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The Leonardo Group

Leonardo SpA is a global high-tech company in the Aerospace, Defence and Security sectors. The Company is based in Italy and employs nearly 50,000 people; it has a significant industrial presence in four markets (Italy, the United Kingdom, the USA and Poland) and strategic partnerships in the major international markets with high potential.

Leonardo SpA has an organisational structure divided into five Divisions and also operates through subsidiaries and joint ventures (including Telespazio and Thales Alenia Space, joint ventures with Thales, ATR, joint ventures with Airbus and MBDA, joint ventures with BAE Systems and Airbus).

Highlights (at 31/12/2020)

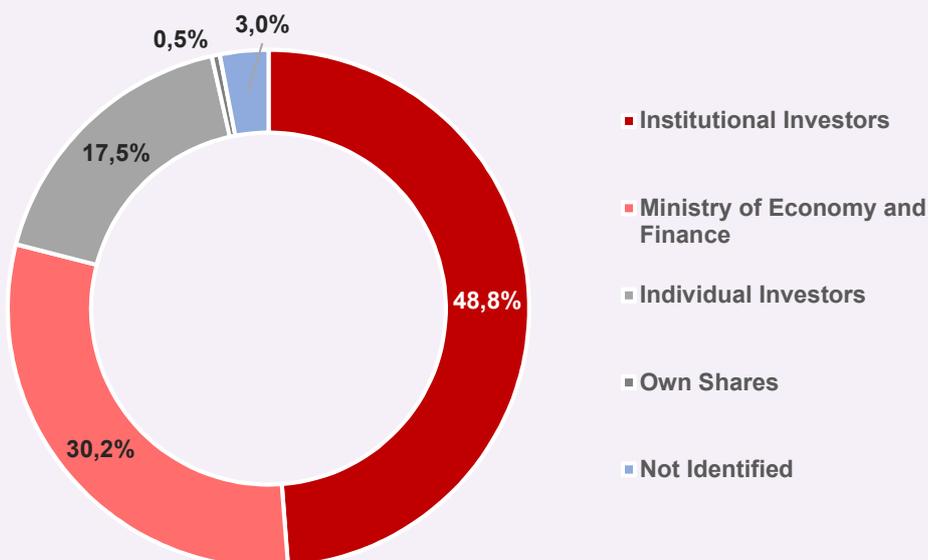
EMPLOYEES
49.882

REVENUES
€ 13.410 MIL

**ORDER
BACKLOG**
€ 35.516 MIL

NEW ORDERS
€ 13.800 MIL

Shareholding structure



Leonardo Strategic Plan

The markets in which Leonardo operates, both nationally and internationally, are characterized by highly complex ongoing transformation processes and an ever-increasing level of competition.

Moreover, the recent health and economic crisis linked to the Covid-19 pandemic, in the uncertainty of an international framework that is still evolving, has profoundly altered the pre-existing balances, leading to an epochal paradigm shift at a technological, cultural, social and economic level, in a perspective in which the consequences will continue for a long time to come.

In this scenario, there is a need to continue and give new impetus to the improvement path in terms of competitive positioning on international markets, through choices and investments that will allow the achievement of the objectives set in the plan.

Leonardo is now at a turning point to give greater impulse to the transformation and growth process started in 2018. The current situation is in fact a call to action for the Company to meet the challenges imposed by the new normal thanks to a renewed attitude resulting from an innovative strategic vision projected into the future, launched well before the outbreak of the pandemic, with the aim of adapting with the necessary flexibility to the changing context of reference on a cyclical basis, leveraging technological skills, as well as the Company's human and intellectual capital.

The “Be Tomorrow – Leonardo 2030” Strategic Plan is not just merely an industrial plan, but an organic vision of the world in which the Company must project itself and with respect to which it intends to act as a driver to development in order to contribute to global security and progress from its positioning as an industrial and technological leader.



Leonardo has identified the key priorities underlying its path to innovation and sustainable growth, with the ambition of becoming a company in 2030 which will be in:



Solid
Investment grade

Profitable

Sound cash conversion ability



Global
World leading company in Helicopters and in Simulation and Training solutions

European leading company in Defence Electronics and autonomous systems

Leading player in international cooperation programmes in Aeronautics

Partner to Security institutions



Driver of innovation
100%-digitalised in processes, production and offering

Engine of an innovative ecosystem on transversal technology

Leading benchmark in green innovation



Leonardo Sustainability Plan

In line with the Be Tomorrow 2030 Strategic Plan and the priorities resulting from the materiality analysis, Leonardo has prepared a Sustainability Plan aimed at covering the entire value chain: from research and technological innovation to operations and the development of new solutions and new business models. The Plan sets out eight thematic clusters on which to take action in order to accelerate transition to sustainability, thus strengthening our business and ability to create shared value with a view to the Sustainable Development Goals (SDGs) and the European Green Deal.



The contribution of the Remuneration Policy to the corporate strategy

Leonardo's Remuneration Policy is designed to meet the challenges posed by the Strategic and Sustainability Plan. The link between variable incentive plans and the Strategic and Sustainability Plan is described below.

		Short-term incentive					Long-term incentive					
		EBITA	FOCF	Book to Bill	Strategic plan	Dow Jones Sustainability Indices	Accident frequency reduction	Total Shareholder Return	Net debt	ROIC	Climate Change	Diversity (STEM area)
Strategic and Sustainability Plan	Solid	●	●	●	●		●	●	●			
	Global			●	●	●		●		●	●	●
	Innovative				●	●		●		●	●	●
	Sustainable				●	●	●	●	●	●	●	●



Leonardo's response to the pandemic

The year 2020 was the year in which the world experienced all kinds of difficulties due to the Covid-19 health emergency. The pandemic has forced people and businesses to face sudden and radical changes in the way people work, study and socialise, imposing restrictions on freedoms and habits.

Leonardo has coped with the pandemic crisis in the awareness of being, with more than 30,000 employees and about 80,000 people in its allied industries, a vital organ of the State, the technological and industrial asset in support of its national security.

In this context, the Company has approached the pandemic in the awareness that activities are carried out at Leonardo's plants, which cannot be interrupted, because they support the continuity of operations of civil and military institutions.

For this reason, the Company and the Trade Unions have addressed the issues impacting both the working life of employees and the performance of industrial operations according to preventive measures oriented towards a twofold aim: to safeguard the Company's business continuity and economic sustainability in the event of changes in the scenario by adopting temporary organisational and operational solutions that preserve it and reduce its impact, on one hand, and, on the other hand, to support needs, both collective and individual, marked by fragility.

With reference to agile working, Leonardo provided more than 13,000 employees with the necessary tools to enable work from home as early as from the end of March 2020, the first month of the outbreak of the epidemic, recording more than satisfactory levels of productivity.

For those employees who have continued to go to work, with a strong sense of duty, the Company promptly put in place a rigorous plan concerning all the safety measures required by government decrees and protocols, as well as numerous actions and operational measures aimed at protecting the health and safety of its workers. The company protocol to combat the spread of the Covid-19 virus was signed, the first in Italy, with the trade unions on 15 March 2020, and subsequently subjected to updates and regulatory amendments on an ongoing basis.

All the tools recommended by government and health authorities, as well as those requested by the unions, have been implemented, including, but not limited to, hourly flexibility, extensive use of vacations, remote working, temperature control measures at access points and the provision of personal protective equipment. The Company has also offered its employees and, where possible, their families the possibility of carrying out serological tests to search for antibodies to the Sars-CoV-2 virus and antigenic and molecular swabs, as well as flu vaccines, despite their limited availability on the market, by means of agreements with the national network present throughout most of our country.

On the side of national solidarity, Leonardo has also launched numerous projects, many of which have received attention from the press.

A number of shuttle flights were carried out in support of the Civil Protection between Italian and foreign airports, including China, to ensure the transport of medical equipment (respirators, masks, etc.) by using two large-capacity transport aircraft (C-27J and ATR 72).



Three helicopters and their crews were also made available for the transport of masks and medicines throughout Italy. In addition, an AW139 helicopter was made available for other emergency transport and transfers.

Engineering operations in the Helicopters division engaged a team of technicians in order to provide solutions to enable the safe transport of Covid-19 patients on Leonardo helicopters on the part of all Italian healthcare operators, as well as by State Military Corps. The same operations were repeated in various other parts of the world - Europe, America and Asia - in collaboration with local civil and military aviation authorities.

Leonardo's personnel have distinguished themselves for their spontaneous solidarity with various projects, from 3D printing of valves for respirators to active volunteering for associations that help the most needy people.

In addition, Leonardo has launched its first Crowdfunding project to support an extensive programme of digitisation of Italian schools, one of the sectors most affected by the Covid-19 emergency. The "Leonardo for School" fundraising was targeted at all employees in Italy and included the 2019 bonus of Leonardo's Chief Executive Officer, which was donated in full to the project. The objective was to help equip 46 educational institutes, identified in agreement with the Ministry of Education, with PCs and tablets : 30 primary, middle and high Schools, 18 of which were also committed to providing teaching to children hospitalised for long periods, and 16 Juvenile Penitentiary Institutes, for a total of 18 Italian regions involved.

Finally, the creation of a "solidarity fund" was significant, to which the Company contributed 30,000 days and employees, especially those who had accumulated leave in previous years, paid a part of the fund in favour of colleagues forced to stay at home.

The Leonardo Group's Remuneration Policy has been developed by taking into consideration the situation of strong change and uncertainty emerged after the pandemic, with particular attention to its effects on the working conditions of the Company's employees.

As regards the business results, although Covid-19 affected the Company's performance in 2020, Leonardo has proven to be able to face the effects of the pandemic in a scenario that was out of the ordinary, indeed unprecedented, thanks to its diversified and balanced portfolio of products and services, as well as to its widespread presence all over the world. The business fundamentals and prospects in the medium to long-term therefore remain unchanged.

In the face of the serious crisis that struck the civil aviation sector, Leonardo gave further proof of its resilience in that its sales performance was at the same level as the previous year, while benefitting from orders gained from domestic customers in government and military sectors.

While benefitting from the actions taken to bring the business back to full operation and ensure cost reduction, industrial performance and profitability were impacted by the slowdowns recorded during the first phase of the emergency and by a lower demand in the civil aviation sector that affected in particular the Aerostructures Division, helicopters in the civil sector and the ATR JV, which were heavily hit by the drop in demand from the operators in the sector.



Main Innovations Introduced in the Remuneration Policy 2021

Taking into account the result of the vote in the 20 May 2020 Shareholders' Meeting, the new challenges generated by the pandemic, the results of the engagement activity with the main Proxy Advisors, as well as the evolution of Leonardo's Strategic Business and Sustainability Plan, the main innovations introduced in the 2021 Compensation Policy are summarized below:

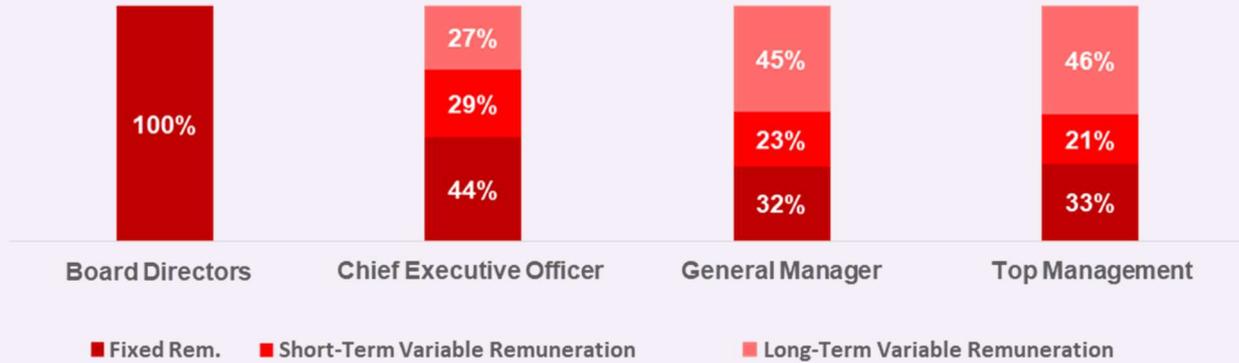
- redesign of the comparison panel to be used for the President of the Board of Directors, the Directors, the Chief Executive Officer and the Top Management;
- definition of the new Incentive Plan for Top Management which, while maintaining the main architectural elements constant, introduces some important innovations:
 - Sustainability performance objectives consistent with the new Be Tomorrow 2030 Strategic Plan and Leonardo Sustainability Plan;
 - Incentive curve with increasing payout within a certain range, instead of using the on/off approach, for all the objectives of the Plan, in order to strengthen the pay-for-performance link;
 - Applying the ROIC (Return On Invested Capital) indicator, in place of ROS (Return On Sales), as it is regarded as more suitable for measuring value creation in a capital-intensive sector, as is also the case in Peer Groups' practices.
 - Introduction of a two-year lock-up period, during which 50% of the shares assigned are subject to the restriction of non-transferability, in line with the recommendations of the Corporate Governance Code;
- alignment of the indemnity provided for in the event of the CEO termination of office or of employment, equal to an amount of 24 months.

Despite the fact that the benchmark has showed a limited competitiveness of Leonardo's remuneration policy compared to the identified Peer Groups, the Committee has decided not to make any substantial change to the remuneration structure after an in-depth discussion aimed at considering the difficult social and economic situation due to the Covid-19 epidemic, postponing any possible evaluation of policy revision to the future.



Pay mix

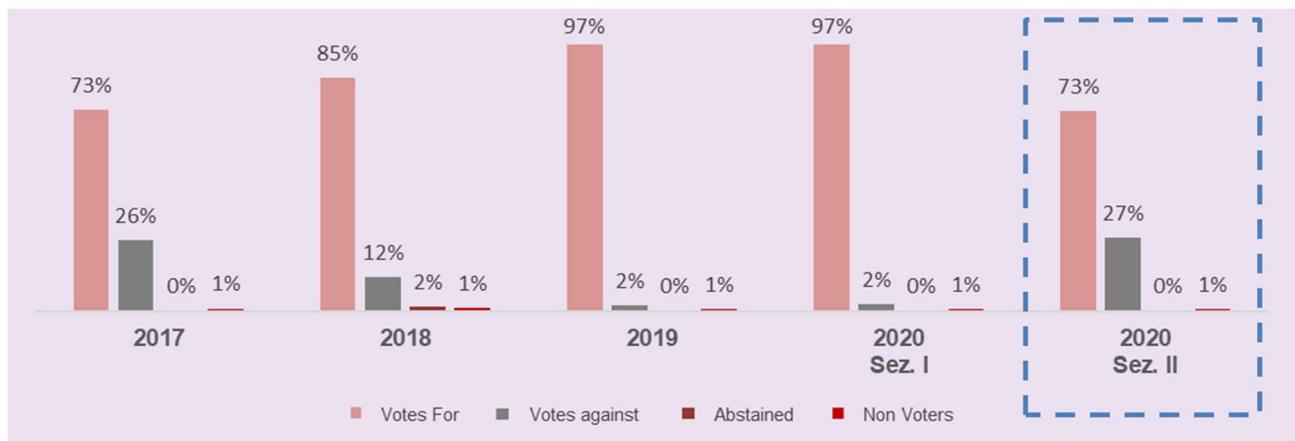
The chart shows the **overall Pay Mix** on the basis of the target bonus (which for the CEO is equivalent to the maximum bonus) set out within the scope of the short-term incentive plan - MBO and of the share Plan ILT 2021-2023 of the target bonus (which is equivalent to the maximum bonus).



Trend of voting results (2017-2018-2019-2020)

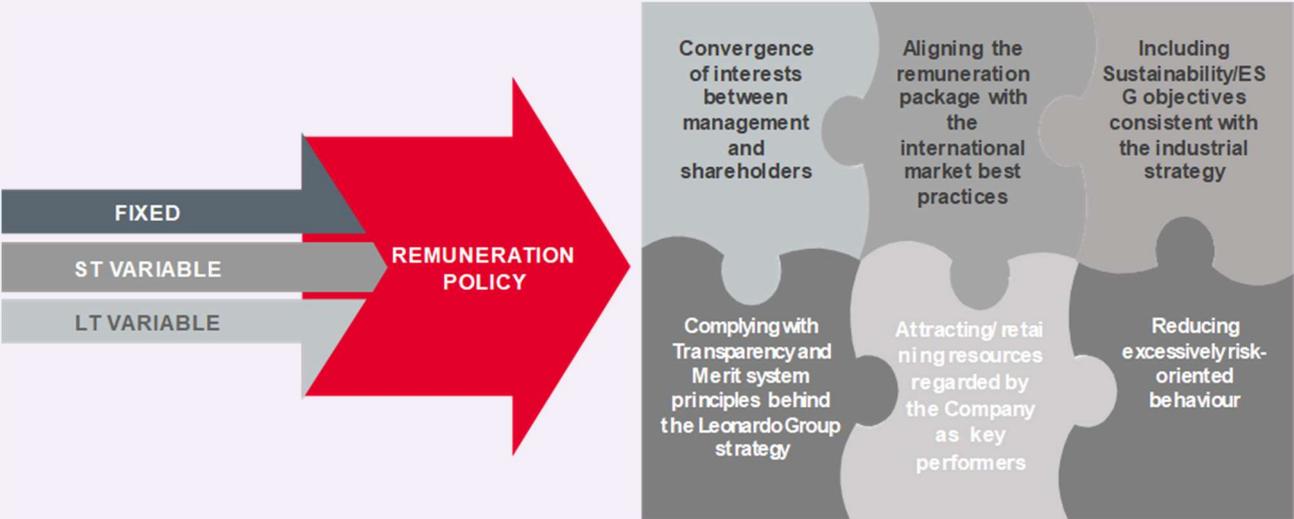
Below is the **progress of the shareholders' voting results** on section I of the Remuneration Report for the last 4 years (2017-2018-2019-2020). The graph shows a **substantially positive trend** over the years in relation to votes in favor. In the reflection and evaluation of the **innovations** and

improvements made to the 2021 Remuneration Report, the general results and especially the reasons underlying the votes against that have been cast in the 2020 Shareholders' Meeting were taken into account.



Principles, Aims and Governance of Remuneration Policy

The remuneration policy sets out the principles and guidelines to determine the remuneration of the members of the Board of Directors, as well as the specific criteria through which the remuneration of the Group’s management is established, in accordance with the Governance model adopted by the Company and the recommendations laid down in the Corporate Governance Code.



Governance

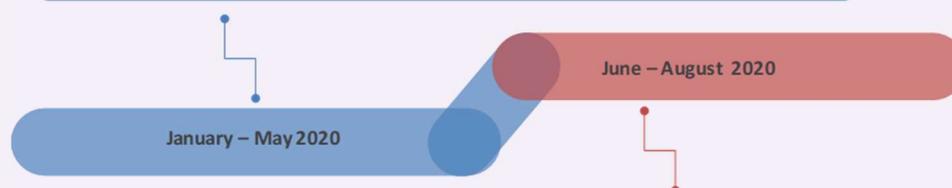
The Leonardo Group has arranged a process of **Governance of remuneration systems, which involves both corporate bodies** (Shareholders' Meeting, Board of Directors, Remuneration Committee and Board of

Statutory Auditors) **and some Corporate Organisational Units** (Chief People, Organization and Transformation Officer Organisational Unit, as well as other Organisational Units with specific expertise in the matters dealt with).



Activities carried out by the Remuneration Committee in 2020

- Examination of the Corporate Governance Committee's recommendations of Borsa Italiana and of provisions of Legislative Decree no. 49 of 10 May 2019 on the Remuneration Policy;
- Industrial relations: information on the negotiations concerning the company supplementary agreement;
- People Survey 2020: state of progress;
- Report on remuneration policy and fees paid 2020;
- 2019 MBO for the CEO – Final results;
- 2020 MBO for CEO – Allocation of objectives;
- Rules of the Long-Term Incentive Plan;
- Long-Term Incentive Plan for CEO 2017 - 2019 cycle – Final results;
- Long-Term Incentive Plan for CEO - 2020 - 2022 cycle – Allocation of objectives;
- Final results of the Long-Term Incentive Plan and Co-Investment Plan - 2017 – 2019 cycle;



- First meeting of the new Remuneration Committee after the Shareholders' Meeting of 2020
- Analysis of Remuneration Systems;
- Long-Term Incentive Plan – 2020 – 2022 cycle: proposal for selection of beneficiaries and their respective incentive levels;
- Benchmark on fees payable to Directors, the Director with delegated powers and the Chairman;
- Benchmark on Fees payable to the management;
- LTI Plan – additions to the awards to the CEO for the remaining period of the cycles in progress;

Remuneration Policy 2021

Board of Directors

For the corporate bodies, except for some directors who are vested with specific duties (CEO), the remuneration consists exclusively of a fixed element:

Position	Fees under art. 2389, paragraph 3	Fees under art. 2389, paragraph 1
Chairman of BoD	€ 400.000	€ 90.000
CEO	€ 920.000	€ 80.000
BoD Member	-	€ 80.000



Below are the Fees payable for the participation in the **Board Committees and in the Board of Statutory Auditors:**

Position	Fees 2020
Chairman of the Board Committee	€ 7.500
Member of the Board Committee	€ 2.500
Attendance fee (for each Committee meeting)	€ 2.000
Chairman of the Board of Statutory Auditors	€ 80.000
Member of the Board of Statutory Auditors	€ 70.000

Chief Executive Officer

Variable Remuneration

Variable remuneration is divided into a **short-term component** (MBO Scheme) and a **long-term component**.

Short-term Variable component

The aim of the short-term variable component is **to encourage the achievement of the annual objectives laid down in the Company's budget and in line with the business plan** for the relevant year. The MBO Scheme is structured in a manner which creates a transparent link between monetary remuneration and the degree to which the annual objectives have been achieved and provides for the following payment of the Bonus (for the CEO is equivalent to the maximum bonus):

	Maximum Bonus	Maximum Bonus (% Fixed Remuneration)
CEO	€ 660.000	66%



Performance Gate and Objective Table - MBO:

	Type of Objective	KPIs	Weight	Functioning mechanism	Target/Guidance
Performance Gate	Group's Economic and Financial	Group EBITA	30%	On / off	€mil. 1,075 - €mil. 1,125
		Group Free Operating Cash Flow (FOCF)	30%	Range Payout: 100%-120%	approx. €mil. 100
Strategic	Aerostructure Division Restructuring Plan		15%	On / off	Business Plan
	Book to Bill		15%	On / off	≥1
Sustainability	Inclusion of Leonardo in Dow Jones Sustainability Indices		5%	On / off	Inclusion of Leonardo
	Reduction in average accident frequency rate		5%	On / off	$I_t \leq 0,78$

If one or both of the following thresholds are not achieved:
 • Group EBITA : 85% of Budget
 • Group FOCF : 100% of Budget
 the bonus relating to both KPIs is set to zero

As noted above, the short-term variable remuneration (MBO) payable to the Chief Executive Officer does not provide for the payment of overperformance fees. If, in fact, the FOCF (>100%) is over-performed, **no overperformance fees will be payable**, but consideration will be paid to using it to offset a possible failure to achieve other objectives.

Long-term Variable Component

The Shareholders' Meeting called to approve the Financial Statements at 31 December 2020 shall be called, among other things, to approve the new Long-Term Incentive Plan of Leonardo.

While maintaining the main architectural elements unchanged, the Plan provides for some changes aimed at the structural introduction of sustainability objectives and strengthening the pay-for-performance link, in line with the best market practices. Furthermore, a two-year lock-up period has been introduced, during which 50% of the shares assigned are subject to the restriction of non-transferability, in line with the recommendations of the Corporate Governance Code.



The long-term incentive plan is divided into 3 three-year cycles, each starting from the year 2021, 2022 and 2023.

The incentive is **fully expressed in ordinary Leonardo S.p.A. shares**.

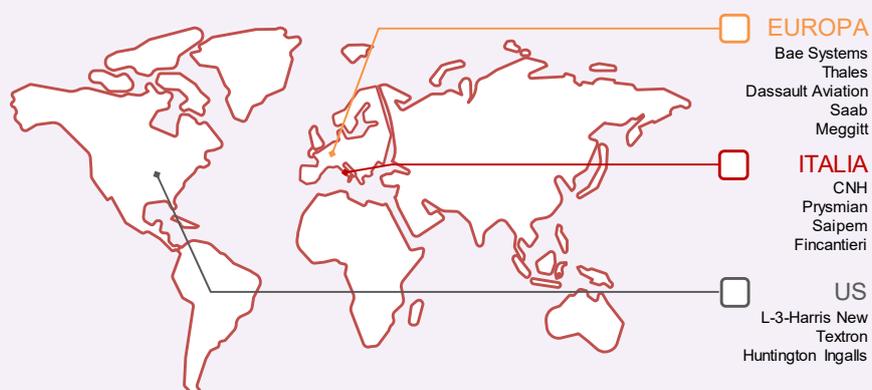


The payment of the incentive is conditional on the achievement of targets relating to a three-year period and linked to the following performance indicators:

KPIs	Weight	Reference Financial Periods	Performance Range (Target/Guidance)	Payout Range
Relative Total Shareholder Return	35%	2021-2023	1	100%
			2	100%
			3	100%
			4	100%
			5	50%
			6	50%
			7	25%
			8	0%
			9	0%
			10	0%
			11	0%
			12	0%
			13	0%
Group Net Debt	25%	2021-2023	Target (< €bn. 3)	100%
			Minimum	50%
Return on Invested Capital	20%	2021-2023	Target (approx. 14%)	100%
			Minimum	50%
Climate Change (Reduction in Emissions of Scopes 1 and 2)	10%	2021-2023	43.1	100%
			44	50%
Gender diversity (% of women of total new hires with a STEM degree)	10%	2021-2023	20%	100%
			18%	50%



Below it is detailed the **Peer Group** selected for the **Relative TSR**:



Pay in the event of termination of office or of employment

In accordance with the recommendations in the Corporate Governance Code, the severance pay is set by providing for a maximum limit that is not higher than two years' remuneration. In any case of revocation of the appointment as Chief Executive Officer and/or of early expiry of the term of office and/or of termination of employment on the part of Mr. Profumo due to just cause, an amount will be paid on account of indemnity and compensation payment, equal to 24 monthly fees; the reference taken for the fixed component will consist of the amount envisaged for his annual fixed remuneration (in accordance with art. 2389, paragraphs 1 and 3, of the Italian civil Code), while as regards the short-term variable component it will consist

of the average of the amount received or accrued in the three years before the expiry of the term of office. The amount calculated in this manner shall be paid together with any other sum due in relation to the termination of employment.

With regard to the rights granted under Long-Term Incentive Plans, if termination falls within the cases of Good Leaver, the rights will be maintained on a pro-rata temporis basis, subject to establishing whether the performance objectives have been achieved according to the times and methods prescribed by the Plan. If termination does not fall within the cases of Good Leaver, the rights granted under the Plan will be lost.



General Manager

On 25 June 2020, the Board of Directors passed a resolution establishing the General Manager function reporting directly to the Chief Executive Officer. The function, to which various Divisions and Business Units report, aims to cope with the new market context characterised by the impacts of COVID-19, but to also accelerate the new phase of implementation of the Be Tomorrow 2030 Strategic Plan, thus increasing flexibility and agility in order to be even more competitive in facing the new challenges that will arise.

Fixed Remuneration

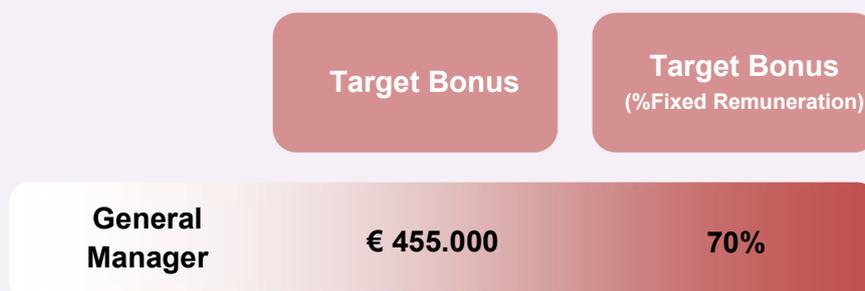


Variable Remuneration

Variable remuneration is divided into a **short-term component** (MBO Scheme) and a **long-term component**.

Short-term Variable component

The MBO Scheme is structured in a manner which creates a transparent **link between monetary remuneration and the degree to which the annual objectives have been achieved** and provides for the following payment of the Bonus:



Performance Gate and Objective Table - MBO:

	Type of Objective	KPIs	Weight	Functioning mechanism	Target/Guidance	
Performance Gate	Group's Economic and Financial	Group EBITA	25%	On / off	€mil. 1,075 - €mil. 1,125	If one or both of the following thresholds are not achieved: • Group EBITA : 85% of Budget • Group FOCF : 100% of Budget the bonus relating to both KPIs is set to zero
		Group Free Operating Cash Flow (FOCF)	25%	Range Payout: 100%-120%	approx. €mil. 100	
Strategic		Aerostructure Division Restructuring Plan	20%	On / off	Business Plan	
		Definition of the General Manager Function Business Plan	20%	On / off	Business Plan	
Sustainability		Inclusion of Leonardo in Dow Jones Sustainability Indices	5%	On / off	Inclusion of Leonardo	
		Reduction in average accident frequency rate	5%	On / off	I _t ≤ 0,78	

Long-term Variable Component

The General Manager is a beneficiary of the Long-Term Incentive Plan of Leonardo.

The functioning methods and mechanisms of the Plan are the same as those described above for the Chief Executive Officer.

The maximum bonus relating to the 2021-2023 three-year cycle is as follows:

	Maximum Bonus (% Fixed Remuneration)
General Manager	140%



Pay in the event of termination of office or of employment

With regard to the severance indemnity payable to the General Manager, who works for the Company under a permanent management employment contract, no agreement is envisaged in order to regulate in advance the pay conditions relating to the early termination of employment, except for the severance indemnity fees established by the relevant national collective labour agreement (CCNL for Executives of companies that provide goods and services). This agreement provides, in addition to specific rules on notice periods, for an indemnity that is set according to the

length of service, up to a maximum of 24 months' total remuneration (Gross Annual Fees and variable remuneration).

With regard to the rights granted under Long-Term Incentive Plans, if termination falls within the cases of Good Leaver, the rights will be maintained on a pro-rata temporis basis, subject to establishing whether the performance objectives have been achieved according to the times and methods prescribed by the Plan. If termination does not fall within the cases of Good Leaver, the rights granted under the Plan will be lost.



Top Management

Fixed Remuneration

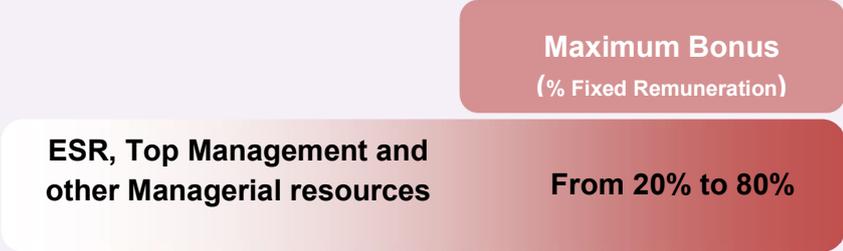
It is such that it **adequately remunerates the services** in relation to the assigned duties and responsibilities. The fixed remuneration of ESR, Top Management and other managerial resources is **proportionate to the responsibilities assigned to them** and to the target market positioning.

Variable Remuneration

Variable remuneration is divided into a **short-term** component (MBO scheme) and a **long-term** component.

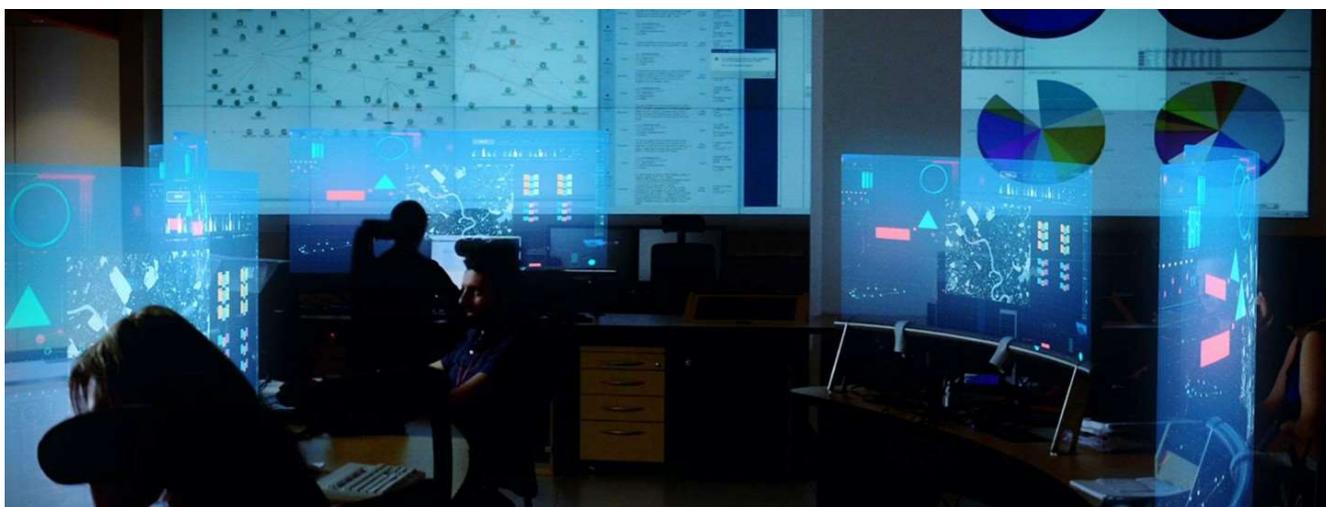
Short-term Variable Component

The MBO Scheme is structured in a manner which creates a transparent **link between monetary remuneration and the degree to which the annual objectives have been achieved** and provides for the following payment of the Bonus:



The MBO Scheme for Executives with Strategic Responsibilities and other Top Management members is subject to the following structure of performance targets:

	Tipologia Obiettivo	KPIs	Peso	Target / Guidance	
Performance Gate	Obiettivi di Gruppo	EBITA di Gruppo	25%	1.075 € mln – 1.125 € mln	In caso di mancato raggiungimento una delle seguenti soglie o entrambe: • EBITA di Gruppo: 85% del Budget • FOCF di Gruppo: 100% del Budget si prevede l'azzeramento del premio relativo ad entrambi i KPIs
		Free Operating Cash Flow (FOCF) di Gruppo	25%	ca. 100 € mln	
	Obiettivi di Business / di Funzione	Obiettivi di business definiti in funzione delle responsabilità dei singoli ruoli (es. EBITA di Divisione, FOCF di Divisione)	40%		
Sostenibilità		Inclusione di Leonardo nei Dow Jones Sustainability Indices	5%		
		Riduzione indice frequenza media infortuni	5%		



Long-term Variable Component

Executives with Strategic Responsibilities, the Top Management and other Managerial resources are beneficiaries of the Long-term Incentive Plan of Leonardo.

The methods and mechanisms of operation of the Plan are the same as those described previously for the Chief Executive Officer.

The maximum bonus relating to the 2021-2023 three-year cycle for ESG and the Top Management is as follows:

	Maximum Bonus (% Fixed Remuneration)
ESR, Top Management and other Managerial resources	140%

Pay in the event of termination of office or employment

As regards termination indemnities of Executives with Strategic Responsibilities, working for the Company under a permanent employment contract for their category, the Company has been adopting for some time a policy for which, as a rule, it does not sign agreements covering in advance the pay conditions of early termination of the employment relationship, except for the termination benefits set in the National Collective Labour Agreement for the relevant sector (CCNL for Executives of companies providing goods and services).

There are still in place individual agreements entered into in the past that govern in

advance the effects of the early termination of employment, in lieu of the pay schemes provided for by the relevant National Collective Labour Agreement, set within the maximum limits of the safeguards set out in the same Agreement.

With regard to the rights granted under Long-Term Incentive Plans, if termination falls within the cases of Good Leaver, it is envisaged that the rights will be maintained on a pro-rata temporis basis, subject to establishing whether the performance objectives have been achieved according to the times and methods prescribed by the Plan. If termination does not fall within the cases of Good Leaver, the rights granted under the Plan will be lost.



