025 period. Resolutions thereon. 4.1 Appointment of three Statutory Auditors and two Alternate Auditors. 4.2 Appointment of the Chairperson of the Board of Statutory Auditors. 4.3 Establishment of the remuneration of the Board of Statutory Auditors.**

Dear Shareholders,

Be advised that the Shareholders' Meeting that approves the financial statements at and for the year ended December 31, 2022 will mark the end of the term of office of the Board of Statutory Auditors conferred by Shareholders' Meeting motion of May 6, 2020.

As we extend our heartfelt gratitude and appreciation to the members of the Board of Statutory Auditors for their valuable efforts on the Company's behalf, you are called upon to resolve, pursuant to Article 17 of the By-Laws, on the appointment of a new Board of Statutory Auditors, after first determining the number of its members, to remain in office until the date of actual holding of the Shareholders' Meeting that is to be called to approve the financial statements at and for the year ending on December 31, 2025.

#### 4.1 Appointment of three Statutory Auditors and two Alternate Auditors

Dear Shareholders,

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

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

Each slate must include the names of one or more candidates for the position of Statutory Auditor and one or more candidates for the position of Alternate Auditor. The names of candidates are marked in each section (“Statutory Auditors” section, “Alternate Auditors” section) by progressive order and are, in any case, not greater in number than the members of the body to be elected.

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

Accordingly, where the Board of Statutory Auditors is composed of three members, Consob has indicated that it will consider rounding-down to be in compliance with the new rule.

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

- i. information relating to the identities of the shareholders presenting the slates and of their shareholdings;
- ii. the declaration of the shareholders other than those who hold, including jointly, a controlling or relative majority shareholding, stating the absence of connecting relationships with these latter in accordance with applicable legislation;
- iii. comprehensive information on the personal and professional characteristics of the candidates, as well as a declaration from these candidates attesting that they have the requisites provided by law and their acceptance of the candidature, complete with the list of the appointments of administration and control they have with other companies;
- iv. any other further declaration, disclosure and/or document required by law and applicable regulatory rules.

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

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



For the purposes of submitting nominations, shareholders are also invited to take into account the recommendations regarding the independence of the members of the Board of Statutory Auditors, as per Principles 8, 9 and 10 of the Corporate Governance Code for Listed Companies of Borsa Italiana S.p.A.

The procedure for electing Statutory Auditors is as set out in Article 17 of the By-Laws. In the event that only one slate is presented, the Shareholders' Meeting shall vote on it and should this slate obtain the statutory majority, the candidates listed in progressive order shall be elected as Statutory Auditors.

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

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

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

With regard to the composition of Board of Statutory Auditors, the reader is also referred to the Diversity Policy adopted by the Board of Directors on March 14, 2022 and available at the registered office and on the Avio website.

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

In light of the above, in inviting you to pass a motion on the appointment of the Statutory Auditors and Alternate Auditors, expressing your preference for one of the three slates presented by the competent parties in compliance with Article 17 of the By-Laws, we note that the text of the relevant Shareholders' Meeting motion will reflect the outcome of the vote.

#### **4.2 Appointment of the Chairperson of the Board of Statutory Auditors**

Dear Shareholders,

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

The shareholders are also reminded that, in the case of an equal number of votes between one or more slates from which the Board of Statutory Auditors is elected, a fresh ballot shall take place,

considering only the slates receiving the same number of votes and, in any case, ensuring compliance with the gender parity regulation. Where only one slate is presented, the Shareholders' Meeting shall vote on it and should this slate obtain the statutory majority, the candidates listed in progressive order shall be elected as Statutory Auditors.

In light of the above, in inviting you to pass a motion on the appointment of the Chairperson of the Board of Statutory Auditors, in compliance with Article 148, paragraph 2-*bis* of the CFA and Article 17.8 of the By-Laws, we note that the text of the relevant Shareholders' Meeting motion will reflect the outcome of the vote.

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

Dear Shareholders,

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

It bears recalling that the remuneration of the Board of Statutory Auditors now at the end of their term was originally set by the ordinary session of the Shareholders' Meeting on May 6, 2020 at Euro 50,000.00 per annum for the Chairperson and at Euro 35,000.00 per annum for the other Statutory Auditors.

In view of the Board renewal - also in compliance with the recommendations of the Chairperson of the Italian *Corporate Governance* Committee of December 2020 through which the same Committee invited the Boards of Directors to verify that the extent of the remuneration paid to Non-Executive Directors and members of the control body is appropriate to the competence professionalism and commitment required by their office - the Company commissioned an independent external expert to conduct a benchmark analysis against a panel of listed Italian companies comparable to Avio in terms of size, which was carefully examined in formulating this proposal.

In light of the changes within Avio and the challenges it will have to face in the future, which will see an increase in the demands of specific roles, the outgoing Board of Directors proposes to refer to the Shareholders the formulation - alongside the presentation of a possible slate of candidates - of the proposed emolument to be attributed to the Chairperson of the Board of Statutory Auditors (not exceeding Euro 55,000.00 gross per annum) and to each Statutory Auditor (not exceeding Euro 38,000.00 gross per annum), in addition to the reimbursement of expenses incurred in the performance of the office. These figures refer to the entire three-year term of office of the Board of Statutory Auditors and therefore until the date of approval of the financial statements for the year ending December 31, 2025.

In light of the above, in inviting you to pass a motion on the remuneration of the Board of Statutory Auditors, we note that the text of the relevant Shareholders' Meeting motion will reflect the outcome of the proposals made and the related vote.

Rome, March 13, 2023

The Board of Directors