



**Ordinary Shareholders' Meeting of 2 and 16 May 2017 (I and II call)  
Extraordinary Shareholders' Meeting of 2, 3 and 16 May 2017 (I, II and III call)**

**Explanatory reports pursuant to Article 125-ter of Legislative Decree no. 58/98**

**Agenda**

**Ordinary Session**

1. Financial Statements at 31 December 2016 of Leonardo S.p.a., Sirio Panel S.p.A. and relevant Reports of the Board of Directors, Reports of the Board of Statutory Auditors and Independent Auditors' Reports. Resolutions related thereto. Presentation of the Consolidated Financial Statements at 31 December 2016.
2. Determination of the number of members of the Board of Directors.
3. Determination of the term of office of the Board of Directors.
4. Appointment of the members of the Board of Directors.
5. Appointment of the Chairman of the Board of Directors.
6. Determination of the remuneration of the Board of Directors.
7. Remuneration Report: resolution pursuant to Article 123-ter, paragraph 6, of Legislative Decree no. 58/98.
8. Authorization to purchase and dispose of own shares to be put at the service of the Incentive Plans.

**Extraordinary Session**

1. Amendment to Article 18.3 of the Articles of Association. Integration of the voting list discipline for the appointment of the Board of Directors. Resolutions related thereto.

*Disclaimer*

*These Explanatory Reports have been translated into English solely for the convenience of the international reader. In the event of conflict or inconsistency between the terms used in the Italian version of the Explanatory Reports and the English version, the Italian version shall prevail, as the Italian version constitutes the official document.*

## Ordinary Session

### **Explanatory Report of the Board of Directors on Item 1 on the Agenda of the Ordinary Session**

#### 1.1 Financial Statements at 31 December 2016 of Sirio Panel S.p.A.; Report of the Board of Directors, Report of the Board of Statutory Auditors and Independent Auditors' Report. Resolutions related thereto.

Dear Shareholders,

The 2016 Financial Statements, which we submit for your approval, close with a net profit of € 20,894,940.51.

In light of the foregoing and in consideration of the merger by incorporation into Leonardo – Società per azioni, with effect from 1 January 2017, the Board of Directors submits the following proposed resolution for your approval:

*“The Ordinary Shareholders’ Meeting of Leonardo - Società per azioni:*

- *considering the Report of the Board of Directors;*
- *considering the Report of the Board of Statutory Auditors;*
- *having examined the financial statements at 31 December 2016;*
- *having acknowledged the report of KPMG S.p.A.*

***resolves***

*to approve the Directors’ Report and the financial statements of Sirio Panel S.p.A. at 31 December 2016”.*

1.2 Financial Statements at 31 December 2016 of Leonardo S.p.a.; Report of the Board of Directors, Report of the Board of Statutory Auditors and Independent Auditors' Report. Resolutions related thereto. Presentation of the Consolidated Financial Statements at 31 December 2016.

Dear Shareholders,

The 2016 Financial Statements, which we submit for your approval, close with a net profit of € 609,111,179.88.

In light of the foregoing, the Board of Directors submits the following proposed resolution for your approval:

*"The Ordinary Shareholders' Meeting of LEONARDO - Società per azioni:*

- *considering the Report of the Board of Directors;*
- *considering the Report of the Board of Statutory Auditors;*
- *having examined the financial statements at 31 December 2016;*
- *having acknowledged the report of KPMG S.p.A.*

**resolves**

- *to approve the Directors' Report on operations and the financial statements at 31 December 2016;*
- *to approve the proposal posed by the Board of Directors of allocating the 2016 net profit of Euro 609,111,179.88 as follows:*
  - *Euro 30,455,558.99, equal to 5% of the net profit, to legal reserve;*
  - *Euro 0.14 as the dividend per ordinary share held and outstanding at the ex-dividend date, excluding own shares held in portfolio at that date, to be paid - before tax, if any – starting from 24 May 2017, with the ex-dividend date of coupon no. 8 falling on 22 May 2017 and the record date (i.e., the date in which shareholders are entitled to receive the dividend payment, pursuant to article 83-terdecies of Legislative Decree no. 58 of 24 February, 1998 and article 2.6.6, paragraph 2, of the Rules of the markets organised and managed by Borsa Italiana S.p.A.) falling on 23 May 2017.*
- *the residual as retained earnings."*

## **Explanatory Report of the Board of Directors on Item 2 on the Agenda of the Ordinary Session**

### Determination of the number of members of the Board of Directors.

Dear Shareholders,

With the Shareholders' Meeting convened to approve the financial statements for the 2016 financial year, the three-year mandate granted to the Board of Directors by the Shareholders' Meeting of 15 May 2014 expires.

In order to proceed with the appointment of the new Board of Directors, it is necessary to preliminarily determine the number of its members.

In this regard, it is recalled that, in accordance with the provisions of Article 18.1 of the Articles of Association, the Board of Directors must consist of a number of members no less than eight and no more than twelve, it being the duty of the Shareholders' Meeting to determine the number within these limits.

The expiring Board of Directors refrains from making specific proposals on this item on the agenda (as well as with regard to subsequent issues related to the appointment of the Board of Directors and the determination of its fees) and therefore requests the Shareholders' Meeting to determine the number of members of the Board of Directors based upon proposals that may be made by the Shareholders, within the limits set out by the Articles of Association.

In the light of the recommendations of the Corporate Governance Code for listed companies, to which Leonardo adheres, the Board of Directors, based upon the indications made by the Nomination, Governance and Sustainability Committee and taking into consideration the outcomes of the self-assessment carried out, submitted its advice to the Shareholders on the number and composition of the Board of Directors to be appointed, and therefore reference should be made to such document entitled "*Guidelines of the Board of Directors of Leonardo SpA to the Shareholders on the size and composition of the new Board of Directors*" which is attached to these Reports.

**Report of the Board of Directors on Item 3 on the Agenda of the Ordinary Session**  
Determination of the term of office of the Board of Directors.

Dear Shareholders,

Article 18.2 of the Articles of Association provides that the Board of Directors shall be appointed for a period not exceeding three financial years and that the Directors may be re-elected pursuant to Article 2383 of the Italian Civil Code.

In relation to the foregoing, the Shareholders' Meeting is requested to determine the term of office of the Board of Directors based upon proposals that may be submitted by the Shareholders, within the abovementioned limit of three financial years.

**Report of the Board of Directors on Item 4 on the Agenda of the Ordinary Session**  
**Appointment of the members of the Board of Directors.**

Dear Shareholders,

You are asked to proceed with appointing the new Board of Directors, as the mandate granted to the current administrative body expires with the Shareholders' Meeting convened to approve the financial statements for the 2016 financial year.

It is recalled that the members of the Board of Directors are appointed by the Shareholders' Meeting - in accordance with Article 18.3 of the Articles of Association - according to the method of the list vote and therefore based upon lists submitted by the Shareholders and by the expiring Board of Directors, in which the candidates must be numbered consecutively.

In this regard, the expiring Board of Directors has decided not to submit its own list of candidates.

As to the methods of presentation, filing and publication of the lists prepared by the Shareholders, reference is made to the provisions of Article 18.3 of the Articles of Association.

In particular, the following should be noted.

The right to submit lists is held exclusively by those Shareholders who, alone or together with other Shareholders, represent at least 1% of the shares having voting rights in the Ordinary Shareholders' Meeting.

Each Shareholder may submit or contribute to submit only one list and each candidate may be included in only one list failing which shall be deemed ineligible.

The Articles of Association provide that at least two Directors must satisfy the requirements of independence as established for the Statutory Auditors in accordance with the law (Article 148, paragraph 3, of Legislative Decree no. 58/98).

It should be noted that all candidates must also satisfy the requirements of honourableness as provided by applicable law.

In addition, lists that include a number of candidates equal to or greater than three must include candidates of different genders for the purpose of guaranteeing the gender balance required by existing regulations. In particular, for the next mandate, at least one third of the Directors must be elected from those of the least represented gender; considering the total number of members of the Board of Directors established by the Shareholders' Meeting, if the number of members of the least represented gender to be appointed is a fractional number, the latter shall be rounded up to the next whole number.

Considering that the number of members of the Board of Directors may be determined by the Shareholders' Meeting up to a maximum of twelve and that, in the case of early termination of the Directors from office, the particular system of co-optation provided by Article 18.4 of the Articles of Association shall apply (which preliminarily provides the replacement by unelected candidates taken from the same list to which the ceased Directors belonged), it should be noted that it would be appropriate for the Shareholders to include a sufficient number of candidates in the lists.

The lists submitted by the Shareholders must be filed with Company's registered office in accordance with the rules indicated in the call notice of the Shareholders' Meeting, not later than twenty-five days before the date of the Shareholders' Meeting in first call of 2 May 2017 (*i.e.* by 7 April 2017), together with information about the Shareholders who have submitted the list, including the percentage of share capital held by the same, and the following documentation:

- a) a statement in which the person concerned accepts the candidacy and testifies, under his/her own responsibility, that no reasons of ineligibility and incompatibility exist, that he or she holds the requirements prescribed by law and by the Articles of Association (including the independence requirements defined by Article 18.3 of the Articles of Association and the honourableness requirements prescribed for Directors of listed companies by Decree of the Ministry of Justice no. 162 dated 30 March 2000, pursuant to Article 147-*quinquies* and 148 of Legislative Decree no. 58/98), and that he or she may be qualified as "independent" pursuant to Article 3 of the Corporate Governance Code for listed companies adopted by Leonardo;

Shareholders are requested to indicate also in the list of candidates those who meet the independence requirements prescribed by the Articles of Association and the Corporate Governance Code;

- b) a “curriculum vitae” containing detailed information on the personal and professional characteristics of the candidates; Shareholders are also requested to indicate for each candidate if the same holds the position of Director or Statutory auditor in other companies listed on regulated markets (even abroad), in financial companies, banks, insurance companies or companies considerably large size;
- c) a declaration by Shareholders other than those who even jointly hold a controlling or relative majority interest, testifying the absence of any direct or indirect relationship with the latter pursuant to the provisions of Article 147-*ter*, paragraph 3, of Legislative Decree no. 58/98, and Article 144-*quinquies* of the CONSOB Resolution no. 11971/99; with reference to the contents of this statement, Shareholders are reminded the recommendations set out in CONSOB Communication no. DEM/9017893 of 26 February 2009.

The minimum shareholding required to submit lists of candidates is determined by taking into account the shares which are registered in name of any shareholder on the day on which the lists are filed with the Company. Shareholders must file at the Company's registered office the document certifying the ownership of the number of shares represented, in the manner required for the submission of lists, even after filing of the list of candidates, provided this is done within the deadline for publication of the lists by the Company (i.e. not later than 11 April 2017).

The advice of the Board of Directors related to this item on the agenda is contained in the document “*Guidelines of the Board of Directors of Leonardo SpA to the Shareholders on the size and composition of the new Board of Directors*” which is attached to these Reports.

With reference to the method of appointment of Directors elected through lists voting, please refer to Article 18.3 of the Articles of Association, which, in brief, provides the following:

- each person entitled to vote in the Shareholders' Meeting may vote for only one list;
- two-thirds of the Directors to be appointed (rounded down to the lower whole number where necessary, in case of a fractional number) shall be taken from the list that



obtained the majority of votes cast by the Shareholders, in the order in which they are listed;

- the remaining Directors shall be taken from the other lists in the manner prescribed by Article 18.3 subparagraph b).

In order to ensure that, at the end of the appointment procedure set out in Article 18.3 of the Articles of Association, the Board consists of at least two independent Directors, as provided by Article 18.3 of the Articles of Association, and by at least a third of Directors of the least represented gender, subparagraphs c) and c-bis) of Article 18.3 provide a specific rolling-basis method (for which reference is made to the call notice of the Shareholders' Meeting) within a single decreasing classification which is formed, among the candidates from all the lists, according to the proportion of votes method indicated in subparagraph b) of Article 18.3. Where this method would not give a positive result, the Shareholders' Meeting shall resolve based on the majorities provided by law so as to ensure, in any case, the necessary number of Directors holding the requirements of independence provided by Article 18.3 of the Articles of Association and in compliance with applicable law prescribing gender balance.

In relation to the foregoing, the Shareholders are requested to vote in the Shareholders' Meeting for one of the lists of candidates for the position of Director among the submitted, filed and published lists, in compliance with the above provisions.

Finally, it should be noted that the Shareholders' Meeting for the appointment of Directors for any reason not elected by the above procedures shall pass resolution based on the majorities provided by law, in accordance with Article 18.4 of the Articles of Association, so as to ensure in any case compliance with the criteria mentioned above.

**Report of the Board of Directors on item 5 on the agenda of the Ordinary Session**  
**Appointment of the Chairman of the Board of Directors**

Dear Shareholders,

The Shareholders' Meeting is vested with the power to appoint the Chairman of the Board of Directors; Article 19.1 of the Articles of Association in fact provides that the Board of Directors elects among its members the Chairman only if the Shareholders' Meeting has not resolved upon this matter.

The Shareholders' Meeting is therefore requested to appoint the Chairman of the Board of Directors among the members appointed at the outcome of the votes set out in the previous item on the agenda, based upon the proposals that may be submitted by the Shareholders.

The advice of the Board of Directors related to this item on the agenda are contained in the document "*Guidelines of the Board of Directors of Leonardo SpA to the Shareholders on the size and composition of the new Board of Directors*" which is attached to these Reports.

**Report of the Board of Directors on Item 6 on the Agenda of the Ordinary Session**  
**Determination of the remuneration of the Board of Directors**

Dear Shareholders,

Article 27.1 of the Articles of Association requires that the Chairman and the other members of the Board of Directors are due, in addition to the refund of expenses incurred in connection with their office, emoluments to be determined by the Ordinary Shareholders' Meeting and that the relevant resolution remains valid for subsequent financial years until otherwise determined by the Shareholders' Meeting.

In this regard it should be noted that the Ordinary Shareholders' Meeting held on 15 May 2014 determined the emoluments for the Board of Directors, now expiring, as follows: € 90,000.00 gross per annum for the Chairman and € 80,000.00 gross per annum for each of the other Directors.

In relation to the above, the Shareholders' Meeting is requested to determine the emoluments due to the Chairman and to the other members of the Board of Directors based upon proposals submitted by the Shareholders.

**Explanatory Report of the Board of Directors on Item 7 on the Agenda of the Ordinary Session**

Remuneration Report: resolution pursuant to Article 123-ter, paragraph 6, of Legislative Decree no. 58/98.

Dear Shareholders,

Pursuant to Article 123-ter, paragraph 6, of Legislative Decree no. 58/98, you are invited to express your vote, in the form of a non-binding resolution, regarding the first section of the Remuneration Report referred to in Article 123-ter, paragraph 3, of Legislative Decree no. 58/98, published in accordance with terms and conditions required by law, illustrating the Company's policy on the remuneration of the members of its administrative bodies, of its general managers and of its executive management with strategic responsibilities, as well as the procedures adopted for the implementation of such policy.

In light of the forgoing, the Board of Directors submits to the Shareholders' Meeting in ordinary session the following proposal of non-binding resolution regarding the seventh item on the agenda:

*"The Ordinary Shareholders' Meeting of Leonardo – Società per azioni*

- *having regard to Article 123-ter of Legislative Decree no. 58/98 and Article 84-quater of CONSOB Regulation no. 11971/99;*
- *having acknowledged the Remuneration Report approved by the Board of Directors on 15 March 2017, drafted pursuant to Article 123-ter of Legislative Decree no. 58/98 and Article 84-quater of CONSOB Regulation no. 11971/99 and in compliance with the provisions of the Corporate Governance Code for listed companies, to which the Company adheres, as well as published within the deadline of twenty-one days before the date of the first call of the Shareholders' Meeting convened to approve the Financial Statements at 31 December 2016;*
- *having examined, in particular, the first section of the aforementioned Report, illustrating the Company's policy on the remuneration of the members of its administrative bodies, its general managers and its executive management with*

*strategic responsibilities, as well as the procedures adopted for the implementation of such policy;*

- *having considered the non-binding nature of this resolution, pursuant to Article 123-ter, paragraph 6, of Legislative Decree no. 58/98*

***resolves***

- *to vote in favour of the first section of the Remuneration Report drafted and approved by the Board of Directors pursuant to Article 123-ter of Legislative Decree no. 58/98 and Article 84-quater of CONSOB Regulation no. 11971/99.”*

**Explanatory Report of the Board of Directors on Item 8 on the Agenda of the Ordinary Session.**

Authorization to purchase and dispose of own shares to be put at the service of the Incentive Plans.

Dear Shareholders,

we submit for your approval the request for a renewal of authorization to purchase and dispose of own shares in order to fuel along with the resources necessary for the realization of the Long Term Incentive Plan and Co-investment Plan, approved by the Shareholders' Meeting on 11 May 2015.

It is recalled that the Shareholders' Meeting of 28 April 2016 had already authorized the purchase of own shares for the purpose of serving the same Plans, for a period of eighteen months starting from the date of the Shareholders' resolution, as well as the availability of those shares for the purposes of the mentioned Plans and within the time limits necessary for its execution. The authorization to purchase own shares therefore would expire on 28 October 2017.

Therefore we propose to revoke the previous authorization to purchase, as far as not already used, deliberating at the same time a new authorization to purchase and dispose of own shares on the following terms.

The purchase will be made within the limits of the distributable profit and available reserves as reported in the most recent approved financial statements of the Company – up to a maximum of 2,000,000 ordinary Leonardo Shares to be used for the purposes of those Plans.

The above mentioned Plans are referred to a Long-Term Incentive Plan also based upon financial instruments (hereinafter the "Incentive Plan") and to a Co-investment Plan of the annual bonus accrued based exclusively on financial instruments (hereinafter the "Co-investment Plan"), both open to the management of the Leonardo Group, the associated implementing rules of which have been defined by the Board of Directors on the proposal of the Remuneration Committee of the Company. Own shares serving the two Plans would be purchased by the Company on the open market.

The characteristics related to the mentioned Plans are described in the Disclosure Documents approved by the Shareholders' Meeting on 11 May 2015, drawn up by the Company pursuant to Article 84-*bis* of the Consob Regulation no. 11971/99 ("Issuers Regulations").

These Disclosure Documents are available to the public at its headquarters and on the Company's website [www.leonardocompany.com](http://www.leonardocompany.com)

At the date of the formulation of this proposal, the share capital of Leonardo – Società per azioni was represented by no. 578.150.395 ordinary shares with a par value of € 4.40 each. The Company currently holds no. 3.738.696 own shares, equal to 0,6467% of share capital.

Accordingly, the maximum number of shares to be purchased falls within the limit set by law, without prejudice to the limitations noted above.

The authorization to purchase is requested for a period of eighteen months from the date of the resolution. The Board may carry out purchases in one or more instalments at any time, while it is asked that the authorization for the distribution of the shares so purchased or in any event at the Company's disposal last for the time necessary to implement the Plans.

The Board proposes that the purchase price of the shares be fixed in the maximum and minimum amounts equal to the reference price observed on the Electronic Stock Market organized and operated by Borsa Italiana S.p.A. on the day prior to the day of the intended purchase, plus or minus 5% for the maximum and minimum price, respectively.

The Board proposes that the purchase of the shares serving the Plans be carried out in an appropriately gradual manner on the open market in accordance with the operating procedures set out in Article 144-*bis*, paragraph 1, letter b) of the Issuers' Regulation.

The own shares allocated to the Plans will be distributed to the beneficiaries within the limits and in accordance with the timetable, procedures and conditions established by the Plans themselves and/or by the associated implementing rules.

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In light of the foregoing, the Board of Directors submits the following proposed resolution for your approval:

*“The Ordinary Shareholders’ meeting of Leonardo - Società per azioni:*

- *having regard to the provisions of Article 114-bis and Article 132 of Legislative Decree 58/98, Article 2357 of the Italian Civil Code and Article 84-bis of the Issuers’ Regulation;*
- *taking due account of the own shares held by the Company;*

**resolves**

- *to authorize, pursuant to and for the purposes of Article 2357 of the Italian Civil Code revoking at the same time the previous authorization to purchase approved on 11 May 2015 that therefore will not have any more effect, the purchase, in one or more instalments for a period of eighteen months as from the date of this resolution, a maximum of 2,000,000 ordinary shares of the Company, within the limit of law, taking due account of own shares already held, at a maximum and minimum unit price equal to the reference price observed on the Electronic Stock Market organized and operated by Borsa Italiana S.p.A. on the day prior to the day of the intended purchase, plus or minus 5% for the maximum and minimum price, respectively, to be allocated for use in the two Plans;*
- *to authorize the Board of Directors, and on its behalf the Chief Executive Officer and General Manager, to take steps, on the conditions set out above and in an appropriately gradual manner, to purchase the ownb shares on the open market in accordance with the operating procedures set out in Article 144-bis, paragraph 1, letter b) of Consob Regulation no. 11971/99;*
- *to authorize the use, at any time, in whole or in part and in one or more instalments, of the own shares already held and those purchased under this resolution, in relation to their use, in compliance with the provisions of law, for the purposes of the Plans referred to above in accordance with the timetable, procedures and*



*conditions established in the relevant Disclosure Documents and/or in the associated implementing rules.”*

## **Extraordinary Session**

### **Explanatory Report of the Board of Directors on Item 1 on the Agenda of the Extraordinary Session.**

Amendment to Article 18.3 of the Articles of Association. Integration of the voting list discipline for the appointment of the Board of Directors. Resolutions related thereto.

The following proposal follows an analysis conducted over the evolution of the Company's shareholding structure and over the Shareholders' attendance to the most recent Meetings.

More specifically, the shareholding structure of the Company, particularly in recent years, has been distinguished for a gradual increase of the shares held by institutional investors as well as the proportional reduction of the shares held by retail investors.

As shown by recent monitoring studies commissioned by the Company, the changes within the Leonardo's shareholding structure reveal a significant increase of the institutional investors, that hold more than 50% of Leonardo's share capital, while the main shareholder, the Ministry of Economy and Finance, holds about 30,20% of the share capital. Furthermore, the attendance at the Shareholders' Meetings, especially by the institutional investors, is constantly increasing; in 2013, the shareholders' attendance was equal to approximately 48% of the share capital, while in 2016 was equal to approximately 60% of the share capital.

The current voting list discipline of the Articles of Association, compliant with the regulatory principles for the protection of minority shareholders, is based on the assumption of a ownership structure where the main shareholder obtains the majority of the votes at the Meeting for the candidates proposed in his list; actually, the main shareholder that has submitted the list with a number of candidates equal to the majority of the places available within the Board of Directors has, so far, obtained the majority of the votes at the Meeting and, as a consequence, the appointment of all the candidates numbered in such list. On the other side, the list of candidates submitted by minority shareholders, containing a limited number of candidates, has obtained a consensus lower than the list submitted by

the main shareholder, obtaining, as a consequence, the appointment of the Board seats reserved to minority shareholders.

The abovementioned evolution of the shareholding structure seems likely to lead, now or however in the next future, to different scenarios in which the main shareholder, even if submitting a list with a number of candidates able to cover the majority of the places available in the Board, could not obtain the majority of the votes expressed by the Shareholders' Meeting.

This would imply that, in this case, if the list submitted by institutional investors achieved the relative majority of the votes at the Meeting, listing a number of candidates lower than the one reserved to the list obtaining the majority of the votes, as provided by Art. 18.3 lett. a) of the Articles of Association, it would not be possible to appoint the entire Board of Directors only by using the voting list mechanism, thus requiring an additional shareholders' resolution that would considerably complicate the regular management of the Meeting – although in accordance with Article 18.4 of the Articles of Association (providing in this case that the Meeting shall adopt additional specific resolutions) - and, at the same time, making impossible for the Shareholders' voting by proxy to properly express their votes, taking into account time and modality by which they give voting instructions to their representatives.

In light of foregoing, in order to ensure the easier and more immediate functioning of the Shareholders' Meeting for the appointment of the Board of Directors, it is hereby proposed to amend Article 18.3 of the Articles of Association, as indicated in the chart below, in order to avoid the consequences related to the above mentioned circumstances, clearly regulating the proposed mechanism.

The proposal preserves the procedures provided for by the current Articles of Association, with the addition of the specific provisions newly formulated in paragraph *b-bis*) of the Article 18.3, as to permit an easier and faster completion of the operations of vote and appointment of the Board of Directors.

In particular, it is proposed to resolve that if the list obtaining the highest number of votes (“Majority List”) does not contain a number of candidates equal to the two thirds of the Directors as provided for by Article 18.3 lett. a) of the Articles of Association:

- all candidates listed in the Majority List shall be drawn;
- the other Directors shall be drawn from the lists that have not obtained the majority of the votes (the “Minority Lists”), pursuant to letter b) of Article 18.3, for a number of candidates equal to one third of the Directors to be elected, as reserved to such Lists;
- for the places not covered by the Majority List, the remaining Directors shall be drawn from the Minority List that has obtained the highest number of votes among the Minority Lists (the “first Minority List”) in relation to the capacity of such list; should the capacity of that list be insufficient, the remaining Director shall be drawn, with the same modalities, from the following List and so forth, according to the number of votes and to the capacity of such Lists.

On a residual basis, if the total number of candidates listed in the submitted lists were lower than the number of Directors to be appointed, art. 18.4 of the Articles of Associations should be applied.

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In this regard, it is proposed to approve the amendment of Article 18.3 of the Articles of Association as illustrated below:

<b>Existing Text</b>	<b>Proposed Text</b>
<p><i>Article 18.3</i></p> <p style="text-align: center;"><i>omissis</i></p> <p>Directors shall be elected as follows:</p> <p>a) two thirds of the directors to be elected shall be taken from the list that receives the most votes, according to the order in which they appear on the list, rounded down to the lower whole number where necessary;</p>	<p><i>Article 18.3</i></p> <p style="text-align: center;"><i>omissis</i></p> <p>Directors shall be elected as follows:</p> <p>a) two thirds of the directors to be elected shall be taken from the list that receives the most votes (<b><i>the “Majority List”</i></b>), according to the order in which they appear on the list, rounded down to the lower whole number where necessary;</p>

b) the remaining directors shall be taken from the other lists; for this purpose, the votes received by the lists shall be divided once, twice, three times and so on, according to the numbering of the directors to be elected. The ratios thus obtained shall be assigned in consecutive order to the candidates on each list, based on the order shown in the list. The ratios thus allocated to the candidates on the various lists shall be arranged in decreasing order in a single list. Those candidates who have obtained the highest ratios shall be elected. If several candidates obtain the same ratio, the director shall be chosen from the list which has not yet elected a director or which has elected the fewest directors. If none of these lists has elected a director, or if all of them have elected the same number of directors, the candidate on the list with the highest number of votes shall be elected. In case of a tied vote, where the same ratios are obtained, the entire meeting shall hold another vote and the candidate that receives the simple majority of votes shall be elected;

b) the remaining directors shall be taken from the other lists (*the "Minority Lists"*); for this purpose, the votes received by the lists shall be divided once, twice, three times and so on, according to the numbering of the directors to be elected. The ratios thus obtained shall be assigned in consecutive order to the candidates on each list, based on the order shown in the list. The ratios thus allocated to the candidates on the various lists shall be arranged in decreasing order in a single list. Those candidates who have obtained the highest ratios shall be elected. If several candidates obtain the same ratio, the director shall be chosen from the list which has not yet elected a director or which has elected the fewest directors. If none of these lists has elected a director, or if all of them have elected the same number of directors, the candidate on the list with the highest number of votes shall be elected. In case of a tied vote, where the same ratios are obtained, the entire meeting shall hold another vote and the candidate that receives the simple majority of votes shall be elected;

***b-bis) if the Majority List does not have a suitable number of candidates in order to achieve the number of directors to be elected pursuant to letter a) above:  
i) all candidates shall be drawn from the same Majority List in the progressive order in which they are***

<p>c) if, following application of the aforesaid procedure, the minimum number of independent Directors required by the Articles of Association has not been appointed, the ratio of votes to be allocated to each candidate taken from the lists will be calculated by dividing the number of votes obtained for each list by the sequential order number of each of said candidates; candidates not fulfilling</p>	<p><i>listed, ii) the other Directors shall be drawn from the Minority Lists, pursuant to letter b) above for a number of candidates equal to one third, according to the number of places reserved to such Lists iii) the remaining Directors shall be drawn, for the places not covered by the Majority List, from the Minority List that has obtained the highest number of votes among the Minority Lists (the “first Minority List”) in relation to the capacity of such List; should the capacity of such List be insufficient, the remaining Director shall be drawn, with the same modalities, from the following List and so forth, according to the number of votes and to the capacity of such Lists. Lastly, if the overall number of candidates listed in the submitted Lists, both Majority and Minority, is lower than the number of Directors to be elected, the remaining Directors shall be appointed by a Shareholders’ Meeting resolution pursuant to art. 18.4 below.</i></p> <p>c) if, following application of the aforesaid <b>procedures</b>, the minimum number of independent Directors required by the Articles of Association has not been appointed, the ratio of votes to be allocated to each candidate taken from the lists will be calculated by dividing the number of votes obtained for each list by the sequential order number of each of said candidates; candidates not fulfilling</p>
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<p>the requirements of independence with the lowest ratio among the candidates taken from all the lists are replaced, starting with the last, by any independent candidates appearing on the same list as the replaced candidate (following the order in which they are named). If the list in question does not contain other candidates, the above replacement will be carried out by the General Meeting based on the majorities provided by law, in accordance with what is contemplated in Article 18.4 below. If candidates on different lists have obtained the same ratio, the candidate replaced will be the one on the list from which the greater number of Directors has been taken or, at a secondary level, the candidate taken from the list which has obtained the lesser number of votes or, in the event of a tied vote, the candidate who obtains fewer votes from the General Meeting when the relevant vote is taken;</p> <p>c-bis) if application of the procedure contemplated in letters a) and b) does not allow to comply with the provisions in force regarding gender balance, the vote ratio to be allocated to each candidate on the lists will be calculated by dividing the number of votes obtained for each list by the sequential order number of each of the candidates; the candidate of the more representative gender with the lowest ratio among the candidates from all the lists is replaced – taking into account the minimum number of independent</p>	<p>the requirements of independence with the lowest ratio among the candidates taken from all the lists are replaced, starting with the last, by any independent candidates appearing on the same list as the replaced candidate (following the order in which they are named). If the list in question does not contain other candidates, the above replacement will be carried out by the General Meeting based on the majorities provided by law, in accordance with what is contemplated in Article 18.4 below. If candidates on different lists have obtained the same ratio, the candidate replaced will be the one on the list from which the greater number of Directors has been taken or, at a secondary level, the candidate taken from the list which has obtained the lesser number of votes or, in the event of a tied vote, the candidate who obtains fewer votes from the General Meeting when the relevant vote is taken;</p> <p>c-bis) if application of the <b>above mentioned procedures do</b> not allow to comply with the provisions in force regarding gender balance, the vote ratio to be allocated to each candidate on the lists will be calculated by dividing the number of votes obtained for each list by the sequential order number of each of the candidates; the candidate of the more representative gender with the lowest ratio among the candidates from all the lists is replaced – taking into account the minimum number of independent Directors – by the</p>
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<p>Directors – by the candidate belonging to the less representative gender that may be shown (with the next highest successive ranking) on the same list as the replaced candidate, otherwise by persons appointed in accordance with the procedure stated in Article 18.4 below. In the event that candidates from different lists have obtained the same ratio, the candidate replaced will be the one on the list from which the greater number of Directors has been taken or, at a secondary level, the candidate taken from the list that has obtained the fewer number of votes or, in the event of a tied vote, the candidate who has obtained fewer votes from the General Meeting when the relevant vote is taken.</p>	<p>candidate belonging to the less representative gender that may be shown (with the next highest successive ranking) on the same list as the replaced candidate, otherwise by persons appointed in accordance with the procedure stated in Article 18.4 below. In the event that candidates from different lists have obtained the same ratio, the candidate replaced will be the one on the list from which the greater number of Directors has been taken or, at a secondary level, the candidate taken from the list that has obtained the fewer number of votes or, in the event of a tied vote, the candidate who has obtained fewer votes from the General Meeting when the relevant vote is taken.</p>
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The proposed amendments to the Articles of Association do not entitle Shareholders who do not approve the motion to withdraw, since the same do not constitute any of the reasons for termination set forth by Article 2437 of the Italian Civil Code.

In light of the foregoing, the Board of Directors submits the following resolution for your approval:

*“The Extraordinary Shareholders' Meeting of Leonardo – Società per azioni*

- *having acknowledged the proposal of the Board of Directors of the Company and the relevant Report drafted pursuant to the provisions of section 125-ter, paragraph 3, of Legislative Decree no. 58/98*

***resolves***

- *to approve the proposed amendments to the Article 18.3 of the Articles of Association as per the text set out in the Report of the Board of Directors approved*



*on 15 March 2017 that shall be recorded ad verbatim in the minutes of this resolution ”;*

- *to authorize the Board of Directors, and on its behalf the Chairman, with the power to make any non-substantial changes to this resolution which may be necessary for the purpose of the relevant filing with the companies' register”.*

On behalf of the Board of Directors  
Chairman  
(Giovanni De Gennaro)

Annexes: as above



**Guidelines of the Board of Directors of Leonardo SpA  
to the Shareholders on the size and composition  
of the new Board of Directors**



## Introduction

Leonardo SpA (herein “Leonardo” or the “Company” or the “Group”) complies with the Corporate Governance Code of Borsa Italiana, which recommends (in Article 1.C.1, paragraph h) that, when the terms of the Boards of Directors of listed companies expire, the outgoing Boards provide their Shareholders with guidance on the size and composition of the new Board of Directors, i.e. on the composition of the slates of candidates to be elected as new Directors.

The Board of Directors of Leonardo, whose term expires upon approval of the annual financial report 2016, having

- received the opinion of the Nomination, Governance and Sustainability Committee, which it commissioned to conduct an initial review on the size and composition of the Board of Directors itself;
- considering the results of the Board of Directors’ own Self-Assessment for the financial year 2016;

provides the Shareholders, in view of election of the new Board of Directors for the 2017-2019 term:

- with a description of the new status of Leonardo, achieved during the term that is about to expire, and its evolution to be pursued during the 2017-2019 term, as outlined and announced to the market with the existing Business Plan 2015-2019;
- experience, expertise and opportunities for ensuring continuity within the Board of Directors deemed by the Self-Assessment 2016 to be priorities or highly relevant for the composition of the new Board of Directors;
- guidelines on the size of the new Board of Directors and the professionals deemed appropriate by the new Board of Directors.

## Description of the new status of Leonardo and its evolution

Part of the existing Business Plan 2015-2019, being prepared by the Executive Director, approved by the Board of Directors, and shared with and positively received by the market has been fulfilled during the current Board term. And by the market It is expected that that Business Plan will be fully achieved by the end of the 2017-2019 term.

The Group has been restructured and the pre-existing Finmeccanica has been radically modified from a holding company of investments in subsidiary operating companies, into the integrated and global industrial “One Company” Leonardo, focused on high technology and in the Aerospace, Defence and Security sectors.



In accordance with the Board of Directors, and exercising his functions, the Executive Director of Leonardo has modified its strategies, business model, industrial processes and business portfolio. He has promoted the development of skills and technologies, integrity and good governance; he has boosted the profitability of invested capital and generation of cash flow, investment capacity and earnings prospects for the Shareholders.

The earnings, financial position and capitalization of the Group have also been turned around during the recent Board term.

All leading indicators have shown marked improvement, consistently with, if not exceeding expectations. EBITA rose from 878 million in 2013 to 1,208 million in 2015, and it is expected to be between 1,220 and 1,270 million in 2016. Even net income (loss) from continuing operations rose from -649 million in 2013 to 253 million in 2015, with a forecast of between 500 and 600 million for 2016.

Financially, the Group has started generating positive cash flow again, with an improvement from -220 million in 2013 to 307 million in 2015. An even greater improvement is expected for 2016, with the generation of between 500 and 600 million in positive cash flow. This has also caused a drastic reduction in the Group's Net Debt, which fell from 3.9 billion at 31 December 2013 to 3.3 billion at 31 December 2015. It is expected that the Net Debt falls to 2.8 billion in 2016, thus meeting its target of falling below 3 billion a year earlier than planned.

All of these positive results are reflected in the Group's stock price, which rose from **5.98** euro coinciding with the beginning of the Board of Directors' term in 2014, to **13.34** euro on 31 December 2016, representing an increase of **123.26%**.

During the 2017-2019 term, the new Board of Directors and, under its management, the Executive Director will have to meet the challenges posed by the completion of the Business Plan 2015-2019, which pursues multiple objectives.

These consist of insuring full continuity of the strategic vision, operating policy and execution for the punctual, complete implementation of: the new organizational model, any needed actions to wind up activities that are not achieving the desired level of profitability, the undertaking of the development plan and alliances or non-recurring transactions that, within the European competitive framework and international markets, develop and exploit the excellence and strengths of Leonardo in its own business segments.

The company's objectives also include promoting the innovation, development and global reach of Leonardo: by consolidating its new management team; stimulating the research, new technologies and the development of products and systems of growing complexity and commercial initiatives that contribute to the firm's expertise in an integrated manner; streamlining the Group's investments in subsidiaries and the international exposure; negotiating cooperation agreements and seizing opportunities for industrial consolidation in the sector.



Finally, the objectives also call for: the development of Leonardo to affirm its role as global leader in the Aerospace, Defence and Security industry businesses as set out in the Plan, i.e. Defence and Security Electronics guaranteeing its competitiveness and sustainability in a global context fraught with severe discontinuities, where competitors have a critical mass, economic and financial leverage and governmental support that are comparatively greater than Leonardo's .

**Experience, expertise and choices for the Board of Directors' continuity, considered following the Self-Assessment 2016 to be priorities, or extremely important for an improved composition of the Board of Directors during the 2017-2019 term**

During the Self-Assessment 2016, the Board of Directors emphasizes the discontinuity with the past, established by the Industrial Plan 2015-2019. Its fulfilment is tied to the market, with success thus far. It also points out that the restructuring has also perfected the governance system of the company and of the Board of Directors. The results achieved have shown that the current Board perfectly matched the needs of the Company in its new configuration.

The outgoing Board suggests that the Shareholders draw up slates of candidates for the election of the new Board of Directors on the basis of their experience and assessment of the foreseen activities needed to complete the Plan. The Board advises to select those candidates *jointly* have the experience and expertise that the outgoing Board of Directors has considered to be of primary or major importance, such as:

- business management experience and/or business and corporate managerial experience;
- familiarity with businesses, strategies and risks in sectors comparable to those of Leonardo;
- business judgement and capacity for analysis and decision-making;
- strategic orientation aimed at the understanding of the medium-long term scenarios;
- financial expertise and non-recurring transactions;
- international experience and familiarity with foreign markets of interest to Leonardo;
- experience in the management of innovation processes and transfer of advanced technologies;
- capacity to read and interpret the financial data of a complex business;
- expertise with complex organizations and change management;
- expertise in the relevant law, international agreements and contracts;
- risk management expertise.

It also suggests to closely assess the opportunity for reconfirming members of the outgoing Board of Directors, ensuring that their experience and expertise are consistent and relevant for improving the composition of the new Board of Directors, in order to guarantee the adequate continuity for the Board of Directors' policy-making and, with the Executive Director, for its operating management.



## **Size and professional characteristics considered to be important for the new Board of Directors**

The Board of Directors unanimously believes that:

- the current number of eleven Directors is appropriate; this is the maximum number allowed under the current By-laws;
- the current ratio between the number of Executive Directors (2) and Non-Executive and Independent Directors (9) is appropriate, considering the complexity of Leonardo's governance and the specific nature of the activities performed by Leonardo and the Group.

### **The Chairman**

- in continuity with his role on the current Board of Directors, the Chair should: have leadership qualities, convey authority, be at ease in dealing with institutional representatives both domestically and internationally and have extensive experience in performing the duties of this position; have a reputation for integrity and intellectual independence, and preferably be independent when first appointed; possess personal and professional credibility to guarantee fair and transparent management of the Board of Directors during his mandate, promote integration of the different skills and experience of the Board directors and synergy with the Executive Director, while acting as a guarantor for all Shareholders, Investors and other Stakeholders;
- he/she should have prior experience acting on the boards of directors of listed multinational companies or large organisations, preferably of international scope, size and complexity comparable to those of Leonardo;
- he/she should have adequate experience in corporate governance issues.

### **The Executive Director**

- in continuity with the executive profile relative to the expiring of the current Board of Directors, he/she should possess recognized leadership and entrepreneurial and managerial capacity, whom the new Board of Directors would want to delegate to act as Executive Director; have demonstrated authority, a reputation for intellectual independence and personal integrity;
- he/she should have accumulated significant managerial experience and recognized success at the head of management (or operation) of a company or companies whose size and complexity are ideally comparable, or at least not too different from those of Leonardo, and significant international reach;
- he/she should have also accumulated adequate experience in one or more businesses in the A,D&S sector or in other sectors related to it in terms of technological level and innovation, industrial characteristics, international scope and geopolitical relevance, market scope and size of its major competitors and analogous strategic problems.



### The other nine Directors

They all have to be Non-Executive, and most of them must be Independent, as defined by the Law and the recommendations set out in the Corporate Governance Code. Their independence should be assessed in terms of both substance and form.

The nine non-executive directors should be chosen on the basis of their recognized personal integrity, and they *jointly* should :

- have accumulated managerial experience at industrial companies operating in an international context, whose size and complexity are not too different from that of Leonardo. These professionals should be capable of contributing solid management and organization experience with a drive to achieve results on the economic and industrial level, including by means of agreements and alliances with suppliers and industrial partners;
- have accumulated experience in sectors not too different from that of aerospace, defence and security electronics, and otherwise characterized by high technology and innovation, research, and development levels;
- have highly developed skills in
  - finance and control
  - risk management or auditing
  - legal and corporate compliance
  - the management of companies having dimensions similar to that of Leonardo
- possess distinctive skills in geo-political analysis and international relations, economic studies, strategic vision, comprehension of the scenarios in which Leonardo and its direct competitors operate, and the capacity to interact in those contexts.

Shareholders supporting the respective slates of candidates to the Board of Directors should pursue the objective of including diverse professional skills in the composition of the Board of Directors, recognizing the importance of complementary experiences and skills for the effective functioning of the overall Board, combining this with diversity in terms of gender, age and seniority.

Moreover, given the international scope of the business of Leonardo, it would be *preferable* that the future Board members have international experience, ideally in countries of major strategic interest to the Group.

Upon accepting their own candidacy, each candidate should be openly asked to assess carefully their *realistic* time availability to dedicate themselves to the diligent performance of their important duties to Leonardo, considering both the number and quality of the positions they hold on boards of directors and boards of statutory auditors at other large companies, and the commitment demanded of them by their other professional activities and affiliations. Relative to



this aspect, candidates are asked in particular to verify that their own situation is consistent with the policy adopted by Leonardo in this regard, as set out in the Regulations of the Board of Directors (available on the Company website).

Rome, January 26, 2017

**Disclaimer**

This guidelines has been translated into English solely for the convenience of the international readers. In the event of conflict or inconsistency between the terms used in the Italian version of the guidelines and the English version, the Italian version shall prevail, as it constitutes the sole official document.