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Observation of Leonardo in 2020

In December 2016, the Council on Ethics recommended that Leonardo SpA be excluded from investment by the Government Pension Fund Global (GPF) due to the risk of gross corruption. The company had been involved in serious cases of corruption spanning the period 2009–2014 in four different countries. In all the corruption allegations, the company was accused of paying bribes to public officials through agents. In the Council's opinion, the company had not adequately substantiated that it had established targeted internal corruption-prevention procedures which were implemented effectively throughout the organisation. Leonardo's use of agents and how the company dealt with this risk were decisive for the Council.

On 5 May 2017, Norges Bank decided to place Leonardo under observation because it concluded that the company's anti-corruption initiatives provided sufficient grounds for observing its development going forward. In 2020, the Council on Ethics has monitored the company's efforts to develop and implement its anti-corruption programme. The Council has also monitored whether new allegations of corruption have emerged.

The Council met with Leonardo in January 2021. Both before and after this meeting, the company has also provided written answers to the Council's questions and supplied a variety of documents.

This is the Council on Ethics' third report to Norges Bank on the case.

Key events since the previous observation report was published in 2019

Allegations of corruption in India:

According to Leonardo, legal proceedings in India related to the sale of 12 AW101 helicopters to the Indian Armed Forces are still ongoing. Charges have also been brought against Leonardo. Since April 2018, Leonardo has been pursuing legal action through the Italian judicial system in an attempt to have any further summonses by the Indian authorities

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nullified on the grounds of double jeopardy. Leonardo states that the company won this petition in the Supreme Administrative Court of Italy in the first half of May 2020.¹

Corruption case in Indonesia:

As far as the Council on Ethics is aware, the investigation and legal proceedings related to the allegations of corruption in connection with the sale of an AW101 helicopter to the Indonesian Air Force (IAF) has not been concluded either, but Leonardo is allegedly not part of the investigation. On the basis of court documents from the process concerning the CEO of the company that purchased the helicopter from AgustaWestland, the Council on Ethics has been in dialogue with Leonardo on this matter in 2020.

New corruption case in Italy:

In the autumn of 2020, it was publicly disclosed in Italy that two employees of Leonardo had been accused of paying, as well as pledging to pay bribes to a former state secretary of the Italian Ministry of Transport for return services in two areas of interest to Leonardo as a company. The first service allegedly concerned facilitating the construction of an airport in Viterbo, Italy, while the second service is supposed to have involved exerting influence on who was to be responsible for the procurement of Vessel Traffic Service (VTS) systems for the Italian Coast Guard. The Italian prosecuting authority presented its recommendation on the indictment of the former state secretary and the two Leonardo employees in the second half of December 2020.²

The Council on Ethics has had extensive correspondence with Leonardo after the Council became aware of the above-mentioned case. According to Leonardo, the company as such is not covered by the investigation. However, based on the information submitted by the company and the information that the Council has obtained elsewhere, it still remains for the Council to clarify the extent to which the two employees acted entirely on their own accord, and if so, what their motivation was for doing so.

The company's anti-corruption efforts since 2019

In the original recommendation from December 2016, the Council highlighted the mapping and assessment of corruption risks, anti-corruption training, whistleblowing and use of agents as the biggest risk factors for Leonardo. The Council has therefore had a particular focus on these areas in its observation of the company. During the observation period, the company has also gone through a process to certify its anti-corruption system in accordance with the new ISO standard on anti-corruption – ISO 37001:2016. This has also given the Council on Ethics a better opportunity to assess the extent to which Leonardo has a holistic approach to corruption risks.

Corruption risk assessments:

In connection with the 2019 observation report, Leonardo stated that since February that year, they had initiated a separate process for the identification, assessment and follow-up of corruption risks (Anti-Corruption Risk Assessment – ACRA) as an integrated part of the overarching ERM process. Leonardo's Risk Management Unit (RMU) and Anti-Corruption Unit (ACU) are responsible for carrying out and reporting on the risk assessment.

In the observation report for 2019, the Council on Ethics pointed out that it remained to receive detailed information on how the risk assessments are "tailored" to the individual

¹ Letter from Leonardo of 12 August 2020.

² Il Sole 24 Ore, 5 October 2020: *Mazzette in cambio favori, Siri a rischio processo*, https://www.ilsole24ore.com/art/mazzette-cambio-favori-siri-rischio-processo-ADQvrit?refresh_ce=1; Corriere di Viterbo, 20 December 2020: *Corruzione per l'aeroporto, indagato dipendente viterbese di Leonardo*, <https://corrierediviterbo.corr.it/news/viterbo/25607189/aeroporto-viterbo-corrusione-indagato-dipendente-leoardo-armando-siri.html>.

country in which the company has business operations, including for the relevant business areas and associated processes, and what are the most important control mechanisms.

In connection with the 2020 observation, the Council on Ethics was given a presentation of Leonardo's further development of the ACRA methodology for assessing corruption risks on a national level. Since then the Council has also received supplementary written information on this methodology. In addition Leonardo has also given a presentation of the risk assessment for a specific country.³ However, this latter assessment was at an overarching level and provided only a summary of the specific countermeasures Leonardo would take to address corruption risks in the country in question.

Anti-corruption training:

In its 2018 observation report, the Council on Ethics pointed out that it had not yet received sufficient documentation of Leonardo's anti-corruption training to assess whether it meets fundamental requirements and contains the elements that it would be natural to expect in accordance with best practice. In connection with the 2019 observation, Leonardo stated that during that same year it had completed the process of designing new anti-corruption training programmes for all employees, managers and the company's third parties. The Council on Ethics was also given a demonstration of the employee course and had the opportunity to take a closer look at the content of the specific cases. In its assessment, the Council noted in particular that the company had emphasized adapting the programmes to the company's risk profile, and that the programmes included cases and simulations.⁴

Leonardo has stated that the anti-corruption training program for employees is now available on the company's e-learning platform *HRevolution*. It is mandatory to complete the course, and participants must also answer different questions related to the main topics of the course. This gives the company an opportunity to assess the effectiveness of the course. According to the company, 56% of employees had completed the course by mid-July 2020. According to Leonardo, the head office also sent out a "package" at the end of March 2020 to the heads of all country offices and subsidiaries around the world with various anti-corruption training materials. Also here the recipients must answer various questions related to the main topics in the material. Furthermore, Leonardo has stated that it is developing a separate course on bribery, corruption and influence trading based on recent changes to Italy's criminal code for companies ("*Decreto legislativo 8 giugno 2001, n. 231*").

In a meeting, Leonardo stated that it has now decided to conduct annual anonymous surveys aimed at all employees to get an overview of the quality of the company's anti-corruption training, as well as awareness among employees about the whistleblowing system and the protection of whistleblowers. The results of the survey will be used to improve and update the company's training programs on a regular basis, and at least every three years. The first round of the survey was launched in February 2021.

Whistleblowing:

In the 2018 and 2019 observation reports, the Council pointed out that it was striking how not a single case of bribes being solicited of company employees or third parties had been reported since the whistleblowing service was established, since the company operates in a number of countries that score poorly on international corruption indexes.⁵

However, in the updated figures for 2019, which the Council on Ethics received in 2020, Leonardo reported requests for bribes. A total of 15 of the 82 reports received in 2019 concerned allegations of corruption, 6 of which concerned requests for bribes. All the allegations were investigated by the company's internal audit. No acts of corruption were confirmed, but some cases of other financial irregularities were. These cases included such

³ Video conference with Leonardo on 13 January 2021, Letter from Leonardo of 9 April 2021.

⁴ Letter from Leonardo of 12 August 2020; Video conference with Leonardo on 13 January 2021.

⁵ Video conference with Leonardo on 13 January 2021; Letter from Leonardo of 12 August 2020.

things as conflicts of interest and violations of internal procurement procedures and were followed up with disciplinary actions. In a meeting with the company, the Council on Ethics received an overall review of three of the investigations the company had conducted on allegations of corruption in 2020.

Leonardo has also stated that there has been a rising trend of reports received through the company's whistleblowing system in recent years. In 2017, 2018 and 2019, Leonardo received respectively 28, 68 and 82 reports through the system. In this regard, they point out that the proportion of whistleblowers stating their identity has also been rising over the same period – from 29% in 2017 to 43% in 2019 – which the company takes as evidence of increasing confidence in the whistleblowing system. Leonardo also states that it has recently revised its whistleblower management guidelines, among other things to strengthen whistleblower protection, further clarify the roles of the company's various "control bodies" and provide company employees with better protection from false/malicious reports. Leonardo has also recently updated its online whistleblowing platform.

Use of agents:

In both the 2018 and 2019 observation reports, the Council pointed out that the greatest corruption risk in Leonardo's business operations was the company's use of sales agents and other third parties to promote the sale of the company's products. In the latest report, the Council nevertheless found that the company had taken several steps to reduce the risk. In this regard, the Council highlighted both the company's due diligence and ongoing monitoring of third parties, the recently established structured scheme for risk assessments of third parties, as well as the plans for a further reduction in the number of third parties and contracts in the period to 2021.⁶

In connection with the 2020 observation, Leonardo states that it had a total of 181 contracts with third parties as of 30 June 2020, i.e. a reduction of approximately 13% from 2019. However, the number of third parties was the same as in 2019, i.e. 148.

The ongoing Covid-19 pandemic and travel restrictions resulting from it are cited by Leonardo as the main reason why the company is unable to meet its third-party reductions targets before 2021 (5 per cent by the end of the first quarter of 2020 and a further 5 per cent by the end of the first quarter of 2021). The evaluation of the company's incentive program for a reduction in the use of third parties has also been postponed for the same reason.

According to Leonardo, the most important tool for reducing the number of third parties is the establishment of new country offices or subsidiaries in important markets. In this regard, the company announces that during 2019 and 2020 it established new subsidiaries in five countries and plans to establish itself in three more countries. During the same period, the company established representative offices in a further thirteen countries. Over the same period, the company has also closed its representative offices in two other countries. One of these, however, has been replaced by a subsidiary.

When it comes to due diligence of third parties, Leonardo states that the number of contracts rejected in 2018 and 2019 because of "red flags" was 10 and 2 respectively.

In order to form an even better picture of how the company conducts due diligence on its third parties, the Council on Ethics has also asked Leonardo for the opportunity to thoroughly review the report from the due diligence of the Indonesian company in question and the CEO of this company. Leonardo has been favourable to this, but for the moment it will not be possible because of the Covid-19 pandemic.

Leonardo's anti-corruption system:

As stated in the 2018 and 2019 observation reports, Leonardo undertook a major process in 2018 to certify its anti-corruption system in accordance with the new ISO anti-corruption

⁶ Letter from Leonardo of 12 August 2020.

standard – ISO 37001:2016. Key to this effort has been the establishment of the new Anti-Corruption Unit (ACU) and the creation of a holistic framework for the company’s anti-corruption efforts. Leonardo has shared its overall plan for anti-corruption work in 2020 with the Council on Ethics.⁷

Leonardo also conducted an audit of the company's implementation of ISO 37001 for the first time in 2020. It was the certification company that selected which units and processes to review in 2020, on the basis of a risk assessment. In total, the certification company conducted interviews with 74 employees in 17 different units of the company related to a sample of 10 of the 24 risk areas/processes defined in the company's overall corruption risk assessment. The audit confirmed that all the processes examined are carried out in accordance with the company's internal control system. The findings from ISO 37001 revisions can be divided into three categories – A, B and C – where A covers serious cases of non-compliance, B less severe cases and C concerns non-mandatory recommendations. The audit in question made four findings in category C.

Upon request from the Council on Ethics, Leonardo was also favourable to letting the Council review the audit report itself, but this will not be possible at the moment because of the Covid-19 pandemic.

Other issues:

Leonardo has also informed the Council that they were ranked in the best category – A – in connection with Transparency International's assessment in 2020 of the anti-corruption programmes of 134 of the world’s largest defence companies ("Defence Companies Index 2020"). The index consists of six categories (A-F), and it was only one other company which was ranked in the best category together with Leonardo.⁸

The Council on Ethics's assessment

In 2016, the Council on Ethics recommended Leonardo’s exclusion because the company had not substantiated that it was working effectively to prevent corruption, despite being involved in corruption investigations in several countries and despite the substantial corruption risk inherent in the business sectors and countries in which the company operates. Norges Bank's decision on observation was based on uncertainty about future developments. While the Council on Ethics’ starting point was the ongoing corruption investigations, the assessment of the corruption risks was primarily related to the company's compliance systems.

In both the 2018 and 2019 observation reports, the Council on Ethics concluded that Leonardo had substantiated that the company's efforts to prevent, detect and deal with corruption had improved since observation commenced. This impression has again been confirmed in 2020.

In connection with the 2019 observation, the Council on Ethics pointed out that it had not yet received detailed information on how Leonardo's anti-corruption risk assessments (ACRA) are “tailored” to the individual country in which the company has business operations. The Council has therefore made a note of how Leonardo has further developed its methodology so that it is now possible to prepare risk analyses adapted to individual countries. However, based on the information that the company has shared with the Council on Ethics, it is not possible for the Council to make a more thorough assessment of whether the countermeasures are sufficiently effective.

When it comes to anti-corruption training, the Council has noted that the company's online courses are now available to all employees on the company's e-learning platform and that it is mandatory to complete the course. The Council attaches particular importance to the fact that

⁷ Video conference with Leonardo on 13 January 2021.

⁸ <https://ti-defence.org/dci/>.

Leonardo, starting in 2021, will carry out annual evaluations of the training programmes, as this is a necessary prerequisite for improving and further developing the company's anti-corruption training.

The Council on Ethics has previously pointed out that the greatest corruption risk for Leonardo's business operations appears to be associated with the use of sales agents and other third parties. At the same time, the Council has noted that the company has taken organisational and procedural measures to reduce this risk. This year, the company stated that it is behind its own target for reducing the number of third parties and claims that this is largely a result of the travel restrictions caused by the Covid-19 pandemic. At the same time, the Council on Ethics has noted that the company has established representative offices in several countries where it previously worked through third parties. That third parties have been rejected because of "red flags", further indicates that the company's systems for due diligence of third parties are working. The Council also finds it reassuring that Leonardo is open to the possibility of the Council reviewing the report from the due diligence of the company in Indonesia the Council has had a particular focus on throughout the observation period, even though this has been impossible to carry out under the Covid-19 pandemic.

The Council on Ethics has previously noted that it is conspicuous that Leonardo has not reported a single case of bribes being solicited of company employees or third parties, since the company operates in a number of countries that score poorly on international corruption indexes. The Council has therefore noted that, for the first time, Leonardo has now received this kind of reports as well. At the same time, the Council has also noted that there has been a rising trend both in the number of reports received through the company's whistleblowing system, and in the proportion of whistleblowers who disclose their identity. This could be an indication of increasing confidence in the whistleblowing system, which is important for the system to work as intended. In this regard, the Council also finds it is promising that Leonardo will now conduct annual evaluations to review employees' awareness of the whistleblowing system.

In connection with the 2019 observation, the Council noted that Leonardo was in the process of putting in place a comprehensive scheme for the company's anti-corruption efforts, as part of the ISO 37001 certification. In accordance with best practice it is important that such systems are continuously monitored and improved based both on internal experience and on new laws and standards. The Council has therefore noted that Leonardo has conducted an audit in 2020 of the company's implementation of ISO 37001, and is pleased that the company is also open to the Council gaining access to the report from this audit.

The Council on Ethics believes that the review above shows that the positive developments in Leonardo's anti-corruption efforts have continued in 2020. The overall impression is that the company has done much to strengthen its efforts to prevent, detect and deal with corruption since observation began in 2017. Leonardo's openness and willingness to share information has also been important to the Council's confidence that this work is moving in the right direction. The Council has also noted that Leonardo was ranked in the best category in connection with Transparency International's recent assessment of the anti-corruption programmes of many companies in the defence sector.

However, there are two factors that are central to the assessment of the risk that the company will contribute to gross corruption. In addition to the company's anti-corruption systems, the condition for recommending the exclusion of the company from the GPFG may also be met if further serious corruption cases are uncovered in the company's business operations during the observation period.

In the Council's opinion, it cannot be ruled out that the circumstances in Italy that the Council has discovered since the last observation report may qualify as gross corruption. If so, it is important to clarify whether those involved acted independently of the company, and whether the company could have done more to prevent what happened in the specific case. Even though Leonardo states that the company as such is not covered by the investigation, it is still

of significant importance for the Council's assessment of future risks to shed further light on the matter. The information so far obtained by the Council regarding the case and those involved is not sufficient to provide a satisfactory answer to this, and the Council therefore believes that observation should continue until further notice.

The Council on Ethics will continue its observation of Leonardo pending more information regarding the case in question in Italy. The Council will also monitor whether information emerges about new serious cases of corruption in the company, and how the company responds to these.

Yours sincerely,

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