Avio S.p.A.

Registered office in Rome, via Leonida Bissolati No. 76
Share Capital Euro 90,761,670 fully paid-in
Rome (RM) Companies Registration Office No.: 9105940960

2017 HALF-YEAR REPORT

CONTENTS

HIGHLIGHTS[1]

Net revenues[2]
Euro 148.6 million (+24.4% on Euro 119.4 million in H1 2016)

EBITDA
Reported: Euro 11.2 million (+4.8% on Euro 10.7 million in H1 2016)
Adjusted [3]:Euro 15.2 million (+7.8% on Euro 14.1 million in H1 2016)

EBIT
Reported: Euro 4.3 million (+114% on Euro 2.0 million in H1 2016)
Adjusted [3]: Euro 10.3 million (+38.5% on Euro 7.5 million in H1 2016)

Profit before taxes
Euro 1.2 million (compared to breakeven in H1 2016)

Net Profit
Euro 1.7 million (compared to a loss of Euro 1.1 million in H1 2016)

Net financial position[4]
cash position of Euro 35.9 million (compared to a pro-forma Euro 48.3 million at December 31, 2016)

Investments
Euro 8.7 million (in line with H1 2016)

Backlog [2]
Euro 716.2 million at June 30, 2017 (+11.3% on June 30, 2016)

Research and development
costs of Euro 39.5 million, net of pass-through costs incurred in H1 2017, equal to 27.0% of revenues net of pass-through revenues for H1 2017 (costs of Euro 37.0 million net of pass-through costs incurred in H1 2016, equal to 31.0% of revenues net of pass-through revenues for H1 2016)

Employees
768 at June 30, 2017 (758 at December 31, 2016)

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[1] The first half of 2016 figures include Space2 S.p.A. for comparability with the "Pro-forma" first half of 2017.
[2] Net of "pass-through" revenues.
[3] The Adjusted indicators are considered highly representative of the Group results as, in addition to not considering the effects of changes to the applicable rates, amounts and types of funding to support employed capital and of amortisation and depreciation (concerning EBITDA), they exclude also non-recurring or unusual factors for improved comparability.
[4] The pro-forma Net Financial Position at December 31, 2016 includes the cash contribution from the merger by incorporation of Avio S.p.A. into Space2 S.p.A..

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

The first half of 2017 featured intense flight activity with 4 Ariane flights and one Vega flight (the second Vega flight of the year took place on August 2, consolidating therefore the result of 4 consecutive flights in less than 12 months). The Ariane launcher has reached an unmatched reliability record with over 80 consecutive successful flights. The Vega launcher has marked an initial major performance milestone by completing 10 successful consecutive flights.

Flight activity has been intense despite an interruption at the Kourou launch site of about 5 weeks, with strikes affecting the space centre throughout the month of April. Effective cooperation with the French National Centre for Space Studies (CNES), Arianespace and the other industrial players operating on the base permitted a recovery of flight activity delays throughout May and June. Some Europropulsion and Regulus industrial activities suffered delays and are subject to recovery plans in 2017.

In March, the corporate acquisition operation and merger between Space2 S.p.A. (investment vehicle listed on the Milan Stock Exchange - MIV segment) and Avio S.p.A. initiated in the second half of 2016 was completed. On clearance from Borsa Italiana and CONSOB, the company resulting from the merger was listed on the STAR segment of the MTA on April 10, 2017. The operation substantially altered the ownership structure with the exit of the Cinven fund and the entry of Space2 S.p.A.'s shareholders. On listing, the market free float constituted approx. 68% of the share capital. As part of the operation, management also invested through the company InOrbit, acquiring a minority holding. The financial structure of your company was also altered through the cash contribution from Space2 S.p.A. of approx. Euro 70 million, further bolstering company resources.

Simultaneous to the stock market listing, the new Board of Directors which you appointed took office and the new Corporate Boards were elected. In accordance with the regulations for listed companies, the Remuneration and Risk Control Committees were also established. The company subsequently adopted all procedures and regulations required by law for listed companies.

In May 2017, one of the two debt lines (Senior term loan B) was repaid in advance for approx. Euro 65 million as no longer considered necessary for company operations. This therefore will significantly reduce financial charges for the company.

Also in May, the company issued new ordinary shares deriving from the special shares held by Space2 S.p.A., following satisfaction of the conditions for their conversion from special shares to ordinary shares. In May, the conditions for exercise of all Avio Market Warrants issued on the market were satisfied, with your company's share maintaining in this month an average price above Euro 13 (conversion threshold). The conversion of Market Warrants into ordinary shares took place in a number of tranches on the basis of subscriber requests and was completed in August.

On June 15, the first Shareholders' Meeting of Avio as a listed company took place and the 2016 financial statements were approved.

In terms of operations, Avio continued to develop the new Ariane 6 and Vega C launchers, completing in the period the first booster case for the P120C, successfully tested subsequently in July 2017. In parallel, the works on the new building for the construction of the P120C boosters advanced significantly, featuring also the installation of equipment for hydraulics and radiographic testing. The initial hydraulics tests were carried out in the new plant in July. As part of Vega C's development, the first version of the Zefiro 40 motor (second stage of Vega C) was completed, which will be launched from the testing ground in the second half of 2017. Contemporaneously, the first Zefiro 40 nozzle with a flexible joint was produced and integrated by Avio. This is a major technological result.

During the period, development operations were agreed with the ESA for the SSMS (Small Spacecraft Mission Service), a Vega/Vega C adaptor-dispenser for the launching into orbit of small satellites.

In June, the company took part in the Aerospace exhibition in Paris (Le Bourget), presenting its main products and technologies, including the new SSMS. At this event, Arianespace signed the first two Vega C launch service contracts for Airbus Defense&Space from 2020, a major indication of the relevance of the Vega C project (two years ahead of development completion).

In June, an agreement was reached with Arianespace (already part of the general agreements with the ESA for the restructuring of the launch activity system of responsibility), transferring full responsibility to Avio for the entire integration of the Vega launcher at the launchpad (previously partly shared with Arianespace). In July, the first launcher integration campaign with full responsibility undertaken by Avio was successfully executed.

During the period, the order portfolio won new contracts both for Ariane and Vega worth approx. Euro 80 million. In addition, subsequent to period-end and in line with forecasts, your company acquired additional production and development orders (primarily concerning the Vega launcher) worth in excess of Euro 300 million.

The H1 2017 results were very strong, in line with budget forecasts and improving on the same period of the previous year. Net revenues amounted to Euro 148.6 million (Euro 119.4 million in H1 2016), while Adjusted EBITDA was Euro 15.2 million (Euro 14.1 million in H1 2016).
The net financial position at June 30 was a cash position of Euro 35.9 million (debt of Euro 18.6 million at December 31, 2016), thanks to the cash contribution from the completion of the merger with Space 2 S.p.A.. As expected, operating cash flow was absorbed in the first half of 2017 due to the advancement of orders without the receipt of new advances from clients (obtained in previous years for orders processed in 2017).

In conclusion, in the first half of 2017 your company listed on the Stock Exchange, strengthened its balance sheet and delivered major technological and industrial programme results. The development of Avio into an international sector leader therefore continues on target, with the opportunities for growth and development broadening further.

Giulio Ranzo
Chief Executive Officer and General Manager
Avio S.p.A.

DIRECTORS' REPORT

THE AVIO GROUP

PROFILE

The Avio Group (hereafter in this Directors' Report "Avio" or the "Group") is an aerospace sector global leader. The experience and know-how built up over more than 50 years lies behind Avio's embodiment of excellence in terms of Launch Systems, solid, liquid and cryogenic propulsion and tactical propulsion.

The Group directly employs in Italy and overseas 768 highly qualified personnel (not including the Europropulsion joint venture). Personnel are employed in Italy at the main Colleferro facilities on the outskirts of Rome and at other locations in Campania and Piedmont. Additional operating sites are located overseas (in France and French Guyana).

The Group is currently involved in the Launch Systems and space propulsion sector, particularly with regards to the design, development, production and integration of:
- space transport systems (Vega Launcher and related systems)
- solid and liquid propulsion systems for launchers
- solid propulsion systems for tactical missiles
- liquid propulsion systems for satellites
- new low environmental impact propulsion systems

In addition, the Group has begun ground infrastructure activities to support launcher ground operations.

The current **Launch Systems** with Avio components are:
- Ariane 5 for the launch of up to 10-ton satellites into Geostationary Earth Orbit (approx. 36,000 km above sea level);
- Vega, for the launch of up to 2-ton satellites into Low Earth Orbit (between 300 and 2,000 km above sea level).

Since the late 1980's, Avio has participated in the **Ariane 5** program with the supply of boosters and the oxygen turbo pump of the Vulcain motor.
Since 2000, Avio, through its subsidiary ELV (Avio 70%, Italian Space Agency 30%), has been developing and implementing the **Vega** program for the European 2000kg payload satellite launcher, which successfully completed its first qualifying flight in February 2012, 5 flights in December 2015 under the VERTA contract for completion of the qualification process, and its first commercial flight in 2016. The success of this product has allowed Italy to enter the extremely exclusive group of countries capable of developing and producing its own space launcher.
In order to participate in these programs, Avio has had since 1984 its own facilities at the European Space Centre in French Guiana for the production of solid propellant and Ariane and Vega launcher motors, for the assembly of booster units and their integration with the Ariane launcher and for the integration of components of the entire Vega launcher.

Regarding **tactical missiles**, Avio participates in the major national and international programs. These include:
- ASTER, ground-to-air weapon system
- CAMM-ER, tactical missile under development

In the field of **satellite propulsion**, Avio has developed and supplied the ESA and ASI with propulsion subsystems for the launching and control of several satellites, including the latest SICRAL, Small GEO and EDRS-C satellites.

The Group operates in the following business lines:

- **Ariane**

  Ariane is a ESA-sponsored space program for GEO missions, in which Airbus Safran Launchers (ASL) is the prime contractor and Avio operates as a subcontractor for the production of Ariane-5 launcher components, in particular the P230 solid propulsion booster and the liquid oxygen turbo pump (LOX) for the Vulcain 2 engine. Avio is also the subcontractor for the next-generation Ariane 6 launcher scheduled for 2020, for which Avio, through its subsidiary Europropulsion, is developing and will supply the solid propellant P120C engine and the liquid oxygen turbo pump for the Vinci engine, as well as continue to produce the liquid oxygen turbo pump for the Vulcain 2 engine.

- **Vega**

  Vega is a space program for LEO missions, whose development has been funded by the ESA, with mainly Italian funding, and for which the Group is the prime contractor through its ELV subsidiary for the production and integration of components for the entire launcher. Avio is also subcontractor for the production of the solid propulsion engines P80, Zefiro 23 and Zefiro 9 and the AVUM propulsion module. The Group also plays the role of the ESA's prime contractor for the development of the new generation of Vega Consolidated (Vega-C) and Vega Evolution (Vega-E) launchers, scheduled for 2019 and 2024 respectively. The Group is responsible for the development and production of these entire launchers through its ELV subsidiary, while Avio is responsible for the development of the solid propulsion engine P120 C (first stage), the Z40 solid propellant engine (second stage to replace the current Z23) and a oxygen-methane liquid engine for the upper Vega-E stage.

- **Tactical Propulsion**

  Avio is committed to the joint Italian, French and British program for Aster 30 production, in particular the propulsion components (booster and sustainer), the Thrust Vector Control (TVC) and the aerodynamics (fins). The Aster 30 is considered one of the most powerful and technologically advanced solid propulsion engines in the world. In terms of development programs, Avio has signed a contract with MBDA for the propulsion development of the Camm-ER missile, whose qualifying flight is scheduled for 2019.

With revenues net of pass-through revenues in the first half of 2017 of Euro 148.6 million and an adjusted EBITDA of Euro 15.2 million, the Group currently occupies a leading position in the Italian and European space industry, substantially supported by its high degree of competitivity - drawing over 98% of its revenues from overseas.

The highly technological content of Avio’s operations has required research and development spend - for the portion principally commissioned by the ESA, ASI and Member State ministries - accounting for approx. 27% of revenues net of pass-through revenues in H1 2017. These activities were carried out both in-house and through a network of laboratories and partnerships with some of the leading domestic and international universities and research centres.

CORPORATE BOARDS

Board of Directors

The current Board of Directors of Avio S.p.A. was appointed by the Shareholders' Meeting of Space 2 S.p.A. on December 1, 2016, in office from the effective date of the merger by incorporation of Avio S.p.A. into Space2 S.p.A. (April 10, 2017). The term of office of the Board of Directors is three years, concluding with approval of the 2019 Annual Accounts.

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

The current Board of Statutory Auditors of Avio S.p.A. was appointed by the Shareholders' Meeting of Space 2 S.p.A. on December 1, 2016, in office from the effective date of the merger by incorporation of Avio S.p.A. into Space2 S.p.A. (April 10, 2017). The term of office of the Board of Statutory Auditors is three years, concluding with approval of the 2019 Annual Accounts.

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

Independent Audit Firm

Deloitte & Touche S.p.A.

RECENT HISTORY

1994
The Group was established within the Fiat Group in 1908 with the production of its first aeronautical engine, and in 1994 acquired BPD Defence and Space, a company founded in 1912 and growing to over 4,000 staff, focused on munitions development and production for Italian and foreign militaries.

2000
In 2000, adding to its traditional aeronautical and aerospace activities, the Group, in collaboration with the Italian Space Agency (ASI), established ELV S.p.A. (held 70%) for the complete development and design of a new launcher. In this role, under the auspices of the European Space Agency (ESA), the Group assumed the role of lead contractor for the European launcher VEGA.

2006
The Group was acquired by BCV Investments, owned by the private equity fund Cinven (81%), Finmeccanica Group (14%, now Leonardo Group) and other investors (5%).

2012
In February, the European space launch system named VEGA, designed and engineered by Avio, was approved.
In December, Avio announced the signing of an agreement for the sale of its aeronautical division to General Electric.

2013
In May, Avio's new VEGA launcher successfully completed its first commercial flight. On August 1, 2013, Avio sold GE Avio Srl, which operated its AeroEngine division, to General Electric.

2014
In December, the European Space Agency Ministerial Conference of Member States decided to finance the VEGA launcher development program until its completion, including a first rocket stage (the P120 C) to be shared with the forthcoming Ariane 6 launcher, also fully financed.

2015
The outcome of the Ministerial Conference of ESA countries, held the previous December 2014, led in August 2015 to the signing of major development contracts for the Vega-C and Ariane 6 launchers. Avio's key role was recognized thanks to its participation in the development program for Vega-C and Ariane 6's shared rocket stage, the P120, and its lead systems engineering role in the VECEP program for the development of the Vega-C launcher.
For the first time in the history of the Kourou Space Centre as many as 12 launches were made in one year, including 6 involving Ariane and 3 for Vega.

2016 - 2017
In the fourth quarter of 2016, the operation for the acquisition and listing of the Avio Group by Space2 S.p.A., an Italian SPAC listed on the MIV market/SIV segment of Borsa Italiana S.p.A., was initiated.

This operation was completed on March 31, 2017 with the acquisition by Space2, Leonardo S.p.A. and In Orbit S.p.A. (a company formed by a number of Avio managers) of an 85.68% holding in Avio. The remaining investment was already held by Leonardo. On the same date, CONSOB authorised publication of the listing prospectus for ordinary Space2 post-merger with Avio shares on the Italian Stock Exchange. The merger by incorporation with Space2 was thereafter effectively executed on April 10, 2017.

Also on April 10, 2017, Space2 post-merger with Avio, maintaining the name “Avio S.p.A.”, was listed on the Italian Stock Exchange’s STAR segment.

BUSINESS AREAS

Main activities: design, development and production of solid and liquid propellant propulsion systems for space launchers and of solid propellant propulsion systems for tactical missiles, development, integration and supply of complete light space launchers (VEGA), research and development of new low environmental impact propulsion systems and satellite tracking control motors.

Main programmes: Ariane, VEGA, Aster

Main clients: ASL (Airbus-Safran-Launchers), ASI (Italian Space Agency), ESA (European Space Agency), ARIANESPACE and MBDA

Production sites: Colleferro (Rome), Kourou (French Guyana)

REGION

ITALY

(I) (II) (III)	Colleferro (Rome), solid space propulsion

EUROPE

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

REST OF THE WORLD

(II) (IV)	Kourou - French Guyana, loading of Ariane 5 solid propellant booster segments and their integration, integration of the VEGA launcher

Key
(I) Headquarters
(II) Production offices or location
(III) Research laboratory
(IV) Consortiums or investees

STRATEGY

Avio, the leading European space transport and solid and liquid propulsion systems enterprise, in the first six months of 2017 consolidated upon its proven excellence in the sector, particularly thanks to the successful 9th Vega launch and the 4 Ariane 5 launches (94th Ariane 5 launch, bringing to 238 the total number of Ariane line launches, of which 80 consecutively successful).

The Ministerial Conference held in Luxembourg in December 2014 definitively approved the Ariane 6 spacecraft development programme whose test flight is scheduled for 2020, with entry into service at the end of 2023 and the consequent complete withdrawal of the current Ariane 5 spacecraft. In parallel, the Conference also approved the Vega (Vega C) market consolidation programme, which from 2019 will see a load increase from the current 1500 kg in polar orbit to more than 2000 kg in the same orbit. As a result of these European launch sector decisions, in August of 2015 the ELV and ESA signed a VECEP contract for the development of Vega C and the development of the P120 as a Vega C and Ariane 6 "common element".
The Ministerial Conference held in Switzerland in December 2016 definitively confirmed the European launchers development strategy. In particular, Vega C obtained additional funding to take into account an even more powerful version of the P120 engine and a higher Payload fairing to support larger and higher volume satellites. The Vega E, the second Vega development phase, obtained initial funding for research on the new 4 stage with its LOX-Methane engine.

In addition, the strategy to extend the Vega accessible market was further consolidated through taking part in the following ESA programs:

- as previously considered, Vega C+ which envisages the development of an expanded diameter Payload Fairing (for the launching of more voluminous satellites), lighter AVUM stage structures (for greater useful mass) and larger liquid propellant tanks.
- SSMS, which aims to provide a dedicated service for so-called Small-Sats, single or constellations of satellites with a mass range of 1-400 kg, which are increasingly in demand. Some launchers of the same class as Vega, such as Dnepr and PSLV, are already equipped with SSMS-like dispensers that offer the multi-launching of small satellites in this mass range. The development of an ad-hoc dispenser, along with the qualities of flexibility and versatility of the Vega upper stage, will give the launcher a significant competitive advantage.
- Vega-C Light and Vega-E Light, i.e. launchers for under-500kg satellites derived from Vega development.
- Space Rider, a Vega C launched spacecraft capable of carrying up to 800kg of payload in orbit for 2 months for a variety of applications such as orbital experiments or services that will increasingly be in demand in the near future.

All of these programs have already been allocated funding to cover development and consolidation activities over the next 3-5 years, with the exception of Vega Light, for which only a feasibility study is currently funded.

Vega's second evolution, named Vega E and also funded via the 2016 Ministerial Conference, will launch from 2024 a payload approx. twice the size of those currently launchable and will allow Avio to further its expertise in liquid propulsion.
This development is consistent with the framework the company is defining together with national and European space agencies to achieve independent European access to space by the conclusion of collaboration with the Soyuz program in 2025, with only two launchers, Ariane 6 and Vega C, currently available for geostationary, medium and low orbit missions, though the exact policy for allocating satellites in the 3 orbits is still to be defined.

Together with the development of solid propulsion and further international collaborations, Avio's strategic objective is also to develop liquid propulsion, in particular with methane and oxygen. Through an agreement with the company KBKhA, and following the success of the liquid methane/oxygen engine testing in 2014, Avio has laid the ground for the development of a liquid methane/oxygen engine for the last stage of future Vega versions, in order to be more competitive in terms of performance and also compatibility with the "clean space" policy being advanced at European level.

The year 2016 saw the company expanding its expertise with ground activities, such as the management of mechanical, electrical and fluid issues on the launch base. This was part of an agreement reached with Arianespace to redefine Launch System responsibilities at the French Guyana Space Centre, with Avio taking over new activities in the second launch campaign of 2017 beginning in June.
Finally, in 2017, the company was able to implement its new model of governance in the European space industry, which it proposed through an agreement with partner company ASL, the prime contractor for the Ariane 5 launcher and its successor Ariane 6. This model will allow Avio to have direct control of Arianespace's Business Plan regarding the marketing of the Vega launcher and its successors, in order to determine volumes and prices that allow, according to recurring launch system costs, balanced budgeting for the launcher's development, with the company aiming to increase Vega launches from 2-3 launches per year to a steady 4 launches per year.

FIRST HALF 2017

H1 SIGNIFICANT EVENTS

BUSINESS

Ariane Launches

The first 6 months of 2017 proved to be very positive for the Ariane 5 launcher, which successfully completed 4 flights, entering eight satellites into orbit, including 6 for commercial entities and 2 for non-European governments (Brazil and India). With this performance, Arianespace confirmed the trend of recent years, numbering on average 6 launches over the course of each year.

Vega Launches

During the first 6 months of 2017, the Vega VV09 was successfully launched.
In June 2017, the VV10 flight campaign was initiated, culminating in a successful launch on August 2, 2017. The VV10 campaign was the first in which Avio supported Arianespace in ground operations, defining its new duties at the Guyana Space Centre and subsequently its lead role for the last flight campaign of 2017.

Tactical Propulsion

In the first few months of 2017, the ASTER Program saw a slow-down in the production of boosters and fins due to several delays in the supply of raw materials. A delay recovery plan is being implemented and supported by an increase in the production rate. The loading of Sustainer motors was interrupted due to supplier/client issues in the delivery of motor cases.

Regarding the CAMM-ER development program, the engine and equipment development stage concluded. The first pre-qualification cases and an inert delivery engine were produced. In addition, three motors were bench-tested and a fin and conduit were put under mechanical load greater than that of flight.

Main agreements and contractual events

In the first 6 months of 2017, with regard to current production:

- the company has sent to ASL, on request, a proposal for the production of 18 additional Ariane 5 booster pairs and 18 Vulcain 2 turbo pumps (future Batch Production Contract), for which the final contract is yet to be signed.
- regarding Vega, the subsidiary ELV:
  - has signed with the client Arianespace the Rider 1 Batch 2, which integrates ground activities at the French Guyana Space Centre
  - is finalizing discussions with Arianespace for the new Batch 3 Production Contract of 10 Vega/Vega C mixed units, for which Arianespace has already issued an order for the purchase of long lead items.

Following the signing of contracts in 2015 that led to the start of the development of the Vega C and Ariane 6 launchers, scheduled for service in 2019 and 2020 respectively, in order to progressively replace the current Vega and Ariane 5 launchers, the company has signed a Small Satellites Mission Service development contract for the multiple launching of small satellites, for which the qualifying flight is expected in late 2018.

Also of note is the signing, at the Paris Air Show of June 2017, of contracts with Arianespace for three Vega/Vega C flights:

- one for the launch of the Italian Space Agency's Prisma optical satellite
- two for the launch of Airbus Defense Space's VD20 earth observation satellites.

In the field of tactical propulsion, the main event was the signing of the Re-life ASTER contract. Related activities will be developed over the next three years to identify obsolete and "reach" components of the ASTER engine.

OTHER SIGNIFICANT EVENTS

a) Acquisition of Avio S.p.A. and subsequent listing of Space2 (thereafter named Avio S.p.A.) on the Italian regulated MTA (STAR segment)

On January 19, 2017, the Board of Directors of Avio S.p.A. approved the draft prospectus of Space2 S.p.A. formally filed at Consob and Borsa Italiana S.p.A., limited to the information reported upon the Avio Group, the memorandum on the operating control system established by the company and the 2017-2019 industrial plan, in accordance with the Instructions for the Regulation concerning markets organised and managed by Borsa Italiana S.p.A..

On February 16, 2017, due to the need to supplement the prospectus with the 2016 earnings estimates, the Board of Directors of Avio S.p.A. approved the 2016 preliminary figures. These preliminary figures were in line with the statutory financial statements subsequently approved by the Board of Directors of Avio S.p.A. on April 28, 2017.

Also on February 16, 2017, the Board of Directors of Avio S.p.A. newly approved, limited to the information regarding the Avio Group, the draft of the Space2 S.p.A. prospectus to be formally filed at Consob and Borsa Italiana S.p.A..

On March 24, 2017, also taking account of the need to include in the prospectus a declaration upon the agreement of the Independent Audit Firm that the 2016 preliminary figures included were substantially in line with the definitive results thereafter published in the audited 2016 annual financial statements, the Board of Directors of Avio S.p.A. approved the Avio Group 2016 consolidated preliminary figures, on the basis of Avio Group consolidated financial statements prepared in accordance with the applicable accounting standards. These preliminary figures were in line with the statutory financial statements subsequently approved by the Board of Directors of Avio S.p.A. on April 28, 2017.

On March 31, 2017, the acquisition was completed by Space2, Leonardo S.p.A., a company listed on the Mercato Telematico Azionario (MTA) of Borsa Italiana S.p.A. (hereafter "Leonardo") and In Orbit S.p.A., a newly incorporated company owned by a number of strategic executives of Avio S.p.A., of a shareholding of 85.86% in the share capital of Avio S.p.A..

On April 10, 2017, the merger by incorporation of Avio S.p.A. into Space2 S.p.A. was completed, with the latter undertaking the name Avio S.p.A. and with admission to trading on the MTA, STAR Segment, of the Milan Stock Exchange of Avio S.p.A. post-merger shares.

b) Post-merger and listing shareholder structure

As part of the operation described at the previous point, Leonardo, an Avio S.p.A. shareholder since 2003, invested in the transaction increasing its holding in Avio S.p.A.. The company's management, through the company In Orbit S.p.A., together with Space2 and Leonardo invested, while Cinven Limited, the other institutional investors and Viasimo entirely divested from Avio S.p.A..

At the effective merger date of April 10, 2017, Space Holding S.p.A., the promoter of Space2, became a direct shareholder of Avio S.p.A. following the merger, holding:

(i) 400,000 Special Shares, of which:

a) a "first tranche" of 35%, i.e. 140,000 Special Shares to be converted into Avio S.p.A. post-merger shares on efficacy of the merger, with a conversion ratio of 4.5 and therefore corresponding to 630,000 Avio S.p.A. post-merger shares;

b) a "second tranche" of 65%, i.e. 260,000 Special Shares to be automatically converted into Avio S.p.A. post-merger shares on satisfaction of the condition that the Avio S.p.A. share price exceeds Euro 13.00 for 20 days (even non-consecutively) over a period of 30 trading days, with a conversion ratio of 4.5 and therefore corresponding to 1,170,000 Avio S.p.A. post-merger shares;

(ii) 800,000 Sponsor Warrants, exercisable on the condition that the Avio S.p.A. share price reaches Euro 13.00, with a conversion ratio with Avio S.p.A. post-merger shares of 1 against the payment of an exercise price of Euro 13.00.
At the effective merger date (April 10, 2017, the first trading day of the Avio S.p.A. share on the MTA), the condition for the exercise of the Sponsor Warrants was satisfied although no requests from holders were received.

In addition, at the effective merger date (April 10, 2017), 7,499,978 Market Warrants were in circulation, exercisable on the condition that the average daily price of the Avio S.p.A. share calculated over a calendar month exceeds Euro 13.00, with a conversion ratio of 0.27 and therefore corresponding to a maximum 2,034,878 Avio post-merger Conversion Shares.
In accordance with the applicable Regulation, the subscription price of the Conversion Shares assigned in exercise of Market Warrants is Euro 0.1.

Therefore, at the effective merger date (April 10, 2017), the ownership of the company, following conversion of the above-stated "first tranche" of Special Shares into Avio S.p.A. post-merger shares, was as follows:

Shareholder	**% share capital**
Leonardo	28.61%
In Orbit	3.91%
Space Holding	2.72%
Free float on MTA	64.76%
Total	**100.00%**

On May 16, 2017, the condition for the automatic conversion of the "second tranche" of Special Shares was met. Consequently, on May 17, 2017, in accordance with the company's By-Laws, the remaining 260,000 Special Shares were converted into 1,170,000 Ordinary Shares.

On June 2, 2017, with reference to the month of May 2017, satisfaction of the condition for the conversion of 7,499,978 Market Warrants was announced.

Following satisfaction of the condition for the exercise of the Market Warrants, in accordance with the relative regulation, the period for the subscription of Avio S.p.A. Conversion Shares was established as between June 16 and August 16, 2017.
In the June 16 to June 30, 2017 period, 508,008 Market Warrants exercise requests were received which, at the conversion ratio of 0.27, corresponds to 137,823 Conversion Shares. In accordance with the applicable regulation, these Conversion Shares were issued and assigned in July 2017, therefore without any effect on the share capital of Avio S.p.A. and on the ownership structure at June 30, 2017.

In the April 10-June 30, 2017 period, no further sponsor warrants exercise requests were received.

Therefore, at June 30, 2017 the ownership of the company, following the conversion of the above-stated "second tranche" of Special Shares into Avio S.p.A. post-merger shares, was as follows:

Shareholder	% share capital
Leonardo	27.24%
Space Holding	7.60%
In Orbit	3.72%
Free float on MTA	61.44%
Total	**100.00%**

c) Purchase Price Allocation and Goodwill

As described in the previous point a), the date of the business combination was March 31, 2017 and the effective date of the merger between Space2 and Avio was April 10, 2017.
The allocation process of the acquisition values to the assets, liabilities and contingent liabilities of the Avio Group, in accordance with IFRS 3, must be completed within 12 months from the date of the business combination, therefore by March 31, 2018.

In consideration of the short time period between the date of the business combination and these consolidated half-year financial statements at June 30, 2017, of the complexity of the process to allocate the acquisition values to the assets acquired, liabilities assumed and contingent liabilities assumed by the Avio Group, of the longer period of 12 months from the date of the business combination permitted by regulations based on the above-mentioned complexity, as well as the fact that in the second half of 2017 Avio S.p.A. will update its industrial plan, these condensed consolidated half-year financial statements at June 30, 2017 include a provisional amount recorded in the goodwill account for a value equal to Euro 80.3 million corresponding to the difference between the acquisition price of the Avio shares paid by the buyer, increased by the fair value of the new Space2 shares which were issued to service the Merger, and the consolidated equity of the Avio Group at December 31, 2016 net of the goodwill previously recorded and of the related deferred tax liabilities.

For the reasons indicated above these half-year financial statements do not report the fair value of the assets acquired and of the liabilities assumed. The completion of the valuation process required by IFRS 3, which will take place within the period established by regulations, may result in a valuation of assets and liabilities of Avio acquired at the business combination date which differs than the assumptions adopted in the preparation of these half-year financial statements. The definition of the Purchase Price Allocation may impact future results (e.g. higher amortisation to which part of the acquisition payments must be allocated), without effects on the expected generation of cash flows.

d) Tax Assessment issued by the Finance Police on February 28, 2017

On February 28, 2017, the Finance Police communicated a Tax Assessment (“PVC”) with regards to the French company Regulus S.A., held 60% by Avio.

The assessment alleged the residence in Italy of this company, with legal and operating offices in French Guyana (Kourou) at the European Space Centre, between tax periods 2010 and 2016. The allegation is that the company had “administrative offices” (a significant concept for tax residence purposes) in Italy, at Avio’s Colleferro offices.

Regulus S.A. is engaged in the production and loading of space launcher motor propellants and for this reason has its legal and operating offices in French Guyana at the European Space Centre, with approx. 100 technical and administrative staff.

The PVC, as an investigative measure of the Finance Police, although alleging the non-presentation of an annual income declaration, initially has not quantified the alleged amount in terms of additional taxes, penalties and interest applicable, quantifying only the amount of gross revenues (approx. Euro 266 million between 2010 and 2016), qualifying them as “income items” and referring to the Tax Agency the final consideration upon furtherance of the assessment activities and the subsequent quantification of the issue.

However, in terms of the quantification of the claim, subsequent to the PVC, on March 14, 2017, the Finance Police, after coordinating with the competent Tax Agency, notified Regulus of a Completed Operations Assessment ("PVOC"), through which the alleged assessable base potentially applicable to Regulus was better defined, necessary where this latter is able to document the costs deductible incurred in the period, expressly recognising that *"the assessable base, restated, on which to calculate the taxes, would be Euro 26,804,459.43 (years from 2010 to 2015)"* and that Regulus *"may provide - for possible recognition by the Tax Authorities on settlement - the necessary documentation approving the effective settlement of taxes to the French authorities amounting to, as per the financial statements acquired/presented on 20.02.2017 and 22.02.2017, a total of Euro 8,100,115.94 (years from 2010 to 2015)".*

The Finance Police thereafter invited Regulus to produce the documentation required for the recognition both of costs and the clearance of taxes already paid for the years between 2010 and 2015 by Regulus in France.

Regulus S.A. appointed a consultant of undoubted competence and independence to assess the sustainability of the reconstruction proposed by the Finance Police. On the basis of the opinion provided, the potential tax risk quantified as approx. Euro 12 million was classified as remote on the basis of the structure, governance and operations of Regulus, in addition to the ordinary tax regime of the country of establishment (France, as Guyana is a French overseas department). In addition, the opinion stated that this risk would be almost entirely removed in the case in which the receivable for taxes paid in France mentioned in the PVOC under finalisation were considered, on the assumption that the French tax charge was entirely in line with Italian tax charge.

In particular, the main objective elements in this regard for consideration within the opinion are the presence of a third party shareholder in addition to Avio, the commercial reasons justifying the presence and location of the company in French Guyana, the existence on-site of a major organisation in terms of employees, the existence of operating powers for executives present in Guyana, the governance of Regulus and the quorum for the adoption of Board decisions, the ordinary tax rules of the country of establishment (France, as Guyana is a French overseas department).

Proving the inexistence of attempts at avoidance by presence in French Guyana, the opinion provided for tax purposes indicates also that the taxes paid in France would be in line with those in Italy. This issue could be strongly argued on appeal against the Agency.

On April 4, 2017, a meeting was held with the Tax Agency at which the company put forward its arguments and subsequently on April 28, 2017 it presented its observations upon the PVC of February 28, 2017 in accordance with law (60 days), in order to have the process filed without any declaration by the Tax Agency.

Currently, the issue contained in the PVC has not yet been incorporated into a Tax Agency demand and, therefore, the concluding considerations of the above-stated opinion have not changed.

MARKET AND OPERATING PERFORMANCE

General overview

In the first 6 months of 2017, 41 orbital launches were made by 7 countries (including a new country, New Zealand, which completed its first ever launch, albeit in collaboration with the USA), in line with number of launches in 2016 (85 launches in total, with launch services for 8 countries). The majority of launches were institutional (64% versus 81% in 2016), or financed by governments (whether for civilian or military purposes), while the remainder were commercial (up from 19% in 2016 to 36% in 2017). These launches put 68 primary satellites into orbit (up on 2016), of which 23 were geostationary orbits, and a greater number of generally small-scale secondary satellites (181 in the first 6 months of 2017 compared with 115 in the whole of 2016) that piggybacked into orbit on the launch of primary satellites.
In the decade from 2016 to the end of 2025, the number of satellites requiring launch services is set to remain constant regarding GTO satellites (almost exclusively commercial and dedicated to broadcasting services) and to increase significantly regarding NGTO class satellites, both institutional and commercial, with applications mainly in the fields of earth observation and navigation, but also, in the near future, relating to the development of broadband, internet and mobile telephony services. With regard to such services, there is good reason to believe that so-called constellations of small mass satellites, typically in the order of 50-150 kg, will increase in numbers from a few hundred to thousands of units (this is particularly evident from 2013 onwards, with the first 6 months of 2017 confirming the trend). It is expected that this increase in launches will be mostly satisfied by high-frequency multiple-load launchers (a demand that the company is set to respond to with the development of its SSMS service).

Launchers market

The first 6 months of 2017 confirmed the global trend of recent years, in which:
- few nations have launch services capable of responding to the sustained captive institutional market - only Russia, the USA, China and, to a lesser extent, Europe, India and Japan;
- an even smaller number of nations can respond to commercial market needs:
    - Europe with its range of Ariane 5, Vega and SOYUZ launchers offered by Arianespace (8 commercial satellites put into orbit by Arianespace with Ariane 5 and Soyuz), but particularly
    - the USA, with the FALCON 9 launcher marketed by Space X (6 commercial launches out of a total of 9, taking 24 commercial satellites into orbit);
    - China and India, with 2 commercial launches each;
    - Russia with 1 Proton launched marketed by ILS.

However, within the stable market scenario shared by these countries, of particular significance is the low failure rate of the range of European launchers (approximately 1% considering all launchers in service today, at least half that of other nations). In this regard, we note that Ariane 5 achieved its 80th consecutive successful launch in 2017 and Vega, on June 30, 2016, achieved a score of 9 successful launches out of 9 (of the European range, only Soyuz, which however was manufactured in Russia, failed to launch in 2014).

Globally, at June 30, 2017:
- the countries seeing through the greatest number of launches were the US (13), followed by China and Europe (7), Russia (6), India (4), Japan (3) and New Zealand (1). These numbers are substantially in line with those for the last 5 years, with the exception of those of the US, which suggest some growth.
- of a total of 41 launches, 2 were failures (1 involving a Chinese launcher and 1 involving a qualifying mini-launcher flight for New Zealand), down from 4 in 2016.
- 3 new launchers debuted:
    - the Chinese Kaituozhe (KT)-2, with a 800 kg payload to low orbit SSO;
    - the enhanced version of the Indian GSLV Mk3 launcher to GTO;

  - the mini launcher Electron (New Zealand).
- the first flight of a Falcon 9 used elements recovered from a previous flight and reconditioned. Space X is continuing to recover early stages and has announced that launches using these reconditioned elements will be offered at prices 30-40% lower.

GROUP RESULTS & EQUITY AND FINANCIAL POSITION

Introduction

The first half of 2017 consolidated results of the Avio Group were influenced by the operation completed on March 31, 2017 with the acquisition by Space2, Leonardo S.p.A. and In Orbit S.p.A. (company comprising a number of Avio managers) of 85.68% of the share capital of Avio S.p.A. (the remaining investment was held by the shareholder Leonardo) and the subsequent merger by incorporation of Avio S.p.A. with Space2 effective from April 10, 2017. This corporate operation resulted in Space2 taking the name Avio S.p.A. and impacted the period financial statements and their comparability with the Avio Group pre-operation. Therefore, the "pro-forma" figures were prepared for the benefit of the reader, ensuring comparability of the operating performance on the basis of the Avio Group scope before the operation with the addition of Space2's operations.

Results

Obtaining of the "Pro-Forma" results

The following table outlines the process to obtain the H1 2017 "Pro-Forma" results, commented upon below, beginning with the condensed consolidated half-year IAS/IFRS figures at June 30, 2017.

	Space2 S.p.A. Q1 2017 (a)	Avio Group Q2 2017 (b)	IAS/IFRS Financial Statements Avio Group H1 2017 (c)=(a)+(b)	Avio Group Q1 2017 (d)	"Pro-Forma" H1 2017 (c)+(d)
Revenues		101,287	101,287	59,897	161,184
of which: Pass-through revenues		12,626	12,626	-	12,626
Revenues, net of pass-through revenues	**-**	**88,661**	**88,661**	**59,897**	**148,558**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished		4,281	4,281	1,142	5,423
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(1,695)	(84,917)	(86,612)	(56,973)	(143,585)
Effect valuation of investments under equity method - operating income/(charges)		259	259	566	825
EBITDA	**(1,695)**	**8,284**	**6,589**	**4,632**	**11,221**
Amortisation, depreciation & write-downs		(3,330)	(3,330)	(3,598)	(6,927)
EBIT	**(1,695)**	**4,954**	**3,259**	**1,034**	**4,293**
Interest and other financial income (charges)	428	(1,918)	(1,490)	(1,609)	(3,099)
Net financial charges	**428**	**(1,918)**	**(1,490)**	**(1,609)**	**(3,099)**
Investment income/(charges)		-	-	-	-
Profit/(loss) before taxes	**(1,267)**	**3,036**	**1,769**	**(575)**	**1,194**
Current and deferred taxes		575	575	(34)	541
Group & minority interest net profit/(loss)	**(1,267)**	**3,611**	**2,344**	**(609)**	**1,735**

The "Space2 S.p.A. Q1 2017" column reports the costs of the incorporating company Space2 S.p.A. for the period January 1 - March 31, 2017. The "Avio Group Q2 2017" column presents the results of the Avio Group for the period between April 1 and June 30, 2017 included as a result of the acquisition and merger in the financial statements of the incorporating company at June 30, 2017, added to the Q1 costs of Space2 S.p.A.. The "Avio Group H1 IAS/IFRS Financial Statements" column presents the income statement results on the basis of IAS/IFRS following the Space2-Avio S.p.A. corporate operation, relating to the first half-year of the company resulting from the merger, comprising the costs of Space2 S.p.A. in the period between January 1 and March 31, 2017 and the results of the Avio Group between April 1 and June 30, 2017.
The "Avio Group Q1 2017" column presents the results of the Avio Group for the period between January 1, 2017 and March 31, 2017, date of the "business combination" with Space2 S.p.A..
Finally, the "Pro-Forma H1 2017" column presents the results for the entire first half of 2017 of the Avio Group for comparability with the corresponding period of 2016.

The following table for the first half of 2016 outlines how the relative "Pro-Forma" results were obtained, as commented upon below and beginning with the IAS/IFRS financial statement figures of Space2 S.p.A. at June 30, 2016.

	IAS/IFRS Financial Statements Space2 S.p.A. H1 2016 (a)	**IAS/IFRS Financial Statements Avio Group H1 2016 (b)**	**H1 2016 "Pro-Forma" *(a)+(b)***
Revenues	-	127,892	127,892
of which: Pass-through revenues	-	8,529	8,529
Revenues, net of pass-through revenues	**-**	**119,363**	**119,363**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	-	5,466	5,466
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(678)	(114,711)	(115,390)
Effect valuation of investments under equity method - operating income/(charges)	-	1,270	1,270
EBITDA	**(678)**	**11,388**	**10,709**
Amortisation, depreciation & write-downs	-	(8,703)	(8,703)
EBIT	**(678)**	**2,686**	**2,008**
Interest and other financial income (charges)	980	(2,941)	(1,961)
Net financial charges	**980**	**(2,941)**	**(1,961)**
Investment income/(charges)	-	-	-
Profit/(loss) before taxes	**302**	**(255)**	**47**
Current and deferred taxes	-	(1,192)	(1,192)
Group & minority interest net profit/(loss)	**302**	**(1,447)**	**(1,145)**

The "Space2 S.p.A. H1 2016 IAS/IFRS Financial Statements" column reports the first half 2016 results of the incorporating company.
The "Avio Group H1 2016 IAS/IFRS Financial Statements" column reports the consolidated first half 2016 results of the Group.
Finally, the "Pro-Forma H1 2016" column presents the results for the first half of 2016 of the Avio Group, including the results for the period of Space2 S.p.A., for comparability with the corresponding period of 2017.

"Pro-Forma" operating results

The "Pro-Forma" table below summarises the comparable operating performance of the Avio Group for the first half of 2017 and the first half of 2016 (in Euro thousands).

	H1 2017 "Pro-Forma"	H1 2016 "Pro-Forma"	Change
Revenues	161,184	127,892	33,292
of which: Pass-through revenues	12,626	8,529	4,097
Revenues, net of pass-through revenues	**148,558**	**119,363**	**29,195**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	5,423	5,466	(43)
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(143,585)	(115,390)	(28,195)
Effect valuation of investments under equity method - operating income/(charges)	825	1,270	(445)
EBITDA	**11,221**	**10,709**	**512**
Amortisation, depreciation & write-downs	(6,927)	(8,703)	1,775
EBIT	**4,293**	**2,008**	**2,287**
Interest and other financial income (charges)	(3,099)	(1,961)	(1,138)
Net financial charges	**(3,099)**	**(1,961)**	**(1,138)**
Investment income/(charges)	-	-	-
Profit before taxes	**1,194**	**47**	**1,148**
Current and deferred taxes	541	(1,192)	1,733
Group & minority interest net profit/(loss)	**1,735**	**(1,145)**	**2,881**

The "pass-through revenues" derive from agreements reached between the subsidiary ELV S.p.A. and the European Space Agency in August 2015 for the development and construction of the new "P120" engine for future VEGA C and Ariane 6 launches. As a result of the implementation of these new agreements, the Avio Group consolidated revenues include the following dual invoicing:

- an initial invoice from the parent company Avio S.p.A., as the sub-supplier, to the Europropulsion S.A. joint venture with revenues and margins not eliminated during the consolidation of the Avio Group as this joint venture is not consolidated;
- a second invoice by the subsidiary ELV S.p.A., as prime contractor, to the final client the European Space Agency. This concerns a simple reinvoicing of costs, without margins, not eliminated in the Avio Group consolidation process as concerning third parties and defined as "pass-through" in this report.

Revenues net of "pass-through" revenues were Euro 148,558 thousand in the first half of 2017, up Euro 29,195 thousand (+24.5%) on the first half of 2016. This net increase is principally due to the differing mix of Ariane program development operations, which in the first half of 2017 included the construction of buildings, plant and machinery at the Colleferro facility, and the VEGA production program.

The above revenues breakdown by business line as follows:

	First half 2017 "Pro-Forma"	First half 2016 "Pro-Forma"	Change
Ariane	80,503	61,455	19,048
Vega	61,618	53,485	8,133
Tactical Propulsion	5,598	3,629	1,969
Other revenues	839	795	45
Revenues, net of pass-through revenues	**148,558**	**119,363**	**29,195**

EBITDA in the first half of 2017 was Euro 11,221 thousand, increasing (+Euro 512 thousand) on H1 2016.

EBIT of Euro 4,293 thousand was up Euro 2,287 thousand on H1 2016. The comparatively stronger EBIT performance over EBITDA substantially reflects the amortisation of intangible assets relating to the first qualifying flight of the Vega launcher.

In addition to the "Pro-Forma" presentation to neutralise the results from corporate operations, for a more complete representation of the Group's earnings performance, the EBITDA and EBIT adjusted to exclude Group non-recurring and unusual components are presented below. The above adjusted amounts (in Euro thousands) and the relative margins for H1 2017 and H1 2016 are reported below:

	H1 2017 "Pro-Forma"	H1 2016 "Pro-Forma"	Change
Adjusted EBITDA	**15,207**	**14,111**	**1,096**
Adjusted EBITDA Margin (against revenues net of pass-through revs.)	10.2%	11.8%	
Adjusted EBIT	**10,322**	**7,450**	**2,871**
Adjusted EBIT Margin (against revenues net of pass-through revs.)	6.9%	6.2%	

The Adjusted EBITDA is considered by management as representative of the Group's operating results as, in addition to not considering the effects of amortisation and depreciation policies, the amounts and types of employed capital funding and any rate changes (already excluded from EBITDA), it also excludes non-recurring and extraordinary components of Group operations, improving the comparability of the operating results.
The "pro-forma" H1 2017 Adjusted EBITDA was Euro 15,207 thousand (10.2% of net revenues), up Euro 1,096 thousand on Euro 14,111 thousand for H1 2016 (11.8% of net revenues). The differing mix of development operations, which in the first half of 2017 included the construction of buildings, plant and machinery for the new P120 engine of the Ariane 6 and Vega C programme which presents a lower than average margin, resulted in the alteration to the net revenue margin.

Adjusted EBIT, also considered by management as representative of the Group's operating results, consists of EBIT excluding non-recurring or extraordinary components, already excluded for the calculation of Adjusted EBITDA, and the amortisation of intangible assets held by customers for programme participation accreditation of Euro 2,042 thousand in the half-year, which will be completed in 2021.
The "pro-forma" H1 2017 Adjusted EBIT was Euro 10,322 thousand (6.9% of net revenues), up Euro 2,871 thousand on Euro 7,450 thousand for H1 2016 (6.2% of net revenues). The greater

increase than Adjusted EBITDA, as previously mentioned, principally relates to the effects from the amortisation of intangible assets concerning the first qualifying flight of the Vega launcher.

The reconciliation between EBIT, Adjusted EBIT and Adjusted EBITDA for the first half of 2017 and the corresponding period of the previous year is provided below (Euro thousands):

			H1 2017 "Pro-Forma"	H1 2016 "Pro-Forma"	Change
A	**EBIT**		**4,293**	**2,008**	**2,286**
	Non-recurring Charges/(Income) comprising:				
	- Additional issues / incentives [(1)]		(35)	111	(146)
	- Corporate, legal and tax consultancy and services [(2)]		3,024	2,274	750
	- Tax provisions [(3)]		90	58,220	(58,130)
	- Tax indemnity provisions [(3)]		-	(58,220)	58,220
	- Other non-recurring charges/(income) [(4)]		532	427	105
B	**Total Non-recurring Charges/(Income)**		**3,611**	**2,812**	**798**
C	*Investor Fees*		375	588	(213)
D	Other adjustments for extraordinary charges		-	-	-
E	Amortisation of Assets held by customers for programme participation accreditation [(5)]		2,042	2,042	-
F	**Adjusted EBIT**	**A+B+C+D+E**	**10,322**	**7,450**	**2,871**
G	Net amortisation & depreciation [(6)]		4,885	6,661	(1,775)
	Adjusted EBITDA	**F+G**	**15,207**	**14,111**	**1,096**

(1) Costs and accruals to provisions relating to additional personnel charges including, among others, costs related to mobility procedures facilitating early retirement, in addition to leaving incentives.

(2) One-off outside consultancy costs for the company's listing, including costs incurred by the SPAC Space2, in addition to company reorganisation projects and legal disputes.

(3) Tax provision in H1 2016 following the receipt in July 2016 from the Tax Agency of a settlement notice for registration tax, mortgage tax and land tax, for a total amount of Euro 58,220 thousand, relating to the corporate operations which in 2013 resulted in the sale of the company GE Avio S.r.l. (containing the assets of the *AeroEngine* division of the Avio Group) to the General Electric Group and the recognition of the receivable for indemnity from General Electric based on specific contractual provisions whereby this latter is required to indemnify Avio S.p.A. for any liabilities which may arise with regards to indirect taxes for the above corporate operations undertaken in 2013.

(4) Other non-recurring charges/(income) include: costs and income considered as non-recurring such as, for example, non-recurring provision accruals and other corporate operations.

(5) Investor Fees include: those matured at March 31, 2017 by Cinven Limited, an exiting shareholder following the business combination for the acquisition of the Avio Group by Space2 executed at the same date; the H1 2017 portion of the shareholder Leonardo S.p.A., in addition to that concerning operations in the period carried out by Space Holding S.p.A..

(6) Amortisation in the period on intangible assets held by customers for programme participation accreditation on the basis of relations developed and consolidated with a number of commercial partners. This amortisation will conclude in 2021.

(7) Amortisation in the period net of the amortisation of intangible assets held by customers for programme participation accreditation indicated at note (6) above. The decrease principally relates to the amortisation of intangible assets concerning the first qualifying flight of the Vega launcher.

Financial results analysis

In April 2015, Avio agreed a loan with a syndicate of leading international banks comprising 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 Euro 130 million, comprising:

(i) a Senior Term Facility line of Euro 100 million, in turn comprising two tranches: the first ("Loan A") for Euro 35 million on the basis of a 6 year repayment plan and the second ("Loan B") for Euro 65 million with bullet repayment after 7 years;

(ii) a Revolving Facility line of Euro 30 million on a revolving cash basis.

The contract is subject to costs and market interest rates and is not supported by a secured guarantee on the loan, which however provides for some limits in terms of investments, acquisitions, disposals, further loans (granted or received), as well as compliance with Financial covenants in line with the long-term forecast for the company.
The Senior Term Facility line was entirely drawn down on May 6, 2015, while the Revolving Facility line has not yet been utilised.
As part of the Space2-Avio Operation, on November 29, 2016 Avio requested Banca IMI S.p.A., the agent bank of the lending syndicate, to verify their consent with regards to the waivers on the merger clause, which constitutes a default event, and to the change of control clause, which provides for, on occurrence, the immediate repayment of the outstanding amounts of the credit lines.
As an exception to these provisions, Avio requested from the agent bank that the loan become repayable at the first date between the completion of six months from the Effective Merger Date (currently fixed at October 10, 2017) and December 31, 2017.
On December 30, 2016, the agent bank confirmed that the lending banks had agreed to Avio's waiver request.
In order to reflect this change in the repayment terms of the above loans, they were reclassified to current liabilities. The charges relating to the advance repayment of the loans, principally concerning the residual value of the arrangement fees (entirely paid on the issue of the loan), no longer repayable until 2022 but rather 2017, in addition to the early IRS closure, were quantified at Euro 3.2 million (of which Euro 1.7 million concerning 2016 and Euro 1.6 million concerning 2017). This amount was quantified following the agreement of the lending banks to the waiver request.
On May 23, 2017, also in consideration of the funding acquired by the company following the Space2-Avio Operation, the Loan B tranche of Euro 63.4 million was repaid in advance (net of the amount of approx. Euro 1.6 million already repaid thanks to the favourable development of the financial covenants).

Therefore, "pro-forma" H1 2017 net financial charges were reported of approx. Euro 3.1 million, increasing approx. Euro 1.1 million on the first half of 2016, principally due to:

- charges of the incorporated company Avio S.p.A. related to the advance repayment of the loan of Euro 1.1 million, due to the lesser residual period over which to settle the arrangement fees, with an impact on the income statement but without financial effects;
- reduced financial income from securities of the incorporating company Space2 S.p.A. of Euro 0.6 million (Euro 0.4 million in H1 2017 compared to Euro 1.0 million in H1 2016); partially offset by
- reduced interest charges of the incorporated company Avio S.p.A. of Euro 0.6 million (of which Euro 0.3 million relating to the repayment in May 2017 of tranche B and Euro 0.3 million concerning the reduction in interest rates applied following the favourable development of the financial covenants)

At June 30, 2017, the Financial covenants had been complied with.

Balance Sheet

Obtaining of the "Pro-Forma" Balance Sheet

The following table outlines the process to obtain the "Pro-Forma" Balance Sheet at December 31, 2016 commented upon below, beginning with Avio Group consolidated financial statements at December 31, 2016.

	Avio Group 31/12/2016	Space2					31/12/2016 "Pro-Forma"
		31/12/2016	Aggregate	Acquisition Avio	Spin-off Space3 S.p.A.	Avio Merger	
Tangible assets and investment property	61,789		61,789				61,789
Goodwill	221,000		221,000			(140,658)	80,342
Intangible assets with definite life	90,677		90,677				90,677
Investments	5,728	50	5,778	85,040	(50)	(85,040)	5,728
Total fixed assets	**379,194**	**50**	**379,244**	**85,040**	**(50)**	**(225,698)**	**238,536**
Net working capital	**(28,639)**	**390**	**(28,249)**	**(170)**			**(28,418)**
Other non-cur. assets	68,149		68,149				68,149
Other non-current liabilities	(117,734)		(117,734)				(117,734)
Net deferred tax assets	56,086		56,086			25,102	81,188
Provisions for risks & char.	(24,865)		(24,865)				(24,865)
Employee benefits	(10,930)		(10,930)				(10,930)
Net capital employed	**321,261**	**440**	**321,701**	**84,871**	**(50)**	**(200,596)**	**205,926**
Net financial position	**(18,600)**	**304,611**	**286,011**	**(84,871)**	**(152,797)**		**48,343**
Non-current fin. assets	7,440	10	7,450				7,450
Adj. Net Financial Position	**(11,160)**	**304,621**	**293,461**	**(84,871)**	**(152,797)**		**55,793**
Equity	(310,101)	(305,061)	(615,162)		152,847	200,596	(261,718)
Source of funds	**(321,261)**	**(440)**	**(321,701)**	**(84,871)**	**50**	**200,596**	**(205,926)**

The "Avio Group IAS/IFRS financial statements at Dec. 31, 2016" column reports the consolidated balance sheet of the Avio Group at that date.
The "Space2" columns respectively present the balance sheet of Space2 at December 31, 2016, the effect of the acquisition by Space2 of 53.15% of Avio S.p.A. on March 31, 2017, the effect of the spin-off to Space3 on April 5, 2017 and the effect of the merger by incorporation of Avio S.p.A. on April 10, 2017.
The "31/12/2016 "Pro-Forma" includes the effects of the Space2 and Avio S.p.A. merger at December 31, 2016, ensuring their comparability with the June 30, 2017 figures (in Euro thousands).

Analysis of the "Pro-Forma" balance sheet

In the following "Pro-Forma" table, the balance sheet is summarised considering the amounts at June 30, 2017 of the Avio Group post Space2 and Avio S.p.A. merger, compared with the "Pro-Forma" comparative figures which include the effects of the Space2 and Avio S.p.A. merger at December 31, 2016, ensuring their comparability with the June 30, 2017 figures (in Euro thousands).

	June 30, 2017	December 31, 2016 "Pro-Forma"	Change
Tangible assets and investment property	66,088	61,789	4,299
Goodwill	80,342	80,342	-
Intangible assets with definite life	88,110	90,677	(2,567)
Investments	4,093	5,728	(1,635)
Total fixed assets	**238,633**	**238,536**	**97**
Net working capital	**(26,829)**	**(28,418)**	**1,589**
Other non-current assets	65,912	68,149	(2,237)
Other non-current liabilities	(116,517)	(117,734)	1,217
Net deferred tax assets	82,027	81,188	839
Provisions for risks and charges	(13,930)	(24,865)	10,935
Employee benefits	(10,814)	(10,930)	116
Net capital employed	**218,482**	**205,926**	**12,556**
Net financial position	**35,879**	**48,343**	**(12,464)**
Non-current financial assets	7,440	7,450	(10)
Adjusted Net Financial Position	**43,319**	**55,793**	**(12,474)**
Equity	(261,801)	(261,718)	(83)
Source of funds	**(218,482)**	**(205,926)**	**(12,557)**

"Total fixed assets" amount to Euro 238,633 thousand at June 30, 2017, substantially in line with the December 31, 2016 "Pro-Forma" figure, as a combined effect of:

- the net increase of Property, plant and equipment of Euro 4,299 thousand, principally due to investments in progress in buildings, plant and machinery for execution of the new P120 engine project for Euro 6,986 thousand, net of depreciation in the period;
- net decrease of Intangible assets with definite life for Euro 2,567 thousand, principally due to amortisation in the period, net of investments for Euro 1,674 thousand relating to the Z40 and P120 projects;
- decrease in Investments of Euro 1,635 thousand, principally due to the pro-quota (50%) effect from the reduction in the equity of the jointly-controlled company Europropulsion S.A., consolidated at equity. This equity reduction is a combined effect of the pro-quota result for the period of the joint venture (+Euro 825 thousand) and the issue in the period of the pro-quota dividends for FY 2015 (-Euro 2,460 thousand).

With regards to the goodwill account, reference should be made to the "Significant events" section.

"Net working capital" reports a net increase of Euro 1,589 thousand, resulting in an excess of liabilities over assets of Euro 26,829 thousand. The main components are outlined in the following table (in Euro thousands):

	June 30, 2017	December 31, 2016 "Pro-Forma"	Change
Contract work-in-progress, net of advances	(101,954)	(131,875)	29,921
Raw materials inventories and advances to suppliers	127,268	133,092	(5,824)
Trade payables	(89,997)	(57,298)	(32,700)
Trade receivables	5,789	10,206	(4,417)
Other current assets and liabilities	32,065	17,456	14,609
Net working capital	**(26,829)**	**(28,418)**	**1,589**

The movement in "Net working capital" during the period (current trading) is principally as a result of the combined effect of the following:

- absorption of Euro 29,921 thousand due to the advancement of contract work-in-progress, principally related to the Ariane programme development activities and production on the VEGA (Batch 2) programme by the subsidiary ELV against advances received from clients; substantially offset by

- a corresponding recovery of advances to suppliers net of the movement in raw material inventories (Euro 5,824 thousand) and an increase in trade payables (Euro 32,700 thousand), substantially related to the above-stated advancement of work-in-progress; and by

- an increase in other current assets, principally related to the VAT receivables, due to the fact that during the period the Group matured VAT receivables on purchases from third parties not offset with VAT payables on sales, as these were principally overseas. Following the positive outcome of the VAT ruling taken by the Group against the Tax authorities and the consequent recognition of the cap on purchases, VAT will no longer be applied on purchases, although only from 2018. The benefits of the positive outcome from the ruling shall therefore be apparent from January 1, 2018, as described in greater detail in the Explanatory Notes.

In addition, both the increased advances on work-in-progress and the increase in the payable to suppliers include the Euro 8,276 thousand effect of pass-through costs.

The "Other non-current assets" and "Other non-current liabilities" accounts respectively include a receivable from the General Electric Group and a related tax payable of Euro 58,220 thousand recognised in the first half of 2016, following the receipt in July 2016 from the Tax Agency of the settlement notice of registration tax, mortgage tax and land tax, for a total amount of Euro 58,220 thousand, relating to the corporate operations which in 2013 resulted in the sale of the company GE Avio S.r.l. (containing the assets of the AeroEngine division of the Avio Group) to the General Electric Group.

The recognition of the above-mentioned receivable from the General Electric Group is based on specific contractual clauses by which this latter is required to indemnify Avio S.p.A. with reference to any liabilities which may arise in relation to indirect taxes concerning the corporate operations which in 2013 resulted in the sale of the company GE Avio S.r.l. (containing the assets of the *AeroEngine* division of the Avio Group) to the General Electric Group.

In addition, also on the basis of specific contractual provisions, the General Electric Group is required to make available to Avio S.p.A. the amounts requested by the Tax Agency by the payment deadlines.

For further details, reference should be made to paragraphs 3.8 “Other non-current assets” and 3.23 “Other non-current liabilities”, in addition to the section “Legal and tax disputes and contingent liabilities” in the Explanatory Notes.

The decrease in the first half of 2017 in the “Provision for risks and charges” account of Euro 10,935 thousand principally relates to the settlement of a remuneration scheme for a defined number of managers in office before the Space2-Avio operation, amounting to approx. Euro 4.1 million and subject to the occurrence of events regarding the ownership structure of the company and the achievement of certain Group equity levels, the settlement of incentive plans for approx. Euro 0.7 million concerning the Chairman and the Vice Chairman of the Board of Directors in office before the Space2-Avio operation, the settlement of an incentive plan of approx. Euro 2.9 million consisting of a fixed bonus and a one-off payment related to the successful outcome of the Space2-Avio operation (“Exit Bonus 2017”) assigned by the Board of Directors on October 19, 2016 to Senior Executives of the Avio Group and established also to guarantee continuance within the Avio workforce, the payment of remuneration of approx. Euro 4.3 million to personnel on the achievement of individual and company objectives, offset by the provision in the period of approx. Euro 3 million, in addition to the utilisation of tax provisions for approx. Euro 0.9 million against the settlement of disputes.

Analysis of the financial position

The table below illustrates the net financial position (in Euro thousands):

	June 30, 2017	Dec 31, 2016 "Pro-Forma"	Change
Cash and cash equivalents	63,375	87,620	(24,245)
(A) Liquidity	**63,375**	**87,620**	**(24,245)**
(B) Current financial assets	28,951	66,499	(37,548)
(C) Total current financial assets (A+B)	**92,325**	**154,119**	**(61,793)**
Financial payables on interest rate hedges	(59)	(312)	252
Current financial payables to companies under joint control	(29,249)	(13,850)	(15,399)
(D) Current financial liabilities	**(29,309)**	**(14,162)**	**(15,147)**
Current portion of non-current bank payables	(27,138)	(91,615)	64,476
(E) Current portion of non-current financial payables	**(27,138)**	**(91,615)**	**64,476**
(F) Current financial debt (D+E)	**(56,447)**	**(105,776)**	**49,329**
(G) Net current financial position (C+F)	**35,879**	**48,342**	**(12,464)**
Non-current portion of bank payables	-	-	-
(H) Non-current financial liabilities	**-**	**-**	**-**
(I) Net non-current debt (H)	**-**	**-**	**-**
(J) Net Financial Position (G-I) *(Note 1)*	**35,879**	**48,342**	**(12,464)**

Net Financial Position (G-I)	**35,879**	**48,342**	**(12,464)**
Non-current financial assets	7,440	7,450	(10)
Adjusted Net Financial Position	**43,319**	**55,792**	**(12,474)**

(Note 1) The net financial position is based on the definition contained in the CESR Recommendation of February 10, 2005: *"Recommendations for the uniform implementation of the European Commission regulation on financial statements"*.

The financial position reported in the "Dec 31 2016 "Pro-Forma" column includes financial resources from Space2 as a result of the merger for comparability purposes.

As stated with regards to the Space2-Avio operation, in the first half of 2017 these resources, together with the cash and cash equivalents at December 31, 2016 of the Avio Group, were utilised partly to repay a portion ("Loan B" tranche of Euro 63.4 million) comprising approx. two-thirds of the outstanding bank loan and partly to fund industrial development operations of the Avio Group post-merger.

Following the Space2-Avio operation and the above-stated approval of the lending banks to the company's waiver request, the residual balance of the bank loan ("Loan A" tranche of approx. Euro 27.1 million) was entirely classified to the current portion of the Financial Debt.

"Non-current financial assets" relate to the shareholder loan granted to the associate Termica Colleferro S.p.A..

The adjusted net financial position reduced from a "Pro-Forma" cash position of Euro 52,792 thousand at December 31, 2016 to Euro 43,319 thousand at June 30, 2017, reducing Euro 12,474 thousand, principally due to non-operating cash flows concerning the settlement of incentive plans as a result of the conclusion of the Space2-Avio operation, substantially in line with that forecast and accrued to the provisions for charges at December 31, 2016.

Analysis of equity

Consolidated equity at June 30, 2017 amounts to Euro 261,843 thousand, in line with the "Pro-Forma" Equity at December 31, 2016 of Euro 261,718 thousand, on the basis of the following principal movements:

- recognition of the consolidated net profit of Euro 1,777 thousand;
- decrease of Euro 1,920 thousand in non-controlling interest equity as a result of the dividend issued by the subsidiary Regulus S.A. (held 60% by Avio S.p.A. and 40% by Airbus Safran Launchers);
- increase of Euro 267 thousand due to actuarial profits/losses and the cash flow hedge reserve.

RESEARCH AND DEVELOPMENT

Investment in research and development is a key factor in achieving and maintaining a competitive position in the space industry.
Avio, as always, devoted considerable resources to the research, development and innovation of products and processes which further its mission. Among its objectives is also the environmentally sustainable development of its activities and products, with particular attention paid to the issues of environmental protection, facility safety and the protection of its workforce.
Regarding such key issues, Avio continues to collaborate closely with national institutions such as the Italian Space Agency (ASI), the Ministry of Education, Universities and Research (MIUR) and the Economic Development Ministry (MISE), in addition to international institutions such as the European Space Agency (ESA) and the European Union.
Avio has developed a network of partnerships with Universities and research bodies in Italy and Europe, among which the Italian Aerospace Research Center (CIRA), the Italian National Agency for New Technologies, Energy and Sustainable Economic Development (ENEA), the Universities of Rome, the Polytechnic University of Milan, the 'Federico II' University of Naples, the University of Padua, the University of Forlì, the Sardinian AeroSpace District (DASS) and the Polymeric and Composite Materials and Structures Engineering cluster of Campania (IMAST). Avio also forms part of various consortia between European research institutes and industrial partners for the development of research in the field of energetic materials.

The Group has maintained its participation in research projects with various national and international organizations active in aerospace research. In particular, it continues to collaborate with universities involved in researching advanced solid propellants, composite materials, solid rocket motor (SRM) propulsion systems, cryogenic propulsion, hybrid propulsion and with major global manufacturers and research institutes developing propulsion technologies and innovative modules and components that can benefit from the synergy of individual specific competencies.

Avio Group research and development resulted in costs in the first half of 2017 of Euro 52.1 million (Euro 45.6 million in H1 2016), comprising 32% of consolidated revenues in the period (36% in H1 2016).

Net of pass-through costs, research and development by the Group in the first half of 2017 incurred costs of Euro 39.5 million, 27% of revenues net of pass-through revenues (Euro 37 million in the first half of 2016, equal to 31% of revenues net of pass-through revenues).

In-house self-financed activities in the first half of 2017 amounted to Euro 3.4 million (Euro 5 million in the first half of 2016).

Self-financed activities in the first half of 2017 included Euro 1.5 million relating to development costs capitalised as Intangible assets with definite life (Euro 3.8 million in the same period of 2016) and Euro 1.9 million concerning research costs or development costs not capitalisable and directly recharged to the income statement for the period (Euro 1.2 million in the first half of 2016).

The total amount of costs related to self-financed activities charged to the income statement in the first half of 2017 was Euro 3.9 million (Euro 4.6 million in H1 2016), comprising Euro 1.9 million of directly expensed non-capitalisable costs (Euro 1.2 million in H1 2016) and Euro 2 million for the amortisation of development costs capitalised (principally) in previous years (Euro 3.4 million in H1 2016).

In the first half of 2017, Avio continued its innovation upon the main product lines, harmonising basic research, applied research and pre-competitive development activities.

<u>Solid Propulsion</u>
In Avio's strategic vision, solid propulsion represents a mature but competitive technology that significantly reduces the cost of launch services and keeps the European space carrier market competitive on the global scene. Avio has made clear that its vision includes the consolidation and further development of both VEGA and the forthcoming Ariane 6 launcher, set to replace Ariane 5. During the first half of 2017, Avio finalized its preliminary designs for the shared P120C stage of

the next generation Ariane and Vega launchers. This effort has brought Avio to the detailed design phase and the start of production of the first prototypes of the main engine components.
In addition to the development programs for the new propulsion shared between VEGA and Ariane (the P120C), Avio has consolidated its VEGA C market position through the configuration capable of competing in the large SAR satellite segment for earth observation. Regarding the solid propulsion engine segment, Avio has carried out various research activities to consolidate and optimize production technologies for qualified products concerning the Ariane 5 and VEGA launchers, and to prepare for the development of the forthcoming generations of European launch vehicles, Ariane 6, VEGA C and VEGA E.

Development activities have continued for the Z40 engine (for use as a second stage for VEGA C and Vega E), which supports structural compression flows of up to 2KN/mm, the maximum value achieved by a composite propellant of this class.
Research and development in materials have focused mainly on the development of advanced, high performance and low toxicity solid propellants for implementation in the Ariane and Vega programs. Additionally, the possible expansion of the Avio composite materials production chain has been carefully researched and analyzed, leading to the identification of various possible spin-offs in other sectors.

Liquid Propulsion

Avio considers cryogenic propulsion based on liquid oxygen and methane as the answer to future generations of late stages for launch vehicles, as well as for spacecraft exploration. During the first six months of 2017, feasibility studies continued into the flight version of the LM10F-MIRA demonstrator aimed at providing the propulsion for the third stage of the future VEGA E. Such activities continue to be carried out also within specialized 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 configurations, technologies and materials for combustion chambers and turbopumps, with the ultimate goal of developing a European oxygen-methane engine to be introduced into the development of Vega E, whose first flight is expected to take place in 2024.

In particular, the first European test campaign was successfully completed on a cooling channel equipped chamber module, manufactured by implementing the Avio Single Material Single Part patent and benefiting from the use of the additive layer manufacturing technology.

This result shows that additive technology can indeed be used to achieve a suitable thermal exchange for a combustion chamber with a single low thermal diffusion material.

The goal is to achieve and launch-test by 2017, an Innovative Thrust Chamber manufactured entirely using ALM technology together with an Innovative Thrust Chamber manufactured with traditional technology (under the Hyprob program).

These ongoing activities were useful in obtaining, under CM2016, full funding for the first development phase (2017-2019) of the MIRA Flight Engine and for the definition and architecture development of the Vega E Upper Stage (VUS). The second development phase is set to be approved and funded at the next ministerial conference scheduled for the end of 2019.

Avio has also launched, with excellent preliminary results, a development program of LOx and LNG cryogenic resins for a new generation of large liner-free composite tanks.

Space Transport Systems

During the first half of 2017, Avio, through ELV, consolidated the development of the VEGA C launcher as part of the VECEP contract (ESA), based on a first stage with 50% greater total thrust than the current version and a fourth stage with 15% greater thrust. The goal, among others, is to improve the launcher’s capabilities by increasing its reference payload by over 50%.
Feasibility and market interest studies have also continued in relation to an electric module for integration into VEGA's upper composite stage for space exploration missions and a dispenser for the release of numerous satellites within the same mission, usable also for orbit test or orbit demonstration activities.

Tactical Propulsion

Activities focused on the design details of the CAMM-ER missile engine, including its main components, several of which are highly innovative for Avio, such as the propellant, the blast pipe, the energy principle based Safe & Arm controller and the system architecture that allows a high level of propulsion insensitivity. Important achievements have been demonstrated through the testing of several high performance composite engine cases. The industrialization of low viscosity propellants has been implemented, also through the modification of facilities and equipment. Development activities have also been initiated for the fins, conduits and wiring of the missile.
Self-financed, pre-competitive development activities have continued for the electromechanical Thrust Vector Control of Aster 30 class tactical propulsion engines, and following the end of Phase A for the power distribution unit, activities began in relation to Phase B.
Preliminary activities were began to identify new parts and materials to extend the lifecycle of Avio products for Aster 30 missiles.

HUMAN RESOURCES

At June 30, 2017, Group employees numbered 768, increasing on 758 at December 31, 2016. The number of employees does not include the company Europropulsion S.A. (91), consolidated at equity. The majority of the workforce is employed by the parent company Avio S.p.A., which at the same date numbers 590 (582 at December 31, 2016).

From June 1, 2017, due to the new role which communication activities assume for a listed company, the "Communications and External Relations" division was promoted to the first level of the Avio Organisation, reporting directly to the CEO.

Industrial Relations

Discussions with the trade unions, particularly Unified Trade Unions (RSU's), continued throughout the first half of 2017. An agreement was reached on a new method of making use of ROL rest days (additional rest days provided under collective contracts). In addition, negotiations began for the renewal of the Level II Agreement (Participation Award), set to expire on 31/12/2017, and for issues relating to the company's welfare scheme and Attendance Bonus, as indicated under the collective contract.
The RSU's were also involved in the definition of summer closing periods.
During the half-year, an interruption of about 5 weeks of activity occurred at the Kourou launch site, with strikes affecting the space centre throughout the month of April. Effective cooperation with the French National Centre for Space Studies (CNES), Arianespace and the other industrial players operating on the base brought about a catch-up in flight activity delays throughout May and June. Several Europropulsion and Regulus industrial activities suffered delays and are subject to recovery plans in 2017.
During the period, no other disputes, strikes or trade union actions occurred.

Development and Training

During the first half of 2017, 14 new members of staff were hired in various roles, of which 3 managerial, 3 professional and 8 administrative, according to various degrees of experience and specific skills in line with business development needs.

In the same period, 6 professional roles, equivalent to 2.15% of the resource class, were involved in professional mobility procedures in order to optimize organizational and business development. These procedures, in addition to contributing to the spread of expertise throughout the company, in the majority of cases represented opportunities for professional growth for the staff involved.

In support of training, at group level, approximately 1,514 training days were held, involving 1,604 participations and approximately 98% of the workforce in informative activities, refresher courses and professional development schemes, equating to an investment of an average of 2 days training per capita. Approximately 16% of internal training was focused on safety, manufacturing (special and critical processes) and logistics, with the use of the company team of professionally certified training instructors.

The main themes of training over the period were the following:

- training and updates on mandatory technical competences regarding safety issues;
- training on special and critical processes in manufacturing;
- development of managerial skills (participations in high-level inter-company events and international conferences and seminars);
- informative activities on health and safety issues and data security and protection;
- support for specialist and technical expertise with updates on the new features of software applications;
- support for internationalization with a focus on group language training (French/English).

Regarding training methods, the first half of 2017 saw the continuation of the structured learning organization model, in which:

- the organization learns through the active involvement of managers in designing targeted training activities;
- the e-learning platform has been set up specifically for the provision of quarterly training on Seveso Directive safety issues in support of the HSE body. The platform continues to be an indispensable tool for delivering the "Welcome to Space" institutional training to new hires.

On June 15, 2017, the Shareholders' Meeting expressed a favourable opinion on Section I of the Remuneration Report of the company, prepared in accordance with Article 123-ter of the CFA concerning the transparency of listed company director remuneration, Article 84-*quater* of the Issuers' Regulation upon remuneration, in addition to the recommendations contained in Article 6 of the Remuneration Code for Boards of Directors and other Key Management Personnel of listed issuers and taking into account the guidelines of and in accordance with Article 13.2(b) of the "Related Party Transactions Policy" approved by the Board of Directors both of Space2 and Avio pre-Merger on January 19, 2017, applicable from the Effective Merger Date.

On June 28, 2017, the Board of Directors approved the long-term incentive plan and the identification of key management personnel proposed by the Appointments and Remuneration Committee and drawn up with the support of outside consultants on the basis of a benchmark for listed domestic and international companies. The incentive plan will be monetary-based and not related to market base indicators, beginning in 2017 (with effects substantially materialising from the second half of the year), rolling with a three-year vesting period and annual assignment cycles.

COMMUNICATION AND SOCIAL RESPONSIBILITY

Avio promotes its image and its products both through participation at major international events and a constant presence at Italian and international aerospace conferences regarding the research and development of new technologies in the specific field of space propulsion and launchers.
It also develops its own network of scientific exchange and new product development through research collaborations with Italian and international universities and research institutes and through technical and operational collaborations with major European space agencies, in particular the Italian Space Agency (ASI), the French National Centre for Space Studies (CNES) and the European Space Agency (ESA).

Events and shows

On April 10, Avio celebrated its listing on the Star segment of the Italian Stock Exchange, in an event hosted by the Italian European Space Agency astronaut Samantha Cristoforetti.
During the first half of 2017, Avio organized three important institutional visits. On March 11, the President of the European Parliament, Antonio Tajani, visited Avio's manufacturing facilities. On April 19, it was the turn of the Italian Defence Minister Roberta Pinotti. Finally, on June 13, the Italian Prime Minister, Paolo Gentiloni, accompanied by his staff and on an official visit to the new Colleferro facilities, met Avio employees in addition to Avio's General Management, Chief Executive Officer Giulio Ranzo, Chairman Roberto Italia, the ESA's Space Transport Division Head Daniel Neuenschwander, Arianespace's Chief Executive Officer Stéphane Israel and Arianegroup's Chief Executive Officer Alain Charmeau.

From June 19 to 26, Avio participated in the Paris International Space Show at Le Bourget. The stand featured 1:10 scale models of the Vega C, Vega E and Vega L (light) launchers and the brand new Small Spacecrafts Mission Service (SSMS) for multiple satellite launches. Also featured at the show were the first Vinci turbopumps for Ariane 6, the LOx Mira engine, the Zefiro 23 nozzle and the composite skirts of the Z23, Z40, P80 and P120C engines.

Several important contracts for Avio were signed during the event, in particular the first agreement for two flights with the new Vega C launcher.

From July 3 to 6, Avio participated with a stand at the seventh edition of the European Conference for Aeronautics and Space Sciences (EUCASS) in Milan. On show were models for the Vega launcher and Vega C launcher.

In August, Avio participated in Small Satellite Conference in Logan in the United States, where it presented the SSMS, the new Vega and Vega C carrier for the launch of multiple satellites.

The four Ariane 5 launches, during the first half of 2017, put into orbit the SKY Brazil 1 and Telkom 3S satellites on February 14, the SGDC and KORESAT-7 satellites on May 5 and the Via Sat-2 and EUTELSAT 172 B satellites on June 2. Finally, on June 29, Ariane 5 made its 80th consecutive successful launch with satellites GSAT-17 and Hellas Sat 3.

In March, the earth observation satellite Sentinel 2 B was entered into orbit, while, on August 2, for its tenth successive successful launch, Vega perfectly placed an Italian-Israeli satellite, OPSAT-3000, and a Franco-Israeli satellite, Venus, both for earth observation. With its tenth launch from the French Guyana Space Centre, Vega achieved a world launcher record: a straight 10 successful launches in 5 years without any failures.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES

General economic risks

With regards to general economic conditions, the economic, equity and financial position of Avio is influenced by a number of macro-economic environment factors (including GDP movements, the cost of raw materials, the unemployment rate and interest rate movements), both in the countries in which the Group operates and at a global level, as a result of impacts upon the spending capacity of the individual countries (in particular in Europe) for the development of Space activities, through the national and European agencies.

Over recent years, the financial markets have featured particularly significant volatility with major repercussions on banks and financial institutions and, more generally, on the entire economy, therefore impacting the public accounts. The significant and widespread deterioration of market conditions was exacerbated by a serious and general difficulty in accessing credit, both for consumers and businesses, resulting in a lack of liquidity which affected industrial development and employment, therefore impacting the budgeting strategies of European states and consequently the spending capacity of the Space Agencies.

Although the governments and the monetary authorities have responded to this situation with extensive initiatives, including the cutting of interest rates to historic lows and the funding and bolstering of intermediaries, and although taking into consideration the signs indicating the exiting of recession for the leading economies, it currently is however not possible to predict whether and when the economy will return to pre-crisis levels, also in light of the worsening international geo-political environment and the slowing of Chinese economic growth, in addition to renewed volatility on the financial markets and tensions surrounding the financial situation and credit capacity of various countries.

Where this situation of significant weakness and uncertainty were to continue for significantly longer or worsen, particularly on the Group's market, the operations, strategies and prospects of the Group may be impacted, particularly with regards to production forecasts for future flights/launches of Group spacecraft and for new research and development programmes, with a consequent impact on the Group financial statements.

In addition, the space programmes have principally been executed through the use of funding provided by the governments and the European authorities. These provisions depend on government policies and in general economic conditions in Europe. The demand for launchers is therefore supported both by the public sector and the private sector.
Although the Group considers the space programme sector less volatile in consideration of the long-term nature of projects and the backlog developed, a contraction in economic growth, a recession or a financial crisis may reduce (even significantly) demand for the components produced by the Group, with consequent impacts on operations and on the financial statements of Avio and of the Group companies.
In addition, a weak economic environment may impact the Group's access to the capital markets or the availability of favourable conditions, with consequent impacts on operations and on the financial statements of Avio and of the Group companies.

Specific business risks

The space programmes, due to their inherent complexity, strategic important and source of funding, are generally dependent on plans and decisions undertaken at government level in Europe, both by individual countries and as part of international agreements, implemented by specific national and supranational institutions and agencies. These plans seek to guarantee independent access to space by the European nations.

Changes to space access policies, both at a domestic and European or international level, and unfavourable economic conditions impacting the spending allocated to these policies by national governments and supranational institutions, may impact Group operational levels with possible repercussions for operations and the Group financial statements.

Group business depends in addition on a limited number of programmes and therefore clients. Any interruptions, temporary suspensions or cancellations to one or more major programmes constitutes a risk which may impact the Group's operations and financial statements. The backlog may therefore be subject to unexpected adjustments and may not therefore be indicative of future revenues or operating results.

The Group operates in the space sector principally through long-term contracts, often at fixed prices or with inflation-linked price reviews. Fixed price contracts present the risk that any additional costs may not be or are only partially reabsorbed by the client, with impacts on the Group's operations and financial statements.

In addition, for the recognition of revenues and the relative margins deriving from long-term works contracts, the percentage of advancement method is utilised, based on total cost estimates for the execution of contracts and the verification of the state of advancement of operations. Both these factors are by their nature significantly subject to management estimates, which in turn depend on the objective possibility and capacity to forecast future events. The occurrence of unpredictable events or forecast to a differing degree may result in an increase in costs incurred for the execution of long-term contracts, with impacts on the Group's operations and financial statements.

The Group does not operate as a Prime Contractor for the sale of the launch service (therefore not the Launch Service Provider) and consequently does not always have access to the market information concerning the launch service and is not always in the position to oversee the commercial aspects. Where the Launch Service Provider does not correctly interpret its role or adopts commercial practices not in line with the Group's interests, this may have impacts on the Group's operations and financial statements.

Group clients are responsible for declaring the compliance of products before acceptance and sale and may entirely or partially reject them where such compliance is not declared. In this case, the warranty clauses require us to replace or repair the non-compliant component, incurring the associated costs in addition to any costs necessary to understand the problem. Where the associated costs are not covered by insurance, the Group's results may be impacted. Once accepted by clients, the Group is no longer responsible for damage deriving from the malfunctioning of products, except where the pre-existence of any defects which were not evident upon acceptance is demonstrated, with the consequent further obligation to restore or repair the defective products before final use and/or launch.

In addition, for any damage, whatever the cause, and including damage deriving from defects and/or the malfunctioning of products supplied by the Group, caused during the flight of the launchers, the launch service provider shall exclusively be responsible and, where applicable, the ESA and the French government.

The Group's industrial operations require the use and the processing of explosive or chemically hazardous materials. Although these activities are conducted in accordance with applicable rules, as per a specific Safety Management System to prevent accidents, and high quality equipment and personnel are used, accidents may occur which result in interruptions of varying lengths to industrial operations with impacts on Group results.

OUTLOOK

Subsequent events

Business

Vega

August 2, 2017 saw the tenth mission of the Vega launcher (VV10) successfully completed. It was the second launch of 2017, which placed the earth observation satellites OPSAT-300 and Venus perfectly into orbit.
The event confirmed the reliability of the Vega launcher, being the first time a new launcher has had its first 10 launches without issue or anomaly.
In addition, as a result of industrial agreements reached with Arianespace, the VV10 launch campaign was the first in which Avio expanded its activities in successfully supporting Arianespace in ground operations at the French Guyana Space Centre, before taking over the role completely for the last flight campaign of 2017 scheduled for the fourth quarter of the year.

New P-120 Engine

Following post-manufacturing checks in June, the first P120 engine case was finalized on July 9 with shipment to the facilities of the subsidiary Regulus S.A. in French Guyana for inert loading activities.

Zefiro40 Engine Nozzle for the New Vega C Launcher

In the month of July, the first nozzle for the Zefiro40 engine of the second stage of the forthcoming Vega C launcher was completed, which will be used for static bench testing. With the application of both composite and carbon-carbon elements, the manufacture of this component represents a significant technological achievement for Avio and a step forward in acquiring new expertise.

Other significant events

Order intake

On August 4, Avio acquired from Arianespace a contract for the supply of 10 Vega launchers, partly in the current configuration and partly in the future Vega C configuration.
On August 3, ELV signed with the ESA a contract for the development of the new generation Vega C launcher, as approved by the Ministerial Conference of December 2016, concerning the "reorientation" of the programme in the 2017-2019 period.

The overall value of these production and development orders is over Euro 300 million.

Market warrants

As indicated in the Ownership section, on June 2, 2017, with reference to the month of May 2017, satisfaction of the condition for the conversion of 7,499,978 Market Warrants was announced.

Following satisfaction of the condition for the exercise of the Market Warrants, in accordance with the relative regulation, the period for the subscription of Avio S.p.A. Conversion Shares was established as between June 16 and August 16, 2017.

At the closing date of the period for the exercise of Market Warrants:

- 7,465,267 Market Warrants had been exercised, for the subscription of 2,025,429 Conversion Shares in accordance with the relative Regulation;

- 34,711 Market Warrants were not exercised and therefore cancelled and without any validity in accordance with the relative Regulation.

In accordance with the applicable Regulation, the subscription price of the Conversion Shares assigned in exercise of Market Warrants is Euro 0.1. Therefore, the share capital increase on conclusion of the conversion period for Market Warrants was Euro 202,542.90.

As a result, at August 17, 2017, the company's ownership, following completion of the conversion of Market Warrants, was as follows:

Shareholder	**% share capital**
Leonardo	25.14%
Space Holding	7.02%
In Orbit	3.44%
Free float on MTA	64.40%
Total	**100.00%**

Source of funds

In relation to the scheduled repayment by October 10, 2017 of the current residual share of the outstanding bank loan of approx. Euro 27 million, as set out under the agreements reached with the lending banks as part of the Avio-Space2 operation, the company is at an advanced stage of exploring alternative forms of leverage to support future investment projects.

Corporate aspects

Following the stock market listing, Avio is undertaking a reorganisation of the company staff functions originally within a single General Affairs and Staff Coordination Department, in order to put in place a more efficient and functional organisation with a related reduction in operating costs. In this regard, the separation from the General Affairs and Staff Coordination Department, of the Legal and Communication, External and Institutional Relations functions has been already completed, while the complete standing down of the original Department with the consequent reorganisation of the other functions will conclude by the end of 2017.

Outlook

Considering also the first half-year performance, the full-year 2017 forecast is for sustained overall net revenue (excluding "Pass-through" revenues) growth on 2016, mainly due to increased production and development operations on the Vega programme.

The revenue forecast is currently covered by the backlog.

TRANSACTIONS WITH SUBSIDIARY, ASSOCIATE AND PARENT COMPANIES AND THOSE UNDER THEIR CONTROL

Transactions of the parent company Avio S.p.A. with subsidiaries, associates, parent companies and with subsidiaries and associates of these latter consist of commercial and financial transactions carried out as part of ordinary operations and concluded at normal market conditions. In particular, these concern the supply and purchase of goods and services, including of an administrative-accounting, tax, IT, personnel management and assistance and consultancy nature, and the relative receivables and payables at period-end and funding and treasury management transactions and the relative charges and income, essentially with Avio Group companies.

OTHER INFORMATION

In accordance with Article 40 of Legislative Decree 127/1991, no treasury shares held by the parent company or subsidiaries exist, even through trustees or nominees.

CORPORATE GOVERNANCE

On April 10, 2017, the merger by incorporation of the company Avio S.p.A. into Space2 became effective, as a result of which Space2 S.p.A. assumed all rights and obligations of the incorporated company and took the name "Avio S.p.A.", in addition to the admission to listing of the ordinary shares of the company on the MTA, STAR segment, and the consequent withdrawal of Space2 S.p.A. shares from trading on the MIV (Investment Vehicles Market).
In relation to the above listing, the company complied with the principles of the Self-Governance Code (available to the public on the website of the Corporate Governance Committee at the page www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf), adjusting the company`s governance system to the regulations reported therein.
For all additional details in relation to the corporate governance adopted by the company following the stock market listing and all corporate governance decisions undertaken until May 11, 2017, reference should be made to the "Corporate Governance and Ownership Structure Report" approved by the Board of Directors of the company on May 11, 2017, prepared in compliance with Article 123-*bis* of the CFA and in view of the recommendations of the Self-Governance Code, while also taking account of the reference documents prepared by Borsa Italiana.
Subsequent to the approval date of the above report, the Board of Directors of Avio approved on June 28, 2017:

- the updated version of the "Internal Control and Risk Management System Guidelines" of the company;
- the Internal Audit Plan for 2017, outlining the audit activities on the Internal Control System scheduled for the second half of the year, the audit activities related to Legislative Decree 231/2001 agreed with the Supervisory Board of the company in a single cycle at year-end, in addition to the assistance regarding company risk management, implementation of the administrative-accounting procedures in accordance with the controls as per Law 262/2005 and updating of the Organisation, Management and Control Model of Avio;
- the updated version of the "Avio Group Conduct Code", containing the requirements for listing on the Stock Exchange;
- the updated version of the Organisation, Management and Control Model as per Legislative Decree 231/2001 of the company, including all of the developments concerning Legislative Decree 231/2001 in force at the publishing date, in addition to the amendments necessary as a result of the listing of the company and the Supervisory Board's transition from a single-member body to the current multi-member body.

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS AT JUNE 30, 2017

CONSOLIDATED BALANCE SHEET	Note	June 30, 2017	Dec. 31, 2016
(in Euro)			
ASSETS			
Non-current assets			
Property, plant & equipment	3.1	63,269,931	
Investment property	3.2	2,817,768	
Goodwill	3.3	80,342,274	
Intangible assets with definite life	3.4	88,110,194	
Investments	3.5	4,092,767	50,000
Non-current financial assets	3.6	7,440,000	10,000
Deferred tax assets	3.7	82,026,838	
Other non-current assets	3.8	65,912,254	
Total non-current assets		**394,012,027**	**60,000**
Current assets			
Inventories	3.9	127,267,792	
Contract work-in-progress	3.10	150,176,338	
Trade receivables	3.11	5,789,049	
Current financial assets	3.12	28,950,782	304,165,745
Cash and cash equivalents	3.13	63,374,655	444,788
Tax receivables	3.14	41,658,842	1,013,555
Other current assets	3.15	10,444,475	107,852
Total current assets		**427,661,934**	**305,731,940**
Assets held-for-sale and Discontinued Operations	3.41	-	-
		-	-
TOTAL ASSETS		**821,673,962**	**305,791,940**

CONSOLIDATED BALANCE SHEET	Note	June 30, 2017	Dec. 31, 2016
(in Euro)			
EQUITY			
Share capital	3.16	90,761,669	30,845,000
Share premium reserve	3.17	163,897,217	277,155,000
Other reserves	3.18	(4,739,615)	(2,896,914)
Retained earnings		3,517,067	289,682
Group net profit/(loss) for the period		2,060,107	(331,964)
Total Group Equity		**255,496,445**	**305,060,804**
Equity attributable to non-controlling interests	3.19	**6,304,535**	
TOTAL EQUITY		**261,800,980**	**305,060,804**
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	3.20	0	
Employee benefit provisions	3.21	10,813,961	
Provisions for risks and charges	3.22	6,039,390	
Other non-current liabilities	3.23	116,516,721	
Total non-current liabilities		**133,370,072**	**0**
Current liabilities			
Current financial liabilities	3.24	29,308,605	
Current portion of non-current financial payables	3.25	27,138,105	
Provisions for risks and charges	3.22	7,890,207	
Trade payables	3.26	89,997,347	580,780
Advances for contract work-in-progress	3.10	252,130,621	
Current income tax liabilities	3.27	943,979	88,450
Other current liabilities	3.28	19,094,046	61,906
Total current liabilities		**426,502,910**	**731,136**
TOTAL LIABILITIES		**559,872,982**	**731,136**
Liabilities available-for-sale and discontinued operations	3.41	**-**	**-**
		-	**-**
TOTAL LIABILITIES AND EQUITY		**821,673,962**	**305,791,940**

CONSOLIDATED INCOME STATEMENT	Note	H1 2017 (1)	H1 2016
(in Euro)			
Revenues	3.29	101,287,263	
Change in inventory of finished products, in progress and semi-finished		3,042,871	
Other operating income	3.30	1,238,298	
Consumption of raw materials	3.31	(32,209,358)	(8,150)
Service costs	3.32	(49,875,647)	
Personnel expenses	3.33	(16,643,677)	
Amortisation & Depreciation	3.34	(3,329,720)	
Write-down and write-backs		-	
Other operating costs	3.35	(1,264,493)	(670,284)
Effect valuation of investments under equity method - operating income/(charges)	3.36	259,026	
Costs capitalised for internal works	3.37	754,775	
EBIT		**3,259,337**	**(678,434)**
Financial income	3.38	653,645	979,952
Financial charges	3.39	(2,143,712)	
NET FINANCIAL INCOME/(CHARGES)		**(1,490,067)**	**979,952**
Effect valuation of investments under equity method - financial income/(charges)			
Other income/(charges) from investments			
INVESTMENT INCOME/(CHARGES)		**-**	**-**
PROFIT BEFORE TAXES AND DISCONTINUED OPERATIONS		**1,769,270**	**301,518**
Income taxes	3.40	575,014	
PROFIT FROM CONTINUING OPERATIONS		**2,344,284**	**301,518**
NET PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS	3.41	**-**	**-**
NET PROFIT FOR THE PERIOD		**2,344,284**	**301,518**
-- of which: Owners of the parent		2,060,107	
Non-controlling interests		284,177	
Basic earnings per share		**0.135**	**0.012**
Diluted earnings per share		**0.114**	**0.010**

Note (1): Space 2 S.p.A. operations in the half-year including Avio Group operations for the second quarter 2017. For a detailed analysis, reference should be made to the Director's Report.

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT	H1 2017 (1)	H1 2016
(in Euro)		
NET PROFIT FOR THE PERIOD (A)	**2,344,284**	**331,964**
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	11,957	
Gains/(losses) recorded directly to equity (which will be subsequently reclassified to P&L)		
- Gains/(losses) on cash flow hedge instruments recorded directly to interest rate cash flow hedge reserve	257,125	
Tax effect on other gains/(losses)	(1,737)	
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	**267,345**	**-**
COMPREHENSIVE INCOME FOR THE PERIOD (A+B)	**2,611,629**	**331,964**
-- of which: Owners of the parent	2,328,154	
Non-controlling interests	283,475	

Note (1): Space 2 S.p.A. operations in the half-year including Avio Group operations for the second quarter 2017. For a detailed analysis, reference should be made to the Director's Report.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(Euro thousands)

				Other reserves							
	Share capital	Share premium reserve	Legal reserve	*Interest rate cash flow hedge reserve*	*Actuarial gains/(losses) reserve*	*2015 share capital increase reserve*	Retained earnings	Group result for period	Total Group equity	Non-controlling interest equity	Total Equity
Equity at 31/12/2015	**30,845**	**277,155**				**(2,912)**		**305**	**305,393**		**305,393**
Allocation of prior year result			15				290	(305)	0		0
Net loss for the period								(332)	(332)		(332)
Equity at 31/12/2016	**30,845**	**277,155**	**15**	**0**	**0**	**(2,912)**	**290**	**(332)**	**305,061**	**0**	**305,061**
Allocation of prior year result							(332)	332	0		0
Distribution dividends										(1,920)	(1,920)
Effects deriving from Business Combination with Avio (March 31, 2017)	75,339	25,615	0	(317)	(3,245)	0	3,559	0	100,951	7,941	108,892
Effects deriving from spin-off to Space3 (April 5, 2017)	(15,423)	(138,873)	(8)			1,456			(152,847)		(152,847)
Net profit for the period								2,060	2,060	284	2,344
Other Gains/(Losses):											
- Change in fair value of hedges				257					257		257
- Actuarial gains/(losses), net of tax effect					14				14	(1)	14
Comprehensive income for period	0	0		257	14		0	2,060	2,331	283	2,615
Equity at 30/06/2017	**90,762**	**163,897**	**7**	**(59)**	**(3,231)**	**(1,456)**	**3,517**	**2,060**	**255,496**	**6,305**	**261,801**

CONSOLIDATED CASH FLOW STATEMENT

(Euro thousands)

		H1 2017	H1 2016
OPERATING ACTIVITIES			
Net profit for the period		2,344	302
Adjustments for:			
- Income taxes		(575)	
- (Income)/charges from equity investments		-	
- Financial (Income)/Charges		1,490	256
- Amortisation & Depreciation		3,330	
- (Gains)/losses on sale of property, plant & equipment & other (income)/charges		-	
Dividends received		2,460	
Net change provisions for risks and charges		(8,855)	
Net change employee provisions		(28)	
Changes in:			
- Inventories		3,893	
- Contract work-in-progress & advances		(19,042)	
- Trade receivables		1,642	2
- Trade payables		15,591	23
- Other current & non-current assets		(9,476)	(188)
- Other current & non-current liabilities		(4,208)	
Income taxes paid (*)		(289)	
Interest paid		(2,622)	(3)
Net liquidity generated/(employed) in operating activities	(A)	**(14,346)**	**393**
INVESTING ACTIVITIES			
Investments in:			
- Tangible assets and investment property		(4,905)	
- Intangible assets with definite life		(733)	
Disposal price of tangible, intangible & financial assets		-	
Changes in consolidation scope			
Avio Business combination			
- Price paid		(84,871)	
- Cash and cash equivalents of Avio Group acquired at March 31, 2017		111,140	
		-	
Disposal price financial assets		152,847	
Liquidity generated (employed) in investing activities	(B)	**173,610**	**-**
FINANCING ACTIVITIES			
Grant / (Repayment) of bank loans		(63,360)	
Centralised treasury effect with Europropulsion S.A. joint control company		(615)	
Repayment / (Issue) of loans to associate Termica Colleferro S.p.A.		-	
Share capital increase and share premium reserve		-	
Dividends attributable to minorities of subsidiaries		(1,920)	
Other changes to financial assets and liabilities		(30,440)	
Liquidity generated (employed) in financing activities	(C)	**(96,335)**	**-**
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C)	**62,930**	**393**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**445**	**140**
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD		**63,375**	**533**

Note (1): Space 2 S.p.A. operations in the half-year including Avio Group operations for the second quarter 2017. For a detailed analysis, reference should be made to the Director's Report.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS AT JUNE 30, 2017

1. GENERAL INFORMATION

Avio S.p.A. (the "Company" or the "Parent Company") is a limited liability company incorporated in Italy and registered at the Rome Companies Registration Office, with Registered Office at Rome, Via Leonida Bissolati, No. 76.

The Company was incorporated on May 28, 2015 under the name Space2 S.p.A., an Italian-registered Special Purpose Acquisition Company ("SPAC"), as an SIV (Special Investment Company) in accordance with the Borsa Italiana regulation, whose shares were listed on July 28, 2015 on the Professional Segment of the Investment Vehicles Market (MIV) organised and managed by Borsa Italiana S.p.A..

On March 31, 2017 the "SPAC" Space2 S.p.A. acquired the company Avio S.p.A., parent company of the Avio Group and, on April 10, 2017 Avio S.p.A was merged by incorporation. Space2 S.p.A. also changed its name to "Avio S.p.A." following the above-mentioned operation.

The parent company holds at June 30, 2017, directly or indirectly, investments in four subsidiary companies (ELV S.p.A., Regulus S.A., AS Propulsion International BV and Avio India Aviation Aerospace Private Ltd. in liquidation) and in a jointly-controlled company (Europropulsion S.A.) included in the consolidation scope of these financial statements (the "Group" or the "Avio Group").

These financial statements, following the acquisition of the Avio Group completed on March 31, 2017 by Space2, are the first consolidated financial statements prepared subsequent to the operation: the Consolidated Income Statement, the Consolidated Comprehensive Income Statement and the Consolidated Cash Flow Statement, included in these financial statements, therefore refer to the period from April 1, 2017.

The Avio Group leads the space propulsion sector and operations are undertaken at 6 facilities in four countries in Europe and in South America. The main Group activities are described in the Directors' Report.

These Group consolidated financial statements are presented in Euro which is the Company's principal functional currency. The Consolidated Balance Sheet, the Consolidated Income Statement and the Consolidated Comprehensive Income Statement are reported in units of Euro; the Statement of Changes in Consolidated Equity and the Consolidated Cash Flow Statement, as well as these Explanatory Notes, are reported in thousands of Euro where not otherwise indicated. The foreign subsidiaries are included in the consolidated financial statements in accordance with the accounting policies described in the notes below.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Accounting Standards for the preparation of the condensed financial statements

These condensed half-year financial statements at June 30, 2017 were prepared in accordance with International Accounting Standards (hereafter also "IFRS") issued by the International Accounting Standards Board ("IASB") and approved by the European Union. IFRS refers to the International Financial Reporting Standards, the revised international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") - previously known as the Standing Interpretations Committee ("SIC").

In the preparation of these Condensed half-year financial statements, drawn up in accordance with IAS 34 – *Interim Financial Reporting*, the same accounting standards were adopted as for the preparation of the consolidated financial statements of the Avio Group at December 31, 2016 and of the Annual Report at the same date of the incorporating company Space2 S.p.A., except for that outlined in the Explanatory Notes - "Accounting standards, amendments and interpretations applied from January 1, 2017" paragraph. Therefore these financial statements must be read together with the consolidated financial statements of the Avio Group at December 31, 2016 and the Annual Report at the same date of the incorporating company Space2.

The preparation of condensed financial statements in application of IFRS requires estimates and assumptions on the values of the assets and liabilities, on the disclosures relating to assets and contingent liabilities at the reporting date and on the revenues and costs in the period. If in the future these estimates and assumptions, which are based on the best current valuations made by management, should differ from actual circumstances, they will be modified appropriately in the period in which the circumstances change.

Some valuation processes, in particular the most complex such as the determination of any loss in value of non-current assets or the valuation of contingent liabilities, are generally made on a complete basis on the preparation of the annual accounts, when all the necessary information is available, except where there are specific indications of impairment which require an immediate valuation of any loss in value or an accrual is required to the provision for risks and charges.

2.2. Financial Statement format

The Condensed half-year financial statements at June 30, 2017 consist of the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Comprehensive Income Statement, the Statement of changes in Consolidated Equity, the Consolidated Cash Flow Statement and the Explanatory Notes.

The financial statements of the Group are presented as follows:

- for the Consolidated Balance Sheet, the separate presentation of non-current and current assets and of non-current and current liabilities, generally adopted by industrial and commercial groups;
- for the Consolidated Income Statement, the classification of costs based on their nature, with separate indication of the results from discontinued operations, where applicable;
- for the Consolidated Comprehensive Income Statement, the adoption of the separate presentation ("two-statement approach") with indication of other gains/losses net of the relative tax effect;
- for the Consolidated Cash Flow Statement, the adoption of the indirect method.

As illustrated above, following the acquisition of the Avio Group completed on March 31, 2017 by Space2, the Consolidated Income Statement, the Consolidated Comprehensive Income Statement and the Consolidated Cash Flow Statement, included in these financial statements, refer to the period from April 1, 2017.

2.3. Comparative information

In accordance with IAS 34 these condensed half-year financial statements at June 30, 2017 include the comparative figures at December 31, 2016 for the Balance Sheet items (Consolidated Balance Sheet) and the first half year 2016 for the Income Statement items (Consolidated Income Statement, Consolidated Comprehensive Income Statement, Statement of changes in Consolidated Equity and Consolidated Cash Flow Statement).

The comparative figures refer to the incorporating company Space2 S.p.A

2.4. Translation of foreign entity financial statements

The financial statements of each company consolidated are prepared in the primary currency where they operate. For the condensed half-year financial statements, the financial statements of each foreign entity which utilises a currency other than the Euro is translated into this latter, as the Group's functional currency and the consolidated financial statement presentation currency. The transactions in currencies other than the Euro are translated into the functional currency at the exchange rate at the date of the transaction and the exchange gains and losses from the subsequent closure of these transactions are recorded in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates at the reporting date. The positive and/or negative differences between the values adjusted to the closing exchange rate and those recorded in the period are also recognised in the income statement. Non-monetary assets valued at historical cost in currencies other than the functional currency are not translated at the current exchange rate at the reporting date.

2.5. Consolidation scope

The Condensed half-year financial statements at June 30, 2017 include the financial statements of the parent company, of the Italian and overseas companies in which it holds directly or indirectly at June 30, 2017 more than 50% of the share capital, consolidated under the line-by-line method, and the financial statements of the company Europropulsion S.A., held 50% jointly with another shareholder, consolidated under the equity method. The list of companies included in the consolidation scope at June 30, 2017 is provided in paragraph "7. List of Group companies at June 30, 2017".

The non-controlling interest in the equity and results of the subsidiaries consolidated are recorded separately from the Group equity, in the account "Non-controlling interest equity".

As described above, these financial statements, following the acquisition of the Avio Group completed on March 31, 2017 by Space2, comprise the first consolidated financial statements prepared since the operation.

2.6. Consolidation principles

The consolidation principles adopted are in line with those utilised for the preparation of the consolidated financial statements at December 31, 2016 of the Avio Group and in the Annual Report at the same date of the incorporating company Space2 S.p.A., to which reference should be made for further information.

2.7. Accounting standards

The accounting standards adopted are in line with the criteria for the recognition and measurement utilised in the preparation of the consolidated financial statements at December 31, 2016 of the Avio Group, which was acquired during the first half of 2017 and was accounted in accordance with IFRS 3, in addition to the financial statements of Space2 S.p.A. at the same date, to which reference should be made for further information, with the exception of that outlined in the paragraph below.

2.8. New Accounting Standards

Accounting standards, amendments and interpretations applied from January 1, 2017

As no new IFRS accounting standards, amendments and interpretations entered into force from January 1, 2017, the Avio Group prepared the condensed half-year financial statements according to the same accounting standards adopted for the consolidated financial statements at December 31, 2016 and, where applicable, the accounting standards adopted for the preparation of the financial statements at the same date of the incorporating Space2 S.p.A..

IFRS and IFRIC accounting standards, amendments and interpretations approved by the EU, not yet mandatory and not adopted in advance by the Group at June 30, 2017

- Standard **IFRS 15 – Revenue from Contracts with Customers** (published on May 28, 2014 and supplemented with further clarifications on April 12, 2016) which replaces IAS 18 - Revenue and IAS 11 - Construction Contracts, in addition to 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 establishes a new revenue recognition model, which will apply to all contracts with clients, with the exception of those falling under the application of other IAS/IFRS such as leasing, insurance contracts and financial instruments. The essential issues for the recognition of revenues according to the new model are:
    - the identification of the contract with the client;
    - the identification of the performance obligations of the contract;
    - the establishment of the price;
    - the allocation of the price to the performance obligations of the contract;
    - the recognition criteria of the revenue where the entity satisfies the performance obligations.

  The standard will be effective from January 1, 2018, although advance application is permitted. The amendments to IFRS 15, Clarifications to IFRS 15 **–** Revenue from Contracts with Customers, published by the IASB on April 12, 2016, have not yet been approved by the European Union.

  The standard will be effective from January 1, 2018, although advance application is permitted. The application of IFRS 15 may have an impact on the recognition of revenues and on the relative disclosure in the Group consolidated financial statements. However, it is not possible to provide a reasonable estimate of the effects until completion of a detailed analysis of the contracts with customers.

- Final version of **IFRS 9 - Financial Instruments** (published on July 24, 2014). The document incorporates the results of the IASB project to replace IAS 39:
    - the standard introduces new criteria for the classification and measurement of financial assets and liabilities;
    - the impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model, utilising supporting information, available without unreasonable charges or effort, which includes historic, current and projected figures;
    - introduces a new hedge accounting model (increase in the types of transactions eligible for hedge accounting, changes in the accounting method of forward contracts and options when included in a hedge accounting relationship, change in the effectiveness test).

  The new standard must be applied for financial statements beginning on or after January 1, 2018.
  No significant impacts are expected on the consolidated financial statements of the Group from the adoption of the standard, however the directors are currently assessing any possible effects deriving from its introduction.

IFRS standards, amendments and interpretations not yet approved by the European Union

At the date of the present Half-Year Report, the relevant bodies of the European Union have not yet concluded the process necessary for the implementation of the amendments and standards described below.

- **IFRS 16 - Leases** (published on January 13, 2016) which replaces IAS 17 – Leases, as well as the interpretations IFRIC 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 definition of leases and introduces a criterion based on control (right of use) of an asset to distinguish leasing contracts from service contracts, identifying essential differences: the identification of the asset, the right of replacement of the asset, the right to obtain substantially all the economic benefits from the use of the asset and the right to use the asset underlying the contract.

The standard establishes a single model to recognise and measure leasing contracts for the leasee (lessees) which provides also for the recognition of operating leases under assets with a related financial payable, providing the possibility not to be recognise as leasing contracts "low-value assets" and leasing contracts less than 12 months. This Standard does not contain significant amendments for lessors.
The standard is effective from January 1, 2019, although advance application is permitted, only for companies which have applied in advance IFRS 15 - Revenue from Contracts with Customers. No significant impacts are expected on the consolidated financial statements of the Group from the adoption of these amendments, however the directors are currently assessing any possible effects deriving from its introduction.

- On May 18, 2017, the IASB published **IFRS 17 - Insurance Contracts** which replaces IFRS 4 - Insurance Contracts.
  The new standard ensures that an entity provides pertinent information which accurately presents the rights and obligations under insurance contracts. The IASB developed the standard in order to eliminate inconsistencies and weaknesses in the existing accounting policies, providing a single principle-based framework to take account of all types of insurance contracts, including reinsurance contracts held by an insurer.
  The standard is effective from January 1, 2021, although advance application is permitted, only for entities applying IFRS 9 – Financial Instruments and IFRS 15 - Revenue from Contracts with Customers. No significant impacts are expected on the consolidated financial statements of the Group from the adoption of these amendments, however the directors are currently assessing any possible effects deriving from its introduction.

- "**Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**" (published on September 12, 2016). For entities primarily involved in insurance activities, the amendments clarify the considerations deriving from application of the new IFRS 9 (from January 1, 2018) to financial assets, before the replacement by the IASB of the current IFRS 4 with the new standard currently under discussion, under which however financial liabilities are measured.

  No significant impacts are expected on the consolidated financial statements of the Group from the adoption of the standard, however the directors are currently assessing any possible effects deriving from its introduction.

- Amendment to **IAS 12** "**Recognition of Deferred Tax Assets for Unrealised Losses**" (published on January 19, 2016). The document provides clarifications on the recognition of deferred tax assets on unrealised losses on the occurrence of certain circumstances and on estimates of assessable income for future years. These amendments, published by the IASB in January 2016 and applicable from January 1, 2017, not having been endorsed by the European Union, had not been adopted by the Group at June 30, 2017.
  No significant impacts are expected on the consolidated financial statements of the Group from the adoption of the standard, however the directors are currently assessing any possible effects deriving from its introduction.

- Amendment to **IAS 7** "**Disclosure Initiative**" (published on January 29, 2016). The document provides clarifications to improve disclosure on financial liabilities. In particular, the amendments require the provision of disclosure which enables readers of the financial statements to understand the changes to liabilities following funding operations. These amendments, published by the IASB in January 2016 and applicable from January 1, 2017, not having been endorsed by the European Union, had not been adopted by the Group at June 30, 2017.
  No significant impacts are expected on the consolidated financial statements of the Group from the adoption of the standard, however the directors are currently assessing any possible effects deriving from its introduction.

- Amendment to **IFRS 2 "Classification and measurement of share-based payment transactions** (published on June 20, 2016) , which contains clarifications upon the recognition of the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with characteristics of net settlement and the recognition of the amendments to the terms and conditions of a

share-based payment which changes the classification from cash-settled to equity-settled.
The amendments are effective from January 1, 2018, although advance application is permitted. No significant impacts are expected on the consolidated financial statements of the Group from the adoption of the standard, however the directors are currently assessing any possible effects deriving from its introduction.

- "**Annual Improvements to IFRSs**: **2014-2016 Cycle**", published 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 integrates the pre-existing standards.
  No significant impacts are expected on the consolidated financial statements of the Group from the adoption of the standard, however the directors are currently assessing any possible effects deriving from its introduction.

- Interpretation **IFRIC 22 "Foreign Currency Transactions and Advance Consideration**" (published on December 8, 2016). The interpretation provides guidelines for transactions in foreign currencies where advances or non-monetary payments on account are recorded in the financial statements, before the recognition of the relative asset, cost or revenue. This document provides indications on how an entity should determine the date of a transaction, and consequently, the exchange rate to be utilised concerning operations in foreign currencies concerning payments made or received in advance.
  IFRIC 22 is applicable from January 1, 2018, but advanced application is permitted. No significant impacts are expected on the consolidated financial statements of the Group from the adoption of the standard, however the directors are currently assessing any possible effects deriving from its introduction.

- Amendment to **IAS 40 "Transfers of Investment Property"** (published on December 8, 2016). These amendments clarify the transfers of a building to, or from, investment property. In particular, an entity shall reclassify a building to, or from, investment property only when there is a clear indication of a change in the use of the building. This change must be attributable to a specific event and shall not therefore be limited to only a change in intention by management of the entity.
  The amendments are applicable from January 1, 2018, although advance application is permitted. No significant impacts are expected on the consolidated financial statements of the Group from the adoption of the standard, however the directors are currently assessing any possible effects deriving from its introduction.

- On June 7, 2017, the IASB published the interpretative document **IFRIC 23 – Uncertainty over Income Tax Treatments.** The document deals with uncertainties on the tax treatment to be adopted for income taxes.
  It establishes that uncertainties in the calculation of tax liabilities or assets are reflected in the financial statements only where it is probable that the entity will pay or recover the amount in question. In addition, the document does not contain any new disclosure obligations, but underlines that an entity should establish whether it will be necessary to provide information on considerations made by management and the relative uncertainty concerning the accounting of income taxes, in accordance with IAS 1.
  The new interpretation applies from January 1, 2019, although early application is permitted. No significant impacts are expected on the consolidated financial statements of the Group from the adoption of the standard, however the directors are currently assessing any possible effects deriving 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 was published in order to resolve the current conflict between IAS 28 and IFRS 10 relating to the measurement of the gain or loss from the sale or conferment of a non-monetary asset to a joint venture or associate in exchange for a share of the capital of this latter. Currently, the IASB has suspended the application of this amendment.

3. COMPOSITION, COMMENTS AND CHANGES IN THE PRINCIPAL BALANCE SHEET ACCOUNTS AND OTHER DISCLOSURES

NON-CURRENT ASSETS

3.1. PROPERTY, PLANT & EQUIPMENT

The values of Property, plant and equipment at June 30, 2017 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).
The table illustrates the comparison between the balances in Property, plant and equipment of the Avio Group at June 30, 2017 with March 31, 2017, acquisition date of the Avio Group by Space2. There were no Property, plant and equipment recorded in this latter company at December 31, 2016.

	30/06/2017 - Avio Group			Balances of the Avio Group at the business combination date 31/03/2017			31/12/2016 - Space2 S.p.A.
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value	Net book value
Land	7,563		7,563	7,563	-	7,563	-
Buildings	32,660	(14,527)	18,133	32,572	(14,238)	18,333	-
Plant and machinery	64,816	(48,164)	16,652	65,038	(47,482)	17,557	-
Industrial & commercial equipment	16,858	(14,685)	2,173	16,730	(14,587)	2,143	-
Other assets	7,154	(5,552)	1,602	7,057	(5,359)	1,698	-
Assets in progress and advances	17,147	-	17,147	12,379	-	12,379	-
Total	**146,198**	**(82,928)**	**63,270**	**141,338**	**(81,666)**	**59,672**	**0**

The changes between March 31, 2017 (acquisition date of the Avio Group by Space2) and June 30, 2017 in the gross values of property, plant and equipment of the Avio Group are illustrated in the table below (Euro thousands):

Gross value	Balances of the Avio Group at the business combination date 31/03/2017	Increases	Decreases for disposals	Reclassifications and other changes	Exchange adjustments	30/06/2017
Land	7,563					7,563
Buildings	32,572	88				32,660
Plant and machinery	65,038			(222)		64,816
Industrial & commercial equipment	16,730	128				16,858
Other assets	7,057	98				7,154
Assets in progress and advances	12,379	4,546		222		17,147
Total	**141,338**	**4,860**	**0**	**0**	**0**	**146,198**

The increases include Euro 104 thousand of costs capitalised for activities undertaken internally.
Assets in progress and advances refer, at June 30, 2017, to investments in course of completion mainly relating to the construction of the facilities for the development and construction of the P120C motor, which will be utilised in the new VEGA-C and Ariane 6 launchers.

Between March 31, 2017 (acquisition date of the Avio Group by Space2) and June 30, 2017 the changes in the accumulated depreciation provisions were as follows (Euro thousands):

Gross values	Balances of the Avio Group at the business combination date 31/03/2017	Increases	Decreases for disposals	Reclassifications and other changes	Exchange adjustments	30/06/2017
Land	-					0
Buildings	(14,238)	(289)				(14,527)
Plant and machinery	(47,482)	(682)				(48,164)
Industrial & commercial equipment	(14,587)	(98)				(14,685)
Other assets	(5,359)	(194)				(5,552)
Total	**(81,666)**	**(1,262)**	**0**	**0**	**0**	**(82,928)**

The depreciation in the period was calculated in relation to the estimated useful life and the obsolescence incurred by these assets.

3.2. INVESTMENT PROPERTY

The values of Investment property at June 30, 2017 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).
The table illustrates the comparison between the balances in Investment property of the Avio Group at June 30, 2017 with March 31, 2017, acquisition date of the Avio Group by Space2. There were no Investment property recorded in this latter company at December 31, 2016.

	30/06/2017 - Avio Group			Balances of the Avio Group at the business combination date 31/03/2017			31/12/2016 - Space2 S.p.A.
	Gross value	Accumulated depreciation	Net book value	Gross Value	Accumulated depreciation	Net book value	Net book value
Land	1,834		1,834	1,834	-	1,834	
Buildings & facilities	1,839	(855)	983	1,794	(842)	952	
Total	**3,673**	**(855)**	**2,818**	**3,628**	**(842)**	**2,787**	**0**

Investment property refers to land, buildings and facilities within the Colleferro (Rome) complex owned by the subsidiary Secosvim, leased to companies of the Group and to third parties. Secosvim undertakes property management activities.

The changes between March 31, 2017 (acquisition date of the Avio Group by Space2) and June 30, 2017 in the gross values of investment property of the Avio Group are illustrated in the table below (Euro thousands):

Gross value	Balances of the Avio Group at business combination date 31/03/2017	Increases	Decreases	Reclassifications	30/06/2017
Land	1,834				1,834
Buildings & facilities	1,794	45			1,839
Total	**3,628**	**45**	**-**	**-**	**3,673**

Between March 31, 2017 (acquisition date of the Avio Group by Space2) and June 30, 2017 the changes in the accumulated depreciation provisions were as follows (Euro thousands):

Accumulated depreciation	Balances of the Avio Group at business combination date 31/03/2017	Depreciation	Utilisations	Reclassifications	30/06/2017
Land	-				0
Buildings & facilities	(842)	(14)			(855)
Total	**(842)**	**(14)**	**-**	**-**	**(855)**

The depreciation in the period was calculated in relation to the estimated useful life and the obsolescence incurred by these assets.

Rental income generated over the years from investment property amounts to Euro 383 thousand.

3.3. GOODWILL

The date of the business combination was March 31, 2017 and the effective date of the merger between Space2 and Avio was April 10, 2017.
The allocation process of the acquisition values to the assets, liabilities and contingent liabilities of the Avio Group, in accordance with IFRS 3, must be completed within 12 months from the date of the business combination, therefore by March 31, 2018.

In consideration of the short time period between the date of the business combination and these consolidated half-year financial statements at June 30, 2017, of the complexity of the process to allocate the acquisition values to the assets acquired, liabilities assumed and contingent liabilities assumed by the Avio Group, of the longer period of 12 months from the date of the business combination permitted by regulations based on the above-mentioned complexity, as well as the fact that in the second half of 2017 Avio S.p.A. will update its industrial plan, these condensed consolidated half-year financial statements at June 30, 2017 include a provisional amount recorded in the goodwill account for a value equal to Euro 80.3 million, corresponding to the difference between the acquisition price of the Avio shares paid by the buyer, increased by the fair value of the new Space2 shares which were issued to service the Merger, and the consolidated equity of the

Avio Group at December 31, 2016 net of the goodwill previously recorded and of the related deferred tax liabilities.

For the reasons indicated above, these half-year financial statements do not report the fair value of the assets acquired and of the liabilities assumed. The completion of the valuation process required by IFRS 3, which will take place within the period established by regulations, may result in a valuation of assets and liabilities of Avio acquired at the business combination date which differs than the assumptions adopted in the preparation of these half-year financial statements. The definition of the Purchase Price Allocation may impact future results (e.g. higher amortization on the intangible assets to which part of the acquisition payments must be allocated), without effects on the expected generation of cash flows.

3.4. INTANGIBLE ASSETS WITH DEFINITE LIFE

The values of Intangible assets with definite life at June 30, 2017 are shown net of the accumulated amortisation provisions, as illustrated in the table below (Euro thousands).
The table illustrates the comparison between the balances in Intangible assets with definite life of the Avio Group at June 30, 2017 with March 31, 2017, acquisition date of the Avio Group by Space2. There were no Intangible assets with definite life recorded in this latter company at December 31, 2016.

	30/06/2017 - Avio Group			Balances of the Avio Group at the business combination date 31/03/2017			31/12/2016 - Space2 S.p.A.
	Gross values	Accumulated amortisation	Net book value	Gross values	Accumulated amortisation	Net book value	Net book value
Development costs - amortised	81,699	(41,830)	39,869	81,076	(40,919)	40,157	
Development costs - in progress	28,189	-	28,189	28,189	-	28,189	
Total development costs	109,888	(41,830)	68,058	109,265	(40,919)	68,346	0
Assets held by customers for programme participation accreditation	61,257	(42,880)	18,377	61,257	(41,859)	19,398	
Concessions, licenses, trademarks & similar rights	5,640	(5,062)	579	5,639	(4,965)	674	
Other	1,823	(1,001)	822	1,823	(977)	846	
Assets in progress and advances	273	-	273	167	-	167	
Total	**178,882**	**(90,773)**	**88,110**	**178,150**	**(88,719)**	**89,431**	**0**

Development costs mainly refer to design and experimentation costs relating to the P80 and Z40 projects for the VEGA launcher, as well as the new P120 motor.

The amortisation of these costs begins from the commencement of the commercial production of each individual programme, on a straight-line basis over their useful life, initially estimated based on the duration of the programmes to which they refer.

With reference to development costs in course of completion, which are not subject to amortisation as referring to programmes which have not yet commenced commercial production, recognition under intangible assets with definite useful lives (with prior verification of the absence of impairment) is supported by the profitability forecasts of the programmes.

The assets held by customers for programme participation accreditation relates to the identification of these intangible assets made on the allocation of the acquisition cost of the Avio Group by the Cinven Fund, at the end of 2006, valued at fair value based on the present value of the expected future benefits of these assets and amortised over a period of 15 years on the basis of the average useful life of the programmes to which they refer.
The amortisation of these assets will be completed in 2021.

Concessions, licenses, trademarks, patents and similar rights mainly include costs for the acquisition of software licenses.

The changes between March 31, 2017 (acquisition date of the Avio Group by Space2) and June 30, 2017 in the gross values of Intangible assets with definite life of the Avio Group are illustrated in the table below (Euro thousands):

Gross value	Balances of the Avio Group at the business combination date 31/03/2017	Increases	Decreases	Reclassifications	30/06/2017
Development costs – amortised	81,076	624			81,699
Development costs - in progress	28,189				28,189
Total development costs	109,265	624	0	0	109,888
Assets held by customers for programme participation accreditation	61,257				61,257
Concessions, licenses, trademarks & similar rights	5,639	1			5,640
Other	1,823				1,823
Assets in progress and advances	167	106			273
Total	**178,150**	**732**	**0**	**0**	**178,882**

The increases between March 31, 2017 (acquisition date of the Avio Group by Space2) and June 30, 2017 with reference to the development costs mainly relate to design and testing costs for the construction of the "Z40" and "P120" motors within the VEGA and Ariane 6 launcher programmes.

Between March 31, 2017 (acquisition date of the Avio Group by Space2) and June 30, 2017 the changes in the accumulated depreciation provisions were as follows (Euro thousands):

Accumulated depreciation	Balances of the Avio Group at the business combination date 31/03/2017	Increases	Decreases	Reclassifications	30/06/2017
Development costs – amortised	(40,919)	(911)			(41,830)
Development costs - in progress					0
Total development costs	(40,919)	(911)	0	0	(41,830)
Assets held by customers for programme participation accreditation	(41,859)	(1,021)			(42,880)
Concessions, licenses, trademarks & similar rights	(4,965)	(98)			(5,062)
Other	(977)	(23)			(1,001)
Assets in progress and advances	-				-
Total	**(88,719)**	**(2,054)**	**0**	**-**	**(90,773)**

3.5. INVESTMENTS

The table below illustrates the investments of the Avio Group at June 30, 2017 and March 31, 2017 (acquisition date of the Group by Space2), in addition to the amounts in the incorporating company Space2 at December 31, 2017 (Euro thousands):

	30/06/2017		Balances of the Avio Group at the business combination date 31/03/2017		31/12/2016 - Space2 S.p.A.	
	Group share	Total	Group share	Total	Space2 share	Total
Subsidiaries						
- Servizi Colleferro – Consortium	52.00%	63	52.00%	63		
- Space3 S.p.A.					100%	50
Total non-consolidated subsidiaries		**63**		**63**		**50**
Companies under joint control						
- Europropulsion S.A.	50.00%	1,498	50.00%	3,699		
Total companies under joint control		**1,498**		**3,699**		**0**
Associated companies						
- Termica Colleferro S.p.A.	40.00%	2,007	40.00%	2,007		
- Other consortiums		5		5		
Total associated companies		**2,012**		**2,012**		**0**
Other companies						
- Other companies		520		520		
Total other companies		**520**		**520**		**0**
Total		**4,093**		**6,294**		**50**

The changes between March 31, 2017 and June 30, 2017 in the investments are shown below (Euro thousands):

	Balances of the Avio Group at the business combination date 31/03/2017	Increases	Decreases	Other changes	30/06/2017
Subsidiaries	63	-	-	-	63
Companies under joint control	3,699	259	(2,460)	-	1,498
Associated companies	2,012	-	-	-	2,012
Other companies	520	-	-	-	520
Total	**6,294**	**259**	**(2,460)**	**0**	**4,093**

The change in the period relates to the investment in the jointly-controlled company Europropulsion S.A., which is valued under the equity method; an increase was recorded in the period of Euro 259 thousand for the share of profits (50%) reported by the company and a decrease of Euro 2,460 thousand due to the adjustment of the value of the investment following the payment of the dividend in the same period.

Investments in associated companies include the investment in the company Termica Colleferro S.p.A., held 40%; this investment is also valued at equity and the value of the investment at the reporting date is equal to the Avio Group's share of the net equity at this date.

The investments in other associated companies (mainly consortiums) are valued at acquisition or subscription cost, as these companies are not considered significant in relation to the Group financial position and also as non-operating companies. In addition, the valuation as per the equity method would not result in a significant effect compared to valuation at cost.
There are no significant restrictions in the capacity of the associated companies to transfer funds to the owners of the company, through payment of dividends, loans or advance repayments.
The investments in other companies are valued at cost.

At December 31, 2016, the incorporating company Space2 S.p.A. included in the account "Investments" the investment held in Space3 S.p.A., equal to Euro 50 thousand, which was incorporated on October 6, 2016. This latter company, also a SPAC similar to Space2, was not included in the acquisition scope of the Avio Group on March 31, 2017 and continues its operational activities as the beneficiary of specific financial and equity assets following the partial proportional spin-off of Space2 completed at the beginning of April. Therefore, this investment is no longer held at June 30, 2017.

3.6. NON-CURRENT FINANCIAL ASSETS

The table below illustrates the non-current financial assets of the Avio Group at June 30, 2017 and March 31, 2017, acquisition date of the Group by Space2. The table also shows the balances of Space2 at December 31, 2016 (Euro thousands):

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Shareholder loan to Termica Colleferro S.p.A.	7,440	7,440	
Other non-current financial assets			10
	7,440	**7,440**	**10**

The account, amounting to Euro 7,440 thousand at June 30 and March 31, comprises the shareholder loan granted to the associated company Termica Colleferro S.p.A. together with the other shareholder SECI Energia S.p.A., paid in order to ensure the long-term operational viability of this company in proportion to the share capital held; a similar contribution was made by the above-mentioned majority shareholder. This shareholder loan is non-interest bearing.

At December 31, 2016, the incorporating company Space2 included in the account "Non-current financial assets" a non-interest bearing guarantee deposit, amounting to Euro 10 thousand, relating to administration services undertaken by a leading consultancy firm.

3.7. DEFERRED TAX ASSETS

Deferred tax assets of the Avio Group recorded in the accounts amount to Euro 82,027 thousand and refer to the companies in the consolidation scope with positive net deferred tax assets and liabilities (Avio S.p.A. and Secosvim S.r.l.), as well as the tax effects relating to the consolidation adjustments. .

The amount recorded in the accounts represents the net balance of the deferred tax assets and liabilities calculated on the temporary differences between the value of assets and liabilities assumed for the purposes of the preparation of the consolidated financial statements and the respective values for fiscal purposes, and the tax losses carried forward as well as consolidation entries.

The table below illustrates deferred tax assets at June 30, 2017 and March 31, 2017, acquisition date of the Group by Space2 (Euro thousands). With reference to the comparative period at December 31, 2016 the incorporating company Space2 did not record any deferred tax assets or liabilities.

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Net deferred tax assets	82,027	81,161	0
	82,027	**81,161**	**-**

Deferred taxes are determined applying the tax rates which are expected to be applied in the period when the temporary differences will be reversed, or the benefits related to the tax losses will be utilised.

The summary of the temporary differences (deductible and assessable) and of the tax losses which resulted in the recognition of deferred tax assets and liabilities is illustrated in the table below with reference to the reporting date (Euro thousands):

	30/06/2017
Gross deferred tax assets on temporary differences	
Temporary differences deriving from previous corporate operations	
Goodwill tax amortisation on "Aviation" business unit	47,328
Financial charges exceeding 30% of EBITDA	45,542
Temporary differences deriving from current corporate operations	
Maintenance and other deferred deductible costs	634
Provision for personnel charges, former employees and similar	1,631
Other deductible temporary differences	4,083
Total gross deferred tax assets	**99,217**
Deferred tax liability on temporary differences	
Temporary differences deriving from previous corporate operations	
Goodwill ax amortisation Secosvim not transferred	(45)
Amortisation of intangible assets (customer accreditation)	(5,170)
R&D capitalisation First-Time Adoption	(5,609)
Subsidiaries tax amortisation & accounting entries for purely tax purposes	(1,397)
Temporary differences deriving from current corporate operations	
Other temporary assessable differences	(737)
Total gross deferred tax liabilities	**(12,958)**
Net deferred tax assets/(liabilities)	**86,259**
Deferred tax assets on tax losses	41,926
Intercompany elimination and other consolidation adjustments	332
Deferred tax assets not recorded	(46,488)
Net deferred tax assets (liabilities) recorded	**82,027**

Deferred tax assets on temporary differences and on tax losses were recorded in the accounts for the amounts whose future recovery was considered probable, on the basis of forecast assessable income for the 2017-2019 period within the Industrial Plan approved by the Board of Directors of Avio S.p.A. on January 19, 2017, as well as based on a projection of these forecasts over a subsequent time horizon considered representative of the life cycle of the business.

This time period considered representative of the life cycle of the business was estimated also taking into account the meeting with the Ministers of the Member Countries of ESA held in December 2014, which resulted in the signing in August 2015 of agreements with ESA relating to the development of the new Ariane 6 launcher and the evolution of the VEGA launcher within the VEGA C programme which provides for the development and construction of the new "P120" motor, and the meeting of the Ministers of the Member Countries of ESA held on December 1, 2016 and on December 2, 2016 which confirmed the above-mentioned development programmes and gave the go ahead for the long-term development programme of the motor and of the Upper Stage of the Vega E, or rather the next step in the evolution of the Vega launcher.

As described previously, on March 31 the acquisition was completed by Space2 of the Avio Group and on April 10 the subsequent merger of Avio S.p.A. into Space2, with the consequent listing on the same date of Space2 (renamed Avio S.p.A.) on the STAR segment of the MTA Market of the Italian Stock Exchange.

The incorporated company Avio S.p.A. includes the majority of the temporary differences which gave rise to the deferred tax assets recorded in the accounts, among which the future tax deductibility within Avio S.p.A. of the goodwill amortisation relating to the "Aviation" business unit and on the financial charges exceeding 30% of gross operating profit, as well as tax losses carried forward.

Pursuant to Article 172 of the CFA, the merger represents a neutral fiscal operation for direct income tax purposes. However, the carry forward of financial charges not deducted and tax losses, as well as the continuation of the tax consolidation regime already in force, are subject to compliance with certain conditions.

In general, these financial charges and tax losses may be fully carried forward following the merger, subject to compliance with equity limits and "continuity" requirements as per Article 172, seventh paragraph of the CFA, or - in the case of non-compliance with these conditions – the acceptance of a tax ruling request to the Tax Office to disqualify the provisions pursuant to Article 11, second paragraph of Law No. 212 of July 27, 2000.

Therefore a tax ruling request was presented to the Tax office. Taking into consideration the specific features of the merger operation under consideration, and also based on the opinion received from the tax consultants by Avio S.p.A., we consider that the ruling may be considered favourably by the Tax Office based on the reasonableness of the future recoverability of these tax assets.

For indirect tax purposes, the merger is excluded from the application of VAT, pursuant to Article 2, third paragraph, letter f) of Presidential Decree No. 633/1972 and is subject to a fixed amount of registration tax as per Article 4, letter b), first part, of the Tariffs attached to Presidential Decree No. 131/1986.

Deferred taxes of the previous Avio Group included, with reference to the last consolidated financial statements of this latter, at December 31, 2016, also deferred tax liabilities, amounting to approx. Euro 25 million, deriving from goodwill tax amortisation relating to the "Space" business recorded in the accounts before the acquisition by Space2. Following this latter operation on March 31 and the consequent treatment in accordance with IFRS 3, this goodwill was eliminated, resulting in the simultaneous elimination at the acquisition date of March 31 of the above-mentioned deferred tax liabilities and the consequent increase in the net deferred tax assets.

3.8. OTHER NON-CURRENT ASSETS

The table below illustrates other non-current assets at June 30, 2017 and March 31, 2017, acquisition date of the Group by Space2 (Euro thousands). With reference to the comparative period at December 31, 2016, the incorporating company Space2 did not record other non-current assets.

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Other non-current assets	65,240	67,502	0
	65,240	**67,502**	**-**

The breakdown of the account at the reporting date was as follows (Euro thousands):

	30/06/2017
Receivables from the General Electric Group	58,220
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	6,644
Other non-current receivables	15
Guarantee deposits	361
Total	**65,240**

"Receivables from the General Electric Group", amounting to Euro 58,220 thousand, refer entirely to the receivable recorded simultaneous to the recognition under non-current liabilities of a payable to the Tax Authorities for a similar amount, following the assessment notice received in July 2016 from the Tax Agency relating to registration, mortgage and land tax for the above-mentioned amount, based on the corporate operations which in 2013 resulted in the sale of the company GE Avio S.r.l. (containing the assets of the AeroEngine sector of the Avio Group) to the General Electric Group.

The recognition of the above-mentioned receivable from the General Electric Group is based on specific contractual clauses in which this latter must indemnify Avio S.p.A. with reference to any liabilities which should arise in relation to indirect taxes concerning the above-mentioned operations in 2013, providing Avio S.p.A. the sums requested by the Tax Office within the time period for the payments.

For further information, reference should be made to Note "3.23. Other non-current liabilities" and to the section "Legal and tax disputes and contingent liabilities" in the Explanatory Notes.

"Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85", amounting to Euro 6,644 thousand (corresponding to a nominal value of Euro 7,008 thousand), refers to the discounted value of the non-current portion of the sums granted at June 30, 2017, on the basis of the approval by the Interministerial Committee for the Economic Programming of Resolution No. 28 of March 22, 2006 enacting directives for the aerospace sector, of the Economic Development Ministry for projects qualified as functional to national security or projects of common European interest, whose payment is deferred over a time period of ten years.

These receivables are recorded in the accounts at the value resulting from the application of the amortised cost method, calculated utilising the effective interest rate, and are increased due to the effect of the accumulated amortisation of the difference between the initial value and the actual cash amounts and booked in the accounts under "Financial income". The receivables are initially recorded as counter-entry under "Other non-current liabilities" (Note 3.23).

The amounts to be received within 12 months are classified under "Other current assets" (Note 3.15).

CURRENT ASSETS

3.9. INVENTORIES

The table below illustrates inventories at June 30, 2017 and March 31, 2017, acquisition date of the Group by Space2 (Euro thousands). With reference to the comparative period at December 31, 2016, the incorporating company Space2 did not record inventories.

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Inventories	127,268	131,161	0
	127,268	**131,161**	**-**

The total value of inventories at June 30, 2017 amounts to Euro 127,268 thousand; the breakdown of the account is shown in the table below (Euro thousands):

	30/06/2017		
	Gross value	Write-down provision	Net Value
Raw material, ancillaries and consumables	48,999	(3,281)	45,718
Products in work-in-progress	5,766	(424)	5,342
Finished products	8,250	(4)	8,247
Advances	67,962	-	67,962
	130,977	**(3,709)**	**127,268**

Finished products also include land owned by the subsidiary Secosvim, amounting to Euro 8,243 thousand, which is expected to be sold during the normal operational activities of this subsidiary. Advances include the sums paid to suppliers in advance of the execution of the relative supplies based on conditions established in the purchase contracts.

3.10. CONTRACT WORK-IN-PROGRESS

Work-in-progress is recorded under assets in the Balance Sheet where, on the basis of an analysis undertaken by single contract, the gross value of the work-in-progress is higher than the advances received from customers or otherwise the amount is recorded under liabilities.

The table below shows a comparison between the balance of contract work-in-progress net of advances received at June 30, 2017 and March 31, 2017, acquisition date of the Group by Space2 (Euro thousands). With reference to the comparative period at December 31, 2016 the incorporating company Space2 did not record work-in-progress.

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Work-in-progress net of advances received	(101,954)	(120,997)	0
	(101,954)	**(120,997)**	**-**

The total amount of the gross contract work-in-progress and advances received from customers is shown below (Euro thousands):

	30/06/2017
Contract work-in-progress	150,176
Advances for contract work-in-progress	(252,131)
Net total	**(101,954)**

The table below summarises the contract work-in-progress where the gross value is higher than the advances and therefore recorded under assets in the Balance Sheet (Euro thousands):

	30/06/2017
Contract work-in-progress (gross)	1,082,357
Advances for contract work-in-progress (gross)	(932,181)
Contract work-in-progress (net)	**150,176**

The table below summarises the contract work-in-progress where the gross value is lower than the advances and therefore recorded under liabilities in the Balance Sheet (Euro thousands):

	30/06/2017
Contract work-in-progress (gross)	487,725
Advances for contract work-in-progress (gross)	(739,855)
Advances for contract work-in-progress (net)	**(252,131)**

3.11. TRADE RECEIVABLES

The table below illustrates trade receivables at June 30, 2017 and March 31, 2017, acquisition date of the Group by Space2 (Euro thousands). With reference to the comparative period at December 31, 2016 the incorporating company Space2 did not record trade receivables.

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Trade receivables	5,789	6,730	0
	5,789	**6,730**	**-**

The breakdown of trade receivables due within one year at the reporting date are shown below (Euro thousands):

	30/06/2017
Receivables from third parties	4,866
Receivables from non-consolidated subsidiaries	237
Receivables from associates and jointly controlled companies	686
	5,789
Receivables from associates and jointly controlled companies beyond one year	672
	672
Total	**6,461**

Receivables from associates and jointly controlled companies beyond one year, amounting to Euro 672 thousand, are classified under "Other non-current assets".

The nominal value of receivables was adjusted by a doubtful debt provision in order to reflect their fair value.

Receivables from third parties

The breakdown of the account is shown below (Euro thousands):

	30/06/2017
Gross value	5,349
less: doubtful debt provision	(483)
Total	**4,866**

The principal receivables are due from Airbus Safran Launchers, Arianespace, ESA – European Space Agency and the Italian Space Agency.

There are no receivables from third parties due beyond one year.

Receivables from associates, jointly controlled companies and non-consolidated subsidiaries

The breakdown of the account is shown in the table below (Euro thousands):

	30/06/2017
Europropulsion S.A.	286
Servizi Colleferro S.C.p.A.	237
Portable Water Services Consortium	290
Termica Colleferro S.p.A. due within one year	110
	923
Termica Colleferro S.p.A. due beyond one year	672
	672
Total	**1,595**

Europropulsion is a jointly controlled company; the company Servizi Colleferro S.C.p.A. is a non-consolidated subsidiary; the Potable Water Services Consortium and Termica Colleferro S.p.A. are associated companies.

3.12. CURRENT FINANCIAL ASSETS

The table below illustrates other current financial assets at June 30, 2017, March 31, 2017 (acquisition date of the Group by Space2) and December 31, 2016 (Euro thousands).

Current financial assets at June 30, 2017 amounted to Euro 28,951 thousand as shown in the table below:

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Savings Bonds	28,951		183,590
Escrow Bank Deposits			120,575
Other current financial assets		1	
Total	**28,951**	**1**	**304,165**

"Current financial assets" at December 31, 2016 related to part of the funds received from the offer undertaken by the SPAC Space2 through the listing on the Professional Segment of the Stock Market for Investment Vehicles (MIV) organised and managed by Borsa Italiana S.p.A. concluded on July 28, 2015. With this listing - and the objective to source the funding necessary to undertake the subsequent acquisition with a target company/group - 30 million ordinary shares were placed with qualified Italian investors and international institutional investors at a set price of Euro 10 per share, for a total value of Euro 300 million.

During the period, financial assets reported a decrease of Euro 275 million and at June 30, 2017 amounted to Euro 28,951 thousand. This decrease is due to the corporate operations from the spin-off of Space2 and the acquisition of the Avio Group, specifically:

- financial assets for approx. Euro 153 million were transferred - following the partial proportional spin-off effective as of April 5, 2017 - to the beneficiary company Space3 S.p.A. (this latter company also a SPAC similar to Space2, was not included in the acquisition operation of the Avio Group);

- financial assets for approx. Euro 85 million were invested in the acquisition of the Avio Group, completed on March 31, 2017;
- financial assets for approx. Euro 37 million were divested and classified under cash and cash equivalents.

The table below shows the information and conditions of the investments held at June 30, 2017 represented by “Savings Bonds”, amounting to Euro 28,951 thousand:

No. securities	Total Nominal Value	Annual interest rate on maturity	Annual interest rate for early release	Maturity of the investment	Type of management
10	25,000,000	0.83%	0.75%	04/08/2017	Through trustee SPAFID S.P.A.
3	3,000,000	0.83%	0.75%	03/08/2017	Direct
1	500,000	0.78%	0.70%	07/08/2017	Direct
14	**28,500,000**				

3.13. CASH AND CASH EQUIVALENTS

The table below illustrates cash and cash equivalents at June 30, 2017, March 31, 2017 (acquisition date of the Group by Space2) and December 31,2016 (Euro thousands).

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Cash and cash equivalents	63,375	111,585	445
Total	**63,375**	**111,585**	**445**

Reference should be made to the Cash Flow Statement for a better understanding of the increase of approx. Euro 63 million of cash and cash equivalents between the standalone Space2 S.p.A. at December 31, 2016 and of the Avio Group at June 30, 2017, due to the acquisition operation of the Group and the consequent consolidation at March 31.

3.14. CURRENT TAX RECEIVABLES

The table below illustrates current tax receivables at June 30, 2017, March 31, 2017 (acquisition date of the Group by Space2) and December 31,2016 (Euro thousands).

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Tax receivables	41,659	34,902	1,014
Total	**41,659**	**34,902**	**1,014**

The breakdown of the account is as follows (Euro thousands):

	30/06/2017
VAT receivables	36,998
Income tax receivables	4,433
EU VAT receivables	228
Total	**41,659**

VAT receivables, for Euro 36,998 thousand, include:

- Euro 14,732 thousand, relating to VAT reimbursement request to the Tax Authorities. Compared to December 31, 2016 of the previous Avio Group, with reference to the VAT reimbursement request this amount was offset with the tax risk provision for Euro 887 thousand, following the settlement of the VAT tax dispute for the 2007 income tax period - reference should be made to the paragraph "Legal and tax disputes and contingent liabilities" - through a settlement agreement with the Tax Agency on April 26, 2017 (reference should also be made to paragraph "3.22 Provision for risks and charges");
- Euro 22,265 thousand, mainly relating to VAT receivables of Avio S.p.A. In relation to the VAT receivable, in particular concerning Avio S.p.A., at the end of December 2016 the company received a positive response from a ruling request presented to the Tax Agency during 2016; based on this ruling the Company, with reference to the development activities undertaken on behalf of the subsidiary ELV S.p.A. with the final customer ESA - European Space Agency, issues invoices from the beginning of 2017 to ELV without VAT, with simultaneous creation of a ceiling which may be utilised with its suppliers from 2018, these latter issuing invoices without VAT from that year. The final outcome of this ruling, limited to the significant development phase, is expected to result in the probable non-generation of further VAT receivables in Avio, from 2018.

The income tax receivable mainly relates to the residual balance of the IRAP receivable (Euro 1,616 thousand) against payments on account higher than the actual tax charge for the year 2014; during the period this receivable was offset for Euro 700 thousand.

Current tax receivables recorded in the comparative accounts at December 31, 2016 of the incorporating company Space2, amounting to Euro 1,014 thousand, related to the VAT receivable matured at that date, amounting to Euro 791 thousand, and the credit for withholding taxes on bank interest and IRES corporation income tax offset amounting to Euro 223 thousand.

3.15. OTHER CURRENT ASSETS

The table below illustrates other current assets at June 30, 2017, March 31, 2017 (acquisition date of the Group by Space2) and December 31,2016 (Euro thousands).

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Other current assets	10,444	6,455	108
Total	**10,444**	**6,455**	**108**

The breakdown of the account at June 30, 2017 is shown in the table below (Euro thousands):

	30/06/2017
Social security institutions	760
Employee receivables	1,115
Economic Development Ministry for disbursements pursuant to Law 808/85	4,840
Receivables for public grants	880
Other receivables from non-consolidated subsidiaries	-
- *Servizi Colleferro S.C.p.A.*	251
Other debtors	1,078
Doubtful debt provision - other debtors	(150)
Prepayments and accrued income	1,671
Total	**10,444**

Receivables from the "Economic Development Ministry for disbursements pursuant to Law 808/85" refer to the discounted value (corresponding to a nominal value of Euro 4,914 thousand at June 30, 2017), of the sums to be disbursed by the Economic Development Ministry for projects qualifying as functional to national security or projects with common European interest, subsequent to the approval by the Interministerial Committee for the Economic Programming of Resolution No. 28 of March 22, 2006 enacting directives for the aerospace sector, which will be received in the next year. The portion which will be received beyond 12 months is classified in the account "Other non-current assets" (Note 3.8).

"Receivables for public grants", amounting to Euro 880 thousand, relates to the grants pursuant to the enacted Law No. 644 of November 22, 1994, of the Decree-Law No. 547 of September 23, 1994 concerning: "Urgent economic interventions"; in January 2017 the verifications were completed on the eligible costs for these grants, relating to the years 1994-2000, 2002-2004 and 2005-2007, by the Interministerial Commission set up for this purpose, and we therefore await conclusion of the administration procedures for the collection of this receivable.

"Other current assets" recorded in the comparative accounts at December 31, 2016 of the incorporating company Space2, amounting to Euro 108 thousand, mainly concerned the consultancy services provided by the promotor of the SPAC Space2 - Space Holding S.r.l., in accordance with the consultancy service contract signed on July 7, 2015, both for the research and selection of the target company with whom the acquisition operation will be undertaken and, once such a target has been identified, the analysis, assessment of the structure and negotiations with the counterparty. The above-mentioned service contract, with the completion in April 2017 of the acquisition operation of the Avio Group by Space2, is no longer in force.

EQUITY

3.16. SHARE CAPITAL

The share capital of the parent company amounts to Euro 90,761,670 at June 30, 2017; the share capital is entirely subscribed and paid-in.

This share capital derives from the aggregation:

- of Euro 15,422,500, equal to the share capital of the company Space2 S.p.A., following the partial proportional spin-off effective as of April 5, 2017, with beneficiary the new SPAC Space3 S.p.A. (this latter company not included in the acquisition operation of the Avio Group). The company Space2 was then merged by incorporation Avio S.p.A. effective as of April 10, 2017 and renamed "Avio S.p.A.";
- of Euro 75,339,170, equal to the share capital increase to service the share swap of the above-mentioned merger, following which shares were assigned of the incorporating company Space2 to Leonardo S.p.A. and In Orbit S.p.A..

The share capital at June 30 amounted to Euro 90,761,670 and was divided into 24,333,917 ordinary shares, of which 1,170,000 following the conversion on May 17, 2017 of 260,000 special shares. For further information, reference should be made to the section "Significant events in the half-year" of the Directors' Report.

With reference to the comparative period of December 31, 2016, the share capital of Space2 S.p.A. (now Avio S.p.A.) was Euro 30,845,000. As described above, following the spin-off to the beneficiary Space3, this share capital was reduced to Euro 15,422,500.

We also provide an extract providing disclosure of a legacy nature in relation to the events concerning the share capital of Space2 S.p.A. (now Avio S.p.A.) up to December 31, 2016:

- the company Space2 S.p.A. at the incorporation date (May 28, 2015) had a share capital of Euro 50,000, comprising 5,000 ordinary shares, without nominal value, issued at an implied par value of Euro 10;

- on June 17, 2015, the Extraordinary Shareholders' Meeting, with the commencement of trading of the ordinary shares of the Company on the MIV, approved the conversion of all 5,000 ordinary shares into a similar number of special shares.
  In addition, the above-mentioned Shareholders' Meeting approved the paid-in share capital increase for a maximum amount, including share premium, of Euro 300,000,000, through the issue of a maximum of 30,000,000 ordinary shares. The subscription price of each ordinary share was Euro 10, with Euro 1 as the implied par value and Euro 9 as share premium;

- also on June 17, 2015, the Shareholders' Meeting in extraordinary session, approved the paid-in share capital increase relating to Space Holding S.r.l. (promoter of Space2), for a total amount including share premium of a maximum Euro 6,950,000, through the issue of a maximum 695,000 special shares. The subscription price of each special share paid-in of Euro 10 was allocated with Euro 1 as the implied par value and Euro 9 as the share premium.
  Finally, the Shareholders' Meeting approved the divisible paid-in share capital increase for a maximum amount, including share premium, of Euro 18,200,000, to be reserved for the exercise of 1,400,000 Space2 S.p.A. Sponsor Warrants, through the issue of a maximum 1,400,000 ordinary shares, without nominal value, at a price of Euro 13, through the allocation of Euro 1 as the implied par value and Euro 12 as the share premium.

- on July 7, 2015, the Shareholders' Meeting approved, supplementing that approved at the Shareholders' Meeting of June 17, 2015, an additional share capital increase for Space Holding of Euro 1,000,000 (of which Euro 100,000 as the implied par value and Euro 900,000 as the share premium). The above-mentioned Shareholders' Meeting also approved the increase in the sponsor warrant share capital of Euro 2,600,000 (of which Euro 200,000 as the implied par value and Euro 2,400,000 as the share premium).

- at December 31, 2016 the share capital, unchanged on December 31, 2015, amounted to Euro 30,845,000, fully subscribed and paid-in, represented by 30,800,000 shares, of which 30,000,000 ordinary shares and 800,000 special shares.

3.17. SHARE PREMIUM RESERVE

The share premium reserve at June 30, 2017 amounted to Euro 163,897 thousand. Compared to the previous year (Euro 277,155 thousand) the account increased Euro 25,615 thousand for the difference between the fair value of the shares issued to service the merger and their "nominal" value and reduced Euro 138,873 thousand due to the spin-off to Space3 S.p.A..

3.18. OTHER RESERVES

The breakdown of other reserves is as follows (Euro thousands):

	30/06/2017
Cash flow hedge reserve	(59)
Actuarial gains/(losses) reserve	(3,232)
2015 share capital increase reserve	(1,456)
Legal reserve	8
Total	**(4,740)**

Other reserves, amounting to a negative Euro 4,740 thousand at June 30, 2017, comprise, in addition to the Legal reserve:

- for Euro 3,232 thousand the actuarial gains and losses deriving from the application of IAS 19 revised, with the relative tax effect where applicable;
- for Euro 59 thousand the effect from the mark-to-market valuation at June 30, 2017 of the interest rate swaps (IRS) signed on June 30, 2015 to hedge the interest rate volatility on the Senior Term and Revolving Facilities Agreement signed on April 1, 2015;
- for Euro 1,456 thousand the costs of the share capital increase in 2015 in the SPAC Space2.

3.19. NON-CONTROLLING INTERESTS

Non-controlling interests relate to the share of the equity in companies consolidated under the line-by-line method and the breakdown is illustrated below (Euro thousands):

	30/06/2017			
Consolidated companies	% Non-controlling interests	Capital and reserves	Profit/(loss)	Equity non-controlling Interests
ELV S.p.A.	30.00%	1,916	(380)	1,537
Regulus S.A.	40.00%	4,562	206	4,768
		6,478	**(174)**	**6,305**

NON-CURRENT LIABILITIES

3.20. NON-CURRENT FINANCIAL LIABILIITES

The Avio Group did not have non-current financial liabilities at June 30, 2017 and March 31, 2017. At December 31, 2016, the incorporating company Space2 did not have financial liabilities or payables.
Reference should be made to paragraph "3.24 Current financial liabilities".

3.21. EMPLOYEE BENEFIT PROVISIONS

The account relates to post-employment benefits and other long-term benefits.
The means for accruing these benefits varies according to the legal, fiscal and economic conditions of each State in which the Group operates. These benefits are generally based on remuneration and years of employee service. The obligations refer to employees in service.

Post-employment benefits

Group companies guarantee post-employment benefits for employees both through contributions to external funds and through defined benefit plans.

Defined contribution plans
In the case of defined contribution plans, the Group pays the contributions to public or private insurance institutions based on legal or contractual obligations. With the payment of contributions the companies fulfill their obligations. The payables for contributions to be paid at the reporting date are included in the account "Other current liabilities" and the cost for the period matures based on the service period of the employee and recorded in the income statement account "Personnel expenses".

Defined benefit plans
Defined benefit plans are represented by unfunded plans, principally provided by third party funds, present in the Italian companies of the Group, of the leaving indemnity provision and of the special loyalty bonus indemnity, payable on departure to the employees which have matured the required number of years' service. The value of the liabilities recorded in the accounts for these institutions is calculated on an actuarial basis, utilising the projected unit credit method.

The leaving indemnity provision relates to the obligation for the amount to be paid to employees on the termination of employment, pursuant to the provisions of Article 2120 of the Civil Code. The regulations of this provision were modified by the 2007 Finance Act and subsequent Decrees and Regulations. Specifically, for the companies with an average number of employees not lower than fifty, the portion of leaving indemnity matured subsequent to January 1, 2007 is, on the choice of the employee, either transferred to a complementary pension fund or to the INPS treasury fund. Consequently, for the companies of the Group with a number of employees not below fifty, the portion of the employee leaving indemnity matured subsequent to this date is treated as a defined contribution plan, as the obligation of the Group is represented exclusively by the payment to the complimentary pension fund or to INPS, while the liability existing at December 31, 2006 continues to be treated as a defined benefit plan to be valued in accordance with actuarial methods. For the companies of the Group with a number of employees below fifty, the portion matured in the year continues to be accrued to the company leaving indemnity provision, unless specific choices are made voluntary by the individual employees.

Other long-term employee benefits

The Group also recognises to employees other long-term benefits issued on the reaching of a fixed number of years of service. In this instance, the value of the obligation recognised to the financial statements reflects the probability that the payment will be issued and the duration for which payment will be made. The value of these liabilities recorded in the accounts are calculated on an actuarial basis, utilising the "projected unit credit" method.
The Group mainly has "unfunded" defined benefit plans, principally comprising the leaving indemnity provision of the Italian companies.

The table below illustrates employee benefit provisions at June 30, 2017, March 31, 2017 (acquisition date of the Group by Space2) and December 31,2016 (Euro thousands). At December 31, 2016 the incorporating company Space2 did not have any employees.

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
- Defined benefit plans:			
Employee leaving indemnity	5,558	5,577	0
Other defined benefit plans	2,353	2,364	0
	7,911	7,941	0
- Other long-term benefits	2,903	2,901	0
Total employee benefit provisions	**10,814**	**10,842**	**0**
of which:			
- Italy	9,569	9,747	0
- other countries	1,245	1,095	0
	10,814	**10,842**	**0**

The table below shows the principal changes in the employee benefit provisions from March 31, 2017, date of the business combination, to June 30, 2017 (Euro thousands):

	Defined benefit plans	Other long-term benefits	Total employee benefit provisions
Balances from business combination at 31/03/2017	**7,941**	**2,901**	**10,842**
Financial charges/(income)	(5)	(1)	(6)
Extraordinary charges/(income) from actuarial adjustment	176	(153)	23
Actuarial (gains)/losses in income statement		19	19
Actuarial (gains)/losses in comprehensive income statement	(35)		(35)
Pension cost current employees	17	178	195
Benefits paid	(183)	(41)	(224)
Balance at 30/06/2017	**7,911**	**2,903**	**10,814**

The table below illustrates the principal assumptions utilised for the actuarial calculation at the reporting date:

	30/06/2017
Discount rate	0.67%
Expected salary increases	2.10%
Inflation rate	1.50%
Average employee turnover rate	4.78%

Securities issued by corporate issuers with "AA" ratings were utilised for the calculation of the present value, with the presumption that this class identifies a high rating level within a range of "Investment Grade" securities and therefore excluding more risky securities. The market curve utilised was a "Composite" curve which reflects the market conditions at the valuation date for securities issued by companies belonging to various sectors (including Utility, Telephone, Financial, Bank and Industrial). In relation to the geographical area, reference was made to the Eurozone.

3.22. PROVISIONS FOR RISKS AND CHARGES

The table below illustrates provisions for risks and charges at June 30, 2017, March 31, 2017 (acquisition date of the Group by Space2) and December 31,2016 (Euro thousands). At December 31, 2016 the incorporating company Space2 did not have any provisions for risks and charges.

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Provisions for risks and charges	13,930	22,785	-
Total	**13,930**	**22,785**	**-**

The breakdown of the Provision for risks and charges at June 30, 2017 at the reporting date is shown below (Euro thousands):

	Current portion	Non-current portion	Total
Provision for variable remuneration	3,087		3,087
Provision for personnel charges and organisational restructuring	347		347
Provision for legal and environmental risks and charges	1,979	4,414	6,393
Provision for contractual and commercial risks and charges		1,625	1,625
Provision for tax risks	2,477		2,477
Total	**7,890**	**6,039**	**13,930**

These provisions include:

- provisions for variable remuneration for Euro 3.1 million, mainly comprising employee remuneration on the achievement of individual and corporate objectives;
- provisions for personnel charges and organisational restructuring, including social security charges, post-employment benefit supplementation, other costs related to mobility procedures facilitating early retirement, amount to Euro 347 thousand;
- provisions for legal and environmental risks and charges, against litigation and trade union disputes in course, amount to Euro 6.4 million;
- provisions for contractual and commercial risks and charges, mainly related to the provisions to cover pending commercial disputes, penalties, charges and losses deriving from the conclusion of contracts in course, in addition to charges for rights pursuant to the provisions of Law 808/85 (regulation post 2006), amount to Euro 1.6 million;
- provisions for tax risks, amounting to Euro 2.5 million, mainly relating to the provision accrued against possible negative outcomes from tax audits conducted on the Company, also following tax assessments received.

With reference to the environmental charges, FCA Partecipazioni is required to indemnify Avio, in accordance with the “Agreement of Purchase and Sale” contract signed in 2003, relating to the environmental charges incurred by Avio. This guarantee until April 2017 was activated on a number of occasions and was always adequately complied with while in June 2017 FCA Partecipazioni communicated that they considered that the contractual obligations outlined above were no longer applicable due to the Space2/Avio corporate operation in the first half of the year. Taking into account these events, in July 2017 Avio requested an arbitration with FCA Partecipazioni in order to determine the continuance of the above-mentioned contractual obligation. Currently - also according to the legal advisors of the Company – no elements exist that impact the agreement in place and therefore the estimate of the environmental charges in relation to this issue was not modified in the present accounts.

The changes from March 31, 2017, date of the business combination, to June 30, 2017 in the total provisions, current and non-current portion, are illustrated in the table below (Euro thousands):

	Balances of the Avio Group at the business combination date 31/03/2017	Provisions	Utilisations	Releases	30/06/2017
Provision for variable remuneration	10,245	2,013	(8,721)	(450)	3,087
Provision for personnel charges and organisational restructuring	356		(8)		347
Provision for legal and environmental risks and charges	6,501		(108)		6,393
Provision for contractual and commercial risks and charges	2,125		(500)		1,625
Provision for tax risks	3,558	6	(887)	(200)	2,477
Total	**22,785**	**2,019**	**(10,224)**	**(650)**	**13,930**

The principal changes between March 31, 2017 and June 30, 2017 are shown:

- the provision for variable remuneration was utilised for Euro 8.7 million in consideration of the amounts paid to employees as bonuses related to the achievement of individual and company objectives (Euro 4.3 million) and payments made relating to the incentive plans for the successful outcome of the Space2-Avio operation (Euro 4.4 million). The provision of Euro 2 million mainly relates for Euro 1.8 million to variable remuneration which will be paid at the beginning of 2018, on the basis of the achievement of individual and company objectives for the year 2017;
- the provision for tax risks decreased mainly due to the utilisation for Euro 887 thousand, following the settlement of the VAT tax dispute for the 2007 income tax period - reference should be made to the paragraph "Legal and tax disputes and contingent liabilities" - through a settlement agreement with the Tax Agency on April 26, 2017. This settlement permitted the offsetting of the above-mentioned amount with the corresponding part of the VAT reimbursement request of the parent company Avio S.p.A..

3.23. OTHER NON-CURRENT LIABILITIES

The table below illustrates other non-current liabilities at June 30, 2017, March 31, 2017 (acquisition date of the Group by Space2) and December 31,2016 (Euro thousands). At December 31, 2016 the incorporating company Space2 did not have any other non-current liabilities.

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Other non-current liabilities	116,517	117,734	-
Total	**116,517**	**117,734**	**-**

The breakdown of the account at June 30, 2017 is shown in the table below (Euro thousands):

	30/06/2017
Payables to the Tax Authorities for registration, mortgage and land tax relating to the corporate operations which in 2013 resulted in the sale of the company GE Avio S.r.l. (containing the assets of the AeroEngine sector of the Avio Group) to the General Electric Group.	58,220
Payables to the Economic Development Ministry for disbursements pursuant to Law 808/85 - portion beyond one year	42,051
Deferred income on disbursements pursuant to Law 808/85 - beyond one year	15,385
Deferred income on tax credit for research and development activities -beyond one year	639
Deferred income on operating grants	222
Total	**116,517**

Payables to the Tax Authorities for registration, mortgage and land tax relating to the corporate operations which in 2013 resulted in the sale of the company GE Avio S.r.l. (containing the assets of the AeroEngine sector of the Avio Group) to the General Electric Group.

The account, amounting to Euro 58,220 thousand, refers entirely to the settlement notice received in July 2016 from the Tax Agency relating to registration, mortgage and land tax for the above-mentioned amount, relating to the corporate operations which in 2013 resulted in the sale of the company GE Avio S.r.l. (containing the assets of the AeroEngine sector of the Avio Group) to the General Electric Group. Simultaneously a receivable was recorded from the General Electric Group for a similar amount.
The recognition of the above-mentioned receivable from the General Electric Group is based on specific contractual clauses in which this latter is required to indemnify Avio S.p.A. with reference to any liabilities which should arise in relation to indirect taxes concerning the above-mentioned operations, providing Avio S.p.A. the sums requested by the Tax Office within the time period for the payments.
For further information, reference should be made to Note "3.8. Other non-current liabilities" and to the section "Legal and tax disputes and contingent liabilities" in the Explanatory Notes.

Payables to the Economic Development Ministry for disbursements pursuant to Law 808/85 - portion beyond one year

This account (Euro 42,051 thousand) comprises the payables to the Economic Development Ministry relating to the disbursements, received pursuant to Law 808/85 and subsequent modifications and supplementations, undertaken for the promotion of research and development activities, including studies, tests and design relating to new programmes and other activities, in the aerospace industry. These sums are non-interest bearing and must be reimbursed in the period in which the revenues are generated from the programmes to which they refer. The payables are recorded at their nominal value.

This payable concerning the grants as per Law 808/85 is subject to the relative provisions valid up to 2006.
In 2006 the enacting regulations of Law 808/85 were modified. In particular, a specific regulation was defined for the programmes subject to intervention by Law 808/85 considered as functional to national security or projects of common European interest, which provide for, in place of the restitution of the disbursements granted, the payment of rights relating to the sale of the products developed within the programmes. For the programmes not within the above-mentioned category, the obligation remains for the restitution without payment of interest.
It is considered, following detailed analysis undertaken also with the assistance of primary legal firms and as communicated to the Economic Development Ministry in previous years, that this new regulation is not applicable to the interventions undertaken prior to the adoption of Resolution No. 28/2006 of the Interministerial Committee for Economic Programming, in relation to the specific situation of the programmes subject to the interventions, and therefore, as during 2017 there were no mandatory changes to the regulations in force, there were no changes in the criteria utilised to-date in the recognition in the accounts of the disbursements in question.

Deferred income on disbursements pursuant to Law 808/85 - beyond one year

The account, amounting to Euro 15,385 thousand, represents the initial counter-entry of the receivable from the Economic Development Ministry against the grants pursuant to Law 808/85, relating to the projects qualifying as functional to national security or projects with common European interest, for the amount to be allocated to the income statement in future years, beyond one year, in correlation to the allocation of the costs against which the disbursements were granted.

Deferred income on tax credit for research and development activities - beyond one year

The account (Euro 639 thousand) represents the counter-entry of the part of the tax credit accounted pursuant to Law 296/2007 (2007 Finance Law) and subsequently amended by Legislative Decree No. 185/2008 converted into Law 2/2009, to be allocated to the income statement in future years, beyond one year, in consideration of the different types of costs subject to the subsidy, based on the level of research and development costs incurred against which the tax credit was determined and the recognition of revenues relating to contract work-in-progress, which contributed to the research and development costs.

CURRENT LIABILITIES

3.24. CURRENT FINANCIAL LIABILITIES

The table below illustrates current financial liabilities at June 30, 2017, March 31, 2017 (acquisition date of the Group by Space2) and December 31,2016 (Euro thousands). At December 31, 2016 the incorporating company Space2 did not have financial payables.

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Current financial liabilities	29,309	29,923	-
Total	**29,309**	**29,923**	**-**

The breakdown of the account at June 30, 2017 is shown in the table below (Euro thousands):

	30/06/2017
Financial payables to related parties	29,249
Fair value of derivative instruments on interest rates	59
Total	**29,309**

Financial liabilities relating to derivative instruments report the fair value of the interest swaps (IRS) signed in order to hedge the variable interest rate risk of the Senior Term and Revolving Facilities Agreement.
Payables to jointly controlled companies relate to the loan of Avio S.p.A. from Europropulsion S.A. as a consequence of the mechanism of distributing to its shareholders the financial resources available to the joint venture, in accordance with a specific treasury management contract.

3.25. CURRENT PORTION OF NON-CURRENT FINANCIAL PAYABLES

The table below illustrates the account "Current portion of non-current financial payables" at June 30, 2017, March 31, 2017 (acquisition date of the Group by Space2) and December 31, 2016 (Euro thousands). At December 31, 2016 the incorporating company Space2 did not have financial payables.

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Current financial liabilities	27,138	93,120	-
Total	**27,138**	**93,120**	**-**

The account relates to the "Senior Term and Revolving Facilities Agreement" signed on April 1, 2015 for an original Euro 130 million, including a revolving line of Euro 30 million.

The provisions of the original clauses of this loan were as follows:

- term credit line of Euro 100 million, in turn divided into two tranches:
  - the first, Euro 35 million, subject to a repayment plan over 6 years ("Term Loan A");
  - the second, Euro 65 million, to be repaid in a single amount after 7 years ("Term Loan B");
- credit line of Euro 30 million ("Revolving Facility") disbursable on a revolving cash basis to be repaid in any case in 6 years.
  The revolving line was never utilised.

The residual payables relating to the above-mentioned financing, amounting to Euro 27.1 million at June 30, 2017, are entirely recorded under current payables for the reasons described below.

With reference to the operations completed in April 2017 for the acquisition of Avio S.p.A. by Space2, Leonardo and In Orbit and for the merger by incorporation into the former and simultaneous listing on the stock exchange, the "change of control" clauses within the above-mentioned financing contract provide that the relative credit lines must be repaid in advance where:

(A) the control (direct or indirect) of the Incorporated company (holding of more than 50% of the voting rights or the right to control the majority of the voting rights in an ordinary Shareholders' Meeting of the incorporated company or to appoint and dismiss the relative directors) is assumed by one or more parties, including acting in concert, other than the so-called related persons (intended within the Senior Term and Revolving Facilities Agreement as: Cinven Limited or Cinven funds (or other party controlled or managed by the afore-mentioned parties or other investors in these funds in which Cinven has voting agreements in relation to Avio), Leonardo, Safran, Airbus Group (Safran and Airbus where at the date of any change of control the relative rating is at least equal to BBB) and/or other parties controlled by parties of those above directly or indirectly through entirely held companies (including Airbus Safran Launchers Holding SAS, Airbus Safran Launchers SAS and Airbus Safran Launchers GmbH) and/or parties controlled by the Economic and Finance Ministry or by the Economic Development Ministry (including Cassa Depositi e Prestiti S.p.A. and A.S.I. - Space Agency) and/or the ESA European Space Agency, directly or indirectly through entirely held companies);

(B) a lien is created on more than 20% of the shares of the Incorporated company or on any of the shares of the Incorporated company held by funds managed by Cinven Limited; or

(C) all or substantially of all of the assets of the Group are sold (in this case meaning the Incorporated company and its subsidiaries).

Pursuant to the Senior Term and Revolving Facilities Agreement the acquisition by Space2, Leonardo and In Orbit *ex se* comprises an assumed change of control (due to the transfer of 85.68% of the share capital of Avio, as per the terms and conditions within the acquisition contract). In the same manner, as per the Senior Term and Revolving Facilities Agreement, the merger comprises a prohibited operation, except where approved by the bank syndicate.

On November 29, 2016, therefore, the incorporated company Avio S.p.A. communicated to Banca IMI, as agent bank of the banking syndicate, a waiver request in relation to the above-mentioned acquisition operation, in which the bank agent was requested to verify the possibility of agreement within the banking syndicate to the concession of the waiver of the merger clause, which constitutes a default event, and to the change of control clause, which provides for, on occurrence, the immediate repayment of the outstanding amounts of the credit lines. Subject to these provisions, the incorporated company then requested the bank agent (also in consideration of the possibility of an appropriate period post conclusion of the Space2-Avio operation in order to analyse fully the financial needs of the company resulting from the merger) that the loan is repayable at the initial date between the completion of six months from the effective date of the merger and December 31, 2017, on condition that the Space2-Avio operation is completed by this date.

The acquisition operation of Avio and merger into Space2 and simultaneous listing of the company was concluded on April 10, 2017.

On December 30, 2016, Banca IMI S.p.A., as agent bank and therefore also on behalf of the bank syndicate, replied to the above-mentioned request confirming its agreement to the waivers in accordance with the terms requested by Avio S.p.A

Following the above-mentioned negotiations and conclusion of the merger operation and listing on April 10, 2017, the residual loan payable, entirely relating to Term Loan A and amounting to Euro 27,084 thousand, is classified under current payables and is expected to the repaid by October 10, 2017.

In relation to the decrease of the payable between March 31 and June 30, 2017, we highlight that, following the merger by incorporation of Avio into Space2, new financial resources were received, recorded in the accounts of the incorporating company, for Euro 65.6 million, which, on May 23, 2017, were utilised to repay in advance the residual payable relating to Term Loan B and which in contrast to Term Loan A was more onerous (Euribor + spread 4.5% against Euribor + spread 4%).

There is no secured guarantee on the loan which however provides for some limits in terms of investments, acquisitions, disposals, further loans (granted or received), as well as compliance with ("Financial covenants") in line with the long-term forecast of the Group, relating to:

- *Leverage Ratio;*
- *Interest Cover Ratio;*
- *Capital Expenditure.*

In addition, with reference to the above-mentioned residual loan, derivative contracts were undertaken to hedge the interest rate risk as described in paragraph "3.24 Current financial liabilities", and which are recorded under liabilities at fair value amounting to Euro 59 thousand.

3.26. TRADE PAYABLES

The table below illustrates trade payables at June 30, 2017, March 31, 2017 (acquisition date of the Group by Space2) and December 31,2016 (Euro thousands).

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Trade payables	89,997	74,407	581
Total	**89,997**	**74,407**	**581**

Trade payables of the Avio Group at June 30, 2017 amount to Euro 90.0 million; this amount includes, for Euro 17.3 million, trade payables to associated companies, jointly-controlled companies and non-consolidated subsidiaries as follows (Euro thousands):

	30/06/2017
Europropulsion S.A.	15,273
Termica Colleferro S.p.A.	1,681
Servizi Colleferro S.C.p.A.	327
Portable Water Services Consortium	100
Total	**17,281**

Europropulsion is a jointly-controlled company, Termica Colleferro and the Potable Water Services Consortium are associated companies, while Servizi Colleferro is a non-consolidated subsidiary.

Trade payables recorded in the comparative accounts at December 31, 2016 of the incorporating company Space2 amounted to Euro 581 thousand and mainly referred to costs relating to preparatory services for the acquisition operation of the Avio Group.

3.27. CURRENT INCOME TAX LIABILITIES

The table below illustrates current income tax liabilities at June 30, 2017, March 31, 2017 (acquisition date of the Group by Space2) and December 31,2016 (Euro thousands).

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Current income tax liabilities	944	2,751	88
Total	**944**	**2,751**	**88**

The breakdown of current income taxes is shown below (in Euro thousands):

	30/06/2017
Payables for withholding taxes	610
Payables for other taxes and duties	70
IRAP payables	44
Foreign income taxes	220
Total	**944**

Payables for withholding taxes refer to employee and consultant withholding taxes.

Payables for foreign taxes relate to the tax liabilities of the subsidiary Regulus S.A., operating in Kourou in French Guyana, a French overseas region and department in South America. The income taxes of this subsidiary are therefore governed by French tax legislation. Regulus S.A. is a global leader in the production of solid propellants and the loading of large space launcher rocket engines. The subsidiary is engaged in the loading of the solid propellant for the four segments of the Ariane 5 European launcher boosters and the motor of the first stage (named P80) of the Vega launcher. In addition, at the company’s facilities the propellant for the production of the new P120C motor which will be used both in the successor to Ariane 5 (Ariane 6) and the Vega developed version: the Vega C, whose first launch is forecast for 2019, will be developed and industrialised.

The IRAP payable relates to the subsidiary Secosvim S.r.l.

Taxes payable recorded in the comparative accounts at December 31, 2016 of the incorporating company Space2 amounted to Euro 88 thousand and related to withholding taxes on consultants.

3.28. OTHER CURRENT LIABILITIES

The table below illustrates other current liabilities at June 30, 2017, March 31, 2017 (acquisition date of the Group by Space2) and December 31,2016 (Euro thousands).

	30/06/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Current income tax liabilities	19,094	19,674	62
Total	**19,094**	**19,674**	**62**

Other current liabilities at June 30, 2017 were as follows (Euro thousands):

	30/06/2017
Customer advances for the supply of goods and services	3,140
Payables due to social security institutions	1,998
Employee payables	9,511
Other payables to third parties	1,596
Accrued liabilities & deferred income, of which:	
Deferred income on disbursements pursuant to Law 808/85 - current portion	1,120
Other accrued liabilities and deferred income	1,730
Total	**19,094**

Customer advances for the supply of goods and services

The account mainly relates to advances received from final customers against supplies for Euro 3,140 thousand.

Amounts due to social security institutions

The account concerns amounts to be paid, amounting to Euro 1,998 thousand, relating to company and employee contributions, in accordance with regulations in force.

Employee payables

Employee payables amount to Euro 9,511 thousand and include remuneration to be settled.

Other payables to third parties

"Other payables to third parties", amounting to Euro 1,554 thousand, mainly relate to the residual payables for consultancy and advisory services in relation to the stock market listing.

Accrued liabilities and deferred income

This account, amounting to Euro 2,850 thousand, principally refers to:

- deferred income from the grants received pursuant to Law 808/85 which will be allocated to the income statement over the next 12 months for Euro 1,120 thousand;
- among the accruals and deferred income:
  - commercial costs for Euro 841 thousand;
  - deferred income on grants for Euro 796 thousand;
  - accrued liabilities for Euro 34 thousand.

Other current liabilities recorded in the comparative accounts at December 31, 2016 of the incorporating company Space2 amounted to Euro 62 thousand and comprised:

- "other payables to third parties" amounting to Euro 24 thousand, relating to emoluments in favour of two independent directors for services provided in the period considered;
- "accrued liabilities and deferred income" for Euro 33 thousand, of which:
  - Euro 13 thousand relating to the year 2016 concerning the AON insurance;

- Euro 20 thousand relates to the part of the penalty for the year 2016 applied by Banca Nazionale del Lavoro S.p.A. on the early redemption of the bank deposits in 2017.

INTRODUCTION

The comparison of the income statement items is impacted by the merger by incorporation of Avio S.p.A. into Space2 S.p.A.. For a complete review on the half-year performance, reference should be made to the Directors' Report.

3.29. REVENUES

The breakdown of revenues, comprising those for the sale of goods and services and the change in contract work-in-progress, which is representative of the total value of consolidated revenues, is shown below (Euro thousands):

	H1 2017 – Avio Group	H1 2016 – Space2 S.p.A.	Change
Revenues from sales	1,681		1,681
Revenues from services	21,738		21,738
	23,419	0	23,419
Change in contract work-in-progress	77,869		77,869
Total	**101,287**	**0**	**101,287**

In H1 2016 the incorporating company Space2 S.p.A., as a SPAC, did not generate revenues.

3.30. OTHER OPERATING REVENUES

Other operating revenues in H1 2017 amounted to Euro 1,238 thousand and mainly represent the grants pursuant to Law 808/85 for the quarter April 1 - June 30.

In H1 2016 the incorporating company Space2 S.p.A., as a SPAC, did not generate other operating revenues.

3.31. CONSUMPTION OF RAW MATERIALS

The breakdown of the account is as follows (Euro thousands):

	H1 2017 – Avio Group	H1 2016 – Space2 S.p.A.	Change
Purchase of raw materials	34,532	8	34,524
Change in inventories of raw materials	(2,323)		(2,323)
Total	**32,209**	**8**	**32,201**

In H1 2016 the incorporating company Space2 S.p.A. incurred costs of Euro 8 thousand relating to expenses incurred for its operating office. Following the merger by incorporation of Avio S.p.A. into Space2 S.p.A. and the consequent renaming to "Avio S.p.A.", the registered office of the incorporating company was changed to that of the incorporated company: Via Ariana Km 5.2, Colleferro (RM) for the administration and operating head office and via Leonida Bissolati No. 76, Rome for the registered office.

3.32. SERVICE COSTS

Service costs (including leasehold costs) in H1 2017 amounted to Euro 49,834 thousand. The period considered refers to April 1 - June 30 in consideration, as previously described, of the business combination on March 31.

	H1 2017 – Avio Group	H1 2016 – Space2 S.p.A.	Change
Service costs	49,721		49,721
Rent, lease and similar costs	113		113
Total	**49,834**	**0**	**49,834**

In H1 2016 the incorporating company Space2 S.p.A., as a SPAC, did not incur industrial/operational services costs.
The costs for services related to the typical activities of a SPAC, with the objective the research and acquisition of a target company, were classified to the account "Other operating costs".

3.33. PERSONNEL EXPENSES

The breakdown of the account is as follows (in Euro thousands):

	H1 2017 – Avio Group	H1 2016 – Space2 S.p.A.	Change
Wages and salaries	11,117		11,117
Social security charges	2,662		2,662
Provision for variable remuneration	1,935		1,935
Other long-term benefits - current employees	178		178
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	19		19
Provision for "Other defined benefit plans"	17		17
Other personnel expenses	715		715
Total	**16,644**	**0**	**16,644**

The incorporating company Space2 did not have any employees in 2016, and therefore there were no personnel expenses.

The table below illustrates, at Group level and divided by category, the average number of employees of the companies included in the consolidation scope:

	Average H1 2017
Blue-collar	329
White-collar	410
Executives	23
Total	**762**

3.34. AMORTISATION & DEPRECIATION

The breakdown of the account is as follows (in Euro thousands):

	H1 2017 – Avio Group	H1 2016 – Space2 S.p.A.	Change
Property, plant & equipment	1,262		1,262
Investment property	14		14
Intangible assets with definite life	2,054		2,054
Total	**3,330**	**0**	**3,330**

Amortisation of intangible assets with definite life mainly comprises Euro 911 thousand for the amortisation of development costs and Euro 1,021 thousand for the amortisation of the assets held at customers for programme participation accreditation recorded, in 2007, on the allocation of the acquisition cost of the Avio Group by Cinven.

The incorporating company Space2 did not have plant, property and equipment or intangible assets in 2016 and therefore did not record any depreciation or amortisation.

3.35. OTHER OPERATING COSTS

This account amounts to Euro 1,264 thousand and mainly relates to indirect taxes and duties (Euro 672 thousand) and other operating costs (Euro 432 thousand).

The costs incurred in the first half of 2017, following the acquisition operation of the Avio Group, are classified in the various cost categories in line with the previous financial statements of the Group, while, relating to the comparative half-year 2016 the incorporating company Space2, given its nature as a SPAC, recorded the majority of the costs incurred in this account.
This account amounted to Euro 670 thousand; the principal cost items in this account are illustrated below:

- Euro 520 thousand related to consultancy services provided by the promotor of Space2 - Space Holding S.r.l., in accordance with the consultancy service contract signed on July 7, 2015, both for the research and selection of the target company with whom the acquisition operation will be undertaken and, once such a target has been identified, the analysis, assessment of the structure and negotiations with the counterparty; this service contract, as the acquisition operation was completed in April 2017 of the Avio Group by Space2, is no longer in force;
- Euro 30 thousand relates to stamp duty on escrow and normal current accounts recorded in the 2016 half-year financial statements;
- Euro 21 thousand relating to legal and notary services and the remuneration of the Supervisory Board;
- Euro 20 thousand relating to the remuneration of the Board of Statutory Auditors;
- Euro 19 thousand relating to the remuneration of the Independent Directors.

3.36. EFFECT VALUATION OF INVESTMENTS UNDER EQUITY METHOD - OPERATING INCOME/(CHARGES)

The account includes the effect of the application of the equity method for the valuation of the investment held in the jointly-controlled company Europropulsion S.A. These effects are recorded, in accordance with the option permitted by IFRS 11, under operating income and charges of the Group, based on the operating nature of the investment of the Avio Group in the company. The effect recorded with reference to the period April 1 - June 30, 2017, amounting to income of Euro 259 thousand, corresponds to the share of the net result recorded by the investee in the period (in the absence of consolidation adjustments impacting the result of the jointly controlled company).

The incorporating company Space3 did not have investments at June 30, 2016 and therefore there is no amount for the comparative period.

3.37. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to costs capitalised for internally constructed assets, amounting to Euro 755 thousand, include the costs for the internal construction of tangible and intangible assets, recorded under assets in the Balance Sheet, and includes the costs for the internal production of property, plant and equipment for Euro 104 thousand, development costs for Euro 624 thousand and costs for the internal construction of other intangible assets for Euro 27 thousand.

The incorporating company Space2 did not have plant, property and equipment or intangible assets in 2016.

3.38. FINANCIAL INCOME

The breakdown of the account is as follows (Euro thousands):

	H1 2017 – Avio Group	H1 2016 – Space2 S.p.A.	Change
Bank interest income	103	303	(200)
Financial income on Savings Bonds	374	677	(303)
Discounts and other financial income	87		87
	563	980	(417)
Realised exchange gains	90	0	90
Unrealised exchange gains	0		0
	90	0	90
Total	**654**	**980**	**(326)**

Financial income, amounting to Euro 654 thousand, decreased Euro 326 thousand on the first half of 2016, mainly due to lower financial income on Savings Bonds and on current accounts. At the beginning of April 2017, Space2 undertook a partial proportional spin-off operation with the new SPAC Space3 as beneficiary; this operation, as the acquisition operation of the Avio Group was being finalised in April, permitted the promoters of Space2 to create a new vehicle with similar objectives to Space2: Space3 therefore is not included within the acquisition operation of the Avio Group. Following this spin-off the assets, mainly represented by financial assets of Savings Bonds and escrow bank deposits and, the corresponding equity of Space2, decreased by approximately 50%: this decrease resulted in the reduction in financial income on the Savings Bonds, in addition to the decrease in bank interest.

Realised exchange gains arise on the collection of receivables and settlement of payables in foreign currencies.

3.39. FINANCIAL CHARGES

The breakdown of the account is as follows (Euro thousands):

	H1 2017 – Avio Group	H1 2016 – Space2 S.p.A.	Change
Interest on Senior Term Loan Agreement	1,698		1,698
Interest on other payables	47		47
Discounting on employee benefits	(6)		(6)
Charges on interest hedge contracts (IRS)	239		239
	1,978	0	1,978
Realised exchange losses	93		93
Unrealised exchange losses	73		73
	166	0	166
Total	**2,144**	**0**	**2,144**

Financial charges, amounting to Euro 2,144 thousand, increased on the first half 2016 for a similar amount: Space2 did not have financial debt at June 30, 2016 and therefore no financial charges were recorded.

Financial charges mainly refer to the interest charge deriving from the Senior Term and Revolving Facilities Agreement signed on April 1, 2015 (see Note 3.25).

The charges on interest hedge contracts mainly refer to the charges on the advance closure of the residual debt on the Term Loan B, as illustrated in Note 3.25.

Realised exchange losses arise on the collection of receivables and settlement of payables in foreign currencies.

Unrealised exchange losses relate to the year-end translation of receivables and payables in foreign currencies.

3.40. INCOME TAXES

Net "income taxes" amount to net income of Euro 575 thousand, comprising current income tax charge of Euro 289 thousand, net of deferred tax income of Euro 864 thousand.
At June 30, 2016, the incorporating company Space2 did not record any income tax.

3.41. NET PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS

There were no profits or losses in H1 2017 or H1 2016 from discontinued operations. In addition there are no Assets and/or Liabilities held-for-sale and Discontinued Operations.

4. SEGMENT DISCLOSURE

Disclosure by operating segment

In the first half of 2017, the Avio Group continued operating activities in line with previous years, exclusively in the Space business. Consequently, all the assets and liabilities, costs and revenues refer exclusively to a single sector of activity, which corresponds to the consolidation scope of the Group.

The Group workforce numbered 768 at June 30, 2017.

Disclosure by regional segment

The regional breakdown of Group revenues (defined based on customer country location), in the first half year of 2017 (and in line with the previous years) refers completely to Italy and Europe.

Group activities, and new investments, are similarly allocated - on the basis of the same criterion as revenues (customer country location) - entirely in Italy and Europe.

5. COMMITMENTS AND RISKS

The Group's principal commitments and risks are summarised in the following table (in Euro thousands):

	30/06/2017
Gaurantees given:	
Unsecured guarantees:	
Sureties issued to third parties on behalf of Group	12,714
Other guarantees	29,788
	42,501
Third party / Group assets:	
Assets of Group companies at third parties	3,513
	3,513
Guarantees received:	
Sureties and guarantees received	1,114
	1,114
Total	47,128

Guarantees granted

Secured guarantees include sureties issued by third parties on behalf of the Group in favour of clients for the execution of contracts and other guarantees in the form of patronage letters issued in the interest of Group companies.

Assets of Group companies at third parties

These consist of materials and equipment comprising work-in-progress and stored or used at suppliers.

Sureties and guarantees received

These principally include sureties received from suppliers against orders for supplies to be completed.

Other commitments

In relation to the associate Termica Colleferro S.p.A., held 40% by Avio and 60% by S.E.C.I. Energia S.p.A., operator of a thermal electric power plant whose steam production is essential for the functioning of the Colleferro production facility, the following is outlined.

On February 24, 2010, to assist plant construction, Termica Colleferro agreed with a banking syndicate (comprising Banco Popolare Soc. Coop., Unipol Banca S.c.p.A., Banca Popolare di Milano S.c.ar.l., Cassa di Risparmio di Parma e Piacenza S.p.A. and Cassa di Risparmio di Ravenna S.p.A.) a loan for a maximum Euro 34 million, supported by secured and unsecured guarantees and concluding on February 24, 2022.

At June 30, 2017, Termica Colleferro's residual debt on this loan was Euro 20.9 million.

Also on February 24, 2010, the shareholder SECI issued an independent guarantee for the prompt fulfillment of all payment obligations to the lending banks in the interest of Termica Colleferro, for a maximum Euro 44.2 million.

In consideration of the deteriorated electricity market conditions in the years subsequent to the signing of the loan (with consequent drop in the EBITDA of the associate), in order to comply with the bank covenants Termica Colleferro began negotiations with the banks for the amendment of the loan agreed in 2010, particularly with regards to the raising of the financial covenant thresholds.

For the finalisation of this agreement with the lending banks, in 2014 Termica Colleferro requested and obtained from the shareholders Seci and Avio a commitment letter by which the shareholders committed to grant a shareholder loan for maximum amounts respectively of Euro 18.2 million and Euro 12.1 million, in proportion to the share capital respectively held and cumulatively corresponding to the residual portion of the bank loan at that date. In accordance with this agreement, the shareholder loan shall be disbursed in a number of tranches on the request of Termica Colleferro, based on the operating requirements of Termica Colleferro and subject to the issue of the loan to this latter by the banks.

At the reporting date, Avio has a financial receivable for the shareholder loan granted to Termica Colleferro of Euro 7,440 thousand. The residual commitment of Avio to grant additional shareholder loans to this associate is therefore Euro 4.7 million (against a total original commitment of Euro 12.1 million, now reduced to Euro 8.4 million in consideration of repayments in the meantime by Termica Colleferro). Avio however has not undertaken any commitment to increase the share capital of the associate.

The above loan issued to Termica Colleferro by the banks stipulates compliance by the company with the following financial covenants:

1) Net Financial Debt / Equity (NFP/E); and

2) Net Financial Debt / EBITDA (NFP/EBITDA).

All covenants are verified at the calculation date (December 31 of each year) through the sending of a compliance declaration signed by the legal representative of Termica Colleferro by the contractually established deadline for delivery of the financial statements (30 days from approval and in any case 210 days from year-end). Where these covenants are not complied with, the banks may resolve the loan granted to Termica Colleferro in accordance with Article 1456 of the Civil Code.

In order to ensure compliance, Termica Colleferro, Avio, SECI and the lending banks signed on July 22, 2014 an addendum to the loan contract. In accordance with this addendum, Termica Colleferro has the right to remedy violation of the financial covenants ("Equity cure") through the payment by the shareholders SECI and Avio to Termica Colleferro (pro-quota according to the limits of the respective share capital holdings in the company) of an amount as share capital increase and/or a shareholder loan which overall remedies the violation ("Cure amount").

The amount made available by the Termica Colleferro shareholders (in the period from May 1 of the year which concludes at the relative calculation date and April 30 of the subsequent year) to "cure" the violated covenant ("Cure Amount") is added to (i) Equity as per the financial statements (in order to adjust on a pro-forma basis the NFP/E ratio) and (ii) EBITDA as per the financial statements (in order to adjust on a pro-forma basis the NFP/EBITDA ratio).

On December 30, 2016, Termica Colleferro, SECI and Avio signed with the lending banks of Termica Colleferro an addendum to the above loans. This addendum includes as the main amendments:

a) a sixty month extension of the repayment period, with consequent extension of the final loan repayment date from February 24, 2022 to February 24, 2027;

b) alteration of the interest rate to the Euribor at 6 months (with zero floor), plus a margin of 2.3%;

c) amendment of the repayment plan and an increase in favour of Termica Colleferro of the maximum threshold of the most critical parameter which concerns the "Financial Debt / EBITDA" (as outlined in greater detail below).

	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**from 2023 until Date of Maturity**
NFP/E ≤	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

In this regard, also in light of the addendum of December 30, 2016 which stipulates, among other matters, the increase in favour of Termica Colleferro of the maximum threshold of the most critical financial parameter which concerns the "Financial Debt / EBITDA", at the present reporting date the financial covenants established under the loan had been complied with.

The addendum to the loan did not amend the guarantees granted by the shareholders SECI and Avio to the lending banks, with the exception of the extension of the original guarantees to the new maturity date.

The business plan approved by TC on March 15, 2016 takes into consideration the expectations of improved energy market conditions and the spread between the cost of gas and energy price movements, in addition to expectations concerning the above-stated loan restructuring conditions. Therefore, this business plan was not subsequently considered for approval following the signing of the addendums with the lending banks on December 30, 2016.

Where Termica Colleferro does not comply with the covenants established by the TC loan, Avio and SECI may be called to undertake additional share capital increases or grant an additional shareholder loan (subordinated) in a measure proportional to their respective holdings.

Legal and tax cases and contingent liabilities

At the reporting date, the Group companies as part of ordinary operations are involved in legal, civil and administrative proceedings (including tax judgments), both as plaintiff and respondent. Avio S.p.A. and the subsidiaries have established in their financial statements and, therefore, in the consolidated financial statements, appropriate provisions for risks and charges to cover foreseeable liabilities relating to disputes of differing natures with suppliers and third parties, both within the

courts and extra-judicially, the relative legal expenses, in addition to administrative sanctions, penalties and client indemnities. In establishing provisions, account was taken of: (i) the risks related to each dispute; and (ii) the applicable accounting standards, which require the provisioning of liabilities for probable and quantifiable risks.
Avio Group management consider the risks and charges provision estimates as appropriate with regards to the Group's overall amount of contingent liabilities.
In addition, with regards to disputes with a possible or remote risk of loss, or of an incalculable amount (of a limited number), in accordance with the accounting standards no risks provision has been established.
The Group in addition bases its risk of potential loss estimates on assessments/expectations with regards to the expected final judgment on the dispute, which remains however linked to the intrinsic uncertainty of each judgment, for which differing outcomes (whether favourable or unfavourable) for the Group against the *ex-ante* estimates may not be excluded.
A summary of current proceedings considered by the Group as significant on the basis of the amount or matters considered is provided below.

Legal disputes

<u>*Municipality of Colleferro/Secosvim (Arpa1 and Arpa2)*</u>

In March 2004, the Extraordinary Commissioner of the Municipality of Colleferro issued ordinances to the Group for emergency safety, characterization and reclamation of the area surrounding the Group facilities in Colleferro, relating to hexachlorocyclohexane contamination of the soil, the subsoil and the groundwater of these areas, in particular the Sacco River valley, in relation to which a socioeconomic-environmental emergency was declared by Ministerial Decree of May 19, 2005, extended on a number of occasions and ceasing only in October 2012. In particular, the Arpa1, Arpa2 and Cava di Pozzolana sites and all the old industrial discharge sites used up to the 1970's were identified, at which a range of pollutants were found, with hexachlorocyclohexane detected only in Arpa1.
Considering that the pollution of the Sacco River originated not from the above sites but from the service areas of the company Caffaro (chemical industry operating in the district until the end of last century) relating to the discharge of residues of this substance accumulating during production, the Group challenged these orders before the administrative courts and these actions are no longer valid as superseded by the situation of fact and the actions taken in this regard, with the Group undertaking emergency safeguarding of the polluted areas.
The Group and, in particular, Secosvim as merely the landowner, although it has always stated its lack of responsibility for the above-mentioned pollution to avoid liability actions by the competent authorities, subsequent to the arrangement with the Commissioner's Office for the Sacco Valley Emergency, completed the characterization of the soil and the site's groundwater, and undertook, where soil and subsoil conditions were found to be inadequate in view of the applicable legislation, the recovery operations within its remit. Specifically, the activities related to the Arpa1, Cava di Pozzolana and Benzoin and derivative sites have been completed, while the Arpa2 land recovery - for which the Lazio Region is responsible - has begun.

<u>*Criminal case against Consorzio Servizi Colleferro for pollution of the Sacco river*</u>

As a result of the discovery of toxic substances in milk in June 2005 and the preliminary investigations of February 2009, in March 2010, the Republic of Velletri Public Prosecutor requested the citation of a number of individuals from Caffaro S.r.l., Centrale del Latte di Roma S.p.A. and Consorzio Servizi Colleferro (the legal representative and the presumed technical manager), alleging negligence causing the environmental disaster from the poisoning of the Sacco River waters and of substances intended for human consumption (milk), occurring in Colleferro, Segni and Gavignano until December 2008, and with regard to the consortium alone, the discharge of industrial wastewater without the prescribed authorizations in the same areas until November 2006. In particular, despite the fact that the Consortium was the sole party responsible for the final discharge of the industrial wastewater treatment plant of the area, its senior executives are accused of a failure to provide adequate safety measures, control systems and/or purifying treatments to prevent white water and first flush from the drainage of some areas in the area, collected by a trench facing the consortium wastewater treatment plant, flowing into the Sacco River, resulting in the contamination of the feed of dairy animals raised near the river. The Consortium operates on a non-profit basis with a main object to collect and treat waste water from the sites belonging to the consortium and sites in the industrial district of Colleferro.

In July 2010, the civil parties summoned to the proceedings (including the Municipality of Colleferro, the Municipality of Gavignano, the Municipality of Segni and the Province of Rome) requested and obtained the citation of Consorzio Servizi Colleferro, Centrale del Latte SpA di Roma and Caffaro s.r.l., as civil parties responsible for the allegations against the defendants. Accepting the request of the Public Prosecutor, on July 8, 2011, the Preliminary Hearing Judge referred the aforementioned subjects to the first judicial hearing of November 2011, which was postponed several times until the October 2012 hearing. In addition, on November 22, 2011, the Ministry of the Environment and the Protection of the Regions and the Marine, as recognized the right to compensation for environmental damage pursuant to art. 18 of Law 349/1986 and Part VI of Legislative Decree no. 152, sent to Consorzio Servizi Colleferro and the aforementioned defendants, also as per art. 2943 of the Civil Code, a claim for compensation for environmental damage in relation to the events described above, quantified by the Ministry as approximately Euro 660 million, plus legal interest and monetary revaluation from the day of the offense on the effective balance. Consorzio Servizi Colleferro and the defendants rejected the request advanced by the Ministry, denying any liability for compensation for that alleged in the criminal proceedings. At the hearing of November 2012, the court upheld the voiding of the notification as per 415-bis of the criminal code for erroneous sending to the domicile of a defendant, resulting in regression of the proceedings (for all defendants) to the state at the time of the execution of the void deed, and thereafter restitution of the deeds to the Public Prosecutor for renewal of the notification as per 415- bis. The Public Prosecutor thereafter renewed the notice referred to in art. 415-bis of the criminal code upon the defendant in question and, after August 2013, filed a request for citation of all defendants. The Preliminary Hearing Judge then set a preliminary hearing for February 2014. On that occasion, the Ministry of the Environment filed a new civil lawsuit against the defendants and the civil parties responsible, stating their claims for environmental damage for an amount of Euro 10,000,000.00, plus an additional Euro 10,000,000.00 for non-material damages, as a result of a new estimate limited to the pollution of the Sacco River on the basis of the contested events in the cited period (2001-2005). In addition, other parties (private and public bodies) have renewed or filed a civil action suit against the defendants and the civil parties responsible. At the subsequent hearing of May 2014, the Preliminary Hearing Judge declared lack of jurisdiction to proceed with regards to the poisoning offenses (Article 452, paragraph 1, No. 3 of the Criminal Code) and the unauthorized discharge due to the statute of limitations; all defendants were therefore referred to the hearing of July 2014 before the Velletri single justice Court for the environmental disaster offense as per Article 449, paragraph 1 of the Criminal Code (in relation to Article 434 of the Criminal Code). At the hearing of July 2014, before the Velletri Court, the judge, citing the failure to notify some defendants, preliminarily referred the case to the October 2014 proceedings.

At the subsequent hearings of 2014 and 2015, the hearing continued with review of the Public Ministry texts, until the hearing at the beginning of 2015 where the question concerning the statute of limitations was raised with broad discussion by the parties. The Court thereafter withheld decision to the subsequent hearing, by which the civil parties were required to draw up any written petition. At the hearing of the end of October 2015 the Court rejected - at the current state of proceedings - the questions raised as limitation arguments and, following the reading of the ordinance, the defense raised the question of the unconstitutionality of Article 157, paragraph 6 as per the "Cirielli" law, with regards to the section concerning the doubling of the statute of limitations for the offense in question, making such of a similar length to the corresponding alleged hypothesis, therefore violating (in the view of the defense) Article 3 of the Constitution. At the hearing of November 2015, the Court considered the issue relevant and not manifestly unfounded and suspended the proceedings and forwarded the documents to the Constitutional Court, whose decision was set for the public hearing of July 5, 2016, which was adjourned to November 21, 2017. The case will resume only following the decision of the Court.

In December 2015, the Consortium was held directly by the Incorporated Company 18% and indirectly through Secosvim S.r.l. for 9%, and by the other consortium members 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. (approx. 11%) and ARC Automotive Italia S.p.A. (8%). At the reporting date, Società Consortile per Azioni Servizi Colleferro is held by the following

shareholders: Avio (32%), Secosvim (20%), Termica Colleferro S.p.A. (6%), Caffaro s.r.l. in liquidation (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 Systems 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 IFRS accounting standards, Avio has not made any provision, considering the possibility remote of a criminal conviction of the Consortium members and, consequently, of the Consortium itself in civil liability to compensate for damage resulting from the offense. In addition, Avio considers the quantification of the claim for damages to be abnormal and arbitrary, and in any case formulated in apparent non-compliance with the special environmental damage law which provides for partial and non-joint liability of those responsible for environmental damage.
However, where criminal charges against the defendants are proven, and if the Consortium (at the reporting date called Società Consortile per Azioni Servizi Colleferro) was required, definitively or on a provisional basis, to indemnify the damages resulting from the criminal offenses, or if the Consortium was otherwise responsible for the environmental damage resulting from the pollution of the Sacco Valley, the current Servizi Colleferro will be liable to compensate the damages to the extent of its liability. In this circumstance, Avio may be called, as a consortium member at the time of the offence, to provide Società Consortile per Azioni Servizi Colleferro with the funds necessary to cover the damages for compensation or jointly respond through use of consortiums funds.

Secosvim/Caffaro

The Colleferro industrial district includes an industrial area known as "Benzoin and derivatives" that until December 31, 2007 was leased to Caffaro S.p.A., which since September 2009 was subject to an extraordinary administration proceeding. For the collection of Caffaro debts, Secosvim submitted an application for admission to its insolvency proceedings, which was accepted.
At the same time, the Emergency Commissioners Office of Sacco Valley issued a claim for damages against Caffaro for land pollution for an estimated amount of approx. Euro 7 million, corresponding to the expected cost for the recovery of these areas. Caffaro challenged in the period between 2008 and 2012, before the Lazio Regional Administrative Court a series of administrative acts (minutes of the conferences of service, notes with which Caffaro was requested to present contaminated waste disposal plans, approval deeds of characterization activities), requesting cancellation, with which the Commissioner's Office sought damages from Caffaro. These motions were notified also to Secosvim as owner of the Benzoin area (leased by Caffaro until 2007), which was therefore summoned before the court in accordance with law.
As the company Caffaro may claim these costs from Secosvim as the owner of the buildings, Secosvim therefore has requested since October 2009 before the Velletri court a prior technical declaration ("ATP") to establish any liability upon Caffaro for the contamination of the Benzoin area, which concluded with the filing of an opinion which confirmed the direct liability of Caffaro for the above-stated contamination.
In this regard, during the proceedings the State Prosecutor requested the Regional Administrative Court to assess the judicial incompatibility of the appeal decision. On conclusion of the hearing of 6.12.2016, the Lazio Regional Administrative Court consequently adopted separate ordinances (of identical tenor), with which (for each appeal) the President of the Counsel was requested to file within 90 days documented clarifications with regards to the criminal proceeding pending before the Velletri Court No. 1831/2014 (as reported in the previous paragraph, relating to the *"Criminal proceeding against Consorzio Servizi Colleferro with regards to the pollution of the Sacco river"*). The hearing of the above appeals is fixed for November 8, 2017 and therefore, only on the outcome of this hearing may it be possible to assess the relevance of this ATP for the pending administrative proceedings.

Tax disputes

The main Avio Group tax disputes at the reporting date are outlined below:

a) *Tax dispute concerning Avio S.p.A.*

a.1) *Ongoing tax dispute*

On December 18, 2015, the Rome Finance Police Tax Unit began a general audit with regards to income, IRAP and other taxes, excluding VAT, for the years 2011, 2012 and 2013. The audit in addition recently included the subsidiary Regulus. This general audit concluded at the end of the first half of 2017.

Settlement Notice of July 28, 2016 (concerning FY 2013)

On March 8, 2016, as part of the above audit, the Finance Police notified Avio S.p.A. (as co-responder) of a tax assessment specifically concerning the tax treatment of transactions which in 2013 resulted in the transfer of the AeroEngine business unit to the General Electric Group. In particular, the Finance Police requalified the transfer of the *AeroEngine* business unit by Avio to GE Avio S.r.l. and the subsequent disposal of the shares held in the transferee to Nuovo Pignone Holding S.p.A. as a direct transfer of the business unit and, consequently, raised the issue of non-payment of the indirect taxes applicable to the transfer of the business unit, requesting also payment of penalties and interest.
On July 28, 2016, following the Tax Assessment notified on March 8, 2016, the Tax Agency, Turin general unit, notified Avio, as co-respondent, of the relative settlement notice. The Tax Agency confirmed the issue raised by the Finance Police, requesting the payment of increased registration taxes, of a supplementary nature and proportionally, in addition to land and mortgage taxes, in place of the fixed tax paid on the transfer of the investment but recognising, as requested and extensively argued by Avio in its defensive petitions, the non-applicability of sanctions and interest in addition to the calculation of the increased taxes due on a significantly lower assessable base than that put forward in the Tax Assessment.
The potential liability from the settlement notice totals Euro 58.2 million and comprises:

- Registration tax of Euro 55.6 million;
- Mortgage tax of Euro 1.7 million;
- Land tax of Euro 0.86 million.

On September 26, 2016, the company presented - together with the General Electric Group - an appeal, challenging the Settlement Notice within the deadline established by the applicable rules and on May 25, 2017 the Turin Provincial Tax Commission rejected the appeals presented by the company and by the General Electric Group. Currently, the company, together with the General Electric Group, in accordance with law has until December 27, 2017 to present an appeal against this first level judgment and to take all beneficial and necessary actions for the recognition of its arguments.

With regards to the settlement notice, on the basis of specific contractual provisions, the General Electric Group is required to indemnify Avio for any liabilities which may arise with regards to the indirect taxes relating to the disposal of the company GE Avio S.r.l. (containing the *AeroEngine* segment operations of the Avio Group), in addition the provision to Avio of any amounts requested by the Tax Agency by the established payment deadlines.
On the basis of this contractual agreement, Avio in these financial statements recognises to non-current liabilities a tax payable with regards to increased registration, mortgage and land taxes under the settlement notice for a total of Euro 58.2 million and the recognition, at the same time, to non-current assets of a receivable for the same amount from the buyer, Nuova Pignone Holding S.p.A., belonging to the General Electric Group.

Finance Police tax assessment of June 27, 2017 (concerning FY 2012 and FY 2013)

On June 27, 2017, the Finance Police notified Avio S.p.A. of a Tax Assessment raising substantial issues with regards to the following controls for the years 2012 and 2013:

- costs due to suppliers located in black list States;
- regarding substitution tax obligations for the interest paid to the Dutch company ASPropulsion Capital N.V. (“ASPI Capital”);
- regarding the invoicing criteria applied to a client.

With regards to the outlined issues, we present our evaluations below, considering however that they have not yet been formalised as assessment deeds:

- black list costs issue: similar to that previously occurring with the same issues for FY 2011 (see subsequent paragraph “*Concluded tax dispute, with financial effects on H1 2017*”, “*Tax Assessment notified on September 23, 2016: black list 2011*” section), documentation and evidence against the non-deductibility allegation as per Article 110, paragraphs 10-11 of Presidential Decree No. 917/1986 shall be provided, significantly reducing or even entirely cancelling the additional IRES and IRAP identified by the Finance Police with regards to these costs.

- issue concerning substitute tax obligations for interest paid to ASPI Capital: the issue did not take account of the fact that, following previous challenges by the Tax Agency - Piedmont Regional Unit - concerning the qualification as the effective beneficiary of ASPI Capital (company which in 2007 was one of the vehicles for the acquisition of the Avio Group by the preceding ownership represented by Cinven), the company with regards to the financial charges paid to ASPI Capital (or more precisely to the underlying lenders) for the years 2012 and 2013, had already paid the adjusted substitute taxes due, taking account of any agreed reduced rates applicable to the underlying lenders of ASPI Capital. This is on the basis of the documentation provided to the company by these latter (e.g. residence certificates, affidavits, etc.). With regards to this issue, the company prepared at the end of August 2017 observations in accordance with Article 10, paragraph 7 of Law No. 212/2000 in order to confirm the applicability of the relevant provisions and therefore the correctness of its actions. Currently, in light of the information available and the inspections on the previous years, and in the absence of any appeal with the Tax Agency, the associated risk with this issue is qualified as remote and, however, the amount quantified is significantly lower than that put forward by the Finance Police;

- issue concerning revenue criteria applied to a client: the issue follows the settlement of a similar issue for FY 2011 (see the subsequent paragraph “*Concluded tax dispute, with financial effects on H1 2017*”, “*Tax Agency notice concerning VAT transactions concerning FY 2011*” section), whereby the Tax Agency - Piedmont Regional Unit - lifted the sanctions associated with the declared violation (i.e. invoicing without VAT recharge). A similar lifting of the sanctions also for FY 2012 and 2013 is considered probable. For completeness, it is stated also that, in the case of an agreed settlement regarding the future claim with the Tax Agency, the company will have the right to the recovery of any VAT paid in this regard, remaining therefore liable only for interest (in the absence of penalties), presently not precisely calculable.

With regards to the disputes concerning the above-stated Finance Police Tax Assessment of June 27, 2017, in accordance with the specific provisions contained in the Share Purchase Agreement signed on December 21, 2012 between, among others, Avio (as the seller) and Nuovo Pignone Holding S.p.A. (as the buyer), concerning the disposal of the *AeroEngine* business in 2013, the General Electric Group is required to indemnify Avio for any tax liabilities which may arise with regards to this business. This indemnity was properly discharged according to the manner agreed between the parties for disputes settled with liabilities to be paid over these years (see specifically the following section “*Concluded tax dispute, with financial effects on H1 2017*”).

a.2) *Concluded tax dispute, with financial effects on H1 2017*

Tax assessment No. TSB060200344/2014 concerning VAT for FY 2007

In December 2014, Avio S.p.A. was notified of a tax assessment concerning the non-deductibility of VAT on invoices in relation to the leveraged buy-out, for a total amount of VAT declared as non-deductible of Euro 4.4 million, in addition to the relative penalties of Euro 5.5 million and interest.

On April 26, 2017, the company and the Agency signed a settlement resulting in a total charge of Euro 883 thousand, offset (in accordance with Article 23, paragraph 2 of Legislative Decree 472/97) with a similar amount of the company's VAT receivable.

The Turin Provincial Tax Commission noted the settlement in the hearing of May 2, 2017 and, with judgment No. 698/6/17 filed on May 25, 2017, declared the matter closed.

Tax assessment notified on September 23, 2016: "black list 2011"

Avio S.p.A., as part of the Tax Audit initiated on December 18, 2015, received on September 23, 2016 a Tax Assessment under which - following analysis of purchases from suppliers located in countries or territories with preferential tax systems as per Ministerial Decree of January 23, 2002, made by Avio in FY 2011, whose costs are presumed as non-deductible in accordance with Article 110, paragraphs 10 and 11 of the Income Tax Law - taxation for IRES of a total amount of Euro 2.6 million was proposed, as the Finance Police considered the documentation produced by the incorporated company as insufficient to overcome the presumption of non-deductibility as per Article 110, paragraph 11 of the Income Tax Law.
The Finance Police in the Tax Assessment on the other hand judged in favour of Avio with regards to the audits of other suppliers for a total assessable amount of Euro 2.5 million.
Following the Tax Assessment, on September 30, 2016 the company was notified of a Questionnaire by the Tax Agency, through which, with regards to both types of suppliers, the Tax Agency requested details and information required to overcome the presumption of non-deductibility as per Article 110, paragraph 11 of the Income Tax Law.
Following the provision of additional documentation and proof to the Tax Agency, the higher assessable amount of Euro 2.6 million was reduced to Euro 1.4 million, with the issue on January 4, 2017 of the tax assessment in which taxation for IRES purposes of this latter amount was proposed, resulting in increased IRES of Euro 372 thousand, in addition to interest and penalties.

On May 26, 2017, the settlement to the tax assessment was finally signed, in which the amount of taxation applied was further reduced to Euro 257 thousand, resulting in additional IRES of Euro 98 thousand.

Of this amount, the total tax charge borne by Avio was less than Euro 5 thousand, as a result of the indemnification of the remaining part by General Electric under the specific contractual provisions of the Share Purchase Agreement signed on December 21, 2012 between, among others, Avio (as seller) and Nuovo Pignone Holding S.p.A. (as buyer), concerning the disposal of the *AeroEngine* business unit in 2013, with the General Electric Group required to indemnify Avio for any tax liabilities which may arise with regards to this business.

Tax Agency notice on VAT operations for FY 2011

In October and November 2016, the company following a specific request from the Turin Tax Agency, Large Contributions Office, presented documentation and supporting petitions regarding the non-applicability of VAT to invoices issued to a client for the provision of review and motor maintenance services.
On December 29, 2016, the Tax Agency notified Avio of the relative tax assessments, arguing the requirement to apply VAT to a number of invoices concerning the above-stated motor maintenance and repair services, issued to a client due to the absence of the objective condition.

The additional VAT amounts to Euro 453 thousand plus interest and penalties.

On April 28, 2017, a settlement was reached with the Tax Agency, lifting the penalties and extending the residual payments over three instalments.

The company did not incur these charges in consideration of the recharge to the end-client for VAT alone under Article 60, paragraph 7 of Presidential Decree No. 633/1972, and as a result of the previously mentioned contractual provisions contained in the Share Purchase Agreement of December 21, 2012 signed with the General Electric Group concerning the disposal of the *AeroEngine* business in 2013, which establishes indemnity by this latter for any tax liabilities arising with regards to this business.

b) Tax dispute concerning Secosvim S.r.l.

b.1) *Ongoing tax dispute*

A brief description of the Secosvim tax dispute, in addition to a brief description of the main related contingent liabilities, is outlined below.

Issues raised by the Rome Finance Technical Department with regards to excise and provincial/municipal additions in the electricity sector

Period 2001 - 2005: with regards to the audit by the Rome Finance Technical Department with regards to consumption tax and related supplements due on electricity consumption in the January 2001 - August 2005 period, the appeal against the second level judgment in favour of Secosvim by the Customs Agency and the relative counter appeal by Secosvim are still pending before the Court of Cassation, with the hearing fixed for September 26, 2017.
Period 2006 - 2010: with regards however to the issues raised by the Rome Finance Technical Department, also with regards to excise and provincial/municipal supplements in the electricity sector, concerning the years 2006-2010 and challenged by Secosvim as considering such unfounded, the Lazio Regional Tax Commission (CTR) rejected Secosvim's appeal (May 20, 2015), despite the obvious error of the first level judgment concerning the application of penalties (Euro 280,000). Secosvim therefore appealed to the Court of Cassation (appeal presented on December 23, 2015).

With regards to the period 2001 - 2005, a settlement proposal was recently presented as per Article 5-*bis*, Legislative Decree 193/2016, consisting of the payment of 20% of the tax in a single payment. The settlement (deadline September 30, 2017) stipulates the cancellation of interest, late payment penalties and sanctions, in addition to collection actions.

With regards to the period 2006 - 2010, Secosvim presented on March 29, 2017 a "Quashing" request for the two remaining payment orders, which however have been partially paid.

With communication of 06.06.2017, the Tax Agency - Collection office accepted the quashing application for one payment order for an amount of Euro 44 thousand, while the other was excluded on the following basis: "*the European Union's own resources and the VAT on imports may not be defined*". This order was paid on July 31.
Currently therefore a payable of Euro 82 thousand remains, relating to the second order for the amounts not cancelled. This amount was recognised to the financial statement.

An appeal against the denial to quash the order was made to the Rome Provincial Tax Commission (CTP), with the hearing date not yet fixed although expected to take place by the end of 2018.
Any quashing would *de facto* cancel the indicated payment order and therefore the relative payable of Euro 82 thousand, as concerning penalties related to the tax of Euro 44 thousand granted the quashing request.

ICI 2011 tax dispute

With Tax assessment notified to Secosvim on December 15, 2016, the Municipality of Segni initiated the recovery of additional taxes of Euro 37 thousand, plus penalties and interest, for a total of Euro 51 thousand. Secosvim, following the presentation of an agreed settlement application on February 10, 2017, initiated an appeal as per Article 6, paragraph 4, Legislative Decree No. 218 of June 19, 1997 in the middle of March, while finally proposing as a result of its rejection an appeal before the Rome CTP on May 26, 2017.

Derecognition of the tax consolidation agreement for FY 2009 and 2010

Following the tax audit concluding on March 19, 2013 by the Rome Provincial Controls Office III of the Tax Agency, Secosvim was notified in October of the same year of two IRES tax assessments for FY 2009 and FY 2010 concerning the derecognition of the tax consolidation agreement, with recovery of the relative taxes (amounts respectively of, including penalties and interest, Euro 3,265 and Euro 1,764 thousand). As the above citations were considered to lack foundation, Secosvim and Avio jointly appealed to the Rome CTP; these appeals were accepted on October 27, 2015.
In May 2016, the Tax Agency appealed. Secosvim and Avio therefore joined the proceedings through the presentation of counter arguments filed on July 21, 2016. The hearing date has not yet been fixed. Following the issue of Circular No. 40/2016 (September 2016), Secosvim will request the issue of a withdrawal deed from the counterparty from the dispute. Avio presented a defense petition in July 2016.

Non-invoicing with VAT of reclamation costs recharged to Avio in 2010 and 2011.

In 2013, Secosvim was notified of two VAT assessments for the years 2010 and 2011 concerning the alleged non-application of taxes to reclamation costs recharged to the consolidating company Avio (total amounts, including penalties and interests, of Euro 2.5 million).
With regards to these tax assessments which are considered unfounded, Secosvim respectively presented an appeal and a claim to the Rome CTP, which accepted (with judgment filed on September 7) the appeal regarding VAT for both years 2010-2011, providing total relief and the repayment by Equitalia of that originally paid as a provisional settlement (Euro 0.5 million). In March 2016, the Tax Agency appealed, with the Rome Regional Tax Commission (CTR) judging in their favour on December 12, 2016.
The second level court approved the Agency's appeal on the basis of the fact that the services acquired by Secosvim to remedy the environmental damage were subject to VAT, and therefore also the compensation - paid by the Fiat Group to Avio and thereafter transferred from the latter to Secosvim - should have been subject to the same VAT regime.

The company on June 28, 2017 appealed to the Court of Cassation and shall shortly also present a collection suspension application to the Lazio Regional Tax Commission, considering - together with its tax consultants - the lack of foundation for the application of VAT as Secosvim did not provide any service to Avio (let alone in favour of the Fiat Group).

Correction and settlement of increased registration, mortgage and land taxes from the reclassification as the disposal of a business, with related recalculation of goodwill relating to the business unit, of the transfer of the "Energia Colleferro" business unit to Termica Colleferro S.p.A. and the subsequent transfer of the investment in this latter to the indirect parent company Avio S.p.A..

Judgment No. 95/10/14 of the Bologna CTP of December 9, 2013, approving the appeal of Secosvim concerning the correction and settlement notice for additional registration, mortgage and land taxes from the reclassification as the disposal of a business of the transfer of the "Energia Colleferro" business unit to Termica Colleferro S.p.A. and the

subsequent transfer of the investment in this latter to the indirect parent company Avio, was appealed by the Agency at the Emilia Romagna CTR. The disputed amount is Euro 129,817 according to that reported in the Bologna CTP judgment of December 9, 2013 and, in addition, the Certificate of pending charges of the parent company Avio Prot. No. 62533 of August 5, 2016. The Emilia Romagna CTR hearing is pending.
In parallel, judgment No. 94/02/16 of the Bologna CTP of January 15, 2016, which approved the related appeal of Secosvim concerning the correction and settlement notice for additional registration, mortgage and land taxes from the recalculation of the goodwill of the above-stated business unit, was appealed by the Agency before the Emilia Romagna CTR. The amount of the dispute is Euro 16,903. Secovim awaits the Emilia Romagna CTR hearing.

b.2) *Concluded tax dispute, with financial effects on H1 2017*

Issues concerning 2011 and 2012 revenues

These issues concern the challenge regarding alleged "anti-economic" conduct by Se.Co.Sv.Im. S.r.l. in relation to commercial transactions undertaken with a third party company outside of the Avio Group.

- *Issues relating to IRAP for FY 2011 and 2012*

  With tax assessment of March 19, 2013 of the Tax Agency Provincial Controls Office III, the company was cited for the non-recognition of revenues for IRAP purposes regarding:
  - tax period 2011 for Euro 777,358;
  - tax period 2012 for Euro 850,299.

  At the end of 2013, the company was thereafter notified of the tax assessment for tax period 2011 alone.

  The company won the first level appeal at the Rome CTP on June 23, 2016.
  On February 3, 2017, the Agency communicated to the above CTP its wish to appeal the first level favourable judgment in favour of Secosvim.

- *Issues relating to IRES for FY 2011*

  On December 22, 2016, the Agency drew up the same charge also for IRES for the 2011 tax period, requesting additional taxes of Euro 213,773 (plus interest and penalties). The assessment was notified also to Avio S.p.A. as the consolidating company.

This dispute concluded in the second quarter of 2017 following the settlement application for years 2011, 2012 and 2013, resulting in the payment by the company on May 31, 2017 of approx. Euro 73 thousand (including penalties and interest).

c) Tax dispute concerning Regulus S.A.

On February 28, 2017, the Finance Police communicated a Tax Assessment ("PVC") with regards to the French company Regulus S.A., held 60% by Avio.

The assessment alleged the residence in Italy of this company, with legal and operating offices in French Guyana (Kourou) at the European Space Centre, between tax periods 2010 and 2016. The allegation is that the company had "administrative offices" (a significant concept for tax residence purposes) in Italy, at Avio's Colleferro offices.

Regulus S.A. is engaged in the production and loading of space launcher motor propellants and for this reason has its legal and operating offices in French Guyana at the European Space Centre, with approx. 100 technical and administrative staff.

The PVC, as an investigative measure of the Finance Police, although alleging the non-presentation of an annual income declaration, initially has not quantified the alleged amount in terms of additional taxes, penalties and interest applicable, quantifying only the amount of gross revenues (approx. Euro 266 million between 2010 and 2016), qualifying them as "income items" and referring to the Tax Agency the final consideration upon furtherance of the assessment activities and the subsequent quantification of the issue.

However, in terms of the quantification of the claim, subsequent to the PVC, on March 14, 2017, the Finance Police, after coordinating with the competent Tax Agency, notified Regulus of a Completed Operations Assessment ("PVOC"), through which the alleged assessable base potentially applicable to Regulus was better defined, necessary where this latter is able to document the costs deductible incurred in the period, expressly recognising that *"the assessable base, restated, on which to calculate the taxes, would be Euro 26,804,459.43 (years from 2010 to 2015)"* and that Regulus *"may provide - for possible recognition by the Tax Authorities on settlement - the necessary documentation approving the effective settlement of taxes to the French authorities amounting to, as per the financial statements acquired/presented on 20.02.2017 and 22.02.2017, a total of Euro 8,100,115.94 (years from 2010 to 2015)".*

The Finance Police thereafter invited Regulus to produce the documentation required for the recognition both of costs and the clearance of taxes already paid for the years between 2010 and 2015 by Regulus in France.

Regulus S.A. appointed a consultant of undoubted competence and independence to assess the sustainability of the reconstruction proposed by the Finance Police. On the basis of the opinion provided, the potential tax risk quantified as approx. Euro 12 million was classified as remote on the basis of the structure, governance and operations of Regulus, in addition to the ordinary tax regime of the country of establishment (France, as Guyana is a French overseas department). In addition, the opinion stated that this risk would be almost entirely removed in the case in which the receivable for taxes paid in France mentioned in the PVOC under finalisation were considered, on the assumption that the French tax charge was entirely in line with Italian tax charge.

In particular, the main objective elements in this regard for consideration within the opinion are the presence of a third party shareholder in addition to Avio, the commercial reasons justifying the presence and location of the company in French Guyana, the existence on-site of a major organisation in terms of employees, the existence of operating powers for executives present in Guyana, the governance of Regulus and the quorum for the adoption of Board decisions, the ordinary tax rules of the country of establishment (France, as Guyana is a French overseas department).

Proving the inexistence of attempts at avoidance by presence in French Guyana, the opinion provided for tax purposes indicates also that the taxes paid in France would be in line with those in Italy. This issue could be strongly argued on appeal against the Agency.

On April 4, 2016, a meeting was held with the Tax Agency at which the company put forward its arguments and subsequently on April 28, 2017 it presented its observations upon the PVC of February 28, 2017 in accordance with law (60 days), in order to have the process filed without any declaration by the Tax Agency.

Currently, the issue contained in the PVC has not yet been incorporated into a Tax Agency demand and, therefore, the concluding considerations of the above-stated opinion have not changed.

d) Tax dispute concerning Europropulsion S.A.

Europropulsion in the past has been subject to a Tax Assessment by the French Tax Authorities with regards to the "*taxe professionnelle*" (an indirect tax adopted in France similar to IRAP) on ESA assets used by the company during the tax years 2010 and 2011. Europropulsion presented a first level appeal at the competent Tax Court, which judged against the company. The latter therefore appealed on September 9, 2016. The total amount of the tax liability associated with the above dispute is approx. Euro 2.6 million, including penalties and interest. Europropulsion has not made any accrual to the tax risks provision with regards to the above tax risk as its management, having met with its tax consultants, considers its defence arguments valid. These are in particular based on the fact that the above assets are owned by the ESA and not by Europropulsion and that the ESA is specifically exempt from application of the "*taxe professionnelle*".

With regards to the above tax disputes, the Avio Group, although considering an unfavourable outcome of the above disputes as improbable, has accrued to the half-year financial statements a provision for tax risks totalling approx. Euro 2.5 million, in addition to a payable to the Tax Authorities for the above-stated registration, mortgage and land tax subject to assessment as part of the audits concerning the stated *Aeroengine* transactions of Euro 58.2 million (an amount fully covered by the General Electric Group indemnity, against which the company has a receivable of an equal amount).

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Fair value of financial assets and liabilities and calculation models utilised

In relation to the financial instruments recorded in the condensed consolidated half-year financial statements at fair value, IFRS 7 requires that these values are classified based on the hierarchy levels which reflects the significance of the input utilised in the determination of fair value. The following levels are used:

- level 1 - assets or liabilities subject to valuation listed on an active market;
- level 2 - input based on prices listed at the previous point, which are directly observable (prices) or indirectly (derivatives from the prices) on the market;
- level 3 - input which is not based on observable market data.

The derivative financial instruments (interest rate swaps), concerning only the "Senior Term and Revolving Facilities Agreement" contracted with Banca IMI and other leading lending institutions on April 1, 2015, were recognised to the financial statements at fair value and included as financial asset and liability items.

The table below presents the fair value amounts of the classes of financial instruments broken down by calculation method adopted (in Euro thousands).

	Level 1	Level 2	Level 3
Derivative financial instruments	-	59	-

Types of financial risks and related hedging

The Group through its operating activities is exposed to financial risks, in particular:

- credit risks, related to commercial transactions with clients and funding operations;
- liquidity risk, related to the availability of financial resources and access to the credit market.

The Group continually monitors the above financial risks, undertaking initiatives to offset and contain potential impacts through appropriate policies and, where considered necessary, also specific hedging instruments.
This section provides qualitative and quantitative disclosure upon the impact of these risks on the Group.
The following quantitative data cannot be used for forecasting purposes or completely reflect the complexity and the related market reactions which can derive from any change in assumptions.

Credit risk

Credit risk represents the exposure of the Group to potential losses due to the non-compliance with obligations by commercial and financial counterparties.
The exposure to credit risk is essentially related to receivables recognised to the financial statements, particularly trade receivables and guarantees provided in favour of third parties.
The maximum theoretical exposure to credit risk for the Group at June 30, 2017 essentially concerned the overall carrying amount of trade receivables.
The main Group clients in the space sector are government bodies and public sector clients, which by their nature do not present significant risk concentrations.
For trade receivables, an individual assessment of risk was carried out and a specific doubtful debt provision accrued, which takes account of an estimate of recoverable amounts and any disputes in progress and possible maturity extensions. In addition, part of overdue receivables are offset by payables subject to their receipt and doubtful debt provision accruals.

Liquidity risk

The Group's liquidity risk concerns any difficulties in obtaining at appropriate conditions the funding necessary to support operations. The principal factors which influence the liquidity of the Group are, on the one hand, the resources generated and absorbed by the operating and investment activities and on the other the conditions concerning the maturity of the payable or the liquidity of the financial commitments.

Cash flows, funding requirements and liquidity are centrally monitored and managed, also through centralised treasury systems involving the main Group Italian and overseas companies, in order to ensure the timely and efficient sourcing of funding or the appropriate investment of liquidity, optimising the management of liquidity and cash flows. The Group periodically monitors forecast and effective cash flows and updates future cash flow projections in order to optimise liquidity management and calculate any funding requirements.

The currently available funds, in addition to those that will be generated from operating and financial activities, are considered sufficient to permit the Group to satisfy its requirements for investment activities, working capital management and the repayment of debt on maturity.

Market risk

With regards to the current financial structure of the company and the fact that the operating currency is almost exclusively the Euro, the company is not considered to currently be subject to significant market risks from fluctuations in exchange rates or interest rates on financial receivables and payables.

The company, considering that stated with regards to the insignificant market risk related to exchange rate and interest rate movements, at December 31, 2016 had not undertaken specific cash flow hedges in relation to these types of risks.

Interest rate risk

The company is exposed to interest rate risk essentially with regards to variable rate financial liabilities concerning the "Senior Term and Revolving Facilities Agreement" contracted with Banca IMI and other leading lending institutions on April 1, 2015. Interest rate movements may have a positive or negative impact on the net result and equity of the company.
It regularly assesses its exposure to interest rate risk and manages this risk through the utilisation of financial instruments, in accordance with its own risk management policies and the loan contract in question.

With regard to such policies, the use of derivative financial instruments is reserved for the management of interest rate fluctuations connected to monetary cash flows and asset and liability balance sheet items and are not of a speculative nature.
The company utilises cash flow hedges in order to fix the interest rate on variable rate loans.

The instruments used for this strategy are substantially interest rate swaps. The risk management objectives for interest rate risk are essentially:

- the mitigation by the Group of the risk of significant negative differences for the net result and the cash flow against that established by the budget and the long-term plan due to interest rate fluctuations, setting a fixed rate on part of its variable rate exposure;
- the positions identified (outstanding loans) are hedged through the use of interest rate swaps;
- derivative instrument use is not permitted for speculative purposes, i.e. not undertaken in pursuit of this objective.

Interest Rate Swaps (IRS) are exclusively used for this purpose.
The Group utilises for the hedging of a portion of its loans derivative financial instruments designated as cash flow hedges, with the objective to fix the interest paid on loans in order to

reach a pre-established optimal mix between variable and fixed interest rates among loans undertaken. The counterparties involved in these contracts are leading financial institutions.

Derivative instruments are recognised at fair value.

Hedge accounting

Derivative contracts are used by the company in protection against interest rate fluctuations impacting the "Senior Term and Revolving Facilities Agreement" on the basis of a cash flow hedge strategy.
Therefore, in the presentation in the financial statements of hedges, compliance with the obligations under IAS 39 with regards to hedge accounting are verified.

The details upon the main interest rate swaps in place at June 30, 2017 are presented below:

Financial institution	Date agreed	Maturity date
Société Générale	30/06/2015	29/06/2018
BPM	30/06/2015	29/06/2018
Unicredit	30/06/2015	30/06/2018
Intesa Sanpaolo	30/06/2015	29/06/2018

The interest rate risk hedging operations seek to fix the cost of the variable rate long-term loan subject to hedging through the signing of related derivative contracts which provide for the receipt of a variable interest rate against the payment of a fixed rate.

The derivative contracts, for which the conditions under IAS 39 for the application of hedge accounting have been complied with (formal designation of the hedging relationship; documented hedging relationship, measurable and highly effective), are considered according to the cash flow hedge accounting technique which specifically provides for recognition to the equity reserve at the signing date of the contract of the relative fair value (limited to the effective portion). Fair value changes subsequent to interest rate curve movements, always within the limits of the effective portion of the hedge, are also recognised to the equity reserve.

In the first half of 2017, no excess coverage on future cash flow hedges existed ("overhedge").

The following information on the derivative contracts is provided below:

- the notional amount at June 30, 2017;
- the amount recognised to the balance sheet concerning the fair value of these contracts at the reporting date;
- the ineffective portion or the time value change recorded immediately to the financial charges and/or financial income accounts of the income statement.

In Euro thousands	Notional amount	Fair Value	Impact on income statement	Impact on equity
Interest Rate Swaps	19,902	(59)	-	(59)
	19,902	(59)	-	(59)

6. TRANSACTIONS WITH RELATED PARTIES

The ownership of the Avio Group at June 30, 2017 was as follows:

Shareholder	% share capital
Leonardo	27.24%
Space Holding	7.60%
In Orbit	3.72%
Free float on MTA	61.44%
Total	**100.00%**

Avio regularly undertakes commercial and financial transactions with its subsidiaries and jointly-controlled companies, consisting of transactions relating to ordinary operations and undertaken at normal market conditions. In particular, these concern the supply and purchase of goods and services, including of an administrative-accounting, tax, IT, personnel management and assistance and consultancy nature, and the relative receivables and payables at period-end and funding and centralised treasury management transactions and the relative charges and income. These transactions are eliminated in the consolidation and consequently are not outlined in this section.

The related parties of the company Avio S.p.A. are identified on the basis of IAS 24 - *Related Party Disclosures,* applicable from January 1, 2011, and are the parent companies, companies with a connection with the Avio Group and its subsidiaries as defined by the applicable rules, companies controlled but not consolidated within the Avio Group, associates and jointly-controlled companies of the Avio Group and other investee companies.

Until the effective acquisition date by Space2, Leonardo and In Orbit, Leonardo - on the basis of rights arising under the Cinven shareholder agreement - had a connection with the Avio Group, although formally holding an investment in the Incorporated company under the threshold established by the IAS and Article 2359 of the Civil Code, final paragraph. Following the listing, although the shareholder agreement with Cinven had lapsed, Leonardo S.p.A. maintained this connection with the Avio Group on the basis of the increase of its investment in the Incorporated company over the threshold established by the above-stated rules.

The following tables present the quantification of transactions with related parties not falling within the Group consolidation on the Balance Sheet at June 30, 2017 and on the Group "pro-forma" Income Statement for H1 2017. This Income Statement, as reported above in the Directors' Report, takes account of the aggregation of (a) amounts between 1/01/2017 and 31/03/2017, date of the business combination and (b) amounts between the date of the business combination and 30/06/2017:

	June 30, 2017					
Counterparty	**Trade Receivables/Other Receivables**	**Contract work-in-progress**	**Financial Receivables**	**Trade Payables/Other Payables**	**Advances for contract work in progress**	**Financial Payables**
Cinven	-	-	-	500	-	-
Parent companies until March 31, 2017	**0**	**0**	**0**	**500**	**0**	**0**
Leonardo S.p.A.	-	-	-	91	-	-
MBDA Italia S.p.A.	-	1,371	-	-	1,165	-
MBDA France S.A.	35	6,828	-	-	3,284	-
Thales Alenia Space Italia S.p.A.	-	-	-	-	31	-
Companies with a connecting relationship and relative investee companies	**35**	**8,199**	**-**	**91**	**4,480**	**-**
Servizi Colleferro - Consortium Limited Liability Company	488	0	0	327	0	0
Non-consolidated subsidiaries	**488**	**0**	**0**	**327**	**0**	**0**
Potable Water Services Consortium	290	-	-	100	-	-
Termica Colleferro S.p.A.	782	-	7,440	1,681	-	-
Europropulsion S.A.	286	13,804	-	15,273	17,720	29,249
Associates and jointly controlled companies	**1,358**	**13,804**	**7,440**	**17,054**	**17,720**	**29,249**
Total related parties	**1,881**	**22,003**	**7,440**	**17,972**	**22,200**	**29,249**
Total book value	**82,146**	**150,176**	**36,391**	**225,608**	**252,131**	**56,447**
% on total account items	2.29%	14.65%	20.44%	7.97%	8.80%	51.82%

	First half 2017			
Counterparty	**Revenues (1)**	**Other Costs (2)**	**Financial Income**	**Financial Charges**
Cinven		250	-	-
Parent companies until March 31, 2017	**0**	**250**	**0**	**0**
Leonardo S.p.A.		91	-	-
MBDA Italia S.p.A.	2,652	2,545	-	-
MBDA France S.A.	2,664	2,058	-	-
Telespazio S.p.A.	67	50	-	-
Companies with a connecting relationship and relative investee companies	**5,383**	**4,744**	**0**	**0**
Servizi Colleferro - Consortium Limited Liability Company	151	453	-	-
Non-consolidated subsidiaries	**151**	**453**	**0**	**0**
Potable Water Services Consortium	35	236	-	-
Termica Colleferro S.p.A.	67	4,798	0	
Europropulsion S.A.	74,805	60,296	0	
Associates and jointly controlled companies	**74,907**	**65,330**	**0**	**0**
Total related parties	**80,441**	**70,776**	**0**	**0**
Total book value	**161,184**	**156,455**	**815**	**3,914**
% on total account items	49.91%	45.24%	0.00%	0.00%

(1) The account includes both sales and service revenues and revenues from contract work-in-progress not yet concluded.
(2) The account includes raw material consumables, service costs and personnel expenses.

The guarantees and commitments granted or received by the Avio Group with regards to transactions with the respective related parties at June 30, 2017 are presented below:

	June 30, 2017	
Avio Counterparties	**Guarantees and commitments granted by Avio**	**Guarantees and commitments received by Avio**
MBDA Italia S.p.A. (Leonardo Group)	2,150	
Investees with a connecting relationship	**2,150**	**-**
Sitab Consortium in liquidation	132	
Associates and jointly controlled companies	**132**	**-**
Total related parties	**2,282**	**-**
Total book value	**42,501**	**1,114**
% on total account items	5.37%	0.0%

Parent companies until March 31, 2017
Group transactions with Cinven concern consultancy and assistance services provided until March 31, 2017 - the date of the loss of control by Cinven following the acquisition of the Avio Group by Space2.

Transactions with companies with a connecting relationship and relative investee companies
The transactions with Leonardo S.p.A., considered a company with whom a connecting relationship exists, concern assistance and consultancy services. Transactions with investee companies by Leonardo are typically of a commercial nature.
With regards to the client MBDA Italia S.p.A., the guarantees issued by leading credit institutions cover prompt compliance with the contractual obligations undertaken by Avio for the Camm-er orders. Their release is based on completion of the relative contractual milestones.

Transactions with non-consolidated subsidiaries
Group transactions with non-consolidated subsidiaries concern ordinary operating activities and are concluded at normal market conditions.

Transactions with associates and jointly-controlled companies
Company transactions with associates and jointly-controlled companies may be summarised as follows:

- trade receivables, relating to revenues from the sale of company core business products, as part of ordinary operations and concluded at normal market conditions. In particular, with regard to the company Europropulsion S.A., revenues are included from the sale of company core business products, as part of ordinary operations and concluded at normal market conditions.
- financial receivables, relating to short and long-term financial receivables from Termica Colleferro S.p.A.;
- trade payables, relating to costs incurred as part of ordinary operations and relating to transactions concluded at normal market conditions; in addition, with reference to the company Europropulsion S.A., costs incurred as a result of transactions within ordinary operations and concluded at normal market conditions are included;
- financial payables, relating to the short-term inter-company financial payables of Avio S.p.A. to Europropulsion S.A.;
- revenues, relating to the transactions described previously with regards to trade receivables;
- operating costs, relating to the transactions described previously with regards to trade payables;
- financial income, related to interest on the financial receivables previously stated.

The bank guarantees to the Sitab Consortium in liquidation concern supplies in previous years and, together with the Consortium, are expected to be withdrawn shortly.

Transactions with other related parties
Group transactions with other related parties concern the following operations:

- trade receivables, relating to revenues from the sale of Group core business products, as part of ordinary operations and concluded at normal market conditions.
- revenues, relating to the transactions described previously with regards to trade receivables;

7. LIST OF GROUP INVESTEES AT JUNE 30, 2017

The following table presents the key details of Avio Group investees at June 30, 2017:

Company name	Registered office	Curr.	Share capital	Group share	Holding company	Holding
Companies consolidated by the line-by-line method						
ASPropulsion International B.V.	Amsterdam (Netherlands)	Euro	18,000	100%	Avio S.p.A.	100%
SE.CO.SV.IM. S.r.l.	Rome	Euro	53,929,691	100%	ASPropulsion International B.V.	100%
ELV S.p.A.	Rome	Euro	4,680,000	70%	Avio S.p.A.	70%
Regulus S.A.	Kourou (French Guyana)	Euro	640,000	60%	Avio S.p.A.	60%
Avio India Aviation Aerospace Private Limited	New Delhi (India)	Indian Rupee	16,060,000	100%	Avio S.p.A. ASPropulsion International B.V.	95% 5%
Non-consolidated subsidiaries						
Servizi Colleferro - Consortium Limited Liability Company	Colleferro (Rm)	Euro	120,000	52% (*)	Avio S.p.A. SE.CO.SV.IM. S.r.l.	32% 20%
Companies consolidated at equity						
Europropulsion S.A.	Suresnes (France)	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%
Associates and jointly-controlled companies (at cost)						
Potable Water Services Consortium	Colleferro (Rm)	Euro	-	50%	Avio S.p.A. SE.CO.SV.IM. S.r.l.	25% 25%
Sitab Consortium in liquidation	Rome	Euro	25,823	20%	Avio S.p.A.	20%

(*) An additional Group level share of 2% is indirectly held through Termica Colleferro S.p.A., a non-consolidated associate.

8. INFORMATION REQUIRED BY ARTICLE 2427, PARAGRAPH 16 *BIS* OF THE CIVIL CODE

The following table, prepared pursuant to Article 2427, paragraph 16 *bis* of the Civil Code, reports the payments made in H1 2017 for audit and other services carried out by the audit firm and entities associated with the audit firm
(in Euro thousands):

Type of service	Service provider	H1 2017 fees*
Limited review of the condensed consolidated half-year financial statements of the Avio Group at June 30, 2017	Deloitte & Touche S.p.A.	25
Limited review of the reporting package prepared by the subsidiary Regulus S.A. for the preparation of the Avio Group condensed consolidated half-year financial statements at June 30, 2017	Other auditor	11
Total		**36**

Note:
* H1 2017 is considered, for the preparation of the Avio Group condensed consolidated half-year financial statements, as from the date of the business combination with Space2 S.p.A. (March 31, 2017 to June 30, 2017).

* * *

September 13, 2017

for the Board of Directors
The Chief Executive Officer and General Manager
Giulio Ranzo

Declaration of the Condensed Financial Statements as per Article 81-ter of Consob Regulation No. 11971 of May 14, 1999 and subsequent amendments and supplements

1. The undersigned Giulio Ranzo and Alessandro Agosti, respectively CEO and Executive Officer for Financial Reporting of Avio S.p.A. (previously Space2 S.p.A. which incorporated Avio S.p.A., effective from April 10, 2017, and subsequently changed its name to Avio S.p.A.) declare, also in consideration of Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of February 24, 1998:

- the adequacy of the characteristics, also taking account of the characteristics and effects of the corporate operation concluded on April 10, 2017 with the merger by incorporation of Avio S.p.A. into Space2 S.p.A. and the simultaneous listing on the STAR segment of the Italian Stock Exchange, managed by Borsa Italiana, of the company resulting from the merger which changed its name to Avio S.p.A. and

- the effective application of the administrative and accounting procedures for the drawing up of the condensed half-year financial statements in the period between January 1 and June 30, 2017.

2. We also declare that:

2.1 the condensed half-year financial statements:

a) have been prepared in accordance with applicable international accounting standards recognised in European Union Regulation (EC) No. 1606/2002 of the European Parliament and Council of July 19, 2002;

b) correspond to the underlying accounting documents and records;

c) provide a true and fair view of the equity and financial position and operating performance of the companies included in the consolidation scope.

2.2 In consideration of the characteristics and effects of the above corporate operation which concluded on April 10, 2017 with the merger by incorporation of Avio S.p.A. into Space2 S.p.A. and with the company resulting from the merger changing its name to Avio S.p.A., in order to provide a comparable presentation of the results and financial and equity position of the Avio Group for the first half of 2017 with the corresponding first half-year of 2016, the Directors' Report within the half-year financial report at June 30, 2017 includes a "pro-forma" presentation of the results, balance sheet and financial position. The Directors' Report includes a reliable analysis of the significant events in the first six months of the year and their impact on the condensed consolidated half-year financial statements, with a description of the principal risks and uncertainties to which the Group is exposed, in addition to the subsequent events and outlook. It also contains a reliable analysis of the significant transactions with related parties.

Date: September 13, 2017

Avio S.p.A.

Giulio Ranzo
Chief Executive Officer
(Signed)

Alessandro Agosti
Executive Officer for Financial Reporting
(Signed)

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REPORT ON REVIEW OF THE HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Avio S.p.A. (formerly Space2 S.p.A.)

Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of Avio S.p.A. (the "Company") and subsidiaries (the "Avio Group"), which comprise the balance sheet as of June 30, 2017 and the income statement, the comprehensive income statement, the statement of changes in equity and the cash flow statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation of the half-yearly condensed consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the half-yearly condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly financial statements under Resolution n° 10867 of July 31, 1997. A review of half-yearly condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly condensed consolidated financial statements of the Avio Group as at June 30, 2017 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

Emphasis paragraph

The report on operations and explanatory notes describe that consolidated data for the first half of 2017 of the Avio Group were significantly affected by the transaction completed on March 31, 2017 with the acquisition from Space2 S.p.A., Leonardo S.p.A. and In Orbit S.p.A., of an investment equal to 85.68% of Avio's share capital and the subsequent merger by incorporation of Avio S.p.A. in Space2 S.p.A. This

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operation, after which Space2 S.p.A. assumed the name of Avio S.p.A., as therefore generated significant effects on the comparability of the condensed consolidated half yearly financial statements with financial data of the Avio Group before the transaction and with Space2 S.p.A. previous year financial data.

Our conclusion is not modified in respect of this matter.

Other Matter

The consolidated financial statements for the period ended as at December 31, 2016 and the half-yearly condensed financial statements as at June 30, 2016 of the Company have been respectively audited and reviewed by other auditors that on April 29, 2017 expressed an unmodified opinion on the financial statements and on July 27, 2016 expressed an unmodified conclusion on the half-yearly financial statements.

DELOITTE & TOUCHE S.p.A.

Signed by
Franco Chiavazza
Partner

Turin, Italy
September 27, 2017