



Guidelines of the Board of Statutory Auditors of Leonardo S.p.a. to the Shareholders on the composition of the Board of Statutory Auditors



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The context

Leonardo's Board of Statutory Auditors consists of five Standing Auditors and two Alternate Auditors, and is appointed by the Shareholders' Meeting on the basis of the "slate vote" mechanism. It performs specific supervisory tasks pursuant to the law, in particular with regard to:

- compliance with the law and the Company's Bylaw;
- compliance with the principles of correct administration;
- risk management as well as the Company's administrative and accounting system management;
- implementation of the corporate governance rules envisaged by the Corporate Governance Code, to which the Company adheres;
- adequacy of the instructions given to subsidiaries in accordance with the law.

The Chairman of the Board of Statutory Auditors is appointed by the same Assembly from among the Statutory Auditors elected by the "minority slate".

Leonardo's Board of Statutory Auditors currently in office is made up of five Standing Auditors (Luca Rossi, Sara Fornasiero, Francesco Perrini, Leonardo Quagliata and Daniela Savi), and two Alternate Auditors (Giuseppe Cerati and Marina Monassi). Sara Fornasiero and the President Luca Rossi were elected from the minority slate. In its current composition, the Board of Statutory Auditors will remain in office until the approval of the 2020 financial statements.

The Board of Statutory Auditors annually carries out a self-assessment process aimed at collecting the opinions of its members, both on the functioning and composition of the Board itself as a whole, also taking into account the evolution of its role over time. On the occasion of the expiry of the mandate, and of the appointment of the new Board of Statutory Auditors on the venue of the approval of the 2020 financial statements, the control body deemed it appropriate to facilitate its self-assessment process with the support of external consultants (Eric Salmon & Partners). This in the twofold objective of:

- verify the composition and functioning of the Board currently in office, identifying its strengths and possible areas for further improvements;
- due to the expiry of the mandate, provide elements in support of the guidelines to shareholders regarding the composition of the future Board.



The composition and functioning of the current Board of Statutory Auditors

Based on the self-assessment that has been performed, Leonardo's Board of Statutory Auditors is characterized by a **composition that is largely corresponding to the ideal profile of skills and professionalisms**, with a good degree of gender diversity, tenure in the role, and profiles of skills/competences. Although some Statutory Auditors emphasize the importance of strengthening legal and juridical skills, others consider it inappropriate to include overly specialized profiles. Moreover, the Board seems to show the main areas of weakness exactly in those areas which are considered less relevant to the performance of the control activity of the Board itself (e.g. ICT, change management, detailed knowledge of the international markets in which LDO operates, experience in the public sector).

The mix of different professionalisms, personalities, and seniority in office, has been transformed from a potential threat to the proper functioning of the Board, to a fundamental element for "cementing" the working group. The entire Board of Statutory Auditors expresses a **broad and unanimous appreciation for the great personal cohesion**, and for the **collaborative climate** characterized by a "frank" and constructive discussion that makes it possible to exploit at the best the complementary of skills described above.

Among other positive aspects, all the Statutory Auditors agree in a strong appreciation of the induction program that has been carried out; in this regard, it is however necessary to take into account for the future a need for specific induction for the Board of Statutory Auditors – for example on regulatory changes – as well as the opportunity of a dedicated training for the Board of Statutory auditors, especially in case of renewal in its composition, due to the time lag between the renewal of the board of directors and that of statutory auditors itself.

Despite the overall very broad appreciation for the composition, structure and functioning of the Board, witnessed in quantitative terms by 83.2% of responses in full agreement to the questions listed in the self-assessment questionnaire, the only areas in which there is a potential further improvement are the following:

- In the context of a significant commitment due to the complexity of the Group, there seems to be further room to make the **internal workflow** even more efficient, including the timing of meetings and the individual study of documentation to avoid slowdowns during meetings. At the same time, the simplification of some authorization procedures can be evaluated.
- To make this possible, it appears essential to continue along the ongoing path of strengthening the **coordination with the Company Secretariat**, also with the aim of facilitating **timely information**.
- With regard to the adequacy of the remuneration paid to the Statutory Auditors, in consideration of the size and international structure of the Group, the characteristics of the business, the professionalism and the commitment required for the performance of the office, in an increasingly important legal and economic context, the Board of Statutory Auditors, which is also called to perform the duties of the Internal Control and Audit Committee, points out the opportunity for the Shareholders' Meeting to approve **an increase in the remuneration** paid to the control body itself.

In terms of the ideal qualitative-quantitative composition for the future Board of Statutory Auditors of Leonardo – as it will be better articulated in the next paragraph – the analysis of the assessments, expressed both on its current and future structure, confirms a shared opinion in the Board towards maintaining the current mix of skills and professionalisms, even in the event of a review of its composition.



The ideal qualitative-quantitative composition for the future Board of Statutory Auditors

As anticipated in the introduction, the central element of the "end-of-mandate review" of the Board of Statutory Auditors of Leonardo S.p.A. is represented by the assessment of the "ideal" qualitative and quantitative composition for the future Board that will be appointed with the approval of the 2020 financial statements.

In this regard, **both the analysis of the current mix of skills and the "desired" mix were considered at the same time**. In the first case, the Statutory Auditors were asked to comment on the current presence of an articulated set of competences, while in the second to evaluate, for the same set of competences, the importance they should play in the composition of the future Board of Statutory Auditors.

Comparing the skills considered to be currently well represented with the ones deemed to be essential by all the Statutory Auditors, **a very large degree of overlap emerges between the current mix of knowledge, skills and experiences, and the desired one**.

Among the **skills considered to be currently well represented in the Board**, and which are judged to be equally important for the future, are worth mentioning:

- Knowledge of Leonardo's regulatory system (bylaw, regulations, procedures);
- Corporate governance skills;
- Competences in internal control system;
- Ability to read and interpret financial statements and financial documents;
- Financial and extraordinary transactions skills;
- Accounting skills;
- Expertise in the field of statutory audit;
- Experience and supervisory skills on the adequacy and concrete functioning of the organizational structure and the administrative and accounting systems;
- Experience in administration or control of large corporations;
- Experience and supervisory skills on the adequacy of the internal control structure;
- Risk management skills;
- Competences on sustainability;
- Experience in other listed companies.

Conversely, by analyzing **the skills that are currently less represented in Leonardo's Board of Statutory Auditors, as well as those considered less critical for the future, we can again observe a broad overlap of opinions**. In particular, both the ICT and IT security skills, and the in-depth knowledge of Leonardo's foreign markets of interest, are judged in both cases not present in the current board, as well as unnecessary to be represented for the future. Similarly, neither managerial experiences in public administrations nor experiences of university teaching in relevant subjects, are considered particularly important selection criteria for the future, unless in the very specific case of some members that not are registered in the Register of Auditors.

From what has been observed, it seems to be possible to conclude that the analysis of the assessments expressed both on the current and on the future structure, confirms an opinion, shared by the Board of Statutory Auditors, **towards maintaining the current mix of skills and professionalism, even in the event of a review of the composition of the control body**, ensuring at the same time: i) the presence of the "core" competences (competences of company law, corporate governance, reading and interpretation of financial statements and documents, legal supervision, as well as internal control); ii) adequate experience in the same



role in organizations of similar complexity; iii) maintenance, if not strengthening, of “emerging” skills (primarily sustainability), on which Leonardo’s Board of Statutory Auditors seems to have already fully adapted; while guaranteeing specific induction on Leonardo’s business knowledge, especially at an international level.