

AVIO S.P.A.

**BOARD OF DIRECTORS REPORT ON THE FORMULATION OF A SLATE OF CANDIDATES FOR THE RENEWAL
OF THE BOARD OF DIRECTORS BY THE OUTGOING BOARD OF DIRECTORS**

March 8, 2023

1. INTRODUCTION

In line with the provisions of Recommendation No. 19, letter d), of the Corporate Governance Code for Listed Companies adopted by Borsa Italiana S.p.A., Article 11.4 of the By-Laws of Avio S.p.A. ("**Avio**" or the "**Company**"), allows the outgoing Board of Directors to prepare and publish a slate of candidates for the office of Director in view of the renewal of the Board of Directors.

The process for the submission of a slate by the outgoing Board of Directors was, in addition, the subject of a Consob Notice for Attention dated January 21, 2022 (the "**Notice for Attention**"). As set out in the Notice for Attention, the company is responsible for defining the most appropriate process for the eventual drawing up and presentation of the Board of Directors slate, identifying the relevant steps and the contribution of the various parties involved.

In the exercise of its statutory authority and considering the favourable opinion of Avio's Appointments and Remuneration Committee (hereinafter the "**Committee**") dated November 3, 2022, on November 7, 2022, the Company's Board of Directors approved, by a motion adopted by the unanimous vote of the 11 members present at the time of the vote, the "*Procedure for the submission of a slate for the renewal of the Board of Directors by the outgoing Board of Directors*" (hereinafter, the "**Procedure**").

The duly approved Procedure is available on the Company's website at the following link, <https://investors.avio.com/ShareholdersMeeting/2023/>.

The Procedure (in line with that also provided for in the Notice for Attention, as more fully detailed below) requires that the motion approving the slate be accompanied by a document containing a detailed account of the preliminary process carried out and the rationale behind the choice of candidates consistent with the selection criteria. As expected, this document also provides an account of the majorities by which Board motions have been adopted at different stages of the process since the adoption of the Procedure, indicating the number of Directors who voted against or abstained, and possible scenarios depending on the outcomes of Shareholders' Meeting votes.

We note that the Notice for Attention also emphasised the importance that, as part of the disclosure to be provided on the Board's slate in preparation for the Shareholders' Meetings to appoint the Board of Directors,

- the process actually followed to formulate the slate is comprehensively described, setting out its progress over time and the contribution of the individuals who participated in it (Directors/committees/advisors to whom specific roles in the process are attributed), including in connection with the procedural process possibly defined ex ante;
- account is provided of the majorities by which Board motions were adopted at different stages of the process since the adoption of the Procedure, with an indication of the number of Directors who voted against or abstained.

Considering the above, the Board approved this report at its meeting on March 8, 2023, following the favourable opinion of the Committee provided on March 6, 2023.

2. PARTIES INVOLVED AND STAGE OF THE PROCEDURE

2.1 Parties involved

The Procedure firstly defined the parties involved in the process followed by the outgoing Board in preparing its slate of candidates to be submitted to the Company's Shareholders' Meeting scheduled for April 28, 2023 (hereinafter, the "**Slate**"). The Agenda for this meeting includes, among other matters, the appointment of the Board for the three-year term 2023–25.

More specifically, the process was structured in accordance with the Procedure and the Notice for Attention, under the supervision of the Board, which monitored the entire process and made decisions regarding the drawing up and presentation of the Slate. It was supported by the Committee, which carried out the preliminary activity on behalf of the Board in the initial stages of the process governed by the Procedure.

The Chairperson of the Committee also guided and coordinated the stakeholder consultation process and, with the support of a specially selected independent advisor, the process to formulate the Slate, keeping the Committee and the Board of Directors up to date at all times.

In the event that the Committee includes (i) shareholders of the Company holding an 3% interest or more of the share capital or (ii) shareholders or Executive Directors or employees of a shareholder (or parent company or subsidiary of a shareholder) referred to in (i) above, the Board of Directors shall consider – taking into account the current provisions on linkage between slates – the possible replacing of such members of the Committee with other Independent Directors pursuant to the CFA and the Corporate Governance Code.

Also regarding the composition of the Committee, we note that in the context of the Procedure, the existing composition of the Appointments and Remuneration Committee has been confirmed. Its members are Giovanni Gorno Tempini (Chairperson), Monica Auteri and Donatella Isaia, all Independent Directors.

2.2 Procedure phases

As per the Procedure, the process comprises the following phases:

- noting the assessment by the outgoing Board (Board Review and Peer to Peer Review),
- drafting of the Guidance Opinion containing the report on the optimal qualitative–quantitative composition of the Board (hereinafter, the “Guidance Opinion”),
- preliminary consultation with key stakeholders,
- establishment of selection criteria for identifying candidates,
- selection of candidates by first establishing a "long list" and then a "short list."
- preparation and publication of the Slate.

3. PHASES

- a) On November 7, 2022, by a motion adopted by the unanimous vote of the 11 members present at the time of the vote and with the favourable opinion of the Committee held on November 3, 2022, the Company's Board of Directors resolved (i) to begin the preparatory activities for the submission of a slate of candidates for Director of the Company pursuant to Article 11.4 of the By-Laws by the outgoing Board of Directors, (ii) to grant the Chairperson of the Board of Directors and the Chief Executive Officer, severally, all the broadest powers to grant a mandate to a Sole Director, identified by the Committee in order to support the corporate structures, the Committee itself and the Board of Directors in the evaluations and preliminary activities necessary for the presentation of the aforementioned slate, and (iii) to approve the Procedure.
- b) Meeting on November 24, 2022, following a beauty contest initiated by the competent corporate structures to which a number of headhunting companies had been invited, the Committee identified Spencer Stuart, a leading consultant in the sector, as advisor for the activities set out in the Procedure, after assessing its experience and track record and verifying the independence of its judgement.

On November 29, 2022, taking into account the Committee's recommendation and in execution of the Board of Directors' motion of November 7, 2022, the Chairperson of the Board of Directors awarded the mandate to Spencer Stuart.

We note that the Committee and the Company's Board of Directors were also supported in the legal aspects of preparing the slate by the law firm Chiomenti in the role of legal advisor.

- c) In accordance with the provisions of the Procedure, on November 29, 2022, by a motion adopted by the unanimous vote of the 11 members present, subject to the favourable opinion of the Committee on November 24, 2022, the Company's Board of Directors approved the "*Guidance Opinion on the Optimal Quantitative and Qualitative Composition of Avio's Board of Directors for the Three-Year Period 2023–2025*" (the "**Opinion**"), published on the Company's website on the same date.
- d) Following approval of the aforementioned draft Opinion, dialogue began – in compliance with the regulations on the treatment of inside information and with the "*Avio S.p.A. Shareholder Engagement Policy*" ("**Engagement Policy**") – with the Company's significant shareholders (i.e. shareholders holding more than 3% in the Company's share capital, the main proxy advisors [Institutional Shareholder Services and Glass Lewis] and the Italian association representing institutional investors Assogestioni, which was attended by the Chairperson of the Committee and the relevant corporate functions (Legal, Compliance and Corporate Affairs Department as well as the Investor Relator). This dialogue sought to acquire feedback from these parties on the criteria for the composition of the slate and the abstract qualitative–quantitative profiles of the composition of the Board of Directors, consistent with the content of the Opinion. This activity was completed in just under two months. This phase included a series of meetings that were tracked through summary reports.
- The Board of Directors acknowledged these meetings at a first meeting held on December 19, 2022, and at a second meeting held on January 23, 2023.
- e) Following the aforementioned meetings, on the basis of the Opinion, taking into account the indications gathered in the consultation activities of the main stakeholders, and with the support of the advisor Spencer Stuart, the Chairperson of the Committee prepared a proposal for the Committee regarding the criteria for the qualitative–quantitative composition of the slate of the outgoing Board of Directors (the "**Selection Criteria**").

Specifically, the Committee recommended that Board contain the following elements:

- 1) gender balance, not merely to meet regulatory requirements, but also to ensure a range of contributions and diversity of approach;
- 2) varying age groups on the Board of Directors, featuring figures with extensive seniority in similar contexts to the one in question;
- 3) overall professional experience held by all members of the Board of Directors, understood as top–down vision and highly developed communication skills both within and outside the Company;
- 4) a majority of Independent Directors;
- 5) international exposure, not necessarily gained abroad, accompanied by excellent English language skills. Specific exposure to the North American market is preferable;
- 6) time availability and number of other assignments;
- 7) *ex ante* assurance of adequate composition of internal Board Committees.

Experience

1. Space sector, particularly in a customer–facing environment, or in contiguous sectors: at least two candidates;
2. Aerospace & Defence sector: at least one candidate;
3. senior management of companies of a complexity and size comparable to Avio; at least two candidates;
4. position on the Boards of Directors of listed companies; at least two candidates;

5. possibly one candidate with specific venture capital and start-up experience.

Skills

1. Technological innovation, possibly as regards cyber security, in the research and development and innovation sectors; at least two candidates;
 2. finance, administration and risk management: at least two candidates;
 3. legal, corporate and regulatory compliance: at least one candidate;
 4. environmental and social sustainability: at least one candidate;
 5. possibly one candidate with specific expertise in human resource management and organisation
- f) Following the Committee's positive opinion regarding the approval of the Selection Criteria dated January 17, 2023, on January 23, 2023, by a motion adopted by the unanimous vote of the 10 members present at the time of the vote, the Board of Directors approved the aforementioned Selection Criteria for the qualitative-quantitative composition of the slate prepared by the outgoing Board of Directors.
- g) On the recommendation of the Committee Chairperson, the advisor met with the outgoing Directors to their availability for reappointment; at this meeting, the Directors on the slate presented by the previous Board of Directors confirmed their availability for reappointment.
- h) To best provide for the collective suitability of the new Board of Directors, the advisor therefore suggested to the Committee Chairperson that the process be divided into two phases: phase 1, for the definition of the Long List containing potential candidates for the position of Director of the Company, indicating more candidates than the number that would eventually be on the slate and taking into account the current provisions on inter-slate linkage; phase 2, to define the candidates to be included on the Short List.

Phase 1

- i) With the support of Spencer Stuart and in accordance with the Procedure, the Chairperson of the Committee drew up a *long list* (the "**Long List**") – made available to Committee members – containing five potential external candidates for Director of the Company, in addition to the eight incumbent Directors who were available for reappointment.

At its meeting on February 20, 2023, the Committee unanimously agreed to submit the Long List to the Council for consideration.

The Long List was then submitted to the Board for its consideration at the meeting of February 21, 2023. It was approved with the favourable votes of all eight Directors present at the meeting and the abstentions of the six incumbent Directors whose names were included on the Long List, each regarding only his or her specific candidacy. The motion was adopted in strict compliance with the provisions of Article 2391 of the Civil Code.

Phase 2

- j) With the support of Spencer Stuart, the Chairperson of the Committee proceeded to examine the five external candidates based on their respective skills and experience. Based on the Selection Criteria defined above, three candidates were then identified to conduct individual interviews with the Chairperson himself, in the presence of the advisor, between February 28 and March 2, 2023. Specifically, for each candidate identified, Spencer Stuart prepared a report highlighting relevant professional characteristics in relation to the Selection Criteria.
- k) At its meeting on March 6, 2023, the Committee issued a non-binding favourable opinion on the following proposals:
- (i) Final slate to be submitted to the Shareholders' Meeting called to elect the new administrative body, in accordance with the provisions of the Procedure, comprising the following candidates:

- Roberto Italia (non-independent, incumbent Director, in office since 1/12/2016);
- Giulio Ranzo (non-independent, incumbent Director, in office since 1/12/2016);
- Letizia Colucci (non-independent, incumbent Director, in office since 06.05.2020);
- Giovanni Gorno Tempini (independent, incumbent Director, in office since 1/12/2016);
- Luigi Pasquali (non-independent, incumbent Director, in office since 01/12/2016);
- Elena Pisonier (non-independent, incumbent Director, in office since 06/05/2020);
- Donatella Sciuto (independent, incumbent Director, in office since 1/12/2016);
- Giovanni Soccodato (non-independent, new candidate);
- Monica Auteri (independent, incumbent Director, in office since 1/12/2016);
- Monica Beltrametti (independent, new candidate);
- Susannah Stewart (independent, new candidate).

(ii) Detailed report on the preliminary process carried out and the rationale behind the choice of candidates consistent with the Selection Criteria.

- l) In total, to carry out its duties, the committee held six sessions of meetings, each lasting around two hours.
- m) On the advice provided by the Committee at the above meeting, on March 8, 2023, the Board reviewed and approved the short list, with all 11 Directors present voting in favour, given the abstention of each of the eight incumbent candidates in relation to their own reappointment, for mere reasons of expediency. There were no votes against the Slate. The motion was adopted in strict compliance with the provisions of Article 2391 of the Civil Code.

At the same meeting the Board of Directors also resolved to submit the slate: the decision was made by the unanimous vote of the 11 Directors present.

The slate comprises the following 11 candidates:

- Roberto Italia (non-independent, incumbent Director, in office since 1/12/2016);
- Giulio Ranzo (non-independent, incumbent Director, in office since 1/12/2016);
- Letizia Colucci (non-independent, incumbent Director, in office since 06.05.2020);
- Giovanni Gorno Tempini (independent, incumbent Director, in office since 1/12/2016);
- Luigi Pasquali (non-independent, incumbent Director, in office since 01/12/2016);
- Elena Pisonier (non-independent, incumbent Director, in office since 06/05/2020);
- Donatella Sciuto (independent, incumbent Director, in office since 1/12/2016);
- Giovanni Soccodato (non-independent, new candidate);
- Monica Auteri (independent, incumbent Director, in office since 1/12/2016);
- Monica Beltrametti (independent, new candidate);
- Susannah Stewart (independent, new candidate).

The reasoning behind the selection of each candidate is consistent with the premises stated above: the work done has therefore led to the formation of a slate that is in line with the contents of the Opinion. At the same meeting, based on the results of the dialogue with major shareholders and institutional investors and the recommendations of the Notice for Attention, the Board resolved to publish the slate well in advance of the deadline for shareholders to submit slates.

Attached to the slate are:

- the curriculum vitae of each candidate, containing comprehensive information on their relevant personal and professional characteristics, their skills, and the list of administrative, managerial and supervisory positions they currently hold, giving details of the alignment between each candidate's skills and the indications of the Guidance Opinion;

- each candidate's declaration that they accept the candidacy and eventual appointment and certification under their own responsibility, that there exist no causes of ineligibility and incompatibility, and that they possess the requirements of professionalism and integrity prescribed by current legal and regulatory provisions to hold the position of Director of the Company, in addition to each candidate's declaration on the independence requirements pursuant to Article 148, paragraph 3, of the CFA.
- n) As regards the proposals to establish (i) the number of members of the appointing Board, (ii) the term of office of the new Board of Directors, and (iii) the compensation of the new Board of Directors, please see the Directors' Explanatory Report prepared pursuant to Article 125-*ter* of the CFA, which will be made available to the public as per law before the Company's Shareholders' Meeting scheduled for April 28, 2023.
- o) In compliance with the requirements of the Notice for Attention, the Board of Directors has also deemed it appropriate to attach to this report (see Annex 1) the possible scenarios following the various outcomes of the Shareholders' Meeting votes on the slates submitted.

Rome, March 8, 2023

Annex 1

Possible scenarios

The appointment of the Board will be conducted in accordance with Article 11 of Avio's By-Laws and, consistent with Consob's Notice for Attention No. 1/22 of January 21, 2022, the possible scenarios depending on the outcome of the Shareholders' Meeting votes are summarised below:

- (a) candidates will be elected from the two slates that have obtained the highest number of votes, with the following criteria:
 - (i) from the slate obtaining the majority of votes cast (the “**Majority Slate**”), a number of Directors equal to the total number of the members to be appointed less 3 (three) shall be taken;
 - (ii) from the slate obtaining the second highest number of votes cast (the “**Minority Slate**”) 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 numerical order of the candidates on the slate;
 - (iii) if the Majority Slate, or the Minority Slate, depending on the case, does not contain a sufficient number of candidates in order to appoint the number of Directors required for each of them based on the aforementioned criteria, the remaining Directors to be elected shall be taken from the other slate, i.e. either the Minority or the Majority Slate depending on the case – in the numerical order in which they appear;
- (b) where only one slate is presented, the Shareholders' Meeting shall vote on that slate and, where this slate receives the majority of the votes, all the members of the Board of Directors shall be taken from this slate, in compliance with the legal and regulatory provisions.

Should two slates receive the same number of votes, a second vote of the Shareholders' Meeting shall decide by considering only the slates receiving the same number of votes.

The above is understood to be without prejudice to the provisions of Articles 11.11 and 11.12 of Avio's By-Laws on the gender and independence requirements in the composition of the Board of Directors, which could lead to the replacement of Candidates elected as above with other Candidates from the same slate belonging to the under-represented gender and/or meeting the independence requirements.