



SECTION I REMUNERATION REPORT

Issuer:

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Approved by the Board of Directors on 24 May 2017

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GLOSSARY

For the purpose of this document, the following terms shall have the following meaning:

Executive Directors: The directors of the Company who are delegated operating or managerial powers or who are assigned special tasks by the Board of Directors. At the date of this Report, the Executive Director of the Company is the Chief Executive Officer Giulio Ranzo.

Shareholders' meeting: the collective decision-making body of the Company. All those holding voting rights (directly or by proxy) are represented in this body. This body has the powers attributed to it by law and by the By-Laws: its main powers include approving the Financial Statements, appointing and removing Directors, the Board of Statutory Auditors and the Chairman thereof. As regards the Remuneration Policy, it expresses a non-binding opinion on Section I of the Remuneration Report.

Avio pre-Merger: Avio S.p.A., a company absorbed into Space2 as part of the Merger transaction, with registered office in Rome, via Antonio Salandra 18, operating office in Colleferro (RM), SP Ariana Km 5.2, tax code, VAT number and registration number in the Rome Register of Companies 05515080967, REA number 1177979.

Corporate Governance Code: The Corporate Governance Code of listed companies in relation to the *Corporate Governance* approved in July 2015 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

Nomination and Remuneration Committee: is set up within the Board of Directors and has the task, inter alia, of submitting a proposal to the Board of Directors on the general remuneration policy regarding executive Directors, Directors holding special positions and Managers with strategic responsibilities.

Board of Directors: is the collective body responsible for the management of the Company. Avio's Board of Directors consists of 9 Directors: Roberto Italia, Giulio Ranzo, Luigi Pasquali, Vittorio Rabajoli, Stefano Ratti, Monica Auteri, Maria Rosaria Bonifacio, Donatella Sciuto, Giovanni Gorno Tempini. It is the body responsible for approving the Remuneration Policy proposed by the Nomination and Remuneration Committee.

Effective Date of the Merger: 10 April 2017

Managers with Strategic Responsibilities: The General Manager and the other persons who have the power and responsibility, directly or indirectly, to plan, manage and control the Company's activities.

Financial Year: The Report reference financial year.

Material Events: means acquisitions (of companies, businesses and/or business units), sales (of companies, businesses and / or business units), mergers, demergers, capital increases, contributions, legislative and regulatory changes, amendments to the accounting principles adopted in the preparation of the financial statements or other exceptional events that may have a significant impact on the current structure of the Company and the Group.

Merger: The merger by absorption of Avio pre-Merger into Space2, approved by the Extraordinary Shareholders' Meeting of Space2 and Avio pre-Merger on 1 December 2016 and finalized on the Effective Date of the Merger.

Group: Collectively Avio and its subsidiaries pursuant to art. 2359 of the Italian Civil Code and art. 93 of the Consolidated Finance Act (TUF).

Policy or Remuneration Policy: The remuneration policy applicable to directors and managers with strategic responsibilities for the 2017 financial year as specified in Section I of the Report.

Prospectus: The Prospectus filed with Consob on 31 March 2017 following notification that publication had been authorized by note of 31 March 2017, Reference no. 0042199/17.

Issuers' Regulation: The Regulation issued by Consob with resolution no. 11971 of 14 May 1999 (as subsequently amended) regarding Issuers.

Report: This Remuneration Report of the Avio Group prepared in accordance with art. 123- *ter* of the TUF and art. 84- *quater* of the Issuers' Regulation.

Company or Avio: Avio S.p.A., the company resulting from the Merger, with registered office in Rome, via Leonida Bissolati 76, @no. 27@, Registration number with the Rome Register of Companies and tax code 09105940960

Space 2: Space2 S.p.A. until the Effective Date of the Merger, with registered office in Milan, Via Mauro Macchi 27, VAT, tax code and Registration number with the Milan Register of Companies 09105940960.

TUF: Legislative Decree no. 58 of 24 February 1998, (Consolidated Finance Act), as amended.

LEGISLATIVE FRAMEWORK

Section I of the Report was prepared in accordance with Article 123-ter of the TUF on transparent remuneration of directors of listed companies, Article 84-quater of the Issuers' Regulation on remuneration report and taking account of the Recommendations contained in Article 6 of the Corporate Governance Code concerning the remuneration of Directors and other Managers with Strategic Responsibilities of Listed Issuers and taking into account the guidelines on this matter and in compliance with Art. 13.2 (b) of the "Procedure governing Transactions with Related Parties" approved by the Board of Directors of both Space2 and Avio pre-Merger on 19 January 2017 with effect from the Effective Date of the Merger.

INTRODUCTION

This Report only consists of Section I which contains, with respect to the members of the Board of Directors, General Managers and Managers with Strategic Responsibilities, information on the principles and guidelines underlying Avio Remuneration Policy for the 2017 financial year, in addition to information on the procedures used to adopt and implement such policy. This section is submitted annually to the non-binding vote of Avio Shareholders' Meeting.

On 29 March 2017, Borsa Italiana authorised, with effect from 10 April 2017, the admission to listing of the ordinary shares of the Company on the @Mercato Telematico Azionario (MTA)@ - STAR segment - and their simultaneous exclusion from trading on the MIV.

On 10 April 2017, the Merger became effective, i.e. merger by absorption of Avio pre-Merger into Space 2; as a result, Space2 succeeded Avio pre-Merger in all its rights and obligations and changed its name to "Avio S.p.A."

Therefore, this Report will solely describe Section I concerning the remuneration policy in force as of the Effective Date of the Merger; for Section II of the Report see Space2 document approved by the Company's Board of Directors on 11 May 2017, already sent to Borsa Italiana and made available to the public at the registered office of Avio (via Leonida Bissolati 76, Rome) and on the Company's *website* www.avio.com, "*Governance*" section.

As regards the Remuneration Policy, it is recalled that the Board of Directors of Avio pre-Merger and Space2 at their respective meetings of 19 January 2017, pending the process for listing and admission to the STAR segment of Borsa Italiana, passed resolution (i) to apply, as guidelines for the remuneration of the Company's Managers with Strategic Responsibilities, following the coming into effect of the Merger, the same criteria applied by the company being absorbed (Avio pre-Merger), also undertaking to formally adopt remuneration mechanisms reflecting such guidelines within 3 months of the Effective Date of the Merger; (ii) with regard to the remuneration of the Company directors in office following the coming into effect of the Merger, to approve guidelines based on the general principles of the Corporate Governance Code, also undertaking to formally adopt remuneration mechanisms reflecting such guidelines within 3 months of the Effective Date of the Merger, and provided that, with regard to the executive directors, those criteria were not to be applied to executive directors who also held positions of Strategic Responsibilities within the Company or the Group and who, therefore, received a variable remuneration determined according to the incentive schemes in place for managers.

This Report, approved by the Board of Directors of Avio on 24 May 2017, upon the proposal of the Nomination and Remuneration Committee held on 24 May 2017, has been drafted in compliance with the statutory and regulatory obligations in force and in accordance with the Board of Directors' resolutions of 19 January 2017; as such, it describes the Policy as per Section I, defining the principles and guidelines adopted by the Avio Group to define and monitor the remuneration policy and its implementation within the Group, with respect to the members of the Governing Bodies, the General Manager and the Managers with Strategic Responsibilities.

The Remuneration Policy is defined in accordance with the recommendations of the Corporate Governance Code, which the Company decided to endorse; in designing the Policy, the Company was supported by the Korn Ferry Hay Group, a major consulting company in the field of human resources development and organization, and made reference to the remuneration policies of the main European companies in terms of stock market capitalization, especially with regard to the roles of business manager in industrial and high tech companies, with characteristics comparable to those of the Company and the Group. This Report is sent to Borsa Italiana and is made available to the public at the registered office of Avio (via Leonida Bissolati 76, Rome) and on the Company's *website* www.avio.com, "*Governance*" section, by the twenty-first day preceding the Shareholders' meeting.

SECTION I

The Remuneration Policy defines the principles and guidelines adopted by Avio in determining the remuneration of the members of the Board of Directors and the Managers with Strategic Responsibilities.

1. PROCEDURES FOR THE ADOPTION AND IMPLEMENTATION OF THE REMUNERATION POLICY

1.1. Parties involved in the preparation, approval and implementation of the Remuneration Policy

The main persons and bodies involved in the preparation and approval of the Remuneration Policy are the Shareholders' Meeting, the Board of Directors, the Nomination and Remuneration Committee and the Board of Statutory Auditors. The Board of Directors, the Board of Statutory Auditors and the Nomination and Remuneration Committee are also responsible for and monitor the proper implementation of the Remuneration Policy. The tasks that, in accordance with applicable laws and the Company's By-laws, are assigned to these bodies with regard to the remuneration of directors are briefly summarized below.

The resolutions passed by the Shareholders' meeting pursuant to art. 2389, first paragraph, of the Italian Civil Code concerning the remuneration of the members of the Board of Directors and the remuneration (if any) of Directors holding special offices, falling within the total amount previously determined by the Shareholders' Meeting pursuant to Article 2389, third paragraph of the Italian Civil Code, and the resolutions passed by the shareholders' meeting envisaged in Article 2402 of the Italian Civil Code, concerning the remuneration of members of the Company's Board of Statutory Auditors are excluded from the scope of application of the Procedure governing Transactions with Related Parties, approved by the Board of Directors on 19 January 2017 (with effect from the Effective Date of the Merger). The resolutions on share-based compensation plans approved by the Shareholders' meeting in accordance with art. 114-*bis* of the TUF and the subsequent implementing transactions are also excluded from the scope of application of the Procedure governing Transactions with Related Parties.

Shareholders' Meeting

The Shareholders' Meeting:

- (i) determines the total remuneration of the members of the Board of Directors pursuant to Article 2364, paragraph 1, 3) of the Italian Civil Code, possibly also pursuant to Article 2389, paragraph 3 of the Italian Civil Code, and Article 15 of the By-laws;
- (ii) pursuant to Article 123-ter paragraph 6 of the TUF, it decides in favour of, or against Section I of the Report (in accordance with the aforementioned legal provision such resolution is not binding);
- (iii) passes resolution on any remuneration plans based on shares or other financial instruments intended for directors, employees and other staff, including Managers with Strategic Responsibilities, if any, in accordance with Article 114-*bis* of the TUF.

Board of Directors

The Board of Directors:

- (i) sets up the Nomination and Remuneration Committee, which is an internal committee of the BoD;
- (ii) determines the remuneration of the Executive Directors upon proposal of the Nomination and Remuneration Committee (and, where applicable, the Related Party Committee), subject to the prior opinion of the Board of Statutory Auditors, and where applicable, within the overall remuneration determined by the Shareholders' meeting pursuant to art. 2389, paragraph 3, of the Italian Civil Code, and allocates the fixed annual remuneration for the office, the overall amount of which is determined by the Shareholders' Meeting, to the non-executive Directors as provided for in Article 15 of the By-laws;

- (iii) upon proposal from the Nomination and Remuneration Committee, defines the Remuneration Policy;
- (iv) approves the Report pursuant to Articles 123-ter of the TUF and 84-quater of Consob Regulation 11971/1999; prepares remuneration plans based on shares or other financial instruments intended for directors, employees and other staff, including Managers with Strategic Responsibilities, if any, submits them to the Shareholders' meeting for approval, in accordance with Article 114-bis of the TUF, and oversees their implementation.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee, which provides advice and makes recommendations, has the following tasks:

- a. to make proposals to the Board of Directors regarding the adoption of a remuneration policy for Directors and Managers with Strategic Responsibilities;
- b. to periodically assess the adequacy, overall consistency and actual implementation of the remuneration policy for Directors and Managers with Strategic Responsibilities adopted by the Company, using for the latter purpose the information provided by the Chief Executive Officer, and to make proposals to the Board of Directors concerning this matter;
- c. to submit proposals or formulate opinions to the Board of Directors regarding the remuneration of executive Directors and the other Directors holding special offices, and regarding the setting of performance targets linked to the variable component of the remuneration, and to monitor the implementation of the decisions taken by the board by verifying, specifically, the actual achievement of performance targets;
- d. to examine, in advance, the annual remuneration report to be made available to the public in accordance with the legislation in force;

The establishment of this committee ensures the widest possible information and transparency on the remuneration of Executive Directors, and on the respective calculation methods. However, it is understood that, in accordance with Article 2389, paragraph 3, of the Italian Civil Code, the Nomination and Remuneration Committee solely makes proposals, while the power to determine the Executive Directors' remuneration rests in any case with the Board of Directors, after consulting with the Board of Statutory Auditors.

For information on the role, composition and functioning of the Nomination and Remuneration Committee, see Section 1.2 below.

Executive Director

The Executive Director appointed for the purpose:

- provides the Nomination and Remuneration Committee, including with the support of the Group Human Resources Department, with any useful information to enable the latter to assess the adequacy and actual implementation of the Policy, with specific regard to the remuneration of Managers with Strategic Responsibilities;
- submits to the Nomination and Remuneration Committee the draft share-based incentive plans, stock option plans, stock ownership plans and similar incentive and loyalty plans intended for the management of Group companies related to the Company or, where appropriate, assists the Committee in designing the said plans, also with the support of the Group Human Resources Department;
- implements the Remuneration Policy of the Company in accordance with this document.

Board of Statutory Auditors

The Board of Statutory Auditors expresses its opinion on remuneration proposals for Executive Directors pursuant to Article 2389, paragraph 3 of the Italian Civil Code, verifying consistency of those proposals with the Remuneration Policy adopted by the Company.

1.2. Nomination and Remuneration Committee

The Nomination and Remuneration Committee was established by resolution of Space2 Board of Directors on 19 January 2017 with effect from the Effective Date of the Merger; it consists of three non-executive directors, whose majority is independent, appointed by resolution of the governing body on 10 April 2017, namely:

- Giovanni Gorno Tempini (Chairman);
- Maria Rosaria Bonifacio;
- Stefano Ratti.

Upon appointment, the Board of Directors positively assessed satisfaction of the requirements in terms of knowledge and expertise in financial matters by the independent director Giovanni Gorno Tempini and, in terms of experience on remuneration policies, by the independent director Maria Rosaria Bonifacio.

The composition, tasks and procedures of the Nomination and Remuneration Committee are governed by the Code of Corporate Governance and by a specific regulation adopted by the Nomination and Remuneration Committee on 19 January 2017 with effect from the Effective Date of the Merger.

The Nomination and Remuneration Committee's meetings take place as a collective body and are regularly minuted. The Directors do not participate in the Nomination and Remuneration Committee's meetings that formulate proposals regarding their own remuneration, to be submitted to the Board of Directors.

The Chairman of the Board of Statutory Auditors takes part in the Nomination and Remuneration Committee's meetings, which may also be attended, if invited, by representatives of the corporate functions and by independent experts and/or other persons whose participation is deemed useful for the discussion of the items on the agenda.

If deemed necessary or appropriate for discharging the tasks assigned to it, the Nomination and Remuneration Committee may be assisted by external experts on remuneration policies.

For information on the activities of the Nomination and Remuneration Committee, as of the Date of Effectiveness of the Merger and up to the date of approval of this Report, Section I, see the Report on Corporate Governance and Ownership Structure, available on the Company's *website* [www .avio.com](http://www.avio.com), "Governance" Section.

During the period between the Effective Date of the Merger and the date of approval of this Section I, the Nomination and Remuneration Committee:

- (i) Defined the remuneration policy for the years 2017-2019 with respect to Managers with Strategic Responsibilities;
- (ii) prepared this Section I of the Report.

For the 2017 financial year, the Nomination and Remuneration Committee planned the following further major activities:

- (i) presentation of the Report to the Shareholders' Meeting (scheduled for the Shareholders' Meeting of 15 June 2017);
 - (ii) assessments of the adequacy, consistency and actual application of the Remuneration Policy (activity scheduled by December 2017);
 - (iii) scheduling of activities for the second half of 2017 (activity scheduled by June 2017).
2. Independent experts involved in the preparation of the Remuneration Policy

2. INDEPENDENT EXPERTS INVOLVED IN THE PREPARATION OF THE REMUNERATION POLICY

In preparing the Remuneration Policy, the Company was assisted by the independent expert Korn Ferry Hay Group, a major consulting company in the field of human resources development and organization.

Specifically, the expert conducted an analysis on the remuneration policies of the main European companies in terms of stock market capitalization, especially with regard to the roles of business manager in industrial and high tech companies, with characteristics comparable to those of the Company and the Group.

3. REMUNERATION POLICY

3.1. PURPOSE AND PRINCIPLES OF THE REMUNERATION POLICY

The Remuneration Policy has been designed to ensure an overall remuneration structure that recognizes the managerial performance and contribution to the company's growth of the individuals involved, according to their own respective responsibilities. This policy aims to attract, retain, and motivate highly skilled people, paying special attention to positions that are considered key to business development and management; it also seeks to reward the achievement of individual and business performance objectives linked to financial and earnings indicators, its overarching purpose being to align the interests of the company's management to the pursuit of value creation for Avio's shareholders in the medium to long-term, which is a priority for the Company.

In keeping with the above-mentioned general purposes, the Remuneration Policy is based on the following fundamental principles and is defined in accordance with the following criteria:

- i. adequate balancing of the fixed component and the variable component in accordance with the Company's strategic objectives and risk management policy, taking into account the sector in which the Avio Group is engaged and the characteristics of the business actually carried out, seeking to avoid conducts that are not in line with the creation of sustainable value in the short and medium to long term;
- ii. defining limits for the variable components and criteria for granting those components that reward results exceeding the assigned targets;
- iii. predetermined and measurable performance targets related to the payment of variable components with a focus on quantitative operating and financial targets;
- iv. establishment of a direct link between pay and performance through mechanisms that provide for the payment of different levels of rewards that are linked to the partial or total achievement of objectives;
- v. establishment of overall remuneration levels that recognize the professional value of people and their contribution to the creation of sustainable value in the short and medium to long term.

In line with the principles outlined above, the Shareholders' Meeting to be held on 15 June 2017 will be asked to approve this document.

The Company may provide for contractual arrangements that enable it to request the return, in whole or in part, of variable components of the remuneration paid (or to withhold any deferred sums) that were calculated on the basis of data subsequently found to be manifestly incorrect, in compliance with Application Criterion 6.C.1, f), of the Corporate Governance Code (*claw-back*).

3.2. REMUNERATION POLICY DESCRIPTION

The Remuneration Policy provides that the fixed and variable components (the latter, further broken down in short and medium-long term variable components) should be defined according to different principles and methods depending on the different types of recipients.

In this regard, it should be noted that the Board of Directors of the Company - with the exception of the General Manager, who was appointed by resolution of the Board of Directors' meeting of 10 April 2017 in the person of the Chief Executive Officer - has not yet received instructions from the latter concerning the identification of the other Managers with Strategic Responsibilities in relation to their positions and roles within the Group; however, this activity is expected to be finalized by June 2017, taking also into account the specific assignments already given to some of them in application of specific and new legal requirements.

The Company in any case considered it appropriate to design the remuneration system to reflect the executive / managerial responsibilities of the parties concerned and, accordingly, to independently define the criteria for determining the remuneration of:

- (i) Directors, and more specifically:
 - (a) Non Executive Directors; and
 - (b) Executive Director;
- (ii) Managers with Strategic Responsibilities.

(i) DIRECTORS

All directors are expected to receive a fixed remuneration guaranteeing an adequate remuneration for the activity carried out and their commitment in favour of the Company.

With regard to the remuneration of Directors, the ordinary Shareholders' Meeting on 1 December 2016 resolved to assign a remuneration, pursuant to art. 2389, first paragraph, of the Italian Civil Code, totalling Euro 500,000.00 per annum, to the Board of Directors that will remain in office for the three financial years following the one in which the merger becomes effective; the above sum must be divided among its members in accordance with the resolutions that will be taken by the Board of Directors, subject to any additional remuneration to the directors holding special offices as may be established by the Board of Directors pursuant to art. 2389, third paragraph, of the Italian Civil Code.

In compliance with the foregoing, the Board of Directors of 10 April 2017 decided to pay each Director, with the exception of the sole Executive Director (and Chief Executive Officer), a gross annual remuneration of Euro 35,000.00 while proposing to pay a gross annual remuneration of Euro 120,000.00 to the Chairman of the Board of Directors.

The Board of Directors also proposed to pay a remuneration to the members of the committees set up within the Board of Directors (Nomination and Remuneration Committee, Control and Risk Committee and Strategic Activities Committee), with the exception of the sole Executive Director (and Chief Executive Officer), in the amount of Euro 15,000.00 to each of the Chairmen and of Euro 10,000.00 to each of the other members.

(a) NON EXECUTIVE DIRECTORS

The non-executive directors (regardless of their independence status) are granted a fixed remuneration, the overall amount of which is established by the Shareholders' Meeting, allocated on an individual basis by the Board of Directors pursuant to Article 2389 of the Italian Civil Code.

The remuneration paid to these directors is not related to any financial results or specific objectives of the Company.

(b) EXECUTIVE DIRECTORS

The Executive Director's remuneration is adequately balanced to ensure consistency between short-term development objectives and sustainable value creation for shareholders in the medium to long-term.

Specifically, the Executive Director's remuneration structure is made up of:

- A fixed component: this component takes into account the breadth and strategic relevance of the role played, the distinctive subjective characteristics and strategic skills of the managers appointed to this position. The extent of the fixed remuneration is sufficient to compensate the position also in case the performance objectives determining the payment of the variable remuneration are not achieved; this structure is intended, inter alia, to disincentive conducts that are inconsistent with the Company's risk appetite. More specifically, the fixed component is calculated according to the size of the managed business, the various responsibility areas covered, the Avio Group's complex corporate structure, including internationally, and the ability to contribute to the Avio Group's consolidated results;
- A short-term variable component: the purpose of this component is to encourage the management to work towards the achievement of annual targets that maximize the Avio Group's value, in line with shareholders' interests. The payment of this component is conditional upon reaching a minimum performance threshold with respect to the annual targets set by the Board of Directors, upon proposal of the Nomination and Remuneration Committee.
- The indicators used to define the annual business performance targets (and to calculate the actual amount of the short-term variable component) are typically the Group's financial and earning parameters such as Adjusted EBITDA, Net Financial Position and Operating Cash Flow.
- A medium-long term variable component: at the date this document was drafted, this component had not yet been defined following the corporate transaction that resulted in the listing of the Avio Group on 10 April 2017. The Avio Group intends to introduce a medium-long term incentive plan starting from the second half of 2017 with the aim of encouraging the Executive Directors to act in view of maximizing the Group's value in the medium term and of aligning the directors' interests to those of the shareholders. This remuneration may be paid on a deferred basis, at the end of a period of indicatively three years and in any case in line with market practices of comparable companies in the same industry;
- fringe benefits: fringe benefits consist in the supply of goods and/or services assigned in accordance with market practice and in compliance with the legislation in force.

For a description of the short-term variable component and the medium-long term component of the Executive Directors, see Paragraph 3.3(i).

For the three-year period 2017-2019, the only Executive Director (i.e. the Chief Executive Officer) will not receive any additional remuneration for the position taken within the Board of Directors and its internal Committees, as he already receives a remuneration for the position as General Manager.

(ii) MANAGERS WITH STRATEGIC RESPONSIBILITIES

On 19 January 2017, the Board of Directors of Space2 decided to apply as guidelines for the remuneration of the Company's Managers with Strategic Responsibilities, following the coming into effect of the Merger, the same criteria applied by Avio pre-Merger. At the date of preparing this document, the Avio Group had not yet definitively identified the list of Managers with Strategic Responsibilities following the extraordinary transaction that led to the Company's listing on the Stock Exchange. In the Prospectus, the Avio Group identified the Senior Managers in office within the absorbed company on the Prospectus' publication date. Following the corporate transaction, some of them have been assigned additional duties and responsibilities also in compliance with the specific regulations applicable to the Avio Group (e.g. Decree Law 21/2012 and Law 185/1990). At the time of preparing this document, the Avio Group was therefore finalizing the precise definition and scope of the Managers with Strategic Responsibilities to also take account of such assignments; this activity is expected to be finalized by June 2017.

The remuneration of Executives with Strategic Responsibilities (and already that of Senior Managers) is structured to encourage management to focus on corporate results and value creation.

The remuneration of Managers with Strategic Responsibilities is composed of:

- A fixed component; this component takes into account the breadth and strategic relevance of the role played, the distinctive subjective characteristics and strategic skills of the managers appointed to this position.
- A fixed component; this component is sufficient to compensate the position also in case the performance objectives determining the payment of the variable remuneration are not achieved; this structure is intended, inter alia, to disincentive conducts that are inconsistent with the Company's risk appetite. More specifically, the fixed component is calculated according to the size of the managed business, the various responsibility areas covered, the Avio Group's complex corporate structure, including internationally, and the ability to contribute to the Avio Group's consolidated results;
- A short-term variable component; the purpose of this component is to encourage the management to work towards the achievement of annual targets that maximize the Avio Group's value, in line with shareholders' interests. The payment of this component is conditional upon reaching a minimum performance threshold with respect to the annual targets set by the Board of Directors, upon proposal of the Nomination and Remuneration Committee. The indicators used to define the annual business performance targets (and to calculate the actual amount of the short-term variable component) are typically the Group's financial and earning parameters such as Adjusted EBITDA, Net Financial Position and Operating Cash Flow. Each Manager is also assigned individual objectives specifically related to individual areas of responsibility, measured with predominantly quantitative, financial and earnings indicators, or operating indicators, designed to assess the actual impact of the individual manager's work in their area of responsibility or in areas of shared responsibility with other Managers. In determining the short-term variable component, the combined achievement of business results and individual results is measured to define an overall level of individual performance.
- A medium-long term variable component; at the date this document was drafted, this component had not yet been defined following the corporate transaction that resulted in the listing of the Avio Group on 10 April 2017. The Avio Group intends to introduce a medium-long term incentive plan starting from the second half of 2017 with the aim of encouraging Managers with Strategic Responsibilities to act in view of maximizing the Group's value in the medium term and of aligning their interests to those of the shareholders. This remuneration may be paid on a deferred basis, at the end of a period of indicatively three years and in any case in line with market practices of comparable companies in the same industry;
- fringe benefits: fringe benefits consist in the supply of goods and/or services assigned in accordance with market practice and in compliance with the legislation in force.

For a description of the short-term variable component of Managers with Strategic Responsibilities, see Paragraph 3.3 (ii).

3.3. RELATIONSHIP BETWEEN THE FIXED AND VARIABLE COMPONENTS OF THE REMUNERATION

(i) EXECUTIVE DIRECTORS

At the date of drafting this document, the only Executive Director was the Chief Executive Officer, who is also the General Manager; he will not receive any additional remuneration for the position taken within the Board of Directors and its internal Committees, as he already receives a remuneration for the position as General Manager.

REMUNERATION COMPONENT	DESCRIPTION OF THE REMUNERATION COMPONENT
Fixed component	Fixed remuneration designed to remunerate the areas of responsibilities while taking into account the best market practices for comparable companies.
Short-term variable component	Variable bonus established on an annual basis to the extent of 75% of the Fixed Component provided that the pre-defined objectives are reached and up to a maximum of 100% of the Fixed Component if objectives are exceeded. The right to receive a variable bonus is conditional upon achieving a minimum performance threshold with respect to the company's predetermined objectives. The business performance indicators used are the Group's Adjusted EBITDA and Net Financial Position, each equally weighted. For both of these parameters, business objectives are set with respect to the <i>budget</i> approved by the Board of Directors. For particularly challenging objectives, a multiplier can be introduced that can increase or decrease the final bonus.
Medium-long term variable component	With regard to the foregoing, a medium-term remuneration plan had not yet been finalized at the date this document was drawn up. As of the second half of 2017 the Avio Group intends to introduce an incentive system extending indicatively over a three-year period, based on the achievement of financial and earnings objectives (such as EBITDA, EBIT, Free Cash Flow, ROCE) measured cumulatively over an indicatively three-year period with respect to the business plan approved by the Board of Directors. The medium-to-long-term component will be determined in line with best market practices and in order to obtain a fully balanced pay-mix between fixed remuneration, variable component and medium-long term component, in line with the practices of comparable companies in the reference industry. The medium-long term variable component may be paid out in cash or shares or a combination of the two.

The Avio Group intends to introduce a medium-to-long term incentive plan that contains the main, best market practice clauses, such as *clawback and change of control clauses*, and clauses aimed at regulating cases of early termination of employment or the occurrence of extraordinary and unforeseen events.

(ii) MANAGERS WITH STRATEGIC RESPONSIBILITIES

While it should be noted that, as stated above, the Managers with Strategic Responsibilities were still being identified at the date this document was drawn up, the variable remuneration of the Avio Group's Senior Managers (as defined in the Prospectus) is composed of a fixed component and a variable short-term component.

At present there is no medium-to-long term variable component as at the Effective Date of the Merger all medium-term incentive plans previously approved by the Board of Directors and tied to the creation of value for shareholders were closed.

The short-term variable component of the Avio Group's Senior Managers - structured according to different principles depending on the different roles qualifying as Managers, having regard to the areas of responsibility and the achievement of the target objective - is on average 46% compared to the fixed component, and is greater as the role played and the extent of the area of responsibility increase.

REMUNERATION COMPONENT	DESCRIPTION OF THE REMUNERATION COMPONENT
Short-term variable component	Variable bonus established on an annual basis. The Senior Managers population is divided into 3 brackets depending on the level of responsibility and each bracket is assigned a different variable bonus; the bonus is expressed as a percentage of the fixed remuneration component if the predefined objectives are reached and up to a maximum of the fixed component if the objectives are exceeded. The variable Bonus for each Manager depends on achieving predefined business goals and a set of individual goals that are assigned with respect to the specific area of responsibility. The right to receive a variable bonus is conditional upon achieving a minimum performance threshold with respect to the company's predetermined objectives. The maximum bonus can be achieved only if both the business and individual objectives are exceeded. The business performance indicators used are the Group's Adjusted EBITDA and Net Financial Position, each equally weighted. For both of these parameters, business objectives were set with respect to the <i>budget</i> approved by the Board of Directors. With regard to the individual objectives, each Manager is assigned 4 or 5 specific objectives of the respective management area, to which financial and earnings indicators or operational indicators are associated based on the approved annual <i>budget</i> . In determining the overall individual performance, each objective is assigned a different weight. Generally, in the performance assessment there is only one qualitative objective. For particularly challenging objectives, a multiplier can be introduced that can increase or decrease the final bonus.
Medium to long term variable component	As stated above, a medium-term remuneration plan had not yet been finalized at the date this document was drawn up. As of the second half of 2017, the Avio Group intends to introduce an incentive system extending indicatively over a three-year period, based on the achievement of financial and earnings objectives (such as EBITDA, EBIT, Free Cash Flow, ROCE) measured cumulatively over an indicatively three-year period with respect to the business plan approved by the Board of Directors. The medium-to-long-term component will be determined in line with best market practices and in order to obtain a fully balanced pay-mix between fixed remuneration, variable component and medium-long term component, in line with the practices of comparable companies in the reference industry. The medium-long term variable component may be paid out in cash or shares or a combination of the two.

For details on the key guidelines for application of medium-long term incentive plans for Managers with Strategic Responsibilities, see the above comments on the remuneration of Executive Directors.

As regards the Internal Audit role, an *ad hoc* incentive plan will be implemented for this function manager, which in any case will link the variable component to objectives pertaining to the specific function/role rather than to business performance objectives (e.g.: qualitative assessment by the Control and Risk Committee over the three-year period).

4. Policy applied with regard to non-monetary benefits (fringe benefits)

4. POLICY APPLIED WITH REGARD TO NON-MONETARY BENEFITS (FRINGE BENEFITS)

Directors are not assigned non-monetary benefits, except for insurance coverages for liability arising from the performance of their duties (D&O insurance coverage).

The assignment of non-monetary benefits to Managers with Strategic Responsibilities, including the General Manager, is made in accordance with market practices in the various countries and in compliance with the local laws and regulations in force.

5. Policy on the compensation provided in the event of termination of office or employment

5. POLICY ON THE COMPENSATION PROVIDED IN THE EVENT OF TERMINATION OF OFFICE OR EMPLOYMENT

Subject to paragraph 3.3 above concerning the payment of the medium to long term variable component, for the General Manager and for all the Managers with Strategic Responsibilities, the employment relationship will continue to be governed by the employment contracts under Italian law, which do not envisage any further benefits other than those established by the Collective Labour Agreement (CCNL) in force, with the exception of the General Manager's and the General Affairs and Staff Manager's contracts that offer a better compensation than that envisaged by the Collective Labour Agreement (CCNL). More specifically, for the General Manager, a non-competition agreement will be in force for a 12-month period, following termination of the employment. In the event of termination of the office or of the employment, the General Manager receives a general allowance corresponding to 2.3 times his/her annual total remuneration in addition to the remuneration accrued until termination. In the event of termination of the employment before satisfying pension requirements, the General Affairs and Staff Manager receives a general allowance corresponding to 1.5 times his/her annual total remuneration.

It is the Company's practice to also enter into non-competition agreements with other Senior Managers, with specific reference to professional roles involving strategic knowledge that require imposing this constraint.

6. Insurance, social security and pension benefits

6. INSURANCE, SOCIAL SECURITY AND PENSION BENEFITS

See Paragraph 4