Avio S.p.A.

Registered office: Via Leonida Bissolati, 76, Rome Italy
Paid in Capital 90.761.670 Euro
Company Register – Rome Office No. 09105940960

2016 ANNUAL REPORT

CONTENTS

HIGHLIGHTS

Net Revenues [1]
Euro 292 million (+13,4% compared with 2015).

EBITDA
Reported: Euro 26,9 million (-3,5% compared with 2015)
Adjusted [2]: Euro 36,5 million (+2,7% compared with 2015)

EBIT
Reported: Euro 13,2 million (+25,7% compared with 2015)
Adjusted [2]:Euro 26,9 million (+20,9% compared with 2015)

Pre-tax profit
Euro 6,3 million (+43% compared with 2015)

Net profit
Euro 3,1 million (-41,4% compared with 2015)

Net financial position
Euro -18,6 million (-45,3% compared with 2015 data, corresponding to Euro -34,0 million)

Capital Expenditures
Euro 24,5 million (+78,8% compared with 2015)

Order book
Euro 928,6 million (+2,6% net increase compared to 2015)

Research & Development
Euro 79,2 million excluded *pass-through* costs incurred over the 2016, R&D expenses are equal to the 27,1% of revenue net of 2016 *pass-through* revenues (Euro 81,1 million at December 31, 2015, equal to 31,5% of revenue net of 2015 pass-through revenues)

Employees
758 as at December 31, 2016 (763 as at December 31, 2015)

[1] Revenues net of *"pass-through" revenues.*
[2] Adjusted EBITDA is considered a highly representative indicator for measuring the Group's financial results, besides not considering the effects of changes in taxation, in the amount and source of financing of capital employed and in depreciation and amortisation policies (items not included in EBITDA), it also excludes those factors that are non-recurring or exceptional, in order to increase the level of comparability of results.

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

2016 was an extremely important year for the Space industry in Europe, and particularly for the launchers sector. During the year, indeed, a new operating model (so called "governance") was defined, which is going to manage for the next few decades the activities of developing, manufacturing and marketing of Ariane and Vega spacecrafts.
Avio, as Vega's Prime Contractor, has played a very important role in this process, contributing with the European Space Agency (ESA), the French Space Agency (CNES), Arianespace (AE) and Airbus Safran Launchers (ASL) to the definition of the agreements for the implementation of the new pitcher governance. This new operating model, starting from the production of Vega C and Ariane 6, is going to give greater responsibilities to Prime Contractors on commercial exploitation for Arianespace and it's going to expand their role in the integration of launchers in the launch preparation phase. In November 2016 a Memorandum of Understanding (MoU) was signed between ESA, CNES, ASL, Avio and AE in order to establish the key terms of the new governance, the content of which was subsequently approved by the ESA Council in December 2016.
Waiting to bring Vega C and Ariane 6 to market, MOU is essentially preparing to update the Launchers Exploitation Declaration (LED), a document in which ESA Member States establish the conditions for commercial exploitation of European launchers (which in the new version will include Ariane 6 and Vega C). The revision of the LED will be preparatory to the review of the Launchers Exploitation Arrangement (LEA), a license in which sales of European launchers are entrusted to Arianespace.
These developments are extremely important for Your company as they consolidate the realisation of the new Ariane 6 and Vega C programs and they expand the role of Avio into them, defining, in advance of their entry into service, the essential terms of their marketing phase in order to collect orders with an adequate notice.
In relation to the new governance of European launchers, Avio has signed two important agreements with ASL Group and with Arianespace, which shortly are going to be implemented in preparation to the new commercial development phase. The first one, intitled "Avio-ASL Industrial Agreement", signed with ASL Group, is going to directly involve Avio on Vega's marketing activities inside Arianespace by an appropriate committee (VESC - Vega Exploitation and Sales Committee). The second one, intitled "Vega C exploitation organization at CSG", agreement signed with Arianespace, is going to give to Avio greater industrial responsabilities at the Kourou Space Center. Specifically Avio will manage Vega's launcher activities up to the moment of take-off. Both agreements project Avio towards managing the commercial exploitation of launchers in the future, detailing Avio's roles and responsibilities in these activities.
Space launch sector has been marked by a sustained activity during the 2016 (in line with 2015): 85 launchers were made worldwide (22 in the USA, 22 in China, 17 in Russia, 11 in Europe, 7 in India and 4 in Japan). There were 4 failures: one by Space X (USA), one by Soyuz (Russia) and two in China (in total there were 5 failures in 2015).
2016 was a very positive year for European lauch activities: the Kourou Space Center realzized 11 launches, including 7 of Ariane (number above the annual average) and 2 of Vega. Ariane's flights were particulary successful, considered that "Ariane 5" has achieved the reliability record with 76 consecutive launches without anomalies and, for the first time, it brought into intermediate orbit the Galileo satellite. Considering Vega's flights, it's important to underline that the first part of the year has been dedicated to the consolidation of VERTA's results (the industrialization phase has been completed by the end of 2015), while in the second half of 2016 started VERTA commercial activities related to the second production batch (next to the lot of industrialization). Both Vega's flights were set for "export" client: this data, again, demonstrate Vega's attractiveness on international markets and its flexibility for multi-payload lanches, bringing the number of consecutive launches without any anomaly to 8.
During 2016, Avio initiated a very important phase in the development of the new P120 thruster, which will equip both Vega C and Ariane 6, realizing the first carbon fiber engine casing and qualifying plant and machinery. During the same period, significant progress was made in the construction of the new factory that will host the production of the P120 thruster and the hydraulic and radiographic test plants that will allow to directly inspect the good performance of all production lots. The completion of the new factory in Colleferro is expected by the end of 2017, but

parts of the new plant will begin the production in 2017. During the same period, Avio continued the development of the Vega C launcher, realizing the first casing for the new engine of second stage Zefiro 40 and also completing the first inert propellant casting test. Good progress in the development programs of both P120 and Z40 (the new Vega C thruster) has allowed good progress on the Vega C launcher whose inaugural flight is expected in 2019.
In 2016, the company started all the activities in order to list Avio at Milan Stock Exchange. At the beginning of the year, preliminary work was focused on the preparation of the Prospectus and on the first interview with potential investors, finding interest for the sector and for the company. During the year arose the opportunity to chase the Stock Exchange listing process by an extraordinary business combination with a SPAC (Special Purpose Acquisition Company). This option underlined the opportunity to shorter list an hight free float than a traditional quotation, reducing exposure to the risk of market volatility.
On October 19, 2016, the shareholders Leonardo S.p.A. and Cinven Limited achieved an agreement with Space2 S.p.A. (Space2) in order to firstly transfer the 85.68% of the capital held by the investment funds and institutional investors mainly controlled by Cinven Limited and held by Viasimo Sarl to Space2, Leonardo S.p.A. and In Orbit S.p.A. (Avio's management investment vehicle) and subsequently merge by incorporation Avio into Space2, renaming it Avio S.p.A..
The structure of the transaction allowed to list on a regulated market more than the 65% of the company's capital resulting from the merger operation. In parallel, the body of the operation was approved on November 2016 by Decree of the Prime Minister according to Golden Power Act (DL 21/2012) in relation to the strategic role that Your company fulfill for the Defense and National Security. On December 2016, the composition of the new corporate bodies (Board of Directors and Board of Statutory Auditors) and a new Corporate Bylaws have been defined and approved.
This business operation was completed on April 10, 2017, conseguently Your Company was listed on the MTA's STAR segment of Borsa Italiana. At the time of listing, this was the shareholder's compostition: Leonardo at 28.29%, In Orbit at 3.87%, Space Holding at 3.80% and the rest of floating on the market. The transaction, at the same time as the merger, also allowed the company to increase its share capital, increasing the company's cash availability by over 60 million Euro.
Avio's listing rapresented an extraordinary and a really important event for Your company, substantially modifying the capital structure and giving to the company a greater flexibility in order to face the new challenges of investment and development.

In December 2016, during the Ministerial Conference of the European Space Agency, the ESA's Member States financed space activities for the next 3-5 years and, among other, approved the next evolution of the Vega Launcher. Indeed, the Conference financed all the necessary activities for the upgrading of the future Vega C launcher in order to increase the load capacity to 2.3 tonnes and the new development program for Vega E (successor to Vega C, which will be introduced in service starting from 2024). The development of Vega E includes the realisation of a new Upper Stage LOx-Metano engine, the push of which will allow the launcher to reach the performance levels required to expand the market segment (reaching 3.0 tonnes of payload capacity). The Conference guaranteed also funds necessary for the production accompanying programs of Vega and Ariane and for the development programs aimed at increasing the flexibility and versatility of Vega and Vega C launchers.
In particular, programs have been signed for the realization of a new dispenser for Vega C dedicated to small satellites (called SSMS) and for the creation of Space Rider, an orbital vehicle to launch with Vega C that can orbit around the Earth and return to the atmosphere. In both of these programs, Your company will play an actively role participating into their developments. The combination of these new subscriptions related to the 2016 Ministerial Conference set up important development activities for the coming years, further consolidating the prospects of Your company in the European launchers sector.

2016 ended with very positive economic and financial results. The order book recorded new contracts for developing and accompanying to the production activities both for Ariane and Vega, althought 2015 recorded the historical record of new acquisitions and order book. At the end of 2016, the net value of the order book was approximately Euro 775 million, recording a decrease of about 15% compared to 2015. This trend, largely in line with the forecasts and typical of Avio's cyclical participation in production and development program is associated with the significant increase of revenues recorded in 2016 (+ 13.4%) and the usual cycle of orders for Ariane and Vega production batches, which will bring on 2017 new production orders (for both Ariane and Vega), in reference of which the company has already begun to discuss contractual terms in 2016 (as for Vega, for example, Avio acquired in 2017, in line with the forecasts, an advance order related to the next batch of production).

Net turnover closed at Euro 292m, increasing by 13.4% compared to 2015, thanks to the full start of VECEP and P120 development programs with effect on Vega and Ariane business lines, respectively, and thanks to a higher level of production in the Vega business line.
Adjusted EBITDA closed at Euro 36.5m, up to +2.7% compared to the previous year, thanks to the increased volume of business for both Vega and Ariane business lines. Adjusted EBIT also closed at Euro 26.9m, recording an increase by 20.9% over 2015, benefiting from the completion of the amortization process of some long-term research and development costs. In 2016, non-recurring costs were significant, on the basis of which EBIT and EBITDA margins were adjusted. These non-recurring costs mostly refer to the extraordinary costs for the quotation operation.
The Adjusted Net financial debt of 2016 ended with a value of -11.2 M Euro, a significant improvement compared to -27.6 M Euro of 2015, even during a period of significant increase in capital expenditures (which reached Euro 24,5 million in 2016, increasing by 78% over 2015).

2017 provides good prospect for launches of Ariane 5 (with the possibility to realize also this year more than 6 launches) while for Vega are expected three launches in 2017. During the early months of 2017 a lot of effort was dedicated to the closing of the listing operation, which successfully ended on April 10th.

Giulio Ranzo
CEO and Managing Director
Avio S.p.A.

REPORT ON OPERATIONS

THE AVIO GROUP

PROFILE

The AVIO Group (referred in this Annual Report as "Avio" or the "Group") is a primary international operator *leader* in the space sector. Experience and know-how matured in the course of more than 50 years of activity allowed rAvio excelling in space launchers, solid space propulsion, liquid, cryogenic and tactical propulsion sectors.

The Group directly employs in Italy and abroad 758 highly qualified employees (data doesn't include the Europropulsion joint venture's employees).

The Group is present in Italy (employing 662 people), with operational headquarter located in Colleferro near Rome and other sites in Campania and Piedmont; other operational sites are located abroad in France and in French Guyana.

The Group operates in the field of Launching System and space propulsion, particularly in design, development, production and integration of:
- Spacecraft (Vega)
- Propulsion systems for solid and liquid propellant launchers
- Solid-propellant and propulsion systems for tactical missiles
- Liquid-propellant and propulsion system for satellites
- Propulsion systems with low environmental impact.

Furthermore, the Group recently started new activities on ground infrastructure, necessary to all the so called "ground" operations on lauchers.

The **space launchers** with AVIO products are the following:
- Ariane 5, for the positioning of the satellites (up to 10 t) in *Geostationary Earth Orbit – GEO* (approximately a height of 36.000 km)*;*
- *VEGA,* for the positioning of the satellites (up to 2 t) in *Low Earth Orbit – LEO* (altitude between 300 and 2000 km).

Since the late 80's AVIO participates in Ariane 5 program, supplying the boosters and the oxygen turbo pump of Vulcan engine. Since 2000, through its subsidiary ELV (Avio - 70%, Italian Space Agency – 30%), Avio develops and manufactures VEGA, the European space launcher for satellites up to 2.000 kg, which carried out the successful qualification launch in February 2012 and concluded successfully in December 2015 the 5 launches required from the contract VERTA in order to complete the qualification and it realize in 2016 the first launch of the commercial phase, still on going. The success of this product has allowed Italy to join the small group of countries in the world developing and producing its own space launcher. Avio is present since 1984 with its production facilities at the European Space Centre in French Guiana, for the production of solid propellant, Ariane' and Vega's engines, for the assembly of the booster and their integration to the Ariane launcher and for the integration of the entire Vega launcher.

Regarding **tactical missiles**, AVIO takes part to the principal national and international programs, including:
- ASTER, weapon system ground-air
- CAMM-ER, tactical missile under development

In the field of satellites propulsion, Avio has manufactured and supplied to ESA and ASI propulsion subsystems for launching and controlling phases, including the most recent SICRAL, Small GEO and EDRS-C.

AVIO operates in four primary business segments:

- **Ariane**

  Ariane is a spacial programme for GEO missions, sponsored by ESA, where Airbus Sfran Launchers (ASL) is a prime contractor and Avio operates as subcontractor for the producion of Ariane-5's components and in particular for the realisation of the solid propultion booster P230 and for the liquid oxygene turbo pompe (LOX) for Vulcain 2. Avio is also subcontractor for the new generation launcher, Ariane 6, which is predicted to be launched in 2020. For this launcher Avio is developing and will produce (i) the solid propelant engine P120C and (ii) the liquid oxygene Turbo-pompe (LOX) for Vinci egnine, besides continuing to produce the liquid oxygene turbo pompe (LOX) for the engine Vulcain 2 of Ariane 6.

- **Vega**

  Vega is a spacial programme for LEO missions, sponsored by ESA ,which is the Group prime contractor through the subsidaty ELV, for the production of Vega launcher and Avio is subcontractor for the realisation of the solid propultion engine P80, Zefiro 23 and Zefiro 9 and of the populsive module AVUM. Also, the Group is prime contractor for the new generation launchers Vega Consolidated ("Vega-C") and Vega Evolution ("Vega-E"), whose qualification launch is planned to happen respectively in 2018 and 2024.
  For these latter the Group, through its subsidiary ELV is responsible for the development and subsequent production of the entire space launchers, while Avio is responsible for the development of (i) the solid propelant engine P120C (first stage), (ii) the solid propellant engine Z40 (second stage as a replacement for the actual Z23) and (iii) the cryogenic engine of liquid oxygen-methane for the high stage of Vega-E.

- **Tactical Propulsion**

  Avio is engaged in the Italian-French-UK joint program for the development and production of Aster 30 engine, more specifically the development and production of the propulsion components (booster and sustainer), the guide (TVC) and the aerodynamics (wings). The Aster 30 is considered one of the more powerful and technologically advanced tactical use solid propellant engines in the world. Considering the development plans, Avio has acquired from MBDA the contract for the development of the missile propulsion system Camm-ER, which qualification flight is expected for the 2019

Considering 2016's net *pass-through* revenues amounting to Euro 292 million and a gross profit margin of 9,22%[(3)], the Group currently holds the top position in the Italian and European space industry, to the competitiveness of which contributes realizing abroad more than 95% of its revenues.

The strong technological content of the activities led Avio to incur costs for research and development activities - manly commissioned by ESA, ASI and Member State ministries – approximately equal to the 27% of 2016's turnover excluding the pass-through. These activities were carried out both on their own and through a network of laboratories and collaborations with many of the most important universities and research centers at national and international level.

[3] *Determined as Adjusted EBITDA.*

CORPORATE BODIES

Board of Directors

On December 1, 2016 shareholders' meeting of Space 2 S.p.A. elected the Board of Directors of Avio S.p.A. considering as effective date the 10th April 2017, date of merger by incorporation of Avio S.p.A. in Spase 2 S.p.A.. The Board of Directors will remain in office for three years until the approval of the financial statements of December 31, 2019.

Roberto Italia	Chairman
Giulio Ranzo	Chief Executive Officer
Donatella Sciuto	Independent Director
Maria Rosaria Bonifacio	Independent Director
Monica Auteri	Independent Director
Giovanni Gorno Tempini	Independent Director
Vittorio Rabajoli	Director
Luigi Pasquali	Director
Stefano Ratti	Director

Board of Statutory Auditors

On December 1, 2016 shareholders' meeting of Space 2 S.p.A. elected the Board of Statutory Auditors of Avio S.p.A. considering as effective date the April 10, 2017, date of merger by incorporation of Avio S.p.A. in Spase 2 S.p.A.. The Board of Statutory Auditors will remain in office for three years until the approval of the financial statements of December 31, 2019.

Riccardo Raul Bauer	Chairman
Claudia Mezzabotta	Statutory Auditor
Maurizio Salom	Statutory Auditor
Maurizio De Magistris	Alternate Auditor
Virginia Marini	Alternate Auditor

External Auditors

Deloitte & Touche S.p.A.

RECENT HISTORY

1994
The Group was founded as part of the Fiat Group in 1908, for the production of the first aircraft engine, and in 1994 acquired BPD Defence and Space, a company founded in 1912 operating in the development and production of ammunition for the Italian and foreign military corps, reaching a size of approximately 4000 people.

2000
In addition to the traditional aeronautics and space production activities, in 2000 the Group, in collaboration with the Italian Space Agency (ASI), set up ELV S.p.A., 70% owned, for the development and design of a whole new launcher and in that context, based on the agreement with the European Space Agency (ESA), assumes the important role of prime contractor for the European launcher Vega.

2006
The Group is acquired by BCV Investments, a company belonging to the primary international private equity fund Cinven Ltd. (81%), the Finmeccanica Group (14%) and other investors (5%).

2012
In February, Vega launcher, was designed and manufactured by Avio.
In December Avio announces the signing of an agreement for the sale to General Electric of its aeronautical business (so called Aviation business).

2013
In May, the new Vega launcher successfully completed its first commercial flight.
On 1 August 2013, the Aviation business was formally sold by Avio to the General Electric Group.

2014
In December, Ministerial Conferences of the countries members of European Space Agency decided to finance the programme of development and consolidation of Vega launcher until it is concluded, which includes a first stage joint (P120C) with the future launcher Ariane 6 that is also financed up to its qualification.

2015
The Conference of Ministers of ESA Countries, held in December 2014, brought in August 2015 important development contracts for Vega-C and Ariane launchers. Avio played a very important role in P120 development program (first stage engine for Vega-C and Ariane 6), and in development of Vega-C laucher as the VECEP programmer.
For the first time in the history of Kourou Space Center, 12 launches were made in one year, including 6 for Ariane and 3 for Vega.

2016
On October 19, 2016, the Board of Directors of Avio S.p.A. approved the merger by incorporation of Avio S.p.A. in Spase 2 S.p.A (hereinafter "Space2"), Italian SPAC listed on the MIV market / SIV segment of Borsa Italiana S.p.A., as an alternative to the traditional IPO process. The operation was finalized to list the activities of Avio S.p.A. on the Italian stock exchange.
As first step the operation consisted of the acquisition of the 85.86% of Avio's share capital by Space 2, by Leonardo S.p.A., a company listed on the Stock Market (MTA) of Borsa Italiana S.p.A. (hereinafter "Leonardo"), and by In Orbit S.p.A., a newly constituted company incorporated by some of Avio S.p.A.'s strategic managers.
As second step the operation consisted of the merger of Avio S.p.A. in Space 2 thereby listing on the italian regulated market.
Leonardo, Avio S.p.A.'s shareholder since 2003, on consegüence of the operation described above, will increase its investment in the Company rising its Avio S.p.A.'s share capital quote to around 28%. The management of the company, through the company In Orbit S.p.A.,as well as Space2 and Leonardo will increase its investment in Avio S.p.A., while Cinven Limited, other institutional investors and Viasimo will leave entirely the share capital of Avio S.p.A..

In the aforementioned deliberation was approved:

- the merger by incorporation of Avio S.p.A. in Space2
- the Directors' Explanatory Memorandum on the abovementioned merger operation draw up using the art. 2501-quinques of the Italian Civil Code
- a plan for the Company's strategic executives connected with the success of the listing transaction

On October 19, 2016, the Board of Directors of Avio S.p.A. approved the Space2 prospectus to be informally deposited with the Consob and Borsa Italiana.

On December 23, 2016, the Extraordinary Shareholders' Meeting of Avio S.p.A. approved the merger by incorporation of Avio S.p.A. In Space2 S.p.A. within the meaning of the Article 2502 of the Italian Civil Code and Corporate Bylaws as resulting from the merger operation.

For more deltailed information, please refer to the "Significant events subsequent to year end" section of the Report on Operations.

BUSINESS AREAS

Main Activities: design, development and manufacturing of solid and liquid propellant propulsion systems for satellite launch vehicles, solid-propellant propulsion systems for tactical missiles, development and integration of complete light space launchers (Vega), Research and Development of new propulsion systems with low environmental impact and attitude control motors for satellites.

Main programs: Ariane, Vega, Aster.

Main customers: ASL (Airbus-Safran-Launchers), ASI (Agenzia Spaziale Italiana), ESA (European Space Agency), ARIANESPACE e MBDA

Industrial plants: Colleferro (Rome), Kourou (French Guyana).

GEOGRAPHICAL PRESENCE

ITALY

(I) (II) (III)	Colleferro (Roma), solid-space propulsion

EUROPE

(IV)	Suresnes – Francia, Europropulsion S.A.
(IV)	Evry-Courcouronnes – Francia, Arianespace S.A.

REST OF THE WORLD

(II) (IV)	Kourou - Guyana francese, assembly and loading of Vega and solid propellant boosters of Ariane 5

Key to symbols

(I)	*Headquarters*
(II)	*Industrial plants and offices*
(III)	*Research laboratory*
(V)	*Consortiums and participating companies*

STRATEGY

Avio, European leader in space transport system and in space solid and liquid propulsion, consolidated in 2016 its role of excellence in space sector, in particular throught the success of the 7° and 8° launch of the Vega launcher and the seventh launch of Ariane 5 vector (84°-90° launch of Ariane 5, that lead to 234 the total number of launch of Ariane line, of which 76 consecutive success).

The Ministerial Conference held in Luxembourg on December 2014 has in fact deliberated the final approval of the Development program of Ariane 6 vector, which foresees the qualification flight in 2020 and its definitive full-service entry in 2023, also the consequent complete disposal of the current vector Ariane 5. Alongside with this, the Conference has stated to continue the evolution program of VEGA (Vega-C), which will increase its useful capacity from the current 1,500 kg in polar orbit to 2,000 kg in the same polar orbit starting from 2019. In continuation to this decisions related to European launcher's sector, in August 2015 ELV and ESA singed the VECEP contract for the development of VEGA C and P120 considered as "common element" of VEGA C and Ariane 6.
The Ministerial Conference held in Luxembourg on December 2016 definitively confirmed the European stategy on the launher evolution. In particular, Vega C obtained new funds in order to make the P120 engine more powerful and to make the Payload fairing bigger in order to host bigger satellites. Vega E obtained initial funding for studies on the new 4 stage with its LOX-Metano engine.

In 2016 the main Avio activities involving the P120C engine were related to the revision and consolidation of the engine size in order to increase the performance of the Ariane 6 launcher as requested by ASL. These activities were carried out by Avio as responsible and as part of the technical assistance provided to EUP.
A summary of the main milestones is set out below:

- Preliminary Design Review (PDR) of loaded casing (LMC) – January 2016
- Performance Optimization Decision Point – January 2016
- Delta-Preliminary Design Review (D-PDR) of the engine (SRM) – June 2016
- Signature of P120C engine development contract – June 2016
- Delta-Preliminary Design Review (D-PDR) of loaded casing (LMC) – July 2016
- Delta-Preliminary Design Review (D-PDR) of the insulated casing (IMC) – November 2016
- Industrial Key-Point (IKP) of the igniter – (November 2016)
- commencement of manufacturing operations of the first casing of the P120 engine for the inert propellant loading– (December 2016)

In 2016, Avio consolidated with its National Agency and European Agency its strategy of expanding Vega's accessible market, through the adherence to ESA programs named:

- As already mentioned, Vega C +, which aims to develop an expanded diameter payload fairing (possibility to orbiting larger volume satellites), a lighter structures of the AVUM stage (potential useful mass gain) and a more capacious liquid propellant tanks.
- SSMS which aims to develop a dispenser in order to orbit the so-called SmallSats (small satellites in the mass range of 1 to 400 kg); This type of satellites (whether they are single or part of the so-called constellations) represent an ever-increasing number of market demand; some launchers of the same Vega class, such as Dnepr and PSLV, are already equipped with SSMS-like dispensers that allow the same launchers to offer a multi-launch service dedicated to small satellites in this mass range.
- Vega-C Light and Vega-E Light, or rather vectors for satellites with a mass lower than 500 kg derived from under development Vega evolutions.

In the 2016 Ministerial Conference, held in Switzerland on 1 and 2 December, all the above-mentioned programs received additional funding to cover the development and consolidation activities for the next 3-5 years.

Vega's second development step (also known as Vega E), also financed at the 2016 Ministerial Conference, will allow, from 2024 onwards, to put into orbit a payload of about twice the current and it will allow Avio to consolidate its expertise in the field of liquid propulsion.
This is consistent with the image that the Company is outlining together with the National and European Agencies. This framework provides that, starting from 2025, termination year for the co-operation with Soyuz, autonomous access to Europe's space will be guaranteed only by the two vectors Ariane 6 and Vega for all the missions in geostationary orbit, in average orbit in low orbit.

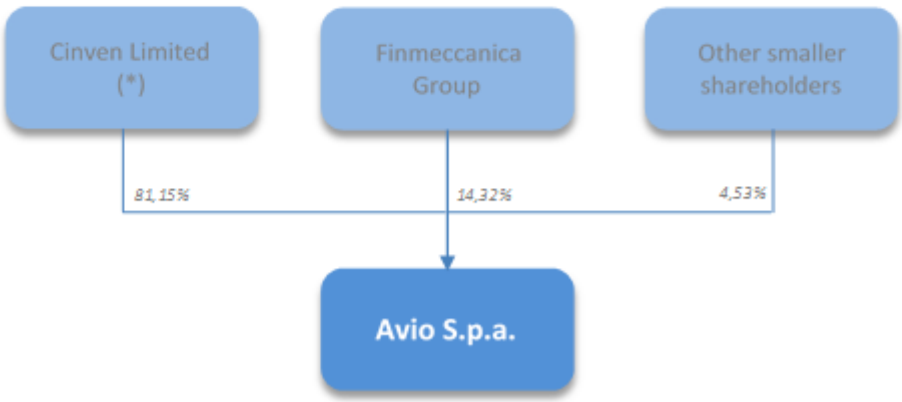
Alongside with the consolidation and evolution of the solid propulsion, Avio's strategic proposal is also based on the development of the liquid propulsion and in particular of the liquid oxygen/methane propulsion. Through the collaboration with the company KBKhA and following the successful 2014 bench test of the liquid oxygen/methane, Avio created the basis to propose the development of a liquid oxygen/methane engine for the last stage of the future VEGA versions, which will be competitive both in terms of performance and in terms of compliance with the "clean space" parameters that European politics will foresee in the next future.

During the 2016 the Company, expanding its skills perimeter, started activities on the so-called "ground" field, in other words all the mechanical, electrical and fluid activities on the structure of the launch base. This Avio's new activity was essentially done through the agreements reached with Arianespace on the new perimeter of the "Launch System" activities in French Guiana, already in 2017.
Lastly, in 2016, the Company implemented the new governance model of the European Space Sector through an agreement signed with the ASL partner company, Ariane launcher 5's Prime Contract and its evolution Ariane 6. This model will allow Avio to have direct control on Arianespace's Business Plan regarding the marketing of the Vega launcher and its evolutions in order to have a balanced management through the determination of volumes and relative prices, together with the control of the recurring costs of the entire launch system.

OWNERSHIP

The following describes the main corporate steps that over the year have changed the Avio S.p.A.'s share capital structure (refer to the section "Significant events after year end" on Report on Operations of this financial statements for more details on the recent business combination that led the Company to be listed on the STAR segment of the MTA Market of Italian Stock Exchange on April 10, 2017):

a) On December 31, 2013, Avio S.p.A.'s share capital was totally held by the sole shareholder BCV Investments S.C.A., a Luxembourg company, owned principally by investment funds and institutional investors managed and mainly controlled by the primary international private equity fund Cinven Ltd. (ca. 81%), and from Finmeccanica Group (ca. 14%), one of the global leaders in the aerospace and defence sectors, as well as other smaller shareholders (4,53%);
b) On June 10, 2014, the extraordinary board of BCV Investments S.C.A. has decided the voluntary intention to liquidate the Company. Consequently BCV Investments S.C.A. changed its name itself in BCV Investments S.C.A. in liquidation and appointed as liquidator BCV Managements S.A.
c) Consequently, on December 31, 2016, the Company's share capital structure was represented by investment funds managed and controlled principally by Cinven Limited (for a total of approximately 81.15%) and Finmeccanica SpA, now Leonardo SpA (About 14.32%) and other smaller shareholders (4.53%), as follows:



(*) Through (a) the management of a plurality of investment funds of Cinven Group (ca. 59.78%) and (b) institutional investors whose rights to vote are exercised according to instructions given by Cinven Limited (ca. 21.37%).

d) As described in the section "Significant events after the year end" of the Report on Operations on this Financial Statement, during the 2017, Space2 (Italian SPAC, sponsored by the investment company Space Holding, listed on the MIV market / SIV segment of Borsa Italiana S.p.A), Leonardo and In Orbit SpA (a newly created company owned by some strategic executives of Avio S.p.A.) completed the acquisition of the 85.86% of the share capital of Avio S.p.A., subsequently Avio S.p.A. was incorporated (business combination operation) into Space2 with the consequent listing of Avio S.p.A. on April 10, 2017 at the STAR segment of the Italian Stock Exchange MTA Market.

2016 FINANCIAL YEAR

MAIN EVENTS

Ariane Launches

2016 is confirmed positive for the Ariane 5 Launcher, which has successfully carried out 7 flights, of which 6 commercial and 1 institutional putting in total 14 satellites in the orbit, each one of mass between 0.7 t (Galileo satellites of the institutional launch) and about 7 t (commercial telecommunication satellites). With this performance, Arianespace's upwards the trend of recent years (6 launches on average per year) with a share of 38% in the number of commercial launches in GTO/MEO (also includes Soyuz flight operated by Arianespace) and 41% of the number of commercial satellites launched (also includes satellites launched by Soyuz flight operated by Arianespace).

Vega Launches

In 2016 were successfully performed two launches of Vega carrier: VV07 and VV08.
The integration campaign of the VV07 launcher (the first of the production contract is called Batch 2°) started in June but was suspended in summer due to the delay of the satellites SkySat; the campaign was resumed in September 2016 and was completed on September 15, 2016 when was successfully performed the launch into orbit of satellites PerúSAT-1 and SkySat -4/-5/-6/-7/
VV08 launch preparation campaign began in October and led itself nominally up to end with the successful launch of December 5, 2016 with which the satellite of the Turkish government GÖKTÜRK-1 was put in orbit.

Tactical propulsion activities

Within the ASTER Program in 2016 the production of booster, sustainer and wings has continued and the year was characterized by the following major events:
-21 booster produced;
-start of re-life activities that will be developed in three years, to find obsolete components and "reach"of ASTER engine;
-acquisition of MoD contracts Fr and export business for production of about 50 booster a year starting in 2017.

With regard to the CAMM-ER, Avio is researching the development of the engine, wings and drain gutter.
The main activities of the exercise, among all, include a shooting bench with reinforced housing, two pitches to school with motor casings, some hydraulic tests on engine casings and four motor casings.

Main contractual arrangements and events

Regarding the current production, the company sent to the customer SLA, at his request, a proposal for the production of Ariane 5 boosters and 18 pairs further 18 Turbo pumps for Vulcain 2 (future Batch PC), while for Vega subsidiary ELV began discussions with customers Arianespace for the extension of the Batch 2 production contract.

After the signing of the contracts which have marked the beginning of the development activities of the launchers Ariane and Vega C 6, which are intended to enter in service respectively in 2019 and 2021 and replace, after a transitional period, the current Vega and Ariane 5. In June 2016 the company, in its role of Prime Contractor and on behalf of its subsidiary ELV signed the subcontract for the development of P120 C SRM with sister company Europropulsion, alongside what has been done by the company ASL.
Also in June, the company signed a contract with ASL for the development and qualification of liquid oxygen turbopump Win meant to equip the Upper Stage of the Ariane launcher future 6.
In the field of tactical propulsion, the Company has acquired both small development contracts (eg: ASTER 30 electro-mechanical TVC) and production accompanying (eg ASTER aging, ASPIDE lighters).

Other Activities

Between April and September, the Company concluded a number of important strategic agreements with ASL (Ariane launcher ESA's prime contractor) and Arianespace (Vega's marketing manager). These agreements form the basis for defining the principles of the new governance, first of all the responsibility of the prime of the commercial exploitation of each launcher, therefore Avio / ELV for Vega and its evolutions and ASL for Ariane 6.

With regard to the pre-impregnation of carbon fibers (in view, above all, of the production of P120 C engine casings of Vega and Ariane 6), the collaboration between Avio and ADLER TTA has now been realized through the signature of a MoU that allowed the launch of a first laboratory test by Avio on Adler materials and, above all, on the definition of a Business Model for Avio's supply of Adler prepreg material to its own aeronautical and automotive commissions. Both the offer and the Business Model are, at the time of writing this report, being evaluated by the Parties.

MARKET DEVELOPMENTS AND BUSINESS PERFORMANCE

General situation

In 2016, 85 orbital launches were carried out by 8 countries, in line with what happened in 2015 (86 launches in total, with launch services secured in 7 countries.) Most of these launches were institutional (81%), or financed by government budgets (whether for civilian or military purposes), the rest were commercial (19%) and led to orbit 104 major satellites (39 of them in GEO) and about 115 secondary satellites, generally small in size, that have exploited an "orbit" in the launch of the main satellite.
In the decade 2015-2024, the trend on the number of satellites that will require a launch service is almost stable for GTO satellites (these satellites are almost exclusively commercial and dedicated to broadcasting services), while a significant increase in satellites NGTO class, both institutional and commercial, with applications especially in the field of Earth Observation and Navigation, but also in the near future, for applications related to the extension of broadband, internet, mobile telephony, etc. With regard to these services, there is reason to believe that the so-called constellations of small mass satellites, typically of the order of 100 kg, and the number of units that will vary from a few hundred to thousands, will be assisted. It is expected that most of the increase in launches will be absorbed by launchers that at that time will have the possibility of multiple missions (as the Company is doing with the ESA Program called SSMS) and high cadences.
Another fundamental parameter in the market analysis of satellites and launchers is related to the average mass released in orbit: in 2015 the total mass of satellites remained substantially unchanged from the previous years (about 350 t), in 2016 this parameter was equal to about 330 tons.

Market launchers

2016 confirmed once more the global trend of these last years:

- only a few nations in the world are able to offer a launch service capable of responding to a captive institutional market that always remains supported: Russia, USA, China, Europa, India and Japan;
- a number even more restricted of nations respond to a commercial demand: first of all Europe with ARIANE 5, VEGA and SOYUZ range of launchers offered by Arianespace, but also USA with the affirmation of launcher FALCON 9, commercialized by Space X (5 commercial launches and a "failure" before the launch), Russia with Proton, commercialized by ILS and India with the launchers operated by ISRO (PSLV e GSLV).

In the market’s equilibrium that tends to be settled between these nations, it is possible to notice a low “failure” rate of the European launchers range (1% if included launchers which are now still in service, against rates at least twice for the other nations): in this context we point out that ARIANE 5 has recently made its consecutive 76th launch without failure and VEGA on 31st December 2016 a score of 8 launches obtained with 8 attempts (from the european productions, only Soyuz, moreover made in Russia, has failed a launch in 2014)

Globally, on December 31, 2016:

- the countries with the largest number of launching are the US and China (22 each), followed by Russia (17), Europe (11), India (7), Japan (4), North Korea and Israel (1 each); These numbers are basically in line with data for the last 5 years
- on 85 total launches, 4 failures were recorded (2 for Chinese launchers, 1 Russian and 1 US when the launcher - Falcon 9 - was still on the ground), against 5 of 2015.
- they launched two new Chinese CZ-7 and CZ-5 launchers, which will mainly operate in LEO and GEO orbits. These Chinese launchers, united to those who qualify for Flight in 2015 and who will operate in orbit LEO, indicate the strong renewal of the Chinese fleet and confirm China's willingness to turn to the commercial market as well as meet the strong demand internal.

- 2 new launch sites were inaugurated in Russia and China
- Several attempts have been made to recover the USA Falcon 9 (Space X) propulsion stages, both on land and on a marine platform, some successfully carried out, others concluded with a "failure"
- Falcon 9 has just orbited a satellite (Eutelsat 117 West B) equipped exclusively with electric propulsion, confirming that this technology continues to take hold.

ANALYSIS OF THE GROUP'S RESULTS OF OPERATIONS AND FINANCIAL POSITION

Analysis of the results

The following table summarises the Group's result from operations for 2016 and 2015 (amount in thousands of Euro):

	2016	2015	Change
Revenues	339.685	279.227	60.458
Of which: *"pass-through" revenues*	47.676	21.822	25.854
Net Revenues (net of *pass-through*)	**292.009**	**257.405**	**34.604**
Other operating income and change in inventory of finished and semi-finished goods	11.370	9.883	1.487
Costs for materials and services, for personnel, other operating expenses, net of costs capitalised and *pass-through*	(278.903)	(241.275)	(37.628)
Effects of investments revaluation using the Equity Method – operative income/(expenses)	2.461	1.893	568
Operating results before depreciation and amortisation (EBITDA)	**26.936**	**27.906**	**(970)**
Depreciation, amortisation, write-down and impairment	(13.727)	(17.399)	3.672
Operating results (EBIT)	**13.209**	**10.508**	**2.701**
Interests and other financial income (expenses)	(6.950)	(3.332)	(3.618)
Financial results	**(6.950)**	**(3.332)**	**(3.618)**
Results from financial investments	0	(2.799)	2.799
Results before taxes	**6.260**	**4.378**	**1.882**
Income taxes – current and deferred	(3.120)	986	(4.106)
Net result (owners of the parent and non-controlling interest)	**3.140**	**5.364**	**(2.224)**

The "*Pass-through*" revenues derive from the contractual agreements subscribed between the subsidiary ELV S.p.A. and European Space Agency in August 2015, concerning the development and realization of the new propeller "P120" for the new launcher Vega C, as well as the sharing of Vega C's new propeller "P120" also with Ariane 6. Because of the implementation of these new agreements, the consolidated revenues of Avio Group include the following double invoicing:

- the first invoicing between the parent company Avio S.p.A as a sub-supplier and the non-consolidated *joint-venture* Europropulsion S.A;
- the second invoicing between the subsidiary ELV S.p.A as prime contractor and the final client, European Space Agency. In this case, there is only a re-invoicing of costs without any margin coming from the non-consolidated joint venture Europropulsion S.A. - not eliminated in the consolidation process of the Avio Group because of being realized with third parties - and referred in this report as "Pass-through".

Net *"Pass-through"* revenues amounted to Euro 292.009 thousand for 2016, showing an increase of Euro 34.604 thousand (+13,4%) compared to 2015. This increase is mainly attributable to the Ariane 6 development program (approximately Euro 19.0 million) launched in 2016 and to the Vega program (Euro +15.7 million) for an additional flight in 2016 compared to 2015, offset by minor development activities.

The following table summarises the composition of revenue according to bussines areas:

Business Area	2016	2015	Changes
Ariane [(1)]	144.540	125.404	19.136
Vega	137.372	120.869	16.503
Tactical propulsion	10.097	11.132	(1.035)
Revenue at net of pass-through	**292.009**	**257.405**	**34.604**

(1) Revenues from the Ariane business line also include revenues from the production of liquid propulsion systems for satellites, destined almost entirely to the Ariane business unit, as well as real estate revenues that account for a negligible portion of total revenues.

Operating profit before amortization of tangible and intangible fixed assets (EBITDA) for the year 2016 was 26,936 thousand of Euro, essentially in line with the corresponding figure in 2015 (-970 thousand, -3.5%), mainly attributable to the resulting profit from higher revenues (volume effect), offset by the total costs associated with Space2-Avio.

The financial year 2016 shows a preliminary operating profit (EBIT) of Euro 13.2 million, an increase compared to the corresponding amount in 2015 of Euro 2.7 million (+ 25.7%) mainly attributable to the components Of the EBITDA, to the effect of completing the amortization process of some intangible assets.

For a more complete representation of the Group's income performance, the following are the adjusted values for EBITDA and EBIT, both in absolute terms (amounts in thousands of Euro) and in marginal terms, achieved in 2016 and in the Corresponding 2015 exercise:

	2016	**2015**	**Change**
***Adjusted* EBITDA**	**36.511**	**35.538**	**973**
Adjusted EBITDA *Margin (Adjusted EBITDA/Revenues net of pass-through)*	12,5%	13,8%	
***Adjusted* EBIT**	**26.868**	**22.223**	**4.645**
Adjusted EBIT *Margin (Adjusted EBIT/Revenues net of pass-through)*	9,2%	8,6%	

Adjusted EBITDA is considered by Management as a representative indicator for measuring the Group's financial results, since aside form not considering the effects of amortization and depreciation's policies, of the amounts and types of invested capital financing sources and eventual taxation variations (components already excluded in EBITDA), in order to increase the comparability of operational results in the comparison periods, it also excludes components of non-recurring nature or not related to the Group's operations. Adjusted EBITDA for the year 2016 was 36,511 thousand Euro (12.5% of net revenues) compared to the value of 35,538 thousand Euro for the 2015 financial year (13.8% of net revenues), mainly attributable to Profit from higher revenues (volume effect).

Adjusted EBIT is also considered by Management a representative indicator for measuring the Group's financial results, and is measured by operating results (EBIT) excluding events considered as non-recurring or not related to the Group's operations (already excluded from the calculation of Adjusted EBITDA) and also removing amortization of costs capitalized in relation to customer relationships for participation in programs, recorded at the moment of the Group's acquistion by Cinven, equal to Euro 4,084 thousand in 2016 and 2015, that will run out in 2021.

Adjusted EBIT is equal to Euro 26,868 thousand in 2016 (9.2% of net revenues). In comparison with the 2015 amount, that reached Euro 22,223 thousand (8.6% of revenues), it shows an increase in the contribution reflecting (in addition to the trend of the Adjusted EBITDA) the effect resulting from the completion of the amortization process of some intangible assets.

The following table shows the reconciliation between EBIT, Adjusted EBIT and Adjusted EBITDA for 2016 and 2015 (amount in thousands of Euro):

			2016	**2015**	**Change**
A	**Operating profit/EBIT**		**13.209**	**10.508**	**2.701**
	Non-recurring or exceptional expenses/(income):				
	- Grants/staff incentives [1]		3.946	2.703	1.243
	- Costs related to non-recurring events (tax, legal,etc.) [2]		6.629	2.154	4.475
	- Costs for cash-settled share-based payment [3]		(1.016)		(1.016)
	- Other personnel costs		862	1.015	(153)
	- Provision for registration duty [4]		58.220		58.220
	- (Refund) registration duty [4]		(58.220)		(58.220)
	- Charges for tax provisions [5]		(4.113)	167	(4.280)
	- Other non-recurring expenses/(income) [6]		2.073	425	1.648
B	**Total non-recurring or exceptional expenses/(income)**		**8.381**	**6.464**	**1.917**
C	*Investor Fees*		1.194	1.167	27
D	Other adjustments for non-recurring expenses		-	-	-
E	Amortisation of customer relationships for participation in programmes [7]		4.084	4.084	-
F	***Adjusted* EBIT**	**A+B+C+D+E**	**26.868**	**22.223**	**4.645**
G	Net depreciation/amortisation [8]		9.643	13.315	(3.672)
	***Adjusted* EBITDA**	**F+G**	**36.511**	**35.538**	**973**

(1) This item includes non-recurring costs, included in provisions for risks and charges, relating to:

- an incentive plan consisting of a lump-sum non recurring bonus related to the successful completion of the Space2-Avio transaction ("Exit Bonus 2017") attributed by the Board of Directors on October 19, 2016 to the Senior Executives of the Avio Group and also aim to ensure their retantion in Avio;
- an incentive plan that, with the achievement of the Group's and Avio's valorisation targets, including the sale of Avio, enables Avio's Vice President in office before the Space2-Avio operation and up to the effective date of the merger (Ing Lasagni) to receive a prize of variable amount between a minimum of Euro 500 thousand and Euro 700 thousand gross;
- an incentive plan that, following the completion of the Space2-Avio operation, allows the Chairman of the Board of Directors in office before the Space2-Avio operation and until March 31, 2017 (Mr. Alan Bowkett) to perceive A prize equal to Euro 200 thousand;
- non-recurring appropriations, included among the provisions for risks and charges, relating to personnel costs, for a total of Euro 220 thousand including, amongst others, the costs associated with the mobilization of mobility procedures and retirement costs, as well as exiting incentives.

(2) This item mainly includes charges relating to:

- the company's traditional stock quotation traded on the equity markets, commenced during the first nine months of 2016, and subsequently replaced by the Space2-Avio (3.4 million Euro);
- Space2-Avio transaction successfully completed on April 10, 2017 with merger by incorporation of Avio into Space2 and the listing of assets on the STAR segment of the Milan Stock Exchange (Euro 0.9 million);
- legal and tax assistance activities related to specific events of 2016 (Euro 1.5 million).

(3) This item refers to the effects of the adjustment of the relative charges To a long-term plan in the past and called "LTIP" which, upon the occurrence of total or partial sale, including a listing on a regulated market, of Avio shares, and the achievement of a certain level of Internal Rate Return, will entitle its beneficiaries, ie the Chairman of the Board of Directors in office before the Space2-Avio operation and until March 31, 2017 (Mr. Alan Bowkett) and a

former Avio executive Francisco Moreno Ortega, At a premium totaling approximately Euro 4.2 million at December 31, 2016 (of which approximately Euro 2.8 million pertaining to the former Chairman of the Board of Directors). This plan existed previously and did not arise in the scope of the Space2-Avio.ad Operation from a long-term plan in the past and referred to as "LTIP" which, upon the occurrence of total or partial sale, including a possible listing On a regulated market, Avio shares, and the achievement of a certain level of Internal Rate Return will entitle the respective beneficiaries, ie the Chairman of the Board of Directors in office before the Space2-Avio operation and until 31st December March 2017 (Mr. Alan Bowkett) and former director of Avio, Francisco Moreno Ortega, to a premium totaling approximately Euro 4.2 million at December 31, 2016 (about Euro 2.8 million Belonging to the former President of the Board of Directors). This plan existed previously and did not arise in the Space2-Avio Operation.

(4) They refer to:

- "Provision for registration duty": Provision for tax risks and charges following the receipt by the Revenue Agency of the registration tax, mortgage tax and cadastre tax in July 2016, For an amount of Euro 58.2 million, for the extraordinary transactions that in 2013 brought about the sale of the company GE Avio Srl (Containing the activities of the AeroEngine segment of the Avio Group) to the General Electric Group;
- the extraordinary transactions that in 2013 led to the sale of the company GE Avio S.r.l. (Containing the activities of the AeroEngine segment of the Avio Group) to the General Electric Group;
- "(Refund) registration duty": Recognition of the claim for compensation by the General Electric Group for a corresponding amount of Euro 58.2 million, which is based on specific contractual provisions under which the latter is required to maintain Avio S.p.A. With reference to any liabilities that arise with respect to indirect taxes relating to these extraordinary operations of 2013.

(5) This item mainly refers to the release of funds for tax risks and charges, allocated in previous years mainly in relation to the risks of sanctions related to disputes relating to LBO's work, following the manifestation by the Revenue Agency Of their own will to refrain from issuing sanctions.

(6) The item "Other non-recurring expenses / (income)" includes costs or income that are deemed non-recurring, such as non-recurring provisions and write-downs. The most significant amount of this item, equal to more than 80% of it, is represented by the adjustment fee for contributions foreseen by the Law of Conversion of 22 November 1994, no. 644 of the decree-law of 23 September 1994, no. 547, entitled "Urgent interventions in support of the economy". In January 2017, the audit of the eligible costs for these contributions, relating to the years 1994-2000, 2002-2004 and 2005-2007, was completed by the appropriate interministerial Commission for this purpose: the credit was therefore appropriately adjusted in the light of the final evaluation carried out by the Commission.

(7) The item "Amortisation of customer relationships for participation in programmes" refers to amortization of intangible assets for accreditation to customers and participation in programs deriving from the relationships acquired and consolidated with numerous partners of commercial clients emerged in the purchase price allocation made in 2007 of the acquisition cost incurred in 2006 by the Cinven Fund following the purchase of the company's shares. This amortization will expire in the year 2021.

(8) This item relates to amortization of the year, net of amortization of intangible assets for accreditation with customers indicated in note (7).

Financial results analysis

In April 2015, Avio signed a funding agreement with a pool of leading international banks, and more precisely Banca IMI S.p.A. (Agent), Banca Popolare di Milano Società Cooperativa a r.l., BNP Paribas, Italian Branch, Crédit Agricole Corporate and Investment Bank, Milan Branch, Société Générale, Milan Branch and Unicredit S.p.A., for an amount of Euro 130 million composed of:

(i) a Senior Term Facility line of Euro 100 million, divided into two tranches: the first, Euro 35 million, subject to a reimbursement plan in six years and the second, Euro 65 million, to be repaid In a single 7-year solution;
(ii) a revolving facility line of Euro 30 million payable on a revolving basis.

The contract is subject to costs and market interest rates, is not attested by any real guarantees and includes some limitations in terms of investments, acquisitions, disposals, additional financing (assets or liabilities) and compliance with certain financial parameters (" Financial covenants ") in line with the Company's long-term plan.

The Senior Term Facility line was fully disbursed on May 6, 2015, while the Revolving Facility line was not used.

As part of the Space2-Avio Operation, on November 29, 2016, Avio requested Banca IMI SpA, an agent bank of the Banks Union Funding Bank of the Incorporating Company, to verify the consent of the lending banks for waivers to the merger clause, which Constitutes a default event, and the change-of-control clause, which provides, upon its occurrence, immediate repayment of the outstanding amounts of the credit lines.

By way of derogation from these forecasts, the Incorporated Company has asked the agent bank that the loan becomes repayable on the date prior to the six months from the Effective Date of the Merger and on December 31, 2017, provided that the Space2-Avio is verified by that date.

On December 30, 2016, the bank agent responded to this request confirming that the lending banks agreed to the waiver of the Incorporated Company.

In order to reflect this change in the repayment terms of the loans, they have been reclassified into current liabilities. The charges related to early repayment of the loans, mainly related to the residual value of the arrangement fees (fully paid at the time of granting the loan) that can be amortized no later than 2022 but up to 2017 as well as early termination of the IRS, are estimated overall Euro 3,2 million (of which Euro 1,7 million for 2016 and Euro 1,6 million for 2017). This amount was estimated following the consent of the lending banks to the waiver request.

Therefore, financial management recorded a net financial expense of approximately Euro 7.0 million for the 2016 period, an increase of Euro 3.6 million compared to 2015. This increase is mainly attributable to higher interest expenses for an amount of Euro 1,2 million, due to the fact that in 2016 they were applied the full year, while in 2015 only for 7 months as of May 2015 and 2,2 million of Euro for the costs associated with the early repayment of the loans.

With reference to the "(Expenditures)/Income from Investments" in 2015 there was a depreciation of Euro 2,8 million relating to the investment in the associated company Termica Colleferro, no longer needed in 2016.

Analysis of the Group’s consolidated statement of financial position

The analysis of the Group's balance sheet is shown in the table below (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Change
Property, plant and equipment and investment property	61.789	52.917	8.872
Goodwill	221.000	221.000	-
Intangible assets with finite useful lives	90.677	88.786	1.891
Investments	5.728	5.161	567
Total fixed assets	**379.194**	**367.864**	**11.330**
Net working capital[1]	**(27.938)**	**(2.734)**	**(25.204)**
Other non-current assets [1]	67.448	8.634	58.814
Other non-current liabilities [1]	(117.734)	(55.908)	(61.826)
Net prepaid taxes [1]	56.086	56.793	(707)
Provisions for risks	(24.865)	(27.447)	2.582
Provisions for employee benefits	(10.930)	(10.804)	(126)
Net invested capital	**321.261**	**336.398**	**(15.137)**
Net financial position	**18.600**	**33.970**	**(15.370)**
Non-current financial assets	(7.440)	(6.400)	(1.040)
***Adjusted* Net Financial Position**	**11.160**	**27.570**	**(16.410)**
Equity	310.101	308.828	1.273
Financing sources	**321.261**	**336.398**	**(15.137)**

[1] : Comparative figures have been reclassified for a better representation.

"Total fixed assets" amounted to Euro 379,194 thousand at December 31, 2016, with a net increase of Euro 11,330 thousand compared to the previous year for the combined effect of:

- Net increase in property, plant and equipment and real estate investments totaling Euro 8,872 thousand, mainly attributable to investments of the year of Euro 14,538 thousand, relating to buildings, plants and machinery for the construction of the new P120 motor project, to the net of amortization of the period;
- net increase in intangible assets with a defined life value of Euro 1,891 thousand, mainly attributable to investments of the year, equal to Euro 9,951 thousand, relating to Z40 and P120 projects, net of depreciation of the period;
- increase in Equity investments for Euro 567 thousand, due to the pro-quota effect (50%) of the increase in shareholders' equity of the joint venture Europropulsion S.A. Consolidated with the Equity Method. This increase in shareholders' equity derives from the combined effect of the pro-quota profit for the year 2016 of the joint venture (+2,461 thousand Euro) and the provision of pro-quota dividends for the year 2015 (-1,894 thousand of Euro).

The item "Total fixed assets" also includes internally the unchanged amount of Euro 221 million relating to the goodwill allocated in 2007 to the Space Sector whose value, not subject to amortization, was subject to impairment tests. For more information about the Transaction, please refer to the "Goodwill" section of the Explanatory Notes to the Consolidated Financial Statements and the section "Significant events after the end of the financial year" in this report.
Regarding the assessments of the "impairment test" of goodwill, refer to the Explanatory Notes.

The item "Net working capital" shows a decrease of Euro 25,204 thousand, amounting to Euro -27,938 thousand in excess of liabilities on assets representing the cash generated in the year by operating activities. Its main components are shown in the table below (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Change
Inventories	133.092	109.147	23.945
Lav Contract work in progress, net of related progress billing and advances	(131.875)	(108.316)	(23.559)
Trade receivables	10.907	8.344	2.563
Trade payables	(56.717)	(46.872)	(9.845)
Other assets and liabilities, net	16.655	34.963	(18.308)
Net working capital	**(27.938)**	**(2.734)**	**(25.204)**

The change in net working capital was determined mostly by the combined effect of the following items:

- an absorption of Euro 23,945 thousand due to the increase in advances to suppliers mainly attributable to the production activities of the VEGA (Batch 2) program, essentially offset by

- a generation of Euro 23,559 thousand as a result of the advances received and the progress of ongoing work on development activities;

- an increase in payables to suppliers of Euro 9,845 thousand and an increase in trade receivables of Euro 2,563 thousand, both related to the increase in volumes of assets;

- a decrease in other current assets mainly related to the repayment of the VAT receivables of the ELV subsidiary.

The increase in the item "Other non-current assets" and "Other non-current liabilities" is mainly attributable to the recognition of a credit of Euro 58,220 thousand to the General Electric Group at the same time as the recognition of non-current liabilities 'Amount of the same amount, following receipt by the Revenue Agency of the registration tax, mortgage tax and cadastral tax payment notice in July 2016 for a total amount of 58,220 thousand Euro, regarding the extraordinary transactions that in 2013 led to the sale of GE Avio Srl (Containing Avio Group's AeroEngine business) to the General Electric Group.

The inclusion of this credit to the General Electric Group is based on specific contractual provisions under which the latter is required to maintain Avio S.p.A. With reference to any liabilities that arise with respect to indirect taxes referring to extraordinary transactions that in 2013 resulted in the sale of GE Avio S.r.l. (Containing Avio Group's AeroEngine business) to the General Electric Group.

In addition, it should be noted that, subject to specific contractual provisions, the General Electric Group is required to make available to Avio S.p.A. The sums requested by the Financial Administration within the due deadlines for the payments.

Refer to the "3.8 Other Non-Current Assets" and "3.24 Other Non-Current Liabilities" and to the "Legal proceedings and contingent liabilities" section of the Explanatory Notes.

Financial position Analysis

The following table shows the net financial position (thousands of Euro):

	31/12/2016	31/12/2015	Change
Cash and cash equivalent (1)	87.175	70.378	16.797
(A) Liquidity	**87.175**	**70.378**	**16.797**
(B) Current financial assets	1	130	(129)
(C) Total financial assets (A+B)	**87.176**	**70.508**	**16.668**
Fair value of interest rate derivatives	(312)	(368)	56
Financial liabilities to jointly controlled companies	(13.850)	(8.399)	(5.451)
(D)Current financial liabilities	**(14.162)**	**(8.767)**	**(5.394)**
Current portion of non-current financial bank loans	(91.615)	(4.439)	(87.175)
(E) Current portion of non-current financial liabilities	**(91.615)**	**(4.439)**	**(87.175)**
(F) Net current Financial Indebtedness (D+E)	**(105.776)**	**(13.206)**	**(92.570)**
(G) Net current Financial Position (C+F)	**(18.600)**	**57.301**	**(75.902)**
Non current portion of financial bank loans	-	(91.272)	91.272
(H) Non current financial liabilities	**-**	**(91.272)**	**91.272**
(I) Net non current Financial Indebtedness (H)	**-**	**(91.272)**	**91.272**
(J) Net Financial Position (G-I) Note 1	**(18.600)**	**(33.970)**	**15.370**

Net Financial Position (G-I)	**(18.600)**	**(33.970)**	**15.370**
Non current financial assests	7.440	6.400	1.040
Adjusted Net Financial Position	**(11.160)**	**(27.570)**	**16.410**

(Note 1): Net financial position is aligned to the definition stated by the Recommendation CESR of 10th February 2005 "Raccomandazioni per l'attuazione uniforme del regolamento della Commissione Europea sui prospetti informativi ".

Following the Space2-Avio transaction and the aforementioned consent of the lending banks to the waiver of the Company, The remaining term of the existing term financing facility ("Senior Term and Revolving Facility") has been entirely classified in the current portion of the Financial Debt.

As reported in the "Significant events after the end of the financial year" section, Avio Group's financial position will benefit from financial resources coming from Space2 due to the merger that, together with the cash balances at December 31, 2016, will be used in part for Repay the existing

Senior Term and Revolving Facility and partly to fund the industrial development activities of the Avio Post Fusion group.

The item "Non-current financial assets" refers to the share financing granted to the associated company Termica Colleferro S.p.A ..

Net financial indebtedness adjusted for a balance of 27,6 million of Euro on December 31, 2015 amounted to a balance of 11,2 million of Euro at December 31, 2016, an improvement of 16.4 million Euro mainly Attributable to the contribution of the operational management, including the repayment of the VAT receivables of the subsidiary ELV, partially offset by cash outflows of financial nature related to the payment of interest on bank financing (Euro 3.9 million).

Equity Analysis

Consolidated shareholders' equity at December 31, 2016 amounts to Euro 310,101 thousand, an increase of Euro 1,273 thousand compared to December 31, 2015, due to the combined effect of the following main phenomena:

- an increase of Euro 1,337 thousand attributable to the profit for the year 2016 attributable to the Group;
- net decrease of 239 thousand Euro of actuarial reserves and cash flow hedge, recorded as components of "other comprehensive income", with a direct impact on shareholders' equity;
- net increase in net equity attributable to third parties for Euro 176 thousand.

Following the completion of the analyzes, below are shown some economic, financial and equity indicators for the years ended December 31, 2016 and 2015 (amounts in thousands of Euro):

	31/12/2016	**31/12/2015**	**Change**
Net financial position / *Adjusted* EBITDA	31%	78%	-47%
Net financial position / Equity	4%	9%	-5%

The 2016 economic performances and the effects on net debt and shareholders' equity, mainly related to the dividend distribution to the shareholders, have resulted in the ratio Net financial position / Adjusted EBITDA (Leverage ratio) of value 0,31, while the ratio Net financial position/ Equity resulted 0,04.

RESEARCH AND DEVELOPMENT

In the space industry, Research & Development ("R&D") investment is a key factor to achieve and to maintain a consolidated competitive position.
Avio has always dedicated significant resources to R&D, product and process development and innovation, in line with its mission. The Group has among its objectives the sustainable development of its activities and products, paying particular attention to environmental protection linked to industrial production, as well as improving the safety of its production plants and the health and safety of its employees.

In this framework, it works with national institutions such as the Italian Space Agency (ISA), the Ministry of Education, University and Research (MIUR), the Ministry of Economic Development (MISE), organizations supporting the regional research, the Technological Districts, particularly in Campania and Lazio or with international institutions such as the European Space Agency or the European Union.
For the "Space" product, Avio has developed a network of partnerships with universities and research institutions in Italy and in Europe: some of the most important institutions listed are the Italian Center for Aerospace Research (CIRA), ENEA, the first and second University of Rome, the "Politecnico" of Milan, the University of Naples "Federico II", University of Padua, University of Forli and Aerospace District of Sardinia. The Group also participates in several associations of European industries and research institutions for the development of basic research mainly regarding energetic materials.
The Group participates in research projects in collaboration with national and international organizations active in aerospace research. In particular, it cooperates with universities in relation to the solid-state propellant area, composite material area, solid propulsion engine system area (SRM), cryogenic propulsion area, hybrid propulsion area and works in contact with major manufacturers and Worldwide research for propulsion technologies, with the aim of developing innovative modules and components that benefit from the synergy of individual specific competencies.

The Avio Group's R & D efforts in 2016 amounted to 126.9 million Euro (102.9 million Euro in 2015), or 37% of consolidated revenues (same percentage in 2015) .

If we consider these data net of c.d. Pass-through, R & D activities supported by the Group in 2016 amounted to Euro 79,2 million, accounting for 27.1% of revenues net of pass-through revenues of 2016 (Euro 81,1 million Euro in 2015, equal to 31.5% of revenues net of pass-through revenues 2015).

Self-financed activities, carried out in 2016, amounted to 11.8 million Euro (7.4 million of Euro in 2015).

Self-financing activities in 2016 include EUR 9.0 million related to capitalized development costs as fixed-term intangible assets (4,5 million in 2015) and 2,9 million of Euro related to research costs or development costs which did not meet capitalization requirements and were directly charged to the income statement for the year (Euro 2,9 million in 2015).

The total amount charged to the income statement of the costs related to self-financing activities was 2016, amounting to 6 million Euro (9.8 million of Euro in 2015), consisting of 2.9 million of Euro for non-capitalized costs directly paid (2.9 million Euro in 2015) and 3.2 million of Euro related to amortization of capitalized development costs (mainly) in previous years (6.9 million of Euro in 2015).

In 2016, Avio continued its innovation activities on the main product lines, harmonizing basic research, applied research and precompetitory development.

<u>Solid Propulsion</u>
In the strategic vision of Avio, the solid propulsion is a mature but competitive technology that allows to significantly reduce the cost of launch services, while maintaining the European space transportation industry competitive against international bidding. Avio has defined its vision on

both the consolidation and development of the Vega launcher, and on the future launcher destined to replace Ariane 5.
In 2016, Avio finalized the preliminary design activities of the P120C, as said, to the next generation of Ariane launchers and VEGA. This effort led to the transition of the detailed design phase and to the launch of the first prototypes of the main engine elements.
In addition to the new VEGA and Ariane (P120C) engine propulsion development programs, Avio has consolidated VEGA C's market position by consolidating the configuration capable of competing successfully in the large SAR segment for observing the land. In the field of solid propulsion engines Avio has carried out research activities with the aim of consolidating and optimizing production technologies on qualified products in the Ariane 5 and VEGA carriers, and to prepare its evolutions within the next generations Of European launch vehicles, Ariane 6, VEGA C and VEGA E.

In addition, the Z40 engine development activities (for second stage VEGA C and Vega E) continued to support 2KN / mm structural compression flows, the maximum value achieved by a composite propulsion engine of this class.
Research and development activities in the field of materials have focused mainly on the development of advanced high performance and low toxicity propellants for the implementation on Ariane and Vega programs. In addition, the possible extension of the Avio composite materials production chain has been analyzed and verified, with possible spin-offs in other sectors.

Cryogenic Liquid Propulsion

Avio considers cryogenic propulsion based on liquid oxygen and methane as the answer to the next generations of tall stadiums for launch vehicles, as well as exploration spacecraft. During 2016, the feasibility work for the flight version of the LM10F-MIRA demonstrator continued to provide the propulsion of the third stage of the future VEGA E. Activities, which are also carried out within working groups with european partners.

Avio has conducted a series of self-financed activities with the aim of developing potential breakthrough solutions in terms of configuration, technologies and materials for combustion chambers and Turbopompe with the ultimate goal of developing a European Oxygen-Methane engine to be introduced in the development Of Vega E, whose first flight is expected to take place in 2024.

In particular, the first test campaign in Europe was successfully completed in a cooling channel cooled room module, manufactured using the Avio Single Material Single Part patent, benefiting from the use of the layer manufacturing additive technology.

This result shows that with the Additive Technology it is possible to achieve a suitable thermal exchange for the realization of a combustion chamber with a single low thermal diffusion material.

The goal is to achieve and test in mid-2017, an Innovative Thrust Chamber manufactured entirely of ALM technology and an innovative thrust chamber manufactured with traditional technology (under the Hyprob program).

These ongoing activities were provisional to the acquisition of CM2016, the complete funding required for the first phase of development (2017-2019) of the MIRA Flight engine and for the definition and architecture of the Vega E Upper stage (VUS). The second part of the development will be released and funded at the next ministerial scheduled at the end of 2019.

Avio also launched, with preliminary comforting results, a development of cryogenic resins for LOx and LNG to create a new generation of large linoleum-free composite tanks.

Space Transportation Systems
During 2016, Avio, through ELV, consolidated the development of the VEGA C launcher under the Vecep contract (ESA), based on a first stage with 50% full-rate impulse over the current version and a fourth stage with a higher impulse 15%. The goal is, among other things, to consolidate the pitcher's flexibility by increasing the reference payload by more than 50%.

Studies have also been carried out to verify feasibility and market interest for an electrical module to be integrated into the VEGA's superior composite for space exploration missions, a dispenser for the release of numerous satellites within the same mission, also usable in "orbit test or orbit demonstration" activities.

Tactical Propulsion

The activities focused on the detail project of the CAMM-ER missile engine, including the main components, some of which are highly innovative for Avio, such as propellant, blast pipe, Safe & Arm based on the energy principle and system architecture that allows a high level of engine powerlessness. Important achievements have been demonstrated through the testing of several high performance composite shell motors. Industrialization of low viscosity propellants has been completed, including through modification of plants and equipment. Wing, groove and harness development activities have begun for the same missile.

The self-financed pre-competitive development activities for the electromechanical Thrust Vector Control for Aster 30 class tactics were continued, and after the end of phase A for the power distribution unit, activities related to phase B. Initial activities have begun to identify new parts and life extension materials for Avio Aster 30 missiles.

HUMAN RESOURCES

As of December 31, 2016, the number of Group employees totaled to 758 units, with a decrease compared to the 763 units as of December 31, 2015. The number of employees does not include Europropulsion S.A. (90 units) included in consolidated financial statements with equity method. Most of the units are employed by the Parent Company Avio S.p.A. (582 units as of December 31, 2016, compared to 593 at December 31, 2015).

During 2016 revisions of the company organization were carried out in order to enable the organizational structure to be better suited to business needs; in particular:

- In February, in the BUSINESS UNIT 's Direction, due to technical and managerial specifics, the Turbomacchine Unit was placed directly under the responsibility of the Head of Business Unit;
- In February, in the Direction "INDUSTRIAL OPERATIONS", the activities of some Manufacturing Authorities ("Active Machining and Involucri Vega" on the one hand and "Inerti Terminazioni e Ariane Involucri 5" on the other) are distinguished;
- in March, the organization of the ENGINEERING AND PRODUCT DEVELOPMENT has been changed, following three main guidelines: strengthening the Product Engineering business and defining the Ariane Product Engineering Institute 6; structuring of the Composite Components Designing Company, reinforcing the technical-disciplinary peculiarities in this field; structuring of the "Innovation Technology Research and University Relations" Body, strengthening the role of innovation and research;
- in May, in the INFRASTRUCTURE AND PLANNING Directorate, it has been created the Planning and Control Body Suppliers in order to strengthen the supply chain management;
- in June 2016, the "LEGAL AFFAIRS AND RISK MANAGEMENT" BODY is dissociated from the General Affairs and Staff Directorate and is placed directly under the Chief Executive Officer / General Manager by inserting and under the guide of a manager from outside .
- in August 2016, the INDUSTRIAL OPERATIONS COORDINATION IN GUYANA was created through direct report from the AD, in view of increased production engagement in Guyanese establishments and the consequent need to strengthen the technical and operational coordination between them and the establishment of Colleferro

<u>Industrial relations</u>

During the reference period, relations with local institutions and trade unions continued. In particular, two agreements involving the Group companies have been signed with the territorial trade unions. The first of these agreements concerns the installation of cameras located within the area for industrial security purposes and the protection of company assets in line with the new labor law enforcement provisions. The second concerns, however, the identification of the modalities to regulate what is provided by art. 24 of Legislative Decree 151/2015 on the transfer of holiday between employees.
With the Trade Unions, the constant consortium of contacts on issues of common interest continued and in June the usual annual meeting with the Corporate Management was held on issues related to business strategies, productive and investment programs as well as future Company programs.
The Trade Unions were informed about the evolution of corporate transactions through more meetings with the Management with the possibility of interacting directly with the Company's top management.
The same Organizations have been involved in the agreements regarding the definition of the business closure period for Christmas holidays.
In December, the mobility procedure was concluded with reference to the agreement of 16/10/2015.

<u>Development and Training</u>

Regarding personnel selection activities in 2016, they have been recruited in various professional areas no. 13 resources including 5 Managers, 4 Professional and 4 Employees with different degrees of experience and possessing specific skills consistent with the need for business development and staff replacement that has met retirement requirements.

In the same period, even in relation to the above-mentioned organizational evolution, 28 Professional, equal to 10.4% of the category, were involved in professional mobility processes, aimed at ensuring the coverage of the roles required for the organization and development of the business. In 60% of cases, these mobility paths, as well as contributing to the company's skills flow, represented opportunities for professional growth and / or contributed to better positioning of the staff involved.
With regard to Personnel Development, in 2016, 11 employees were involved in development activities. In 5 cases the Professional qualification and the Framework 5 were recognized.

In support of the learning pathways, around 2016, approximately 1789 training days were delivered in 2016 with 935 participations in upgrading and professionalizing courses and with the involvement of approximately 556 people, investing on an average of 3 days per capita training, also considering the fruition in e-learning. Internal training has been mainly used for security and manufacturing activities and has impacted approximately 8% on overall deliveries, with the use of the Certified Business Training Team.

The main areas where training was focused over the period considered were the following:

- Training and updating of mandatory specific technical skills in the field of security;
- Development of managerial and business management skills (participation in high-level inter-enterprise events, international conferences and seminars);
- Supporting new certifications for safety, quality and environment;
- Supporting technical expertise
- support internationalization with focus on individual and group language training (English and French).

In the course of 2016, around the main learning methods, the structured model of learning organization continued, where:

- The organization learns through the active involvement of the Responsible in designing targeted training activities
- The e-learning platform has been implemented especially for the provision of technical computer training. The platform continues to be an indispensable support for the provision of "welcome to space" institutional training for newly recruited and compliant legal obligations (eg 231. State Status Settlement Update July 2016, etc.).

COMMUNICATION AND SOCIAL RESPONSIBILITY

Avio promotes its image and its products both through participation in the most important international events and through the constant presence in Italian and international consortiums relevant to the aerospace field for the research and development of new technologies in the specific field of space propulsion And launchers.

It also develops its network of scientific exchange and development of new products both through collaboration in the field of research with universities and institutes of Italian and foreign research and through technical and operational collaboration with the most important European Space Agencies, The Italian Space Agency (ASI), the Center for National Education (CNES), the European Space Agency (ESA).

Events and manifestations

On 21 January, Avio and CIRA announced the signing of a collaboration agreement under which CIRA will carry out aerodynamic, acoustic and vibroacoustic studies at the Vega C outlet, using both the wind tunnel and CFD simulations (Computational Fluid Dynamics).

On 17 February, Avio hosted the second meeting of the Preliminary Design Review (PDR) at the Colleferro Headquarters (Rome), a very important stage in the VEPA Program (VEGA Consolidation

and Evolution Program) for the future launcher, bringing together one hundred of Europe's leading space launchers.
Three important visits to Colleferro's production facilities were characterized by 2016: the Minister of Education, University and Research, Stefania Giannini, on 6 April, and the Director General of ESA, Jan Wörner, on May 2, Both accompanied by Roberto Battiston, Chairman of the ASI and General Carmine Masiello on 1 December, Military Advisor to the President of the Council.

Among other institutional visits, one remembers that of the Académie de l'Air et de l'Espace, the Assemblée Nationale, the Diplomatic Science Club and a Hungarian state delegation.

From May 2 to 6, Avio participated in Space Propulsion 2016, organized by 3AF (Association Aéronautique et Astronautique de France), in collaboration with ESA (European Space Agency) and CNES (Center national d'études spatiales), which was held for the first time in Italy, at the Marriott Hotel in Rome with more than 600 participants.

Space Propulsion brought together European Space Specialists and was organized with the purpose of supporting the preparation of future activities and action plan in the field of space propulsion. Avio was present with a booth where it exhibited the models in Scale VEGA and Ariane 5 launchers and P120 C engine, which will equip future Vega C and Ariane 6 launchers. The Vega C scale 1:10 has been positioned in the lobby of the hotel to accommodate more than 600 guests Of the event, as an ideal host to the event.

The Ariane 5 launches were seven: on January 28, with orbiting the Intelsat 29e satellite; On March 9, when the EUTELSAT 65 WEST A satellite orbit was launched on 19 June when the European carrier successfully released the two BRIsat and EchoStar XVIII satellites on 25 August with the launch of the Intelsat 33e and Intelsat satellites 36 on October 5, with orbiting the satellites GSAT-18 and Sky Muster II ™ on November 17 when the European carrier successfully released four satellites of the Galileo constellation on December 21 with the satellites Star One D1 and JCSAT- 15.

Vega's launches were two: September 16, with the launch of 4 SkySat satellites for the company Terra Bella of Google and the PeruSAT-1 satellite and on December 5 with the launch of the Turkish satellite GÖKTÜRK-1.
On July 7 and 8, Avio organized, in collaboration with Arianespace, the Vega Users' Day. The event, held in Rome, brought together partners, European, French and Italian space agencies, current and possible customers New VEGA launcher customers. The meeting, lasting two days, ended with a visit to the production plants of the launcher in Colleferro.

On September 9th, Kourou, a French-speaking Guyana, was an important firefighter-driven MPS test for the Ariane 5 launcher. This is the sixth ARTA (Accompagnement et Recherche Technologique Ariane) dedicated shot To Ariane 5 and required to maintain the qualification status of the Ariane 5 launch system.

On October 6th and 7th, Avio attended a stand at the Sinnova event, the Innovation Exhibition, which was held in Cagliari in collaboration with the Aerospace District of Sardinia.

Collaboration with Universities

Avio is partner of many research departments in major Italian universities and collaborates with research projects with major international universities.

In this view of close collaboration, Avio, in addition to the more specific and individual programs dedicated in particular to the university students for master, specialization and doctorate, welcomes in their offices all those who wish to deepen the knowledge of our activities for scientific, educational purposes , Institutional or territorial cooperation.
In particular, the activities are aimed at high school students (especially those located in the area close to productive settlements) and university students, both from Italy and from abroad.

Noteworthy is the constant presence of Avio on meeting days with young graduates and graduates during the career days (such as the Job Meeting at the La Sapienza University on May 3) and the

"Race of the Rocks" in collaboration with the Department of Engineering Mechanics and Aerospace of the Sapienza University of Rome, held in the city of Segni on May 28, in the presence of the managing director of Avio Giulio Ranzo.

Social Responsibility

Avio considers the relationship with its employees and the territory as a priority asset of great strategic importance.
During the semester, campaigns and initiatives were promoted to strengthen the spirit of belonging and the satisfaction of the people with whom Avio collaborates, as it has been present in the territorial communities where there are settlements both through participation in local events and through The involvement of the same local community in the most important events affecting the Group.

Avio maintains within its operational sites the involvement of the whole staff in preparing and updating campaigns regarding environmental, health and safety at work, in order to prevent accidents and to carry out working activities under safety conditions.
Such education aiming at preventing accidents and increasing attention toward risk factors, has a positive effect in individual behavior even outside of the working environment.

MAIN RISKS AND UNCERTAINTIES TO WHICH THE GROUP IS EXPOSED

Macroeconomic Risks

In the context of general economic conditions, the economic and financial position of Avio is influenced by various factors that constitute the macro-economic framework (including GDP growth, trend in interest rates , in cost of raw materials, unemployment rate), both in the various countries in which the Group operates and globally, due to the impact on the spending ability of individual countries (particularly within Europe) in the development of space activities, through the national and continental agencies.

In recent years, financial markets have been characterized by extreme volatility that has had serious repercussions on the banking and financial institutions and, more generally, on the economy and ended up as a burden on public budgets. The significant and widespread deterioration of the market conditions was exacerbated by a severe and pervasive difficulty in accessing credit, both for consumers and for businesses, and has resulted in a lack of liquidity (with a consequent increase in the cost of funding) which affected the last stage in the industrial development and employment, and, consequently the budgeting strategies of European states and as a result the spending capacity of the referenced space agencies.

Although governments and monetary authorities have responded to this situation with far-reaching measures, including cutting interest rates at historic lows and financing interventions and strengthening of the intermediaries, it is now impossible to predict if and when the economy will return to pre-crisis levels, more so in the light of the aggravation of the international geopolitical context and the slowdown in the growth of the Chinese economy, as well as the renewed volatility in financial markets and tensions on the financial situation and the credit worthiness of different countries.

If this situation of weakness and uncertainty significantly continue to deteriorate particularly in the market in which the Group operates, the activities, strategies and prospects of the Group could be adversely affected, especially with regard to the expectations of flight/launches future planning of the Group’s vectors and for the new research and development programs, with a consequent negative impact on the economic and financial position of the Group.

Moreover, activities carried out under space programs are mainly carried out using funds allocated by governments and the Community authorities. These appropriations depend on the policies adopted by governments and, in general, on the economic conditions in Europe. The demand for launchers, however, is supported both by the public and the private sector.
Although the Group believes that the spatial planning sector is less volatile in the light of long-term projects and the order backlog developed in this context, a contraction in economic growth, a recession or a financial crisis could depress even in a Significant, the demand for the components produced by the Group, resulting in adverse effects on Avio's business operations and on the economic, equity and financial position of Group companies.
In addition, a negative macroeconomic environment could prevent the Group from gaining access to the capital market or prevent access to favorable conditions, with adverse effects on Avio's business and on the economic, equity and financial position of Avio and Group companies.

Risks related to our specific business

Space programs, by their own nature, complexity, strategic importance and sources of funding, are generally dependent on plans and decisions taken at government level in Europe, either single nation level and in the context of international agreements, implemented through the intervention of specific institutions and national and supranational agencies. They aim to ensure independent access to space by European nations.

Changes in access to space policies, both at national and at European/international level, and unfavorable economic conditions impacting on expenditure devoted to them by national governments and supranational institutions, might affect the volumes of activities of the Group with negative effects on business and economic, equity and financial position of the Group.

The Group's business depends on a limited number of programs and so on limited customers. Any interruption, temporary suspension or cancellation of one or more major programs represent a risk that might imply negative effects on the volumes of activities and the economic and financial situation of the Group. Therefore, the backlog might be subject to unexpected adjustments and not be indicative of future revenues or results of operations.

The Group operates in the space sector, to a significant extent by long-term contracts usually with fixed prices or eventually with revisal price related to the inflation. Fixed price contracts introduce the risk that any additional costs may not be reimbursed or be partially reimbursed by the client, with negative effects in the business and economic, equity an financial position of the Group.

For the recognition of revenue and margins deriving from construction contracts in the long term Avio uses the percentage of completion method, which requires an estimation of the total costs for the execution of contracts and monitoring of the progress of activities. Both these elements are, by their very nature, subject to the management's estimations, which in turn depend on the objective possibility and ability to predict future events. The occurrence of unforeseen or differently evaluated events can cause an increase of the costs incurred in the execution of long-term contracts, with negative effects on the economic situation and financial position of the Group.

In addition, for the recognition of revenues and related margins, resulting from contracts for long-term custom jobs, it is used the percentage method of advancement, which requires the estimation of the total costs for the execution of the contracts and the verification of the state of Advancement of activities. Both of these elements, by their very nature, are heavily subject to management estimations, which in turn depend on the expected ability and ability to predict future events. The occurrence of unpredictable or expected events may result in an increase in costs incurred in the execution of long-term contracts, with negative effects on the Group's business, and on the economic, equity and financial position.

The Group generally does not act as *Prime Contractor* for the sale of launch services, as a result not always can rely on market information related to launch services and is not always able to control market aspects. If the Launch Service Provider does not correctly play its role or adopt commercial practices not in line with the interests of the Group, this could have negative effects on the economic, equity and financial position.

Our customers are responsible for ensuring the compliance of the products before being accepted and sold and can reject them totally or partially in the event of non-compliance with all the requirements. In that case, the guarantee clauses require the Group to replace or repair the non-compliant component by supporting the associated costs as well as any additional charge necessary to the understanding of the problem. If such associated costs were not covered by insurance policies, this might have a negative impact on Group results. Once accepted by the customers, the group is no longer responsible for product failure.

The Group's industrial activities involve the use and processing of explosives or chemically dangerous materials. Although these activities are conducted in accordance with regulations in force, following a specific Safety Management System to prevent accidents and to ensure vehicles are used by highly qualified staff, it is possible that one may incur in accidents that can generate interruptions of industrial activities with negative effects on the Group's results.

OUTLOOK

Significant events subsequent to year end

Business

In February 15, 2017, vector ARIANE 5 successfully delivered into orbit two telecommunications satellites: SKY Brasil-1 e Telkom 3S.

On March 7, 2017 Vegalauncher successfully finished its 9th mission, the first of 2017, by successfully sending into orbit the satellite Sentinel 2B for Earth observation.

In April 2017, the subsidiary ELV SpA, which has been the prime contractor of Vega launcher, received from Arianespace a first multiannual order advance for the so-called "Long Lead Items" components for production of the Lottery of 10 launchers Vega who will fly from 2019.
Please note that this order is in line with the evolving trends of the backlog.

Other relevant facts.

a) *Acquisition and consequent listing of Avio S.p.A. On a regulated Italian market*

On January 19, 2017, the Board of Directors of Avio S.p.A. has approved the Space2 S.p.A information brochure. To file formally with Consob and Borsa Italiana SpA, limited to the information regarding the Avio Group contained therein, the memorandum on the management control system set up by the Company and the industrial plan for the years 2017 - 2019 in accordance with the Guidelines of the Market Rules Organized and managed by Borsa Italiana SpA. It should be noted that, in the light of the Space2-Avio transaction, in the plan in question, pending the completion of the process of allocating the purchase values to the assets, liabilities and contingent liabilities of the Avio Group As required by IFRS 3, the "Goodwill" item was entered in the difference between the consideration for the purchase of Avio paid by the buyers, increased by the fair value of the new Space2 shares that will be issued to the Merger; Avio Group's consolidated shareholders' equity net of goodwill already booked. In this plan, however, this difference was not allocated to the assets, liabilities and contingent liabilities of the Avio Group as they can be allocated to them. The completion of the valuation process required by IFRS 3, which will take place as a result of the legal effect of the merger, may involve measurement of Avio's assets and liabilities acquired by the buyers at the date of the business combination different from the assumptions adopted in the drafting of the Plan . This could have an impact on future earnings (eg higher amortization of intangible assets to which part of the acquisition fees should be allocated) with no effect on the expected generation of cash flows.

On February 16, 2017, following the need to supplement the prospectus with the estimates of earnings for the year ended December 31, 2016, the Board of Directors of Avio S.p.A. approved the preliminary figures for the financial year ended December 31, 2016. These preliminary figures were in line with the figures in this financial statements.
On the same date, the Board of Directors of Avio S.p.A. has again approved, limited to information regarding the Avio Group contained therein, the draft prospectus of Space2 S.p.A. to formally lodge with Consob and Borsa Italiana S.p.A.

Subsequently, also taking into account the need to include in the prospectus a statement attesting to the Independent Auditors' agreement regarding to the fact that the preliminary figures 2016 contained in the prospectus are substantially in line with the final results that will be published in this Annual Financial Statements For the financial year ended December 31, 2016 audited, the Board of Directors of Avio SpA On March 24, 2017, approved the consolidated preliminary financial statements of the Avio Group for the year ended December 31, 2016 in the form of Avio Group's consolidated financial statements in accordance with the relevant accounting standards. These figures were in line with those of the consolidated financial statements.

On March 31, 2017, the acquisition was completed by Space2, by Leonardo S.p.A. A company listed on the Stock Market (MTA) of Borsa Italiana S.p.A. (hereinafter referred to as "Leonardo") and In Orbit S.p.A., a newly constituted company incorporated by some of Avio S.p.A.'s strategic managers, of a stake of 85.86% of Avio S.p.A.

On April 10, 2017, merger by incorporation of Avio S.p.a. in Space2 S.p.A, after which the latter will assume the name of Avio S.p.A and aiming at admission to the MTA, Segment STAR, of the Milan Stock Exchange for Avio S.p.A. post merger.

b) Post-merger and listing equities

In the course of 2017, the acquisition of Space2 (Italian SPAC listed on the MIV market / SIV segment of Borsa Italiana S.p.A.), Leonardo and In Orbit S.p.A. (A newly incorporated company owned by some strategic executives of Avio S.p.A.) of a stake of 85.86% of the share capital of Avio S.p.A. And the subsequent merger of Avio S.p.A. In Space2 with consequent listing (business combination operation), carried out on April 10, 2017, by Avio S.p.A. On the STAR segment of the Italian Stock Exchange MTA Market. In particular, Leonardo, a shareholder of Avio S.p.A. Since 2003, invested in the operation, rising to approximately 28% of Avio S.p.A. The management of the company, through the company In Orbit S.p.A. has invested with Space2 and Leonardo, while Cinven Limited, other institutional investors and Viasimo have come out entirely from the capital of Avio S.p.A ..
n particular, the following are the main steps for the operation:

a) On 19 October 2016, the Board of Directors of Avio S.p.A. Approved the merger by incorporation of the Company into Space2 SpA, Italian SPAC promoted by the Investments Space Holding Company, listed on the MIV market / SIV segment of Borsa Italiana SpA as an alternative to the traditional IPO process and aimed at listing Activities of Avio SpA On an Italian regulated market;
b) On March 31, 2017, the acquisition of Space2 by Leonardo S.p.A. And of In Orbit S.p.A., a shareholding of 85.86% of Avio S.p.A.'s share capital;
c) on April 10, 2017, the merger by incorporation of Avio S.p.a. in Space2 S.p.A was perfected, after which later assumed the name of Avio S.p.A and aimed at admission to trading on the MTA, Segment STAR, of the Milan Stock Exchange for Avio S.p.A. post merger.

As a result of the operation described above, Avio's shareholding at the Effective Date of the Merger is shown in the following table, which shows that approximately 65% of the shareholding (excluding Leonardo, In Orbit and a part of Space Holding) With the listing floating and open to trading:

	Shareholding due to merger improvement At the Date of Merger Effectiveness	
	% of voting rights	**% of social capital**
Leonardo	[28,61]	[28,29]
In Orbit	[3,91]	[3,87]
Space Holding	[2,72]	[3,80]
Del Vecchio Leonardo	[3,89]	[3,84]
MULTILABEL SICAV	[4,54]	[4,49]
PIONEER INVESTMENT MANAGEMENT SGRpa	[3,24]	[3,20]
Other Investors Space2	[53,10]	[52,51]
Total	**100%**	**100%**

a) Goodwill

In this consolidated financial statements a goodwill of Euro 221 million is recorded for the portion that was allocated in 2007 to the business space in the acquisition of the Avio Group by the investment funds linked to Carlyle and Cinven.

From 2007 to December 31, 2016, as of the present financial statement date, the recoverability of this goodwill has been assessed, at least on an annual basis, through the impairment test. The related outcome has never underlined the need of write-downs, by using it on the basis of the industrial plan forecasts above the asset value accounted for in the financial statements including the above-mentioned goodwill.

The above mentioned amount reflects a recoverable amount by Avio Group of Euro 357,8 million at December 31, 2016. Therefore, in continuity with the previous years financial statements, in accordance with the result of the impairment test and under the assumption of business going concern, goodwill was retained in the consolidated financial statements for an unchanged amount of Euro 221 million.

As part of the Space2-Avio business venture, the Avio Group has been assigned a value of Euro 159 million which, as part of the pro forma performance impact of the transaction as of December 31, 2015, as reported in the Prospectus To the same transaction, it leads to a goodwill of approximately Euro 80 million. This value attributed to the Avio Group is lower than the corresponding value recoverable from the recoverable amount through use, since it has taken into account specific assumptions in the valuation criteria as well as factors relevant to the negotiation process between the sellers and buyers, which exclude the determination of the value in use.

In the light of the above-mentioned Space2-Avio operation, pending the completion of the process of allocating the purchase values to Avio Group's assets, liabilities and contingent liabilities (as required by IFRS 3) the caption “Goodwill” will include the difference between the amount paid by the acquirers for the purchase of Avio, increased by the fair value of the new shares issued by Space2 at the merger, and the consolidated shareholders' equity of the Group Avio net of goodwill already subscribed.

At this stage, the difference between the assets, liabilities and contingent liabilities of the Avio Group has not been allocated to them, however allocable. The completion of the valuation process required by said IFRS 3 could involve measuring the assets and liabilities of Avio acquired by the buyers on the date of the business combination different from the current one. This could, among other things, have an impact on future earnings (eg higher amortization of intangible assets to which part of the acquisition fees should be allocated) without affecting the expected generation of cash flows.

b) *Information regarding the Verbal Verdict Process issued by the Guardia di Finanza on February 28, 2017*

On February 28, 2017, the Guardia di Finanza notified a Mining Verification Process ("PVC") with reference to the French company Regulus S.A., controlled 60% by Avio.

The report disputes the presumed residence in Italy of that company, having its registered office in France, at Kourou, at the European Space Center, starting from the 2010 tax period and until 2016. The assumption is that the company would have Its "seat of administration" (a concept relevant to tax residence) in Italy, at Avio di Colleferro offices.

Regulus is responsible for the production and loading of propellants in the space launcher engines, and for this reason and for this reason has its registered office in French Guiana, at the European Space Center, with about 100 employees between technicians and administrative.

PVC, as an investigative measure by the Guardia di Finanza, while contesting the violation of the omission of the annual income tax return, did not initially quantify the alleged claim in terms of higher tax, penalties and interest rates, merely quantifying the amount of revenue Gross amounts (approximately Euro 266 million from 2010 to 2016), qualifying them as "positive elements of income" and returning to the Revenue Agency the final assessment of the continuation of the assessment activity and subsequent economic quantification of the survey.

However, considering claim’s quantification, following PVC, on March 14, 2017, Guardia di Finanza, after coordination with the competent Tax Authorities (Agenzia delle Entrate), notified Regulus a Minutes of Completed Operations (PVOC) better defining the presumable Regulus tax base was, in case the latter was able to document the deductible costs incurred in the reference period, expressly acknowledging that "the redetermined taxable amount, on which calculate taxes would amount to Euro 26,804,459.43 (years 2010 to 2015)" and that Regulus "will be able to provide the necessary supporting documentation proving the tax payment to French tax authorities, as evidenced by the financial statements presented on 20/02/2017 and 22/02/2017, totaling Euro 8.100.115,94 (years from 2010 to 2015)".

Guardia di Finanza then invited Regulus to produce the documentation useful for the recognition of both the costs and the payments of the taxes already paid for the years 2010 to 2015 by Regulus in France.

Regulus commissioned a professional of undoubted competence and independence to evaluate the sustainability of the reconstruction proposed by the Guardia di Finanza. On the basis of the advice provided, the potential tax risk amounted to about Euro 12 million was qualified as a remote basis on the basis of Regulus's structure, governance and operation, and on the basis of the ordinary taxation of the country of establishment (ie France, since Guyana is the overseas department of France). In addition, that opinion found that the risk would be reduced to almost zero if the tax on the tax paid in France mentioned in the same CCP in the definition was taken into account, on the basis of the assumption that the tax burden French is entirely in line with the Italian one.

In particular, the main elements covered by this opinion for this purpose are represented by the presence of a third party in addition to Avio, the commercial reasons justifying the presence and location of the company in French Guiana, from the - an important structure in terms of employees, the presence of operational powers in favor of certain operating managers in Guyana, Regulus's governance and the quorums foreseen for the adoption of council resolutions, the ordinary taxation of the country of establishment (Namely France, since Guyana is the overseas department of France).

As proof of the lack of intrinsic intentions of the presence in French Guiana, the opinion made for tax purposes also points out that the tax levied in France would be in line with the Italian ones, an element that could be appropriately valued in contradictory proceedings with the Agency.

On April 4, 2016, there was a comparison with the Revenue Agency where the company explained its reasons and subsequently on 28 April 2017 submitted its comments to PVC on 28 February 2017 under the terms of the law (60 Days) in order to try to obtain a record of the minutes without any verifcation from the Tax Authority.

c) *Risks related to changes in the Company's ownership structure*

Some of Avio's industrial contracts, as well as certain statutes of companies that are part of Avio (Europropulsion - joint venture company, Arianespace and Arianespace Partecipation - other minority holdings), contain forecasts that, as a result of a change in qualified ownership structures as " Change control "of the Company, such as the one resulting from the business integration between Space2 and the Avio Group, allows contractual counterparties or the administrative bodies of the subsidiaries to modify certain contractual rights and / or resolve related contracts and / or require the transfer of specific know-how and / or activate purchase and / or sale and / or redemption options in respect of the shareholdings held by Avio.

The risk of activating such "change of control" clauses by contractual counterparties is considered remote in relation to long-term partnership relationships that bind the Avio Group with such counterparties. If the "change of control" clauses were triggered by right-wingers, long-term strategic impacts might arise, for which Avio should pursue a different set of European partnerships in the form of a company or a contractual one. With regard to Avio's economic, financial and equity position, it is considered that the possible exercise of these "change of control" clauses would not have any significant effect in the short to medium term.

In particular, these "change of control" clauses are contained in the shareholders' agreement of Europropulsion that binds the Avio Group to the ASL Group in a joint venture held by each 50% shareholder of long-term, exclusive and strategic cooperation for development and the integration of large propulsion engines (bigger than each partner already makes at his home in Europe). It should be noted that, in view of the strategic role of Europropulsion for the implementation of the programs funded and promoted by the European Space Agency, the possible activation by ASL of the purchase and / or assignment (put & call) of quotas, would lead to the loss of a crucial partnership that can not be easily replaced in the short term and the consequent difficulty in running new industrial programs in Europe in continuity with the past. In this case, the Avio Group should differentiate its international collaborations in time for the next major solid engine development (which, however, could only take place in the long term, as ESA has just launched the development of the P120, which will equip Ariane 6 and Vega C for the next 25 years).

Similarly, "change of control" clauses are contained in Arianespace's statutes and could in principle lead to the Avio Group's loss of equity participation in that company. However, the application of these clauses presupposes that the change in control of one of the members could damage Arianespace, a circumstance that is therefore remote with reference to the extraordinary transaction made by the Avio Group.

Business outlook

Forecasts for the year 2017 indicate total net revenues (excluding Pass-throughs), compared to 2016, mainly due to the major production and development activities of the Vega program.

Such revenue is currently covered by the backlog.

Overall operating profitability is expected to be substantially in line with 2016 mainly due to the lower profitability of some specific development activities conducted through subcontracting schemes.

AVIO S.P.A. FINANCIAL REVIEW

Analysis of results

In the following table, is represented the economic performance of the Company in the years 2016 and 2015 (amounts in thousands of Euro):

	2016	2015	Change
Revenues	299.703	232.558	67.145
Of which: *pass-through revenues*	50.848	18.650	32.198
Net Revenues (net of *pass-through revenues*)	**248.855**	**213.908**	**34.947**
Other operating income and change in inventory of finished and semi-finished goods	9.276	6.403	2.873
Costs for materials and services, for personnel, other operating expenses, net of costs capitalized	(243.799)	(200.485)	(43.314)
Operating results before depreciation and amortisation (EBITDA)	**14.332**	**19.826**	**(5.494)**
Depreciation, amortisation, write-down and impairment	(11.041)	(14.807)	3.766
Operating results (EBIT)	**3.291**	**5.019**	**(1.728)**
Interests and other financial income (expenses)	(7.191)	(2.720)	(4.471)
Financial results	**(7.191)**	**(2.720)**	**(4.471)**
Results from financial investments	4.294	791	3.503
Results before taxes	**393**	**3.090**	**(2.697)**
Income taxes – current and deferred	263	2.316	(2.053)
Net result – Continuing operations	**657**	**5.406**	**(4.749)**

The "Pass-through" net revenues are Euro 248,855 thousand and show a positive change of Euro 34,947 thousand (or 16.3%) compared to the financial year 2015. This increase is mainly attributable to the development program Ariane 6 party in 2016 and the Vega production program (for which Avio carries out the ELV supplier activity), which recorded a more than one flight in 2016 compared to 2015.

In 2016, operating income before amortization of tangible and intangible assets (EBITDA) amounted to Euro 14,332 thousand, recording a decrease of Euro 5,494 thousand (-27.7%) compared to the year ending in 2015. This decrease is mainly attributable To a higher incidence of co-producers' costs in terms of quantity / price mix for the year-on-year growth, as well as for other operating costs that have increased as a result of the costs associated with the Space2 transaction.

EBIT amounted to Euro 3,291 thousand, a decrease of Euro 1,728 thousand compared to the end of 2015. This result mainly reflects the performance of operating profit before amortization (EBITDA) partly offset by the ' Positive effect arising from the completion of the amortization process of some intangible assets.

For a more complete representation of the Company's income performance, the following are the adjusted values for EBITDA and EBIT and the related margins achieved during the financial year 2016 and 2015 (amounts in thousands of Euro):

	2016	2015	Change
***Adjusted* EBITDA**	**23.007**	**26.392**	**(3.385)**
Adjusted EBITDA Margin (*Adjusted* EBITDA/ **Net of *pass-through revenues***)	9,2%	12,3%	
***Adjusted* EBIT**	**16.049**	**15.669**	**380**
Adjusted EBIT Margin (*Adjusted* EBIT/ **Net of *pass-through revenues***)	6,4%	7,3%	

Adjusted EBITDA is considered by management as a representative indicator for the measurement of the Company's financial results since, apart from not considering the effects of changes in taxation, the amounts and types of sources of equity financing Invested and amortization policies (items not included in EBITDA), also excludes non-recurring or foreign components in the Company's operations in order to increase the degree of comparability of operating results during the comparison periods.
The Adjusted EBITDA for the year 2016 was 23,007 thousand Euro (9.2% of net revenues). Compared to the value of Euro 26,392 thousand in 2015 (12.30% of net revenues), a decrease of Euro 3,385 thousand (-12.8%) was mainly attributable to higher incidence of co-producers' costs in terms of mix Quantity / price for the increased production of the year.

Adjusted EBIT, also considered by management as an indicator for the measurement of the Company's operating results, is the operating result (EBIT) excluding non-recurring or foreign components companies already excluded for the purposes of determining Adjusted EBITDA and amortization of intangible assets for accreditation to customers and for participation in programs entered into at the time of the acquisition of the Group by Cinven, amounting to 4,084 thousand Euro annually, Which will run out in 2021.
The Adjusted EBIT for the 2016 financial year was 16,049 thousand Euro (6.4% of net revenues), essentially in line with the 2015 figure of 15,669 thousand Euro (7.3% of net revenues).

The following is the reconciliation between EBIT, Adjusted EBIT and Adjusted EBITDA for the years 2016 and 2015 (thousands of Euro):

		2016	2015	Change
Operating profit/EBIT		**3.291**	**5.019**	**(1.728)**
Non-recurring or exceptional expenses/(income):				
- Grants/staff incentives[(1)]		3.946	2.681	1.265
- Costs related to non-recurring events (tax, legal,etc.)[(2)]		6.629	2.154	4.475
- Costs for cash-settled share-based payment [(3)]		(1.016)		(1.016)
- Other personnel costs			464	(464)
- Provision Register set-up [(4)]		58.220		58.220
- (Compensation) register set-up [(4)]		(58.220)		(58.220)
- Provision (uses and releases) of tax funds [(5)]		(4.237)		(4.237)
- Other non-recurring expenses/(income) [(6)]		2.159	100	2.059
Total non-recurring or exceptional expenses/(income)		**7.481**	**5.399**	**2.082**
Investor Fees		1.194	1.167	27
Other adjustments for non-recurring expenses		-	-	-
Amortisation of customer relationships for participation in programmes [(7)]		4.084	4.084	-
***Adjusted* EBIT**	**A+B+C+D+E**	**16.049**	**15.669**	**380**
Net depreciation/amortisation [(8)]		6.957	10.723	(3.766)
***Adjusted* EBITDA**	**F+G**	**23.007**	**26.392**	**(3.385)**

(1) This item includes non-recurring appropriations, included in provisions for risks and charges, relating to:
- an incentive plan consisting of a flat-rate and one-off bonus related to the successful completion of the Space2-Avio ("Exit Bonus 2017") transaction attributed by the Board of Directors on October 19, 2016 to the Senior Executives of the Avio Group and also to ensure its The permanence of Avio's staff;
- an incentive plan that, with the achievement of the Group's and Avio's valorisation targets, including the sale of Avio, enables Avio's Vice President in office before the Space2-Avio operation and up to the effective date of the merger (Ing Lasagni) to receive a premium of variable amount between a minimum of Euro 500 thousand and Euro 700 thousand gross;
- an incentive plan that, following the completion of the Space2-Avio operation, allows the Chairman of the Board of Directors in office before the Space2-Avio operation and until March 31, 2017 (Mr. Alan Bowkett) to perceive A prize equal to Euro 200 thousand;

- non-recurring appropriations, included in the provision for risks and charges, relating to personnel costs, for a total of Euro 220 thousand including, amongst others, the costs associated with the mobilization of mobility procedures and retirement costs , As well as exiting incentives.

(2) This item mainly includes charges relating to:
- the company's traditional stock quotation traded on the stock markets, commenced during the first nine months of 2016, and subsequently replaced by Space2-Avio (3.4 million Euro);
- Space2-Avio transaction successfully completed on April 10, 2017 with merger by incorporation of Avio into Space2 and the listing of assets on the STAR segment of the Milan Stock Exchange (Euro 0.9 million);
- legal and tax assistance activities related to specific events of 2016 (Euro 1.5 million).

(3) This item refers to the effects of the provision for the provision for a long-term plan concluded in the past and called "LTIP" which, when a total or partial sale occurs, including a listing on a market And the implementation of a certain level of Internal Rate Return, will entitle the relevant beneficiaries, ie the Chairman of the Board of Directors in office before the Space2-Avio operation and until March 31, 2017 (Mr Alan Bowkett) and a former Avio executive, Francisco Moreno Ortega, to a prize amounting to approximately Euro 4.2 million at December 31, 2016 (of which approximately Euro 2.8 million pertaining to " Former Chairman of the Board of Directors). This plan existed previously and did not arise in the Space2-Avio Operation.

(4) They refer to:
- "Provisional tax liability": Provision of provisions for tax risks and charges following the receipt by the Revenue Agency of the registration tax, mortgage tax and cadastre tax in July 2016, For an amount of Euro 58.2 million, for the extraordinary transactions that in 2013 brought about the sale of the company GE Avio Srl (Containing the activities of the AeroEngine segment of the Avio Group) to the General Electric Group;
- "Indemnity tax registration": recognition of the claim for compensation by the General Electric Group for a corresponding amount of Euro 58.2 million, based on specific contractual provisions on the basis of which the latter is Required to keep Avio SpA indecent With reference to any liabilities that arise with respect to indirect taxes relating to these extraordinary operations of 2013.

(5) This item mainly refers to the provision of funds for tax risks and charges, allocated in previous years mainly in relation to the risks of sanctions related to disputes relating to LBO's work, following the manifestation by the Revenue Agency Of their own will to refrain from issuing sanctions.

(6) The item "Other non-recurring expenses / charges" includes costs or income that are deemed non-recurring, such as non-recurring provisions and write-downs. The most significant amount of this item, equal to more than 80% of it, is represented by the adjustment fee for contributions foreseen by the Law of Conversion of 22 November 1994, no. 644 of the decree-law of 23 September 1994, no. 547, entitled "Urgent interventions in support of the economy". In January 2017, the audit of the eligible costs for these contributions, relating to the years 1994-2000, 2002-2004 and 2005-2007, was completed by the appropriate interministerial Commission for this purpose: the credit Was therefore appropriately adjusted in the light of the final evaluation carried out by the Commission.

(7) The item "Depreciation of assets for client accreditation for participation in programs" refers to amortization of intangible assets for accreditation to customers and participation in programs deriving from the relationships acquired and consolidated with numerous partners of commercial clients Emerged in the purchase price allocation made in 2007 of the acquisition cost incurred in 2006 by the Cinven Fund following the purchase of the company's shares. This amortization will expire in the year 2021.

(8) This item relates to amortization of the year net of amortization of intangible assets for accreditation to customers indicated in the previous note (7).

Financial results analysis

In April 2015, Avio S.p.A. Signed a financing agreement with a pool of leading international banks, and more precisely Banca IMI S.p.A. (Agent), Banca Popolare di Milano Società Cooperativa a r.l., BNP Paribas, Italian Branch, Crédit Agricole Corporate and Investment Bank, Milan Branch, Société Générale, Milan Branch and Unicredit S.p.A., for an amount of Euro 130 million composed of:

(i) a Senior Term Facility line of Euro 100 million, divided into two tranches: the first, Euro 35 million, subject to a redemption plan in six years and the second, Euro 65 million, to be repaid In a single 7-year solution;
(ii) a revolving facility line of Euro 30 million payable on a revolving basis.

The contract is subject to cost and market interest rates and is not attested by any real warranties and includes certain limitations in terms of investments, acquisitions, disposals, additional financing (assets or liabilities) and compliance with certain financial parameters ("Financial Covenants" In line with the Company's long-term plan.

The Senior Term Facility line was fully disbursed on May 6, 2015, while the Revolving Facility line was not used.

As part of the Space2-Avio Operation, on November 29, 2016, Avio requested Banca IMI SpA, an agent bank of the Banks Union Funding Bank of the Incorporating Company, to verify the consent of the lending banks for waivers to the merger clause, which Constitutes a default event, and the change-of-control clause, which provides, upon its occurrence, immediate repayment of the outstanding amounts of the credit lines.

By way of derogation from these forecasts, the Incorporated Company has asked the agent bank that the loan becomes repayable on the date prior to the six months from the Effective Date of the Merger and on December 31, 2017, provided that the Space2-Avio Verify by that date.

On December 30, 2016, the bank replied to that request confirming that the lending banks agreed to the waiver of the Incorporated Company.

In order to reflect this change in the repayment terms of the loans, they have been reclassified into current liabilities. The charges related to early repayment of the loans, mainly related to the residual value of the arrangement fees (fully paid at the time of granting the loan) that can be amortized no later than 2022 but until 2017, as well as early termination of the IRS, are estimated overall Euro 3,2 million (of which Euro 1,7 million for 2016 and Euro 1,6 million for 2017). This amount was estimated following the consent of the lending banks to the waiver request.

Therefore, financial management recorded a net financial expense of approximately Euro 7.2 million for the year 2016, an increase of Euro 4,5 million compared to 2015. This increase is mainly attributable to Euro 1,2 million Higher interest expense due to the fact that in 2016 they were in the full year, while in 2015 only for 7 months as of May 2015 and 2,2 million of Euro for the costs associated with the early repayment of the loans.

With reference to "(Expenses / Income from Investments") in 2016, a net income of Euro 4,294 thousand was recorded for dividends paid by the subsidiary Regulus S.A. for Euro 2,400 thousand and from the jointly controlled company Europropulsion S.A. For Euro 1,894 thousand. In 2015, however, a net income of Euro 791 thousand was recognized, deriving from the allocation of dividend income of Euro 3,590 thousand (of which Euro 1,620 thousand granted by Regulus and Euro 1,970 thousand paid by Europropulsion) and by the write-down of Euro 2,799 thousand Participation in the associated company Termica Colleferro, no longer needed in 2016.

With reference to "Current and deferred tax assets" in 2016, a net income of Euro 263 thousand was recorded, from current charges of Euro 68 thousand, net of a deferred income tax expense of Euro 332 thousand. In 2015, however, net income was Euro 2,316 thousand, consisting of current expenses of Euro 28 thousand and provisions for tax assets of Euro 514 thousand, net of a deferred income tax expense of Euro 2,858 thousand.

Analyses of financial position

The analysis of the Group's consolidated statement of financial position is shown in the following table (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Change
Property, plant and equipment and investment property	35.362	26.945	8.417
Goodwill	219.100	219.100	-
Intangible assets with finite useful lives	90.044	87.695	2.349
Investments	65.231	65.231	(0)
Total fixed assets	**409.736**	**398.971**	**10.765**
Net working capital [(1)]	**(57.719)**	**(29.475)**	**(28.244)**
Other non-current assets [(1)]	67.279	8.469	58.810
Non-current financial assets [(1)]	(117.380)	(55.530)	(61.849)
Net prepaid taxes [(1)]	54.520	54.126	394
Provisions for risks	(15.045)	(15.304)	259
Provisions for employee benefits	(8.344)	(8.716)	372
Net invested capital	**333.047**	**352.540**	**(19.493)**
Net financial position	**53.533**	**72.477**	**(18.944)**
Non-current financial assets	(7.440)	(6.400)	(1.040)
Net financial position	**46.093**	**66.077**	**(19.984)**
Equity	286.955	286.462	492
Sources of funding	**333.047**	**352.540**	**(19.492)**

[(1)] : Comparative figures have been reclassified for a better representation.

Total fixed assets, amounting to 409,736 thousand of Euro at December 31, 2016, recorded an increase of 10,765 thousand of Euro compared to the previous year.
The net change in tangible assets (an increase of Euro 8,417 thousand) is attributable to the surplus of investments for the year (Euro 12,035 thousand) compared to depreciation for the year (Euro 3,618 thousand) Mainly related to plant and machinery.

The item "intangible assets with a definite life" shows a net increase of Euro 2,349 thousand in relation to the surplus of investments (Euro 9,773) compared to the amortization of the year (Euro 7,424 thousand).

Among the fixed assets, the amount of 219,100 thousand of Euro relating to the goodwill allocated to the Spatial Sector in 2007 is included as at December 31, 2016, the value of which is not subject to amortization. For more information about the Funding please refer to the "Goodwill" section of the Explanatory Notes to the financial statements and the section "Significant events after the end of the financial year" of this report.

The item "Net working capital" shows a decrease of Euro 28,244 thousand, amounting to a value of Euro 57,719 thousand in excess of liabilities on assets.
Its main components are shown in the table below (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Change
Inventories	81.620	64.421	17.199
Contract work in progress, net of related progress billing and advances	(102.831)	(69.528)	(33.303)
Trade receivables	9.818	8.887	931

Trade payables	(58.066)	(43.010)	(15.056)
Deferred tax assets and tax liabilities, net	11.740	9.755	1.985
Net working capital	**(57.719)**	**(29.475)**	**(28.244)**

The change in the year with reference to "Current Trading" was mainly determined by the combined effect of:

- an absorption of resources of Euro 17,199 thousand due to the increase in advances to suppliers mainly attributable to the production activities of the VEGA (Batch 2) program, essentially offset by
- a generation of resources of 33,303 thousand of Euro as a result of the advances received and the progress of ongoing work in progress on development activities;
- an increase in payables to suppliers related to increased volume of assets.

The increase in the item "Other non-current assets" and "Other non-current liabilities" is mainly attributable to the recognition of a credit of Euro 58,220 thousand to the General Electric Group at the same time as the recognition of non-current liabilities 'Amount of the same amount, following the receipt by the Revenue Agency of the registration tax, mortgage tax and cadastral tax payment notice in July 2016 for a total amount of 58,220 thousand of Euro, regarding the extraordinary transactions that in 2013 led to the sale of GE Avio Srl (Containing Avio Group's AeroEngine business) to the General Electric Group.
The inclusion of this credit to the General Electric Group is based on specific contractual provisions under which the latter is required to maintain Avio S.p.A. With reference to any liabilities that arise with respect to indirect taxes referring to extraordinary transactions that in 2013 resulted in the sale of GE Avio S.r.l. (Containing Avio Group's AeroEngine business) to the General Electric Group.
In addition, it should be noted that, subject to specific contractual provisions, the General Electric Group is required to make available to Avio S.p.A. The sums requested by the Financial Administration within the due deadlines for the payments.
Refer to the "3.8 Other Non-Current Assets" and "3.24 Other Non-Current Liabilities" and to the section "Legal Disputes, Taxes and Liabilities" in the Explanatory Notes.

The table below shows the composition of the net financial position (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Change
Cash and cash equivalent (1)	84.639	67.505	17.134
(A) *Liquidity*	**84.639**	**67.505**	**17.134**
(B) Current financial assests	1	130	(129)
(C) *Total financial assets* (A+B)	**84.640**	**67.635**	**17.005**
Fair value of interest rate derivatives	(312)	(368)	56
Financial liabilities to jointly controlled companies	(46.247)	(44.033)	(2.214)
(D) *Current financial liabilities*	**(46.558)**	**(44.401)**	**(2.157)**
Current portion of non-current financial bank loans	(91.615)	(4.439)	(87.175)
(E) *Current portion of non-current financial liabilities*	**(91.615)**	**(4.439)**	**(87.175)**
(F) *Net current Financial Indebtedness* (D+E)	**(138.173)**	**(48.840)**	**(89.333)**
(G) *Net current Financial Position* (C+F)	**(53.533)**	**18.795**	**(72.327)**
Non current portion of financial bank loans	-	(91.272)	91.272
(H) *Non current financial liabilities*	**-**	**(91.272)**	**91.272**
(I) *Net non current Financial Indebtedness* (H)	**-**	**(91.272)**	**91.272**
(J) *Net Financial Position* (G-I) Note 1	**(53.533)**	**(72.477)**	**18.944**
***Net Financial Position* (G-I)**	**(53.533)**	**(72.477)**	**18.944**
Non current financial assests	7.440	6.400	1.040
Adjusted Avio Net Financial Position	**(46.093)**	**(66.077)**	**19.984**

(Note 1): Net financial position is aligned to the definition stated by the Recommendation CESR of February 10, 2005 "*Raccomandazioni per l'attuazione uniforme del regolamento della Commissione Europea sui prospetti informativi* ".

Following the Space2-Avio transaction and the aforementioned consent of the lending banks to the waiver of the Company, the remaining balance of the existing Senior Term and Revolving Facility was entirely classified into the current portion of the Financial Debt.
As reported under "Significant events after the end of the financial year", the financial position of Avio S.p.A. And the Group will benefit from financial resources coming from Space2 as a result of the merger that will, together with the liquid assets as at December 31, 2016, be used in part to repay the existing Senior Term and Revolving Facility and partly to finance the assets Of industrial development of the Avio post Fusion group.

The item "Non-current financial assets" refers to the share financing granted to the associated company Termica Colleferro S.p.A..

Net financial debt adjusted for a balance of Euro 66,1 million at December 31, 2015 amounted to a balance of Euro 46,1 million at December 31, 2016, with a milestone of Euro 20 million, mainly attributable to To the contribution of the operational management, partially offset by cash outflows of a financial nature related to the payment of interest on bank financing.

<u>Net equity analysis</u>

Shareholders' equity at December 31, 2016 amounted to Euro 286,955 thousand, up by Euro 492 thousand compared to December 31, 2015, due to the combined effect of the following main phenomena:

- Recording of the result for the year 2016 (equal to 657 thousand of Euro);
- The net decrease (Euro 164 thousand) of the negative value of actuarial reserves and cash flow hedge, recorded as components of "other comprehensive income", with a direct impact on equity.

TRANSACTIONS WITH SUBSIDIARIES, ASSOCIATED COMPANIES, CONTROLLING COMPANIES AND WITH COMPANIES SUBJECT TO THE CONTROL OF THE LATTER

The relationships of the Company with subsidiaries, affiliates, parent companies and subsidiaries and associates of the latter are constituted by commercial and financial transactions carried out in the ordinary course of management and concluded under normal market conditions. In particular, they refer to the sales and purchases of goods and services, including services in the field of administrative-accounting, tax, information technology, human resources, assistance and advice and related receivables and payables at year-end and financing operations and management treasury and related income and expenses, primarily against companies belonging to the Group.

OTHER INFORMATION

Pursuant to art. 40 of Legislative Decree no. 127/1991 it is hereby confirmed that no shares of the Parent Company were owned by the same or by subsidiary companies, not even through trust companies or via third parties.

INTERNAL CONTROL SYSTEM, REGULATION OF ADMINISTRATION RESPONSIBILITY OF THE COMPANY (Legislative Decree no. 231/2001)

During 2016, strengthening activity of the internal control system of Avio continued.

As regards the Corporate Responsibility of Companies (Legislative Decree 231/2001), Avio's Board of Directors approved at its meeting on March 31, 2016 the updating of the Model of Organization, Management and Control pursuant to Legislative Decree 231 / 2001 of the company, in the 7th edition of October 2015, including all legislative innovations related to Legislative Decree 231/2001 effective as of October 2015 and, since no further changes were made to the company, however, as at December 31, 2016. In the same Board of Directors of the Company, the Supervisory and Auditing Plan for the year 2016 was approved. The first round of audits provided by the Supervisory / Auditing Plan and Control 231 in June- July, was restructured and executed in the last quarter of the year by integrating it with the second cycle. This is to avoid further commitments to the organization of the Group during the whole year to a wide range of activities related to the stock exchange process, which is currently under way.
All the main activities of the company, of normal and extraordinary operations, were in any case subject to extensive monitoring by the OV.

PROPOSAL FOR THE ALLOCATION OF 2016 NET RESULT OF AVIO S.p.A.

We hereby submit the Separated Financial Statement of Avio S.p.A. for the year ending December 31, 2016 for your approval, prepared in accordance with International Financial Reporting Standards IFRS, closed with a net income of Euro 656.690. We propose to carry forward the profit of the year.

* * *

28th April 2017

for the BOARD OF DIRECTORS
Chief Executive Officer and Managing Director
Giulio Ranzo

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Notes	December 31, 2016	December 31, 2015
(Amount in Euro)			
ASSETS			
Non-current Assests			
Property, plant and equipment	3.1	59.053.522	50.224.454
Investment property	3.2	2.735.289	2.692.747
Goodwill	3.3	221.000.000	221.000.000
Intangible assets with finite useful lives	3.4	90.677.134	88.786.326
Investments	3.5	5.728.228	5.161.478
Non-current financial assets	3.6	7.440.000	6.400.000
Deffered tax assets	3.7	56.517.060	56.793.007
Other non-current assets	3.8	67.447.807	8.633.043
Total non-current assets		**510.599.041**	**439.691.055**
Current Assets			
Inventaries	3.9	133.091.633	109.146.768
Contract work in progess	3.10	35.388.842	64.562.200
Trade receivables	3.11	10.907.426	8.343.657
Current financial assets	3.12	755	129.701
Cash and cash equivalent	3.13	87.174.999	70.378.061
Current tax assets	3.14	32.428.924	43.270.484
Other current assets	3.15	5.320.465	9.696.631
Totale current assets		**304.313.045**	**305.527.502**
TOTAL ASSETS		**814.912.085**	**745.218.557**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Notes	December 31, 2016	December 31, 2015
(Amount in Euro)			
EQUITY			
Share capital	3.16	40.000.000	40.000.000
Additional paid-in capital	3.17	73.575.782	73.575.782
Other reserves	3.18	(3.558.648)	(3.319.377)
Retained earnings		190.348.405	185.759.594
Profit for the year of the group		1.336.804	4.588.812
Total equity of the Group	3.19	**301.702.343**	**300.604.811**
Non-controlling interests	3.20	**8.398.819**	**8.223.251**
TOTAL EQUITY		**310.101.162**	**308.828.062**
LIABILITIES			
Non-current liabilities			
Non current financial liabilities	3.21		91.271.632
Provision for employee and benefits	3.22	10.930.069	10.803.523
Provision for risks	3.23	10.028.806	19.277.766
Deffered tax liabilities	3.7	430.799	
Other non-current liabilities	3.24	117.733.505	55.907.702
Total non current liabilities		**139.123.178**	**177.260.623**
Current liabilities			
Current financial liabilities	3.25	14.161.556	8.767.235
Current portion of non-current financial liabilities	3.26	91.614.533	4.439.167
Provisions for risks	3.23	14.836.648	8.169.673
Trade payables	3.27	56.717.065	46.871.971
Advances for contract work in progress	3.10	167.263.606	172.878.015
Current tax payables	3.28	2.527.408	2.050.162
Other current liabilities	3.29	18.566.928	15.953.649
Total current liabilities		**365.687.745**	**259.129.872**
TOTAL LIABILITIES		**504.810.924**	**436.390.495**
TOTAL LIABILITIES AND EQUITY		**814.912.085**	**745.218.557**

CONSOLIDATED INCOME STATEMENT	Notes	Year 2016	Year 2015
(Amount in Euro)			
Revenues	3.30	339.685.185	279.227.451
Change in inventory of finished and semi-finished goods		(85.956)	764.264
Other operating income	3.31	11.455.673	9.119.138
Raw material consumption	3.32	(109.004.450)	(83.460.951)
Costs of services	3.33	(157.129.642)	(123.140.259)
Personnel costs	3.34	(56.610.080)	(53.893.609)
Depreciation and amortisation	3.35	(13.726.988)	(17.398.504)
Write-down and impairment/reversal			
Other operating expenses	3.36	(13.727.430)	(9.160.346)
Share of profit in investments in joint ventures accounted for using the equity method	3.37	2.460.728	1.892.877
Capitalisation of costs for internally generated assets	3.38	9.892.293	6.558.031
OPERATING PROFIT		**13.209.333**	**10.508.092**
Financial income	3.39	950.292	2.271.831
Financial expenses	3.40	(7.899.891)	(5.603.553)
NET FINANCIAL INCOME/(EXPENSES)		**(6.949.599)**	**(3.331.722)**
Share of loss in investments in associated companies accounted for using the equity method	3.41		(2.798.601)
Other income/(expenses) from financial investments		21	
NET INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS		**21**	**(2.798.601)**
PROFIT BEFORE TAXES AND DISCONTINUED		**6.259.755**	**4.377.769**
INCOME TAXES	3.42	(3.119.813)	986.102
PROFIT FROM CONTINUING OPERATIONS		**3.139.942**	**5.363.871**
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS NET OF TAXES	3.43	**-**	**-**
PROFIT FOR THE YEAR		**3.139.942**	**5.363.871**
-- attributable to owners of the Parent		1.336.804	4.588.812
-- attributable to non-controlling interests		1.803.139	775.059

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Year 2016	Year 2015
(Amount in Euro)		
PROFIT FOR THE YEAR (A)	**3.139.942**	**5.363.871**
Gains (losses) included directly in equity (which will not reclassified subsequently to income statement)		
- Actuarial gains and losses-reserve Actuarial gains/losses	(345.953)	(44.187)
Gains (losses) included directly in equity (which will be reclassified subsequently to income statement)		
- Gains/(losses) on hedging derivative instruments recognized directly in cash flow hedge reserve	56.411	(367.990)
Income tax relating to components of Other comprehensive income	22.700	(381.634)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX (B)	**(266.842)**	**(793.811)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR (A+B)	**2.873.100**	**4.570.060**
-- attributable to owners of the Parent	1.095.240	3.795.001
-- attributable to non-controlling interests	1.777.860	775.059

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(€ Thousands)

	Share capital	Additional Paid-in Capital	Other reserves: *Cash flow hedge interest rate reserve*	Other reserves: *Actuarial profit/ (losses) reserve*	*Retained earnings / (losses)*	Profit/ (Loss) of the Group	Total equity of the Group	Non-controlling interests	Total Equity
Equity as at 31/12/2014	**40.000**	**73.576**		**(2.523)**	**400.192**	**5.554**	**516.799**	**8.526**	**525.325**
Allocation of prior year profit/(loss)					5.554	(5.554)	0		0
Profit/(Loss) for the year						4.589	4.589	775	5.364
Other income / (losses):									
- Changes in fair value of hedging derivatives, net of related tax effect			(368)				(368)		(368)
- Gains / (Losses Actuarial, net of related tax effectOther income / (losses)				(426)			(426)		(426)
Total comprehensive income / (losses) for the year	0	0	(368)	(426)	0	4.589	3.795	775	4.570
Dividends distribution					(220.000)		(220.000)	(1.080)	(221.080)
Other changes					13		13	2	15
Equity as at 31/12/2015	**40.000**	**73.576**	**(368)**	**(2.949)**	**185.759**	**4.589**	**300.607**	**8.223**	**308.830**
Allocation of prior year profit/(loss)					4.589	(4.589)	0		0
Profit/(Loss) for the year						1.337	1.337	1.803	3.140
Other income / (losses):									
- Changes in fair value of hedging derivatives, net of related tax effect			56				56		56
- Gains / (Losses Actuarial, net of related tax effectOther income / (losses)				(298)			(298)	(25)	(323)
Total comprehensive income / (losses) for the year	0	0	56	(298)	0	1.337	1.095	1.778	2.873
Dividends distribution								(1.602)	(1.602)
Other changes									
Equity as at 31/12/2016	**40.000**	**73.576**	**(312)**	**(3.247)**	**190.348**	**1.337**	**301.702**	**8.399**	**310.101**

CONSOLIDATED STATEMENT OF CASH FLOWS

(€ thousands)

		2016	2015
OPERATING ACTIVITIES			
Profit for the year from Continuing operations		3.140	5.363
Adjustments for:			
-Income taxes		3.120	(986)
- Share of loss in investments in associated companies and joint ventures		(2.461)	(906)
- Net financial (Income)/expenses		6.950	3.332
- Depreciation and amortisation		13.727	17.399
- (Gains)/losses from sales and other (Gains)/losses		-	-
Dividends from investments in joint ventures		1.894	1.980
Net changes in provisions for risks		(2.582)	(5.067)
Net changes in provision for employee benefits		(138)	(472)
Cash provided by operating activities before changes in working capital			
- Inventories		(23.945)	(32.430)
- Contract work in progress and advances for the Contract work in progress		21.916	63.289
- Trade receivables		(2.564)	(1.417)
- Trade payables		9.845	(4.769)
- Other current and non-current assets		(46.441)	(8.078)
- Other current and non-current liabilities		68.618	(4.346)
Income interest paid (*)		(1.627)	(7.302)
Interest paid		(3.732)	(2.429)
Net cash provided by operating activities	(A)	**45.719**	**23.160**
INVESTING ACTIVITIES			
Capital expenditures for:			
- Property, plant, equipment and investment property		(14.538)	(8.286)
- Intangible assets with finite useful lives		(9.951)	(5.367)
Proceeds from disposal of financial assets		-	-
Cash flow used in discontinued operations			
Net cash provided /(used in) investing activities	(B)	**(24.489)**	**(13.653)**
FINANCING ACTIVITIES			
Proceeds from long-term borrowings		(6.788)	100.000
Payment of transaction costs related to the amendment and extension of long term borrowings			(4.875)
Cash pooling effect from jointly controlled company Europropulsion S.A.		5.451	480
Funds transferred to Escrow accounts to guarantee the GE Avio S.r.l. investment's sale operation		(1.040)	(200)
Share Capital and additional paid-in capital			-
Dividend to Shareholders			(220.000)

Dividends to minorities		(1.602)	(1.080)
Funds transferred to Escrow accounts to guarantee the GE Avio S.r.l. investment's sale operation			21.313
Other changes in financial assets and liabilities		(454)	
Net cash provided/(used) in financing activities	(C)	**(4.433)**	**(104.362)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(A)+(B)+(C)	**16.797**	**(94.854)**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**70.378**	**165.232**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**87.175**	**70.378**

(*) In 2015 the caption includes cash flows relating to the current tax payment and previous years provisions for fiscal claims paid in 2015. In 2016 the amount paid relating to tax provisions for claims related to previous exercises is not material. Consequently, it has been included in caption "Net changes in provisions for risks". So, caption "Income interest paid", only includes current taxes paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Avio S.p.A. (the "Company" or the "Parent") is a limited liability company (*società per azioni*) incorporated and organized under the Italian laws, registered at the Rome Company Register and with its registered office in Via Leonida Bissolati, n. 76, Rome, Italy.

The Society boasts over 100 years of activity in the aerospace propulsion, sinking its own roots in the historical BPD - Defense and Space of Colleferro (Rome). The Society is rated near the Stock exchange in Milan, Star segment, from April 10th 2017.

The Group leader holds, to December 31, 2016, directly or indirectly, shares in five controlled societies (ELV S.p.To., Regulus S.A., Secosvim S.r.l., AS Propulsion International BV and Avio India Aviation Aerospace Private Ltd in liquidation) and in a jointly controlled society (Europropulsion S.A.), included in the area of consolidation of the present financial statements (together as the "Group" or "The Group Avio").

The area of consolidation has suffered any change during the exercise year of 2016.

The Group is leader in the space propulsion sector operating with 5 location ad sites in the geographical areas of Europe and South America. The principal activities of the Group are described in the Report on Operations.

The consolidated financial statements are presented in Euro as this is the currency in which most of Group's operations are managed. The consolidated statement of financial position, the consolidated income statement and the consolidated statement of comprehensive income are stated in Euro. The statement of changes in consolidated equity, the consolidated statement of cash flows and amounts reported in these notes to the financial statements are stated in thousands of Euro, unless otherwise noted. Foreign activities are included in the consolidated financial statements in accordance with the accounting principles indicated in the following notes.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The Parent was incorporated on December 11, 2006 and, in accordance with its deed of incorporation, the first financial year closed on December 31, 2007. Therefore, these financial statements are the ninth consolidated financial statements of the Parent.
According to Art. No. 3 of Legislative Decree No. 38 of February 28, 2005, the Parent decided to adopt, on a voluntary basis, the international accounting principles (hereinafter referred to as "IFRS") issued by the International Accounting Standards Board ("IASB") and adopted by the European Commission for the preparation of its consolidated financial statements.
The designation "IFRS" includes the *International Financial Reporting Standards*, all revised International Accounting Standards ("IAS"), as well as all interpretations of the *International Financial Reporting Standard Interpretations Committee* ("IFRS IC" now "IFRIC"), formerly the Standing Interpretations Committee ("SIC").
With regard to this, it is important to state that the IFRS accounting principles applied in the preparation of the financial statements as at December 31, 2016, are those in force on December 1, 2016.
The consolidated financial statements in accordance with IFRS are prepared under the historical cost convention, modified as required for the *fair value* valuation of certain financial instruments and of other assets and liabilities, as well as on the going concern assumption.

The preparation of a financial statement that conforms to IFRS requires Management to make estimates and assumptions. In addition, Management of the Group is requested to assess the right judgement on the process of Group's accounting policies, items for which a higher level of attention or complexity is involved, and those for which assumptions and estimates are significant for the preparation of the consolidated financial statements, are analysed in a subsequent note.

2.2 Format of the financial statements

The consolidated financial statements for the year ended December 31, 2016, include the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated equity, the consolidated statement of cash flows and the notes to the consolidated financial statements.

The format of the financial statements used by the Group shows:

- For the consolidated statement of financial position, the classification between current and non-current assets and liabilities, generally adopted by industrial and commercial groups;

- For the consolidated income statement, the classification of costs by nature of expenses;

- For the consolidated statement of comprehensive income, the adoption of the "two-statement" approach with the presentation of other comprehensive income gross of the related tax effect;

- For the consolidated cash flows statements, the indirect method is adopted.

2.3. Comparative Information

As requested by IAS 1, the consolidated financial statements for the year ended December 31, 2016 disclose comparative information related to prior period.

Whereas for a better representation in the current year changes have been made to some classification criteria, which was reclassified consistently also in the comparative figures of the previous year.

2.4. Basis of consolidation

The consolidated financial statements include the financial statements of the Parent Company, of directly or indirectly controlled companies and of the companies over which the Group exercises joint control with other shareholders, as defined in IFRS 10 - Consolidated financial statements, IFRS 11 – Joint arrangements and IAS 28 – Investments in associated and joint venture.

Controlled subsidiaries
A company is considered a subsidiary when the Group has the control as defined in IFRS 10 - Consolidated financial statements. Control is achieved when the Group has power over the investee, when it is exposed to, or has rights to, variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investor’s returns. The exercise of power over the subsidiary arises from the existence of rights that give the Parent's current ability to manage the relevant activities of the investee company in its own interest. To evaluate whether the Group controls another entity we consider the existence and effect of potential voting rights, exercisable or convertible.
Subsidiaries are consolidated on a line by line basis from the date which control is achieved by the Group until the date the control ceases.

Subsidiaries dormant or for which the consolidation does not produce significant effects (due to the specific operations conducted, as for consortia), and those representing immaterial investments (taking into consideration the value of the investment and related balance sheet and income statement amounts), are not included in the consolidated financial statements. These companies are valued at the same criteria used for investments in other companies.

The consolidation is carried out according to the total integration method, assuming the entire amount of assets, liabilities, revenues and expenses of the consolidated companies. The book value of investments in consolidated subsidiaries is eliminated against the corresponding share of their equity, allocating to assets and liabilities their fair values at the date of the acquisition of the control.
Changes in the interests in a subsidiary which do not lead to the acquisition or loss of control are recognised directly in the changes of equity.
All receivables, payables, revenues and expenses among consolidated companies, as well as significant gains and losses arising from transactions among consolidated companies not yet realised with third parties, are eliminated in the consolidated financial statements. The elimination of inter-company unrealised losses is recorded to ensure the carrying amount of assets does not exceed their net realisable value or value in use.
Intra-group dividends are eliminated from the income statement.

Significant unrealised gains or losses on transactions with associates or jointly controlled companies are eliminated to the extent of the Group’s interest in those entities.

Non-controlling interests in net assets and in profit/(loss) of the consolidated companies are reported separately in the consolidated equity of the Group.

Business combinations
The acquisition of businesses is accounted for by applying the acquisition method. The cost of a business combination is the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for the control of the acquired entity. Acquisition-related costs are generally recognised in the income statement as incurred. On acquisition, the assets, liabilities, and contingent liabilities of a subsidiary, which satisfy the recognition criteria stated by IFRS 3 - *Business Combinations*, are measured at their fair value at the date of acquisition, except for deferred tax assets and liabilities, assets and liabilities relating to employee benefits arrangements, liabilities or equity instruments relating to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree and assets (or disposal groups) that are classified as held for sale, which are measured in

accordance with the relevant standard. Goodwill arising from acquisitions is recognised as an asset and initially measured at cost. Goodwill is measured as the excess of the aggregate of (i) the consideration transferred in the business combination; (ii) the amount of any non-controlling interest in the acquiree and (iii) the *fair value* of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of (i)the consideration transferred, (ii) the amount of any non-controlling interest in the acquiree and (iii) the *fair value* of the acquirer previously held interest in the acquire. Such excess is recognised immediately in the income statement as a bargain purchase gain.

Non-controlling interest is initially measured either at *fair value* or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The selection of the measurement method is made on a transaction-by-transaction basis.
Any contingent consideration arrangement in the business combination is measured at its acquisition-date fair value and included as part of the consideration transferred in the business combination in order to determine goodwill. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are recognised retrospectively, with corresponding adjustments to goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which may not exceed one year from the acquisition date) about facts and circumstances that existed as of the acquisition date.
When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured at its acquisition-date fair value and the resulting gain or loss is recognised in the income statement. Changes in the equity interest in the acquiree that have been recognised in Other comprehensive income in prior reporting periods are reclassified to the income statement as if the interest had been disposed of.
If the initial accounting value for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete in the consolidated financial statements. Those provisional amounts are adjusted during the measurement period to reflect new information obtained about facts and circumstances that existed at the acquisition date which, if known, would have affected the amounts recognised at that date.
Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.
No significant restrictions exist in transferring funds (dividends, loans redemptions or advances) to the Parent.

Investments in jointly controlled entities
Jointly controlled entities, if the underlying arrangements are configurable as a joint venture (or where the parties have rights only on the equity of the agreement), are consolidated, based on the application of IFRS 11 requirements, using equity method.
Where related arrangements configure the presence of a joint operation (where the parties have rights to the assets and obligations for the liabilities of the agreement), assets, liabilities, costs and revenues of the joint operation are consolidate on a pro-rata basis.
Where necessary, adjustments are made to the financial statements of jointly controlled companies to align their accounting policies with those adopted by the Group.

Investments in associated companies
Associated companies are enterprises over which the Group has significant influence, as defined by IAS 28 - Investments in associates and joint venture, but not control or joint control over the financial and operating policies. Generally, an investment between 20% and 50% of voting rights means the existence of significant influence. Associated companies, over which the Group has significant influence, are accounted for by using the equity method, from the date the significant influence commences until the date that significant influence ceases. According to this method, the carrying value of the investment in an associated company is adjusted at each year-end, to take into consideration the result of the associated company, net of dividends received, after having adjusted, where necessary, its accounting principles in order to align them with those applied by the Group. Any excess of the cost of the acquisition over the fair values of the Group's interest in the assets, liabilities and contingent liabilities identifiable at the acquisition date, is recognised as

goodwill. Goodwill is included in the carrying value of related investment and is accounted as a part of the investment carrying value. The accounting of goodwill at the acquisition date complies with the accounting principle reported in the previous paragraph related to Business combinations. The carrying value of the investment is tested for impairment if events or changes in circumstances indicate that it might be impaired (impairment test). Impairment losses, if any, are not allocated to any assets (and goodwill in particular) that forms part of the carrying amount of the investment in the associate, but to the carrying amount of the investment overall. Accordingly, any reversal of that impairment loss is recognised in full. Any deficiency of the cost of the acquisition below the fair values of the identifiable net assets acquired is credited immediately to the income statement. When the Group's share of losses of an associate, if any, exceeds the carrying amount of the associate in the Group's statement of financial position, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations, legal or constructive, in respect of the associate.

Investments in associated companies, which are not significant on a consolidated basis are not adjusted to equity.

Investments in other entities
Entities in which the Group holds an investment between 20% and 50% of voting rights without the existence of significant influence and investments in other companies, for which related fair value is difficult to be determined, are valued at cost, adjusted, if necessary, for loss in value. When the Group's share of losses, if any, exceeds the carrying amount of the investment in the Group's statement of financial position, the carrying amount is reduced to nil and recognition of further losses as liabilities is not recorded except to the extent that the Group has incurred an obligation, legal or constructive, in respect of the entity. Dividends received from those entities are included in the caption "Net income from financial investments".

2.5 Consolidation of foreign entities

Separate financial statements of each subsidiary belonging to the Group are originally prepared in the currency of the primary economic environment in which it operates. For consolidation purposes, these statements are translated into Euro, the Parent's functional currency and the presentation currency for the consolidated financial statements. Transactions in currencies other than Euro are recorded at the exchange rate prevailing on the dates of the transactions and exchange gains or losses deriving from the settlement of the transaction are recorded in the income statement. At year-end, monetary assets and liabilities denominated in currencies other than Euro are translated at the rates prevailing at that date and related exchange gains or losses are recorded in the income statement. Non-monetary assets and liabilities valued at historical cost, denominated in foreign currencies, are not translated at year-end exchange rate.

2.6. Consolidation Area

The consolidated financial statements as at December 31, 2016, include the financial statements of the Parent and its Italian and foreign subsidiaries (included in the consolidation on a line-by-line basis) and the financial statements of Europropulsion S.A. 50% jointly controlled, which are consolidated under the equity method.

During 2016, no changes occurred in the consolidation area, which is showed in the following table:

Companies in consolidationarea as of December 31, 2016	**Investment portion**
Parent Company	
Avio S.p.A.	-
Controlled companies consolidated on a line-by-line basis	
ASPropulsion International B.V.	100%
SE.CO.SV.IM. S.r.l.	100% (*)
ELV S.p.A.	70%

Regulus S.A.	60%
Avio India Aviation Aerospace Private Limited (**)	100% (***)
Joint venture consolidated using the equity method	
Europropulsion S.A.	50%
Associated Companies consolidated using the equity method	
Termica Colleferro S.p.A.	40%

(*) It should be noted that, as of December 31, 2015, the Indian subsidiary is in liquidation.
(**) Investment portion held through ASPropulsion International B.V.
(***) Investment portion held partly through Avio S.p.A. (95%) and partly through ASPropulsion International B.V. (5%)

Non-controlling interests in net assets and in profit/(loss) of the consolidated companies are reported separately from the consolidated equity of the Group, in the caption "Non-controlling interest".

2.7. Principi contabili e criteri di valutazione

2.7. Accounting principles and measurement criteria

Property, plant and equipment

Property, plant and equipment are recorded at their purchase price or construction cost, less accumulated depreciation and accumulated impairment losses, if any.
The purchase price corresponds to the price paid, including costs necessary to bring the asset to working conditions for its intended use and the estimated costs of dismantling and removing of the asset and restoring the site on which it is located, if needed and recognisable in accordance with IAS 37. For contributed assets, cost corresponds to the value attributed in the expert's appraisal report, In the value of internally constructed assets are included all construction costs incurred up to the moment in which these assets enter into use, whether relating directly and specifically to the specific asset or, in general, to the construction activities involved and thus common to more than one asset. Borrowing costs, if any, which are directly attributable to the acquisition, construction or production of qualifying assets (as defined under IAS 23 *Borrowing costs*), which are assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised and amortised over the useful life of the class of assets to which they refer, All other borrowing costs are expensed when incurred.

Costs incurred subsequent to the acquisition (mainly repair, maintenance and overhaul expenses) are capitalised in the cost of the existing assets or as a separate one, only if they increase the future economic benefits associated with the related caption of property, plant and equipment. Repairs, maintenance and overhaul expenses that do not meet requirements to be recorded as assets are expensed as incurred.

The gross book value of the assets is depreciated on a straight-line basis over the years in which the assets are utilised, by providing depreciation rates, determined according to their estimated useful life and residual value. Depreciation starts when the asset is available and ready to enter into use, As for the contributed assets, related depreciation is calculated based on the residual useful life at the contribution date.

The depreciation rates used by the Group are deemed to represent the economic-technical life of the assets to which they refer and are the following:

Category	Depreciation rate
Buildings	3-10%
Plants and machinery	7-30%
Industrial and commercial equipment	25-40%
Other tangible assets	
- Furniture, office machinery and equipment	12-20%
- Transportation vehicles	20-25%

- Other tangible Assets 12-25%

The depreciation for the first year is calculated proportionally to the period of effective utilisation, Useful life of assets is reviewed annually and changes are accounted for prospectively, if any.
Costs for improvement works on assets belonging to third parties and used by Group companies are capitalised, classified in the category of Property, plant and equipment to which they refer and are amortised during the lower period between the residual length of the rent or concession agreement and the residual useful life of the asset to which the improvement refers.

Each part of a caption of property, plant and equipment, with different useful lives and with a cost that is significant in relation to the total cost of the item, is depreciated separately (*component approach).*

Assets relating to financial lease contracts, for which all risks and benefits connected to the ownership are substantially transferred to the Group in accordance with IAS 17 are recognised as Group assets at their fair value, or, if lower, at present value of future lease payments, The corresponding liability to the lessor is included among the financial payables.

Land is not depreciated.

In case of impairment loss, regardless of the depreciation already provided, the asset is written-down accordingly, If in subsequent periods, the reasons for the write-down cease to apply, the original value is reinstated. The increased carrying amount of the asset attributable to a reversal of an impairment loss, will never exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years.

Gains and losses arising from the sale or disposal of property, plant and equipment are determined by the difference between the selling price and the net book value in the moment of de-recognition and are recorded in the income statement.

Investment property
Real estate and land not directly used for conducting the operations of the Group and held to earn rental income or for capital appreciation or for both, are initially measured at cost determined with the same principles adopted for Property, plant and equipment. After initial recognition, they are recorded at their purchase price, less accumulated depreciation (determined, for real estate, by applying a 3% depreciation rate, which is deemed to represent the useful life of the assets) and impairment losses, if any. Investment properties are derecognised when they are sold or when they are permanently withdrawn from use and no future economic benefits are expected from their disposal.

Intangible assets
An intangible asset is an asset without physical substance and is recorded only if it is identifiable, the Group has control over it, it is probable that expected future economic benefits will be realised by the Group and can be measured reliably.
Among intangible assets, the goodwill acquired in a business combination is included.

Intangible assets with finite useful life are recorded at their purchase or production cost, less accumulated amortisation and impairment losses, if any. Amortisation rates reflect expected useful life and the amortisation process begins when the asset is available for use. The useful life is reviewed annually and changes in original estimates, if any, are accounted for prospectively.
Intangible assets with indefinite useful life are not amortised but tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.
Intangible assets recognised because of a business combination are recorded separately from goodwill, if their *fair value* can be reliably identified.

Intangible assets with indefinite useful lives

Goodwill
Goodwill arising from Business combinations is initially measured at cost as established at the acquisition date, as defined in the paragraph related to Business combinations. Goodwill is

recognised as an intangible asset with an indefinite useful life and is not amortised but tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, Impairment losses, if any, are immediately recorded in the income statement and are not reversed in subsequent periods. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. On disposal of a subsidiary, the residual amount of the related goodwill is included in the determination of the gain or loss on disposal.

For the purposes of the impairment test at December 31, 2016, goodwill is allocated at the cash-generating unit (CGU) level, representing financially independent business unit through which the Group operates. Based on the Group's structure, as of December 31, 2016, only one CGU, corresponding to the Space Sector, has been identified.

Intangible assets with finite useful lives

Development costs
Development costs are mainly related to the production of components and parts for aero-engines and are recognised as assets if, and only if, the cost can be measured reliably, related development activities are clearly identifiable, there is evidence that from these costs future economic benefits will flow to the Group, and it can be demonstrated: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) the Group's intention to complete the intangible asset and use or sell it; (iii) the availability of adequate technical and financial resources to complete the development and use or sell the intangible asset; (iv) the Group's ability to reliably measure the expenditure attributable to the intangible asset during its development. Amortisation is recorded on a straight-line basis beginning from the time commercial production of related programmes starts. Amortisation rates are proportioned, for the first year, to the actual utilisation period. Useful lives are determined with reference to a prudential estimate of the length of the programmes from which related economic benefits arose and are initially stated at 5, 10 or 15 years, according to the specifications of the programmes to which they refer. Capitalised development costs related to programmes for which production has not yet started are not amortised; they are recorded among intangible assets after having been tested for impairment based on the expected profitability of the programmes to which they refer.

Research costs and development costs that do not meet the above-mentioned requirements are expensed as incurred in the income statement and they cannot be recognised as intangible assets in subsequent periods.

Intangible assets for customer relationships
At the Acquisition date and starting from 2007 financial year, the Group allocated the Acquisition cost recognising assets, liabilities and contingent liabilities of the acquired subsidiaries at their fair value. Following this allocation, certain intangible assets deriving from customer relationships for participation in programmes were identified as being separately recognised in accordance with IFRS 3 and IAS 38. These assets were recognised at their fair value by applying an income approach valuation methodology, based upon the present value of future cash flows generated by assets over the expected remaining useful lives, determined by applying a rate of return, which discounts for the relevant risks associated with the assets and the time value of money. Moreover, the benefit attributable to the tax saving obtainable by a potential purchaser, deriving from the amortisation of the recognised intangible assets, was considered in determining the fair value of the assets (*tax amortisation benefits*).
The customer relationships intangible assets are amortised, in connection with the weighted average remaining useful lives of the programmes to which they refer, in a period of 15 years, With respect to the recorded intangible assets, the relative deferred taxes were also recognised, determined by applying the tax rate expected to be in force at the moment the relevant amortisation is charged to income statement.

Other intangible assets
Other intangible assets with finite useful lives are recognised as assets if, and only if, they can be reliably measured and there is evidence that from these costs future economic benefits will flow to the Group. When these requirements are met, the intangible assets are recorded at their purchase price, including related expenses. For contributed assets, the cost corresponds to the value

attributed in the expert's appraisal report. Other intangible assets accounted for in connection with a business combination are recognised separately from goodwill if their fair value can be measured reliably.

The gross book value of the assets is amortised systematically over the years in which the assets are utilised, by providing constant amortisation rates, determined according to the estimated useful life. The amortisation process begins when the asset is available for use and amortisation rates are proportioned, for the first year, to the real utilisation period. As for the assets received in contribution, amortisation is calculated based on the residual useful life at contribution date, The amortisation rates used by the Group are the following:

Categoria	Aliquote di ammortamento
Licences	20%
Trademarks	10%
Software	20-33%

Investments

Investments in non-consolidated entities are accounted in accordance with the principles stated in the note "Basis of consolidation".

Impairment of assets

The Group reviews, at least annually, the recoverability of the carrying amount of tangible and intangible assets, in order to determine whether there is any indication that those assets have suffered an impairment loss. If indication of impairment is present, the carrying amount of the asset is reduced to its recoverable amount. In addition, intangible assets with indefinite useful lives are tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired. The impairment loss of an asset is equal to the difference between its carrying amounts over its recoverable amount. The recoverable amount is the higher of its fair value less cost to sell and its value in use, which is the present value of estimated future operational cash flows, excluding cash flows arising from financing activities. Cash flow projections are based on financial plans and reasonable and supportable assumptions related to the Group's future expected economic results and general economic conditions. The discount rate takes into consideration the time value of money and specific industry risks.
If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the C*ash-Generating Unit (CGU)* to which the asset belongs.

- When the recoverable amount of an asset (or of a cash-generating unit) is less than its carrying amount, the carrying amount of the asset is reduced to the recoverable amount and the impairment loss is immediately recognised in the income statement. Then, when there is any indication that an impairment loss recognised in prior periods for an asset (or for a cash-generating unit) other than goodwill may no longer exist, the carrying amount of the asset (or of the cash-generating unit) will be increased to the new estimate of its recoverable amount. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. The reversal of the impairment is immediately recognised in the income statement.

Financial assets

With regard to the maturity date within or beyond 12 months from the balance sheet date financial assets comprise:

- Loans and receivables

Assets arising from transactions involving financial derivative assets with fixed maturities and which have fixed or determinable payments that are not quoted in an active market and for which you do not want to be traded. The valuation of these instruments are recognized in the amortized cost, using the effective interest rate and taking into account any discounts or premiums obtained or paid at the time of acquisition and recognizing them throughout the whole period of time to maturity of the instruments themselves.

- Financial assets available for sale (available for sale - AFS)

This is a "residual" category which includes financial assets that are designated as available for sale and are not classified in any of the previous categories.
Gains and losses on financial assets available for sale are recognized directly in equity until the financial asset is sold or written down; when the asset is sold, the cumulative gains or losses, including those previously recognized in equity are included in the income statement for the period; when the asset is impaired, the accumulated losses are included in the income statement. Gains and losses arising from changes in fair value of financial instruments classified as held for trading are recognized in the income statement for the period.
Fair value is the amount for which an asset could be exchanged, or a liability settled in an arm's length transaction between knowledgeable, willing parties.
In the case of securities listed on regulated markets, fair value is determined by reference to the stock market price (bid price) at the close of trading on the closing date.
In the event that no market prices, the fair value is either not available or determined based on the current value of a substantially similar financial instrument or by using appropriate financial techniques (for example, the discounted cash flow).

Investments in financial assets can be derecognised only when they are past due contractual rights to receive their cash flows or when transferring to third parties of the financial asset and all the related risks and benefits.

Inventories
Inventories are valued at the lower of purchase or production cost or net realisable value, which is defined as the estimated selling price less expected completion costs and selling expenses.
Specifically, raw materials, semi-finished goods and work in progress are initially recorded at purchase or production cost. Purchase cost includes costs paid to suppliers and other costs incurred in bringing the inventories to their present location, net of discounts and allowances, Production cost includes costs incurred in bringing the inventories in the place and condition in which they are at the balance sheet date, including direct costs and recharges of indirect and general production costs, Cost is calculated using the FIFO method. This method is deemed the most appropriate for a true, fair and consistent representation of the financial and economic position of the Group.
The inventories value is, if necessary, adjusted by providing appropriate reserves in order to consider obsolete and slow-moving materials, with respect to their possible use and future recoverability.

Land owned by the subsidiary Se.Co.Sv.Im. S.r.l. (hereinafter also referred to as “Se.Co.Sv.Im.”) included in inventory and deemed to be sold in the course of the ordinary business of the company, is valued at the lower of purchase cost or net realisable value.

Contract work in progress
Contract work in progress (or construction contracts) refers to specifically negotiated contracts for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use, These contracts are mainly related to development and production activities for space engine programmes.

When the outcome of a contract work in progress can be estimated reliably, construction contracts are recognised based on the percentage of completion method applied to the overall contractual price. According to this method, costs, revenues and related profit are accounted for taking into consideration the proportion of work completed. For the computation of the percentage of completion, the economic method of the ratio between production costs already occurred and total budgeted costs of the whole contract (cost-to-cost) is adopted, using up-to-date estimates at the balance sheet date. Assumptions used for the evaluations are revised on a periodic basis, Variations, price adjustments and incentive payments are subsequently included in contract revenues only if they are probable, if any, are accounted for in the accounting period in which they become known.

When the outcome of a construction contract cannot be estimated reliably, revenues are recognised only to the extent of contract costs incurred that will probably be recovered and costs are recognised as expenses in the period in which they are incurred.
Future costs expected to be incurred after the closing of the contract and expected losses are considered by recording a provision, classified as a liability in the caption "Provisions for risks". In particular, the expected losses are recognised as expenses immediately at the moment they become known.

Contract work in progress is presented in the Statement of Financial Position net from advances invoices to customers. The following analysis is conducted for each contract: if the gross amount of specific work contract exceeds the progress invoice amount, the positive difference is classified in the line at the Statement of Financial Position; otherwise, the net negative difference is classified in the caption "Advances for contract work in progress".

Trade receivables

Trade receivables are initially recorded at fair value, which corresponds to their nominal value, adjusted to the estimated realisable value by means of a provision for doubtful accounts. The reserve is related both to the risks on specific receivables and to the general risk of not collecting the trade receivables, which is estimated taking into account historical experience and solvency of debtors.

Receivables for which the collection is deferred beyond the average payment terms are adjusted to their present values and then measured at the amortised cost using the effective interest rate method.

Sales of receivables occurred through factoring transactions may be with or without recourse; certain without-recourse transactions imply continuing significant exposure to the cash flows deriving from the receivables sold. These kinds of transactions do not meet IAS 39 requirements for assets de-recognition, since the risks and rewards have not been substantially transferred. Consequently, receivables sold through factoring transactions that do not meet IAS 39 de-recognition requirements, are recognised as such in the financial statements, even though they have been legally sold. A corresponding financial liability is recorded for the same amount included in "Current financial liabilities".

Cash and cash equivalents
This caption includes cash on hand, in bank accounts and other current financial assets with a high level of negotiability that can be promptly converted into cash and that are subject to non-significant risk of reduction in value.

Financial liabilities
This caption includes financial liabilities, classified as non-current, and bank overdrafts, classified as current, as well as current and non-current liabilities that, even if related to commercial or non-financial transactions, have been negotiated with terms that modify the original non-financial liability into a financial liability. Current and non-current financial liabilities are initially measured at fair value, net of related transaction costs and then measured at the amortised cost using the effective interest rate method.

The portion of non-current financial liabilities that is due within 12 months after the balance sheet date is classified in the caption "Current portion of non-current financial liabilities".

Derivative financial instruments

Derivative financial instruments are used for hedging purposes, in order to reduce the risk of interest rate. Consistent with IAS 39, derivative financial instruments can be booked according to the methods established for hedge accounting only when, at the beginning of the hedge there is formal designation and documentation of the hedging relationship, it is presumed that the hedge is highly effective, its effectiveness can be reliably measured and the hedge is highly effective throughout the financial reporting periods for which it is designated.

Derivative financial instruments are measured at fair value, as required by IAS 39.

When financial instruments have the characteristics to be recorded under hedge accounting, the following accounting treatment:

Fair value hedge - Where a derivative financial instrument is designated as a hedge against changes in the fair value of an asset or liability attributable to a particular risk and could affect the income statement, the gain or loss arising from remeasurement of the fair value of the hedging instrument is recognized in the income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying value of the hedged item and are recognized in the income statement.
Cash flow hedge - Where a derivative financial instrument is designated to hedge the variability of future cash flows of an asset or liability recorded in the financial statements or of a highly probable and could affect the income statement, the effective portion of the gain or loss on the derivative financial instrument is recognized in other comprehensive income / (loss). The cumulative gain or loss is removed from comprehensive income and recognized in the income statement in the period in which it detected the relative economic effect hedged.
The gain or loss associated with a hedge (or part of a hedge) which has become ineffective is recognized in the income statement immediately. When a hedging instrument or hedge relationship is terminated but the hedged transaction has not yet been realized, gains and losses accumulated up to that moment recorded in comprehensive income is recognized in the income statement in connection with the detection the economic effects of the hedged transaction. If the hedged transaction is no longer considered probable, the profits or losses not yet realized recorded in other comprehensive income are recognized immediately in the income statement.
If hedge accounting can not be applied, the gains or losses arising from measurement at fair value of derivative financial instruments are recognized immediately in the income statement.

Employee benefit provisions
Employees of the Group are beneficiaries of post-employment benefit plans, which may be defined benefit or defined contribution plans, and other long-term benefit plans in accordance with local conditions and practices in the countries in which the Group operates.

Post-employment benefits
The accounting treatment of pension plans and other post-employment benefits depends upon their nature.

Defined contribution plans are post-employment benefit plans under which the Group's companies pay fixed contributions into a separate entity on a mandatory, contractual or voluntary basis and will have no legal or constructive obligation to pay further contributions if the entity does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions are expensed to the income statement on an accrual basis and are classified within personnel expenses.

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The obligation to fund defined benefit pension plans and the annual cost recognised in the income statement are determined based on independent actuarial valuations using the projected unit credit method, taking into consideration certain factors such as, age, service years, and expected future level of salary/wage.

Gains and losses relating to defined benefit plans arising from changes in actuarial assumptions and experience adjustments are immediately recognized in the period in which they arise in other comprehensive income / (loss) and are never included in income statement in subsequent periods. The post-employment benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses, unrecognized and reduced by the fair value of the plan assets, if any. Any net asset resulting from this calculation is recognised to the extent of unrecognised past service costs related to previous years plus the present value of available refunds and reductions in future contributions to the plan.
Costs related to defined benefit plans are classified among personnel expenses, except for costs related to the increase of the present value of the obligation, arising from the approach of the moment of benefits payment, which are classified among financial expenses.

The TFR (severance indemnity payment) pertaining to Italian companies, was considered until December 31, 2006 a defined benefit plan, Law No. 296 of December 27, 2006 (the so-called "*Legge Finanziaria 2007*" – 2007 Budget Law) and subsequent Decrees and Regulations, substantially modified the relevant rules. As a consequence, and particularly with reference to companies employing not less than 50 employees, this type of benefit should now be considered as a defined benefit plan exclusively regarding the portion accrued until January 1, 2007 (and not paid at the balance sheet date), while afterwards it was considered as a defined contribution plan. Therefore, the TFR portion maturing after the above-said date is assumed to be a contribution plan, thus excluding the actuarial estimate components from determining the relevant cost, The TFR portion matured up to December 31, 2006 continues to be valued as a defined benefit plan according to actuarial methods, but excluding the component related to future salary increases.

Other long-term benefits
Other long-term benefits have the same accounting treatment of defined benefit plans, except for the fact that related actuarial gains and losses are recognised completely in the income statement.

Share-based compensation plans

Cash-settled share-based compensation plans may be settled in cash or by the delivery of other financial assets, are accounted as liabilities, among "Provisions for risks", and are measured at fair value at the end of each reporting period until the date of settlement, with any changes in fair value recognised in profit or loss of the period.

Provisions for risks

The Group records provisions when it has a present obligation, legal or constructive, as a result of a past event to a third party, when it is probable that an outflow of Group resources will be required to settle the obligation and when a reliable estimate of the amount can be made. Provisions are recorded based on the best estimate of costs needed to discharge the obligation at the balance sheet date. If the effect is significant, provisions are recorded at discounted present value and the increase due to the passage of time is subsequently recorded in the income statement and classified among financial expenses.
Provisions related to lawsuits are determined based on estimates made to determine probability, terms and amounts involved.

Provisions for future dismantling, removal and clean-up costs related to assets are classified as a liabilitiy and included in the carrying amount of assets. Related cost is recognised in the income statement through the depreciation process of the asset.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate, Changes in estimate, if any, are accounted for in the accounting period in which changes occur.

No provision is recorded, but only disclosed in the Notes, when the obligation is only possible.

Trade payables
Trade payables with an average payment term are not adjusted to their present value. They are measured at nominal value deemed representative of their fair value.
Trade payables are classified among current liabilities, except for those payables for which the Group has a contractual right to fulfil the obligation beyond 12 months after the balance sheet date.

Payables for funding pursuant to Law No, 808/85
These payables are measured in the financial statements at nominal value and are classified in the items "Other non-current liabilities" and "Other current liabilities".

Revenue recognition
Revenue is recognised if it is probable that the economic benefits associated with the transaction will flow to the Group and its amount can be measured reliably. Revenue is recognised at fair value

of the amount received or due on an accrual basis, net of VAT, returns, discounts, allowances and rebates.

Revenue from sales of goods is recognised when the Group transfers significant risks and rewards of ownership of the goods to the customers, which is generally at the time of shipment,
Revenue from services is recorded by applying the stage of completion method of the transaction at the balance sheet date, using the same criteria adopted for construction in progress. In addition, when the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised to match the costs that have been incurred, only if the costs incurred are recoverable.

Revenues also include changes in construction in progress, which are accounted for using the percentage of completion method (as more fully described in the related note).

Interest income is accounted on an accrual basis, taking into consideration the financed amount and the applicable effective interest rate, representing the rate used to discount future expected income generated by the financial asset in order to adjust the carrying value of the financial asset.

Dividends received
Dividends from companies not included in the consolidation are accounted for in the period in which the shareholders have the right to receive the payment.

Grants
Public grants are recognised in the financial statements when there is reasonable assurance that the Group will comply with the conditions foreseen and the grants will be received. Grants are generally recognised as income over the periods necessary to match them with the related costs, which they are intended to compensate, on a systematic basis.
In particular, grants obtained relating to capital expenditure in property, plant and equipment and development costs are recorded as liabilities in the items “Other non-current liabilities” or “Other current liabilities” and are recognised in the income statement over the useful life of the assets to which they relate. If grants are obtained in periods subsequent to those in which the amortisation process of the asset started, the portion of grants related to previous periods is credited to the income statement among other revenues.
The benefit of a government loan at a below-market rate of interest is treated as a public grant. The benefit of a government loan at a below-market rate of interest is measured as the difference between the initial carrying value of the loan (fair value plus transaction costs) and of proceeds received, and is accounted for in accordance with the policies already used for the recognition of public grants.

Tax credits for Research and Development activities
Tax credits for Research and Development activities (Law No, 296/2007 and subsequent modifications) are accounted in the financial statements to the extent that the tax credit is considered as recoverable and usable. These credits are initially recorded in the caption “Current tax assets”, against the caption “Other non-current liabilities” or “Other current liabilities” and credited to the income statement, depending on different types of costs being the subject of the intervention, in relation to the percentage of completion of construction in progress to which the costs that formed the basis for calculating the credit were contributing or to the recognition in the income statement of Research and Development expenses.

Expenses
Expenses are accounted on an accrual basis in respect of the going-concern assumption of the Group’s companies, net of VAT, returns, discounts, allowances and rebates, Provisions are recorded in accordance with the terms provided in the note related to Provisions for risks.
Interest expenses are accounted on an accrual basis, taking into consideration the financed amount and the applicable effective interest rate.

Taxes

Income taxes represent the sum of current taxes and prepaid/deferred taxes.

Current income tax is calculated on the estimated taxable income in accordance with the legislation currently in force in the countries in which the Group companies operate. Taxable profit differs from the result arising from the income statement as it excludes positive or negative items that are taxable or deductible in the next accounting periods, and other items that will never be taxable or deductible, The liability for current taxes is determined applying the tax rate enacted at the balance sheet date.

Deferred tax assets and liabilities are the taxes expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and they are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Tax benefits arising from the carry forward of tax losses are recorded when there is reasonable certainty of the existence of future taxable income in the period in which the losses may be utilised. Deferred tax assets or liabilities relating to the consolidation adjustments are also recorded.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries and associated companies, and interest in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Prepaid and deferred income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised taking into consideration local tax rules of the countries in which the Group operates. Deferred taxes are recognised in the income statement, except when they relate to items directly recognised to equity, in which case deferred taxes are also dealt with in equity. Deferred tax assets and liabilities are offset if there is a right to offset current tax assets and liabilities, if they refer to the same company and are due to the same tax authority, and if the Group decides to settle current tax assets and liabilities on a net basis. The net amount is recorded in the caption "Deferred tax assets", if positive, or in the caption "Deferred tax liabilities", if negative.

Payment of dividends

Dividends payable by the Group are reported as a movement in equity and classified as a current liability in the period in which the distribution is approved by the shareholders' meeting.

2.8. Risk management

Credit risk

Credit risk concentration of the Group depends on the nature of transactions carried out and on the markets in which the Group operates, Considered from a global point of view, there is a concentration of credit risk in trade receivables in the European Union markets. Trade receivables are recognised net of write-downs for the risk that debtors will be unable to fulfil their contractual obligations, determined based on the available information as to the creditworthiness of the customer and historical data.

Liquidity risk

The Group is exposed to liquidity risk if there is difficulty in obtaining financing for operations at any given point in time. The two main factors affecting the Group's liquidity are cash flow provided by or used in operating and investment activities, and the maturity and renewal features of financial debts, liquidity and financial investments.

Cash flows, funding requirements and liquidity are monitored and managed on a centralised basis to ensure timely and effective funding of financial resources or appropriate investments of available cash.

The present context of the whole economy, of the financial markets and of the markets the Group deals with requires a close liquidity risk management; focus is placed on operating activities generating financial resources and on the achievement of enough liquidity to meet the Group's obligations.
Management considers that available cash and credit lines, in addition to those generated by the normal course of operating business, will allow the Group to face the financial needs arising from investment activities, working capital management, and debt repayment at maturity.

Interest rate risk and exchange rate risk
The Group is exposed to interest rate risk primarily with reference to floating-rate financial liabilities attributable to the "Senior Term and Revolving Facilities Agreement" signed with Banca IMI and other leading banks on April 1, 2015, The change in rates of interest could have a positive or negative impact on the income statement and shareholders' equity of the Group. This risk is mitigated by the use of derivative financial instruments.
The Group is not currently exposed to significant risks arising from fluctuations in exchange rates of currencies in relation to the fact that the currency in which it operates is almost exclusively the Euro. In view of this, the Group has no transactions specifically intended to hedge exposure to fluctuations in foreign currency cash flows.
Additional qualitative and quantitative information on financial risks to which the Group is exposed are reported in Note 6.

2.9. Use of estimates

The preparation of financial statements and related notes in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date, and revenues and expenses.

Actual results could differ from those estimates due to uncertainties on which assumptions are based. Estimates and assumptions are reviewed annually in order to verify they still reflect the best available knowledge of the Group's operations and of other factors deriving from actual circumstances, Changes, if any, are immediately accounted in the income statement.

L'attuale situazione macroeconomica internazionale, che interessa l'area di *business* in cui opera il The present international macroeconomic context, whose effects are spread into some businesses in which the Group operates, determined the need to make assumptions related to future development with a high degree of uncertainty. For this reason, it is not possible to exclude that, in the next or in subsequent financial years, actual results may differ from estimated results. These differences, at present unforeseeable and unpredictable, may require adjustments to book values. Estimates are used in many areas, including accounting for non-current assets, deferred tax assets, bad debt provisions on accounts receivable, inventory obsolescence, employee benefits, contingent liabilities and provisions for risks and contingencies and to determine construction in progress costs and related stage of completion.

The following are the critical measurement processes and key assumptions used by the management in applying IFRS which may have significant effects on the amounts recognised in the consolidated financial statements or for which there is a risk that a significant difference may arise in respect to the carrying amounts of assets and liabilities in the future.

Recoverability of non-current assets

Non-current assets include Property, plant and equipment, Goodwill, Intangible assets with finite useful lives and Investments. The Group periodically reviews the carrying amount of non-current assets held and used and that of assets held for sale when events and circumstances warrant such a review. For goodwill such analysis is carried out at least annually and when events and circumstances warrant such a review. The analysis of the recoverable amount of non-current assets (impairment test) is usually performed using estimates of future expected cash flows from the use or disposal of the asset and a suitable discount rate in order to calculate present value. When the carrying amount of a non-current asset is impaired, the Group records an impairment loss for the amount by which the carrying amount of the asset exceeds its estimated recoverable amount from use or disposal determined by reference to the cash flows included in the most recent business plans prepared by the Group.

The estimates and assumptions used as part of that analysis reflect the current state of the Group's available knowledge as to the expected future development of the business of the various sectors and are based on a realistic assessment of the future development of the markets and the aerospace industry, which remain subject to a high degree of uncertainty due to the continuation of the economic and financial crisis and its effect to the international macroeconomics context. Although current Group estimates do not indicate any other situations concerning possible impairment losses on non-current assets, any different developments in the economic environment or Group performance could result in amounts that differ from the original estimates, needing the carrying amount of certain non-current assets being adjusted.

Recoverability of deferred tax assets

As of December 31, 2016 the Group consolidated financial statements include deferred tax assets on deductible temporary differences and on tax benefits from tax loss carry-forward where recoverability in the future is deemed to be probable by the management. In making this evaluation, management has taken into consideration figures from budgets and forecasts consistent with those used for impairment testing and discussed in the preceding paragraph relating to the recoverable amount of non-current assets.

Allowance for doubtful accounts

The allowance for doubtful accounts reflects management estimate of losses inherent in the credit portfolio of the Group. The allowance is based on the estimate of the losses to be incurred, which derives from past experience with similar receivables, current and historical past due amounts, write-offs and collections, the careful monitoring of portfolio credit quality and current and projected economic and market conditions.

Allowance for obsolete and slow-moving inventory

The inventory reserve reflects management's estimates of the loss in value expected by the Group and has been determined on the basis of past experience and historical and expected future trends in the related markets, for obsolete and slow-moving items, if any, related to technical or trading reasons.

Pension plans and other post-retirement benefits

Employee benefit liabilities, costs and net interest expense are measured on an actuarial basis which requires the use of estimates and assumptions to determine the net liability. Such method is based on periodic estimates made by actuarial consultants using a combination of statistical and actuarial factors, among which statistical data related to past financial years and of future costs forecast. In addition, the estimation process involves mortality and retirement rates, the assumptions related to the future trend of the discount rate, the growth rate of salaries and of inflation rate and the analysis of health care costs trend.
Changes in any of these assumptions may have an effect on future contributions to the plans. As a result of adopting IAS 19 revised for the recognition of actuarial gains and losses arising from the valuation of employee benefit liabilities and assets, the effects resulting from revising the estimates

of the above parameters are recognised in the Group's statement of financial position through the inclusion in other comprehensive income.

Provisions for risks and Potential Liaibilities

The Group verifies a forehead liability of contentiouses and causes in progress when it holds probable that a financial disbursement will be verified and when the amount of the losses that will derive can reasonably be estemated. In the case in which a financial disbursement becomes possible but is not the amount determinable of it, such done will be present in the notes of the financial statements.
The Group is a subject of legal and fiscal causes concerning various problems that are subject to a different degree of uncertainty in relationship to their complexity, jurisdiction and different applicable laws. In the normal business progress, the Group monitors the state of the causes in progress and consults with its own legal and experienced legal and fiscal advisors, it is therefore possible that the value of the funds for legal procedures and contentiouses of the Group can vary following future developments in the procedures in progress.
Besides, the activity of the Group turns to sectors and markets where some problems of a commercial nature can be resolved only after a meaningful weary of time maing necessary the evaluation from the management of the results of such controversies or confrontations, through monitoring the contractual conditions and the evolutions of the single fattispecies.

Evaluation of contract work in progress

The Group operates in sectors and with contractual arrangements that are especially complex. Some of them are recognised on a percentage-of-completion basis. In such case, margins recognised in the income statement are a function of both the state of progress on contracts and the margins that are expected to be recognised for the completed contract. Accordingly, correct recognition of work in progress and margins on contracts that have not yet been completed requires management to make a careful estimate of the final costs and expected increases as well as delays, extra costs and penalties that could reduce the expected margin, In order to enhance support for this activity, the Group has adopted contract management and risk analysis tools designed to identify, monitor and quantify the risks associated with such contracts. The amounts in the financial statements represent management's best estimate at the reporting date.

Other

In addition to the items listed above, estimates were also used with regard to the valuation of certain financial assets and liabilities, of plans for compensation attributable to a certain number of Group managers and of the fair value measurement of assets acquired and liabilities assumed in business combinations.

2.10. New accounting principles

ACCOUNTING PRINCIPLES, AMENDMENTS AND INTERPRETATIONS EFFECTIVE FROM JANUARY 1, 2016

The following amendments, improvements and interpretations have been applied for the first time by the Company from January 1, 2016:

- Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions" (issued on November 21, 2013) concerning the recognition of contributions from employees or third parties to defined benefit plans. The adoption of these amendments did not affect the consolidated financial statements of the Group.

- Amendment to IFRS 11 Joint Arrangements – "Accounting for acquisitions of interests in joint operations" (issued on May 6, 2014) concerning the accounting for acquisitions of interests in a joint operation when the operation constitutes a business. The adoption of these amendments did not affect the consolidated financial statements of the Group.

- Amendment to IAS 16 "Property, plant and equipment and IAS 41 "Agriculture – Bearer Plants" (issued on June 30, 2014): bearer plants, ie fruit trees that produce annual crops (eg vines, hazelnuts), must be accounted for in accordance with the requirements of IAS 16 (rather than IAS 41). The adoption of these amendments did not affect the consolidated financial statements of the Group.

- Amendments to IAS 16 Property, plant and Equipment and IAS 38 Intangibles Assets – "Clarification of acceptable methods of depreciation and amortisation" (issued on May 12, 2014) establishing that a depreciation or amortisation method that is based on revenue is not appropriate, because the revenue arising from the operation of a business of which the asset under depreciation or amortisation is part reflects a different pattern from the mere use of the economic benefits arising from the asset, which is a pre-requisite for depreciation or amortisation. The adoption of these amendments did not affect the consolidated financial statements of the Group.

- Amendment to IAS 1 – "Disclosure Initiative" (issued on December 18, 2014): the goal of the amendments is to provide some clarifications on disclosures and other elements that may be perceived as hindrance to a clear and intelligible presentation of financial statements. The adoption of these amendments did not affect the consolidated financial statements of the Group.

- Amendment to IAS 27 "Equity Method in Separate Financial Statements" (issued on August 12, 2014), introducing the option to use the equity method for the valuation of equity investments in subsidiaries, jointly controlled companies and associates in the separate financial statements of an entity. The adoption of this amendment did not affect the consolidated financial statements of the Group.

- Amendment to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" (issued on December 18, 2014) containing changes related to issues arising from the application of the consolidation exception allowed to the investment entities. The adoption of this amendment did not have any effect on the consolidated financial statements of the Group because of the features of the Company, which do not meets the definition of investment entity.

Finally, as part of the principles annual improvement process, on December 12, 2013, the IASB published documents "Annual Improvements to IFRSs: 2010-2012 Cycle" (including IFRS 2 "Share Based Payments – Definition of vesting condition", IFRS 3 "Business Combination – Accounting for contingent consideration", IFRS 8 "Operating segments – Aggregation of operating segments e Reconciliation of total of the reportable segments' assets to the entity's assets", IFRS 13 "Fair Value Measurement – Short-term receivables and payables") and on September 25, 2014 "Annual Improvements to IFRSs: 2012-2014 Cycle" (including "IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IFRS 7 "Financial Instruments: Disclosure" e IAS 19 "Employee Benefits") partly amending existing standards.

IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPROVED BY THE EUROPEAN UNION BUT NOT YET MANDATORY APPLICABLE AND NOT EARLY ADOPTED BY THE COMPANY AS AT DECEMBER 31, 2016

The Group has not adopted the following new and amended standards, that have been issued but are not mandatory applicable.

- IFRS 15 "Revenue from Contracts with Customers" (issued on May 28, 2014 and integrated with further clarifications issued on April, 12 2016) which is intended to replace IAS 18 "Revenue", IAS 11 "Construction Contracts", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers" and SIC 31 "Revenues-Barter Transactions Involving Advertising Services". The Standard establishes a new model of revenue recognition, that will apply to all customer contracts except for those falling within the scope of other IAS / IFRS principles such as leasing, insurance contracts and financial instruments. The key steps for revenue recognition according to the new model are:

- identification of the customer contract;
- identification of the performance obligations included in the contract;
- price determination;
- the allocation of the price to the performance obligations of the contract;
- the revenue recognition criteria when the entity meets each performance obligation.

The Standard applies starting from January 1, 2018 but an early adoption is allowed.
The adoption of IFRS 15 may have effects on how revenues are recorded and on the related informations contained in the Group consolidated financial statement. However, it is not possible to provide a reasonable estimates of the effects untile a detailed analysis of the customer contracts wil be completed.

- Final version of **IFRS 9 – *Financial Instruments*** (issued on July 24, 2014). The document includes the results of the phasis related to Classification and Evalution, *Impairment*, and *Hedge accounting*, of the IASB project to replace IAS 39:
  - introduces new criteria for the classification and evaluation of financial assets and liabilities;
  - relating to the impairment model, the new standard requires estimates on loan losses to be made on the basis of the expected losses model (and not on the incurred losses model used by IAS 39), using supported informations, available without charges or unreasonable efforts which include historical, current and prospetical data;
  - introduces a new hedge accounting model (increase in the eligible types of hedge accounting, change in the accounting method of forward contracts and options when included in a hedge accounting realation, changes to the test of effectiveness).

  The new Standard, which replaces the previous version of IFRS 9, must be applied to financial statement beginning on or after January 1, 2018.
  No significant impacts are expected on Group consolidated financial statement from the adoption of this Standatd, even if Directors are currently considering any possible effects arising from its introduction.

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

The European Union has not yet completed its endorsement process for the standards and amendments below reported at the date of these Financial Statements.

- On January 13, 2016, the IASB published the IFRS 16 "Leases", which is intended to replace IAS 17 "Leases" and IFRIC interpretations 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".
  The new Standard provides a new lease definition and introduces a criterion based on the right of use of an asset in order to distinguish leasing contracts from service contracts by identifying as qualifying features: the identification of the asset, the right to replace the asset, the right to substantially obtain all the economic benefits arising from the use of the asset and the right to manage the use of the asset.
  The Standard establishes a unique model for the recognition and evaluation of lease contracts for the lessee, which states the recording of the leased asset (even with an operating leasing in the assets with a financial debt counterpart, also providing the possibility of not recognizing as leasing Contracts related to "low-value assets" and leases with a contract duration of less than 12 months. On the contrary, the principle does not include significant changes for lessors.

This Standard applies from January 1, 2019 but is subject to early adoption only for companies that have applied in advance the IFRS 15 "Revenue from Contracts with Customers" No significant impacts on the Group consolidated financial statement of the Group are expected from the adoption of such amendments, but at this time the Directors are considering any possible effects arising from its introduction.

- On September 11, 2014 the IASB published an amendment to IFRS 10 and IAS 28 "Sales or Contribution of Assets between an Investor and its Associate or Joint Venture". The document has been published in order to solve the current conflict between IAS 28 and IFRS 10 on the evaluation of the gain or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or associated company in return for a share in the share capital the joint venture or associated company. At the moment the IASB has suspended the application of this amendment.

- On January 19, 2016 the IASB published the document "Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)" which contains amendments to IAS 12. The purpose of the document is to provide some clarifications on the recognition of deferred tax assets on unrealized losses when certain circumstances occur and on taxable income estimates for future periods. The amendments will apply from 1 January 2017, but early adoption is permitted. No significant impact on the Group consolidated financial statement is expected from the adoption of such amendments, but the Directors are currently considering any possible effects arising from its introduction.

- On January 29, 2016 the IASB published the document "Disclosure Initiative (Amendments to IAS 7)" which contains amendments to IAS 7. The purpose of the document is to provide some clarifications in order to improve disclosure on financial liabilities. In particular, the amendments require to provide disclosure which allow financial statement users to understand changes in liabilitis arising from financing operations. The changes apply from January 1, 2017 but it is allowed the early adoption. Presentation of comparative information concerning previous years is not required. No significant impact on the Group consolidated financial statement is expected from the adoption of such amendments, but the Directors are currently considering any possible effects arising from its introduction.

- On June 20, 2016 the IASB published the document "Classification and measurement of share-based payment transactions (Amendments to IFRS 2)" which contains some clarifications relating to the recording of the effects of vesting conditions in case of cash-settled share-based payments, to the classification of share-based payments with net settlement properties and to the accountability of changes in terms and conditions of a share based payment which amend the classification from *cash-settled* to *equity-settled*. The amendments apply starting from January 1, 2018 but it is allowed the early adoption. No significant impact on the Group consolidated financial statement is expected from the adoption of such amendments, but the Directors are currently considering any possible effects arising from its introduction.

- Document "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on September 12, 2016): for entities whose business is predominantly constituted by insurance activities, the amendments seek to clarify the concerns arising from the application of the new IFRS 9 to financial activities, prior to the IASB's replacement of the current IFRS 4 with the new standard currently under preparation, on the basis on which financial liabilities are valued.

- ***IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"*** (issued on December 8, 2016): The purpose of the interpretation is to provide guidelines for transactions carried on in foreign currencies in case cash or non cash advances are recognized in the balance sheet prior to the recognition of the related asset, cost or income. This document provides guidance on how an entity must determine the transaction date and, consequently, the spot exchange rate to be used when foreign currency transactions in which payment is made or received in advance occur. IFRIC 22 applies from 1 January 2018, but early application is permitted. The Directors are currently considering the possible effects by introducing these changes on the group consolidated financial statement.

- Amendment to IAS 40 "Transfers of Investment Property" (issued on December 8, 2016): the amendment clarifies transfers of a property to, or from, real estate investment. In particular, an entity must reclassify a property between, or from, real estate investments only when there is evidence that a change in the use of the property has occurred. This change must be attributed to a specific event that has occurred and should not therefore be confined to a change of intent by an entity's management. These amendments are applicable from January 1, 2018, with early application allowed. However, the Directors currently do not expect a significant effect on the Group consolidated financial statement since the adoption of these amendments.

- Document **"**Annual Improvements to IFRSs: 2014-2016 Cycle", issued on December 8 dicembre 2016 (including IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters, IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard) which partially integrate existing Standards. The Directors currently do not expect a significant effect on the Group consolidated financial statement

3. COMPOSITION, COMMENTS AND CHANGES IN THE MAIN ITEMS AND OTHER INFORMATION

NON-CURRENT ASSETS

3.1. PROPERTY, PLANT AND EQUIPMENT

The values of property, plant & equipment are stated in the balance sheet net of accumulated depreciation and impairment loss reserves, as shown in the following table (amounts in thousands of Euro):

	31/12/2016			31/12/2015		
	Gross Values	Accumulated Depreciation	Net value	Gross Values	Accumulated Depreciation	Net value
Land	7.561		7.561	7.565	-	7.565
Buildings	32.572	(13.953)	18.619	32.201	(12.804)	19.397
Plant and machinery	64.257	(46.735)	17.522	62.312	(43.759)	18.553
Industrial and commercial equipment	16.723	(14.337)	2.386	16.235	(13.623)	2.612
Other assets	7.045	(5.242)	1.803	6.647	(4.946)	1.701
Work in progress and advances	11.163	-	11.163	396	-	396
Total	**139.321**	**(80.268)**	**59.053**	**125.356**	**(75.132)**	**50.224**

Changes in tangible fixed assets gross values for years 2016 e 2015 are shown in the following tables (amounts in Thousands of Euro):

Gross values	31/12/2015	Additions	Disposals	Reclassification and other changes	31/12/2016
Land	7.565			(4)	7.561
Buildings	32.201	371			32.572
Plant and machinery	62.312	1.671		274	64.257
Industrial and commercial equipment	16.235	475	(141)	154	16.723
Other assets	6.647	750	(370)	18	7.045
Work in progress and advances	396	11.213		(446)	11.163
Total	**125.356**	**14.480**	**(511)**	**(4)**	**139.321**

Gross values	31/12/2014	Additions	Disposals	Reclassification and other changes	31/12/2015
Land	7.565	-	-	-	7.565
Buildings	31.526	682	(7)	-	32.201
Plant and machinery	56.348	5.964	-	-	62.312
Industrial and commercial equipment	15.237	711	(66)	353	16.235
Other assets	6.212	500	(100)	35	6.647
Work in progress and advances	525	279	(20)	(388)	396
Total	**117.413**	**8.136**	**(193)**	**-**	**125.356**

Additions for year 2016 include 654 thousands of Euro of capitalized costs for internally generated assets.
At December 31, 2016, work in progress and advances refers to investments in progress mainly related to constructions of the facilities needed for the development activities of P120C engine, which will be set up on the new launchers VEGA-C and Ariane 6.

Accumulated depreciation movements occurred during 2016 and 2015 are detailed as follows (amounts in thousands of Euro):

Accumulated depreciation	31/12/2015	Depreciation	Reversal for disposal	Reclassification and other changes	31/12/2016
Land	-				0
Buildings	(12.804)	(1.149)			(13.953)
Plant and machinery	(43.759)	(2.976)			(46.735)
Industrial and commercial equipment	(13.623)	(844)	130		(14.337)
Other assets	(4.946)	(637)	341		(5.242)
Total	**(75.132)**	**(5.606)**	**471**	**0**	**(80.268)**

Fondo ammortamento	31/12/2014	Ammortamenti	Diminuzioni per dismissioni	Riclassifiche ed altre variazioni	31/12/2015
Land	-				-
Buildings	(11.679)	(1.131)	6	-	(12.804)
Plant and machinery	(40.680)	(3.079)	-	-	(43.759)
Industrial and commercial equipment	(12.982)	(714)	73	-	(13.623)
Other assets	(4.432)	(613)	99	-	(4.946)
Work in progress and advances	-				-
Total	**(69.773)**	**(5.537)**	**178**	**-**	**(75.132)**

The depreciation recorded in the period have been determind considering the estimated useful life and to the obsolescence suffered by the assets.

3.2. INVESTMENTS

The values of investment property are stated in the balance sheet net of accumulated depreciation, as shown in the following table (amounts in thousands of Euro):

	31/12/2016			31/12/2015		
	Gross values	Accumulated Depreciation	Net value	Gross values	Accumulated Depreciation	Net value
Land	1.834		1.834	1.832	-	1.832
Industrial buildings	1.730	(829)	901	1.639	(778)	861
Total	**3.564**	**(829)**	**2.735**	**3.471**	**(778)**	**2.693**

Investment property relates to certain land and buildings in the Colleferro (Rome) area owned by the controlled company Se.Co.Sv.Im. S.r.l., (whose main activity is real estate management in favour of Group companies and third parties), rented to third parties.

Gross value movements occurred during 2016 and 2015 are detailed as follows (amounts in thousands of Euro):

Gross values	31/12/2015	Additions	Disposal	Reclassification	31/12/2016
Land	1.832			2	1.834
Industrial buildings	1.639	91			1.730
Total	**3.471**	**91**	**-**	**2**	**3.564**

Gross values	31/12/2014	Additions	Disposal	Reclassification	31/12/2015
Land	1.832				1.832
Industrial buildings	1.489	150			1.639
Total	**3.321**	**150**	**-**	**-**	**3.471**

Accumulated depreciation	31/12/2015	Depreciation	Utilisation	Reclassification	31/12/2016
Land	-				0
Industrial buildings	(778)	(51)			(829)
Total	**(778)**	**(51)**	**-**	**-**	**(829)**

Accumulated depreciation	31/12/2014	Depreciation	Utilisation	Reclassification	31/12/2015
Land	-				-
Industrial buildings	(731)	(47)			(778)
Total	**(731)**	**(47)**	**-**	**-**	**(778)**

The revenues related to the rental of these investment properties amount to Euro 742 thousand..

3.3. GOODWILL

As at December 31, 2016 goodwill amounted to Euro 221,000 thousand (unchanged compared to December 31, 2015) and is related to portion allocated, in 2007, to the Space Sector.

As mentioned in Note 2.7. - Accounting Principles and measuring criteria, goodwill is not amortised but in case written-off for impairment losses. The Group verifies the recoverability of goodwill at least annually, or more frequently if events or changes in circumstances indicate that it might be impaired, with a specific impairment test conducted on each CGU. The CGU designated by the Group for the impairment test on goodwill is the same unit identified as operating segment as required by IFRS 8 – Operating segments, corresponding to Group's Space business.

The goodwill allocated to the CGU "Space" was tested referring to the balance sheet date and this test did not reveal any need to write-down the carrying amount of the goodwill recorded in the financial statements at 31 December 2016.

The recoverability of the recorded amounts is verified by comparing the CGU's net invested capital (book value) of the CGU with its recoverable value. The recoverable value is given by the determination of the value in use, which is the present value of the discounted cash flows arising from expectations included in the business plan approved by the Group, extrapolated in order to consider the lifecycle of the Group's business, and a standardized terminal value, used to express a synthetic estimate of future results over the time period explicitly considered.
These cash flows are then discounted using discount rates which are representative of the current market assessments of the time value of money and which consider the specific risks of the Group and the CGU.
Value in use is determined considering also "Surplus Assets" determined from the present value of tax losses, considering their total recoverability in a period of time consistent with the existence of a terminal value and the equity value of joint-venture Europropulsion.

At December 31, 2016, the cash flows of the CGU "Space" are determined based on the last Business Plan prepared by the Management of the Company and approved by the Board of Directors on January 19, 2017 and declined in the 2017-2019 triennium. The terminal value has been determined normalizing the expected cash flows relating to the last year of projection (2019) according to the perpetuity method and assuming a growth rate of 2% of the cash flows expected from 2020.

The average discount rate (weighted average cost of capital) used for the discounting of cash flows amounted to 8.72%, net of taxes (8.16% in the previous year).

It is worth to underline that the abovementioned parameters are applied to estimate data which are determined by management based on past experience and expectations on the development of the markets in which the Group operates. In a more detailed way, the current international macroeconomic situation and the possible effects on economy, in particular on expenditure levels defined by national governments and supranational institutions relating to space access policies, could present scenarios of uncertainty in achieving objectives and levels of activities considered in the plan, although, without the rise of situation, which could led to goodwill impairment. However, the estimation of the recoverable amount requires discretion and use of estimates by management and, even considering that the production and marketing cycles of products are characterized by time periods of significant duration which allow the recovery of any slippage of the objectives defined in the plan, it can not be excluded a loss of value in the goodwill in future periods due to changes in the scenario which are currently unforeseeable. The circumstances and the events that could require further testing of impairment losses are constantly monitored by the Group management.

Considering what above-mentioned, the Group carried out a sensitivity analysis simulating a variation which can be considered representative of the impairment test's significant parameters.
In particular:

- relating to the terminal value's growth rate, it was assumed a decrease of 50 basis point; alternately
- relating to the cash flows discount rate it was assumed an increase of 50 basis point.

Based on these sensitivities, the recoverable value of the CGU "Space" exceeds the recorded net book value.
Even considering a negative simultaneous variation of all the above-mentioned parameters, the recoverable value of the CGU "Space" results higher than the recorded net book value.

The recoverable amount would be lower than the recorded net invested capital of the considered CGU considering as growth rate "g" 1,1% (instead of 2%) and simultaneously increasing WACC to 9,62% (instead of 8,72%).

For more information relating to goodwill please see the section on "Significant events subsequent to year end" in the Report on Operations.

3.4. INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

The composition of this caption is set out in the following table (amounts in thousands of Euro):

	31/12/2016			31/12/2015		
	Gross Values	Accumulated Depreciation	Net value	Gross Values	Accumulated Depreciation	Net value
Development costs – amortised	71.189	(39.885)	31.304	71.189	(36.525)	34.664
Development costs – not yet completed	37.166	-	37.166	28.189	-	28.189
Total development costs	108.355	(39.885)	68.469	99.378	(36.525)	62.853
Customer relationships for participation in programmes	61.257	(40.838)	20.419	61.257	(36.754)	24.503
Concessions, licences, trademarks and similar rights	5.603	(4.854)	749	4.912	(4.326)	586
Other	1.823	(951)	873	1.588	(869)	719
Intangible assets in progress	167	-	167	125	-	125
Total	**177.204**	**(86.528)**	**90.677**	**167.260**	**(78.474)**	**88.786**

Development costs mainly include costs of designing and testing referred to P80 and Z40, related the Vega launcher's programme, besides new P120 engine.

Development costs are amortised, commencing with the production start-up of each programme, on a straight-line basis over the estimated useful life of the programmes to which they refer.
With reference to the costs of development not yet completed, which are not depreciated as they relate to programs for which has not yet started production and marketing, the relative for recognition as intangible assets with a finite life (after verification of the absence of impairment conditions) is supported by the expected profitability of reference programs.

Intangible assets for customer relationships for participation in programs are related to the identification of such assets as a result of the acquisition purchase price allocation. These assets are measured at fair value based on the present value of expected future cash flows and amortized over a period of 15 years based on the average useful life of the programs to which they refer. The amortized period will be completed in 2021.

Concessions, licences, trademarks and similar rights, primarily include costs of acquisition of licences for software utilization.

Gross value movements occurred during 2016 and 2015 are detailed as follows (amounts in thousands of Euro):

Gross value	31/12/2015	Aditions	Disposals	Reclassification	31/12/2016
Development costs – amortised	71.189				71.189
Development costs – not yet completed	28.189	8.977			37.166
Total development costs	99.378	8.977	0	0	108.355
Customer relationships for participation in programmes	61.257				61.257
Concessions, licences, trademarks and similar rights	4.912	576		115	5.603
Other	1.588	242	(7)		1.823
Intangible assets in progress	125	157		(115)	167
Total	**167.260**	**9.951**	**(7)**	**0**	**177.204**

Gross value	31/12/2014	Additions	Disposals	Reclassification	31/12/2015
Development costs – amortised	71.189	-	-	-	71.189
Development costs – not yet completed	23.656	4.533	-	-	28.189
Total development costs	94.845	4.533	-	-	99.378
Customer relationships for participation in programmes	61.257	-	-	-	61.257
Concessions, licences, trademarks and similar rights	4.352	560	-	-	4.912
Other	1.335	255	(2)	(2)	1.588
Intangible assets in progress	106	19			125
Total	**161.895**	**5.367**	**(2)**	**(2)**	**167.260**

The increases occurred during the year refer to development costs capitalized by the Parent company are mainly related to the engine "Z40" and "P120" in the VEGA and ARIANE 6 development programme.

The increase of the year includes a total of Euro 9,239 thousand of capitalized costs for internally generated activities, divided between development costs (Euro 8,977 thousand) and others (Euro 262 thousand).

The investment in the caption Concessions, licenses, trademarks and similar rights mainly refer to expenses related to the Group's technology infrastructure.

Accumulated amortisation movements occurred during 2015 are detailed as follows (amounts in thousands of Euro):

Accumulated depreciation	31/12/2015	Depreciation	Reversal for disposals	Reclassification	31/12/2016
Development costs – amortised	(36.525)	(3.360)			(39.885)
Development costs – not yet completed					0
Total development costs	(36.525)	(3.360)	0	0	(39.885)
Customer relationships for participation in programmes	(36.754)	(4.084)			(40.838)
Concessions, licences, trademarks and similar rights	(4.326)	(528)			(4.854)
Other	(869)	(88)	7		(951)
Intangible assets in progress	-				-

Total	**(78.474)**	**(8.060)**	**7**	**-**	**(86.528)**

Accumulated depreciation	31/12/2014	Depreciation	Reversal for disposals	Reclassification	31/12/2015
Development costs – amortised	(29.578)	(6.947)	-	-	(36.525)
Development costs – not yet completed	-	-	-	-	
Total development costs	(29.578)	(6.947)	-	-	(36.525)
Customer relationships for participation in programmes	-	-	-	-	-
Concessions, licences, trademarks and similar rights	(32.671)	(4.084)	-	-	(36.755)
Other	(3.564)	(762)	-	-	(4.326)
Intangible assets in progress	-		-	-	-
Development costs – amortised	(848)	(22)	2	2	(868)
Development costs – not yet completed	-		-	-	-
Total	**(66.661)**	**(11.815)**	**2**	**2**	**(78.474)**

3.5. INVESTMENTS

As at December 31, 2016, the caption amounts to Euro 5,728 thousands and shows a Euro 567 thousand increase compared to December 31, 2015 exclusively arising from the equity method evaluation of participation in the joint-venture Europropulsion S.A.. The composition of investments and their breakdown with the related amount is as follows (amounts in thousands of Euro):

	31/12/2016		31/12/2015		Changes
	Group Share	Total	Group Share	Total	
Controlled companies not consolidated					
- Servizi Colleferro - Società Consortile per Azioni	52,00%	63	52,00%	63	0
Total controlled companies not consolidated		**63**		**63**	**0**
Jointly controlled companies					
- Europropulsion S.A.	50,00%	3.133	50,00%	2.566	567
Total jointly controlled companies		**3.133**		**2.566**	**567**
Associated companies					
- Termica Colleferro S.p.A.	40,00%	2.007	40,00%	2.007	0
- Consorzi diversi		5		5	0
Totale associated companies		**2.012**		**2.012**	**0**
Other companies					
- Other companies		520		520	0
Total other companies		**520**		**520**	**0**

Total	**5.728**	**5.161**	**567**

The changes occurred during 2016 and 2015 are detailed as follows: (amounts in thousands of Euro):

	31/12/2015	Additions	Disposals	Other variations	31/12/2016
Controlled companies	63	-	-	-	63
Jointly controlled companies	2.566	2.461	(1.894)	-	3.133
Associated companies	2.012	-	-	-	2.012
Other companies	520	-	-	-	520
Total	**5.161**	**2.461**	**(1.894)**	**0**	**5.728**

	31/12/2014	Additions	Disposals	Other variations	31/12/2015
Controlled companies	63	-	-	-	63
Jointly controlled companies	2.643	1.893	(1.970)	-	2.566
Associated companies	4.811	-	(2.799)	-	2.012
Other companies	514	6	-	-	520
Total	**8.031**	**1.899**	**(4.769)**	**-**	**5.161**

The increase of the year 2016 of 2.461 thousand of Euro is related to the profit of Europropulsion S.A., while the decrease of 1.894 thousand of Euro is due to the equity adjustement related to a dividend disbursement of 1,894 thousand of Euro.

Investments in other companies (essentially consortia) are valued at cost of acquisition or underwriting, as they are not significant for the representation in the consolidated financial statements. However the equity method evaluation would not produce significant effects in comparison with the cost method.

There are no significant restrictions in transferring resources to the Parent, as dividends, redemptions or advances.

Investments in other companies (essentially consortia) are valued at cost of acquisition.

3.6. NON-CURRENT FINANCIAL ASSETS

The caption amounts to Euro 7,440 thousand (Euro 6,400 thousand as of December 31, 2015) and and refers to the loan, non-interest bearing starting from January 1, 2016, granted to the associated Termica Colleferro S.p.A., finalized to support its operating activity. The net increase, amounting to Euro 1,040 thousand, is due to the additional funding of the loan.

3.7. DEFERRED TAX ASSETS

The deferred tax assets recorded in the financial statements amount to Euro 56,517 thousand (Euro 56,793 thousand at December 31, 2015) and refer to consolidated companies having a positive net balance between deferred tax assets and deferred tax liabilities (mainly Avio S.p.A. and Secosvim S.r.l.), as well as the tax effects of consolidation adjustments.

On the contrary, ELV recorded a net negative balance between deferred tax assets and deferred tax liabilities, amounting to 431 thousand of Euro.

The balances of deferred tax assets (recorded in the non-current assets) and deferred tax liabilities (recorded in the non-current liabilities) are shown below (amounts in thousand of Euro):
:

	31/12/2016	31/12/2015	Variation
Deferred Tax Assets	56.517	56.793	(276)
Deferred Tax Liabilities	(431)		(431)
Net balance	**56.086**	**56.793**	**(707)**

The net balance represents the balance of deferred tax assets and liabilities calculated both on consolidation adjustments and on the temporary differences between the carrying amounts of assets and liabilities assumed for purposes of preparing the consolidated financial statements and the corresponding tax losses.

Deferred tax assets have also been calculated by applying the tax rates that are expected to be applicable when the temporary differences will be reversed or the benefits of tax losses will be usable.

The analysis of temporary differences and carry forward tax losses that led to the recognition of deferred tax assets and deferred tax liabilities is presented in the following table (amounts in thousands of Euro):

	31/12/2015	Amounts recognised to profit and loss	Amounts recognised in other comprehensive income	Other changes	31/12/2016
Gross Deferred Tax Assets on Temporary Differences					
Temporary Differences from past transactions					
Amortisation of goodwill for "Aviation" for tax purposes only	73.488	(18.139)			55.349
Financial expenses exceeding 30% of EBITDA	46.279	(303)			45.976
Temporary Differences from current transactions					
Maintenance and other expenses with deferred deductibility	1.480	(651)			829
Provision for employee-related liabilities	2.503	(499)	23		2.028
Other taxable Temporary Differences	5.585	1.434			7.020
Gross Deferred Tax Assets	**129.336**	**(18.158)**	**23**	**0**	**111.201**
Gross Deferred Tax Liabilities on Temporary Differences					

Temporary Differences from past transactions					
Amortisation of goodwill for "Space" for tax purposes only	(22.595)	(2.046)			(24.641)
Amortisazion of intangible assets for tax purposes only (Customer relationships for participation in programmes)	(7.205)	1.320			(5.885)
FTA R&D cost capitalisation and related amortization	(6.535)	654			(5.881)
Subsidiaries fiscal amortization and other minor differences	(1.397)				(1.397)
Temporary Differences from current transactions					
Other taxable Temporary Differences	(828)	66			(762)
Gross Deferred Tax Liabilities	**(38.560)**	**(5)**	**0**	**0**	**(38.564)**
Net Deferred Tax	**90.776**	**(18.163)**	**23**	**0**	**72.636**
Deferred tax assets recorded on tax losses	28.237	13.390			41.627
Deferred tax assets arising from consolidation adjustments	332				332
Unrecorded Deferred Tax	(62.552)	4.042			(58.510)
Net Recorded Deferred tax	**56.793**	**(731)**	**23**	**0**	**56.086**

Deferred tax assets on temporary differences and on carry forward tax losses have been recognized to the extent of future taxable income estimated over a period consistent with the business cycle of the Group. Future taxable income has been determined based on the most recent business plan approved by the Board of Directors on January 19, 2017 for the period 2017-2019 and based on projections on a subsequent time horizon considered to be representative of the business life cycle.

The period considered for the recoverability analysis, consistent with the business cycle, has been determined taking into consideration the recent meeting of Ministers of ESA members in December 2014 and the following agreement executed with ESA on August 2015 concerning the development of the new launcher Ariane 6, to the further development of VEGA regarding the VEGA C launcher and to the development and implementation of the new propeller “120”. Furthermore, it has been considered the meeting of Minister of ESA Members which took place on December 1 and 2, 2016, which confirmed the above mentioned development programs, giving way to the multi-year engine development program and of the Vega E Upper Stage, that is, the next evolution of Vega launcher.

As described in the section on “Significant events subsequent to year end” in the Report on Operations, during 2017 has been completed the acquisition from Space2 (an Italian SPAC listed on MIV/SIV segment market of Borsa Italiana S.p.A.), Leonardo and In Orbit S.p.A. of a participation of 85,86% of Avio S.p.A. Share Capital and the subsequent merger by incorporation of Avio S.p.A. in Space2 with consequent listing, completed on April 10, 2017, of Avio S.p.A. on the STAR segment of Borsa Italiana MTA Market.

Most of the temporary differences arising from deferred tax assets recognized in the financial statements, are related to Avio S.p.A., including the future tax deductibility of Avio S.p.A. goodwill amortization referred to the business segment "Aviation" and financial charges exceeding 30% of gross operating income, as well as previous tax losses.

According to art. 172 of TUIR, the merger represents a tax neutral transaction for direct tax purposes. Nonetheless, the recovery of undeducted financial charges and past tax losses, as well as the extention of the tax consolidation regime already in force, are subject to the compliance with determined conditions.

In general, such financial charges and tax losses could be fully reported as a result of the merger, provided that the capital limits and the "vitality" requirements specified by art. 172, seventh paragraph of TUIR are respected, or if - in the event of non-compliance with these conditions - is accepted by the Financial Administration the request for non-application of the standard ex art. 11, second paragraph, of Law 27 July 2000, no. 212.
With reference to Avio SpA, these capital limits and "vitality" conditions are not respected for contingent reasons resulting from the "carve out" of the Aviation business, occurred in 2013.
If, on the other hand, when calculating the capital limits and in the assessment of living conditions, were considered, relating to 2013, only the business "Spazio", well-defined in the financial statements prepared at that time, the test would be passed.
In this regard, the Company is preparing an instance of interpellation. Considering the peculiarities of the merger under examination, and also on the basis of the opinion of the tax consultants interviewed by Avio SpA, it is considered that there are sufficient elements to adfirm that the request can be welcomed by the Financial Administration.

For the purposes of indirect taxation, the merger is excluded from the scope of VAT, pursuant to art. 2, third paragraph, letter f) of the D.P.R. n. 633/1972 and is subject to the registration tax fixed in accordance with art. 4 (b), first part of the "Tariffa" attached to D.P.R. n. 131/1986.

3.8 OTHER NON-CURRENT ASSETS

This caption is detailed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Receivables from General Electric	58.220		58.220
Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85	8.963	8.373	590
Other non-current receivables	15	15	-
Cautionary deposits	250	245	5
Total	**67.448**	**8.633**	**58.815**

The caption "Receivables from General Electric Group", amounting to 58,220 thousand of Euro, refers to the receivable recorded simultaneously to the accounting in the non-current liabilities of a payable towards tax authorities (Erario) of the same amount, subsequent to the receiving, in July 2016, from tax authorities (Agenzia delle Entrate), of a tax notice related to registration duty, mortgage tax and cadastral duties, for the above-mentioned amount, concerning the operation that led, in 2013, to the sale of the Company GE Avio S.r.l. (containing Avio Group's AeroEngine Business) to General Electric Group.

The recording of this receivable from General Electric Group is based on specific contractual provisions under which General Electric is required to keep free Avio S.p.A. from any liabilities that could arise relating to indirect taxes referring to the above mentioned operation, making available to Avio S.p.A. the sums requested by the tax authorities within the due deadlines.

Relating to this topic, please refer to Note "3.24. Other non-current liabilities" and to Section "Legal proceedings and contingent liabilities" in the Explanatory Notes.

Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85, amounts to Euro 8,963 thousands, refers to the present value of the non-current portion (whose nominal value amounts to Euro 9,462 thousands), granted on December 31, 2016 by the Inter-ministerial Committee for Economic Planning (CIPE) of the Ministry of Economic Development subsequent to the approval of Resolution No. 28 of March 22, 2006, reporting guidance for the aerospace industry, whose payment is deferred over a ten-year period.

These receivables are stated in the financial statements at their amortised cost using the effective interest rate method. This value will increase due to the effect of the cumulative amortisation of the difference between the initial amount and the amount actually received in cash, against the item "Financial income", and it is initially accounted for in the caption "Other non-current liabilities" (Note 3.24).

The present value of the non-current portion to be received within five years amounts to Euro 9,983 thousands and the present value of the non-current portion to be received beyond five years amounts to Euro 1,401 thousands. The portion of the grant whose collection is expected within 12 months is classified in the caption "Other current assets" (Note 3.15).

The increase of the period is mainly due to the recording of receivables corresponding to the grant approved by the Ministry of Economic Development with a special decree dated April 27, 2016, which approved the financing of costs related to P40 program.

CURRENT ASSETS

3.9. INVENTORIES

The total value of the inventories at December 31, 2016 amounts at Euro 133,092 thousands. The composition of the caption is in the following table (amounts in thousands of Euro):

	31/12/2016			31/12/2015		
	Gross Value	Inventory reserve	Net Value	Gross Value	Inventory Reserve	Net Value
Raw materials and supplies	39.193	(3.281)	35.912	38.051	(1.453)	36.598
Work in progress	6.938	(424)	6.513	6.304	(424)	5.880
Finished goods	8.250	(4)	8.247	8.254	(4)	8.250
Advances to suppliers	82.420	-	82.420	58.418	-	58.418
	136.801	**(3.709)**	**133.092**	**111.027**	**(1.881)**	**109.146**

Finished goods include (for Euro 8,243 thousands, unchanged compared to the previous year) lands owned by the controlled company Se.Co.Sv.Im., that are intended to be sold in the course of the ordinary business of this company.

The caption advances to suppliers includes amounts paid in advance to suppliers based on the conditions agreed on the related purchasing contracts. The increase is related both to the need to face the enhanced production needs and to seize the best price opportunities.

3.10. CONTRACT WORK IN PROGRESS

Contract work in progress are classified as an asset if, based on the analysis made for each contract, the gross amount of construction in progress is higher than advances received from the customers. Otherwise, the amount is classified as a liability.

The total gross value of construction in progress and progress billing and advances received from customers is detailed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Contract work in progress	35.389	64.562	(29.173)
Advanced for contract work in progress	(167.264)	(172.878)	5.614
Advances (net)	**(131.875)**	**(108.316)**	**(23.559)**

The following table presents the balance of contract work in progress for which the gross amount of work in progress exceeds progress billing and which net value is therefore classified as an asset (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Contract work in progress (gross amount)	288.671	1.079.382	(790.711)
Advanced for contract work in progress	(253.282)	(1.014.820)	761.538
Contract Work in progress (net)	**35.389**	**64.562**	**(29.173)**

The following table presents the balance of contract work in progress for which progress billing and advances exceed the gross value of work in progress and which net value is therefore classified as a liability (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Contract work in progress (gross amount)	1.136.588	458.024	678.564
Advanced for contract work in progress	(1.303.851)	(630.902)	(672.949)
Advances for contract work in progress (net)	**(167.264)**	**(172.878)**	**5.614**

As at December 31, 2016, the Group has provisioned funds to cover expected losses on contracts with negative balance, amounting to Euro 873 thousand, classified in the Liabilities' section of the Consolidated Statement of Financial Position in the caption "Provision for risks and charges"; as at December 31, 2015, these funds were equaled to Euro 2,010 thousand.

3.11. TRADE RECEIVABLES

Trade receivables at December 31, 2016 amount to Euro 10,907 thousand (Euro 8,344 thousand at December 31, 2015). The caption is detailed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Trade receivables from third parties	6.761	6.712	49
Receivables from non-consolidated controlled companies	60	78	(18)
Receivables from associated and jointly controlled companies	4.086	1.554	2.532
Total	**10.907**	**8.344**	**2.563**

The book value of trade receivables is deemed to approximate their *fair value*.

Trade receivables from third parties

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Gross value	7.245	7.195	50
Less: allowance for doubtful accounts	(483)	(483)	-
Total	**6.761**	**6.712**	**50**

The receivables from third parties are mainly due from Airbus Safran Launchers, Arianespace, ESA (European Space Agency) and Agenzia Spaziale Italiana.

There are no receivables from third parties beyond 12 months.

Receivables from associated and jointly controlled companies and non-consolidated controlled companies

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Europropulsion S.A.	2.824	605	2.219
Servizi Colleferro S.C.p.A.	60	78	(18)
Consorzio Servizi Acqua Potabile	409	173	236
Termica Colleferro S.p.A. entro l'Year successivo	152	46	106
Termica Colleferro S.p.A. oltre l'Year successivo	701	730	(29)
Total	**4.146**	**1.632**	**2.514**

Europropulsion S.A. is a jointly controlled company, Servizi Colleferro S.C.p.A. is a non-consolidated controlled company, Consorzio Servizi Acqua Potabile and Termica Colleferro S.p.A. are associated.

3.12. CURRENT FINANCIAL ASSETS

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Current financial assets from associated companies		130	(130)
Current financial assets from jointly controlled companies	1		1
Total	**1**	**130**	**(129)**

The decrease in financial assets from associated companies is due to the fact that the share financing granted to the associated company Termica Colleferro S.p.A. in agreement with the other shareholder SECI Energia S.p.A., as mentioned in Note "3.6. Non-current financial assets "is non interest-bearing from January 1, 2016.

"Current financial assets from jointly controlled companies" relate to interests arising from the treasury management contract signed with Europropulsion S.A.

3.12. CASH AND CASH EQUIVALENTS

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Bank and post-office accounts	87.174	70.377	16.797
Cash on hand	1	1	-
Total	**87.175**	**70.378**	**16.797**

Cash and cash equivalents relate to bank and postal deposits, which amount to Euro 87,174 thousand at 31 December 2016, showing an increase of Euro 16,797 if compared with data at December 31, 2015.
Considering the analysis of the factors that led to this increase, please refer to the Cash Flow Statement for Avio Group's consolidated financial statements.

3.14. CURRENT TAX ASSETS

Current tax assets as at December 31, 2016 amount to Euro 32,429 thousand (Euro 43,270 thousand as at December 31, 2015) and it is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
VAT receivables	29.087	37.983	(8.896)
Receivables from Tax Authorities	3.123	4.493	(1.370)
Research and development tax credit	-	550	(550)
EU VAT receivable	218	244	(26)
Total	**32.429**	**43.270**	**(10.841)**

The caption VAT Receivables, amounting to Euro 29,087 thousand, includes:

- Euro 16,315 thousand, relating to VAT receivables claimed for reimbursment to Tax Authorities;
- Euro 12,772 thousand, mainly related Avio S.p.A. VAT receivables;
  Cosidering VAT receivables, in particular of Avio S.p.A., it is worth to underline that at the end of December 2016 the Company received a positive response to a specific instance presented to Tax Authorities in 2016; consequently to this response, starting from 2017 and referring to the development activities carried out for the subsidiary ELV S.p.A., with ESA (European Space Agency) as ultimate contractor, the Company issues a VAT non-taxable invoice from the beginning of 2017 to ELV, with the contextual creation of a plafond to be used relating to its suppliers from 2018, issuing them invoices without VAT. The final outcome of this ruling, limited to the significant stage of development, is therefore expected to result in the substantial non-generation of additional VAT credit in Avio since 2018.

Receivables from Tax Authorities refers primarily to excess of advance payments for IRAP tax (Euro 2,316 thousand). The decrease od 1,370 thousand of Euro is essentially due to the partial compensation, occurred in October 2016, of the above mentioned IRAP tax receivables and to the compensation of the tax receivables related to ELV research and development activity.

3.15. OTHER CURRENT ASSETS

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Receivables from Social Security Institutions	50	55	(5)
Receivables from employees	782	705	77
Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85	2.432	3.011	(579)
Receivables for public grants to be collected	880	2.610	(1.730)
Other receivables from non consolidated controlled companies			
- Servizi Colleferro S.C.p.A.		38	(38)
Receivables from other debtors	958	3.148	(2.190)
Allowance for doutbul accounts on receivables from other debtors	(150)	(150)	-
Prepaid expenses and accrued income	370	280	90
Total	**5.320**	**9.697**	**(4.377)**

Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85 represent the present value (corresponding to a nominal value of Euro 2,459 thousand on December 31,2016) of funding granted by the Ministry of Economic Development subsequent to the approval of Resolution No. 28 of March 22, 2006, reporting guidance for the aerospace industry, by the Inter-ministerial Committee for Economic Planning (CIPE), which are relative to programmes classified as being functional to national security and to realising a project of common European interest. The collection of these receivables is expected to occur within 12 months.

For complete information related to the funding pursuant to Law No. 808/85, the non-current portion of described receivables amounts to Euro 8,373 thousand and it is classified in the caption “Other non-current assets” (Note 3.8)

The caption "Receipts for public grants to be collected" refers to the contributions provided by the Law of Conversion of 22 November 1994, no. 644 of the decree-law of 23 September 1994, no. 547, named "Urgent interventions in support of the economy"; In January 2017, the conclusion of the cost-verification activities for these contributions, relating to years 1994-2000, 2002-2004 and 2005-2007, was completed by the appropriate interministerial Commission: consequently, the receivable has been appropriately adjusted in order to reflect the final evaluation carried out by the Commission.

The caption “Receivables from other debtors” includes an adjustement, made in 2016, relating to their presumable recovery value.

EQUITY

3.16. SHARE CAPITAL

The Parent's share capital as of December 31, 2016 amounts to Euro 40,000 thousand, fully issued and paid. Share capital was paid entirely at the incorporation of the Parent, on December 11, 2006.

As at December 31, 2015, share capital consist of 400,000,000 ordinary shares with nominal value of Euro 0.1 each.

The objectives identified by the Group for managing capital are to create value for shareholders, to preserve business continuity and support the growth and development of the Group.

Capital means both the value contributed by shareholders, represented by share capital and additional paid-in capital and both from the value generated by the Group in terms of results achieved in operations, represented by retained earnings and other reserves, excluding gains and losses recognised directly in equity (translation adjustments reserve, actuarial gain and losses reserves and cash flow hedge reserves) and non-controlling interests.

3.17. ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital amounts to Euro 73,576 thousand at December 31, 2016 and it is unchanged with respect to December 31, 2015.

3.18. OTHER RESERVES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Actuarial gain/losses reserve	(312)	(367)	55
Cash flow hedge reserve (interest rate risk)	(3.247)	(2.952)	(295)
Total	**(3.559)**	**(3.319)**	**(240)**

The other reserve, negative for Euro 3,559 thousand as at December 31, 2016, includes gains and losses, net of tax effect, arising from the application of the revised IAS 19 and the effect (amounting to 312 thousand of Euro) of the mark-to-market adjustments deriving from the interest rate swaps (IRS) signed on June 30, 2015, for hedging purposes in relation to the volatility of the interest rates stated and applied by the Senior Term and Revolving Facilieties Agreement.

3.19. RECONCILIATION OF EQUITY OF THE PARENT TO THE CONSOLIDATED EQUITY

The reconciliation of Equity as at December 31, 2016 and the profit/(loss) for the year 2016 resulting from the separate financial statements of the Parent and the corresponding values resulting from the consolidated financial statements, is presented in the table below (amounts in thousands of Euro):

	Equity at 31/12/2016	Profit (Loss) for the Year 2016	Equity at 31/12/2015	Profit (Loss) for the Year 2015
Avio S.p.A. separate financial statements	**286.955**	**657**	**286.462**	**5.406**
Elimination of the carrying amount of investments recorded in the statutory financial statements	(118.880)		(118.880)	
Equity and results of consolidated subsidiaries	131.082	2.513	131.053	880
Elimination of inter-company dividends		(2.400)	-	(1.620)
Elimination of gains and losses on inter-company transactions and other consolidation adjustments	2.545	567	1.970	(77)
Consolidated financial statements (Group portion)	**301.702**	**1.337**	**300.605**	**4.589**

Relating to the reconciliation shown above, it is worth to underline that:

- the elimination of inter-company dividends refers to dividends paid by the controlled company Regulus S.A. during 2016 (Euro 2.400 thousand);
- the elimination of gains and losses on inter-company transactions and other consolidation adjustments is mainly due to the application of equity method of the jointly controlled company Europropulsion S.A. (Euro 1.614 thousand, of whom Euro 567 thousand with effects only on 2016) and to the emersion of goodwill, only on a consolidated level, for an amount of Euro 900 thousand.

3.20. NON-CONTROLLING INTERESTS

The non-controlling interests in equity is related to third parties interest in the equity of line-by-line consolidated subsidiaries, and is as follows (amounts in thousands of Euro):

	31/12/2016				31/12/2015			
Subsidiary	Non-controllig interests %	Share capital and equity reserves	Profit/(Loss) for the period	Non-controlling interests	Non-controlling interests %	Share capital and equity reserves	Profit/(Loss) for the period	Non-controlling interests
ELV S.p.A.	30,00%	1.966	(49)	1.917	30,00%	2.420	(427)	1.993
Regulus S.A.	40,00%	4.630	1.852	6.482	40,00%	5.028	1.202	6.230

6.596	**1.803**	**8.399**	**7.448**	**775**	**8.223**

NON-CURRENT LIABILITIES

3.21 NON CURRENT FINANCIAL LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Financial payables to Banks	-	91.272	(91.272)
Totale	**-**	**91.272**	**(91.272)**

The caption as of December 31, 2015 amounted to Euro 91,272 thousand and was related to a financial loan granted to Parent Company on April 1, 2015 by a consortium of reputed credit institute amounting to Euro 100,000 thousand ("Senior Term"), in addition to the availability of a credit line ("Revolving") amounting to Euro 30 million.

At December 31, 2016 the financial payable relating to this financial loan has been reclassified in caption "Current portion of non-current financial liabilities", due to the "changes of control" clauses fixed by contract. For more information, please see paragraph "Significant events subsequent to year end" in Report on Operations and Note "3.26. Current portion of non-current financial liabilities".

3.22. EMPLOYEE BENEFITS PROVISIONS

The caption includes obligations for post-employment benefits and other long-term benefits payable to employees.
The way these benefits are provided varies according to legal, fiscal and economic conditions of each country in which the Group companies operate, with benefits generally being based on employees' remuneration and years of service. The obligations relate to active employees.

Post-employment benefits

Group companies provide post-employment benefits for their employees, contributing to independently administered funds through defined contribution plans, and with defined benefit plans.

Defined contribution plans
In the case of defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory or contractual basis. Once the contributions are paid, the Group has no further payment obligations. Liabilities for contributions accrued but not paid are included in the caption "Other current liabilities". The Group recognises the contribution cost when the employee has rendered the service and includes this cost in the caption "Personnel costs"

Defined benefit plans
Defined benefit plans are unfunded and substantially relate to employee severance indemnity payment ("*Trattamento di Fine Rapporto* - TFR") applicable to the Group's Italian companies, and to the special long-term service indemnity, which is payable at the moment of retirement to employees who have completed certain length of service seniority requisites within the company.

The amount of these obligations is determined on an actuarial basis using the projected unit credit method.

TFR is related to obligations payable to employees at termination of employment, in accordance with the provision of Art. 2120 of the Italian Civil Code. The 2007 Budget Law and subsequent Decrees and Regulations, significantly modified the relevant rules. In particular, regarding companies employing an average of more than 50 employees, TFR maturing after January 1, 2007 is transferred, because of a choice made by the employee, to a complementary pension fund or to the treasury fund managed by INPS (National Social Security Institute). Consequently, for the Group's companies employing an average of more than 50 employees, the portion of TFR accrued after this date is assumed as a defined contribution plan. In particular, this is due to the fact that the Group's obligation is represented exclusively by the payments to the complementary pension funds or INPS, while the past provision accrued at December 31, 2006 continues to represent a defined benefit plan, to be assessed based on actuarial methodologies. For the Group's companies employing an average of less than 50 employees, the portion of the year is still accrued in the TFR reserve, except for any specific decisions taken by employees on a voluntary basis.

Other long-term benefits

The Group grants certain other long-term benefits to its employees, generally paid when the employee attains a specific seniority in the company. In this case, the measurement of the obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. The amount of this obligation recorded in the balance sheet is calculated on an actuarial basis using the project unit credit method.

The Group has defined benefits plan as "unfunded", comprising significantly by employee severance indemnity payment of the Italian companies.

Defined benefit plans reserve is detailed is as follow (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
- Defined benefit plans:			
Employee severance indemnity (TFR)	5.648	5.966	(318)
Other defined benefit plans	2.355	2.352	3
	8.003	8.318	(315)
- Other long-term benefits	2.927	2.486	441
Total	**10.930**	**10.804**	**126**
of which:			
- Italy	9.835	10.079	(244)
- other countries	1.095	725	370
	10.930	**10.804**	**126**

Changes in employee benefits provisions are as follows (amounts in thousands of Euro):

	Defined benefit plans	Other long-term benefits	Provision for employee benefits
Balance at December 31, 2015	**8.318**	**2.486**	**10.804**
Financial expenses	2		2
Recognised actuarial losses in profit loss		229	229
Current service costs	85	460	545

Benefits paid	(748)	(248)	(996)
Transfers paid to Companies of the Group			0
Actuarial losses from equity reserves	346		346
Balance at December 31, 2016	**8.003**	**2.927**	**10.930**

The amounts charged to the 2016 income statement relate to the employees' benefits provisions, which are detailed in the following table (amounts in thousands of Euro):

	31/12/2016			31/12/2015		
	Defined benefit plans	Other long-term benefits	Total	Defined benefit plans	Other long-term benefits	Total
Current service cost	85	460	545	96	135	231
Past actuarial losses		229	229		133	133
Total personnel costs	85	690	774	96	268	364
Financial expenses/(income)	2		2	12	2	14
Total	**87**	**690**	**776**	**108**	**270**	**378**

Main actuarial assumptions used are detailed as follows:

	Year 2016	Year 2015
Discount rate	0,52%	0,97%
Expected salary increase	2,11%	2,11%
Inflation rate	1,50%	1,50%
Average rate of staff turnover	4,78%	4,78%

In order to calculate the present value, bonds issued by corporate issuers included in "AA" class rating have been considered (with the assumption that this class identifies a high level of credit rating in the set of "Investment Grade" bonds and excluding) riskier bonds. The market curve chosen is a market curve "Composite", which summarizes the market conditions at the date of valuation for bonds issued by companies belonging to different industries including Utilities, Telephone, Financial, Bank, and Industrial. The discount rate is based on bonds denominated in Euro that is currency in which the liability is payable.

A 50 basis points increase or decrease in the discount rate would have the results indicated in the following table in the estimated value of TFR and of long-term service indemnity:

	Increase (0.50%) in the discount rate	Decrease (0.50%) in the discount rate
Defined benefit plan	(866)	(557)
Other long-term benefits	(535)	(355)

3.23. PROVISIONS FOR RISKS

The composition of the reserves for risks and charges is as follows (amounts in thousands of Euro):

	31/12/2016			31/12/2015			Variation
	Current	Non-current	Total	Current	Non-current	Total	
Reserve for variable cost of salaries and wages	12.149		12.149	8.169		8.169	3.980
Reserve for personnel expenses and restructuring		362	362		804	804	(442)
Reserve for legal and environmental risks	1.440	5.104	6.544		8.005	8.005	(1.460)
Reserve for contractual and commercial risks		2.258	2.258		3.029	3.029	(771)
Reserve for fiscal risks	1.248	2.304	3.552		7.440	7.440	(3.888)
Total	**14.837**	**10.029**	**24.865**	**8.169**	**19.278**	**27.447**	**(2.580)**

The reserves are detailed below:

- Reserve for variable cost of salaries and wages amounting to 12,1 million of Euro, mainly consisting of:
  - reserves for charges relating to remuneration payable to staff in relation to the achievement of individual and corporate objectives, amounting to approximately Euro 3,1 million;
  - reserves related to an incentive plan consisting of a flat-rate bonus and a one-off bonus related to the successful outcome of the Space2-Avio (Exit Bonus 2017) transaction attributed by the Board of Directors on October 19, 2016 to the Senior Executives of the Avio Group and also finalized to ensure their stay within Avio's staff;
  - reserves related to an incentive plan that, at the achievement of Group and Avio's enhancement targets, including the sale of Avio, enables Avio's Vice President in office before the Space2-Avio operation and until the effective date of the Merger (Ing. Lasagni) to receive a prize of variable amount between a minimum of Euro 500 thousand and Euro 700 thousand (gross amounts);
  - reserves related to an incentive plan that, subsequent to the completion of the Space2-Avio operation, allows Mr Alan Bowkett, the Chairman of the Board of Directors in office before the Space2-Avio operation and until March 31, 2017,to receive a prize equal to Euro 200 thousand;
  - reserves for charges arising from a remuneration plan attributable to a defined number of managers, equal to Euro 4.2 million. This remuneration plan is subordinated to the occurrence of certain events concerning the equity structure of the Company or its parent and is bound to achieve of certain levels of the Group's equity value. The plan is defined as a "cash-settled share-based payment" within the scope of IFRS 2 and the valuation of the fair value recorded in the financial statements has been carried out through mathematical-actuarial models;
- Reserve for personnel expenses and restructuring, including social security charges, integrations to the employee defined benefit plans, and other costs related to employee mobility retirement procedures, amounting to Euro 362 thousand;
- Reserve for legal and environmental risks, in connection with ongoing legal disputes and litigation amounting to Euro 6.544 thousand;
- Reserve for contractual and commercial risks, mainly related to provisions for pending trade disputes, penalties, charges and losses arising from the conclusion of ongoing

contracts, as well as charges related to "Diritti di regia", rights defined by law 808/85 (post 2006 discipline) which amount to Euro 2.258 thousand;

- Reserve for fiscal risks, amounting to Euro 3.552 thousand, mainly related to the provision for possible negative outcomes of tax assessment conducted on the Company, even consequently to the notification of certain assessment notices.

The changes in total current and non-current provisions in 2016 and 2015 are detailed as follows (amounts in thousands of Euro):

	31/12/2015	Provisions	Other movements	Utilization	Reclassi-fication and amounts reversed to income	31/12/2016
Reserve for variable costs of salaries and wages	8.169	7.995		(3.000)	(1.016)	12.148
Reserve for personnel expenses and restructuring	804			(442)		362
Reserve for legal and environmental risks	8.005			(1.013)	(448)	6.544
Reserve for contractual and commercial risks	3.029	870		(1.640)		2.258
Reserve for fiscal risks	7.440	1.085	6	(181)	(4.798)	3.552
	27.447	**9.950**	**6**	**(6.277)**	**(6.262)**	**24.865**

	31/12/2014	Provisions	Other movements	Utilization	Reclassi-fication and amounts reversed to income	31/12/2015
Reserve for costs of variable salaries and wages	8.018	3.029		(2.606)	(272)	8.169
Reserve for personnel expenses and restructuring	574	983		(231)	(522)	804
Reserve for legal and environmental risks	9.136	155		(1.152)	(134)	8.005
Reserve for contractual and commercial risks	2.355	2.224			(1.550)	3.029
Reserve for fiscal risks	19.216	518		(12.294)		7.440
Total	**39.299**	**6.909**		**(16.283)**	**(2.478)**	**27.447**

The amount reversed to income in 2016 are mainly related to the adjustement of reserves for fiscal risks, considering the decision of Tax Authorities of not to impose sanctions referring to fiscal claims of previous years.

3.24. OTHER NON-CURRENT LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Payables to Tax Authorities for registration duty, mortgage tax and cadastral duties relating to the operation that in 2003 led to the sale of the Company GE Avio S.r.l. (containing Avio Group's AeroEngine Business) to General Electric Group	58.220		58.220
Payables to the Ministry of Economic Development for funding pursuant to Law No, 808/85 - portion due after one year	42.051	41.216	835
Deferred income for funding pursuant to Law No, 808/85 – portion due after one year	16.602	13.801	2.801
Deferred income for tax credit related to R&D activities – portion due after one year	639	654	(15)
Deferred income for grants toward operating costs	222	236	(14)
Total	**117.734**	**55.907**	**61.827**

Payables to Tax Authorities for registration duty, mortgage tax and cadastral duties relating to the operation that in 2003 led to the sale of the Company GE Avio S.r.l. (containing Avio Group's AeroEngine Business) to General Electric Group

The caption, amounting to Euro 58,220 thousand, refers to the receiving, in July 2016, from Tax Authorities (Agenzia delle Entrate) of a tax notice related to registration duty, mortgage tax and cadastral duties, for the above-mentioned amount, concerning the operation that led, in 2013, to the sale of the Company GE Avio S.r.l. (containing Avio Group's AeroEngine Business) to General Electric Group. Simultaneously the Company recorded a receivables from General Electric Group of the same amount.

The recording of this receivables to General Electric Group is based on specific contractual provisions under which General Electric is required to keep free Avio S.p.A. from any liabilities that could arise relating to indirect taxes referring to the above mentioned operation, making available to Avio S.p.A. the sums requested by the tax authorities within the due deadlines.

Relating to this topic, please see Note "3.8. Other non-current assets" and Section "Legal proceedings and contingent liabilities" in the Explanatory Notes.

Payables to the Ministry of Economic Development for funding pursuant to Law No, 808/85 - portion due after one year

This caption equals to Euro 42,051 thousand and relates to the financing provided by the Ministry of Economic Development pursuant to Law No. 808/85, and subsequent legislation intended to promote research and development activities, including studies, tests and designs for new programmes and certain other activities, in the aerospace industry. This financing is interest free and is required to be repaid over the life of the related programmes. These payables are valued at their nominal value.

The increase recorder in 2016 is due to the collection dated November 4, 2016, from the Ministry of Economic Development of Euro 835 thousand.

The above mentioned debt is related to grants defined by Law No. 808/85 and is subject to discipline applicable until 2006.
In 2006, the regulations for the implementation of Law No. 808/85 were modified. In particular, within the scope of programmes eligible for intervention under the above law, specific guidelines were carved out for programmes directed at national security and at realising a project of common European interest. According to these new guidelines, the payment of compensation on the sale of products developed within the above programmes is now provided for, superseding the current refunding of financing granted.
The obligation to refund the amount free of interest stands for programmes not included in the above categories.
These new guidelines are deemed not to be applicable for programmes eligible for intervention decided before the adoption of Resolution No. 28/2006 by the Inter-ministerial Committee for Economic Planning (CIPE), as formally communicated to the Ministry of Economic Development in prior years, and following an in-depth analysis carried out also with the support of authoritative legal advisors, taking into consideration the specific situation of the programmes involved, and, therefore, no modifications to the current law have arisen in 2016, the accounting method utilised in recognising this financing was not modified.

Deferred income for funding pursuant to Law No, 808/85 – portion due after one year

This caption, amounting to Euro 16,602 thousand, represents the initial counterpart of the receivable from the Ministry of Economic Development for funding pursuant to Law No. 808/85. This receivable is related to programmes classified as being functional to national security or for realising a project of common European interest, for the portion to be credited to income statement of future periods, after one year, to match them with the related costs for which funding has been granted.

The increase of the period is mainly due to the recording of receivables corresponding to the grant approved by the Ministry of Economic Development with a special decree dated April 27, 2016, which approved the financing of costs related to P40 program.

Deferred income for tax credit related to R&D activities – portion due after one year

This caption (equal to Euro 639 thousand) represents the portion of the tax credit recorded in the financial statements (as provided for by Law No. 296/2007 (2007 Finance Act) subsequently modified by Law Decree No. 185/2008, converted into Law No. 2/2009) to be credited to the income statement in future financial years, as due after one year, depending on different types of costs being the subject of the intervention, in relation to both the year of charging to income statement research and development expenses, based on which the tax credit has been determined, and to the recognition of revenues related to construction in progress, to the amount of which research and development expenses concurred.

CURRENT LIABILITIES

3.25. CURRENT FINANCIAL LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Financial payables to jointly controlled companies	13.850	8.399	5.451
Fair value of Interest Rate Derivative	312	367	(55)
Total	**14.162**	**8.766**	**5.396**

Financial liabilities related to derivative instruments express the interest rate swaps (IRS) fair value for hedging against the fluctuation risk of the Senior Term and Revolving Facilities Agreement floating rate.

Financial payables to jointly controlled companies related to the financial intercompany debt of Avio S.p.A. towards Europropulsion S.A., as a consequence of the specific treasury management contract, which defines the refunding mechanism which attribute the financial resources of the joint venture to its shareholders.

3.26. CURRENT PORTION OF NON-CURRENT FINANCIAL LIABILITIES

The caption, amounting to Euro 91,615 thousand (Euro 4,439 thousand at December 31, 2015), is related to the financial loan Senior Term and Revolving Facilities Agreement, whose debt is entirely accounted for in current liabilities as for the reasons explained below.

As already reported in the Report on Operations, paragraph "Significant events subsequent to year end", referring to the merger and listing of the incorporated Avio S.p.A. in the incorporating Space2 S.p.A., the "change of control" clauses defined in the loan agreement provide that the related credit lines will have to be repaid in advance if:

(A) the control (direct or indirect) of the Incorporating Company (meaning that it holds more than 50% of the voting rights or the right to control the majority of the voting rights at the ordinary shareholders meeting of the Incorporating Company or to appoint and revoke its administrators) is assumed by one or more subjects, even acting in concert among themselves, other than the Related persons (with this term in the Senior Term and Revolving Facilities Agreement: Cinven Limited or the Cinven Funds or any other entity controlled or managed by the aforementioned entities or other investors in such funds with which Cinven has voting arrangements in relation to Avio), Leonardo, Safran, Airbus Group (Safran and Airbus if at the date of any change of control the relevant rating is at least equal to BBB) and/or other entities controlled by the subjects above mentioned directly or indirectly through fully owned companies (including Airbus Safran Launchers Holding SAS, Airbus Safran Launchers SAS and Airbus Safran Launchers GmbH) and/or entities controlled by the Ministry of the Economy and Finance (including Cassa Depositi e Prestiti S.p.A. and A.S.I. - Agenzia Spaziale) and/or ESA European Space Agency, directly or indirectly through fully owned companies);

(B) a pledge of more than 20% of the Shares of the Incorporated Company or of any of the shares of the Incorporated Company held by funds managed by Cinven Limited; or

(C) all or substantially all of the assets of the Group (meaning the Incorporated Company and its subsidiaries) are disposed.

According to the Senior Term and Revolving Facilities Agreement, the acquisition by Space2 S.p.A., Leonardo S.p.A. and In Orbit S.p.A. integrates a change of control hypothesis (as a result of the transfer of 85.68% of Avio's share capital, in accordance with the terms and conditions set forth in the acquisition contract). Likewise, under the terms of the Senior Term and Revolving Facilities Agreement, the merger constitutes a prohibited transaction, unless the pool banks gives its agreement.

On November 29, 2016, therefore, the Incorporated Company Avio S.p.A. made a waiver request relating to the mentioned acquisition operation, to Banca IMI, a bank of the pool of lending banks, in order to verify the agreement of the lending banks for the granting of waiver to the clause "Merger", which constitutes a default event, and the change of control clause, which state the immediate repayment of the outstanding amounts of the credit lines. By way of derogation from these forecasts, the Incorporated Company requested to the agent bank (even considering the appropriateness of having a reasonable time after the completion of the Space2-Avio transaction to understand the financial needs of the company resulting from the merger) that the loan becomes redeemable at the earliest date between the six months following the merger's effective date and December 31, 2017, provided that the Space2-Avio operation is completed by that date.

The acquisition of Avio S.p.A., merger in Space2 S.p.A. and the listing of the Company have concluded on April 10, 2017.

The request made by the Incorporated Company is due to a number of factors, including:
the financial resources deriving from the merger will be substantially used to repay the above-mentioned bank loan by the indicated dates;

- the level of burdens of the current bank loan: tranche A of Euro 29,9 million at December 31, 2016 with interest rate equal to Euribor at 6 months plus spreads of 3.0% and tranche B of Euro 63,4 million at 31 December 2016 with an interest rate equal to Euribor at 6 months plus spreads of 4.0%.
- the financial resources deriving from the merger will be substantially used to repay the above-mentioned bank loan by the indicated dates;
- the level of burdens of the current bank loan: tranche A of Euro 29,9 million at December 31, 2016 with interest rate equal to Euribor at 6 months plus spreads of 3.0% and tranche B of Euro 63,4 million at 31 December 2016 with an interest rate equal to Euribor at 6 months plus spreads of 4.0%.

On December 30, 2016 Banca IMI SpA, in quality of bank agent and therefore also on behalf of the pool banks, replied to the aforementioned request confirming the waiver agreement in accordance with the terms required by Avio S.p.A.

As a result of these negotiations and having concluded merger and listing as of April 10, 2017, the Incorporated Company has reclassified in current liabilities the residual medium/long-term debt related to the Senior Term and Revolving Facilities Agreement.

Regarding the capacity of Avio S.p.A. To extinguish this funding in advance, it should be noted that:

a) Avio Group's net financial position as of December 31, 2016 amounts to Euro 18,6 million, including as follows:
   - financial liabilities arising from the above-mentioned financing for 91,6 million Euro;
   - financial liabilities related to derivatives hedging interest rates on the aforementioned loan of Euro 312 thousand;
   - financial liabilities arising from current financial payables to the joint-control company Europropulsion for Euro 13,9 million, net of
   - cash and cash equivalents of Euro 87,2 million.

b) the aforementioned cash and cash equivalents, due to the merger, will add financial resources arising from Space2.

As a result, Avio Group's initial cash flow, the financial resources resulting from the merger and the cash that is expected to be generated in 2017, are expected to enable the Group to repay the loan in advance in accordance with the terms defined in *waiver* agreement.

The Senior Term and Revolving Facilities Agreement was concluded on April 1, 2015 between Avio S.p.A. And a pool of international leading banks (Banca IMI, Banca Popolare di Milano Società Cooperativa a rl, BNP Paribas - Italian Branch, Crédit Agricole Corporate and Investment Bank - Milan Branch, Société Générale - Milan Branch and Unicredit SpA) for an amount equal to Euro 130 million, including a revolving line of Euro 30 million.

The Senior Term Agreement is divided into two tranches, the first of which is 35 million of Euro and the second of 65 million of Euro, whose repayments, for the said renegotiation that led to its early extinction, have respectively foreseen an amortization plan in six years and a single "bullet" solution at 7 years.
Funding is not supported by any real collateral, it includes some limitations in terms of investments, acquisitions, disposals, additional financing (assets or liabilities), and financial compliance ("Financial covenants"), in line with the forecasts of the plan Multiannual of the Group, relating to:

- Leverage Ratio;
- Interest Cover Ratio;
- Capital Expenditures.

The financial covenants at December 31, 2016 are respected.

The contract provides for the following interest rates, in line with market rates:

- for a tranche of 35 million Euro and the revolving line used, Euribor + spread 4%;
- for the tranche of 65 million Euro, Euribor + spread 4.5%.

These spreads are expected to be reduced by up to 2.5% for the 35 million tranche and the revolving line and 4% for the tranche of 65 million depending on certain Leverage Ratio ranges.

Both for the two tranches and for the revolving line, it is foreseen that the Euribor to be considered for the purpose of determining interest expense is zero or negative.

It has also to be noted that with respect to the loan, derivative contracts have been subscribed for hedging the interest rate risk, as reported in the relevant information on "Financial instruments and risk management policies".

3.27. TRADE PAYABLES

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Trade payables to third parties	53.640	45.461	8.179
Trade payables to associated, jointly controlled and non-consolidated controlled companies	3.077	1.411	1.666
Total	**56.717**	**46.872**	**9.845**

Trade payables to controlled companies are detailed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Europropulsion S.A.	3.767	1.081	2.686
Termica Colleferro S.p.A.	(780)	319	(1.099)
Servizi Colleferro S.C.p.A.	90	11	79

Totale	**3.077**	**1.411**	**1.666**

The positive balance towards Termica Colleferro S.p.A. depends on the commercial relationships in existence.

3.28. CURRENT TAX PAYABLES

The composition of current tax payables is as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Witholding tax payable	1.437	1.660	(223)
Other tax payables	69	67	2
Foreign tax payables	1.021	323	698
Total	**2.527**	**2.050**	**478**

Witholding tax payable refers to liabilities towards Tax Authorities for retention made by the Group as withholding agent on salary (IRPEF tax) and other income.

Foreign tax payables refer to tax liabilities related to the controlled company Regulus S.A., operating in Kourou, French Guyana, a French overseas department in southern America. Taxes of this controlled companies are therefore governed by French tax legislation.

Regulus is a global leader in the production of solid propellant and for the loading of large rocket engines. The company performs the solid propellant loading of the four segments that make up the Boosters of the European launcher Ariane 5 and of the first-stage engine (named P80) of the Vega launcher. At the Regulus facilities, activities have recently started for the development and industrialization of the propellant for the new P120C engine that will power both the future successor to Ariane 5, i.e. Ariane 6, and the upgraded version of the Vega, i.e. Vega C, whose first launch is scheduled for 2019.

3.29. OTHER CURRENT LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Advances from customers for supply of goods and services	3.236	4.879	(1.643)
Social Security payables	2.494	3.308	(814)
Payables to employees	5.444	4.688	756
Other payables to third parties	2.690	436	2.254
Deferred income for funding pursuant to Law No, 808/85 – portion due within one year	1.125	1.149	(24)
Deferred income for tax credit related to R&D activities – portion due within one year	58	58	0
Other accrued expenses and deferred income	3.521	1.435	2.086

Total	**18.567**	**15.953**	**2.614**

Advances from customers for supply of goods and services

This caption mainly includes advances received from final customers for supply of goods and services for Euro 3,236 thousand (Euro 4,879 thousand as at December 31, 2015).

Social Security payables

This caption refers to payables amounting to Euro 2,494 thousand as at December 31, 2016 (Euro 3,308 thousand as at December 31, 2015) related to the amount payable by the companies and withheld from employees for contributions on salaries and wages, in accordance with current legislation.

Payables to employees

This caption amounts to 5,444 thousand of Euro and includes some retributive items to be liquidated and allowances for deferred remuneration related to 2016.

Other payables to third parties

The caption amounts to Euro Euro 2,690 thousand, with an increase Euro 2,254 due to the recording of the advisory activities costs related to the listing process, concluded on April 10, 2017.

Other accrued expenses and deferred income

The caption amount to Euro 3,521 thousand at December 31, 2016 (Euro 1,435 thousand at December 31, 2015), with an increase of Euro 2,086 thousand.
The caption is composed as explained below:

- Accrued expenses related to salaries and employee-related contributions for the accrued portion at the end of the year, equal to Euro 1,637 thousand. At December 31, 2015, the caption amounted to Euro 1,082 thousand;
- Deferred income of Euro 1,884 thousand essentially related to grants. The caption increased of Euro 1,531 thousand essentially due to the recording of new contributions during the year.

INCOME STATEMENT

3.30. REVENUES

Revenues include sales of goods and services and change in construction in progress, representing total consolidated revenues, and are composed as follows (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Revenues from sales of goods	443.610	67.004	376.606
Revenues from services	8.189	3.012	5.177
	451.799	70.016	381.783
Change in contract work in progress	(112.113)	209.211	(321.324)
Total	**339.685**	**279.227**	**60.458**

The increase in sales revenues and the negative variation in work in progress is due to the conclusion of major contracts (Ariane 5 production, VERTA P80, etc.).
Considering the revenues breakdown by geographical area (defined on the basis of the reference country of the customer), the revenues totally refer to Italy (Euro 6 million, equal to 1.8% of revenues) and Rest of Europe (Euro 333,7 million, or 98.2% of revenues).
Iit is possible to see below the revenues breakdown per business line:

Business line	2015	2014	Variation
Ariane (1)	144.540	125.404	19.136
Vega	137.372	120.869	16.503
Propulsione tattica	10.097	11.132	(1.035)
Revenues net of pass-through(1)	**292.009**	**257.405**	**34.604**

(1) Ariane business line revenues also include revenues arising from the production of liquid propulsion systems for satellites, destined almost entirely to the business unit Ariane and real estate revenus which are a not significant portion of total revenues.

3.31. OTHER OPERATING INCOME

This caption is composed as follows (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Revenue grants	34	224	(190)
Tax credit income related to R&D activities	0	58	(58)
Income related to amount credited to the income statement of funding pursuant to Law No. 808/85	1.149	1.400	(251)
Portion for the period of grants related to assets	16	31	(15)
Recovery of costs, compensation and other income	2.761	4.185	(1.424)
Reserves credited to income statement	7.399	2.006	5.393
Gains on disposal of property, plant and equipment o	2	0	2
Other revenues	95	1.215	(1.120)

Total	**11.456**	**9.119**	**2.337**

Income related to the amount credited to the income statement of funding related to Law No. 808/85 include the portion of funding granted by the Ministry of Economic Development related to programmes classified as being essential to national security and for realising a project of common European interest. The portion credited to income statement is determined taking into consideration the nature of costs for which the funding was granted and matching it with the periods of recognition in the income statement of the expenses (as raw materials, external expenses, depreciation and other expense).

The caption “Recovery of costs, compensation and other income” includes the recovery of costs incurred by the Group during the year, mainly related to the Group's activities, as well as other income of a different nature.

The caption "Reserves credited to income statement" includes rebates of provisions for risks related to previous years, as a result of the occurrence of subsequent events concerning the period of the provision, which led to the lack of the assumptions that could justify their existence, as well as the positive estimation differences between the provisions and the effective use.
In 2016, the reserves credited to income statement are essentially related to the adjustement of reserves for fiscal risks, considering the decision of Tax Authorities of not to impose sanctions referring to fiscal claims of previous years.

3.32. RAW MATERIALS CONSUMPTION

This caption is composed as follows (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Raw materials and supplies purchased	108.318	96.876	11.442
Change in inventories	687	(13.415)	14.102
Total	**109.004**	**83.461**	**25.543**

3.33. COST OF SERVICES

This caption is composed as follows (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Cost of external services	156.100	121.886	34.214
Lease and rentals	1.029	1.254	(225)
Total	**157.130**	**123.140**	**33.990**

Cost of services include, among others, costs and expenses for activities conducted with Co-producers, for professional/technical advices and services, external processing, maintainance services, temporary labour supply (Internal personnel).

The increase of the year is partially attributable to costs invoiced by the joint venture Europropulsion in relation to the development and implementation contract of the new propellant "P120" and related to the portion of "pass-through revenues"(Euro 47,676 thousand at December 31, 2016 and Euro 21,822 thousand at December 31, 2015), as detailed in the Report on Operations, to which reference is made.

In 2016, the caption "cost of external services" includes the total amount of fees due to the directors and statutory auditors of the Parent, including amounts due for these functions also in other consolidated companies, which amounted to Euro 186 thousand relating to the statutory auditors and Euro 781 thousand relating to the Directors of the Parent.

3.34. PERSONNEL COSTS

This caption is composed as follows (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Salaries and wages	37.063	35.590	1.473
Social security contributions	12.298	12.881	(583)
Defined contribution plan expenses	4.023	2.992	1.031
Other personnel expenses	3.226	2.431	795
Total	**56.610**	**53.894**	**2.716**

The following table shows the average number of employees, at Group level and divided by category, referred to the companies included in the consolidation area:

	2016 Average	*2015 Average*
Blue-collar	337	314
White-collar	406	385
Managers	22	19
Total	**765**	**718**

3.35. DEPRECIATION AND AMORTISATION

This caption is composed as follows (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Property, plant and equipment	5.616	5.537	79
Investment property	51	46	5
Intangible assets with finite useful lives	8.060	11.816	(3.756)
Total	**13.727**	**17.399**	**(3.672)**

Amortisation of intangible assets with finite useful lives mainly includes the amount of Euro 3,179 thousand for the amortisation of development cost and the amount of Euro 4,084 thousand for amortisation of customer relationships, recorded in 2007 consequently to the acquisition of Avio Group by Cinven.
The decrease in amortization compared to last year is due to the conclusion of the useful life of some assets.

3.36. OTHER OPERATING EXPENSES

This caption is composed as follows (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Provisions for risks	709	2.379	(1.670)
Other operating expenses	5.417	3.001	2.416
Other expenses and provisions	7.602	3.780	3.822
Total	**13.727**	**9.160**	**4.567**

Provisions for risks

This caption mainly relates to the provision charged to income statement for direct rights under Law 808/85 (post 2006 discipline) and provisions for contractual and commercial charges made by the subsidiary Regulus S.A.

Other operating expenses

The caption "Other operating expenses", amounting to Euro 5,417 thousand, is mainly related to: indirect taxes and charges, charges for receivables value adjustments, non-recurring costs related to personnel, depreciation on disposal of fixed assets.

Other expenses and provisions

This caption includes emerging costs from exceptional events not deriving from ordinary operations of Group companies.
In particular, the caption "Other charges and provisions" amounting to Euro 7,602 thousand includes:

- an incentive plan consisting of a flat-rate and one-off bonus related to the successful completion of the Space2-Avio ("Exit Bonus 2017") transaction attributed by the Board of Directors on October 19, 2016 to the Senior Executives of Avio Group and also to ensure its permanence within Avio's staff;
- an incentive plan that, at the achievement of Group and Avio's enhancement targets, including the sale of Avio, enables Avio's Vice President in office before the Space2-Avio operation and until the effective date of the Merger (Ing. Lasagni) to receive a prize of variable amount between a minimum of Euro 500 thousand and Euro 700 thousand (gross amounts);
- an incentive plan that, subsequent to the completion of the Space2-Avio operation, allows Mr Alan Bowkett, the Chairman of the Board of Directors in office before the Space2-Avio operation and until March 31, 2017,to receive a prize equal to Euro 200 thousand;
- the non-recurring provision, included I caption “Provision for risk”, relating to tax disputes arising from previous years events;
- non-recurring provisions, included in caption “Provision for risk”, relating to personnel expenses;
- Euro 58,220 thousand relating to the receivable recorded simultaneously to the accounting in the non-current liabilities of a payable towards tax authorities (Erario) of the same amount, subsequent to the receiving, in July 2016, from tax authorities (Agenzia delle Entrate), of a tax notice related to registration duty, mortgage tax and cadastral duties, for the above-mentioned amount, concerning the operation that led, in 2013, to the sale of the Company GE Avio S.r.l. (containing Avio Group’s AeroEngine Business) to General Electric Group;

- Euro (58,220) thousand relating to the recognition of the receivables from General Electric Group relating to the above-mentioned indirect taxes and based on specific contractual provisions conditions, which require General Electric Group to keep free Avio S.p.A. form any liabilities that could arise referring to the aboce mentioned operation;
- charges relating to the receivable adjustment referred to the contributions provided by the Law of Conversion of 22 November 1994, no. 644 of the decree-law of 23 September 1994, no. 547, named "Urgent interventions in support of the economy" (see note 3.15 Other current assets).
- non-recurring charges relating to c.d. Reparts of shareholding allocated by the subsidiary Regulus S.A.

3.37. SHARE OF PROFIT IN INVESTMENTS IN JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

This caption includes the effects of applying the equity method for the valuation of the holding held in the joint venture company Europropulsion S.A. These effects are recorded, in application of the option granted by IFRS 11, among the Group's operating income and expenses, in relation to the operational nature of Avio Group's participation in the company. The effect recorded in 2016 for 2,461 thousand Euro (1,893 thousand Euro in 2015) corresponds essentially to the positive result attributable to the subsidiary during the reference period (in the absence of adjustments to Consolidation with impact on the results of the jointly controlled company).

3.38. CAPITALISATION OF COSTS FOR INTERNALLY GENERATED ASSETS

This caption represents the counterpart of the costs incurred for the internal realization of tangible and intangible assets, recorded in the consolidated statement of financial position.

In 2016 financial year, a total of Euro 9,892 thousand (Euro 6,558 thousand at December 31, 2015) and includes the following costs (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Costs for the internal construction of tangible fixed assets	654	1.955	(1.301)
Costs for development activities	8.977	4.533	4.444
Costs for internal production of intangible assets	262	70	192
Total	**9.892**	**6.558**	**3.334**

3.39. FINANCIAL INCOME

This caption is composed as follows (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Interest income from banks	4	121	(117)
Discounts and other financial income	540	405	135
Interest income on financial receivables from associated companies		258	(258)
	544	784	(240)
Realised exchange gains	360	1.462	(1.102)
Unrealised exchange gains	47	26	21
	407	1.488	(1.081)
Total	**950**	**2.272**	**(1.322)**

The increase in the caption "Discounts and other financial income" is mainly due to the collection of 290 thousand Euro of interest on the VAT receivables relating to the subsidiary ELV S.p.A. subject to reimbursement during the year.

The decrease in the caption "Interest income on financial receivables from associated companies" depends on the fact that, as from January 1, 2016, the share financial loan granted to the associated company Termica Colleferro S.p.A. is non-interest-bearing.

Realized exchange gains are related to the collection of receivables and the payment of foreign currency debts.

The unrealised exchange gains are related to the adjustment of receivables and payables denominated in foreign currencies with the exchange rates at period end.

3.40. FINANCIAL EXPENSES

The main components of this caption are the following (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Interest on Senior Term Loan Agreement	7.026	3.697	3.329
Interest on other payables	179	215	(36)
Interest costs on employee benefits	2	14	(12)
Expenses from interest rate derivative instruments	236	103	133
	7.443	4.029	3.414
Realised exchange losses	430	1.558	(1.128)
Unrealised exchange losses	27	17	10
	457	1.575	(1.118)
Total	**7.900**	**5.604**	**2.296**

Financial expences, equal to 7,443 thousand Euro, increased 3,414 thousand Euro.

This increase is principally due to higher interest expense (1,153 thousand Euro) due to the fact that in 2016 they covered the full period, while in 2015 they only relate to 7 months, starting from May 2015. Furthermore, the caption include 2,174 thousand Euro for charges related to the early repayment of the financial loan.

The increase in charges relating to interest rate derivatives instruments and commodities (236 thousand Euro at December 31, 2016, 103 thousand Euro at December 31, 2015) refers to the economical effects of the full year 2016, 7 months of 2015 (as said before), on derivative finance instruments stipulated to cover the volatility of interest rates of credit lines provided by the Senior Term and Revolving Facilities Agreement.

The realized exchange losses realized are related to the the collection of receivables and the payment of liabilities in foreign currencies.

The unrealised exchange losses are related to the adjustment of receivables and payables denominated in foreign currencies with the exchange rates at period end and they refer to the alignment of trade items.

3.41. SHARE OF LOSS IN INVESTMENTS IN ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

In 2015 the Company carried out a depreciation of Euro 2,799 thousand of the investment in the associated company Termica Colleferro, no longer needed in 2016.

3.42. INCOME TAXES

Income taxes for the year 2016 show in the income statement a net negative balance of Euro 3,120 thousand.
This balance is due to:

- IRAP charges of Euro 51 thousand, relating to the subsidiary Secosvim S.r.l.;
- current tax relating to the subsidiary Regulus S.A., operating in Kourou, French Guyana, which constitutes an overseas region and department of France in Southern America. Taxes of this subsidiary are therefore governed by French tax legislation;
- charges for deferred tax assets and liabilities of 778 thousand Euro.

The reconciliation between the theoretical and effective tax rate, excluding IRAP because of its particular nature, and the accruals to the reserve for tax risks, is presented in the following table (Euro thousands):

	Year 2016	Year 2015
Profit/(Loss) before taxes	1.225	1.799
Ordinary IRES tax rate	24,00%	27,50%
Theoretical income taxes	294	495
Effect of adjustments:		
Permanent increasing differences	3.509	4.371
Permanent decreasing differences	(4.162)	(4.678)
Temporary increasing differences	21.575	14.246
Temporary decreasing differences	(79.046)	(75.027)
Total	(58.124)	(61.087)
Fiscal loss	(56.899)	(59.288)
Deferred Taxes	778	(2.935)

Current Taxes	51	54
Foreign companies Current Taxes	2.291	1.895
	3.120	(986)

3.43 PROFIT/(LOSS) FROM DISCONTINUED OPERATION

No profit or loss from discontinued operation have been recorded, nor at December 31, 2016, neither at December 31, 2015. There are no assets or liabilities to be sold and *Discontinued Operation*.

4. SEGMENT AND GEOGRAPHICAL AREA REPORTING

Information by industry segment

With reference to the years 2016 and 2015, the Group has operated in continuity exclusively in the Space business context. Consequently, all assets and liabilities, costs and revenues relate to the only activity sector, which corresponds to the Group's consolidation perimeter.

The number of Group's employees in December 31, 2016 is 758. In December 31, 2015 the Group's employees were 763.

Information by geographical area

With reference to the information by geographical area, the whole amount of the Group's revenue, in 2015 and 2016 was related to Italy and Europe (classified on the basis of the country of customers).

The Group's assets, as well as current year investments, are completely located in Italy and Europe, qualified on the basis of the same criteria described (the country of customers).

5. GUARANTEES GRANTED AND COMMITMENTS

The main guarantees granted and commitments of the Group are detailed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015
Guarantees granted		
Personal guaranties		
Sureties issued by third parties on behalf of the Group	13.959	13.229
Other		29.788
Total Guarantees granted	43.747	43.017
Goods owned by third parties held by the Group	1.000	1.000
Goods owned by the Group held by third parties	2.030	2.030
	3.030	3.030
Guarantees and received guarantees	1.364	114
	1.364	114

Guarantees granted

The caption includes, sureties issued by third parties on behalf of the Group in favor of customers for the execution of contracts and other guarantees represented by patronage letters issued in the interest of Group companies.

Goods owned by third parties held by the Group

This caption mainly includes equipment related to tactical propulsion activities owned by customers as well as material held on deposit.

Goods owned by the Group held by third parties

It refers to materials and equipment under processing and storage, or used by vendors.

Sureties and guarantees received

This mainly includes sureties received from suppliers related to orders not yet completed.

Others

With reference to the associated Termica Colleferro S.p.A. (40% owned by Avio and 60% by S.E.C.I. Energia S.p.A.) active in the operation of a thermoelectric power plant, essential for the Colleferro production site actitivities, considering the steam production, it is worth to underline what mentioned below.

On February 24, 2010, in order to realize the above mentioned thermoelectric power plant, Termica Colleferro stipulated with a bank consortium (consisting of Banco Popolare Soc. Coop., Unipol Banca S.c.p.A., Banca Popolare di Milano S.c.a.r.l., Cassa di Risparmio di Parma e Piacenza S.p.A., Cassa di Risparmio di Ravenna S.p.A.), a loan agreement for a maximum amount of 34 million of Euro, guaranteed by real and personal guarantees, expiring on February 24, 2022.

At December 31, 2016, the residual debt of Termica Colleferro in respect of this loan was equal to Euro 22,0 million.

Even on February 24 2010, the Shareholder SECI constituted itself as guarantor with a guarantee for the timely fulfillment of all the payment obligations due to the lending banks in the interest by Termica Colleferro for a maximum amount of Euro 44,2 million.

Considering the electricity market conditions worsening that occurred in the years following the conclusion of the financing agreement (with the consequent worsening of the associated company's EBITDA), in order to comply with bank *covenants*, Termica Colleferro initiated a process of negotiation with the pool of bankis aiming at modify the loan agreement entered into in 2010, with particular reference to the increase in the thresholds of the *financial covenants* contractually defined.

In order to reach the above mentioned agreement, in 2014, Termica Colleferro requested and obtained from SECI and Avio an engagement letter by which the Shareholders have pledged to grant a shareholder loan for a maximum amount of Euro 18.2 million and Euro 12.1 million in proportion to the share capital held and cumulatively corresponding to the residual portion of the outstanding debt at that date. According to the agreement it is expected that such Shareholder loan will be provided in several solutions based on Termica Colleferro’s requests and subject to its operating requirements, and that it is subordinated and postponed to the above-mentioned loan from the banks.

At the closing date of this financial statement, Avio has a financial receivable related to a loan granted to Termica Colleferro for Euro 7,440 thousand. As a result, Avio's remaining committment to grant additional shareholder loans to the associated company is equal to Euro 4,7 million (with a total committment of Euro 12,1 million). Avio, on the other hand, did not undertake to increase the share capital of the associated company.

The loan granted to Termica Colleferro by the banks requires for the company the compliance with certain financial covenants and more precisely:

1) Net Financial Position / Equity (NFP / Equity); and
2) Net Financial Position / EBITDA (NFP / EBITDA).

Each of these *covenants* is verified by reference to the calculation date (December 31 of each year) by submitting a compliance declaration signed by the legal representative of Termica Colleferro within the contractual deadline fixed for the financial statement presentation (30 days after its approval and, in any case, 210 days from the end of the year). In the event of non-compliance with these covenants, banks may resolve the financing granted to Termica Colleferro pursuant to Article 1456 of the Italian Civil Code.

In order to comply with the mentioned covenants, Termica Colleferro, Avio, SECI and the lending banks signed on July 22, 2014 an amendment agreement of the loan agreement. According to this amendment, Termica Colleferro has the right to remedy the breaches to the financial parameters ("*Equity cure*") through the payment made by the Shareholders SECI and Avio in favor of Termica Colleferro (pro-quota within the limits of their shareholding in the share capital of the company) of an amount in title of capital increase and/or shareholder loan sufficient to cure the breach ("*Cure amount*").

The amount made available by Termica Colleferro Shareholders (in the period from May 1 of the year ending on the relevant calculation date and April 30 of the following year) to "cure" the breached covenants is added to (I) the fair value of the Interim Financial Statements (in order to adjust the IFN / MP ratio on a pro forma basis) and (ii) the EBITDA resulting from the financial statements (in order to adjust the IFN / EBITDA pro forma basis).

On December 30, 2016, Termica Colleferro, SECI and Avio signed a financing agreement with the financing banks in order to change the above mentione financial loan. This amendment agreement includes, among the main changes:

a) a sixty months extension of the amortization period, with the consequent postponement of the final maturity date of the loan from February 24, 2022 to February 24, 2027;
b) the 6-month Euribor interest rate change (with zero floor) plus a 2,3% margin;
c) the loan amortization plan reschedulement and the increase in favor of Termica Colleferro of the maximum reference value of the most critical financial parameter constituted by the "Net Financial Position/EBITDA" (as indicated below).

	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**From 2023 to Expiry Date**
NFP/Equity ≤	2,00x	2,00x	2,00x	2,00x	1,50x	1,50x	1,50x	1,00x
NFP/EBITDA ≤	6,00x	5,50x	5,00x	4,00x	4,00x	3,50x	3,50x	3,00x

It should be noted that, even with the amending agreement of December 30, 2016 which provides also the increase in favor of Termica Colleferro of the maximum reference value of the most critical financial parameter constituted by the "Net Financial Position/EBITDA" at this financial statement closing date the financial covenants provided by the aforementioned loan agreement are respected.
The modification of the financing contract in question did not change the guarantees granted by SECI and Avio to the lending banks, except for the extension of the initial guarantees to the new loan lenght.
The *business plan* approved by Termica Colleferro on March 15, 2016 takes into account the forecasts for improved electricity market conditions and the *spread* between the cost of gas and engery trend and prices, as well as the forecasts of the above conditions for restructuring the loan.

Therefore, this business plan was not approved as a result of the subscription of the modification agreements with the lending banks on December 30, 2016.
If Termica Colleferro fails in order to comply with the financial covenants provided by the financial loan, Termica Colleferro, Avio and SECI may be required to subscribe an additional increase of share capital or to grant additional shareholder loan (post-paid) to be carried out proportionally to the share capital respectively held.

Legal proceedings and contingent liabilities

The Group is exposed to certain legal risks arising from the variety and complexity of laws and regulations to which the industrial and commercial operations of the Group are subject, especially in relation to the environment, health & safety in the workplace, product liability, taxes and antitrust commercial competition. Therefore, in the ordinary course of business, the Group is a party in certain civil, administrative and criminal judicial proceedings, as either a plaintiff or defendant.

The company Avio S.p.A. and its subsidiaries have established in their financial statements and in the consolidated financial statement provisions for risks and charges to cover foreseeable liabilities, relating to disputes of various kinds with suppliers and third parties, judicial and extrajudicial, legal expenses, and Administrative sanctions, penalties and indemnities against customers. In the establishment of funds, account was taken of: (i) the risks associated with the single dispute; and (ii) the reference accounting principles, which prescribe the provision of contingent liabilities for probable and quantifiable risks.

The Group records, however, specific provisions when it is probable that an outflow of Group resources will be required to satisfy the obligation, and when the amount can be reliably estimated.

It should be noted that, in accordance with the relevant accounting standards, there was no found for the provision for risks in relation to litigation considered as potentially remote or remote risk, or of indefinite value.

It should also be considered that the Group bases its estimates of the potential risk on assessments/expectations regarding the presumed definition of the dispute, which is still bound to the intrinsic laa to each judgment, so it is not possible to exclude different outcomes, both in Favorable and unfavorable to the Group, compared to ex ante estimates.

A short description of the most significant proceedings is reported below, active and passive, with a short description of the most significant contingent liabilities.

The Municipality of Colleferro / Se.Co.Sv.Im (ARPA 1 and ARPA 2)
In March 2004, the Commissario Straordinario (Extraordinary Commissioner) of the Municipality of Colleferro issued to the Group orders for emergency safety, characterization and reclamation of the area surrounding the Group plant located in Colleferro, for the contamination of esaclochlorocyclohexane detected in the soil, in the subsoil and in the groundwater of these areas, in particular the Sacco River valley, in relation to which the socioeconomic-environmental emergency status was declared by Ministerial Decree (Decreto Ministeriale) of May 19, 2005, several times extended and ceased only in October 2012. In particular, Arpa1, Arpa2 and Cava di Pozzolana sites have been identified, all the old industrial dumps used up to the 70s of the last century, home to various pollutants, finding the exaclorocyclohexane only in Arpa1.

Recognizing, that the pollution of the Sacco River originates not from the sites mentioned above but from the service areas of Caffaro (chemical industry operating in the area until the end of last century) for the discharge of the residues of this substance accumulated there during the relevant production processes, the Group has challenged these orders before the administrative courts and, on the Prospectus Date, these actions are pertinent in that they are overcome by the factual situation and the actions taken in that regard, since the Group has provided the mass In emergency safety of polluted areas.

The Group and, in particular, Secosvim as a mere landowner, although it has always stated of not to be responsible for the above-mentioned pollution and only to avoid to be sued by the competent authorities, subsequent to the arrangement with the so called Ufficio Commissariale per l'Emergenza nella Valle del Sacco, completed the characterization of the sole and site's groundwater, and provided, where soil and subsoil conditions were found to be inadequate to the requirements of the applicable legislation, to carry out the remediation operations of its own competence. Specifically, on the Prspectus Date, the activities related to Arpa1 sites, Cava di Pozzolana and Benzoino and derivatives have been completed, while the Arpa2 land remediation, for which Regione Lazio is the responsible authority, has started.

Criminal proceedings against Consorzio Servizi Colleferro on Sacco river contamination

As a result of the discovery of toxic substances in milk in June 2005 and concluded preliminary investigations in February 2009, in March 2010, the Procura della Repubblica di Velletri (Procuratorate of the Republic of Velletri) requested the referral to some people of Caffaro S.r.l., Centrale del Latte di Roma S.p.A. and Consorzio Servizi Colleferro (the legal representant and the presumed technical manager), assuming their negligent cooperation in causing the environmental disaster as a result of the poisoning of the Sacco River waters and the substances intended for human consumption (milk) happened in Colleferro, Segni and Gavignano until December 2008, and, only referring to the consortium, for having carried out industrial wastewater without the prescribed authorizations in the same areas until November 2006.

In particular, despite the fact that the Consortium was solely the owner of the final discharge of the industrial wastewater treatment plant of the area, its apical subjects are rebutted by the failure to provide adequate safety measures, control systems and/or purifying treatments to prevent white water and first polluted rain from the drainage of some areas in the area, collected through a ditch site facing the consortium wastewater treatment plant, flowed into the Sacco River, resulting in contamination of feed for animal feed milk raised near the river.

The Consortium operates with the exclusion of any gainful purpose and has as its main object the collection and treatment of waste water from the settlements belonging to the consortium and sites in the industrial district of Colleferro.

In July 2010, the civil parties constituted in the proceedings (including the City of Colleferro, the City of Gavignano, the City of Segni and the Province of Rome) requested and obtained the subpoena of the Consorzio Servizi Colleferro, the Centrale del Latte SpA di Roma and Caffaro s.r.l., as civil responsables of the facts challenged by the defendants. Upon the request of the Procura (Public Prosecutor), on July 8, 2011, the Giudice dell'Udienza Preliminare (Preliminary Judge of the Court) ordered the referral of the aforementioned subjects, fixing the first judicial hearing in November 2011, several times postponed until the October 2012 judicial hearing. In addition, on November 22, 2011, the Ministero dell'Ambiente e della Tutela del Territorio e del Mare (Ministry of the Environment and the Protection of the Territory and the Sea), as the holder of the right to compensation for environmental damage pursuant to art. 18 of Law 349/1986 and Part VI of Legislative Decree no. 152, has forwarded to Consorzio Servizi Colleferro and the aforementioned defendants, also in the sense and for the effects of art. 2943 of the Civil Code, a claim for compensation for environmental damage in relation to the facts described above, quantified by the Ministry for approximately Euro 660 million, plus legal interest and monetary revaluation from the offense day to the actual statement. Consorzio Servizi Colleferro and the defendants rejected the request advanced by the Ministry by denying any liability for compensation for the facts contested in the criminal proceedings. At the hearing of November 2012, the court upheld the nullity of notification of the 415-bis c.p.p. For erroneous sending to the domicile of an accused, resulting in regression of the proceedings (for all defendants) to the state in which he was at the time of the execution of the null and then restitution of the acts to the Public Ministry for renewal of the notification of the 415- BIS. The Pubblico Ministero (Public Prosecutor) then renewed the notification of the notice referred to in art. 415-bis c.p.p. To the defendant in question and, after August 2013, to file a request for referral to all defendants. The Preliminary Hearing Judge then set a preliminary judge hearing for February 2014. On that occasion, the Ministero dell'Ambiente (Ministry of the Environment) filed a new civil lawsuit against defendants and civilian prosecutors by filing their claims for environmental damage for a Amounting to Euro 10,000,000.00 plus as many as Euro 10,000,000.00 for moral damages, as a result of a new estimation limited to the pollutant emission in the Sacco River connected to the facts contested in the reference period (2001-2005). In addition, other parties (private and public bodies) have renewed or filed a civil action suit against defendants and civil servants. At the next hearing of May 2014, the Judge for Preliminary Hearing stated that there was no point in proceeding with regard to the crimes of poisoning (Article 452 (1) (3)) and unloading without prior authorization; Then sent back all defendants to the hearing at the July 2014 hearing before the Velletri Tribunal in *monocratic composition* for the offense of environmental disaster as per art. 449 comma 1 c.p. (In relation to Article 434 of the Italian Civil Code). At the hearing of July 2014 before the Tribunal of Velletri, the judge, having noted the failure to notify some defendants, ordered the renewal by postponing the trial in October 2014. In the subsequent hearings of 2014 and 2015, the debate continued with the examination of the texts of the Pubblico Ministero (Public Prosecutor's Office) until the hearing of early October 2015 where the question of the alleged contravention of the disputes was raised. The Court therefore reserved the decision at the next hearing, giving the civil parties time to draw up any written memo. At the hearing at the end of October 2015, the Court of First Instance dismissed - in the state of the proceedings - the questions raised at the prescriptive stage and, on the outcome of the reading of the order, the defense raised a question of unconstitutionality in Art. 157 paragraph 6 as well as novel by law c.d. Cirielli, in so far as, by imposing a doubling of the limitation period for the offense in question, it makes them of a similar duration to the corresponding alleged hypothesis, thus violating (in defense of the case) art. 3 of the Constitution. At the hearing of November 2015, the Court considered the issue relevant and not manifestly ill-founded and suspended the proceedings and forwarded the documents to the Corte Costituzionale (Constitutional Court), whose decision was set at the public hearing of July 5, 2016 , which has been postponed to a new role and is not yet fixed on the Date of the Statement. The trial will resume only after that decision of the Court.

In December 2015, the Consortium was directly involved in the Incorporated Company at 18% and indirectly through Secosvim S.r.l. at 9%, and from other consortia: Caffaro S.r.l. (32%), Alstom Ferroviaria S.p.A. (8%), EP Sistemi S.p.A. (3%), Key Safety Systems S.r.l. (8%), Mobilservice S.r.l. (3%), Simmel Difesa S.p.A. (About 11%) and ARC Automotive Italia S.p.A. (8%). At the financial statement closing date, the Società Consortile per Azioni Servizi Colleferro is owned by the following shareholders: Avio (32%), Secosvim (20%), Termica Colleferro S.p.A. (6%), Caffaro s.r.l. in liquidation at (5%), Alstom Ferroviaria S.p.A. (5%), Municipality of Colleferro (5%), EP Sistemi S.p.A. (6%), Lazio Ambiente S.p.A. (6%), Key Safety Sistemi S.r.l. (5%) and Simmel Difesa S.p.A. (10%).
Based on the advice of its legal advisers on the expected outcome of the proceedings and in accordance with the IFRS accounting principles, Avio has never made any provision, considering the possibility of a criminal conviction of the Consortium members and, consequently, any condemnation of the Consortium itself, as civilian, to the compensation of the damage resulting from the offense. In addition, quantification of the claim for damages is considered to be abnormal and arbitrary Avio, and in any case formulated in apparent non-compliance with the special environmental damage law which provides for partial and non-solid liability of the perpetrators of environmental damage.

However, if criminal charges against the defendants are proved, and if the Consortium (at the Prospectus Date called Società Consortile per Azioni Servizi Colleferro) was convicted, definitively or as a provisional proceeding, to indemnify the damages resulting from the offenses established at Penalties, or if the Consortium was otherwise responsible for the environmental damage resulting from the pollution of the Sacco Valley, today's Colleferro Services will be liable to compensate for the damages thereof within the limits of its liability. In that context, Avio could be called, as a consortium at the material time, to provide the Consortium for Collective Services Shares for the assets required to cover the costs of damages or to be called upon to respond to such damage In solidarity with the consortium's assets.

Secosvim/Caffaro
Within the Colleferro industrial district, there is an industrial area named "*benzoino and derivatives*" that, until December 31, 2007, was leased to Caffaro S.p.A. and since September 2009, it was put into extraordinary administration proceeding. In order to collect debts owed by Caffaro, Se.Co.Sv.Im. submitted a request for the admission of its liabilities at the Udine Court and was admitted.

At the same time, the emergency commissary office of Sacco Valley issued an injunction against Caffaro for an estimated cost of about Euro 7 million, which corresponded to the expected cost for the clean-up of this area.

From 2008 to 2012 Caffaro has contested a series of administrative acts in front of the TAR of Lazio, Regional Administrative Court, ("Verbali di Conferenze di servizio", notes with which Caffaro was asked to submit contaminated waste disposal plans, approval acts of characterization activities), requesting the annulment, with which the Commission Office, sue Caffaro.
These appeals were also notified to Secosvim as owner of Benzoino area (leased from Caffaro until 2007), which is therefore brought to trial under the terms of the law.

Since the possibility that Caffaro claims those costs to Secosvim as the owner of the property, Secosvim has requested, since October 2009, from the Tribunale di Velletri (Velletri Court) a preliminary technical assessment (Accertamento Tecnico Preventivo "ATP") to determine any responsibility of Caffaro in the contamination of the "Benzoino e derivati" area, which ended with the filing of an expertise confirming Caffaro's direct responsibility in the contamination.

It should be noted that in the course of the proceedings the Avvocatura dello Stato (State Attorney's Office) requested the TAR to assess the pre-litigation of the criminal proceedings against the decision of the appeals. At the hearing dated December 6 2016, the TAR of Lazio consequently adopted separate orders (all of them identical), which (for each appeal) requested the Presidenza del Consiglio to deposit within 90 days any documented clarification relating to the Criminal proceedings pending at the Council of Velletri no. 1831/2014 (as mentioned in the previous paragraph, on " Criminal proceedings against Consorzio Servizi Colleferro on Sacco river contamination"). The hearing of these appeals is scheduled for November 8, 2017, and therefore only on the outcome of that hearing will be possible to assess the relevance of that ATP in the pending administrative judgments.

Tax Audits for the group
On the date of this financial statement, Avio S.p.A. and some of its subsidiaries have received objections from the relevant Tax Authorities. The following paragraphs indicate the amount of disputes by providing summary information on the most significant situations.

a) *Tax dispute relating to Avio S.p.A.*

a.1) *Ongoing tax dispute*
On December 18, 2015, the Tax Police Department of the Guardia di Finanza of Rome initiated a general audit of income tax, IRAP and other taxes, excluding VAT, for the years 2011, 2012 and 2013. The audit has also recently related to the subsidiary Regulus (see the Report on operations, paragraph "Significant events after the end of the financial year". At the balance sheet date, this general check is still ongoing and, limited to the subsidiary Regulus, relates to the 2010 and 2016 tax periods.

Trial Record of Verification notified on 23rd September 2016
Avio S.p.A., within the aforementioned verification, received on 23 September 2016 a Trial Record of Verification in which - following the analysis of purchases made by suppliers located in countries or territories with a privileged tax regime ex D.M. 23 January 2002, carried out by Avio in the year 2011, for which the legal presumption of non-deductibility of the costs incurred under Article 110, paragraphs 10 and 11 of the TUIR Act, has been proposed for the IRES tax recovery of the total amount of Euro 2,570 thousand, since the Guardia di Finanza considered the documentation produced by the Incorporated Company not sufficient to overcome the presumption of indefinition as per art. 110, para. 11 of T. U.I.R.
The Guardia di Finanza in its tax assessment (PVC), on the other hand, decided to conclude with results favorable to Avio the audits of other suppliers for a total taxable amount of 2,541 thousand Euro. Following the aforementioned Trial Record Verification of the Guardia di Finanza, on September 30, 2016 a questionnaire was sent to the Company by the tax Authorities ("Agenzia delle Entrate"), with which, with reference to both types of suppliers, the tax authorities requested to provide useful data and information to overcome the presumption of non-deductibility as per art. 110, paragraph 11 of the TUIR.

On January 4, 2017, the Piedmont Tax Authorities (Agenzia delle Entrate, Direzione Regionale del Piemonte – Ufficio Grandi Contribuenti) informed Avio of its notice of assessment, proposing the tax recovery for IRES purposes for a total amount of Euro 1,352 thousand. Contacts with Tax Authorities are in progress in order to reach an agreed definition of the dispute.
With reference to these notes, it should be noted that, in accordance with the Share Purchase Agreement signed on December 21, 2012 between, among others, Avio (as a vendor) and Nuovo Pignone Holding S.p.A. (as a buyer), the General Electric Group is required to keep Avio indemnified for any tax liabilities that may arise.
The largest IRES amounts to Euro 372 thousand in addition to interest and penalties.
With respect to the tax periods 2012 and 2013, on the Prospectus Date, the Incorporated Company received no disputes regarding this kind of cost.
Avio S.p.A., in conjunction with General Electric, submitted a tax settlement proposal. Based on the information available at the date of this financial statements, in the light of the General Electric's indemnity letter, the potential liabilities inherent in such litigation are considered unlikely.

Liquidation Notification on July 28, 2016
On March 8, 2016, in the context of a general review still in progress at the date of this financial statement, the Guardia di Finanza notified to Avio S.p.A., as a co-obligatory, a tax audit report (PVC), with particular regard to the fiscal treatment of operations that in 2013 led to the transfer of the AeroEngine branch to the General Electric Group. In particular, the Guardia di Finanza has re-qualified the transfer of AeroEngine from Avio to GE Avio S.r.l. and the subsequent sale of the shares held in the holding company to Nuovo Pignone Holding SpA as a direct business transfer and, consequently, raised the issue of non-payment of the indirect taxes applicable to the divestment of a branch Also requiring payment of penalties and interests.
On July 28, 2016, following the PVC of March 8, 2016, the Tax Authorities, notified to Avio, as a co-obligatory, its liquidation notification. The Tax Authorities confirmed the claim challenged by Guardia di Finanzia, requesting the proportional payment of a higher registration tax, of a supplementary nature, in addition to the cadastral and mortgage taxes, instead of the fixed tax paid for the transfer of the participation, but recognizing, as claimed and amply argued by Avio in its defensive statements, the non-applicability of sanctions and interests in addition to the determination of the higher taxes due to a significantly lower tax base than the one disputed in the PVC.

The potential liability arising from the notice of liquidation totals Euro 58,2 million and consists of:

- Register tax equal to Euro 55,6 million;
- Mortgage tax of Euro 1,7 million;
- Cadastral tax of Euro 0,86 million.

With reference to this liquidation notification, it should be noted that, subject to specific contractual provisions, General Electric Group is required to keep Avio indemnity in respect of any liabilities that arise from indirect taxes relating to the sale of GE Avio S.r.l. (containing the AeroEngine business of Avio Group) and to make available to Avio the sums that may be required by the Financial Administration within the due deadlines for the payments.
Consequently to this contractual agreement, Avio has included between non-current liabilities in the financial statements the payable relating to the higher tax, mortgage and cadastral taxes arising from the notice of liquidation, for a total amount of Euro 58,2 million and at the same time recorded in the non-current assets a receivable of the same amount from the buyer Nuova Pignone Holding SpA, part of the General Electric Group.
On September 26, 2016, the Company presented - in agreement with General Electric Group - a special appeal, challenging the liquidation notification in question within the time limits set by the relevant legislation.

Tax Authorities Invitation regarding VAT transactions for the year 2011
In October and November 2016, following a specific request from the Turin Tax Authority, presented the documentation and explanatory memoranda to support the non-taxable VAT title attributed to the invoices issued to its own customer for performance of engine

revision and maintenance services. On 29 December 2016, the Revenue Agency notified Avio of its notice of assessment, challenging VAT tax liability in relation to certain invoices relating to the aforementioned maintenance and repair services performed on engines issued against their own client for lack of subjective requirement. Contacts with the Financial Administration are in progress in order to reach an agreed definition of the dispute.
With reference to these notes, it should be noted that, in accordance with the Share Purchase Agreement signed on December 21, 2012 between, among others, Avio (as a vendor) and Nuovo Pignone Holding S.p.A. (as a purchaser), the General Electric Group is required to maintain Avio S.p.A. free of any tax liabilities that may arise.
The highest VAT amounted to Euro 453 thousand in addition to interest and penalties.The Company, in conjunction with General Electric, filed an application for accountability by adherence. Based on the information available at the date of the prospectus, in the light of the General Electric's failure to do so, the potential liabilities inherent in such dispute are unlikely.

Verification notice no. TSB060200344 / 2014 relating to VAT for the 2007 tax period
In December 2014, this notice of non-deductibility of VAT on qualified invoices was deemed not inherent to the same leveraged buy-out transaction, for a total of VAT of Euro 4,377,000, to be added related penalties (Euro 5,471,250) and interests; contacts are being made with regard to this issue for possible definition with the Tax Authorities. In view of the ongoing conciliation, the next hearing, originally scheduled for December 13, 2016, was postponed.

With reference to the tax disputes mentioned above, Avio S.p.A., despite the fact that it is unlikely that the disputes above are adversely affected, shows in the financial statements for the year ended December 31, 2016 a tax provision totaling approximately Euro 1,5 million, in addition to debts to the Tax Authorities relating to the aforementioned tax, mortgage and cadastrial tax assessed in the context of the audits relating to these Aeroengine transactions of Euro 58,2 million (the amount totally covered by the General Electric Group's indemnity towards which the Company has a credit of equal value).

a.2) *Tax litigation concluded, with financial effects over the first nine months of 2016 and the 2015 fiscal year*

Following the audit carried out in the years 2009-2010 by the P.T. Core of Guardia di Finanza in respect of 2007, culminating in (i) the contravention of the incorrect application of the rules on transfer prices in financial transactions with the Luxembourg parent company in respect of the portion of the loan contracted for the acquisition of the Avio Group through a 'Leverage buy-out operation VIO and, more generally, the failure to recognize some of the tax effects of the acquisition itself, completed by the merger by incorporation of some companies into the Parent Company AVIO SpA (Leveraged buy-out), the Revenue Agency had notified the latter:

- in December 2012, the notice of assessment relating to the 2007 tax period, which confirmed the disputes raised by quantifying the claims, including interest and penalties, in the amount of Euro 4,779 thousand. Following the appeal lodged by AVIO on provisional payment of one-third of the taxes claimed in excess of interest, in January 2014, the Turin Provincial Tax Commission ("CTP") had fully dismissed the appeal without, however, on the basis of the Parent Company's interpretations and of its advisers, to refute the validity of the arguments of illegality of the debates in question proposed by the Parent Company itself, which had therefore appealed to the Regional Tax Commission of Piedmont in December 2014;
- in December 2013, the tax assessment notice relating to the 2008 tax year relating to the same leveraged buy-out transaction, quantifying the claims, including interests and penalties, amounting to Euro 32,905 thousand, against which he relied on the CTP of Turin presented in June 2014;
- in December 2013, the notice of assessment for the use in 2008 of unrecognized redeemable losses as a result of the controversy contained in the aforementioned notice of assessment of December 2012 regarding the reinvestment of IRES losses of

the incorporated Avio Holding S.p.A. following the merger in 2007 with the Parent Company (failure to exceed the life expectancy test), quantifying the claims, including interest and penalties, amounting to Euro 3,485 thousand, against which it applied to the CTP Torino published in March 2014;

- in December 2014, the notice of assessment regarding the non-recognition of additional repayable losses of Avio Holding S.p.A. (deriving from the IRAP redemption request from IRAP, amounting to 105 thousand of Euro) as a result of the dispute contained in the December 2012 assessment notice.

As regards to the notes on the leveraged buy-out transaction in question, even considering the first-degree adverse decision for the year 2007, the Parent Company had confirmed its assessment of non-existence of liabilities which are likely to generate costs to its charge on the grounds of defensive statements and appeals. This approach was supported by a specific opinion requested by an authoritative Italian tax expert (updating and integrating previous opinions in the light of the most recent events described herein), as well as by some lawsuits cases favorable to taxpayers on similar cases.
The amounts paid as provisional recovery amounted to 6,888 thousand of Euro, allocated to the balance sheet receivables and exclusively related to the 2007 and 2008 tax periods.

As a result of the contacts with the Tax Authorities, Avio S.p.A., despite the belief of the regularity of its operations, it considered appropriate to enter into a settlement agreement, explained in the financial statements for the previous financial years 2015 and 2014, formalized on April 22, 2015; Pursuant to the terms of that agreement, the parties waived the aforementioned disputes, defining Avio's liabilities for a total of Euro 8,153 thousand, paid in 2015 and January 2016 in accordance with the acts consequently emanated; On the other hand, the amounts paid as provisional recovery (as specified, Euro 6,888 thousand) have been repaid by the end of 2015.

b) *Tax dispute concerning Secosvim S.r.l.*
Below there is a brief description of Secosvim's fiscal dispute as well as a brief description of the principal related potential liabilities.

Remarks formulated by the Finance Technical Department of Rome on excise and provincial / municipal additions in the electricity sector
Period 2001 – 2005: Concerning the verification carried out by the Finance Technical Department of Rome for the purposes of the consumption tax and related additional charges due to electricity consumption in the period from January 2001 to August 2005, the appeal against the second-instance ruling, favoring Secosvim, by the Customs Agency and its defense of Secosvim, are still pending in the Cassation Court (Corte di Cassazione).
Period 2006 – 2010: about the statements made by the Technical Department of Finance in Rome, always on excise and provincial / municipal additions in the electricity sector, for the years 2006-2010 and against which Secosvim had resorted to, and considered them unfounded, it is emphasized that Lazio's CTR has rejected the appeal of Secosvim (May 20, 2015), despite the obvious error of the first-instance judge on the penalty of sanctions (Euro 280,000). Secosvim therefore decided to appeal to the Cassation Court (appeal lodged on December 23, 2015).

ICI tax dispute
ICI 2009 and 2010 Municipality of Segni: regarding the liquidation procedure of the amounts owed in connection with the Municipal Property Tax Statements (ICI) issued by the Municipality of Segni for the years 2009 and 2010, whose dispute was pending in the Provincial Tax Commission of Rome (RGR 11761/2013), on May 13, 2016, Secosvim proceeded to conciliation pursuant to art. 48 of Legislative Decree 546/92 with the aforementioned commune, paying on May 24, 2016 Euro 84,904; This dispute is therefore definitively concluded;
ICI 2011 Municipality of Segni: with tax assessment notified to Secosvim on December 15, 2016, the Municipality of Segni initiated the recovery of this higher tax for Euro 36,358, in addition to sanctions and interest, for a total of Euro 56,775. Secosvim, following the submission of an application for accreditation with membership on 10 February 2017,

initiated the contradictory ex art. 6, paragraph 4, Legislative Decree no. 218 since mid-March.

Withdrawal of the fiscal consolidation agreement for tax periods 2009 and 2010
Following the tax audit concluded on March 19, 2013, Secosvim received two IRES purposes tax settlement for 2009 and 2010 tax periods by Tax Authorities, relating to the tax consolidation withdrawal agreement with the recovery of the relative tax (amounting, including penalties and interest, to Euro 3,265 and 1,764 thousand). As a result of the aforementioned unsupported reliefs, Secosvim and Avio have proposed joint remedies to the CTP of Rome; These appeals were received on October 27, 2015.
In May 2016, the Revenue Agency appealed. Secosvim and Avio were therefore sued by counter-submissions filed on 21 July 2016. The hearing has not yet been set. Following the issuance of Circular No. 40/2016 (September 2016) Secosvim and Avio will proceed to request as a counterpart an act of waiver of litigation.

Omitted VAT invoicing on the remediation costs charged to Avio in 2010 and 2011
During 2013, Secosvim received two VAT assessment notices for the years 2010 and 2011, regarding the alleged non-application of the tax on remediation costs subject to reimbursement to the Avio consolidator (total sums including penalties and interest amounting Euro 2,5 million).
With reference to those tax assessments, which were considered unfounded, Secosvim filed appeals and complaints with CTP in Rome, which upheld (in a judgment dated September 7) the appeal against the VAT questionnaire for both years 2010-2011, allowing the total remission and redemption from Equitalia of the amount originally paid for provisional collection (Euro 0,5 million). In March 2016, the Tax Authorities appealed. This appeal was accepted by the CTR of Rome on December 12, 2016.
The second-instance judges argued that the Office's appeal was based on the fact that the services purchased by Secosvim to remedy the environmental damage were subject to VAT, and therefore the compensation paid by Fiat Group to Avio and from the latter then transferred to Secosvim, should have been subjected to the same VAT regime.
Secosvim is currently evaluating the proposition of the cassation appeal, holding that, in agreement with its tax advisers, the objective assumption of VAT is not configurable, since Secosvim did not provide any service in favor of Avio (and not in favor of Fiat Group).

Remarks referring to revenues in 2011 and 2012

i) *Remarks referring to the 2011 and 2012 financial years for IRAP purposes*
With a verbal finding of March 19, 2013 of the Tax Authorities (Ufficio Controlli della Direzione Provinciale III dell'Agenzia delle Entrate) in Secosvim, it was objected to the omission of revenue recognition for IRAP purposes related to criminal offenses against a contracted third party company and subject, after renegotiation, to reduction in the amount:
   - for the 2011 tax period for Euro 777,358;
   - for the 2012 tax period for Euro 850.299.

At the end of 2013, Secosvim received a notice of assessment for the 2011 tax period only.
Secosvim won first-instance appeal at CTP Rome on June 23, 2016.
On February 3, 2017, the Office informed the CTP of its intention to appeal the Secosvim Judgment of First Instance.

ii) *Remarks referring to the 2011 financial year for IRES purposes*
On December 22, 2016, the Office filed the same objection also with reference to the IRES for the 2011 tax period, requiring a higher tax of 213,773 Euro (plus interests and penalties). The notice was also notified to Avio as consolidating company.

Correction and liquidation of the main tax, mortgage and cadastral taxes arising from the re-classification as a sale of a business, with related restatement of the value of goodwill related to the same branch, of the transfer of the business branch called "Energia Colleferro" in Termica Colleferro SpA And subsequent transfer of the investment in the latter to the indirect parent Avio S.p.A.

Judgment no. 95/10/14 of the CTP of Bologna of December 9, 2013, which had accepted the appeal of Secosvim concerning the notice of correction and liquidation of the major tax registers, mortgages and cadastral fees arising from the reclassification as transfer of the holding of the transfer operation of the branch of the company called "Energia Colleferro" in Termica Colleferro SpA and subsequent transfer of the stake in the latter to the indirect Avio parent, was appealed by the office at the CTR of Emilia Romagna. The amount of the dispute is Euro 129,817 on the basis of the judgment of the CTP of Bologna of December 9, 2013 and, moreover, of the Certificate of Pending Accidents of Avio Prot. 62533 of August 5, 2016. The Emilia Romagna CTR hearing on it is being expected.
Likewise, judgment no. 94/02/16 of the CTP of Bologna of January 15, 2016 which accepted the related appeal of Secosvim concerning the notice of rectification and liquidation of the major tax registers, mortgages and cadastral records resulting from the restatement of the value of the goodwill referring to the aforementioned branch Company, was appealed by the office at the CTR of Emilia Romagna. The amount of the dispute is Euro 16,903. Secovim is awaiting the Emilia Romagna CTR hearing on it.
With reference to the tax disputes mentioned above, Secosvim S.r.l., despite the fact that it is unlikely for the disputes above to be adversely affected, shows in the financial statements for the year ended December 31, 2016 a tax fund totaling approximately Euro 2 million.

c) *Tax dispute related to ELV S.p.A.*
This company is not involved in tax disputes.
With reference to the notification act dated May 25, 2016, it is worth to underline what below.
On June 19, 2015, as a result of the audit activity of Tax Authorities on 2013 tax period, ELV received a Minutes of Settlement in which sanctions were requested for 2013 referring to VAT (inter alia in relation to the application of the tax using the reverse charge method).
On May 25, 2016, following the PVC, the Tax Authorities notified ELV of its action to contest sanctions.
ELV defined the dispute on July 22, 2016 by paying an amount of Euro 22 thousand.

d) *Tax dispute relating to Europropulsion S.A.*
Europropulsion has previously been subject to a tax assessment by French Tax Authorities with reference to the application of the so-called "taxe professionnelle" (direct tax adopted in France, similar to IRAP) on ESA's assets in use to the company for the fiscal years 2010 and 2011.
Europropulsion filed a first-instance appeal with the relevant Tax Judge, who issued an unfavorable ruling to the company. The latter then appealed on September 9, 2016.
The total amount of the tax liability associated with this dispute achieves approximately Euro 2,6 million, including sanctions and interest. There has not been any taxation on Europroupulsion's tax liability with respect to the above-mentioned tax risk since its management, having heard its tax consultants, feels that it has valid arguments to defend its position. In particular, they are based on the fact that the above goods are owned by the ESA and not by Europropulsion and ESA enjoys a specific exemption with regard to the application of the "taxe professionnelle".

6. DISCLOSURES ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Categories and fair value of financial assets and liabilities

The following tables show the different valuation methods for each class of financial instruments at December 31, 2016 and 2015 in accordance with IAS 39 and IFRS 7.

Amounts as of December 31, 2016:

Amounts in Euro thuosands	Balance as of December 31, 2016	Class of financial instruments (IAS 39)			*Fair value**
		Loan and Receivables	*Financial liabilities recognized at amortized cost*	*Derivatives financial instruments*	
FINANCIAL ASSETS					
- Non-current financial assets	7.440	7.440			7.440
- Other non-current assets	67.448	67.448			67.448
- Current financial assets	1	1			1
- Trade receivables	10.907	10.907			10.907
- Other current assets	5.320	5.320			5.320
- Cash and cash equivalents	87.175	87.175			87.175
		178.291			
FINANCIAL LIABILITIES					
- Non-current financial liabilities	0		0		0
- Current financial liabilities	14.162		13.850	312	14.162
- Current portion of non-current financial liabilities	91.615		91.615		91.615
- Other non-current liabilities	117.734		117.734		117.734
- Other current liabilities	18.567		18.567		18.567
- Trade payables	56.717		56.717		56.717
			298.482	**312**	

** Where not available the fair value, the data included the table is related to cost.*

Amounts as of December 31, 2015:

Amount in Euro thousand	Balance as of December 31, 2015	Class of financial instruments (IAS 39)			Fair value*
		Loan and Receivables	*Financial liabilities recognized at amortized cost*	*Derivatives financial instruments*	
FINANCIAL ASSETS					
- Non-current financial assets	6.400	6.400			6.400
- Other non-current assets	8.633	8.633			8.633
- Current financial assets	130	130			130
- Trade receivables	8.344	8.344			8.344
- Other current assets	9.697	9.697			9.697
- Cash and cash equivalents	70.378	70.378			70.378
		103.582			
FINANCIAL LIABILITIES					
- Non-current financial liabilities	91.272		91.272		91.272
- Current financial liabilities	8.767		8.399	368	8.767
- Current portion of non-current financial liabilities	4.439		4.439		4.449
- Other non-current liabilities	41.217		41.217		41.217
- Other current liabilities	8.432		8.432		8.432
- Trade payables	46.872		46.872		46.872
			200.631	**368**	

** Where not available the fair value, the data included the table is related to cost.*

For asset and liability captions there are no differences in the carrying amount as it represents a reasonable approximation of the fair value.

Fair value of financial assets and liabilities: calculation methods

In relation to financial instruments recognized at fair value in the statement of financial position, IFRS 7 requires that financial instruments stated at fair value in the financial statements be classified based on a hierarchy with three levels that reflect the level of input used in determining the fair value. The following levels must be shown:

level 1 – quoted prices on an active market for the asset or liability being measured;
level 2 – input other than the quoted prices per level 1 that may be observed directly (prices) or indirectly (derived from prices) on the market;
level 3 – inputs not based on observable market data.

Derivative financial instruments (interest rate swaps) related to "*Senior Term and Revolving Facilities Agreement*" granted by Banca IMI an other leading financial institutions on April 1, 2015, are recognized at fair value and are included in the financial assets and liabilities.

The following table shows assets and liabilities measured at fair value at December 31, 2015 by hierarchical level of fair value measurement.

Amounts in Euro thuosands	Level 1	Level 2	Level 3
Derivative financial instruments	-	312	-

Financial charges and income identified pursuant to IAS 39

The tables reported below show an analysis of the amounts relative to financial charges and income broken down pursuant to the categories set out in IAS 39 for fiscal years 2016 and 2015.

Year 2016

	Financial income/(expenses) recognized to income statement		Financial income/(expenses) recognized to other comprehensive income
Amounts in Euro thuosands	From interest	From changes in fair value	From changes in fair value
Loan and receivables	544	-	-
Financial liabilities recognized at amortized cost	(7.026)	-	-
Derivative financial instruments	(236)	-	56
Total	(6.718)	-	56

Year 2015

	Financial income/(expenses) recognized to income statement		Financial income/(expenses) recognized to other comprehensive income
Amounts in Euro thuosands	From interest	From changes in fair value	From changes in fair value
Loan and receivables	784	-	-
Financial liabilities recognized at amortized cost	(3.912)	-	-
Derivative financial instruments	(103)	-	(368)
Total	(3.231)	-	(368)

Classes of financial risks and relevant hedging activities

The Group is exposed to financial risks deriving from its operating activities, particularly regarding to:

- credit risks, relative to trade receivables and financing activities;
- liquidity risks, relative to the availability of financial resources and access to the credit market.

The Group constantly monitors the above-mentioned financial risks, adopting actions aimed at facing and mitigating the potential negative effects by means of appropriate policies and, if deemed appropriate, through hedging instruments.
In this section, qualitative and quantitative information is supplied relative to the effect that these risks may have upon the Group.
The quantitative data reported in the following, do not have any value of a prospective nature and is unable to reflect completely the complexity of the market and its related reactions, which may result from any change that may occur.

Credit risk

Credit risks represent the Group's exposure to potential losses deriving from the non-fulfilment of the obligations agreed upon by the counterparties.
The exposure to credit risk is essentially represented by the carrying amounts stated for receivables, particularly trade receivables, in the balance sheet, and the guarantees given in favour of third parties.
The maximum credit risk to which the Group was theoretically exposed as at December 31, 2016 was represented by the total carrying amount of trade receivables, 10,9 thousand of Euro.

This amount is the net of:

- Trade receivables, amounting to Euro 62,6 million at December 31, 2016 (this amount also includes receivables relating to invoices for advances still to be received of Euro 51.2 million, of which Euro 21,4 million to the controlling company Joint Europropulsion),
- "advance payments", equal to Euro 51,2 million (including advances to be received from Europropulsion, equal to Euro 21,4 million as mentioned above),
- the impairment allowance fund, which amounts to 500 thousand Euro.

Regarding the reasons for the exposure to credit risk represented by receivables net of "cash advances", it should be noted that, in accounting terms, the issue of invoices includes as counterpart, in relation to the customer's accounting records, Passive accountant represented from advance payments; these posts are both assets. The expiration analysis is therefore carried out net of the above-mentioned advances.

The Group's main customers are represented by government agencies and public authorities, which by their very nature have no significant risk concentrations (European Space Agency, Arianespace, Airbus Safran Launchers).

In addition, by acting on a contractual basis, the Avio Group plans the management of advances and financial advances in order to obtain financial support before and during the execution of contract costs, depending on the various contractual milestones and thereby concretely mitigating the risk of obtaining receivables with production activities already begun.

Based on the analysis of the expired customers as of December 31, 2016, this amounted to approximately 1.5 million of Euro (1 million of Euro, net of the above-mentioned Write-down Fund, equal to 500 thousand of Euro). This is a not significant expiration and is related only to the recessed timings.

Those receivables, in each financial year, is also carried out a careful individual risk assessment and a specific write-down fund is recorded, which takes into account an estimate of the recoverable flows and possible contingent contingencies and possible re-adjustments.

Liquidity risk

The risk of liquidity to which the Group is subject, is identifiable in the possible difficulties in obtaining, under economic conditions, the financial resources to support the operating activities. The two main factors that determine Group liquidity are, on one side, the resources generated or absorbed by the operating and investment activities and, on the other hand, the debt lending period and renewal characteristics or liquidity of the funds employed.

Cash flows, the need for financing, and liquidity, are monitored and managed centrally through the implementation of centralised treasury systems involving the main Italian and foreign companies of the Group, in order to promptly guarantee an effective raising of the financial resources or an adequate employment of the funds available, thus optimising the management of the liquidity and cash flows. The Group verifies the compliance of financial covenants and monitors expected and realised cash flows and updates projected future cash flows in order to optimize liquidity management and to define funds needed, if any.

The funds currently available in addition to those that will be generated by the operating and financing activities are deemed to enable the Group to meet its requirements resulting from its investment activities, working capital needs and reimbursement of debts at maturity.

Specifically, as noted in the Note "3.26. Current portion of non-current financial liabilities", following the effects of the "change of control" arising from the merger and listing operation on April 10, 2017, the Group reclassified short-term debt for the *Senior Term and Revolving Facilities Agreement*, having agreed with the financial institutions the early extinction of this loan in 2017.

With reference to the Group's ability to advance the loan in advance, it should be noted that:

a) The net ficial debt of the Group Avio at December 31, 2016 is equal 18,6 thousand of Euro, made by:

- financial liabilities arising from the above-mentioned financing for 91,6 million of Euro;
- financial liabilities related to derivatives hedging interest rates on the aforementioned loan of Euro 312 thousand;
- financial liabilities arising from current financial payables to the joint-control company Europropulsion for 13,9 million of Euro;
- net of cash and cash equivalents of Euro 87,2 million.

b) To the aforementioned liquid assets, due to the merger, will be added financial resources from Space2.

As a result, Avio Group's initial cash flow, the financial resources resulting from the merger and the cash that is expected to be generated in 2017, are expected to enable the Group to repay the loan in advance in accordance with the terms defined in Of waiver consent.

Liquidity analysis
The following table represents an analysis by maturity of the future contractual flows arising from financial, trade and the principal other liabilities of the Group as at December 31, 2016 (values in Euro thousand).

The analysis reports the cash flows not discounted back, inclusive of the principal amount and interest, calculated at the existing market conditions at the balance sheet date. More precisely, the analysis reflects the assumptions made for the expected cash outflows based on the reimbursement date contractually defined or, in some cases, estimated. In the absence of a predefined reimbursement date, the flows are considered taking into account the first date on which the payment might be requested. For this reason, the treasury accounts are included in the on-demand maturity.

Amounts at December 31, 2016:

	Balance as of December 31, 2016	On-demand	within 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 yearsi	From 4 to 5 years	Over 5 years	Total
Current financial liabilities:									
- *Financial liabilities from joint venture*	13.850	13.850	-	-	-	-	-	-	13.850
- Financial liabilities *Senior Term and Revolving Facilities Agreement*	91.615	-	91.615						91.615
	105.465	13.850	91.615	0	0	0	0	0	105.465
Trade payables	56.717	-	56.717	-	-	-	-	-	56.717
	56.717	-	56.717	-	-	-	-	-	56.717

Other non-current liabilities:									
- Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 - portion due after one year	42.051	-	-	-	-	-	-	42.051	42.051
	42.051	-	-	-	-	-	-	42.051	42.051
Other current liabilities:									
- Social security payables	2.494	-	2.494	-	-	-	-	-	2.494
- Employees payables	5.444	-	5.444	-	-	-	-	-	5.444
- Other payables to third parties	2.690	-	2.690	-	-	-	-	-	2.690
	10.628	0	10.628	0	0	0	0	0	10.628
Total	214.860	13.850	158.959	0	0	0	0	42.051	214.860

Amounts at December 31, 2015:

Amounts in Euro thuosands	Valori di bilancio	Poste a vista	Entro 12 mesi	Tra 1 e 2 anni	Tra 2 e 3 anni	Tra 3 e 4 anni	Tra 4 e 5 anni	Oltre 5 anni	Totale flussi
Financial liabilities recognized at amortized cost:									
Current financial liabilities: - *Financial liabilities from joint venture*	8.399	8.399	-	-	-	-	-	-	8.399
Financial liabilities: - Financial liabilities *Senior Term and Revolving Facilities Agreement*	95.711	-	8.736	9.404	10.923	12.371	12.901	68.998	123.333
	104.110	8.399	8.736	9.404	10.923	12.371	12.901	68.998	131.732
Trade payables	46.872	-	46.872	-	-	-	-	-	46.872
	46.872	-	46.872	-	-	-	-	-	46.872
Other non-current liabilities:									
- Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 - portion due after one year	41.217	-	-	-	-	-	-	41.217	41.217
	41.217	-	-	-	-	-	-	41.217	41.217
Other current liabilities:									
- Social security payables	3.308	-	3.308	-	-	-	-	-	3.308
- Other payables to third parties	5.124	-	5.124	-	-	-	-	-	5.124
	8.432	-	8.432	-	-	-	-	-	8.432
Total	200.631	8.399	64.040	9.404	10.923	12.371	12.901	110.215	228.253

Market risk

With reference to the Group's current financial structure and the fact that the currency with which it operates is almost exclusive to the Euro, it is believed that the Group is not currently subject to significant market risks deriving from fluctuations in currency exchange rates, nor interest rates on financial receivables and payables.

In view of the non-significance of market risks related to the exchange rate and interest rate variables, the Group does not have any transactions specifically designed to hedge exposure fluctuation fluctuations on December 31, 2016 Of cash in relation to the above mentioned types of risks.

Interest rate risk

The Group is exposed to the risk of interest rate essentially with reference to the floating rate financial loan "*Senior Term and Revolving Facilities Agreement*" granted by a pool of reputed international credit institutes on April 1, 2015. Interest rate fluctuations may have a negative or positive impact on the income of the Group and might indirectly affect the costs and performance of borrowing and investment operations.
The Group periodically assesses its exposure to the interest rate risk and manages the risk using financial derivative instruments in accordance with the established risk management policies. Under these policies, financial derivative instruments are solely used to the manage exposure to interest rate fluctuations correlated with future cash flows and balance sheet assets and liabilities; speculative activities are neither envisaged nor allowed.

In these policies, the use of derivative financial instruments is reserved for the management of exposure to interest rate fluctuations associated with cash flows and with assets and liabilities and no speculative activities are permitted.
The Group uses derivative financial instruments designing them to hedge cash flows with the aim of predicting the floating rate interest rate.

The instruments used in pursuing this strategy are essentially *interest rate swaps*. The *risk management* objectives defined for the management of interest rate risk can be summarized as follows:

- the Group's objective is to mitigate the risk of negative outflows of net income and cash flow from the budget and the multiannual plan due to adverse interest rate fluctuations, ensuring a fixed rate on the part of its financial exposure subject to Variable rate;
- the identified positions (loans outstanding) are hedged using the use of interest rate swap derivatives;
- the use of derivative instruments for speculative purposes, ie not intended to pursue this objective, is not permitted.

The only instruments used for this purpose are interest rate swaps (IRS).
The Group uses, to cover part of its financing, derivative financial instruments by designing them to hedge cash flows with the aim of predicting the interest paid on the loans, to achieve an optimal default mix between variable rates and fixed rates in the structure Of funding. Counterparties to these contracts are prime financial institutions.

Derivative instruments are recognized at their *fair value*.

Accounting for hedging transactions

The Group uses derivative contracts to safeguard the loan agreement "*Senior Term and Revolving Facilities Agreement*" against the risk of interest rate fluctuations, on the basis of a cash flow hedge strategy.

Consequently, when reporting on hedging transactions in the financial statements, the Group checks whether or not the requirements of IAS 39 on the application of hedge accounting are met.

Details of the instruments that were effective at 2016 are provided below (amounts in Euro thousands):

Credit institution	Trading date	Final maturity date	Notional amount	Fair Value
Société Générale	30/06/2015	29/06/2018	8.551.829	(42.417)
BPM	30/06/2015	29/06/2018	15.548.781	(73.763)
UniCredit	30/06/2015	30/06/2018	8.551.829	(41.952)
Intesa Sanpaolo	30/06/2015	29/06/2018	31.097.561	(153.447)
			63.750.000	(311.579)

* Instruments used to mitigate the variable interest rate risk of the *Senior Term and Revolving Facilities Agreement* in view of its early repayment, it is reasonably considered that such derivative contracts will also be closed during 2017.

The aim of interest rate hedges is to fix the cost relating to the floating rate long term loan agreements being hedged by entering into a related derivative contract that allows the floating rate interest to be collected in return for payment of interest at a fixed rate.

Derivatives for which the conditions laid down by IAS 39 for application of hedge accounting (formal designation of a hedging relationship; documented, measurable and highly effective hedging relationship) are respected are accounted for on a cash flow hedge basis. This means that, when a hedge agreement is entered into, the related "fair value", regarding the effective portion only, is recorded under an equity reserve. Subsequent changes in "fair value" resulting from movements in the interest rate curve – again only in relation to the effective portion of the hedge – are also recorded under an equity reserve.

During 2016 no events of over-hedging have occurred about future cash outflows being hedged ("*overhedge*").

The table below shows the following information on derivatives:

- the notional amount at December 31, 2016;
- the fair value of the contracts at the reporting date and the changes in fair value recognized to OCI;
- the ineffective portion or the change in time value recorded in the income statement under Financial expenses.

Amounts in Euro thousands	Notional amount	Fair Value	Effect recognized to profit and loss	Effect recognized to OCI
Interest rate swap	66.667	(312)	-	(312)
	66.667	(312)	-	(312)

7. TRANSACTIONS WITH RELATED PARTIES

As at December 31, 2016, the Parent is fully owned by a plurality of investment funds managed by Cinven for 59.78%, institutional investors whose rights to vote are exercised according to instructions given by Cinven, approximately for 21.37% and Finmeccanica S.p.A. for 14.32%, as well as other minor investors for 4.53%.
The Parent carries out, on a regular basis, commercial and financial transactions with subsidiaries and jointly controlled companies, in the ordinary course of operations and arranged on an arms-length basis. In particular, they relate to the sale and purchase of goods and services, which are mainly relative to finance and accounting, tax, IT, personnel management, and assistance and advisory services, and related receivables and payables at year-end and centralised treasury management and related income and expenses. These transactions are eliminated in the consolidation process and, therefore, are not analysed in this section.

Avio Group related parties are identified on the basis of the principles set forth in IAS 24 - *Related Party Disclosures*, applicable from 1 January 2011 and are parent companies, companies that have a relationship with the Group Avio and its subsidiaries as defined by applicable law, companies that are controlled but not consolidated in the Avio Group, associated companies or joint venture of the Avio Group and the other participating companies.

It should be noted that until the date of effectiveness of the acquisition by Space2, Leonardo and In Orbit, Leonardo - in virtue of the rights arising from the Cinven shareholder agreement - boasted with the Avio Group a relationship of affiliation while formally holding a share in the equity of the company Incorporated lower than the threshold laid down in the IAS accounting standards and art. 2359 c.c. last paragraph. downstream of the listing, while the shareholders' agreement with Cinven, Leonardo S.p.A. will maintain this relationship with the Avio Group by virtue of its increase in the equity of the Incorporated company to an extent exceeding the threshold provided for by the abovementioned legislation.

The tables below show the quantified data for transactions with related parties not included in the consolidation of the Avio Group Statement of Financial Position and Income Statement as at December 31, 2016 and as at December 31, 2015 (amounts in thousands of Euro):

	December 31, 2016					
Conunterparty	**Trade receivables**	**Contract work in progress**	**Financial receivables**	**Trade Payables**	**Advanced for contract work in progress**	**Financial payables**
Cinven	-	-	-	258	-	-
Controlling companies	**-**	**-**	**-**	**258**	**-**	**-**
Leonardo S.p.A.	-	-	-	686		-
MBDA Italia S.p.A.	-	-	-	-	2.446	-
MBDA France S.A.		8.892	-	-	3.782	-
Thales Alenia Space Italia S.p.A.	-	-	-	-	12	-
Selex ES S.p.A.	-	-	-	-	-	-
Companies that have significant influence and related investments	**-**	**8.892**	**-**	**686**	**6.240**	**-**
Servizi Colleferro – Società Consortile per Azioni	60	-	-	90	-	-
Not consolidated controlled companies	**60**	**-**	**-**	**90**	**-**	**-**
Consorzio Servizi Acqua Potabile	409	-	-	0	-	-
Termica Colleferro S.p.A.	853	-	7.440	(780)	-	-
Europropulsion S.A.	2.824	6.376	-	3.767	32.230	13.850
Associated and jointly controlled companies	**4.086**	**6.376**	**7.440**	**2.987**	**32.230**	**13.850**
Total related parties	**4.146**	**15.268**	**7.440**	**4.021**	**38.470**	**13.850**
Total	**16.227**	**35.389**	**7.440**	**56.717**	**167.264**	**105.776**
Effect on total	25,6%	43,1%	100,0%	7,0%	23,0%	13,0%

	December 31, 2015					
Conunterparty	**Trade receivables**	**Contract work in progress**	**Financial receivables**	**Trade Payables**	**Advanced for contract work in progress**	**Financial payables**
Cinven	-		-	259		-
Controlling companies	**-**		**-**	**259**		**-**
Leonardo S.p.A.	-		-	342		-
MBDA Italia S.p.A.	-	751	-	-	48	-
MBDA France S.A.		9.774	-	42	5.918	-
Thales Alenia Space Italia S.p.A.	-		-	10		-
Telespazio S.p.A.	-	-	-	-	-	-
Selex ES S.p.A.	-		-	321		-
Companies that have significant influence and related investments	**-**	**10.525**	**-**	**715**	**5.966**	**-**
Servizi Colleferro – Società Consortile per Azioni	194		-	11		-
Not consolidated controlled companies	**194**		**-**	**11**		**-**
Consorzio Servizi Acqua Potabile	338		-	-		-
Termica Colleferro S.p.A.	806		6.530	319		-
Europropulsion S.A.	605	29.025	–	1.097	32.576	8.399
Associated and jointly controlled companies	**1.749**	**29.025**	**6.530**	**1.416**	**32.576**	**8.399**
Total related parties	**1.943**	**39.550**	**6.530**	**2.401**	**38.542**	**8.399**
Total	**8.344**	**64.562**	**6.530**	**46.872**	**86.876**	**104.478**
Effect on total	23,3%	61,3%	100,0%	5,1%	44,4%	8,0%

The main effects on profit and loss of the transactions between the Group and related parties for 2016 and 2015 are as follow (amounts in thousands of Euro):

			December 31, 2016		
Counterparty	Operating revenues [1]	Change in contract workin progress	Operating costs [2]	Financial income	Financial expenses
Cinven	-	-	1.023	-	-
Controlling companies	**-**	**-**	**1.023**	**-**	**-**
Leonardo S.p.A.	-	-	557	-	-
MBDA Italia S.p.A.	1.810	1.073	-	-	-
MBDA France S.A.	388	5.990	-	-	-
Thales Alenia Space Italia S.p.A.	-	-	-	-	-
Companies that have significant influence and related investments	**2.198**	**7.063**	**557**	**-**	**-**
Servizi Colleferro – Società Consortile per Azioni	356	-	982	-	-
Non consolidated controlled companies	**356**	**-**	**982**	**-**	**-**
Consorzio Servizi Acqua Potabile	91	-	255	-	-
Termica Colleferro S.p.A.	145	-	7.457	-	-
Europropulsion S.A. [1]	398.548	(266.679)	75.174	-	-
Associated and jointly controlled companies	**398.784**	**89.795**	**26.853**	**-**	**-**
Total related parties	**401.338**	**96.858**	**29.415**	**-**	**-**
Total	**451.799**	**(112.113)**	**322.744**	**950**	**7.900**
Effect on total	88,8%	-86,4%	9,1%	0,0%	0,0%

[1] The caption includes revenues from sales of goods and from services and does not include the construction in progress (not yet completed).
[2] The caption includes raw materials consumption, cost of services and personnel costs.

Conunterparty	Year 2015 Operating revenues [1]	Change in contract work in progress	Operating costs [2]	Financial income	Financial expenses
Cinven	-		1.054	-	-
Controlling companies	**-**	**-**	**1.054**	**-**	**-**
Leonardo S.p.A.	-		167	-	-
MBDA Italia S.p.A.	3.495	(1.979)	-	-	-
MBDA France S.A.	8.789	408	-	-	-
Thales Alenia Space Italia S.p.A.	1.884		-	-	-
Selex ES S.p.A.	-		487	-	-
Telespazio S.p.A.	-		77	-	-
Companies that have significant influence and related investments	**14.168**	**(1.571)**	**731**	**-**	**-**
Servizi Colleferro – Società Consortile per Azioni	222		918	-	-
Not consolidated controlled companies	**222**		**918**	**-**	**-**
Consorzio Servizi Acqua Potabile	71		276	-	-
Termica Colleferro S.p.A.	88		6.963	258	
Europropulsion S.A.	9.142	98.096	35.039	1	
Associated and jointly controlled companies	**9.301**	**98.096**	**42.278**	**259**	**-**
Total related parties	**23.691**	**96.525**	**44.981**	**259**	**-**
Total	**70.016**	**209.211**	**269.617**	**2.272**	**5.603**
Effect on total	33,8%	46,1%	16,7%	11,4%	0,0%

[1] The item includes revenues from sales of goods and from services and does not include the construction in progress (not yet completed).
[2] The item includes raw materials consumption, cost of services and personnel costs.

In addition, information on guarantees and commitments given or received by the Incorporating Company in relation to their respective related parties is disclosed throughout the period for which the financial information contained in the Prospectus and up to the Prospectus Date is reported

Avio Conunterparty	December 31, 2016 Guarantees and commitments granted by Avio	December 31, 2016 Guarantees and commitments received by Avio	December 31, 2015 Guarantees and commitments granted by Avio	December 31, 2015 Guarantees and commitments received by Avio
MBDA Italia S.p.A. (Gruppo Leonardo)	2.150		1.887	
Companies participating in a partnership that has a link relationship	**2.150**	**-**	**1.887**	**-**
Consorzio Sitab in liquidazione	132		132	
Associated and jointly controlled companies	**132**	**-**	**132**	**-**
C.I.R.A. (Centro Italiano Ricerche Aerospaziali) S.c.p.A.	274	24	274	24
Other Company	**274**	**24**	**274**	**24**
Total	**2.556**	**24**	**2.292**	**24**
Total	**43.747**	**1.364**	**43.017**	**114**

Effect on total	5,8%	1,8%	5,3%	21,1%

Transactions with controlling companies
Transactions between the Group and Cinven Limited are constituted by consultancy and assistance services.

Transactions with companies exercising significant influence

Relations with Leonardo S.p.A., considered as a company with which there is a connection relationship, consist of assistance and advisory services. Relations with Leonardo's companies are commercial.
Referring to the customer MBDA Italia S.p.A. guarantees issued by primary lenders are intended to ensure the timely fulfillment of the contractual obligations assumed by Avio in the Camm-er commissions. Their release is expected to complete specific contractual milestones.

Transactions with non-consolidated controlled companies
Transactions between the Group and non-consolidated controlled companies include operation part of ordinary management activities, which are performed under normal market conditions.

Transactions with associated and jointly controlled companies
Transactions with associated and jointly controlled companies are identifiable in transactions summarized below:

- trade receivables from revenues arising from sales of goods, which are related to the core business of the Group, from the ordinary management activities, concluded under normal market conditions. In particular, with reference to the company Europropulsion S.A., there are included revenues arising from sales of goods related to the core business of the Company, attributable to Continuing operations, from the ordinary management activities and concluded under normal market conditions;
- short and long term financial receivables of Avio S.p.A. towards Termica Colleferro S.p.A.;
- trade payables, related to costs incurred during ordinary management activities and transactions concluded under normal market conditions; moreover, with reference to the company Europropulsion S.A., are included costs related to ordinary management activities and concluded under normal market conditions;
- financial payables, related to intercompany short-term financial payables of Avio S.p.A. towards Europropulsion S.A.
- revenues, related to the transactions described above in the context of trade receivables;
- operating costs, related to the transactions described above in the context of trade payables;

financial income, related to the transactions previously described as financial receivable;

Transactions with other related parties
Transactions with other related parties are identified in the summarized transactions shown below:

- trade receivables related to revenues arising from sales of goods related to the core business of the Company, from the ordinary management activities, concluded under market conditions;
- operating revenues related to the transactions described above in the context of trade receivables;

Salaries paid to top and key management are in-line with the market conditions applied for the remuneration of equally qualified staff. In addition, the Group grants incentive plans to its employees, linked to the achievement of company and personal targets, as well as supplemental payments related to the achievement of certain seniority level.

8. GROUP COMPANIES AS AT DECEMBER 31, 2016

Compnay	Registered office	Currency	Capital stock	% Owned by Group	Participating companies	% Owned
Controlled companies consolidated on a line-by-line basis						
ASPropulsion International B.V.	Amsterdam (Olanda)	Euro	18.000	100%	Avio S.p.A.	100%
SE.CO.SV.IM. S.r.l.	Roma	Euro	53.929.691	100%	ASPropulsion International B.V.	100%
ELV S.p.A.	Roma	Euro	4.680.000	70%	Avio S.p.A.	70%
Regulus S.A.	Kourou (Guyana Francese)	Euro	640.000	60%	Avio S.p.A.	60%
Avio India Aviation Aerospace Private Limited	New Delhi (India)	Rupie Indiane	16.060.000	100%	Avio S.p.A. ASPropulsion International B.V.	95% 5%
Controlled companies not consolidated						
Servizi Colleferro - Società Consortile per Azioni	Colleferro (Rm)	Euro	120.000	52% (*)	Avio S.p.A. SE.CO.SV.IM. S.r.l.	32% 20%
Companies consolidated using equity method						
Europropulsion S.A.	Suresnes (Francia)	Euro	1.200.000	50%	Avio S.p.A.	50%
Termica Colleferro S.p.A.	Bologna	Euro	6.100.000	40%	Avio S.p.A.	40%
Associated and jointly controlled companies (carried at cost)						
Consorzio Servizi Acqua Potabile	Colleferro (Rm)	Euro	-	50%	Avio S.p.A. SE.CO.SV.IM. S.r.l.	25% 25%
Consorzio Sitab in liquidazione	Roma	Euro	25.823	20%	Avio S.p.A.	20%

(*) An additional share at group level of 2% is indirectly owned by Termica Colleferro SpA, a non-consolidated affiliated company.

9. INFORMATION REQUIRED BY ART. No. 2427, PARAGRAPH 16 BIS, OF THE ITALIAN CIVIL CODE

The following table, required by art. No. 2427, paragraph 16 bis, of the Italian Civil Code, reports fees related to 2016 for audit and other services provided by the independent auditors and members of their network (amounts in thousands of Euro):

Kind of services	Service provider	2015 fees
Audit	Deloitte & Touche S.p.A. (1)	190
	Rete Deloitte	-
	Other auditors	38
Attestation	Deloitte & Touche S.p.A. (2)	570
Totale		798

(1) Includes auditing activities of the annual report, half-yearly as at June 30, 2016 and interim, \as at September 30, 2016;
(2) Includes tax declaration attestation services and methodological support activities for the IPO process and its *Comfort letters*.

* * *

April 28, 2017

for the BOARD OF DIRECTORS
Chief Executive Officer and Managing Director
Giulio Ranzo

Deloitte.

Deloitte & Touche S.p.A.
Galleria San Federico, 54
10121 Torino
Italia

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INDEPENDENT AUDITORS' REPORT
PURSUANT TO ART. 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Avio S.p.A. (formerly Space2 S.p.A.)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Avio S.p.A. (the "Company"), now merged by incorporation in Space2 S.p.A., and its subsidiaries (the "Avio Group"), which comprise the statement of financial position as at December 31, 2016, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, a summary of the significant accounting principles and the other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

The Company's Directors are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11, no. 3, of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Avio Group as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis paragraph

We would like to point out the information, as mentioned in the report on operations and the explanatory notes, related to the acquisition by Space2 S.p.A., Leonardo S.p.A. and In Orbit S.p.A. a company owned by some managers of the Company, of the 85,86% of the Company's share capital occurred on March 31, 2017 and its merger by incorporation in Space2 S.p.A. occurred on April 10, 2017, as a result of which it changed its company name in Avio S.p.A. and it finalized the admission of post-merger shares to the Telematic Stock Market (Mercato Telematico Azionario – MTA), STAR Segment, of the Milan Stock Exchange. Our opinion does not include exceptions with reference to these matters.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations with the consolidated financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) no. 720B in order to express, as required by law, an opinion on the consistency of the report on operations, which is the responsibility of the Directors of Avio S.p.A., with the consolidated financial statements of the Avio Group as at December 31, 2016. In our opinion the report on operations is consistent with the consolidated financial statements of the Avio Group as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Franco Chiavazza
Partner

Turin, Italy
April 29th, 2017

This report has been translated into the English language solely for the convenience of international readers.

STATUTORY FINANCIAL STATEMENTS

AVIO S.P.A STATEMENT OF FINANCIAL POSITION	Notes	December 31 2016	December 31 2015
(Amount in Euro)			
ASSETS			
Non current Assests			
Property, plant and equipment	3.1	35.361.847	26.944.634
Goodwill	3.2	219.100.000	219.100.000
Intangible assets with finite useful lives	3.3	90.043.683	87.695.432
Investment	3.4	65.230.664	65.230.664
Non-current financial assets	3.5	7.440.000	6.400.000
Deffered tax assets	3.6	54.520.223	54.126.223
Other non-current assets	3.7	67.279.032	8.468.932
Total non-current assets		**538.975.449**	**467.965.885**
Current Assets			
Inventaries	3.8	81.619.991	64.421.151
Contract work in progress	3.9	51.091.418	82.501.015
Trade receivables	3.10	9.817.919	8.887.203
Current financial assets	3.11	756	129.701
Cash and cash equivalent	3.12	84.639.438	67.504.660
Current tax assets	3.13	19.975.365	13.859.354
Other current assets	3.14	5.108.417	7.906.397
Total current assets		**252.253.304**	**245.209.481**
TOTAL ASSETS		**791.228.753**	**713.175.366**

STATEMENT OF FINANCIAL POSITION	Nota	December, 31 2016	December 31, 2015
(Amount in Euro)			
EQUITY			
Share capital	3.15	40.000.000	40.000.000
Share prenium reserve	3.16	73.575.782	73.575.782
Legal reserve		8.000.000	8.000.000
Other reserves	3.17	77.447.522	77.611.801
Retained earnings/(losses)		87.274.797	81.868.519
Profit/(Loss) for th year		656.690	5.406.278
TOTAL EQUITY		**286.954.791**	**286.462.380**
LIABILITIES			
Non-current liabilities			
Non-current fiancial liabilities	3.18		91.271.632
Provisions for employee benefits	3.19	8.344.262	8.716.485
Provisions for risks and charges	3.20	2.396.624	7.646.665
Deffered tax liabilities			
Other non-current liabilities	3.21	117.379.670	55.530.424
Total non-current liabilities		**128.120.556**	**163.165.206**
Current liabilities			
Current financial liabilities	3.22	46.558.250	44.401.261
Current share of non current financial liabilities	3.23	91.614.533	4.439.167
Provisions for risks and charges	3.20	12.648.557	7.657.586
Trade payables	3.24	58.066.113	43.010.009
Advances on contract work in progress	3.9	153.922.317	152.028.830
Current tax payables	3.25	1.267.948	1.497.835
Other current liabilities	3.26	12.075.689	10.513.092
Total current liabilities		**376.153.405**	**263.547.780**
TOTAL LIABILITIES		**504.273.962**	**426.712.986**
TOTAL LIABILITIES AND EQUITY		**791.228.753**	**713.175.366**

INCOME STATEMENT	Notes	Year 2016	Year 2015
(Amount in Euro)			
Revenues	3.27	299.703.065	232.558.382
Change in inventory of finished and semi-finished goods		(365.927)	462.263
Other operating income	3.28	9.642.253	5.940.912
Consumption of raw material	3.29	(86.394.977)	(65.658.376)
Cost of services	3.30	(169.142.300)	(117.493.568)
Personnel Costs	3.31	(39.572.679)	(37.230.593)
Depreciation and amotisation	3.32	(11.041.497)	(14.807.140)
Impairment losses and reversals of imparment		-	-
Other operating costs	3.33	(9.324.159)	(5.046.397)
Capitalized costs for intenally genereted assets	3.34	9.786.970	6.293.801
OPERATING PROFIT		**3.290.748**	**5.019.284**
Financial income	3.35	510.303	2.186.096
Financial expenses	3.36	(7.701.759)	(4.906.454)
NET FINANCIAL INCOME /EXPENSES		**(7.191.455)**	**(2.720.358)**
Share of income/(expenses) in investments in associated companies accounted for using the equity method			-
Other income/(expenses) from financial investments	3.37	4.294.000	791.399
NET INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS		**4.294.000**	**791.399**
PROFIT/(LOSS) BEFORE TAXES AND DISCONTINUED OPERATIONS		**393.292**	**3.090.325**
INCOME TAXES	3.38	263.398	2.315.954
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		**656.690**	**5.406.279**
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS NET OF TAXES	3.39	**-**	**-**
PROFIT/(LOSS) FOR THE YEAR		**656.690**	**5.406.279**

STATEMENT OF COMPREHENSIVE INCOME	Year 2016	Year 2015
(Amount in Euro)		
PROFIT/(LOSS) FOR THE YEAR (A)	**656.690**	**5.406.279**
Gains/(losses) included directly in equity (which are not subsequently reclassified to income statement)		
- Actuarial gains and losses-reserve Actuarial gains/losses	(234.151)	(48.891)
Gains (losses) included directly in equity (which will be subsequently reclassified to income statement)		
- Gains/(Losses) on hedging derivative instruments recognized directly in cash flow hedge reserve (*):	56.411	(367.990)
Tax effect related to gains/(losses)	13.461	(380.608)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX (B)	(164.279)	(797.490)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR (A+B)	**492.411**	**4.608.789**

STATEMENT OF CHANGES IN EQUITY

(€ thousands)

				Altre riserve						
	Share capital	Additional paid-in capital	Legal reserve	Currency conversion reserve	*Cash flow hedge interest rate reserv*	*Actuarial profit/losses reserve*	*Capital gain reserve from the transfer*	Carry forward profit (losses)	Profit (losses) for the year	Total Equity
Net Equity at 31/12/2014	**40.000**	**73.576**	**8.000**	**36**	**0**	**(2.096)**	**80.469**	**296.320**	**5.548**	**501.853**
Allocation of prior year profit/loss								5.548	(5.548)	0
Profit/(loss) for the year									5.406	5.406
Other comprehensive income (losses)										
Changes in fair value of hedging derivatives, net of related tax effect fiscale					(367)					(367)
Actuarial profit/ losses, net of related tax effect						(430)				(430)
Comprehensive income/losses for the year	0	0	0	0	(367)	(430)	0	0	5.406	4.609
Distribution dividends								(220.000)		(220.000)
Other movements in equity										
Net equity at decemebr 31 2015	**40.000**	**73.576**	**8.000**	**36**	**(367)**	**(2.526)**	**80.469**	**81.868**	**5.406**	**286.462**
Allocation of prior year profit/loss								5.406	(5.406)	0
Profit /(Loss) for the year									657	657
Other comprehensive income / (losses):										
- Changes in fair value of hedging derivatives, net of related tax effect fiscale					56					56
Actuarial profit/ losses, net of related tax effect						(221)				(221)
Comprehensive income/losses for the year	0	0	0	0	56	(221)	0	0	657	492
Distribution dividends										
Other movements in equity										
Net equity at 31/12/2016	**40.000**	**73.576**	**8.000**	**36**	**(311)**	**(2.747)**	**80.469**	**87.274**	**657**	**286.954**

STATEMENT OF CASH FLOWS

(€ THOUSANDS)

		2016	2015
OPERATING ACTIVITIES			
Profit /(Loss) for the year		657	5.406
Adjustments for :			
- Income taxes		(263)	(2.316)
- Net financial (income)/expenses not inherent to operating activities		(4.294)	(791)
- Net (income)/expenses from financial investments		7.191	3.134
- Depreciation and amortisation		11.041	14.807
Net changes in provisions for risks		(259)	(4.571)
Net changes in provision for employee benefits		(537)	(536)
Changes in:			
- Inventories		(17.199)	(17.552)
-Contract work in progress and advances for contract work in progress		33.303	39.217
- Trades receivables		(931)	(2.325)
- Trade payables		15.056	(4.925)
- Other current and non –current assets		(62.259)	10.190
- Other current and non- current liabilities		63.182	(6.245)
Income tax paid (*)		0	(7.025)
Interest paid		(3.974)	(3.057)
Net cash provided by operating activites	(A)	**40.716**	**23.411**
INVESTING ACTIVITES			
Capital expenditures for :			
- Property plant equipment and investment property		(12.035)	(6.197)
- Intangible assets with finite useful lives		(9.772)	(5.343)
- Investments			(5)
Proceeds from sale of fixed assets			-
Dividends from financial investments		4.294	3.590
Other changes			
Net cash used in investing activities	(B)	**(17.513)**	**(7.955)**
FINANCIAL ACTIVITIES			
Proceeds from long-term borrowings		(6.788)	100.000
Payment of transaction costs related to the amendment and extension of long term borrowings			(4.875)
Cash pooling effect from jointly controlled company Europropulsion S.A.		5.451	
Share capital and additional paid-in capita			
Dividend distribution			(220.000)

Reimbursement / (Disbursement) of financial loan to the associated company Termica Colleferro S.p.A.		(1.040)	(200)
Funds transferred to Escrow accounts to guarantee the GE Avio S,r,l, investment's sale operation			21.313
Other changes in financial assets and liabilities		(3.691)	(3.488)
Net cash provided by financing activities	(C)	**(6.068)**	**(107.250)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(A)+(B)+(C)	**17.135**	**(91.794)**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**67.504**	**159.298**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**84.639**	**67.504**

(*) In 2015 the caption includes cash flows relating to the current tax payment and previous years provisions for fiscal claims paid in 2015. In 2016 the amount paid relating to tax provisions for claims related to previous exercises is not material. Consequently, it has been included in caption "Net changes in provisions for risks". So, caption "Income interest paid", only includes current taxes paid.

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Avio S.p.A. (the "Company" whose legal name was AVIO S.p.A. until July 29, 2011) is a limited liability company (*società per azioni*) incorporated and organized under the Italian laws, registered at the Rome Company Register and with its registered office in Via Leonida Bissolati, n. 76, Rome, Italy.

The Society boasts over 100 years of activity in the aerospace propulsion, sinking its own roots in the historical BPD - Defense and Space of Colleferro (Rome). The Society is rated near the Stock exchange in Milan, Star segment, from April 10th 2017.

The Group leader holds, to December 31, 2016, directly or indirectly, shares in five controlled societies (ELV S.p.To., Regulus S.A., Secosvim S.r.l., AS Propulsion International BV and Avio India Aviation Aerospace Private Ltd in liquidation) and in a jointly controlled society (Europropulsion S.A.), included in the area of consolidation of the present financial statements (together as the "Group" or "The Group Avio").

The area of consolidation has suffered any change during the exercise year of 2016.

The Group is leader in the space propulsion sector operating with 5 location ad sites in the geographical areas of Europe and South America. The principal activities of the Group are described in the Report on Operations.

The financial statement is expressed in Euro, as this is the currency in which most of Company's operations are managed. The figures of the Consolidated Statement of Financial Position, the Income Statement and the Statement of Comprehensive Income are expressed in Euro; the statement of changes in equity and cash flow statement and these notes are expressed in thousands of Euro, unless otherwise indicated.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Principles for the preparation of the financial statements

According to Art. No. 3 of Legislative Decree No. 38 of February 28, 2005, the Company, starting from its first financial year ended at December 31, 2007, decided to adopt, on a voluntary basis, the international accounting principles (hereinafter referred to as "IFRS") issued by the International Accounting Standards Board ("IASB") and adopted by the European Commission for the preparation of its consolidated financial statements. "IFRS" refers to the *International Financial Reporting Standards*, all revised International Accounting Standards ("IAS"), as well as all interpretations of the *International Financial Reporting Standard Interpretations Committee* ("IFRS IC" now "IFRIC"), formerly the Standing Interpretations Committee ("SIC").

As mentioned above, on August 1, 2007 the Company executed the merger by incorporation of AvioGroup S.p.A., Aero Invest 2 S.r.l., Avio Holding S.p.A. and Avio S.p.A., all directly or indirectly wholly owned subsidiaries. At that date the assets and liabilities of the merged companies were accounted for in the Company's financial statements on the basis of the IFRS balances included in the consolidated financial statements at the same date, in compliance with the principle of continuity of values ("Balances resulting from the Merger"). The difference between the carrying value of the investments and the relevant equity of the merged companies ("Goodwill arising from Merger") was accounted for at the same balances resulting from the consolidated financial statements, except for different allocations prudentially allowed. Investments were accounted for values corresponding to their contribution in the consolidated financial statements at the date, considered as the acquisition datef.

The financial statement in accordance with IFRS are prepared under the historical cost convention, modified as required for the fair value valuation of certain financial instruments and of other assets and liabilities, as well as on the going concern assumption.

2.2. Financial statements

The financial statements for the year ended December 31, 2016, include the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in the equity, the statement of cash flows and the notes to the financial statements.

The format of the financial statements used by the Company provide:
- For the statement of financial position, the classification between current and non- current assets and liabilities, generally adopted by industrial and commercial groups;
- For the income statement, the classification of costs by nature of expenses;
- For the statement of comprehensive income, the adoption of the "two-statement approach" with the presentation of other comprehensive income gross of the related tax effect;
- For the cash flows statements, the indirect method is adopted.

2.3. Comparative information

As requested by IAS 1, the financial statements for the year ended December 31, 2016 disclose comparative information related to prior period.

2.4. Accounting principles and measuring criteria

Property, plant and equipment

Property, plant and equipment are recorded at their purchase price or construction cost, less accumulated depreciation and accumulated impairment losses, if any.
The purchase price corresponds to the price paid, including costs necessary to bring the asset to working conditions for its intended use and the estimated costs of dismantling and removing of the asset and restoring the site on which it is located, if needed and recognisable in accordance with IAS 37. For contributed assets, cost corresponds to the value attributed in the expert's appraisal report. In the value of internally constructed assets are included all construction costs incurred up to the moment in which these assets enter into use, whether relating directly and specifically to the specific asset or, in general, to the construction activities involved and thus common to more than one asset. Borrowing costs, if any, which are directly attributable to the acquisition, construction or production of qualifying assets (as defined under IAS 23 *Borrowing costs*), which are assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised and amortised over the useful life of the class of assets to which they refer. All other borrowing costs are expensed when incurred.

Costs incurred subsequent to the acquisition (mainly repair, maintenance and overhaul expenses) are capitalised in the cost of the existing assets or as a separate one, only if they increase the future economic benefits associated with the related caption of property, plant and equipment, Repairs, maintenance and overhaul expenses that do not meet requirements to be recorded as assets are expensed as incurred.

The gross book value of the assets is depreciated on a straight-line basis over the years in which the assets are utilised, by providing depreciation rates, determined according to their estimated useful life and residual value, Depreciation starts when the asset is available and ready to enter into use, As for the contributed assets, related depreciation is calculated based on the residual useful life at the contribution date.

The depreciation rates used by the Company are deemed to represent the economic-technical life of the assets to which they refer and are the following:

Category	Depreciation rate

Buildings	3-10%
Plants and machinery	7-30%
Industrial and commercial equipment	25-40%
Other assets:	
- Furniture, office machinery and equipment	12-20%
- Transportation vehicles	20-25%
- Other assets	12-25%

The depreciation for the first year is calculated proportionally to the period of effective utilisation. Useful life of assets is reviewed annually and changes are accounted for prospectively, if any.

Costs for improvement works on assets belonging to third parties are capitalised, classified in the category of Property, plant and equipment to which they refer and are amortised during the lower period between the residual length of the rent or concession agreement and the residual useful life of the asset to which the improvement refers.

Each part of a caption of property, plant and equipment, with different useful lives and with a cost that is significant in relation to the total cost of the caption, is depreciated separately (*component approach).*

Assets relating to financial lease contracts, for which all risks and benefits connected to the ownership are substantially transferred to the Company in accordance with IAS 17, are recognised as Company assets at their fair value, or, if lower, at present value of future lease payments. The corresponding liability to the lessor is included among the financial payables.
The contracts, which do not have the legal form of a lease contract but include a lease according to the provision of IFRIC 4 – *Determining whether an arrangement contains a lease*, are accounted as a financial lease.

Land is not depreciated.

In case of impairment loss, regardless of the depreciation already provided, the asset is written-down accordingly. If in subsequent periods, the reasons for the write-down cease to apply, the original value is reinstated. The increased carrying amount of the asset attributable to a reversal of an impairment loss, will never exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

Gains and losses deriving from the sale or disposals of property, plant and equipment are defined by the difference between the selling price and the net book value in the moment of de-recognition and they are recorded in the Income Statement.

Intangible assets

An intangible asset is an asset without physical substance and is recorded only if it is identifiable, the Company has control over it, it is probable that expected future economic benefits will be realised by the Company and can be measured reliably.
Among intangible assets, the goodwill acquired in a business combination is included.

Intangible assets with finite useful life are recorded at their purchase or production cost, less accumulated amortization and impairment losses, if any. Amortization rates reflect expected useful life and the amortization process begins when the asset is available for use. The useful life is reviewed annually and changes in original estimates, if any, are accounted for prospectively.
Intangible assets with indefinite useful life are not amortised but tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.
Intangible assets recognized because of a business combination are recorded separately from goodwill, if their *fair value* can be reliably identified.

Intangible assets with indefinite useful lives

Goodwill

Goodwill is made up of;

- the allocation of the residual difference between the carrying value of the investments and the related part of the net equity of the merged companies as per the 2007 merger operation
- the goodwill included in the financial statements of the merged company in 2003, and other minor merger in 2004 and 2005, it represent the highest between the value attributed to the branches of business purchased and the fair value of assets, liabilities and contingent liabilities contributed or purchased.
- the goodwill that it was acquired for valuable consideration arising from the acquisition of a branch of business.

Goodwill is recognized as an intangible asset with an indefinite useful life and is not amortised but tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Impairment losses, if any, are immediately recorded in the income statement and are not reversed in subsequent periods. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purposes of the impairment test at December 31, 2016, goodwill is allocated at the cash-generating unit (CGU) level, representing financially independent business unit through which the Group operates. Based on the Group's structure, as of December 31, 2016, only one CGU, corresponding to the Space Sector, has been identified.

Intangible assets with finite useful lives

Development costs

Development costs are mainly related to the production of components and parts for aero-engines and are recognised as assets if, and only if, the cost can be measured reliably, related development activities are clearly identifiable, there is evidence that from these costs future economic benefits will flow to the Group, and it can be demonstrated: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) the Group's intention to complete the intangible asset and use or sell it; (iii) the availability of adequate technical and financial resources to complete the development and use or sell the intangible asset; (iv) the Group's ability to reliably measure the expenditure attributable to the intangible asset during its development. Amortisation is recorded on a straight-line basis beginning from the time commercial production of related programmes starts. Amortisation rates are proportioned, for the first year, to the actual utilisation period. Useful lives are determined with reference to a prudential estimate of the length of the programmes from which related economic benefits arose and are initially stated at 5, 10 or 15 years, according to the specifications of the programmes to which they refer. Capitalised development costs related to programmes for which production has not yet started are not amortised; they are recorded among intangible assets after having been tested for impairment based on the expected profitability of the programmes to which they refer.

Research costs and development costs that do not meet the above-mentioned requirements are expensed as incurred in the income statement and they cannot be recognised as intangible assets in subsequent periods.

Intangible assets for customer relationships

Intangible assets for customer relationships are accounted for based on balances resulting from the Merger used in 2007, corresponding to the same balances resulting from the consolidated financial statements at that moment. More specifically, the carrying amounts included in the consolidated financial statements were originally driven by the process of allocation of the Acquisition cost, made in 2007, according to which the Company recognised assets, liabilities and contingent liabilities of the acquired subsidiaries at their fair value.

Following this allocation, certain intangible assets deriving from customer relationships for participation in programmes were identified as being separately recognized in accordance with IFRS 3 and IAS 38. These assets were recognized at their fair value by applying an income approach valuation methodology, based upon the present value of future cash flows generated by assets over the expected remaining useful lives, determined by applying a rate of return, which discounts for the relevant risks associated with the assets and the time value of money. Moreover, the

benefit attributable to the tax saving obtainable by a potential purchaser, deriving from the amortization of the recognized intangible assets, was considered in determining the fair value of the assets (tax amortization benefits).
The customer relationships intangible assets are amortized, in connection with the weighted average remaining useful lives of the programmes to which they refer, in a period of 15 years. With respect to the recorded intangible assets, the relative deferred taxes were also recognized, determined by applying the tax rate expected to be in force at the moment the relevant amortization is charged to income.

Other intangible assets
Other intangible assets with finite useful lives are recognized as assets if, and only if, they can be reliably measured and there is evidence that from these costs future economic benefits will flow to the Company. When these requirements are met, the intangible assets are recorded at their purchase price, including related expenses. For contributed assets, the cost corresponds to the value attributed in the expert's appraisal report.

The gross book value of the assets is amortized systematically over the years in which the assets are utilized, by providing constant amortization rates, determined according to the estimated useful life. The amortization process begins when the asset is available for use and amortization rates are proportioned, for the first year, to the real utilisation period. As for the assets received in contribution, amortisation is calculated based on the residual useful life at contribution date.

The amortisation rates used by the Company are the following:

Categories	Amortisation rate
Licences	20%
Trademarks	10%
Software	20-33%

Investments

Investments in controlled companies, associated companies and jointly controlled associated companies are recorded at their purchase price, less accumulated impairment losses, if any. The purchase price corresponds to the price paid or, for investments contributed in the Merger, to the value resulting from the consolidated financial statements at the acquisition date.

Any excess of the cost of the acquisition over the fair values of the Company's interest in the net equity is recognised as goodwill. Goodwill is included in the carrying value of related investment and is tested for impairment annually, comparing its carrying value with its recoverable value (the higher between its value in use and its fair value less cost to sell).

Impairment losses are immediately recorded in the income statement. When the Company's share of losses of an investment, if any, exceeds the carrying amount of the investment in the Company's statement of financial position, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred obligations, legal or constructive, in respect to the investment. If in subsequent periods, the reasons for the write-down cease to apply, the original value is reinstated. The increased carrying amount of the investment attributable to the reversal of an impairment loss, will never exceed the carrying amount that would have been determined had no impairment loss been recognised for the assets in prior years.

Investments in other companies classified as non-current financial assets and not held for trading (available for sale investments), whose fair value is not easy to determine as they are non-listed companies, are recorded at their purchase or underwriting price, less accumulated impairment losses, if any. When the Company's share of losses of an investment, if any, exceeds the carrying amount of the investment in the Company's statement of financial position, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred obligations, legal or constructive, in respect of the investment.

Impairment of assets

The Company reviews, at least annually, the recoverability of the carrying amount of tangible and intangible assets and investments, in order to determine whether there is any indication that those assets have suffered an impairment loss. If indication of impairment is present, the carrying amount of the asset is reduced to its recoverable amount. In addition, intangible assets with indefinite useful lives are tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired. The impairment loss of an asset is equal to the difference between its carrying amount and its recoverable amount. The recoverable amount is the higher of its fair value less cost to sell and its value in use, which is the present value of estimated future operational cash flows, excluding cash flows arising from financing activities. Cash flow projections are based on financial plans and reasonable and supportable assumptions related to the Company’s future expected economic results and general economic conditions. The discount rate takes into consideration time value of money and specific industry risks.
If it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the Cash-Generating Unit (CGU) to which the asset belongs.

In particular, in reviewing the recoverability of investments, as they relate to non-listed companies for which it is not possible to determine reliable market values (fair value less costs to sell), according to IAS 28 (paragraph 33) the recoverable value (equity value) is the value in use, defined as the sum of a) the present value of estimated future cash flows expected to be generated by the company, b) the proceeds on the ultimate disposal of the investment and c) the net financial position at the date in which the test is performed.

When the recoverable amount of an asset (or of a cash-generating unit) is less than its carrying amount, the carrying amount of the asset is reduced to the recoverable amount and the impairment loss is immediately recognised in the income statement. Then, when there is any indication that an impairment loss recognised in prior periods for an asset (or for a cash-generating unit) other than goodwill may no longer exist, the carrying amount of the asset (or of the cash-generating unit) will be increased to the new estimate of its recoverable amount (which in any case cannot exceed the net carrying value that the asset would have had if it had never been written down for impairment). The reversal of the impairment is immediately recognised in the income statement.

Financial assets

Under this category are included the following, with regard to the maturity date within or beyond 12 months from the balance sheet date:
- assets arising from financial transactions other than derivative financial instruments, with fixed maturity and fixed or determinable payments;
- the initial *fair value* of the derivative financial instruments;
- the effect of subsequent *fair value* adjustments of derivative financial instruments, except for changes of hedging values of foreign exchange derivatives,

Gains and losses related to such assets are recorded in the income statement.
Impairment tests are performed in order to determine whether there is any indication that non-current financial assets, other than derivative financial assets, have suffered an impairment loss. In the case that impairment is identified, an impairment loss is immediately expensed to the income statement. Then, when there is indication that an impairment loss recognized in prior periods for an asset may no longer exist, the previously recognized impairment loss will be reversed. The reversal will not result in a carrying amount of the financial non-current asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

Inventories

Inventories are valued at the lower of purchase or production cost or net realisable value, which is defined as the estimated selling price less expected completion costs and selling expenses.
Specifically, raw materials, semi-finished goods and work in progress are initially recorded at purchase or production cost. Purchase cost includes costs paid to suppliers and other costs incurred in bringing the inventories to their present location, net of discounts and allowances, Production cost includes costs incurred in bringing the inventories in the place and condition in which they are at the balance sheet date, including direct costs and recharges of indirect and general production costs, Cost is calculated using the FIFO method. This method is deemed the most appropriate for a true, fair and consistent representation of the financial and economic position of the Group.

The inventories value is, if necessary, adjusted by providing appropriate reserves in order to consider obsolete and slow-moving materials, with respect to their possible use and future recoverability.

Contract work progress

Contract work in progress (or construction contracts) refers to specifically negotiated contracts for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use, These contracts are mainly related to development and production activities for space engine programmes.

When the outcome of a contract work in progress can be estimated reliably, construction contracts are recognised based on the percentage of completion method applied to the overall contractual price. According to this method, costs, revenues and related profit are accounted for taking into consideration the proportion of work completed. For the computation of the percentage of completion, the economic method of the ratio between production costs already occurred and total budgeted costs of the whole contract (cost-to-cost) is adopted, using up-to-date estimates at the balance sheet date. Assumptions used for the evaluations are revised on a periodic basis, Variations, price adjustments and incentive payments are subsequently included in contract revenues only if they are probable, if any, are accounted for in the accounting period in which they become known.

When the outcome of a construction contract cannot be estimated reliably, revenues are recognised only to the extent of contract costs incurred that will probably be recovered and costs are recognised as expenses in the period in which they are incurred.
Future costs expected to be incurred after the closing of the contract and expected losses are considered by recording a provision, classified as a liability in the caption “Provisions for risks”. In particular, the expected losses are recognised as expenses immediately at the moment they become known.

Contract work in progress is presented in the Statement of Financial Position net from advances invoices to customers. The following analysis is conducted for each contract: if the gross amount of specific work contract exceeds the progress invoice amount, the positive difference is classified in the line at the Statement of Financial Position; otherwise, the net negative difference is classified in the caption “Advances for contract work in progress”.

Trade receivables

Trade receivables are initially recorded at fair value, which corresponds to their nominal value, adjusted to the estimated realisable value by means of a provision for doubtful accounts. The reserve is related both to the risks on specific receivables and to the general risk of not collecting the trade receivables, which is estimated taking into account historical experience and solvency of debtors.

Receivables for which the collection is deferred beyond the average payment terms are adjusted to their present values and then measured at the amortised cost using the effective interest rate method.

Sales of receivables occurred through factoring transactions may be with or without recourse; certain without-recourse transactions imply continuing significant exposure to the cash flows deriving from the receivables sold. These kinds of transactions do not meet IAS 39 requirements for assets de-recognition, since the risks and rewards have not been substantially transferred. Consequently, receivables sold through factoring transactions that do not meet IAS 39 de-recognition requirements, are recognised as such in the financial statements, even though they have been legally sold. A corresponding financial liability is recorded for the same amount included in "Current financial liabilities".

Cash and cash equivalents

This caption includes cash on hand, in bank accounts and other current financial assets with a high level of negotiability that can be promptly converted into cash and that are subject to non-significant risk of reduction in value. Bank overdrafts are classified in reduction of cash and cash equivalents in the cash flow statement only.

Financial liabilities

This caption includes financial liabilities, classified as non-current, and bank overdrafts, classified as current, as well as current and non-current liabilities that, even if related to commercial or non-financial transactions, have been negotiated with terms that modify the original non-financial liability into a financial liability. Current and non-current financial liabilities are initially measured at fair value, net of related transaction costs and then measured at the amortised cost using the effective interest rate method.

The portion of non-current financial liabilities that is due within 12 months after the balance sheet date is classified in the caption "Current portion of non-current financial liabilities".

Employee benefit provisions

Employees of the Company are beneficiaries of post-employment benefit plans, which may be defined benefit or defined contribution plans, and other long-term benefit plans.

Post-employment benefits
The accounting treatment of pension plans and other post-employment benefits depends upon their nature.

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into a separate entity on a mandatory, contractual or voluntary basis and will have no legal or constructive obligation to pay further contributions if the entity does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions are expensed to the income statement on an accrual basis and are classified within personnel expenses.

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The Company's obligation to fund defined benefit pension plans and the annual cost recognized in the income statement are determined based on independent actuarial valuations using the projected unit credit method, taking into consideration certain factors such as, age, service years, and expected future level of salary/wage.

Gains and losses relating to defined benefit plans arising from changes in actuarial assumptions and experience adjustments are immediately recognized in the period in which they arise in other comprehensive income / (loss) and are never included in income statement in subsequent periods.

The TFR (severance indemnity payment) pertaining to Italian companies, was considered until December 31, 2006 a defined benefit plan. Law No. 296 of December 27, 2006 (the so-called "*Legge Finanziaria 2007*" – 2007 Budget Law) and subsequent Decrees and Regulations, substantially modified the relevant rules. As a consequence, and particularly with reference to companies employing not less than 50 employees, this type of benefit should now be considered as a defined benefit plan exclusively regarding the portion accrued until January 1, 2007 (and not paid at the balance sheet date), while afterwards it was considered as a defined contribution plan. Therefore, the TFR portion maturing after the above-said date is assumed to be a contribution plan, thus excluding the actuarial estimate components from determining the relevant cost. The TFR portion matured up to December 31, 2006 continues to be valued as a defined benefit plan according to actuarial methods, but excluding the component related to future salary increases.

Other long-term benefits
Other long-term benefits have the same accounting treatment of defined benefit plans, except for the fact that related actuarial gains and losses are immediately recognised in the income statement.

Share-based compensation plans

Cash-settled share-based compensation plans may be settled in cash or by the delivery of other financial assets, are accounted as liabilities, among "Provisions for risks", and are measured at fair value at the end of each reporting period until the date of settlement, with any changes in fair value recognised in profit or loss of the period.

Provisions for risks

The Company records provisions when it has a present obligation, legal or constructive, as a result of a past event to a third party, when it is probable that an outflow of Company resources will be required to settle the obligation and when a reliable estimate of the amount can be made. Provisions are recorded based on the best estimate of costs needed to discharge the obligation at the balance sheet date. If the effect is significant, provisions are recorded at discounted present value and the increase due to the passage of time is subsequently recorded in the income statement and classified among financial expenses.
Provisions related to lawsuits are determined based on estimates made to determine probability, terms and amounts involved.

Provisions for future dismantling, removal and clean-up costs related to assets are classified as a reduction of the same assets. Related cost is recognised in the income statement through the depreciation process of the asset.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Changes in estimate, if any, are accounted for in the accounting period in which changes occur.

No provision is recorded, but only disclosed in the notes, when the obligation is only possible or the likelihood of an outflow of resources is remote.

Trade payables

Trade payables with an average payment term are not adjusted to their present value. They are measured at nominal value deemed representative of their fair value.
Trade payables are classified among current liabilities, except for those payables for which the Group has a contractual right to fulfil the obligation beyond 12 months after the balance sheet date.

Deferred income for funding pursuant to Law No. 808/85

This payables are recorded in the balance sheet at their nominal value and are classified in the captions "Other non-current liabilities" and "Other current liabilities"

Revenue recognition

Revenue is recognised if it is probable that the economic benefits associated with the transaction will flow to the Company and its amount can be measured reliably. Revenue is recognised at fair value of the amount received or due on an accrual basis, net of VAT, returns, discounts, allowances and rebates. Revenue from sales of goods is recognised when the Company transfers significant risks and rewards ownership of the goods to the customers, which is generally at the time of shipment.

Revenue from services is recorded by applying the stage of completion method of the transaction at the balance sheet date, using the same criteria adopted for construction in progress. In addition, when the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised to match the costs that have been incurred, only if the costs incurred are recoverable.
Revenues also include changes in construction in progress, which are accounted for using the percentage of completion method (as more fully described in the related note).

Interest income is accounted for on an accrual basis, taking into consideration the financed amount and the applicable effective interest rate, representing the rate used to discount future expected income generated by the financial asset in order to adjust the carrying value of the financial asset.

Dividends received

Dividends are accounted for in the period in which the shareholders have the right to receive the payment.

Grants

Grants are recognised in the financial statements when there is a reasonable assurance that the Company will comply with the conditions foreseen and the grants will be received. Grants are generally recognised as income over the periods necessary to match them with the related costs, which they are intended to compensate, on a systematic basis.
In particular, grants obtained relating to capital expenditure in property, plant and equipment and development costs are recorded as liabilities in the captions "Other non-current liabilities" or "Other current liabilities" and are recognised as income over the useful life of the assets to which they relate. If grants are obtained in periods subsequent to those in which the amortisation process of the asset started, the portion of grants related to previous periods is credited to the income statement among other revenues.
The benefit of a government loan at a below-market rate of interest is treated as a public grant. The benefit of a government loan at a below-market rate of interest is measured as the difference between the initial carrying value of the loan (fair value plus transaction costs) and of proceeds received, and is accounted for in accordance with the policies already used for the recognition of public grants.

Tax credits for R&D activities

Tax credits for R&D activities (Law No. 296/2007 and subsequent modifications) are accounted for in the financial statements to the extent that the tax credit is considered as recoverable and usable. These credits are initially recorded against the caption "Other non-current liabilities" or "Other current liabilities" and charged to the income statement, depending on different types of costs being the subject of the intervention, in relation to the percentage of completion of construction in progress to which the costs that formed the basis for calculating the credit were contributing or to the recognition in the income statement of R&D expenses.

Expenses

Expenses are accounted for on an accrual basis in respect of the going-concern assumption of the Company, net of VAT, returns, discounts, allowances and rebates. Provisions are recorded in accordance with the terms provided in the note related to Provisions for risks.

Interest expenses are accounted for on an accrual basis, taking into consideration the financed amount and the applicable effective interest rate.

Taxes

Income taxes represent the sum of current taxes and prepaid/deferred taxes.

Current income tax is calculated on the estimated taxable income in accordance with the legislation currently in force.

Taxable profit differs from the result arising from the income statement as it excludes positive or negative captions that are taxable or deductible in the next accounting periods, and other captions that will never be taxable or deductible. The liability for current taxes is determined applying the tax rate enacted at the balance sheet date.

In 2016, the Company and certain Italian subsidiaries decided to renew, starting from 2012 and for a three-year period, the adherence to the Italian Tax Consolidation Program, as allowed by art. 117/129 of the Italian Tax Law (*Testo Unico delle Imposte sul Reddito - T.U.I.R.*). Avio S.p.A. acts as the consolidating company, presenting a sole tax basis for all the companies adhering to the Program. Consequently, it is possible to offset taxable income with tax losses in a sole income return.

Each company adhering to the Program transfers to the consolidating company its taxable income or tax loss. Avio S.p.A. accounts for a receivable, equal to IRES to be paid, from the companies that transfer taxable income, according to the consolidation agreement signed by the parties. On the other hand, Avio S.p.A. accounts for a payable, equal to IRES determined on the tax loss and offset at group level, to companies that transfer tax loss, according to the consolidation agreement signed by the parties.
IRAP liability is classified in the caption "Current tax payables" net of advances paid, if any.
Deferred tax assets and liabilities are the taxes expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and they are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Tax benefits arising from the carry forward of tax losses are recorded when there is reasonable certainty of the existence of future taxable income in the period in which the losses may be utilized.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Prepaid and deferred income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred taxes are recognized in the income statement, except when they relate to captions directly recognized to equity, in which case deferred taxes are also dealt with in equity. Deferred tax assets and liabilities are offset if there is a right to offset current tax assets and liabilities and if the Company decides to settle current tax assets and liabilities on a net basis. The net amount is recorded in the caption "Deferred tax assets", if positive, or in the caption "Deferred tax liabilities", if negative.

Payment of dividends

Dividends payable by the Company are reported as a movement in equity and classified as a current liability in the period in which the distribution is approved by the shareholders' meeting.

Exchange rates differences

Revenues and expenses related to transactions occurred in currencies other than Euro, are recognized at the exchange rate at the date of the transaction.
Monetary assets and liabilities denominated in currencies other than Euro are adjusted by applying the exchange rate at year-end; adjustments are accounted for in the income statement. Non-

monetary assets accounted for at historical cost denominated in currencies other than Euro are not adjusted by applying the exchange rate at year-end.
Any net profit arising from the year-end exchange rate adjustments for captions denominated in other currencies than Euro, upon approval of the financial statements and proposal for the allocation of the profit/(loss), is set aside in a non-distributable reserve until the profit is realized.
At every year-end, the total amount of unrealized exchange gains or losses is determined. If gains are higher than the amount of the non-distributable reserve existing at the beginning of the year, the reserve is increased. On the contrary, if there is a loss or gains lower than the amount of the non-distributable reserve existing at the beginning of the year, the non-distributable reserve is totally o partially allocated to a distributable reserve.

2.5. Risk management

Credit risk

Credit risk concentration of the Company depends on the nature of transactions carried out and on the markets the Company operates in. From a global point of view, there is a concentration of credit risk in trade receivables in the European Union markets. Trade receivables are recognised net of allowances for doubtful accounts, determined based on the available information as to the creditworthiness of the customer and historical data.

Liquidity risk

The Company is exposed to liquidity risk if there are difficulties in obtaining financing for operations at any time. The two main factors affecting the Company's liquidity are cash flows provided by or used in operating and investment activities, and in the maturity and renewal features of financial debts, liquidity and financial investments.

Cash flows, funding and liquidity are centrally monitored and managed in order to timely ensure an effective funding or appropriate investment of financial resources.
The global economic environment of the financial and not financial markets led the Company particularly focused on liquidity risk management; focus is placed on generating financial resources from operating activities and on achievement of an appropriate level of liquidity in order to meet the Company's obligations.

Management believe that available cash and credit lines, in addition to those generated by the normal course of operating business, will allow the Company to face the financial needs arising from investment activities, working capital management, and debt repayment.

2.6. Use of estimates

The preparation of financial statements and related notes in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date, and revenues and expenses.

Actual results could differ from those estimates due to uncertainties on which assumptions are based. Estimates and assumptions are annually reviewed in order to verify they still reflect the best available knowledge of the Company's operations and other factors arising from actual circumstances. Changes, if any, are immediately accounted in the income statement.

The present international macroeconomic context, whose effects concern some Company's operating businesses, have determined the need to make assumptions related to future development with a high level of uncertainty. For this reason it is not possible to exclude that, in the next or in subsequent financial years, actual results may differ from estimated results. These differences, at present unforeseeable and unpredictable, may require adjustments to book values. Estimates are used in many areas, including accounting for non-current assets, deferred tax assets, bad debt provisions on accounts receivable, inventory obsolescence, employee benefits, contingent liabilities and provisions for risks and contingencies and to determine construction in progress costs and related stage of completion.

The following are the critical measurement processes and key assumptions used by the management in applying IFRS which may have significant effects on the amounts recognised in the consolidated financial statements or for which there is a risk that a significant difference may arise in respect to the carrying amounts of assets and liabilities in the future.

Recoverability of non-current assets

Non-current assets include Property, plant and equipment, Goodwill, Intangible assets with finite useful lives and Investments. The Company periodically reviews the carrying amount of non-current assets and of assets held for sale when events and circumstances determine a review. For goodwill such analysis is carried out at least annually and when events and circumstances determine a review. The analysis of the recoverable amount of non-current assets (impairment test) is usually performed using estimates of future expected cash flows from the use or disposal of the asset and a suitable discount rate in order to calculate present value. When the carrying amount of a non-current asset is impaired, the Company records an impairment loss for the amount by which the carrying amount of the asset exceeds its estimated recoverable amount from use or disposal determined by reference to the cash flows included in the most recent business plans prepared by the Company.

The estimates and assumptions used as part of that analysis reflect the current state of Company's available knowledge as to the expected future development of the business of the various sectors and are based on a realistic assessment of the future development of the markets and the aerospace industry, which remain subject to a high degree of uncertainty due to the continuation of the economic and financial crisis and its effect to the international macroeconomics context. Although current Company estimates do not indicate any other situations concerning possible impairment losses on non-current assets, any different developments in the economic environment or Company performance could result in amounts that differ from the original estimates, needing the carrying amount of certain non-current assets being adjusted.

Allowance for doubtful accounts

The allowance for doubtful accounts reflects management estimate of losses related to the credit portfolio of the Company. The allowance is based on the estimate of the losses to be incurred, which arises from past experience with similar receivables, current and historical past due amounts, write-offs and collections, the careful monitoring of portfolio credit quality and current and projected economic and market conditions.

Allowance for obsolete and slow-moving inventory

The inventory reserve reflects management's estimates of loss value expected by the Company and has been determined on the basis of past experience and historical and expected future trends in the related markets, for obsolete and slow-moving captions, if any, related to technical or trading reasons.

Pension plans and other post-retirement benefits

Employee benefit liabilities, costs and net interest expense are measured on an actuarial basis which requires the use of estimates and assumptions to determine the net liability. Such method is based on periodic estimates made by actuarial consultants using a combination of statistical and actuarial factors, among which statistical data related to past financial years and of future costs forecast. In addition, the estimation process involves mortality and retirement rates, the assumptions related to the future trend of the discount rate, the growth rate of salaries and of inflation rate and the analysis of health care costs trend.
Changes in any of these assumptions may have an effect on future contributions to the plans. As a result of adopting the revised IAS 19 for the recognition of actuarial gains and losses arising from the valuation of employee benefit liabilities and assets, the effects resulting from revising the estimates of the above parameters are recognized in the Company's statement of financial position through the inclusion in a specific reserve of the Company's equity.

Provisions for risks and contingent liabilities

The Company makes a provision for pending disputes and legal proceedings when it is considered probable that there will be an outflow of funds and when the amount of the losses arising from such can be reasonably estimated. If an outflow of funds becomes possible but the amount cannot be estimated, the matter is disclosed in the notes.
The Company is the subject of legal and tax proceedings covering a range of matters which are subject to a different degree of uncertainty, including the facts and circumstances of each particular case, the jurisdiction and the different laws involved. In the normal course of business, the Company monitors the stage of pending legal procedures and consults with legal counsel and experts on legal and tax matters. It is therefore possible that the provisions for the Company's legal proceedings and litigation may vary as the result of future developments of the proceedings in progress.
In addition, the Company's operations are carried out in industries and sectors in which some trading issues may be solved only after a long lapse of time. As a consequence, management is required to estimate the outcome of such issues, through the monitoring of contract conditions and of their progress.

Evaluation of construction in progress

The Company operates in sectors and with contractual arrangements that are especially complex. Some of them are recognized on a percentage-of-completion basis. In such case, margins recognized in the income statement are a function of both the state of progress on contracts and the margins that are expected to be recognized for the completed contract. Accordingly, correct recognition of work in progress and margins on contracts that have not yet been completed requires management to make a careful estimate of the final costs and expected increases as well as delays, extra costs and penalties that could reduce the expected margin. In order to enhance support for this activity, the Company has adopted management and risk analysis tools designed to identify, monitor and quantify the risks associated with such contracts. The amounts posted in the financial statements represent management's best estimate at the reporting date.

Other

In addition to the captions listed above, estimates were also used with regard to the valuation of certain financial assets and liabilities, of plans for compensation attributable to a certain number of Company manager and of the fair value measurement of assets acquired and liabilities assumed in business combinations.

2.7. New accouting policies

ACCOUNTING PRINCIPLES, AMENDMENTS AND INTERPRETATIONS EFFECTIVE FROM JANUARY 1, 2016

The following amendments, improvements and interpretations have been applied for the first time by the Company on January 1, 2016:

- Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions" (issued on November 21, 2013) concerning the recognition of contributions from employees or third parties to defined benefit plans. The adoption of these amendments did not affect the consolidated financial statements of the Group.

- Amendment to IFRS 11 Joint Arrangements – "Accounting for acquisitions of interests in joint operations" (issued on May 6, 2014) concerning the accounting for acquisitions of interests in a joint operation when the operation constitutes a business. The adoption of these amendments did not affect the consolidated financial statements of the Group.

- Amendment to IAS 16 "Property, plant and equipment and IAS 41 "Agriculture – Bearer Plants" (issued on June 30, 2014): bearer plants, as fruit trees that produce annual crops (eg vines, hazelnuts), must be accounted for in accordance with the requirements of IAS 16 (rather than IAS 41). The adoption of these amendments did not affect the consolidated financial statements of the Group.

- Amendments to IAS 16 Property, plant and Equipment and IAS 38 Intangibles Assets – "Clarification of acceptable methods of depreciation and amortization" (issued on May 12, 2014) establishing that a depreciation or amortization method that is based on revenue is not appropriate, because the revenue arising from the operation of a business of which the asset under depreciation or amortisation reflects a different pattern from the mere use of the economic benefits arising from the asset, which is a pre-requisite for depreciation or amortization. The adoption of these amendments did not affect the consolidated financial statements of the Group.

- Amendment to IAS 1 – "Disclosure Initiative" (issued on December 18, 2014): the goal of the amendments is to provide some clarifications on disclosures and other elements that may be perceived as hindrance to a clear and intelligible presentation of financial statements. The adoption of these amendments did not affect the consolidated financial statements of the Group.

- Amendment to IAS 27 "Equity Method in Separate Financial Statements" (issued on August 12, 2014), introducing the option to use the equity method for the valuation of equity investments in subsidiaries, jointly controlled companies and associates in the separate financial statements of an entity. The adoption of this amendment did not affect the consolidated financial statements of the Group.

- Amendment to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" (issued on December 18, 2014) containing changes related to issues arising from the application of the consolidation exception allowed to the investment entities. The adoption of this amendment did not have any effect on the consolidated financial statements of the Group because of the features of the Company, which do not meets the definition of investment entity.

Finally, as part of the principles annual improvement process, on December 12, 2013, the IASB published documents "Annual Improvements to IFRSs: 2010-2012 Cycle" (including IFRS 2 "Share Based Payments – Definition of vesting condition", IFRS 3 "Business Combination – Accounting for contingent consideration", IFRS 8 "Operating segments – Aggregation of operating segments e Reconciliation of total of the reportable segments' assets to the entity's assets", IFRS 13 "Fair Value Measurement – Short-term receivables and payables") and on September 25, 2014 "Annual Improvements to IFRSs: 2012-2014 Cycle" (including "IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IFRS 7 "Financial Instruments: Disclosure" e IAS 19 "Employee Benefits") partly amending existing standards.

IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPROVED BY THE EUROPEAN UNION BUT NOT YET MANDATORY APPLICABLE AND NOT EARLY ADOPTED BY THE COMPANY AS AT DECEMBER 31, 2015

The Group has not adopted the following new and amended standards, that have been issued but are not mandatory applicable.

- **IFRS 15 – Revenue from Contracts with Customers** (issued on May 28, 2014) bound to replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as the interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services. The standard provides for a new revenue recognition model, which will be applicable to all agreements made with customers, with the exception of those falling under the scope of other IFRSs such as leases, insurance contracts and financial instruments. The main steps for revenue recognition according to the new model are:
    - identifying the agreement in place with the customer;
    - identifying the performance obligations under the agreement;

- o defining the transaction price;
- o price allocation to the performance obligations under the agreement;
- o revenue recognition criteria when the entity satisfies each performance obligation.

This standard is applicable as of January 1, 2018, though early adoption is allowed. Directors expect that the adoption of IFRS 15 will have an impact on the revenue recognition and the relevant disclosure included in the Group's consolidated financial statements. Still, it will be impossible to provide a reasonable estimate as to the effects until the Group completes a detailed analysis of the agreements in place with the customers.

- Final version of **IFRS 9 – Financial instruments** (issued on July 24, 2014). The standard includes the results of the classification, valuation, impairment and hedge accounting phases relating to the IASB project pending the replacement of IAS 39:

  - o it introduces new criteria to classify and measure financial assets and liabilities.
  - o With reference to the impairment model, the new standard requires the losses on receivables to be estimated based on the expected losses model (instead of the incurred losses model of IAS 39) using information that can be evidenced, available free of charge or without unreasonable effort and including historic, current and forecast data.
  - o A new hedge accounting model is introduced (additional types of transactions can be designated for hedge accounting, different accounting method for forward contracts and options when they are included in a hedge accounting transaction, changes to effectiveness test).

The new standard, which supersedes the previous versions of IFRS 9, must be applied to reporting period beginning on January 1, 2018 and thereafter.
Directors expect IFRS 9 to have no significant impact on the balances and the relevant disclosures in the Consolidated Financial Statements of the Group. Administrators are looking for effects on introducing this IAS.

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

The European Union has not yet completed its endorsement process for the standards and amendments below reported at the date of these Financial Statements.

- On January 13, 2016, the IASB published the IFRS 16 "Leases", which is intended to replace IAS 17 "Leases" and IFRIC interpretations 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".
  The new Standard provides a new lease definition and introduces a criterion based on the right of use of an asset in order to distinguish leasing contracts from service contracts by identifying as qualifying features: the identification of the asset, the right to replace the asset, the right to substantially obtain all the economic benefits arising from the use of the asset and the right to manage the use of the asset.
  The Standard establishes a unique model for the recognition and evaluation of lease contracts for the lessee, which states the recording of the leased asset (even with an operating leasing in the assets with a financial debt counterpart, also providing the possibility of not recognizing as leasing Contracts related to "low-value assets" and leases with a contract duration of less than 12 months. On the contrary, the principle does not include significant changes for lessors.
  This Standard applies from January 1, 2019 but is subject to early adoption only for companies that have applied in advance the IFRS 15 "Revenue from Contracts with Customers" No significant impacts on the Group consolidated financial statement of the

Group are expected from the adoption of such amendments, but at this time the Directors are considering any possible effects arising from its introduction.

- On September 11, 2014 the IASB published an amendment to IFRS 10 and IAS 28 "Sales or Contribution of Assets between an Investor and its Associate or Joint Venture". The document has been published in order to solve the current conflict between IAS 28 and IFRS 10 on the evaluation of the gain or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or associated company in return for a share in the share capital the joint venture or associated company. At the moment the IASB has suspended the application of this amendment.

- On January 19, 2016 the IASB published the document "Recognition of Deferred Tax Assets for unrealized Losses (Amendments to IAS 12)" which contains amendments to IAS 12. The purpose of the document is to provide some clarifications on the recognition of deferred tax assets on unrealized losses when certain circumstances occur and on taxable income estimates for future periods. The amendments will apply from 1 January 2017, but early adoption is permitted. No significant impact on the Group consolidated financial statement is expected from the adoption of such amendments, but the Directors are currently considering any possible effects arising from its introduction.

- On January 29, 2016 the IASB published the document "Disclosure Initiative (Amendments to IAS 7)" which contains amendments to IAS 7. The purpose of the document is to provide some clarifications in order to improve disclosure on financial liabilities. In particular, the amendments require to provide disclosure which allow financial statement users to understand changes in liabilitis arising from financing operations. The changes apply from January 1, 2017 but it is allowed the early adoption. Presentation of comparative information concerning previous years is not required. No significant impact on the Group consolidated financial statement is expected from the adoption of such amendments, but the Directors are currently considering any possible effects arising from its introduction.

- On June 20, 2016 the IASB published the document "Classification and measurement of share-based payment transactions (Amendments to IFRS 2)" which contains some clarifications relating to the recording of the effects of vesting conditions in case of cash-settled share-based payments, to the classification of share-based payments with net settlement properties and to the accountability of changes in terms and conditions of a share based payment which amend the classification from *cash-settled* to *equity-settled*. The amendments apply starting from January 1, 2018 but it is allowed the early adoption. No significant impact on the Group consolidated financial statement is expected from the adoption of such amendments, but the Directors are currently considering any possible effects arising from its introduction.

- Document "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on September 12, 2016): for entities whose business is predominantly constituted by insurance activities, the amendments seek to clarify the concerns arising from the application of the new IFRS 9 to financial activities, prior to the IASB's replacement of the current IFRS 4 with the new standard currently under preparation, on the basis on which financial liabilities are valued.

- ***IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"*** (issued on December 8, 2016): The purpose of the interpretation is to provide guidelines for transactions carried on in foreign currencies in case cash or non cash advances are recognized in the balance sheet prior to the recognition of the related asset, cost or income. This document provides guidance on how an entity must determine the transaction date and, consequently, the spot exchange rate to be used when foreign currency transactions in which payment is made or received in advance occur. IFRIC 22 applies from 1 January 2018, but early application is permitted. The Directors are currently considering the possible effects by introducing these changes on the group consolidated financial statement.

- Amendment to IAS 40 "Transfers of Investment Property" (issued on December 8, 2016): the amendment clarifies transfers of a property to, or from, real estate investment. In particular, an entity must reclassify a property between, or from, real estate investments only when there is evidence that a change in the use of the property has occurred. This change must be attributed to a specific event that has occurred and should not therefore be confined to a change of intent by an entity's management. These amendments are applicable from January 1, 2018, with early application allowed. However, the Directors currently do not expect a significant effect on the Group consolidated financial statement since the adoption of these amendments.

- Document "Annual Improvements to IFRSs: 2014-2016 Cycle", issued on December 8 2016 (including IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters, IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard) which partially integrate existing Standards. The Directors currently do not expect a significant effect on the Group consolidated financial statement

3. COMPOSITION, COMMENTS AND CHANGES IN THE MAIN ITEMS AND OTHER INFORMATION

NON-CURRENT ASSETS

3.1. PROPERTY, PLANT AND EQUIPMENT

The values of property, plant & equipment are recorded in the balance sheet net of accumulated depreciation and impairment loss reserves, as shown in the following table (amounts in thousands of Euro):

	31/12/2016				31/12/2015			
	Gross Values	Accumulated Depreciation	Net value	Gross Values	Accumulated Depreciation	Net value	Gross Values	Accumulated Depreciation
Land								
Buildings	13.049	(5.114)		7.935	13.049	(4.649)		8.400
Plant and machinery	54.247	(38.425)		15.822	52.720	(35.819)		16.901
Industrial and commercial equipment	10.380	(10.147)		233	10.281	(9.918)		363
Other assets	3.735	(2.466)		1.269	3.115	(2.150)		965
Work in progress and advances	10.102	0		10.102	315			315
Total	**91.513**	**(56.152)**	**-**	**35.361**	**79.480**	**(52.536)**	**-**	**26.944**

Changes in tangible fixed assets gross values for years 2016 e 2015 are shown in the following tables (amounts in Thousands of Euro):

Gross values	31/12/2015	Additions	Disposals	Reclassification and other changes	31/12/2016
Land					
Buildings	13.049				13.049
Plant and machinery	52.720	1.253		274	54.247
Industrial and commercial equipment	10.281	99			10.380

Other assets	3.115	622	(2)		3.735
Work in progress and advances	315	10.061		(274)	10.102
Total	**79.480**	**12.035**	**(2)**	**0**	**91.513**

Gross values	31/12/2014	Additions	Disposals	Reclassification and other changes	31/12/2015
Land					
Buildings	13.049				13.049
Plant and machinery	47.178	5.542			52.720
Industrial and commercial equipment	10.021	260		-	10.281
Other assets	2.720	395	-	-	3.115
Work in progress and advances	315		-	-	315
Total	**73.283**	**6.197**	**-**	**-**	**79.480**

At December 31, 2016, work in progress and advances refers to investments for Euro 10.102 thousand are related to the construction of buildings for the production of the new engine P120.

Accumulated depreciation movements occurred during the period are detailed as follows (amounts in thousands of Euro):

Accumulated depreciation	31/12/2015	Depreciation	Disposals	Reclassifications and other changes	31/12/2016
Land					
Buildings	4.650	464			5.114
Plant and machinery	35.819	2.606			38.425
Industrial and commercial equipment	9.918	229			10.147
Other assets	2.149	318	(2)		2.465
Work in progress					
Total	**52.536**	**3.618**	**(2)**	**0**	**56.152**

Accumulated depreciation	31/12/2014	Depreciation	Disposals	Reclassifications and other changes	31/12/2015
Land	-	-	-	-	-
Buildings	4.185	465	-	-	4.650
Plant and machinery	33.105	2.714	-	-	35.819
Industrial and commercial equipment	9.725	193	-	-	9.918
Other assets	1.913	236	-	-	2.149
Capital Work in progress	-	-	-	-	-
Total	**48.928**	**3.608**	**-**	**-**	**52.536**

Depreciation charged in the period is calculated in relation to the estimated useful life and the economic-technical obsolescence of the assets. For assets arising from the contribution it was considered the estimated remaining useful life at contribution date. This assumption, in line with the substantial continuity of the business activities, was considered conservative and represent the economic-technical life of the contributed assets.

3.2. GOODWILL

As at December 31, 2016 goodwill amount to Euro 219,100 thousand (unchanged compared to December 31, 2015) and is related to portion allocated in 2007 to the Space Sector.

As mentioned in Note 2.7. - Accounting Principles and measuring criteria, goodwill is not amortised but in case written-off for impairment losses. The Company verifies the recoverability of goodwill at least annually or more frequently if events or changes in circumstances indicate that it might be impaired, with a specific impairment test conducted on each CGU. The CGU designated by the Company for the impairment test on goodwill is the same unit identified, at Group level, as operating segment as required by IFRS 8 – Operating segments, corresponding to Space business.

The goodwill allocated to the CGU "Space" was tested referring to the balance sheet date and this test did not reveal any need to write-down the carrying amount of the goodwill recorded in the financial statements at December 31, 2016.

The recoverability of the recorded amounts is verified by comparing the CGU's net invested capital (book value) of the CGU with its recoverable value. The recoverable value is given by the determination of the value in use, which is the present value of the discounted cash flows arising from expectations included in the business plan approved by the Group, properly extrapolated in order to consider the characteristics of the lifecycle of the Group's business, and a standardized terminal value, used to express a synthetic estimate of future results over the period explicitly considered.
These cash flows are then discounted using discount rates which are representative of the current market assessments of the time value of money and which consider the specific risks of the Group and the CGU.

At December 31, 2016, the cash flows of the CGU "Space" are determined based on the last Business Plan prepared by the Management of the Company, approved by the Board of Directors on January 19, 2017 and declined in the 2017-2019 triennium. The terminal value has been determined normalizing the expected cash flows relating to the last year of projection (2019) according to the perpetuity method and assuming a growth rate of 2% of the cash flows expected from 2020.

The average discount rate (weighted average cost of capital) used for the discounting of cash flows amounted to 8.72%, net of taxes (8.16% in the previous year).

It is worth to underline that the abovementioned parameters are applied to estimates and data which are determined by management based on past experience and expectations on the development of the markets in which the Group operates. In a more detail the current international macroeconomic situation and the possible effects on economy, in particular on expenditure levels defined by national governments and supranational institutions relating to space access policies, could present scenarios of uncertainty in achieving objectives and levels of activities considered in the plan, although without the rise of situation which could led to goodwill impairment. However, the estimate of the recoverable amount requires discretion and use of estimates by management and, even considering that the production and marketing cycles of products are characterized by time periods of significant duration which allow the recovery of any slippage of the objectives defined in the plan, it can not be excluded a loss of value in the goodwill in future periods due to changes in the scenario which are currently unforeseeable. The circumstances and the events that could require further testing of impairment losses are constantly monitored by the Group management.

Considering what above-mentioned, the Group carried out a sensitivity analysis simulating a variation which can be considered representative of the impairment test's significant parameters.
In particular:

- relating to the terminal value's growth rate, it was assumed a decrease of 50 basis point; alternately
- relating to the cash flows discount rate it was assumed an increase of 50 basis point.

Based on these sensitivities, the recoverable value of the CGU "Space" exceeds the recorded net book value.

Even considering a negative simultaneous variation of all the above-mentioned parameters, the recoverable value of the CGU "Space" results higher than the recorded net book value.

The recoverable amount would be less than book value of that CGU if the growth rate "g" would be decreased at 1,3% (instead if 2%) and simultaneously increasing the WACC at 4,92% (instead of 8,72)

For more information about Goodwill see section "Relevant facts after exercise closing" in the "Report on Operations".

3.3. INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

The composition of this caption is set out in the following table (amounts in thousands of Euro):

	31/12/2016				31/12/2015			
	Gross values	Accumu-lated depre-ciation	Write-offs	Net values	Gross values	Accumu-lated depre-ciation	Write-offs	Net values
Development costs – amortized	77.494	(37.597)		39.897	68.517	(34.771)		33.746
Development costs – not yet amortized	28.189			28.189	28.189			28.189
Total development costs	105.683	(37.597)	0	68.086	96.706	(34.771)	0	61.935
Investments costs for international programmes								
Customer relationships for participation in programmes	61.257	(40.838)		20.419	61.257	(36.754)		24.503
Concessions, licences, trademarks and similar rights	4.247	(3.581)		666	3.682	(3.141)		541
Patents								
Other	1.688	(816)		872	1.458	(742)		716
Total	**172.875**	**(82.832)**	**0**	**90.043**	**163.103**	**(75.408)**	**0**	**87.695**

Development costs mainly include costs of designing and testing of the Vega launcher programme.

Development costs are amortized, commencing with the production start-up of each programme, on a straight-line basis over the estimated useful life of the programmes to which they refer.

Development costs not yet amortized refer to programmes whose production has not yet started. Their recognition as "Intangible assets with finite useful lives" is subject to impairment test and is based upon the estimated profitability of the programme to which they refer.

Customer relationships for participation in programmes are related to the identification of such assets as a result of allocation of the acquisition purchase price to the fair value based on the present value of expected future benefits from these assets and amortized over a period 15 years based on the average useful life of the programs to which they refer.

Concessions, licences, trademarks and similar rights primarily include acquired software licensees.

Gross value movements occurred during the period are detailed as follows (amounts in thousands of Euro):

Gross values	31/12/2015	Additions	Disposals	Reclassi-fications and other changes	31/12/2016

Development costs – amortised	68.517	8.977			77.494
Development costs – not yet amortised	28.189				28.189
Total development costs	96.706	8.977	0	0	105.683
Customer relationships for participation in programmes	61.257				61.257
Concessions, licences, trademarks and similar rights	3.682	565			4.247
Patents					
Other	1.458	230			1.688
Total	**163.103**	**9.772**	**0**	**0**	**172.875**

Gross values	31/12/2014	Additions	Disposals	Reclassi-fications and other changes	31/12/2015
Development costs – amortised	68.517	-	-	-	68.517
Development costs – not yet amortised	23.656	4.533	-	-	28.189
Total development costs	92.173	4.533	-	-	96.706
Customer relationships for participation in programmes	61.257	-	-	-	61.257
Concessions, licences, trademarks and similar rights	3.122	560		-	3.682
Patents	-		-	-	-
Other	1.208	250	-	-	1.458
Total	**157.760**	**5.343**	**-**	**-**	**163.103**

Addiction in Development costs – not yet amortized are related to design and test of the new engines "Z40" and "P120" for the programs Vega and Ariane6.

Addictions in Concessions, licensees, trademarks and similar rights are mostly IT expenses.

Accumulated depreciation movements occurred during the period are detailed as follows (amounts in thousands of Euro):

Accumulated depreciation	31/12/2015	Amortisation	Disposals	Reclassi-fications and other changes	31/12/2016
Development costs – amortized	34.771	2.826			37.597
Development costs – not yet amortized					0
Total development costs	34.771	2.826	0	0	37.597
Customer relationships for participation in programmes	36.754	4.084			40.838
Concessions, licences, trademarks and similar rights	3.141	440			3.581
Patents					
Other	742	74			816
Total	**75.408**	**7.424**	**0**	**0**	**82.832**

Accumulated depreciation	Al 31/12/2014	Amortisation	Disposals	Reclassi-fications and other changes	Al 31/12/2015
Development costs – amortised	28.359	6.412	-	-	34.771

Development costs – not yet amortised	-		-	-	-
Total development costs	28.359	6.412	-	-	34.771
Customer relationships for participation in programs	32.670	4.084	-	-	36.754
Concessions, licensees, trademarks and similar rights	2.459	682	-	-	3.141
Other	-		-	-	-
Altre	721	21	-	-	742
Total	**64.209**	**11.199**	**-**	**-**	**75.408**

3.4. INVESTMENTS

The composition and book value of investments held as at December 31, 2015, with the information – related to the 2014 respective financial statements unless otherwise indicated – as required by art. 2427, no. 5) of the Civil Code and IAS 27, are shown in the following table (amounts in Euro):

Name	Office	% of shares	Book value (Euro)	Equity	Share capital	Difference between Book value / Share capital
Subsidiaries						
ASPropulsion International B.V.	Amsterdam (Olanda)	100%	58.640	57.783	57.783	857
ELV S.p.A.	Roma	70%	1.892	6.391	4.473	(2.581)
Regulus S.A.	Kourou (Guyana Francese)	60%	492	16.204	9.722	(9.230)
Avio India Aviation Aerospace Private Limited	New Delhi (India)	100%	114	108	108	6
Total Subsidaries			**61.138**	**80.486**	**72.087**	**(10.949)**
Associated companies and joint ventures						
Europropulsion S.A. (*)	Suresnes (Francia)	50%	1.521	6.266	3.133	(1.612)
Termica Colleferro S.p.A.	Bologna	40%	2.008	4.455	1.782	225
Servizi Colleferro - Società Consortile per Azioni	Colleferro (Rm)	32%	38	222	71	(33)
Consorzio Sitab in liquidazione	Roma	20%	5			5
Consorzio Servizi Acqua Potabile	Colleferro (Rm)	25%	0	0	0	0
Total Associated companies and joint ventures			**3.572**	**10.943**	**4.986**	**(1.414)**

Total	**64.711**	**91.429**	**77.073**	**(12.363)**

(*)Jointly controlled company

The net book value of some investments in controlled and associated companies as at December 31, 2016 is higher than the owned share of net equity. Based on impairment tests on the investments we believe that there are no relevant loss.

The foreign controlled company Avio India Aviation Aerospace is still in liquidation as at December 31, 2016.

Investments in other companies are 520 thousand Euro and are small profit-sharing of Arianespace, in the "C.I.R.A. – Centro Italiano Ricerche Aerospaziali S.c.p.A., in Imast S.c.a.r.l.". and in the "Distretto Aerospaziale Sardegna S.c.a.r.l.".

In 2016 We had no changes in the investments.

The movements that occurred in 2015 the period are detailed as follows (amounts in thousands of Euro):

	Values at 31/12/2014	Increase	Disposals	Write-downs	Values at 31/12/2015
Controlled companies	61,138	-	-		61,138
Associated and jointly controlled companies	6,371	-		(2,799)	3,572
Other companies	515	5	-	-	520
Total	**68,024**	**5**	**-**	**(2,799)**	**65,230**

3.5. NON-CURRENT FINANCIAL ASSETS

The caption amounts to Euro 7,440 thousand (Euro 6,400 thousand as at December 31, 2015) and refers to the profitable loan granted to the associated Termica Colleferro S.p.A and SECI Energia S.p.A. finalized to support its operating activity.
The net increase, amounting to Euro 1,040 thousand, is due to the additional funding granted during the year. This loan to associated companies has no interest from January 1, 2016.

3.6. DEFERRED TAX ASSETS

The deferred tax assets recognized in the balance sheet amount to Euro 54,520 thousand (Euro 54.126 thousand as at December 31, 2015):

	31/12/2016	31/12/2015	Variation
Deferred Tax Assets	54.520	54.126	394
Deferred Tax Liabilities	-	-	-
Net Total	**54.520**	**54.126**	**394**

The net balance represents the balance of deferred tax assets and liabilities calculated on the temporary differences between the carrying amounts of assets and liabilities assumed for purposes of preparing the financial statements and the corresponding amounts used for taxation purposes.

Deferred tax assets have also been calculated by applying the tax rates that are expected to be applicable when the temporary differences will be reversed or the benefits of tax losses will be usable.

The analysis of temporary differences and carry forward tax losses that led to the recognition of deferred tax assets and deferred tax liabilities is presented in the following table (amounts in thousands of Euro):

	31/12/2015	Income statement Variation	comprehensive income statement variation	Others	31/12/2016
Gross Deferred Tax Assets on Temporary Differences					
Temporary Differences from past transactions					
Amortization of goodwill for "Aviation" for tax purposes only	73.488	(18.139)			55.349
Financial expenses exceeding 30% of EBITDA	46.279	(303)			45.976
Temporary Differences from current transactions					
Maintenance and other expenses with deferred deductibility	1.480	(651)			829
Provision for employee-related liabilities	2.503	(489)	13		2.028
Other taxable Temporary Differences	2.044	2.346			4.390
Gross Deferred Tax Assets	**125.794**	**(17.237)**	**13**	**0**	**108.571**
Gross Deferred Tax Liabilities on Temporary Differences					
Temporary Differences from past transactions					
Amortisation of goodwill for "Space" for tax purposes only	(22.595)	(2.046)			(24.641)
Amortisazion of intangible assets for tax purposes only (Customer relationships for participation in programmes)	(7.205)	1.320			(5.885)
FTA R&D cost capitalisation and related amortization	(6.535)	654			(5.881)
Temporary Differences from current transactions					
Other taxable Temporary Differences	(828)	66			(762)
Gross Deferred Tax Liabilities	**(37.163)**	**(5)**	**0**	**0**	**(37.168)**
Net Deferred Tax	**88.631**	**(17.241)**	**13**	**0**	**71.403**
Deferred tax recorded on fiscal losses	28.047	13.580			41.627
Unrecorded Deferred Tax	(62.552)	4.042			(58.510)
Net Recorded Deferred tax	**54.126**	**381**	**13**	**0**	**54.520**

Gross Deferred Tax Assets on Temporary Differences and tax liabilities have been recognized to the extent of future taxable income estimated over a period consistent with the business cycle of the Group. Future taxable income has been determined based on the most recent business plan approved by the Board of Directors of Avio spa on January 19, 2017 and on the basis of a projection of forecasts over a subsequent time horizon considered to be representative of the business life cycle.

This time horizon considered to be representative of the business life cycle, was also estimated by taking into account the findings of the meeting of the Ministers of the Member States of the EFSA held in December 2014, to which were signed in August 2015 agreements with "ESA" regarding the development of the new Ariane 6 launcher and the evolution of the VEGA launcher in the VEGA C configuration, which include the development and construction of a new engine called "P120", and the meeting of the Ministers of the ESA Member States held in 1 and 2 December, 2016, which confirmed these development programs and begin the multi-year program for motor development and the Vega E Upper Stage, the next evolution of the Vega launcher.

As described in the section "Significant events subsequent to year end" of the Report on Operations of this Financial Statements, during 2017 Space2 (Italian SPAC on the MIV market / SIV segment of Borsa Italiana SpA) completed the acquisition from Leonardo and In Orbit SpA of the 85.86% of Avio S.p.A. share capital, mergering Avio S.p.A. with consequent listing, done on April 10, 2017, of Avio S.p.A. in STAR segment of the Italian Stock Exchange MTA Market.

Most of the temporary differences arising from deferred tax assets recognized in the financial statements, are related to Avio S.p.A., including the future tax deductibility of Avio S.p.A. goodwill amortization referred to the business segment "Aviation" and financial charges exceeding 30% of gross operating income, as well as previous tax losses.

According to art. 172 of TUIR, the merger represents a tax neutral transaction for direct tax purposes. Nonetheless, the recovery of undedicated financial charges and past tax losses, as well as the extension of the tax consolidation regime already in force, are subject to the compliance with determined conditions.

In general, such financial charges and tax losses could be fully reported as a result of the merger, provided that the capital limits and the "vitality" requirements specified by art. 172, seventh paragraph of TUIR are respected, or if - in the event of non-compliance with these conditions - is accepted by the Financial Administration the request for non-application of the standard ex art. 11, second paragraph, of Law 27 July 2000, no. 212.
With reference to Avio SpA, these capital limits and "vitality" conditions are not respected for contingent reasons resulting from the "carve out" of the Aviation business, occurred in 2013.
If, on the other hand, when calculating the capital limits and in the assessment of living conditions, were considered, relating to 2013, only the business "Spazio", well-defined in the financial statements prepared at that time, the test would be passed.
In this regard, the Company is preparing an instance of interpellation. Considering the peculiarities of the merger under examination, and also on the basis of the opinion of the tax consultants interviewed by Avio SpA, it is considered that there are sufficient elements to adfirm that the request can be welcomed by the Financial Administration.

For the purposes of indirect taxation, the merger is excluded from the scope of VAT, pursuant to art. 2, third paragraph, letter f) of the D.P.R. n. 633/1972 and is subject to the registration tax fixed in accordance with art. 4 (b), first part of the "Tariffa" attached to D.P.R. n. 131/1986.

3.7. OTHER NON-CURRENT ASSETS

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Receivables from General Electric Group	58.220	-	58.220
Receivables from Ministry of Economic Development for cash supply Law 808/85	8.963	8.373	590
Cautionary deposits	97	97	-

Totale	**67.279**	**8.469**	**58.810**

The caption "Receivables from General Electric Group", amounting to 58,220 thousand of Euro, refers to the receivable recorded simultaneously in the non-current liabilities of a payable towards tax authorities (Erario) of the same amount, subsequent to the receiving, in July 2016, from tax authorities (Agenzia delle Entrate), of a tax notice related to registration duty, mortgage tax and cadastral duties, for the above-mentioned amount, concerning the operation that led, in 2013, to the sale of the Company GE Avio S.r.l. (containing Avio Group's AeroEngine Business) to General Electric Group.

The recording of this receivables to General Electric Group is based on specific contractual provisions under which General Electric is required to keep free Avio S.p.A. from any liabilities that could arise relating to indirect taxes referring to the above mentioned operation, making available to Avio S.p.A. the sums requested by the tax authorities within the due deadlines.

Relating to this topic, please refer to Note "3.26. Other non-current liabilities" and to Section "Legal proceedings and contingent liabilities" in the Explanatory Notes.

The caption "Receivables from the Ministry of Economic Development for Disbursements under Law 808/85", amounting to Euro 8,963 thousand (corresponding to a nominal value of Euro 9,462 thousand), refers to the discounted value of the non-current portion of the concessions as of December 31, 2016, on the basis of the approval by the Inter-ministerial Committee for Economic Planning of the resolution of March 22, 2006 no. 28 guidelines for aerospace interventions by the Ministry of Economic Development for projects qualified as functional for national security or for the realization of a project of common European interest, whose delivery is deferred over a ten-year time span.
These receivables are write in the balance sheet at the value resulting from the application of the amortized cost method, calculated using the effective interest rate, and are increased by the cumulative amortization of the difference between the initial value and the cash-flow Caption "Financial income". Receivables are initially recognized as a counterpart to the caption "Other non-current liabilities" (Note 3.21).
The part of cash in which is planned within 12 months is classified as "Other current assets" (Note 3.14).

The increase in the period is mainly due to the recognition of receivables corresponding to the grant approved by the Ministry of Economic Development by means of a special decree of April 27, 2016, with which funding costs for the P40 program have been approved.

CURRENT ASSETS

3.8. INVENTORIES

The total value of the inventories at December 31, 2016 amounts at Euro 81,620 thousands. The composition of the caption is in the following table (amounts in thousands of Euro):

	31/12/2016			31/12/2015		
	Gross value	Inventory reserve	Net value	Gross value	Inventory reserve	Net value
Raw materials and supplies	25.934	(3.088)	22.846	28.300	(1.332)	26.968
Work in progress	2.516	(424)	2.092	2.878	(424)	2.454
Finished goods	7	(4)	3	11	(4)	7
Advances to suppliers	56.679		56.679	34.992		34.992

Total	**85.136**	**(3.516)**	**81.620**	**66.181**	**(1.760)**	**64.421**

The caption advances to suppliers includes amounts paid in advance by suppliers based on the conditions agreed on the related purchasing contracts. The increase is related to the need to meet greater production needs of the year as well as to strategic purchases made during the year to seize the best opportunities in terms of price.

3.9. CONTRACT WORK IN PROGRESS

Contract work in progress are classified as an asset if, based on the analysis made for each contract, the gross amount of construction in progress is higher than advances received from the customers. Otherwise, the amount is classified as a liability.

The total gross value of contract work in progress and progress billing and advances cashed from customers is detailed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Contrract work in progress (gross amount)	51.091	939.610	(888.519)
Advances for contract work in progess	(153.922)	(1.009.138)	855.216
Advances (net)	**(102.831)**	**(69.528)**	**(33.303)**

The following table presents the balance of contract work in progress for which the gross amount of work in progress exceeds progress billing and which net value is therefore classified as an asset (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Contract work in progress (gross amount)	268.811	625.374	(356.563)
Advances for contract work in proges	(217.720)	(542.873)	325.153
Advances (net)	**51.091**	**82.501**	**(31.410)**

The following table presents the balance of contract work in progress for which progress billing and advances exceed the gross value of work in progress and which net value is therefore classified as a liability (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Contract work in progress (gross amount)	490.563	314.236	176.327
Advances for contract work in proges	(644.485)	(466.265)	(178.220)
Advances (net)	**(153.922)**	**(152.029)**	**(1.893)**

As at December 31, 2016, the Group had provisioned funds to cover expected losses on contracts with negative balance, amounting to Euro 739 thousand (Euro 718 thousand as at December 31, 2015), classified in the Liabilities section of the Consolidated Statement of Financial Position in the caption "Provision for risks and charges".

3.10. TRADE RECEIVABLES

Trade receivables at December 31, 2016 amount to Euro 9.818 thousand (Euro 8.887 thousand at December 31, 2015). The caption is detailed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Trade receivables from third parties	3.762	2.493	1.269
Receivables from parent companies	2.893	5.493	(2.600)
Receivables from associated companies	3.163	901	2.262
Total	**9.818**	**8.887**	**931**

The book value of trade receivables is deemed to approximate their fair value.

Trade receivables from third parties

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Gross value	3.845	2.576	1.269
Less: allowance for doubtful accounts	(83)	(83)	-
Total	**3.762**	**2.493**	**1.269**

There are no receivables with maturity date beyond five years.

Receivables from controlled companies

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Regulus S.A.	578	1.556	(978)
Secosvim S.r.l.		2	(2)
ELV S.p.A.	2.315	3.935	(1.620)
Total	**2.893**	**5.493**	**(2.600)**

The receivables are deemed fully collectable within one year and therefore no provision for doubtful account is recorded.

Receivables from associated and jointly controlled companies

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Europropulsion S.A.	2.824	605	2.219
Consorzio Servizi Acque Potabili	157	173	(16)
Servizi Colleferro - Società Consortile per Azioni	60	77	(17)
Termica Colleferro S.p.A.	122	46	76

Total	**3.163**	**901**	**2.262**

The receivables are deemed to be fully collectable within one year and therefore no adjustments in value were recorded.

3.11. CURRENT FINANCIAL ASSETS

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Current financial assets from associated companies		130	(130)
Current financial assets from third parties - subject to restrictions	1	-	1
Total	**1**	**130**	**(129)**

The decrease in current financial receivables from associated companies is due to the share financing granted to the associated company Termica Colleferro S.p.A. in agreement with the other shareholder SECI Energia S.p.A., as noted in Note "3.5. Non-current financial assets" is interest-bearing on January 1, 2016. Current financial receivables from jointly controlled companies relates to interest income arising from the treasury management contract with the company Europropulsion S.A.

3.12. CASH AND CASH EQUIVALENTS

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Bank and post-office accounts	84.639	67.505	17.134
Cash on hand	-	-	-
Total	**84.639**	**67.505**	**17.134**

The caption "Cash and cash equivalents" include Bank and post-office accounts and Cash on hand, for 84.639 thousand Euro, increasing for 17.134 thousand Euro.
Regarding the analysis of the factors that led to this increase, please refer to the Cash Flow Statement for the financial statements of Avio S.p.A.

3.13. CURRENT TAX ASSETS

Current tax assets as at December 31, 2016 amount to Euro 19.975 thousand (at December 31, 2015 amounted to Euro 13.859 thousand). The caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
VAT receivable	16.776	9.935	6.841
Receivables from Tax Authorities	2.981	3.680	(699)
EU VAT receivable	218	244	(26)

Total	**19.975**	**13.859**	**6.116**

VAT receivables, amounting to Euro 16,776 thousand, include:

- for an amount of Euro 6,541 thousand, a VAT claim already claimed for reimbursement to the Tax Office in previous years;
- for Euro 10,235 thousand the VAT receivable matured in 2016 (equal to Euro 6,841 thousand) in addition to the initial Balance at December 31, 2015 (Euro 3,394 thousand). Regarding the evolution of this credit, it is apparent that at the end of December 2016 Avio S.p.A. Received a positive response to an appropriate application submitted to the Tax Office during 2016; in response to this finding, the Company, referring to the development activity carried out for the subsidiary ELV S.p.A., with ESA (European Space Agency) as ultimate contractor, the Company issues a VAT non-taxable invoice from the beginning of 2017 to ELV, with the contextual creation of a plafond to be used relating to its suppliers from 2018, issuing to them invoices without VAT. The final outcome of this ruling, limited to the significant stage of development, is therefore expected to result in the substantial non-generation of additional VAT credit in Avio since 2018.

The receivables from Tax Authorities concern mainly the residual balance of the IRAP tax (Euro 2,316 thousand) against payment of overdrafts at the end of 2014. The decrease of 700 thousand Euro is essentially due To partial compensation, in October 2016, of the aforementioned IRAP credit.

3.14. OTHER CURRENT ASSETS

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Receivables from Social Security Institutions	-	-	-
Receivables from employees	739	586	153
Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85	2.432	3.011	(579)
Receivables for public grants to be collected	880	2.610	(1.730)
Receivables from controlled companies	439	211	228
Receivables from associate companies not in the consolidated		38	(38)
Receivables from other debtors	324	1.272	(948)
Prepaid expenses and accrued income	294	176	118
Total	**5.108**	**7.904**	**(2.796)**

The caption "Receivables from the Ministry of Economic Development for Disbursements under Law 808/85" refers to the discounted value (corresponding to a par value of Euro 2,432 thousand at December 31, 2016) of the concessions to be disbursed by the Ministry of Economic Development in the face of qualifying projects as functional to national security or the realization of a project of common European interest, following the approval by the Committee of Ministers for Economic Planning of the resolution of March 22, 2006 no. 28 directives for aerospace interventions, whose collection is expected within 12 months. Deductions over 12 months are classified under "Other non-current assets" (Note 3.7).

The caption "Receivables for public grants to be collected" refers to the contributions provided by the Law of Conversion of 22 November 1994, no. 644 of the decree-law of 23 September 1994, no. 547, named "Urgent interventions in support of the economy"; In January 2017, the conclusion of the cost-verification activities for these contributions, relating to years 1994-2000, 2002-2004 and 2005-2007, was completed by the appropriate inter-ministerial Commission: consequently, the receivable has been appropriately adjusted in order to reflect the final evaluation carried out by the Commission.

"Receivables from controlled companies" refers to the subsidiary Secosvim for tax consolidation agreements.

The caption “Receivables from other debtors” includes an adjustement, made in 2016, relating to their presumable recovery value.

EQUITY

3.15. SHARE CAPITAL

The Company’s share capital as of December 31, 2016 amounts to Euro 40,000 thousand, fully issued and paid, and it is unchanged with respect to December 31, 2015.

Share capital was entirely paid at the incorporation of the Company, on December 11, 2006.

As at December 31, 2016, share capital consist of 400,000,000 ordinary shares with nominal value of Euro 0.1 each, and it is unchanged with respect to December 31, 2015.

The objectives identified by the Company for managing capital are to create value for shareholders, to preserve business continuity and support the growth and development of the Company.

Capital means both the value contributed by shareholders, represented by both share capital and additional paid-in capital and from the value generated by the Company in terms of results achieved in operations, represented by retained earnings and other reserves, excluding gains and losses recognised directly in equity.

3.16. ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital amounts to Euro 73,576 thousand at December 31, 2016 and it is unchanged with respect to December 31, 2015.

3.17. OTHER RESERVES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Actuarial gain/(losses) reserve	(2.746)	(2.526)	(220)
Contribution surplus reserve	80.469	80.469	-
Exchange adjustment reserve	36	36	-
Cash flow hedge reserve (interests rate risk)	(312)	(367)	55
Total	**77.447**	**77.612**	**(165)**

The actuarial gains/losses reserve, negative for Euro 2.746 thousand as at December 31, 2016, includes gains and losses, net of tax effect, arising from the application of the revised IAS 19.

Contribution surplus reserve includes the surplus value arising from the contribution, based on application, following OPI 1 requirements, of the “continuity of values” criterion for assets and liabilities value, as recognized in the consolidated financial statements. Particularly it is related to the goodwill portion and to the investments value contributed.

The Cash flow hedge reserve as at December 31, 2016, negative for Euro 312 thousand, includes the effect of the mark-to-market adjustments deriving from the *interest rate swaps* (IRS) signed on June 30, 2015, for hedging purposes in relation to the volatility of the interest rates stated and applied by the Senior Term and Revolving Facilieties Agreement, more widely described in paragraph 3.18 and 3.23.

The description of the nature, possible use and portion available for distribution for each caption of net equity is set out below, together with information about the use in previous financial years (amounts in thousands of Euro):

Nature/description	Amount	Possible use	Portion available for distribution	Used in previous financial years	
				For loss replenishment	For other reasons
Share capital	40.000				
Capital Reserves:					
- Additional paid-in capital	73.576	A, B, C	73.576	-	-
Reserves from profits:					
- Legal reserve	8.000	B			
- Contribution surplus reserve	80.469	B, C	80.469		
- Actuarial gain/(losses) reserve	(2.746)	-			
- Exchange adjustment reserve	36	-			
- Cash flow hedge reserve	(312)	-			
Retained Earnings	87.275	A, B, C	87.275	-	214.452
Total	**286.298**		**241.320**		
Portion not available for distribution			(68.086)		
Portion available for distribution			**173.234**		

Note: A: for capital increase - B: for loss replenishment - C: for distribution to shareholders

The non-distributable reserve relates to the additional paid-in capital reserve, not distributable for an amount equal to the residual value of development costs capitalized.

NON-CURRENT LIABILITIES

3.18. NON-CURRENT FINANCIAL LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Financial payables towards banks (Senior facilities)	-	91.272	(91.272)
Total	**-**	**91.272**	**(91.272)**

Financial payables to non-current banks amounted to Euro 91,272 thousand at December 31, 2015 and refer to the Senior Term and Revolving Facilities Agreement concluded on April 1, 2015 between Avio S.p.A. And a pool of leading international banks (Banca IMI, Banca Popolare di Milano Società Cooperativa a rl, BNP Paribas - Italian Branch, Crédit Agricole Corporate and Investment Bank - Milan Branch, Société Générale - Milan Branch and Unicredit SpA) for an amount equal to Euro 130 million, including a revolving line of Euro 30 million.

The financial debt at 31 December 2016 relating to this loan was reclassified in the short term, given the "change of control" clauses in the contract itself. For more information, see both the Report on Operationss, paragraph "Facts Significant after the end of the financial year ", note that" 3.23. Current portion of non-current financial payables ".

3.19. EMPLOYEE BENEFITS PROVISIONS

The caption includes obligations for post-employment benefits and other long-term benefits payable to employees.
The benefits generally being based on employees' remuneration and years of service. The obligations relate to active employees.

Post-employment benefits
The Company provide post-employment benefits for their employees, contributing to independently administered funds through defined contribution plans, and with defined benefit plans.

Defined contribution plans
In the case of defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory or contractual basis. Once the contributions are paid, the Company has no further payment obligations. Liabilities for contributions accrued but not paid are included in the caption "Other current liabilities". The Company recognises the contribution cost when the employee has rendered the service and includes this cost in the caption "Personnel costs".

Defined benefit plans
Defined benefit plans are unfunded and substantially relate to employee severance indemnity payment ("*Trattamento di Fine Rapporto* - TFR") and to the special long-term service indemnity, which is payable at the moment of retirement to employees who have matured certain length of service seniority requisites within the company. The amount of these obligations is determined on an actuarial basis using the projected unit credit method.

TFR is related to obligations payable to employees at termination of employment, in accordance with the provision of Art. 2120 of the Italian Civil Code. The 2007 Budget Law and subsequent Decrees and Regulations, significantly modified the relevant rules. In particular, regarding companies employing an average of more than 50 employees, TFR maturing after January 1, 2007 is transferred, because of a choice made by the employee, to a complementary pension fund or to the treasury fund managed by INPS (National Social Security Institute). Consequently, for the Group's companies employing an average of more than 50 employees, the portion of TFR accrued after this date is assumed as a defined contribution plan. In particular, this is due to the fact that the Group's obligation is represented exclusively by the payments to the complementary pension funds or INPS, while the past provision accrued at December 31, 2006 continues to represent a defined benefit plan, to be assessed based on actuarial methodologies. For the Group's companies employing an average of less than 50 employees, the portion of the year is still accrued in the TFR reserve, except for any specific decisions taken by employees on a voluntary basis.

Other long-term benefits

The Company grants certain other long-term benefits to its employees, generally paid when the employee attains a specific seniority in the company. In this case, the measurement of the obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. The amount of this obligation recorded in the balance sheet is calculated on an actuarial basis using the project unit credit method.

Defined benefit plans reserve is detailed as follow (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Defined benefit plans:			
Employee severance indemnity (TFR)	4.812	5.172	(360)
Other defined benefit plans	1.936	1.999	(63)
	6.748	7.171	(423)
Other long-term benefits	1.596	1.545	51
Total	**8.344**	**8.716**	**(372)**

Changes in employee benefits provisions are as follows (amounts in thousands of Euro):

	Defined benefit plans	Other long-term benefits	Provision for employees benefits
Balance at December 31, 2015	**7.171**	**1.545**	**8.716**
Financial expenses/(income)	2	-	2
Recognised actuarial losses/(gains)	-	209	209
Current service costs	72	79	151
Benefits paid	(730)	(236)	(966)
Transfers to companies within the Company	-	-	0
Actuarial losses/(gains) from equity's reserve	234	-	234
Balance at December 31, 2016	**6.748**	**1.596**	**8.344**

The amounts charged to the 2016 income statement related to the employees benefits provisions, are detailed in the following table (amounts in thousands of Euro):

	31/12/2016			31/12/2015		
	Defined benefit plans	Other long-term benefits	Total Employee benefits provisions	Defined benefit plans	Other long-term benefits	Total Employee benefits provisions
Past service cost	72	79	151	80	88	168
Recognised actuarial losses/(gains)		209	209	0	120	120
Total personnel costs	72	288	360	80	208	288
Financial expenses/(income)	2		2	10	2	12
Total	**74**	**288**	**362**	**90**	**210**	**300**

Main actuarial assumptions used are detailed as follows:

La tabella sottostante fornisce le principali ipotesi utilizzate per il calcolo attuariale:

	2016	2015
Discount rate	0,52%	0,97%
Expected salary increase	2,11%	2,11%
Inflation rate	1,50%	1,50%
Average rate of staff turnover	4,78%	4,78%

In order to calculate the present value, bonds issued by corporate issuers included in "AA" class rating have been considered, with the assumption that this class identifies a high level of credit rating in the set of "Investment Grade" bonds and excluding in this way, riskier bonds. The market curve chosen is a market curve "Composite", which summarizes the market conditions at the date of valuation for bonds issued by companies belonging to different industries including Utilities, Telephone, Financial, Bank, and Industrial. The geographical area considered was the Euro zone.

A 50 basis points increase or decrease in the discount rate would results as indicated in the following table in the estimated value of TFR and of long-term service indemnity:

	Increase 0,50% in the discount rate	Decrease 0,50% in the discount rate
TFR	5	272
Long-term service indemnity	(42)	106

3.20. PROVISIONS FOR RISKS

The composition of the reserves for risks and charges is as follows (amounts in thousands of Euro):

	31/12/2016			31/12/2015			
	Current	Non - current	Total	Current	Non - current	Total	Variation
Reserve for costs of variable salaries and wages	11.606		11.606	7.657		7.657	3.949
Reserve for personnel expenses and restructuring		362	362		804	804	(442)
Reserve for legal and environmental risks		228	228		337	337	(109)
Reserve for contractual and commercial risks		1.338	1.338		1.182	1.182	156
Reserve for fiscal risks	1.043	469	1.512		5.324	5.324	(3.812)
Total	**12.649**	**2.397**	**15.045**	**7.657**	**7.647**	**15.304**	**(259)**

Funds include:

- Funds for variable remuneration of Euro 11,6 million, mainly consisting of:
  - reserves for charges relating to remuneration payable to staff in relation to the achievement of individual and corporate objectives, amounting to approximately Euro 3,1 million;
  - reserves related to an incentive plan consisting of a flat-rate bonus and a one-off bonus related to the successful outcome of the Space2-Avio (Exit Bonus 2017) transaction attributed by the Board of Directors on October 19, 2016 to the Senior Executives of the Avio Group and also finalized to ensure their stay within Avio's staff;
  - reserves related to an incentive plan that, at the achievement of Group and Avio's enhancement targets, including the sale of Avio, enables Avio's Vice President in office before the Space2-Avio operation and until the effective date of the Merger (Ing. Lasagni) to receive a prize of variable amount between a minimum of Euro 500 thousand and Euro 700 thousand (gross amounts);
  - reserves related to an incentive plan that, subsequent to the completion of the Space2-Avio operation, allows Mr Alan Bowkett, the Chairman of the Board of Directors in office before the Space2-Avio operation and until March 31, 2017,to receive a prize equal to Euro 200 thousand;
  - reserves for charges arising from a remuneration plan attributable to a defined number of managers, equal to Euro 4,2 million. This remuneration plan is

subordinated to the occurrence of certain events concerning the equity structure of the Company or its parent and is bound to the achievement of certain levels of the Group's equity value. The plan is defined as a "cash-settled share-based payment" within the scope of IFRS 2 and the valuation of the fair value recorded in the financial statements has been carried out through mathematical-actuarial models;

- Reserve for personnel expenses and restructuring, including social security charges, integrations to the employee defined benefit plans, and other costs related to employee mobility retirement procedures, amounting to Euro 362 thousand;
- Reserve for legal and environmental risks, in connection with ongoing legal disputes and litigation amounting to Euro 228 thousand;
- Reserve for contractual and commercial risks, mainly related to provisions for pending trade disputes, penalties, charges and losses arising from the conclusion of ongoing contracts, as well as charges related to "Diritti di regia", rights defined by law 808/85 (post 2006 discipline) which amount to Euro 1,338 thousand;
- Reserve for fiscal risks, amounting to Euro 1,512 thousand, mainly related to the provision for possible negative outcomes of tax assessment conducted on the Company, even consequently to the notification of certain assessment notices.

The changes in total current and non-current provisions in 2016 and 2015 are detailed as follows (amounts in thousands of Euro):

	31/12/2015	Provisions	Utilization	Reclassi-fication and amounts reversed to income	31/12/2016
Reserve for costs of variable salaries and wages	7.657	7.444	(2.480)	(1.016)	11.605
Reserve for personnel expenses and restructuring	804		(442)		362
Reserve for legal and environmental risks	337		(24)	(84)	228
Reserve for contractual and commercial risks	1.182	155			1.337
Reserve for fiscal risks	5.324	1.043	(75)	(4.780)	1.512
Total	**15.304**	**8.642**	**(3.021)**	**(5.880)**	**15.045**

	31/12/2014	Provisions	Utilization	Reclassi-fication and amounts reversed to income	31/12/2015
Reserve for costs of variable salaries and wages	7.496	2.518	(2.085)	(272)	7.657
Reserve for personnel expenses and restructuring	574	983	(231)	(522)	804
Reserve for legal and environmental risks	870	130	(527)	(136)	337
Reserve for contractual and commercial risks	794	388			1.182
Reserve for fiscal risks	17.168	456	(12.300)		5.324
Total	**26.902**	**4.475**	**(15.143)**	**(930)**	**15.304**

Revenues are essentially represented by the adjustment of tax risks because of the fact that the Revenue Agency has expressed its willingness to refrain from issuing sanctions in respect of tax disputes from previous years.

3.21. OTHER NON-CURRENT LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Payables to Tax Authorities for registration duty, mortgage tax and cadastral duties relating to the operation that in 2003 led to the sale of the Company GE Avio S.r.l. (containing Avio Group's AeroEngine Business) to General Electric Group	58.220		58.220
Payments to the Ministry of Economic Development for disbursements under Law 808/85 - amount beyond the next financial year	42.051	41.216	835
Deferred income on disbursements under Law 808/85 - amount beyond the next financial year	16.602	13.801	2.801
Deferred income tax credits for research and development activities beyond the next financial year	506	513	-7
Totale	**117.379**	**55.530**	**61.849**

Payables to Tax Authorities for registration duty, mortgage tax and cadastral duties relating to the operation that in 2003 led to the sale of the Company GE Avio S.r.l. (containing Avio Group's AeroEngine Business) to General Electric Group:
The caption, amounting to 58.220 thousand Euro, refers to the receiving, in July 2016, from Tax Authorities (Agenzia delle Entrate) of a tax notice related to registration duty, mortgage tax and cadastral duties, for the above-mentioned amount, concerning the operation that led, in 2013, to the sale of the Company GE Avio S.r.l. (containing Avio Group's AeroEngine Business) to General Electric Group. Simultaneously the Company recorded a receivables from General Electric Group of the same amount.

The recording of this receivables to General Electric Group is based on specific contractual provisions under which General Electric is required to keep free Avio S.p.A. from any liabilities that could arise relating to indirect taxes referring to the above mentioned operation, making available to Avio S.p.A. the sums requested by the tax authorities within the due deadlines.

Refer to the topic "3.7. Other non-current assets" and the section "Legal, tax and potential liabilities" in the Notes.

Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 – portion due after one year

This caption equals to Euro 42.051 thousand and relates to the financing provided by the Ministry of Economic Development pursuant to Law No. 808/85, and subsequent legislation intended to promote research and development activities, including studies, tests and designs for new programmes and certain other activities, in the aerospace industry. This financing is interest free and is required to be repaid over the life of the related programmes. These payables are valued at their nominal value.
In 2006, the regulations for the implementation of Law No. 808/85 were modified. In particular, within the scope of programmes eligible for intervention under the above law, specific guidelines were carved out for programmes directed at national security and at realising a project of common European interest. According to these new guidelines, the payment of compensation on the sale of products developed within the above programmes is now provided for, superseding the current refunding of financing granted.
The obligation to refund the amount free of interest stands for programmes not included in the above categories.

These new guidelines are deemed not to be applicable for programmes eligible for intervention decided before the adoption of Resolution No. 28/2006 by the Inter-ministerial Committee for Economic Planning (CIPE), as formally communicated to the Ministry of Economic Development in prior years, and following an in-depth analysis carried out also with the support of authoritative legal advisors, taking into consideration the specific situation of the programmes involved, and, therefore, no modifications to the current law have arisen in 2016, the accounting method presently utilised in recognising this financing was not modified.

Deferred income for funding pursuant to Law No. 808/85 – portion due after one year

This caption, amounting to Euro 16.602 thousand, represents the initial counterpart of the receivable from the Ministry of Economic Development for funding pursuant to Law No. 808/85 related to programmes classified as being functional to national security or for realising a project of common European interest (as explained in Note 3.7) for the portion to be credited to income statement of future periods, after one year, to match them with the related costs for which funding has been granted.

Deferred income for tax credit related to R&D activities – portion due after one year

This caption (equal to Euro 506 thousand) represents the portion of the tax credit recorded in the financial statements as provided for by Law No. 296/2007 (2007 Finance Act) subsequently modified by Law Decree No. 185/2008, converted into Law No. 2/2009, to be credited to the income statement in future financial years, as due after one year, depending on different types of costs being the subject of the intervention, in relation to both the year of charging to income statement research and development expenses, based on which the tax credit has been determined, and to the recognition of revenues related to construction in progress, to the amount of which research and development expenses concurred.

CURRENT LIABILITIES

3.22. CURRENT FINANCIAL LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Financial payables to jointly controlled companies	32.397	35.635	(3.238)
Financial payables to associate companies	13.850	8.399	5.451
Fair value of derivative instruments (IRS)	312	367	(55)
Total	**46.558**	**44.401**	**2.157**

Financial payables to controlled companies

The caption is composed as follows (amounts in thousands of Euro):

Financial liabilities related to derivative instruments express the interest rate swaps (IRS) fair value for hedging against the risk of fluctuations in the floating rate of the Senior Term and Revolving Facilities Agreement.

Financial payables to controlled companies

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
SE.CO.SV.IM. S.r.l.	30.249	29.878	371

ELV S.p.A.	2.148	5.757	(3.609)
Total	**32.397**	**35.635**	**(3.238)**

Payables to controlled companies relate to the debit balance of the treasury account within the framework of the centralised treasury operations made by the Group effective for the Company, at market terms and conditions.

PFinancial payables to jointly controlled companies related to the financial intercompany debt of Avio S.p.A. towards Europropulsion S.A., as a consequence of the specific treasury management contract, which defines the refunding mechanism which attribute the financial resources of the joint venture to its shareholders.

3.23. CURRENT PORTION OF NON-CURRENT FINANCIAL LIABILITIES

The caption, amounting to Euro 91,615 thousand (Euro 4,439 thousand at December 31, 2015), is related to the financial loan Senior Term and Revolving Facilities Agreement, whose debt is entirely accounted for in current liabilities as for the reasons explained below.

As already reported in the Report on Operations, paragraph "Significant events subsequent to year end", referring to the merger and listing of the incorporated Avio S.p.A. in the incorporating Space2 S.p.A., the "change of control" clauses defined in the loan agreement provide that the related credit lines will have to be repaid in advance if:

(A) the control (direct or indirect) of the Incorporating Company (meaning that it holds more than 50% of the voting rights or the right to control the majority of the voting rights at the ordinary shareholders meeting of the Incorporating Company or to appoint and revoke its administrators) is assumed by one or more subjects, even acting in concert among themselves, other than the Related persons (with this term in the Senior Term and Revolving Facilities Agreement: Cinven Limited or the Cinven Funds or any other entity controlled or managed by the aforementioned entities or other investors in such funds with which Cinven has voting arrangements in relation to Avio), Leonardo, Safran, Airbus Group (Safran and Airbus if at the date of any change of control the relevant rating is at least equal to BBB) and/or other entities controlled by the subjects above mentioned directly or indirectly through fully owned companies (including Airbus Safran Launchers Holding SAS, Airbus Safran Launchers SAS and Airbus Safran Launchers GmbH) and/or entities controlled by the Ministry of the Economy and Finance (including Cassa Depositi e Prestiti S.p.A. and A.S.I. - Agenzia Spaziale) and/or ESA European Space Agency, directly or indirectly through fully owned companies);

(B) a pledge of more than 20% of the Shares of the Incorporated Company or of any of the shares of the Incorporated Company held by funds managed by Cinven Limited; or

(C) all or substantially all of the assets of the Group (meaning the Incorporated Company and its subsidiaries) are disposed.

According to the Senior Term and Revolving Facilities Agreement, the acquisition by Space2 S.p.A., Leonardo S.p.A. and In Orbit S.p.A. integrates a change of control hypothesis (as a result of the transfer of 85.68% of Avio's share capital, in accordance with the terms and conditions set forth in the acquisition contract). Likewise, under the terms of the Senior Term and Revolving Facilities Agreement, the merger constitutes a prohibited transaction, unless the pool banks gives its agreement.

On November 29, 2016, therefore, the Incorporated Company Avio S.p.A. made a waiver request relating to the mentioned acquisition operation, to Banca IMI, a bank of the pool of lending banks, in order to verify the agreement of the lending banks for the granting of waiver to the clause "Merger", which constitutes a default event, and the change of control clause, which state the immediate repayment of the outstanding amounts of the credit lines. By way of derogation from these forecasts, the Incorporated Company requested to the agent bank (even considering the appropriateness of having a reasonable time after the completion of the Space2-Avio transaction to understand the financial needs of the company resulting from the merger) that the loan becomes redeemable at the earliest date between the six months following the merger's effective date and

December 31, 2017, provided that the Space2-Avio operation is completed by that date.The acquisition of Avio S.p.A., merger in Space2 S.p.A. and the listing of the Company have concluded on April 10, 2017.

The request made by the Incorporated Company is due to a number of factors, including:

- the financial resources deriving from the merger will be substantially used to repay the above-mentioned bank loan by the indicated dates;
- the level of burdens of the current bank loan: tranche A of Euro 29,9 million at December 31, 2016 with interest rate equal to Euribor at 6 months plus spreads of 3.0% and tranche B of Euro 63,4 million at December 31, 2016 with an interest rate equal to Euribor at 6 months plus spreads of 4.0%.

- the financial resources deriving from the merger will be substantially used to repay the above-mentioned bank loan by the indicated dates;

- the level of burdens of the current bank loan: tranche A of Euro 29,9 million at December 31, 2016 with interest rate equal to Euribor at 6 months plus spreads of 3.0% and tranche B of Euro 63,4 million at December 31, 2016 with an interest rate equal to Euribor at 6 months plus spreads of 4.0%.

On December 30, 2016 Banca IMI SpA, in quality of bank agent and therefore also on behalf of the pool banks, replied to the aforementioned request confirming the waiver agreement in accordance with the terms required by Avio S.p.A.

As a result of these negotiations and having concluded merger and listing as of 10 April 2017, the Incorporated Company has reclassified in current liabilities the residual medium/long-term debt related to the Senior Term and Revolving Facilities Agreement.

Regarding the capacity of Avio S.p.A. To extinguish this funding in advance, it should be noted that:

a) Avio Group's net financial position as of 31 December 2016 amounts to Euro 18.6 million, including as follows:

- financial liabilities arising from the above-mentioned financing for 91,6 million of Euro;
- financial liabilities related to derivatives hedging interest rates on the aforementioned loan of Euro 312 thousand;
- financial liabilities arising from current financial payables to the joint-control company Europropulsion for Euro 13,9 million, net of
- cash and cash equivalents of Euro 87,2 million.

b) the aforementioned cash and cash equivalents, due to the merger, will add financial resources arising from Space2.

As a result, Avio Group's initial cash flow, the financial resources resulting from the merger and the cash that is expected to be generated in 2017, are expected to enable the Group to repay the loan in advance in accordance with the terms defined in *waiver* agreement.

The Senior Term and Revolving Facilities Agreement was concluded on April 1, 2015 between Avio S.p.A. And a pool of leading international banks (Banca IMI, Banca Popolare di Milano Società Cooperativa a rl, BNP Paribas - Italian Branch, Crédit Agricole Corporate and Investment Bank - Milan Branch, Société Générale - Milan Branch and Unicredit SpA) for an amount equal to Euro 130 million, including a revolving line of Euro 30 million.

The Senior Term Agreement is divided into two tranches, the first of which is 35 million Euro and the second of 65 million Euro, whose repayments for the said renegotiation that led to its early extinction were respectively foreseen An amortization plan in six years and a single "bullet" solution at 7 years.
Funding is not supported by any real collateral, it includes some limitations in terms of investments, acquisitions, disposals, additional financing (assets or liabilities), and financial compliance ("Financial covenants"), in line with the forecasts of the plan Multiannual of the Group, relating to:

- Leverage Ratio;
- Interest Cover Ratio;
- Capital Expenditures.

The financial covenants at December 31, 2016 are respected.

The contract provides for the following interest rates, in line with market rates:
- for a tranche of 35 million Euro and the revolving line used, Euribor + spread 4%;
- for the tranche of 65 million Euro, Euribor + spread 4.5%.

These spreads are expected to be reduced by up to 2.5% for the 35 million tranche and the revolving line and 4% for the tranche of 65 million depending on certain Leverage Ratio ranges.

Both for the two tranches and for the revolving line, it is foreseen that the Euribor to be considered for the purpose of determining interest expense is zero or negative.

It has also to be noted that with respect to the loan, derivative contracts have been subscribed for hedging the interest rate risk, as reported in the relevant information on "Financial instruments and risk management policies".

3.24 TRADE PAYABLES

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Trade payables to third parties	33.691	23.568	10.123
Trade payables to controlled companies	21.389	18.031	3.358
Trade payables to associated and jointly controlled companies	2.987	1.411	1.576
Total	**58.066**	**43.010**	**15.056**

Trade payables to controlled companies are detailed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Regulus S.A.	19.889	18.031	1.858
ELV S.p.A.	1.500		1.500
Total	**21.389**	**18.031**	**3.358**

Trade payables to associated and jointly controlled companies are detailed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Europropulsion S.A.	3.767	1.081	2.686
Termica Colleferro S.p.A.	(780)	319	(1.099)
Servizi Colleferro S.c.p.A.		11	(11)
Totale	**2.987**	**1.411**	**1.576**

The positive balance towards Termica Colleferro S.p.A. depends on the commercial relationships in existence.

3.25. Debts for current taxes

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Tax withholdings payable	1.205	1.437	(232)
Other taxes and duties payables	63	61	2
Total	**1.268**	**1.498**	**(230)**

Withholding tax payable refers to liabilities towards Tax Authorities for retention made by the Company as withholding agent on salary (IRPEF tax) and other income.

3.26. OTHER CURRENT LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2016	31/12/2015	Variation
Advances from customers for supply of goods and services	1.988	2.238	(250)
Social Security payables	1.900	2.085	(185)
Other payables employees	1.129	1.675	(546)
Other payables	2.076	89	1.987
Other payables to controlled companies	1.104	2.023	(919)
Deferred income for grants related to assets - portion due within one year	7	7	(0)
Deferred income for funding pursuant to Law No. 808/85 – portion due within one year	1.125	1.149	(24)
Deferred income for tax credit related to R&D activities – portion due within one year	58	58	0
Other accrued expenses and deferred income	2.690	1.189	1.501
Total	**12.076**	**10.513**	**1.563**

Social Security payables

This caption amounts to Euro 1,900 thousand as at December 31, 2016 (Euro 2,085 thousand as at December 31, 2015), and refers to the amount payable by the Company and withheld from employees for contributions on salaries and wages, in accordance with current legislation.

Payments to employees

Payables to employees amount to Euro 1,129 thousand and include some remuneration captions to be settled and deferred deferred income allowances for the year 2016.

Other payables

The caption "Other payables" amounted to Euro 2,076 thousand, increase of Euro 1,987 thousand compared to December 31, 2015, and in 2016 it included costs related to consultancy and advisory activities aimed at listing on the stock exchange, April 2017.

Other payables to controlled companies

The caption "Other payables to subsidiaries", amounting to Euro 1,104 thousand (Euro 2,023 thousand at December 31, 2015) mainly includes debt to subsidiaries, in particular ELV S.p.A., resulting from tax consolidation.

Other accrued expenses and deferred income

This caption, amounting to Euro 2,690 thousand at 31 December 2016 (Euro 1,189 thousand at 31 December 2015), increased by Euro 1,501 thousand.
The composition of the caption is as follows:

- Accrued expenses relating to salaries and employee-related contributions for the portion accrued at the end of the year, equal to Euro 1,628 thousand. At December 31, 2015, the corresponding caption was Euro 901 thousand
- Deferred income for Euro 1,062 thousand essentially related to plant-based contributions. The caption increased by Euro 772 thousand for the entry of new contributions during the year.

INCOME STATEMENTS

3.27. REVENUES

Revenues include sales of goods and services and change in construction in progress, representing total revenues, and are composed as follows (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Revenues	479.226	82.919	396.307
Revenues from services and work in progress	732	808	(76)
	479.958	83.727	396.231
Change in construction in progress	(180.255)	148.831	(329.086)
Total	**299.703**	**232.558**	**67.145**

The increase in sales revenues and the negative variation in ongoing work depends on the conclusion of major contracts (Ariane 5 production, VERTA P80, etc.).

With reference to the breakdown by geographical area of the revenues of the Parent Company Avio S.p.A. (Defined on the basis of the customer's country of reference), the revenues refer to the Italy area for 45.3% and Europe for 54.7%.

3.28. OTHER OPERATING INCOME

This caption is composed as follows (amounts in thousands of Euro):

	2016	2015	Variation

Revenue grants	34	224	(190)
Tax credit income related to R&D activities	0	58	(58)
Income related to amount credited to the income statement of funding pursuant to Law No. 808/85	1.149	1.400	(251)
Portion for the period of grants related to assets	7	31	(24)
Recovery of costs, compensation and other income	2.580	2.776	(195)
Reserves credited to income	5.796	939	4.857
Gains on disposal of property, plant and equipment	2	-	2
Income related to prior years	74	513	(439)
Total	**9.642**	**5.941**	**3.701**

Income related to the amount credited to the income statement of funding related to Law No. 808/85 include the portion of funding granted by the Ministry of Economic Development related to programmes classified as being essential to national security and for realising a project of common European interest. The portion credited to income statement is determined taking into consideration the nature of costs for which the funding was granted and matching it with the periods of recognition in the income statement of the expenses (as raw materials, external expenses, depreciation and other expense).

The caption "Recovery of costs, compensation and other income" includes the recovery of costs incurred by the Group during the year, mainly related to the Group's activities, as well as other income of a different nature.

The caption "Reserves credited to income statement" includes rebates of provisions for risks related to previous years, as a result of the occurrence of subsequent events concerning the period of the provision, which led to the lack of the assumptions that could justify their existence, as well as the positive estimation differences between the provisions and the effective use

3.29. RAW MATERIALS CONSUMPTION

This caption is composed as follows (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Raw materials and supplies	82.272	72.549	9.723
Change in inventories	4.123	(6.891)	11.014
Total	**86.395**	**65.658**	**20.737**

3.30. COST OF SERVICES

This caption is composed as follows (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Cost of Services	164.338	112.578	51.760
Lease and rentals	4.805	4.916	(111)
Total	**169.142**	**117.494**	**51.648**

Cost of services include, among others, costs and expenses for activities conducted with Co-producers, for professional/technical advices and services, external processing, overhaul services, temporary labour supply.

The increase of the year is partially attributable to costs invoiced by the joint venture Europropulsion in relation to the development and implementation contract of the new propellant "P120" and related to the portion of "pass-through revenues", as more specifically described in the Report on Operations.

The caption cost of services includes the total amount of fees due to the Corporate bodies of the Company, respectively they amounted to Euro 112 thousand relating to the statutory auditors and Euro 474 thousand relating to the directors.

3.31. PERSONNEL COSTS

This caption is composed as follows (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Salaries and wages	25.572	24.307	1.265
Social security contributions	8.101	8.445	(344)
Defined contribution plan expenses	3.465	2.480	985
Other personnel expenses	2.435	1.999	436
Totale	**39.573**	**37.231**	**2.342**

The following table shows the average number of employees, divided by category, referred to the Company:

	2016 Average	*2015 Average*
Blue-collar workers	283	264
White-collar workers	288	273
Managers	19	17
Totale	**590**	**554**

3.32. DEPRECIATION AND AMORTISATION

This caption is composed as follows (amounts in thousands of Euro):

	2016	2015	Variation
Property, plant and equipment	3.618	3.608	10
Intangible assets with finite useful lives	7.424	11.199	(3.775)

Total	**11.041**	**14.807**	**(3.766)**

Amortization of intangible assets with a definite useful life includes mainly the amount of Euro 2,826 thousand for amortization of development costs and the amount of Euro 4,084 thousand referring to the portion charged to the income statement for amortization of accrual-based assets Customers for participation in programs, recorded in 2007, when allocating the cost of acquiring the Avio Group by Cinven.
The decrease in amortization compared to last year is due to the conclusion of the useful life of some assets.

3.33. OTHER OPERATING EXPENSES

This caption is composed as follows (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Provisions for risks	155	556	(401)
Other operating expenses	2.694	1.382	1.312
Non-recurring expenses and provisions	6.475	3.108	3.367
Total	**9.324**	**5.046**	**4.278**

Provisions for risks

This item mainly relates to the provision entered in the income statement for the rights provided by Law 808/85 (post 2006 discipline).

Other operating expenses

The caption "Other operating expenses", amounting to Euro 2,669 thousand, is mainly related to: indirect taxes and charges, charges for adjusting the value of receivables, non recurring personnel expenses, depreciation on disposal of fixed assets.

Non-recurring expenses and provisions

This caption includes emerging costs from exceptional events not arising from the Company's ordinary operating activities.
In particular, in the course of 2016, the item "Other charges and provisions", amounting to Euro 6,475 thousand, concerned:

- an incentive plan consisting of a flat-rate and one-off bonus related to the successful completion of the Space2-Avio ("Exit Bonus 2017") transaction attributed by the Board of Directors on October 19, 2016 to the Senior Executives of the Avio Group and also to ensure the permanence of Avio's staff;
- an incentive plan that, with the achievement of the Group and Avio's valorisation targets, including the sale of Avio, enables Avio's Vice President in office before the Space2-Avio operation and up to the effective date of the merger (Ing. Lasagni) to receive a premium of variable amount between a minimum of Euro 500 thousand and Euro 700 thousand gross;
- an incentive plan that, following the completion of the Space2-Avio transaction, allowed the Chairman of the Board of Directors in office before the Space2-Avio operation and until March 31, 2017 (Mr. Alan Bowkett) Receive a prize equal to Euro 200 thousand;
- the extraordinary appropriation entered in the funds for risks and charges relating to tax disputes arising from events of recent years;
- Non-recurring appropriations, included among the provisions for risks and charges, relating to personnel charges;

- Euro 58,220 thousand relating to the recognition of the debt to the Tax Office following the receipt by the Revenue Agency of the registration tax, mortgage tax and cadastral tax in July 2016 for A total amount of Euro 58,220 thousand, relating to the extraordinary transactions that in 2013 led to the sale of the company GE Avio Srl (Containing the activities of the AeroEngine Division of the Avio Group) to the General Electric Group;
- 58,220 thousand Euro relating to the recognition of the claim for compensation by the General Electric Group of the above-mentioned indirect taxes based on specific contractual provisions under which the latter is required to maintain Avio S.p.A. With reference to any liabilities that arise with respect to such indirect taxes in the context of the extraordinary operations of 2013;
- charges relating to the adjustment of the credit for the contributions provided for by the Law of Conversion of 22 November 1994, no. 644 of the decree-law of 23 September 1994, no. 547, entitled "Urgent interventions in support of the economy" (see note 3.14 Other current assets).

3.34. CAPITALISATION OF COSTS FOR INTERNALLY GENERATED ASSETS

This caption represents the setoff of costs incurred for the internal production of tangible and intangible fixed assets, recorded in the consolidated statement of financial position.

In 2016, the caption amounts to Euro 9.787 thousand and includes the following costs (amounts in thousands of Euro):

	2016	2015	Variation
Costs for the internal construction of tangible fixed assets	553	1.711	(1.158)
Costs for development activities	8.977	4.533	4.444
Costs for internal production of intangible assets	257	50	207
Total	**9.787**	**6.294**	**3.493**

3.35. FINANCIAL INCOME

This caption is composed as follows (amounts in thousands of Euro):

	Year 2016	Year 2015	Variation
Interest income from banks	4	121	(117)
Discounts and other financial income	249	405	(156)
Interest income on financial receivables towards controlled companies		5	(5)
Interest income on financial receivables towards associated companies		258	(258)
	253	789	(536)
Realised exchange gains	210	1.371	(1.161)
Unrealised exchange gains	47	26	21
	257	1.397	(1.140)
Total	**510**	**2.186**	**(1.676)**

During 2010, interest on receivables from subsidiaries was not accrued as the current treasury account ratio is a debit.

The decrease in the item "Associated financial interests" depends on the fact that, as from January 1, 2016, the share financing granted to the associated company Termica Colleferro S.p.A. It is non-interest-bearing.

Foreign exchange gains realized are related to the payment of foreign currency debts and the adjustment of current currency accounts.

The exchange rate differences recognized in 2016 relate to adjustments to the year-end exchange rate of receivables and payables denominated in foreign currency and are mainly related to items of a commercial nature.

3.36. FINANCIAL EXPENSES

This caption is composed as follows (amounts in thousands of Euro):

	2016	2015	Variation
Interest on Senior Term Loan Agreement	7.026	3.697	3.329
Interest on financial payables to controlled companies	6	4	2
Discounts and other financial expenses	116	119	(3)
Interest costs on employee benefits	2	12	(10)
Expenses from interest rate derivative instruments	236	103	133
	7.385	3.935	3.450
Realised exchange losses	290	954	(664)
Unrealised exchange losses	27	17	10
	317	971	(654)
Total	**7.702**	**4.906**	**2.796**

Financial expenses, 7.385 thousand Euro, shows an increase compared to previous year 3.450 thousand Euro.
This is mainly due to interests for 1,153 thousand which are all on 2016 while in 2015 for only 7 months, because they are started in may 2015. 2,174 thousand are advanced loan refunds.

Increase in financial derivates (236 thousand Euro in 2016, 103 thousand Euro in 2015) is due to economics effects on the 12 months of 2016 while in 2015 it was for only 7 months. They are hedging derivates for interests rate volatility on credits expected by *Senior Term and Revolving Facilities Agreement.*

Excange losses are due to payments an gains in foreign currency.

3.37. OTHER INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS

Net income from financial investments presents a positive balance of Euro 4.294 thousand and are detailed as follows:

- Gains of Euro 2.400 thousand, received from the controlled company Regulus S.A.;
- Gains of Euro 1.894 thousand, received by the jointly controlled Europropulsion S.A.;

3.38. INCOME TAXES

Income taxes for the year 2016 presents a net positive balance amounting to Euro 263 thousand. This balance is the result of current taxes charges amounting to Euro 68 thousand and deferred tax net amounting to Euro 332 thousand.

The reconciliation between the theoretical and effective tax rate, excluding IRAP because of its particular nature, is presented in the following table (Euro thousands):

	2016	2015
Profit/(Loss) before taxes	393	3.090
Ordinary IRES tax rate	24,00%	27,50%
Theoretical income taxes	94	850
Effect of adjustments:		
Increasing permanent differences	1.835	3.695
Decreasing permanent differences	(4.056)	(4.481)
Increasing temporary differences	20.874	12.109
Decreasing temporay differences	(75.629)	(73.584)
Total	(56.977)	(62.261)
Fiscal loss Perdita fiscale	(56.584)	(59.171)
Unrecorded deferred tax (assets)/liabilities	(332)	(2.858)
Provisions for tax liabilities	68	542
	(263)	(2.316)

3.39. GAIN/(LOSS) FROM CLOSED ACTIVITIES

There are non gain or loss form discontinued operations, nor at december 31, 2016 neither at December 31, 2015.
There are not activities or liabilities destined to be sold and *Discontinued Operation.*

4. GUARANTEES GRANTED AND COMMITMENTS

The main guarantees granted and commitments of the Group are detailed as follows (amounts in thousands of Euro):

	30/09/2016	31/12/2015
Guarantees granted:		
Personal guaranties:		
Sureties issued by third parties on behalf of the Group	13.959	13.229
Other	29.788	29.788
Total Guarantees granted	43.747	43.017
Goods owned by third parties held by the Group	1.000	1.000
Goods owned by the Group held by third parties	2.030	2.030
	3.030	3.030
Guarantees and received guarantees	1.364	114

Total	1.364	114

Guarantees granted

Unsecured guarantees include sureties issued by third parties on behalf of the Parent in favour of customers for the execution of contracts and other guarantees represented by *patronage* letters issued on behalf of the Group.

Goods owned by third parties held by the Group

This caption mainly includes equipment related to tactical propulsion activities owned by customers as well as material held on deposit.

Goods owned by the Group held by third parties

It refers to materials and equipment under processing and storage, or used by vendors.

Sureties and guarantees received

This mainly includes sureties received from suppliers related to orders not yet completed.

Other commitments

With reference to the associated Termica Colleferro S.p.A. (40% owned by Avio and 60% by S.E.C.I. Energia S.p.A.) active in the operation of a thermoelectric power plant, essential for the Colleferro production site actitivities, considering the steam production, it is worth to underline what mentioned below.

On February 24, 2010, in order to realize the above mentioned thermoelectric power plant, Termica Colleferro stipulated with a bank consortium (consisting of Banco Popolare Soc. Coop., Unipol Banca S.c.p.A., Banca Popolare di Milano S.c.a.r.l., Cassa di Risparmio di Parma e Piacenza S.p.A., Cassa di Risparmio di Ravenna S.p.A.), a loan agreement for a maximum amount of 34 million of Euro, guaranteed by real and personal guarantees, expiring on February 24, 2022.

At December 31, 2016, the residual debt of Termica Colleferro in respect of this loan was equal to Euro 22,0 million.

Even on February 24 2010, the Shareholder SECI constituted itself as guarantor with a guarantee for the timely fulfillment of all the payment obligations due to the lending banks in the interest by Termica Colleferro for a maximum amount of Euro 44,2 million.

Considering the electricity market conditions worsening that occurred in the years following the conclusion of the financing agreement (with the consequent worsening of the associated company's EBITDA), in order to comply with bank *covenants*, Termica Colleferro initiated a process of negotiation with the pool of bankis aiming at modify the loan agreement entered into in 2010, with particular reference to the increase in the thresholds of the *financial covenants* contractually defined.

In order to reach the above mentioned agreement, in 2014, Termica Colleferro requested and obtained from SECI and Avio an engagement letter by which the Shareholders have pledged to grant a shareholder loan for a maximum amount of Euro 18.2 million and Euro 12.1 million in proportion to the share capital held and cumulatively corresponding to the residual portion of the outstanding debt at that date. According to the agreement it is expected that such Shareholder loan will be provided in several solutions based on Termica Colleferro’s requests and subject to its operating requirements, and that it is subordinated and postponed to the above-mentioned loan from the banks.

At the closing date of this financial statement, Avio has a financial receivable related to a loan granted to Termica Colleferro for Euro 7,440 thousand. As a result, Avio's remaining committment to grant additional shareholder loans to the associated company is equal to Euro 4,7 million (with a total committment of Euro 12,1 million). Avio, on the other hand, did not undertake to increase the share capital of the associated company.

The loan granted to Termica Colleferro by the banks requires for the company the compliance with certain financial covenants and more precisely:

1) Net Financial Position / Equity (NFP / Equity); and
2) Net Financial Position / EBITDA (NFP / EBITDA).

Each of these *covenants* is verified by reference to the calculation date (December 31 of each year) by submitting a compliance declaration signed by the legal representative of Termica Colleferro within the contractual deadline fixed for the financial statement presentation (30 days after its approval and, in any case, 210 days from the end of the year). In the event of non-compliance with these covenants, banks may resolve the financing granted to Termica Colleferro pursuant to Article 1456 of the Italian Civil Code.

In order to comply with the mentioned covenants, Termica Colleferro, Avio, SECI and the lending banks signed on July 22, 2014 an amendment agreement of the loan agreement. According to this amendment, Termica Colleferro has the right to remedy the breaches to the financial parameters ("*Equity cure*") through the payment made by the Shareholders SECI and Avio in favor of Termica Colleferro (pro-quota within the limits of their shareholding in the share capital of the company) of an amount in title of capital increase and/or shareholder loan sufficient to cure the breach ("*Cure amount*").

The amount made available by Termica Colleferro Shareholders (in the period from May 1 of the year ending on the relevant calculation date and April 30 of the following year) to "cure" the breached covenants is added to (I) the fair value of the Interim Financial Statements (in order to adjust the IFN / MP ratio on a pro forma basis) and (ii) the EBITDA resulting from the financial statements (in order to adjust the IFN / EBITDA pro forma basis).

On December 30, 2016, Termica Colleferro, SECI and Avio signed a financing agreement with the financing banks in order to change the above mentione financial loan. This amendment agreement includes, among the main changes:

a) a sixty months extension of the amortization period, with the consequent postponement of the final maturity date of the loan from February 24, 2022 to February 24, 2027;
b) the 6-month Euribor interest rate change (with zero floor) plus a 2,3% margin;
c) the loan amortization plan reschedulement and the increase in favor of Termica Colleferro of the maximum reference value of the most critical financial parameter constituted by the "Net Financial Position/EBITDA" (as indicated below).

	2016	2017	2018	2019	2020	2021	2022	From 2023 To Expiry Date
NFP/Equity ≤	2,00x	2,00x	2,00x	2,00x	1,50x	1,50x	1,50x	1,00x
NFP/EBITDA ≤	6,00x	5,50x	5,00x	4,00x	4,00x	3,50x	3,50x	3,00x

It should be noted that, even with the amending agreement of December 30, 2016 which provides also the increase in favor of Termica Colleferro of the maximum reference value of the most critical financial parameter constituted by the "Net Financial Position/EBITDA" at this financial statement closing date the financial covenants provided by the aforementioned loan agreement are respected.
The modification of the financing contract in question did not change the guarantees granted by SECI and Avio to the lending banks, except for the extension of the initial guarantees to the new loan lenght.
The *business plan* approved by Termica Colleferro on March 15, 2016 takes into account the forecasts for improved electricity market conditions and the *spread* between the cost of gas and engery trend and prices, as well as the forecasts of the above conditions for restructuring the loan. Therefore, this business plan was not approved as a result of the subscription of the modification agreements with the lending banks on December 30, 2016.

If Termica Colleferro fails in order to comply with the financial covenants provided by the financial loan, Termica Colleferro, Avio and SECI may be required to subscribe an additional increase of share capital or to grant additional shareholder loan (post-paid) to be carried out proportionally to the share capital respectively held.

Legal proceedings and contingent liabilities

At the date of this financial statement, the Company, during the normal course of its business, is part of legal, civil and administrative proceedings, in particular on tax, assets and liabilities.
The Company has established in its budget funds for risks and charges covering the foreseeable liabilities relating to disputes of various kinds with suppliers and third parties, judicial and extrajudicial damages, legal costs, administrative penalties, penalties and indemnities against customers. In the establishment of funds, it was taken into account: (i) the risks associated with the single dispute; and (ii) the related accounting principles, which define the provision for contingent liabilities for probable and quantifiable risks.
Provisions for risks and charges' estimates are deemed to be congruent by the Company's management with respect to the total amount of potential liabilities affecting the Company itself.
It also should be noted that there was no provision for risks of litigation considered as potentially remote or remote, or of an indeterminate value of limited number, in accordance with the relevant accounting principles.
It should also be considered that the Company bases its estimates on the valuation of a potential success/loss regarding the presumed definition of litigation, which remains strongly linked to each judgment, so it is not possible to exclude different outcomes, both in favorable, unfavorable to the Company, compared to the ex ante estimates made.
Below it's reported a brief description of the ongoing procedures that, for the amount or scope of advanced claims, the Company considers relevant or to be worthwhile reported.

Tax Litigation of Avio S.p.A.

On December 18, 2015, the Tax Police Department of Rome (*Guardia di Finanza*) initiated a general audit on income tax, IRAP and other taxes, excluding VAT, for the years 2011, 2012 and 2013; the audit recently involved also the subsidiary Regulus (see the Report on Operations, paragraph " Significant events subsequent to year end"). At the balance sheet date, this general check is still ongoing and, limited to the subsidiary Regulus, relate to the 2010 and 2016 tax periods.

Formal notice of assessment (Processo Verbale di Consatazione, "PVC") on September 23, 2016

Avio S.p.A., as part of the aforementioned verification, received on 23 September 2016 a "Report on Findings" (Processo Verbale di Constatazione) in which - following the analysis of purchases from suppliers located in a privileged tax countries or territories (ex D.M. 23 January 2002), carried out by Avio on 2011, for which there is a legal presumption of non-deductibility of the related costs in accordance with Article 110, paragraphs 10 and 11 of the TUIR Act - the *Guardia di Finanza* (tax police) proposed the recovery of IRES tax for Euro 2,570 thousand, taking into account the not sufficient documentation produced by the company to overcome the presumption of indefinition as per art. 110, paragraph 11 of T.U.I.R.

The *Guardia di Finanza* (tax police) in "PVC", on the other hand, decided to conclude with favorable results the verifications on other suppliers for a total taxable amount of Euro 2,541 thousand.

As a result of the aforementioned Minor Verification Process of the *Guardia di Finanza*, on September 30, 2016 a questionnaire was sent to the Company by the Agenzia delle Entrate (Tax Authorities), in which, considering both types of suppliers, the Agenzia delle Entrate (Tax Authorities) requested to provide useful data and information to overcome the presumption of not deductible of art. 110, paragraph 11 of the TUIR.

On January 4, 2017, the Tax Office of the Piedmont Regional Authority (Large Contributors Office) informed Avio by a tax assessment notice, proposing the recovery IRES tax for a total amount of Euro 1,352 thousand. Contacts with the Public Financial Administration are in progress in order to reach a reconciliation to the dispute.

With reference to these notes, it should be noted that, in accordance with the *Share Purchase Agreement* signed on 21 December 2012 between Inter Alia, Avio (as a vendor) and Nuovo Pignone Holding S.p.A. (as a buyer), the General Electric Group is required to keep Avio indemnified for any tax liabilities that may arise.

The IRES due amounts to Euro 372 thousand more interest and penalties.

Considering the tax periods 2012 and 2013, on the Statement date the incorporating Company received no disputes regarding this type of cost.

Avio S.p.A. togheter with General Electric, submitted an application for a voluntary inspection. Based on the information available at the date of this financial statements, considered the mentioned agreement with General Electric, the potential liabilities inherent in such litigation are considered unlikely.

Notice of Liquidation on July 28, 2016

On March 8, 2016, as part of an ongoing general control, the *Guardia di Finanza* (Italian Tax Police) notified Avio S.p.A., as a co-obligatory, a notice of cancellation with particular reference to the operations that in 2013 led the transfer of AeroEngine branch to the General Electric group. In particular,*the Italian Tax Police* re-qualified the transfer of AeroEngine from Avio to GE Avio S.r.l. and the subsequent sale of the shares held in the conferral company Nuovo Pignone Holding SpA as a direct divestment of a business branch and, consequently, raised a fiscal relief considering not payed indirect taxes (more sanctions and interest) related to the sale of a branch of Company.

On 28 July 2016, following the Verdict observed on 8 March 2016, the Tax Authorities, Directorate-General of Turin, notified Avio, as co-obligatory, the related notice of liquidation.

The Tax Office confirmed the claim arised by the *Guardia di Finanza*, requiring payment of a higher tax registration, which has a suppletive nature, proportionally, in addition to the cadastral and mortgage tax, instead of the fixed tax paid at the sale of the holding, but acknowledging, as requested and extensively argued by Avio defense, the non-applicability of sanctions and interest in addition to the determination of the higher tax due in the "Report on Findings" (*Processo Verbale di Constatazione*).
The potential liability arising from the notice of liquidation totaled Euro 58.2 million and consists of:

- Registration tax of Euro 55.6 million;
- Mortgage tax of Euro 1.7 million;
- Cadastral tax of Euro 0.86 million.

Considering this notice of liquidation, it should be noted that, in accordance with the specific contractual terms, the General Electric Group is required to indemnify Avio for any indirect tax liabilities arising from the divestiture of GE Avio S.r.l. (Containing Avio Group AeroEngine's activities), as well as making available to Avio the sums that may be required by the Financial Administration within the due deadlines for payments.
In accordance of this contractual agreement, Avio recorded into this financial statements on non-current liabilities a tax debt to Tax Office related to the higher mortgage and cadastral taxes resulting from the notice of liquidation, for a total amount equal to Euro 58.2 million; at the same time Avio recorded on non-current assets a credit for the same amount to the buyer, Nuova Pignone Holding SpA, part of the General Electric Group.

In September 26, 2016, the Company presented - in agreement with the General Electric Group - an appeal, contesting the Liquidation Notice in question within the time limits set by the relevant legislation.

Tax Authorities Invitation regarding VAT transactions for the year 2011
In October and November 2016, following a specific request from the "Agenzia delle Entrate" (Tax Office) of Turin, the "Ufficio Grandi Contribuenti" (Grand Contributors Office) presented the documentation and explanatory memorandum to support the non-taxable VAT title attributed to the invoices issued to an Avio's customer for services and engine inspections.
On December 29, 2016, the Agenzia delle Entrate notified Avio its tax assessment, contesting the taxable VAT in relation to the aforesaid invoices (for inspection and repair services performed on engines) Contacts with the Financial Administration are in progress in order to reach an agreed definition of the dispute.
With reference to these notes, it should be noted that, in accordance with the Share Purchase Agreement signed on December 21, 2012 between, among others, Avio (as a vendor) and Nuovo Pignone Holding S.p.A. (as a purchaser), the General Electric Group is required to maintain Avio S.p.A. undamaged regarding any tax liabilities that may arise.
The VAT increase amounts to Euro 453 thousand plus interest and penalties.
The Company, in conjunction with General Electric, arises an instance of a tax settlement. Based on the information available at the date of the prospectus, considering the mentioned agreement with General Electric, the potential liabilities inherent in such dispute are not probable.

Verification notice no. TSB060200344 / 2014 relating to VAT for the 2007 tax period
On December 2014, the Tax Office reported a notice of not deductible VAT on bills considered as not related to the mentioned leveraged buy-out transaction, for a total of not deductible VAT of Euro 4,377,000 plus sanctions (Euro 5,471,250) and interests; considering this issue, contacts are in process for a possible reconciliation with the Tax Authorities. In view of the ongoing conciliation, next hearing, originally scheduled on December 13, 2016, was postponed to data to be defined.

Referred to the mentioned tax disputes, even if Avio S.p.A. consider unlikely a negative outcome of the above-mentioned disputes, it registered on December 31, 2016 Balance Sheet a tax risk provision of approximately Euro 1.5 million, as well as a debt to the tax office, related to the aforementioned registration fee, mortgage and cadastral tax, related to fiscal audit on Aeroengine's transactions, of Euro 58.2 million (amount totally covered by the indemnity from the General Electric Group towards the Company register a receivables of equal value).

Avio S.p.A. ended fiscal dispute, with financial effects on the 2016 first nine months and the 2015 fiscal year

Following the assessment made in 2009 and 2010 by the *Nucleo di P.T. della Guardia di Finanza* (Tax police) on 2007, culminating in (i) the dispute of the incorrect application of the rules on transfer prices in financial relating to the Luxembourg controlling company in respect of the portion of the loan contracted for the acquisition of Avio Group through a *Leverage buy-out* operation and the withdrawal of some of the tax effects of the acquisition itself, completed by the merger by incorporation of some companies into the Parent Company Avio S.p.A. (*Leveraged buy-out*), the Tax Authority (Agenzia delle Entrate) had notified:

- in December 2012, the notice of assessment (avviso di accertamento) relating to 2007 tax period, which confirmed the disputes raised by quantifying the claims, including interest and penalties, in the amount of Euro 4,779 thousand. Following the appeal lodged by AVIO on provisional payment of one-third of the taxes claimed in excess of interest, in January 2014, the "*Commissione Tributaria Provinciale*" of Turin (Provincial Tax Commission "CTP") had fully dismissed the appeal without, however, on the basis of the Parent Company's interpretations and Of its advisers, rebut the validity of the arguments of illegality of the debates in question proposed by the Head Company, which had appealed to the "*Commissione Tributaria Regionale del Piemonte*" (Regional Tax Commission of Piedmont) in December 2014;
- in December 2013, the tax assessment notice for the 2008 tax year relating to the same *leveraged buy-out* transaction, quantifying the claims, including interests and penalties, in an amount of Euro 32,905 thousand, against which he relied on the *Commissione Tributaria Provinciale* "CTP" (Tax Commission) of Turin presented in June 2014;
- in December 2013, the notice of assessment for the use in 2008 of unrecognized losses as a result of the controversy contained in the aforementioned notice of assessment of December 2012 regarding the reinvestment of IRES losses of the incorporated Avio Holding S.p.A. following the merger in 2007 with the Head Company (failure to pass the life expectancy test), quantifying the claims, including interest and penalties, in an amount of Euro 3,485 thousand, against which it applied to the "*CTP Torino*" published in March 2014;
- in December 2014, the notice of assessment regarding the non-recognition of additional repayable losses of Avio Holding S.p.A. (deriving from IRAP and IRES reimbursement request, amounting to 105 thousand of Euro) as a result of the dispute contained in the December 2012 assessment notice.

As regards the notes on the *leveraged buy-out* transaction in question, the Head Company had, in spite of the first istance adverse decision for the year 2007, confirmed its assessment of non-existence of liabilities likely to generate charges to its Charged on the grounds of defensive memories and appeals. This approach was supported by a specific opinion requested by an important Italian tax expert (updating and integrating previous opinions in the light of the most recent events described herein), as well as by some case lawsuits favorable to taxpayers on similar cases.
The amounts paid as provisional collection amounted to 6,888 thousand Euro, allocated to the balance sheet receivables, and were exclusively related to the 2007 and 2008 tax periods.

As a result of the contacts in these years with "*Agenzia delle Entrate*" (Tax Office), AVIO SpA, despite the conviction of the regularity of its operations, considered appropriate to enter into a settlement agreement, recalled in the financial statements for the previous financial years 2015 and 2014, which was formalized April 22, 2015; pursuant to the terms of that agreement, the parties waived the aforementioned disputes, defining AVIO's liabilities for a total of Euro 8,153 thousand, paid in 2015 and January 2016 in accordance with the acts consequently emanated; on the other hand, the amounts paid as provisional collection (as specified, Euro 6,888 thousand) were repaid by the end of 2015.

5. DISCLOSURES ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Categories and fair value of financial assets and liabilities
The table below shows a detailed analysis of the financial assets and liabilities provided by IFRS 7, according to the categories set out in IAS 39 for 2016 and 2015:

Amounts in Euro thuosands	Balance as of December 31, 2016	Class of financial instruments (IAS 39)			*Fair value**
		Loan and Receivables	*Financial liabilities recognized at amortized cost*	*Derivatives financial instruments*	
FINANCIAL ASSETS					
- Non-current financial assets	7.440	7.440			7.440
- Other non-current assets	67.279	67.279			67.279
- Current financial assets	1	1			1
- Trade receivables	9.818	9.818			9.818
- Other current assets	5.108	5.108			5.108
- Cash and cash equivalents	84.639	84.639			84.639
		174.285			
FINANCIAL LIABILITIES					
- Non-current financial liabilities	0		0		0
- Current financial liabilities	46.558		46.247	312	46.558
- Current portion of non-current financial liabilities	91.615		91.615		91.615
- Other non-current liabilities	117.380		117.380		117.380
- Other current liabilities	12.076		12.076		12.076
- Trade payables	58.066		58.066		58.066
			325.384	**312**	

** Where not available the fair value, the data included the table is related to cost.*

Amount at December 31, 2015

Amounts in Euro thuosands	Balance as of December 31, 2016	Class of financial instruments (IAS 39)			*Fair value**
		Loan and Receivables	*Financial liabilities recognized at amortized cost*	*Derivatives financial instruments*	

FINANCIAL ASSETS					
- Non-current financial assets	6.400	6.400			6.400
- Other non-current assets	8.469	8.469			8.469
- Current financial assets	130	130			130
- Trade receivables	8.887	8.887			8.887
- Other current assets	7.906	7.906			7.906
- Cash and cash equivalents	67.505	67.505			67.505
		99.297			
FINANCIAL LIABILITIES					
- Non-current financial liabilities	91.272		91.272		91.272
- Current financial liabilities	44.401		44.033	368	44.401
- Current portion of non-current financial liabilities	4.439		4.439		4.449
- Other non-current liabilities	41.217		41.217		41.217
- Other current liabilities	5.872		5.872		5.872
- Trade payables	43.010		43.010		43.010
			229.843	**368**	

** Where not available the fair value, the data included the table is related to cost.*

For assets and liabilities, no differences were found compared to the book value, as the same is considered a reasonable approximation of fair value.

Fair value of financial assets and liabilities: calculation methods

In relation to financial instruments recognized at fair value in the statement of financial position, IFRS 7 requires that financial instruments stated at fair value in the financial statements be classified based on a hierarchy with three levels that reflect the level of input used in determining the fair value. The following levels must be shown:

level 1 – quoted prices on an active market for the asset or liability being measured;
level 2 – input other than the quoted prices per level 1 that may be observed directly (prices) or indirectly (derived from prices) on the market;
level 3 – inputs not based on observable market data.

Derivative financial instruments (interest rate swaps) related to "*Senior Term and Revolving Facilities Agreement*" granted by Banca IMI an other leading financial institutions on April 1, 2015, are recognized at fair value and are included in the financial assets and liabilities.
The following table shows assets and liabilities measured at fair value at December 31, 2015 by hierarchical level of fair value measurement.

Amounts in Euro thuosands	Level 1	Level 2	Level 3
Derivative financial instruments	-	312	-

Financial charges and income identified pursuant to IAS 39

The tables reported below show an analysis of the amounts relative to financial charges and income broken down pursuant to the categories set out in IAS 39 for fiscal years 2016 and 2015.

Year 2016

	Financial income/(expenses) recognized	Financial income/(expenses) recognized to other

Amounts in Euro thuosands	to income statement		comprehensive income
	From interest	From changes in fair value	From changes in fair value
Loan and receivables	253	-	-
Financial liabilities recognized at amortized cost	(7.026)	-	-
Derivative financial instruments	(236)	-	56
Total	(7.009)	-	56

Year 2015

Amounts in Euro thuosands	Financial income/(expenses) recognized to income statement		Financial income/(expenses) recognized to other comprehensive income
	From interest	From changes in fair value	From changes in fair value
Loan and receivables	790	-	-
Financial liabilities recognized at amortized cost	(3.701)	-	-
Derivative financial instruments	(103)	-	(368)
Total	(3.014)	-	(368)

Types of financial risks and related hedging activities

The Group is exposed to financial risks deriving from its operating activities, particularly regarding to:
- credit risks, relative to trade receivables and financing activities;
- liquidity risks, relative to the availability of financial resources and access to the credit market.

The Group constantly monitors the above-mentioned financial risks, adopting actions aimed at facing and mitigating the potential negative effects by means of appropriate policies and, if deemed appropriate, through hedging instruments.
In this section, qualitative and quantitative information is supplied relative to the effect that these risks may have upon the Group.
The quantitative data reported in the following, do not have any value of a prospective nature and is unable to reflect completely the complexity of the market and its related reactions, which may result from any change that may occur.

Credit risks

Credit risks represent the Group’s exposure to potential losses deriving from the non-fulfilment of the obligations agreed upon by the counterparties.
The exposure to credit risk is essentially represented by the carrying amounts stated for receivables, particularly trade receivables, in the balance sheet, and the guarantees given in favour of third parties.
The maximum credit risk to which the Group was theoretically exposed as at December 31, 2016 is 9,8 million of Euro.
This import is:

- Trade receivables, amounting to Euro 51,2 million at December 31, 2016 (this amount also includes receivables relating to invoices for advances still to be received of Euro 41,3 million, of which Euro 21,4 million to the controlling company Europropulsion and Euro 11 million to subsidiaries),
- "advance payments" amounting to Euro 41,3 million (including - as mentioned above - Euro 19,6 million of Europropulsion receivables and Euro 11 million from subsidiaries)
- The provision for bad debts, totaling 82 thousand Euro.

Regarding the reasons for the exposure to credit risk represented by receivables net of "cash advances", it should be noted that, in accounting terms, the issue of invoices includes as counterpart, in relation to the customer's accounting records, Passive accountant represented - precisely - from advance payments; these posts are both assets. The expiration analysis is therefore carried out net of the above-mentioned advances.

The Company's main third-party clients are government agencies and public clients, which by their very nature have no significant risk concentrations (European Space Agency, Arianespace, Airbus Safran Launchers).

In addition, by acting on a contractual basis, the company plans the management of advances and financial advances in order to obtain financial support before and during the execution of contract costs, depending on the various contractual milestones and thereby concretely mitigating the risk of obtaining receivables Front of production activities already begun.

Based on the analysis of expired third-party customers as at December 31, 2016, this amounted to approximately 750 thousand Euro (650 thousand Euro net of the above-mentioned Write-down Fund, equal to 100 thousand Euro). This is a not significant expiration and it is related only to the recessed timings.

In respect of such receivables, in each financial year, a careful individual risk assessment is also carried out and a specific write-down fund is recorded, which takes into account an estimate of the recoverable flows and possible contingent contingencies and possible re-adjustments.

Liquidity risks
The risk of liquidity to which the Group is subject, is identifiable in the possible difficulties in obtaining, under economic conditions, the financial resources to support the operating activities. The two main factors that determine Group liquidity are, on one side, the resources generated or absorbed by the operating and investment activities and, on the other hand, the debt lending period and renewal characteristics or liquidity of the funds employed.

Cash flows, the need for financing, and liquidity, are monitored and managed centrally through the implementation of centralised treasury systems involving the main Italian and foreign companies of the Group, in order to promptly guarantee an effective raising of the financial resources or an adequate employment of the funds available, thus optimising the management of the liquidity and cash flows. The Group verifies the compliance of financial covenants and monitors expected and realised cash flows and updates projected future cash flows in order to optimise liquidity management and to define funds needed, if any.

The funds currently available in addition to those that will be generated by the operating and financing activities are deemed to enable the Group to meet its requirements resulting from its investment activities, working capital needs and reimbursement of debts at maturity.

Specifically, as noted in Note "3.23. Current portion of non-current financial payables"as a result of the effects of the change in control arising from the merger and listing transaction on April 10, 2017, the Group reclassified short-term debt for the Senior Term and Revolving Facilities Agreement, having agreed with the financial institutions the early extinction of this loan in 2017.

With reference to the Company's ability to early extinguish funding, it should be noted that:

a) the Avio Group's net financial indebtedness as of December 31, 2016 amounts to Euro 18.6 million and is as follows:
    - financial liabilities arising from the above-mentioned financing for 91,6 million Euro;
    - financial liabilities related to derivatives hedging interest rates on the aforementioned loan of Euro 312 thousand;
    - financial liabilities arising from current financial payables to the joint-control company Europropulsion for Euro 13,9 million, net of
    - liquid assets of Euro 87,2 million.
b) the mentioned liquidity, due to the merger, will add financial resources arising from Space2.

Consequently, Avio Group's initial cash flow, the financial resources resulting from the merger and the cash that is expected to be generated in 2017, are expected to enable the Company, and hence the Group, to repay the said financing in advance The terms defined in the waiver consent.

Liquidity analysis
The following table represents an analysis by maturity of the future contractual flows arising from financial, trade and the principal other liabilities of the Group as at December 31, 2016 (values in Euro thousand).

The analysis reports the cash flows not discounted back, inclusive of the principal amount and interest, calculated at the existing market conditions at the balance sheet date. More precisely, the analysis reflects the assumptions made for the expected cash outflows based on the reimbursement date contractually defined or, in some cases, estimated. In the absence of a predefined reimbursement date, the flows are considered taking into account the first date on which the payment might be requested. For this reason, the treasury accounts are included in the on-demand maturity.

Year 2016

Amounts in Euro thuosands	Balance as of December 31, 2016	On-demand	within 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 yearsi	From 4 to 5 years	Over 5 years	Total
Current financial liabilities:									
- *Financial liabilities from subsidiaries*	32.397	32.397							32.397
- *Financial liabilities from joint venture*	13.850	13.850	-	-	-	-	-	-	13.850
- Financial liabilities *Senior Term and Revolving Facilities Agreement*	91.615	-	91.615						91.615
	137.861	46.247	91.615	0	0	0	0	0	137.861
Trade payables	58.066	-	58.066	-	-	-	-	-	58.066
	58.066	-	58.066	-	-	-	-	-	58.066
Other non-current liabilities:									
- Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 - portion due after one year	42.051	-	-	-	-	-	-	42.051	42.051
	42.051	-	-	-	-	-	-	42.051	42.051
Other current liabilities:									
- Social security payables	1.900	-	1.900	-	-	-	-	-	1.900
- Other payables to third parties	1.129	-	1.129	-	-	-	-	-	1.129
- Other payables to subsidiaries	2.076	-	2.076	-	-	-	-	-	2.076
	5.104	0	5.104	0	0	0	0	0	5.104
Total	243.082	46.247	154.785	0	0	0	0	42.051	243.082

Year 2015:

Amounts in Euro thuosands	Balance as of December 31, 2015	On-demand	within 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 yearsi	From 4 to 5 years	Over 5 years	Total
Financial liabilities recognized at amortized cost:									
- *Financial liabilities from subsidiaries*	35.635	35.635							35.635
- *Financial liabilities from joint venture*	8.399	8.399	-	-	-	-	-	-	8.399
Financial liabilities:									
- Financial liabilities *Senior Term and Revolving Facilities Agreement*	95.711	-	8.736	9.404	10.923	12.371	12.901	68.998	123.333
	139.745	44.034	8.736	9.404	10.923	12.371	12.901	68.998	167.367
Trade payables	43.010	-	43.010	-	-	-	-	-	43.010
	43.010	-	43.010	-	-	-	-	-	43.010
Other non-current liabilities:									
- Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 - portion due after one year	41.217	-	-	-	-	-	-	41.217	41.217
	41.217	-	-	-	-	-	-	41.217	41.217
Other current liabilities:									
- Social security payables	2.085	-	2.085	-	-	-	-	-	2.085
- Other payables to third parties	1.764	-	1.764	-	-	-	-	-	1.764
- Other payables to subsidiaries	2.023	-	2.023	-	-	-	-	-	2.023
	5.872	-	5.872	-	-	-	-	-	5.872
Total	229.844	44.034	57.618	9.404	10.923	12.371	12.901	110.215	257.466

Market risks

Considering the actual financial structure of the Company, even if the net financial position, shows, during 2015 a significant exposure represented by the Senior Term and Revolving Facilities Agreement and the related derivative instruments to hedge the exchange rate, the operating currency is almost exclusively the Euro. The Group is not significantly influenced by market risks derived by fluctuations on exchange rates or interest rates over its financial assets and liabilities.

Considering what indicated above about the non-significance of market risks related to changes in interests rates, as at December 31, 2015, the Company does not have derivative financial instruments in place in order to mitigate the exposure of cash flows fluctuations related the fore mentioned risks.

Interest rate risk

The Company is exposed to the interest rate risk essentially because of the floating rate financial liabilities related to the Senior Term and Revolving Facilities Agreement signed with Banca IMI and other primary credit institute on April 1, 2015. The changes in interest rate could have positive or negative impact on the earnings and the equity of the Company.

The Company regularly assesses its exposure to the risk of changes in interest rates and manages this risk through the use of derivative financial instruments, in accordance with what established in its risk management policies and in line with the provisions of the mentioned loan agreement.

Within these policies, the use of derivative financial instruments is limited to manage the exposure to fluctuations in interest rates related to cash flows and to balance sheet assets and liabilities, and not for speculative purposes.
The Company uses cash flow hedge derivative financial instruments, aiming at predetermining the interest rate of floating rate loan.

The tools used in pursuing this strategy are mainly interest rate swaps. The risk management's objectives can be summarized as follows:

- The objective of the Company is to mitigate the risk of net result and cash flow's variation more negative than those expected in the budget and the business plan because of adverse fluctuations in interest rates, ensuring a fixed rate on part of its financial exposure, subject to floating rate;
- The identified positions (outstanding loans) are hedged by the use of derivatives interest rate swaps;
- It is not allowed to use derivative instruments for speculative purposes, namely, not to pursue the above mentioned objectives.

The instruments used for this purpose are exclusively *interest rate swaps* (IRSs).
The Company uses, to cover part of its funding, derivative financial instruments by designing them to hedge cash flows with the aim of predicting the interest paid on the loans, to achieve an optimal default mix between variable rates and fixed rates in the structure Of funding. Counterparties to these contracts are prime financial institutions.
Derivative instruments are inscribed at their fair value.

Accounting for hedging transactions

The Group uses derivative contracts to safeguard the loan agreement "*Senior Term and Revolving Facilities Agreement*" against the risk of interest rate fluctuations, on the basis of a cash flow hedge strategy.
Consequently, when reporting on hedging transactions in the financial statements, the Group checks whether or not the requirements of IAS 39 on the application of hedge accounting are met.

The following table shows the main outstanding interest rate swap:

Financial Institute	Signing date	Expiration date	Notional Amount	MtM
Société Générale	30/06/2015	29/06/2018	8.551.829	(42.417)
BPM	30/06/2015	29/06/2018	15.548.781	(73.763)
UniCredit	30/06/2015	30/06/2018	8.551.829	(41.952)
Intesa Sanpaolo	30/06/2015	29/06/2018	31.097.561	(153.447)
			63.750.000	(311.579)

The aim of interest rate hedges is to fix the cost relating to the floating rate long term loan agreements being hedged by entering into a related derivative contract that allows the floating rate interest to be collected in return for payment of interest at a fixed rate.
Derivatives for which the conditions laid down by IAS 39 for application of hedge accounting (formal designation of a hedging relationship; documented, measurable and highly effective hedging relationship) are respected are accounted for on a cash flow hedge basis. This means that, when a hedge agreement is entered into, the related "fair value", regarding the effective portion only, is recorded under an equity reserve. Subsequent changes in "fair value" resulting from movements in the interest rate curve – again only in relation to the effective portion of the hedge – are also recorded under an equity reserve.

During 2016, no events of over-hedging have occurred about future cash outflows being hedged.

The table below shows the following information on derivatives:

- the notional amount at December 31, 2016;

- the fair value of the contracts at the reporting date and the changes in fair value recognized to OCI;
- the ineffective portion or the change in time value recorded in the income statement under Financial expenses.

Amounts in Euro thousands	Notional amount	Fair Value	Effect recognized to profit and loss	Effect recognized to OCI
Interest rate swap	66.667	(312)	-	(312)
	66.667	(312)	-	(312)

6. TRANSACTIONS WITH RELATED PARTIES

At December 31, 2016 Avio was controlled by Cinven Funds for a share of 59.78%, by institutional investors whose voting rights are exercised in accordance with the instructions given by Cinven Limited for a share of 21.37% By Leonardo for a share of 14.32%, and by Viasimo for a share of 4.53%.
Avio regularly maintains commercial and financial relations with its subsidiaries and joint ventures, which consist of operations falling within ordinary management activities and concluded under normal market conditions. In particular, they relate to supplies and purchases of goods and services, including services in the field of administrative, accounting, taxation, IT, personal management, assistance and consultancy, and related credits and debts at year-end and financing and Centralized treasury management and related charges and income. These operations are eliminated in the consolidation procedure and are not described in this section.
The related parties of Avio S.p.A. Are identified on the basis of the principles set forth in IAS 24 - Related Party Transactions Report applicable from 1 January 2011 and are parent companies, companies that have a relationship with the Avio Group and its subsidiaries as well as defined by applicable law, companies that are subsidiaries but are not consolidated in the Avio Group, associated companies or joint venture of the Avio Group and the other participating companies.
It should be noted that until the date of effectiveness of the acquisition by Space2, Leonardo and In Orbit, Leonardo - in virtue of the rights arising from the Cinven shareholder agreement - boasted with the Avio Group a relationship of affiliation while formally holding a share in the share capital of the company lower than the threshold laid down in the IAS accounting standards and art. 2359 c.c. last paragraph. Downstream of the listing, while the shareholders' agreement with Cinven, Leonardo S.p.A. Will maintain this relationship with the Avio Group by virtue of its increase in the share capital of the company to an extent exceeding the threshold provided for by the abovementioned legislation.
In the years 2016 and 2015, the principal balance sheet values of the Company's related party transactions were as follows (amounts in thousands of Euro):

	December, 31 2016					
Counterparty	**Trade receivables/Other**	**Construction in progress**	**Financial receivables**	**Trade payables**	**Progress billing and advances**	**Financial payables**
Cinven				258		
Controlling companies	**0**	**0**	**0**	**258**	**0**	**0**
Leonardo S.p.A.				666		
MBDA Italia S.p.A.					2.446	
MBDA France S.A.	0	8.892			3.782	
Thales Alenia Space Italia S.p.A.	18			0	12	
Companies that have significant influence and related investments	**18**	**8.892**	**0**	**666**	**6.240**	**0**
ELV S.p.A.	2.315	25.497		1.500	110.767	2.148
Regulus S.A.	578			19.888	192	

SE.CO.SV.IM. S.r.l.							30.249
Controlled companies	**2.893**	**25.497**	**0**	**21.388**		**110.959**	**32.397**
Termica Colleferro S.p.A.	122		7.440	(779)			
Consorzio Servizi Acque Potabili	157						
Europropulsion S.A.	2.824	6.376		3.766		32.230	13.850
Servizi Colleferro – Società Consortile per Azioni	60						
Associated and jointly controlled companies	**3.163**	**6.376**	**7.440**	**2.987**		**32.230**	**13.850**
Total related parties	**6.074**	**40.765**	**7.440**	**25.299**		**149.429**	**46.247**
Total	**14.926**	**51.091**	**7.440**	**58.066**		**153.922**	**46.558**
Effect on total	40,7%	79,8%	100,0%	43,6%		97,1%	99,3%

	December, 31 2015					
Counterparty	**Trade receivables/Other**	**Construction in progress**	**Financial receivables**	**Trade payables**	**Progress billing and advances**	**Financial payables**
Cinven	-		-	259		-
Controlling companies	**-**	**-**	**-**	**259**		**-**
Leonardo S.p.A.	-		-	342		-
MBDA Italia S.p.A.	-	751	-	-	48	-
MBDA France S.A.	-	9.774	-	42	5.918	-
Thales Alenia Space Italia S.p.A.	-		-	-		-
Companies that have significant influence and related investments	**-**	**10.525**	**-**	**384**	**5.966**	**-**
ELV S.p.A.	3.935	34.162	-	-	110.370	5.756
Regulus S.A.	1.556	231	-	18.031	450	-
SE.CO.SV.IM. S.r.l.	213		-	-		29.878
Controlled companies	**5.704**	**34.393**	**-**	**18.031**	**110.820**	**35.634**
Termica Colleferro S.p.A.	46		6.530	319		-
Europropulsion S.A.	605	29.025	-	1.081	32.576	8.399
Servizi Colleferro – Società Consortile per Azioni	116		-	11		-
Associated and jointly controlled companies	**767**	**29.025**	**6.530**	**1.411**	**32.576**	**8.399**
Total related parties	**6.471**	**73.943**	**6.530**	**20.085**	**149.362**	**44.033**
Total	**8.887**	**82.501**	**6.530**	**43.010**	**152.028**	**140.112**
Effect on Total	72,8%	89,6%	100%!	46,7%	98,2%	31,4%

The main effects on profit and loss of the transactions between the Group and related parties for 2016 and 2015 are as follow (amounts in thousands of Euro):

	December, 31 2016				
Counterparty	**Operating revenues** (1)	**Change in construction in progress**	**Operating costs** (2)	**Financial income**	**Financial expenses**
Cinven			1.023		
Controlling companies	**0**	**0**	**1.023**	**0**	**0**
Finmeccanica S.p.A.			324		
MBDA Italia S.p.A.	1.810	1.073			
MBDA France S.A.	388	5.990			
Thales Alenia Space Italia S.p.A.					
Companies that have significant influence and related investments	**2.198**	**7.063**	**324**	**0**	**0**
ELV S.p.A.	31.415	100.093	1.500	0	2
Regulus S.A.	5.952	(1.784)	38.948		
SE.CO.SV.IM. S.r.l.	65		3.800	5	3
Controlled companies	**37.432**	**98.309**	**44.248**	**5**	**5**
Termica Colleferro S.p.A.	141		7.457		
Consorzio Servizi Acque Potabili	4		216		
Europropulsion S.A.	398.548	(266.679)	74.219		
Servizi Colleferro – Società Consortile per Azioni	2		506		
Associated and jointly controlled companies	**398.695**	**(266.679)**	**82.398**	**0**	**0**
Total related parties	**438.325**	**(161.307)**	**127.993**	**5**	**5**
Total	**479.958**	**(180.255)**	**295.110**	**510**	**7.702**
Effect on Total	91,3%	89,5%	43,4%	1,0%	0,1%

(1) The item includes revenues from sales of goods and from services and does not include the construction in progress (not yet completed).
(2) The item includes raw materials consumption, cost of services and personnel costs.

Counterparty	Year 2015 Operating revenues (1)	Change in construction in progress	Operating costs (2)	Financial income	Financial expenses
Cinven	-		1.054	-	-
Controlling companies	**-**		**1.054**	**-**	**-**
Leonardo S.p.A.	-		167	-	-
MBDA Italia S.p.A.	3.495	(1.979)			
MBDA France S.A.	8.789	408	-	-	-
Thales Alenia Space Italia S.p.A.	1.884				
Companies that have significant influence and related investments	**14.168**	**(1.571)**	**167**	**-**	**-**
ELV S.p.A.	10.796	73.908	-	6	1
Regulus S.A.	3.817	1.306	31.854	-	-
SE.CO.SV.IM. S.r.l.	176		3.697	-	3
Controlled companies	**14.789**	**75.214**	**35.551**	**6**	**4**
Termica Colleferro S.p.A.	84		6.963	258	-
Europropulsion S.A.	9.142	98.096	34.183	1	-
Servizi Colleferro – Società Consortile per Azioni	10		536	-	-
Associated and jointly controlled companies	**9.236**	**98.096**	**41.682**	**259**	**-**
Total related parties	**38.193**	**171.739**	**78.454**	**265**	**4**
Total	**83.727**	**148.831**	**225.429**	**2.186**	**4.906**
Effects on total	45,6%	115,4%	34,8%	12,1%	0,1%

(1) The item includes revenues from sales of goods and from services and does not include the construction in progress (not yet completed).
(2) The item includes raw materials consumption, cost of services and personnel costs.

In addition, information on guarantees and commitments given or received by the incorporating Company in relation to their respective related parties is disclosed throughout the period for which the financial information contained in the Prospectus and up to the Prospectus Date is reported:

Avio Counterparts	2016 Guarantees and commitments granted by Avio	2016 Guarantees and commitments received by Avio	2015 Guarantees and commitments granted by Avio	2015 Guarantees and commitments received by Avio
MBDA Italia S.p.A. (Group Leonardo)	2.150		1.887	
Companies participating in a partnership that has a link relationship	**2.150**	**-**	**1.887**	**-**
Consorzio Sitab In liquidation	132		132	
Associated and jointly controlled companies	**132**	**-**	**132**	**-**
C.I.R.A. (Centro Italiano Ricerche Aerospaziali) S.c.p.A.	274	24	274	24
Other companies	**274**	**24**	**274**	**24**
Total related parties	**2.556**	**24**	**2.292**	**24**
Total balance sheet caption	**43.747**	**1.364**	**43.017**	**114**

Effects on total	5,8%	1,8%	5,3%	21,1%

Transactions with controlling companies
Transactions with Cinven Partners LLP for consultancy and assistance services.

Relationships with companies that have a connection relationship and associated companies
Relations with Leonardo S.p.A., considered as a company with which there is a connection relationship, consist of assistance and advisory services. Relations with Leonardo's companies are commercial.
Referring to the customer MBDA Italia S.p.A. Guarantees issued by primary lenders are intended to ensure the timely fulfillment of the contractual obligations assumed by Avio in the Camm-er commissions. Their release is expected to complete specific contractual milestones.

Transactions with controlled companies
Transactions with controlled Companies are identified in transactions summarized below:
- trade receivables related to revenues arising within the ordinary activities of operations and concluded under normal market conditions;
- trade payables, related to costs incurred in the ordinary management activities and transactions concluded under normal market conditions;
- financial payables, due to the negative balance in the treasury account of Avio S.p.A. towards some controlled companies, as part of central treasury arrangement between the Company and some Group companies;
- revenues, related to the transactions described above in the context of trade receivables;
- operating costs, related to the transactions described above in the context of trade payables;
- financial income, related to interest income on financial receivable previously reported;
- financial expenses, related to interests expense on financial payables previously reported.

Transactions with associated and jointly controlled companies
Transactions with associated and jointly controlled companies are identifiable in transactions summarized below:
- trade receivables from revenues arising from sales of goods, which are related to the core business of the Group, from the ordinary management activities, concluded under normal market conditions. In particular, with reference to the company Europropulsion S.A., there are included revenues arising from sales of goods related to the core business of the Company, attributable to Continuing operations, from the ordinary management activities and concluded under normal market conditions;
- short and long term financial receivables of Avio S.p.A. towards Termica Colleferro S.p.A.;
- trade payables, related to costs incurred during ordinary management activities and transactions concluded under normal market conditions; moreover, with reference to the company Europropulsion S.A., are included costs related to ordinary management activities and concluded under normal market conditions;
- financial payables, related to intercompany short-term financial payables of Avio S.p.A. towards Europropulsion S.A.
- revenues, related to the transactions described above in the context of trade receivables;
- operating costs, related to the transactions described above in the context of trade payables;
- financial income, related to the transactions previously described as financial receivable;

Bank guarantees against the Sitab Consortium in liquidation relate to supplies made in recent years and it is expected that, in agreement with the Consortium, they will soon be revoked.
About C.I.R.A. (Centro Italiano Aerospaziali Ricerche) S.c.p.A., the guarantees, also issued by primary financial institutions, are the result of the award by Avio of competitions relating to engineering services at that Center.

Salaries paid to top and key management are in-line with the market conditions applied for the remuneration of equally qualified staff. In addition, the Group grants incentive plans to its employees, linked to the achievement of company and personal targets, as well as supplemental payments related to the achievement of certain seniority level.

7. INFORMATION BY GEOGRAPHICAL AREA

As already indicated, with reference to the breakdown of assets and liabilities by geographical area (based on counterpart's localization), all assets and liabilities at December 31, 2016 have counterpart localized in the Italy and EU countries area.

8. INFORMATION REQUIRED BY ART. NO. 2427, PARAGRAPH 16 BIS, OF THE ITALIAN CIVIL CODE

The following table, required by art. No. 2427, paragraph 16 bis, of the Italian Civil Code, reports fees related to 2016 for audit and other services provided by the independent auditors and members of their network (amounts in thousands of Euro):

Kind of services	Service provider	2016 fees
Audit	Deloitte & Touche S.p.A. (1)	190
	Rete Deloitte	-
Attestation	Deloitte & Touche S.p.A. (2)	570
Total		760

1) Includes auditing activities of the annual report, half-yearly as at June 30, 2016 and interim, as at September 30, 2016;

2) Includes tax declaration attestation services and methodological support activities for the IPO process and its Comfort letters.

* * *

April 28th, 2017

to BOARD OF DIRECTORS
Chief Executive Officer and Managing Director
Giulio Ranzo

Avio S.p.A.
(formerly Space2 S.p.A. which has incorporated Avio S.p.A. with effect on April 10, 2017 and subsequently it has changed its company name in Avio S.p.A.)

Registered office: Via Leonida Bissolati, 76, Rome Italy
Paid in Capital 90.761.670 Euro
Company Register – VAT number No. 09105940960
REA of Rome n. 09105940960

Report of the Statutory Auditors to the Shareholders Meeting pursuant to art. 2429 of the Civil Code

Dear Shareholders,
1. Introduction
Please note that the current Board of Statutory Auditors was appointed on December 1, 2016 by the Ordinary Assembly of Space2 S.p.A. in ordinary order effective from April 10, 2017composed by the President Mr. Riccardo Raul Bauer, Mrs. Claudia Mezzabotta, Mr. Maurizio Salom. In this context, the supervisory and control activities for the 2016 financial year and until the date of the Ordinary Shareholders' Meeting were carried out by the previous Board of Statutory Auditors with which the current Board of Statutory Auditors has relate as required by the Standards of conduct of the Board of Statutory Auditors for listed companies.
2. Supervisory activities
During the year ended December 31, 2016, the previous and the current Board of Statutory Auditors have carried out the control activities referred to in art. 2403, first paragraph of the Civil Code taking also into account the recommended conduct rules of the National Council of Chartered Accountants and Accounting Experts, of which we acknowledge with this report. In particular, the previous and current Board of Statutory Auditors have overseen compliance with the law and the corporate bylaws and respect for the principles of correctness administration, identifying no exceptions or observations. The meetings held in 2016 were five and those held in 2017 until the date of this report were three. Avio S.p.A. (hereinafter "Avio" or "Company") exercised, voluntarily, the right to adopt the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), pursuant to art. 3 of Legislative Decree February 28, 2005, no. 38 both for the financial statements and for the consolidated financial statements. Explanatory notes include accounting principles, amendments and IFRS interpretations applied from January 1, 2016. The statutory financial statements as at December 31, 2016 were approved by the Board of Directors Administration during the meeting of April 28, 2017 and highlights an operating profit of Euro 656,690.
The current Board of Statutory Auditors has given up the term, in its favor, referred to art. 2429, paragraph 1, of Civil Code, for the preparation and filing of this report. The previous and current Board of Statutory Auditors attended the Shareholders' Meeting and the seven meetings of the Board of Directors in 2016 and six in 2017, held in compliance with the corporate bylaws and legislative rules governing their operation, stating that their resolutions appear compliant with the law and the corporate bylaws and are not manifestly imprudent,

risky or threatening to compromise the integrity of the Company's equity. The Board analyzed transactions with related parties as described in section 6 of the Explanatory Notes and analyzed the effects of legal disputes, taxation and potential liabilities described in the Annual Report. The previous and current Board of Statutory Auditors have obtained from the Directors, with the periodicity provided for in art. 2381, paragraph 5, of the Civil Code, information on the overall operating performance and its foreseeable evolution as well as operations of major importance, by their size or characteristics, made by the Company and its subsidiaries. The previous and current Board of Statutory Auditors held meetings with the people in charge of the Independent Auditor, Deloitte & Touche S.p.A., for the data and information exchange accomplishment of their duties. During such meetings did not arose relevant data and information that should be highlighted in this Report. The previous and current Board of Statutory Auditors gained knowledge and vigilance about the adequacy of organizational structure and internal controls. The previous Board of Statutory Auditors met the Supervisory Board and took note of the report of the Supervisory Board pursuant to Legislative Decree 231 on the control activities for the financial year 2016. On April 28, 2017 during the meeting of the current Board of Statutory Auditors the Supervisory Board report for the second half of 2016 has been acquired and discussed.
Based on the inquiries carried out, also through exchange of information with the key managers of the Company functions, the organizational structure appeared adequate and reliable in order to meet the Company's management needs. No complaints were received pursuant to art. 2408 of the Civil Code. The previous and current Board of Statutory Auditors have verified the appropriateness of the administrative and accounting structure, primarily in terms of its reliability to represent the management facts correctly. Based on the investigations carried out, also through obtaining information from the internal audit function and the Independent Auditor as well as the examination of Company documents, the administrative and accounting system appeared adequate and reliable to meet the Company's management needs. The functions of legal audit pursuant to Legislative Decree 27 January 2010, no. 39 are entrusted to the Independent Auditor Deloitte & Touche S.p.A. Bearing this in mind, we have reviewed the financial statements as at December 31, 2016 and can report that, first of all, we have verified its compliance with legal requirements on its general form and structure.
In this respect, we have no specific comments to report.
The Board of Statutory Auditors also reviewed the financial statements of the subsidiaries, to the extent necessary for the preparation of this report and with the purpose of expressing an opinion on the statutory financial statements of Avio S.p.A. as at December 31, 2016, opinion which does not extend to the individual financial statements of the subsidiaries.
The Board of Statutory Auditors has verified that the Report on Operations which accompanies the statutory financial statements and the consolidated financial statements complies with legal requirements and, to the best of its knowledge, fully and clearly outlines the situation of the Group and the Company, their operating performance during 2016 and their business outlook. In terms of Article 2428 of the Italian Civil Code, it also highlights the main risks and uncertainties to which the Company and the Group are exposed.
The Board of Statutory Auditors, pursuant to art. 2426, paragraph 6 of the Civil Code, expresses the consent to the recording and maintenance in the balance sheet of the goodwill for Euro 219,100,000. Goodwill has been subject to impairment test in order to verify the adequacy of the related book value, and analyzed, as part of the audit activities by the Independent Auditor Deloitte & Touche S.p.A.

According to art. 2426, paragraph 5 of the Civil Code, the Board of Statutory Auditors expresses its agreement to the recording in the balance sheet caption "Intangible fixed assets with definite life" of an amount of 68,086 thousand of Euro relating to development costs net of the related depreciation costs.
The previous and the current Board of Statutory Auditors have checked that the financial statements reflect facts and information known to us as a result of performance of our duties and have no comments to make in this regard.
In addition of supervisory activity carried out during the previous financial year, it is noted that the Independent Auditor issued audit reports on the financial statements and the consolidated financial statements on April 29, 2017, without any relief and exceptions, with an emphasis paragraph. This refers to the acquisition by Space2 S.p.A., Leonardo S.p.A. and In Orbit S.p.A. of the 85.86% of the Company's share capital on March 31, 2017 and its merger by incorporation into Space2 S.p.A. on April 10, 2017, with which it changed its company name in Avio S.p.A. and their post merger shares have been admitted to the Telematic Stock Market (MTA), STAR Segment of the Milan Stock Exchange.
We confirm that the Board of Statutory Auditors received on April 29, 2017 the Independence Declaration pursuant to Legislative Decree 39/2010 and in accordance with paragraph 17 of the Standard of Auditing Isa Italia no. 260. Furthermore, information about the remuneration for the services provided by the Independent Auditor is explained in section 8 of the Notes to the Statutory Financial Statements, as required by art. 2427, paragraph 16 bis of the Civil Code.
We agree with the Directors' proposals regarding the approval of the statutory financial statements as at December 31, 2016 and the allocation of the net profit for the year.

Rome, April 30, 2017
For the Board of Statutory Auditors

Mr. Riccardo Raul Bauer – President (signed)
Mrs. Claudia Mezzabotta (signed)
Mr. Maurizio Salom (signed)

Deloitte.

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INDEPENDENT AUDITORS' REPORT
PURSUANT TO ART. 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Avio S.p.A. (formerly Space2 S.p.A.)

Report on the Financial Statements

We have audited the accompanying financial statements of Avio S.p.A. (the "Company"), now merged by incorporation in Space2 S.p.A., which comprise the statement of financial position as at December 31, 2016, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, a summary of the significant accounting principle and the other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11, no. 3, of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Avio S.p.A. as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis paragraph

We would like to point out the information, as mentioned in the report on operations and the explanatory notes, related to the acquisition by Space2 S.p.A., Leonardo S.p.A. and In Orbit S.p.A. a company owned by some managers of the Company, of the 85,86% of the Company's share capital occurred on March 31, 2017 and its merger by incorporation in Space2 S.p.A. occurred on April 10, 2017, as a result of which it changed its company name in Avio S.p.A. and it finalized the admission of post-merger shares to the Telematic Stock Market (Mercato Telematico Azionario – MTA), STAR Segment, of the Milan Stock Exchange. Our opinion does not include exceptions with reference to these matters.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations with the financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) no. 720B in order to express, as required by law, an opinion on the consistency of the report on operations, which is the responsibility of the Directors of Avio S.p.A., with the financial statements of Avio S.p.A. as at December 31, 2016. In our opinion the report on operations is consistent with the financial statements of Avio S.p.A. as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Franco Chiavazza
Partner

Turin, Italy
April 29, 2017

This report has been translated into the English language solely for the convenience of international readers.