



SHAREHOLDERS' MEETING

15 JUNE 2017 - 10:30 AM SINGLE CALL

**BOARD OF DIRECTORS' EXPLANATORY REPORT REGARDING THE
ITEMS ON THE AGENDA**

*(pursuant to Article 125-ter of Legislative Decree 58/1998 and Article 84-ter
of Consob Regulation 11971/1999)*

Shareholders,

This report (the "**Report**") was prepared by the Board of Directors of Avio S.p.A. ("**Avio**" or "the **Company**") pursuant to Article 125-*ter* of Legislative Decree no. 58 dated 24 February 1998, as amended (the "**TUF**"), and Article 84-*ter* of the Regulation adopted by Consob Resolution no. 11971 of 14 May 1999, as amended (the "**Issuers' Regulation**"), to illustrate the items on the agenda of the ordinary Shareholders' Meeting convened on 15 June 2017, in single call.

More specifically, you are asked to pass resolutions on the following agenda:

1. Financial Statements at 31 December 2016 of Space2 (pre-merger), Directors' Report on Operations, Board of Statutory Auditors' Report and Independent Auditors' Report. Allocation of profit (loss) for the year. Related and consequent resolutions.
2. Financial Statements at 31 December 2016 of Avio S.p.A. (pre-merger), Directors' Report on Operations, Board of Statutory Auditors' Report and Independent Auditors' Report. Allocation of profit (loss) for the year. Related and consequent resolutions.
3. Remuneration Report, pursuant to art. 123-*ter*, paragraph 6, Legislative Decree no. 58/98
4. Consensual termination of the statutory audit assignment given by Space2 S.p.A. to KPMG S.p.A. and simultaneous new statutory audit assignment in accordance with the legislation in force. Related and consequent resolutions.

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Proposals on the items on the agenda

1. **Financial Statements at 31 December 2016 of Space2 (pre-merger), Directors' Report on Operations, Board of Statutory Auditors' Report and Independent Auditors' Report. Allocation of profit (loss) for the year. Related and consequent resolutions.**

The Shareholders' Meeting will be asked to approve the financial statements at 31 December 2016 of the Company (former Space2 S.p.A., company absorbing Avio pre-Merger, also referred to as "**Space2**"), together with the Report on Operations.

All the documentation regarding this agenda item will be made available to the public, within the time limits prescribed by the legislation in force and in accordance with applicable laws and regulations, at the Company's registered office, on the Company's website at www.avio.com, on Borsa Italiana S.p.A. website and through the authorized storage facility "eMarket STORAGE", together with the Board of Statutory Auditors' report, the Independent Auditors' report on the draft financial statements for the year ended 31 December 2016. Shareholders may request a copy of the above documentation.

Making reference to the Board of Directors' report on operations, we invite you to approve Space2 financial statements for the year ended 31 December 2016, together with the accompanying reports, reporting a loss of Euro 331,964, which we propose to carry forward.

2. Financial Statements at 31 December 2016 of Avio S.p.A. (pre-merger), Directors' Report on Operations, Board of Statutory Auditors' Report and Independent Auditors' Report. Presentation of the Consolidated Financial Statements at 31 December 2016. Allocation of profit (loss) for the year. Related and consequent resolutions.

The Shareholders' Meeting will be asked to approve the financial statements at 31 December 2016 of Avio S.p.A., company absorbed by the Company (former Space2 S.p.A.) with effect from 10 April 2017 (hereinafter referred to as "**Avio pre-Merger**"), together with the Report on Operations.

All the documentation regarding this agenda item will be made available to the public, within the time limits prescribed by the legislation in force and in accordance with applicable laws and regulations, at the Company's registered office, on the Company's website at www.avio.com, on Borsa Italiana S.p.A. website and through the authorized storage facility "eMarket STORAGE", together with the Board of Statutory Auditors' report, the Independent Auditors' report on the draft financial statements and the Consolidated Financial Statements for the year ended 31 December 2016. Shareholders may request a copy of the above documentation.

Making reference to the Board of Directors' report on operations, we invite you to approve the financial statements of Avio pre-Merger for the year ended 31 December 2016, together with the accompanying reports, reporting a profit for the year of Euro 656,690, which we propose to entirely allocate to retained earnings; you are also asked to acknowledge the consolidated financial statements of Avio pre-Merger for the year ended 31 December 2016.

3. Section I of the Remuneration Report of Avio S.p.A. (post-Merger), pursuant to art. 123-ter, paragraph 6, Legislative Decree no. 58/98

The Shareholders' meeting will be asked to approve, pursuant to art. 123-ter paragraph 6 of the TUF, Section I of the Company's Remuneration Report, prepared in accordance with the aforementioned article of the TUF and art. 84-*quater* of the Issuers' Regulation, which outlines the Company's remuneration policy for the members of the governing bodies, the general managers and managers with strategic responsibilities, as well as the procedures used to adopt and implement the said policy, in accordance with the guidelines approved by Space2 Board of Directors on 19 January 2016.

For more information, see the document made available to the public at the company's registered office, on the company's *website* at www.avio.com, on Borsa Italiana S.p.A *website* and through the authorized storage facility "eMarket STORAGE", at least 21 days before the date set for the Shareholders' Meeting.

Please note that, pursuant to Article 123-ter paragraph 6 of the TUF, the Shareholders will be asked to pass resolution in favour or against Section I of the Report. The resolution is not binding. The outcome of the vote will be made available to the public within the time limits prescribed by law pursuant to Article 125-*quater*, paragraph 2 of the TUF.

4. Consensual termination of the statutory audit assignment given by Space2 S.p.A. to KPMG S.p.A. and simultaneous new statutory audit assignment in accordance with the legislation in force. Related and consequent resolutions.

The Shareholders' meeting will be asked to approve the consensual early termination of the statutory audit assignment given by Space2 S.p.A. to KPMG S.p.A. and, subject to the prior opinion of the Board of Statutory Auditors, the simultaneous appointment of the company Deloitte to carry out the statutory audit for the 2017-2025 period in accordance with the legislation in force.

Regulatory framework

Art. 7 of Ministerial Decree of the Minister of Economy and Finance no. 261/2012 defines how and in which cases it is possible to consensually terminate the agreement through which a company has appointed the independent auditors pursuant to art. 13 paragraph 4 of Legislative Decree 39/2010, providing that: *"The auditor or audit firm and the audited company may consensually decide to terminate the audit agreement, provided that the statutory audit activity continues to be ensured. The Shareholders' Meeting, having received the observations made by the auditor or audit firm and having consulted with the control body, including on the above observations, resolves the consensual termination of the audit agreement and appoints a new auditor or audit firm. In any case, the statutory audit functions continue to be carried out by the same auditor or audit firm until the appointment of the new auditor or audit firm has become effective and in any case no later than six months from the date of submitting their resignation"*.

Article 16, paragraph 4 of European Regulation 537/2014 provides that the selection procedure for the appointment of the new independent auditors should not be followed by "EIPs" (including, therefore, the companies listed on regulated markets) that qualify as SMEs.

As expressly specified in the listing Prospectus available on the Company's website www.avio.com, Investors section, Avio is a SME.

Reasons for the proposal

As a result of the merger between Space2 and Avio, the independent auditors are KPMG S.p.A., with registered office in Milan, Via Vittor Pisani 25 ("KPMG"), which was in charge of the statutory audit for Space2 and whose mandate expires with the approval of the financial statements for the year 2024.

The statutory audit for Avio before the merger was carried out by Deloitte & Touche S.p.A., with registered office in Milan, Via Tortona 25 ("Deloitte").

The proposal concerning the early consensual termination of the statutory audit engagement currently carried out by KPMG is based on the need to give priority to continuity, timeliness, cost-effectiveness and efficiency requirements in the performance of the said statutory audit of the separate and consolidated financial statements (and of the interim financial reports) on the absorbing company and in the correct recording of the company affairs in the accounting records - which constitute the essence of the statutory audit engagement pursuant to art. 14 of Legislative Decree no. 39/2010 - requirements that would undoubtedly be more easily met by the current independent auditors of Avio, given their in-depth knowledge on the corporate, organizational and operating structure of the absorbed company and the group of which it is part.

On 11 May 2017, the Board of Directors resolved, inter alia, to commence the activities necessary to obtain KPMG's comments on the early consensual termination and the Board of Statutory Auditors' opinion on the consensual termination with KPMG, as well as its assessment regarding the appropriateness of submitting to the Shareholders' Meeting, in accordance with law, the reasoned proposal for the appointment of Deloitte as new independent auditors.

Implementing the resolution passed by its Board of Directors, on 15 May 2016 the Company formally notified KPMG that at the next Shareholders' Meeting (convened on 15 June 2016) it would submit the proposal for the consensual termination of the statutory audit engagement currently in force pursuant to art. 13 of Legislative Decree no. 39/2010 and art. 7 of Ministerial Decree no. 261/2012 and the appointment of a new firm to carry out the statutory audit of the accounts. Following the early consensual termination, the Company will pay KPMG the fees due for the activities carried out, while no outlay is expected to be paid as penalty for early termination.

Following the Company's request and agreeing on the above reasons, KPMG informed the Company that it consented to early terminate - pursuant to art. 13 of Legislative Decree no. 39/2010 and art. 7 of Ministerial Decree no. 261/2012 - the statutory audit engagement currently in place without payment of any penalties (this notice constitutes the "observations" referred to in paragraph 2 of the above-mentioned Article 7 of Ministerial Decree No.261 / 2012).

In this respect, it is clarified that the reasons justifying the proposed consensual termination are those described above.

To this end, it is again recalled that early consensual termination is permitted by Art. 13, paragraph 4 of Legislative Decree no. 39/2010, and art. 7 of Ministerial Decree of the Minister of Economy and Finance no. 261/2012, according to which - as noted above - the Shareholders' Meeting passes the resolution, after receiving the observations made by the independent auditor and after consulting with the control body.

Given the foregoing, it is clarified that the Board of Statutory Auditors of the Company has also expressed its opinion on the proposed early consensual termination, and, on the basis of the above-mentioned reasons, and having acknowledged the observations on the early consensual resolution of the engagement sent to the Company by KPMG, the Board of Statutory Auditors has issued:

- (i) its Opinion on the early consensual termination of the statutory audit agreement in place with KPMG, including the justifying reasons and the appointment of a new audit firm; and
- (ii) the reasoned proposal for appointing a new audit firm.

In its opinion, the Board of Statutory Auditors agreed on the reasons underlying the proposal for early termination of the mandate given to KPMG and the appointment of the new independent auditor, considering that there are reasons for replacing the audit firm by consensual termination and specifically: the (i) specific structure of the Merger and the nature of the companies involved, the Merger entailing the absorption of Avio, an operating company heading an international group and characterized by a complex production and commercial organization, into a SIV which had as its sole corporate purpose to invest in a company and whose activity, up to the Merger, solely consisted in searching for the target company with which to carry out a business combination; (ii) the substantial change in the activity carried out by Space2 as absorbing company, which as of 10 April 2017 commenced business activities in the same industry as Avio; (iii) the change in shareholders since, as a result of the Merger, Cinven lost control of Avio and the post merger Avio has become a "public company". .

The Board of Statutory Auditors also acknowledged that the appointment of Deloitte offers organizational benefits through greater efficiency and effectiveness of the statutory audit activity. In any case, the Board of Statutory Auditors considered that the continuity of the statutory audit activity was ensured.

Given the foregoing, the Board of Directors proposes to the Shareholders, convened as ordinary meeting, having acknowledged this Board of Directors' report and the documentation required by law, to vote on the early consensual termination of the statutory audit mandate given by Space2 S.p.A. to KPMG and the simultaneous appointment of Deloitte to carry out the statutory audit for nine years (2017-2025) pursuant to the law in force, at the terms and conditions, including the financial terms, described in the reasoned proposal of the Board of Statutory Auditors and contained in the offer submitted by Deloitte.

Rome, 16 May 2017

On behalf of the Board of Directors

The Chairman of the Board of Directors Roberto Italia

Annexes:

- Annex A: Copy of the proposal for consensual termination of the statutory audit engagement submitted by Avio to KPMG and signed for acceptance by KPMG;
- Annex B: Reasoned opinion of the Board of Statutory Auditors on the consensual termination of the statutory audit assignment given to KPMG;
- Annex C: Reasoned proposal of the Board of Statutory Auditors to the Shareholders' Meeting for the appointment of Deloitte as auditor in charge of the statutory audit.



KPMG S.p.A.
Via Vittor Pisani, 25
20124 Milan

Colleferro, 15 May 2017
Our Ref.: DG/GR/gm/006/17

Attention Paola Maiorana

Subject: Statutory audit assignment given by Space2 S.p.A. to KPMG S.p.A. for the years - Consensual termination

Further to previous discussions regarding the statutory audit assignment given to your firm ("KPMG") by Space2 S.p.A. ("**Space2**" or the "**Company**"), by resolution of 17 June 2015, for nine financial years pursuant to art. 16 of Legislative Decree no. 39 ("**Legislative Decree No. 39/2010**") and therefore for the years 2015-2024 (hereinafter also the "**Audit Engagement**").

In this regard the following should be noted:

- a) Space2, a company whose ordinary shares are listed on the Mercato Telematico degli Investment Vehicle MIV / SIV segment, is a special investment vehicle (SIV) as defined in the Rules of the Market organized and managed by Borsa Italiana S.p.A. and, as such, it was formed with the sole objective of achieving - within a maximum period of approximately 24 months from the date of commencement of trading of its ordinary shares - a business combination with a target company, preferably through a merger by absorption of the target company into Space;
- b) As you know, Space2 has identified Avio S.p.A. ("**Avio**") as target company, as it conforms to the guidelines defined in its investment policy, and with effect from 10 April 2017, a business combination was carried out through merger by absorption of Avio into Space2 (the "**Merger**"), as a result of which the latter changed its name to Avio S.p.A. (hereinafter "**Avio post-Merger**");
- c) The company Deloitte S.p.A., with registered office in Turin, Galleria S. Federico 54, acted as independent auditors of Avio on the basis of a three-year mandate given by the Shareholders' meeting of Avio on 11 May 2015, pursuant to Article 13 of Legislative Decree no. 39/2010; as of the Effective Date of the Merger, your Company is expected to also be in charge of the statutory audit of the accounts of the company Avio post-merger.

Avio S.p.A.
Società per Azioni
Share Capital € 90,761,670 fully paid up
Rome Register of Companies no.
09105940960
TAX CODE and VAT NO. 09105940960

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avio.com

Now therefore, given the specific structure of the Merger and the nature of the companies involved in it, we note that the Merger entailed the absorption of Avio, an operating company at the head of an international group and characterized by a complex production and commercial organization, into a SIV which had as its sole corporate purpose to invest in a company, and whose activity, up to the Merger, solely consisted in searching for the target company with which to carry out a business combination. Therefore, as a result of the Merger, there was a substantial change in the activity carried out by Space2 as absorbing company, which as of 10 April 2017 commenced business activities in the same industry as Avio.

Furthermore, in terms of shareholders, as a result of the Merger Cinven lost control of Avio and the post-merger Avio has become a "*public company*".

Given the foregoing, we believe that the substantial changes in terms of business activities that characterize Avio post-merger justify the appointment of new independent auditors.

Therefore, on the basis of the foregoing considerations, which, if you consent to the early termination of the Audit assignment, will be included in the "*Board of Directors' Report on the reasons justifying the early termination, as per Art. 9, paragraph 1, c) of Ministerial Decree no. 261 of 28 December 2012 of the Ministry of Economy and Finance*", we hereby propose - subject to approval by the Shareholders' meeting of Avio that will vote, inter alia, on the Merger - that we consensually terminate the statutory audit engagement in accordance with Legislative Decree no. 39 of 27 January 2010 and the Regulation subsequently adopted by Ministerial Decree no. 261 of 28 December 2012 of the Ministry of Economy and Finance, implementing Article 13, paragraph 4 of the above-mentioned Legislative Decree, with effect from the appointment of the new auditor in accordance with the applicable law.

This consensual termination, if accepted by you in writing by separate correspondence to be sent to the undersigned company at the address herein stated, will take effect as of the appointment of the new auditor in accordance with the applicable law.

We will determine, and pay to your Company the fees accrued for the services you have provided up to that date, within the agreed contractual deadlines.

We thank you for your commitment and high professional integrity in the performance of the assignment and for performing the duties under the mandate with due diligence and technical expertise and in compliance with the principles of independence required by the applicable laws.

We look forward to your reply. Yours faithfully.

[*illegible signature*]

Avio S.p.A.
Giulio Ranzo
(Chief Executive Officer)



KPMG S.p.A.
Accounting audit and organization
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Confidential

Avio S.p.A.
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000034 COLLEFERRO RM

By registered mail with acknowledgment of receipt (sent in advance by email)

Attention: Roberto Italia, Chairman of the Board of Directors

copy to:

Riccardo Bauer, Chairman of the Board of Statutory Auditors

15 May 2017

Statutory audit assignment given pursuant to Legislative Decree 39/10 and Legislative Decree 58/98 - Consensual termination - Observations by KPMG S.p.A.

Dear Sirs,

Further to your letter of 15 May 2017 concerning the statutory audit assignment granted to our firm by the Shareholders' Meeting of Space2 S.p.A. of 17 June 2015 for the years 2015 to 2024 pursuant to Legislative Decree 39/10 and Legislative Decree 58/98 (hereinafter also referred to as "Audit Engagement"). Specifically, you informed us that following the merger by absorption of Avio S.p.A., an operating company at the head of an international group and characterized by a complex production and commercial organization, in Space2 S.p.a., into a SIV which had as its sole corporate purpose to invest in a company, and whose activity, up to the Merger, solely consisted in searching for the target company with which to carry out a business combination, there was a substantial change in the activity carried out by Space2 S.p.A. which, as of 10 April 2017, commenced business activities in the same industry as Avio.

You therefore notified us as follows:

“Given the foregoing, we believe that the substantial changes in terms of business activities that characterize Avio post-merger justify the appointment of new independent auditors.”



Avio S.p.A.

Statutory audit assignment given pursuant to Legislative Decree 39/10 and Legislative Decree 58/98 -
Consensual termination - Observations by KPMG S.p.A.
15 May 2017

Based on the above considerations, in the same letter you proposed us to consensually terminate the Audit engagement.

As regards your request, we confirm that we have no comments to make regarding the reasons you have described and therefore we confirm that we consent to your proposal; by signing this letter we accept the agreement to consensually terminate the above Audit Engagement, provided that the consensual termination will take effect and will be conditional upon the prior shareholders' meeting resolution of Avio S.p.A. and the appointment of the new auditor or audit firm in accordance with the provisions of Legislative Decree 39/10 and the Regulation adopted by Decree no. 261 of the Ministry of Economy and Finance of 28 December 2012, which is expected to take place at the Shareholders' Meeting convened on 15 June 2017, for the approval of the financial statements for the year ended 31 December 2016.

In the event that the Shareholders' Meeting of your Company does not approve the consensual termination of the Audit Engagement and the simultaneous appointment of a new auditor or audit firm by 15 June 2017, this letter will automatically become null and void.

Please promptly send us a copy of the minutes of the meeting that will approve the early termination of the Audit Engagement and the concurrent decision to appoint a new auditor or audit firm.

In accordance with the provisions of the aforementioned Regulation, we will forward a copy of this letter to Consob within the time limits and in the manner provided by the applicable provisions.

Yours faithfully.

KPMG S.p.A.
[illegible signature]

Paola Maiorana
Partner

pm/pd