Avio S.p.A.

Registered office in Rome, via Leonida Bissolati No. 76
Share Capital Euro 90,964,213 fully paid-in
Rome (RM) Companies Registration Office No.: 09105940960

2017 ANNUAL REPORT

HIGHLIGHTS[1]

Net revenues[2]
Euro 343.8 million (+17.7% on 2016)

EBITDA
Reported: Euro 39.2 million (+Euro 14.7 million and +60% on 2016)
Adjusted [3]: Euro 46.5 million (+Euro 10.1 million and +27.7% on 2016)

EBIT
Reported: Euro 25.0 million (+Euro 14.2 million and +131.7% on 2016)
Adjusted [3]: Euro 32.3 million (+Euro 9.6 million and +42.2% on 2016)

Profit before taxes
Euro 21.5 million (+Euro 15.5 million on 2016)

Net Profit
Euro 21.8 million (+19.0 million on 2016)

Net financial position[4]
+Euro 41.7 million (-Euro 6.6 million on December 31, 2016)

Investments
Euro 28.6 million (+Euro 4.1 million and +16.9% on December 31, 2016)

Backlog [2]
Euro 952.1 million at December 31, 2017 (+Euro 177.0 million and +22.8% on December 31, 2016)

Research and development
costs of Euro 135.8 million, net of pass-through costs incurred in 2017, equal to 39.5% of revenues net of pass-through revenues for 2017 (Euro 79.2 million net of pass-through costs incurred in 2016, equal to 27.1% of revenues net of pass-through revenues for 2016)

Employees
782 at December 31, 2017 (758 at December 31, 2016)

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[1] The amounts presented for financial year 2017 and the comparative year 2016 are "Pro-forma", as commented upon in the Directors' Report, in order to ensure the comparability and presentation of all 12 months for both financial years in the financial statements, independently of the corporate transaction resulting in the acquisition of Avio S.p.A. and its merger by incorporation into Space 2 S.p.A., as described in the financial statements.
[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,

2017 was a crucial year for Avio and featured in particular your company's listing on the STAR segment of the Italian Stock Exchange on April 10, 2017, following the Business Combination with Space 2 SpA. The ownership now encompasses a broad range of diversified financial investors and has a floating share capital of over 60%. Management slightly increased its holding, with additional members joining the investment vehicle In Orbit SpA.

The previously contracted loan of approx. Euro 95 million was fully repaid in 2017. A new Euro 40 million loan was agreed in September with the European Investment Bank in support of new product investment and development projects earmarked by Avio for the coming years. The new loan is of 7 year duration and was stipulated at a very contained fixed rate in view of the company's financial solidity.

A record order intake is reported for 2017 (over Euro 500 million of new production and development contracts). During the year, contracts were agreed with the European Space Agency for the last phase of the Vega C development program (including several improvements to the launcher's general performance), for the first phase of the Vega E development program (the latest Vega generation set to launch from 2024), for SSMS development (Small Spacecraft Mission Service, adaption for small satellites) and the first phase of the Space Rider development program (orbiting vehicle launched with Vega C and capable of atmospheric re-entry). In addition, contracts were stipulated for new Vega launcher production (Batch 3 production of 10 launchers from 2019 to 2021) and to expand the scope of activities for the integration of the launcher at the launch pad (Phase H0). Defence programs benefited from the contracting of further Aster production activities. Overall, commercial activities raised the order backlog value to a record high of Euro 952 million.

The European launcher governance model progressed in 2017, reaching the Exploitation Readiness Key Point for both Vega and Ariane, and defining, together with the European Space Agency, sales terms for the new launchers and support programs ready for entry into service. In this regard, negotiations continued for the further development of the scope of responsibilities of Vega launcher ground activities, which, in the near future, will include - in addition to launcher integration in the H0 phase - the management and maintenance of launch pad ground systems. The first few months of 2018 saw the signing of an addendum to the Industrial Agreement between Avio and Ariane Group concerning Vega marketing conditions (stipulated in 2016), in order to better define Avio's partnership and supervising role in the Vega commercial activities managed by Arianespace. In particular, the role of a Vega Cross Functional Manager was established at Arianespace to oversee the overall performance of the Vega Business Unit.

Space launch activities continued steadily in 2017, with a total number of 90 launches (of which 29 in the USA, 18 in China, 18 in Russia, 11 in Europe, 7 in Japan and 5 in India). There were 5 complete failures and 2 partial failures. 11 launches took place at the Guiana Space Centre, of which 6 with Ariane, 3 with Vega and 2 with Soyuz. In March and April, the centre suffered the effects of a strike lasting over 6 weeks and forcing a total halt to operations. Nonetheless, Guiana Space Centre staff were able to make up for the lost time, ending the year in line with the planned launch program and demonstrating exceptional abilities in adapting and responding to unforeseen circumstances.

Development activities on the new Ariane 6 and Vega C launchers progressed significantly during 2017. The first P120 (first stage of both Vega C and Ariane 6) engine specimens were realized and successfully passed structural-mechanical and propellant casting tests. The bench testing of the first P120 is planned for 2018. As for the Zefiro 40 (second Vega stage), all mechanical acceptance and propellant tests were completed, as well as the infrastructure for bench testing in Sardinia, which was successfully passed in March 2018. Such progress in development activities demonstrates Avio's maturity in the creation of innovative advanced technology products.

During 2017, the need arose to integrate ELV's operations with those of Avio into a single organization, combining Avio's propulsion expertise with ELV's systems know-how. ELV's shareholders (Avio with 70% and ASI with 30%) agreed the undertaking of a corporate operation by which Avio acquires the launcher development, production and commercialisation business unit of ELV. The two organisations were therefore merged into a single entity from March 1, 2018. ELV continues to pursue its pre-existing operations, with Avio and ASI maintaining their respective holdings, focusing on the development of new testing operations and propulsion technology development.

Particularly strong results were delivered in 2017. The backlog hit a record of Euro 952 million, up 23% on 2016. This follows the acquisition of new production and development orders worth approx. Euro 500 million.
Net revenues rose to Euro 343.8 million, up 18% on 2016, with the advancement of the P120C and Vega C development orders, in addition to increased Vega production operations. Adjusted EBITDA was Euro 46.5 million, up 28% on 2016, thanks to greater volumes of activities, alongside stable fixed costs and thanks to an improved operating cost structure which benefitted from the research and development tax credit (as per DL No. 145/2013 and subsequent regulation). Adjusted EBIT was also up at Euro 32.3 million (+20% on 2016). Non-recurring costs reduced in 2017 to Euro 7.3 million, compared to Euro 9.6 million, improving therefore the non-adjusted EBITDA and EBIT.
The net profit was Euro 21.8 million (compared to Euro 3.1 million in 2016), thanks to the improved gross margin, alongside lower bank interest charges on the new debt (whose twelve-month benefit shall be seen therefore from 2018).
The 2017 net financial position closed at a cash position of Euro 42 million in 2017 (compared to a net debt of Euro 18.6 million in 2016), thanks also to the contribution of cash from the corporate transaction concluded with Space 2 SpA resulting in the listing of Avio.

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 782 highly qualified personnel (not including the Europropulsion joint venture). 682 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 space program for ESA-sponsored 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**

  In terms of the tactical defence business line, Avio is responsible for the design and production of various products:
  - Aster 30 - the booster and sustainer motors, actuation system (TVC) and aerodynamic control surfaces (fins);
  - Aster 15 - the sustainer motor and aerodynamic control surfaces (fins);
  - Aspide igniters for the Italian Armed Forces;
  - Mars sustainer, from 2018.

  Regarding development programs:
  - CAMM ER - development of the booster and sustainer motor, wiring and aerodynamic control surfaces (fins);
  - Aster 30 MLU - development of the new Aster 30 booster to replace the current one in production, from 2021, solving REACH and obsolescence issues.

With revenues net of pass-through revenues in 2017 of Euro 343.8 million and an adjusted EBITDA of Euro 46.5 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. 39.5% of revenues net of pass-through revenues in 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

Core operations: 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 2017 consolidated upon its proven excellence in the sector, particularly thanks to the 6 successful Ariane 5 launches (bringing the total to 96 launches - of which 82 successful launches in a row - and the total number of Ariane line launches to 240) and 3 Vega launches (building further on its reliability record and marking 11 successful launches out of 11).

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 2300 kg in the same orbit reference SSO, 700 km. 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 4th 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 and lengthened 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 the European Space Agencies. In this overall framework, from 2025 (by the conclusion of the collaboration with the Soyuz), independent European access to space will rely entirely on the two Ariane 6 and Vega C launchers for all geostationary, medium and low orbit missions. The policy for the allocation of the various satellites in the 3 orbits remains to be defined and is a necessity dictated by the possibility of ARIANE 62 operating in low orbit.

Together with the development of solid propulsion and further international collaborations, Avio's strategic objective is also to develop liquid propulsion, in particular of 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 company in 2017 consolidated its ground activities role i.e. mechanical, electrical and fluid activities at the launch base, begun in 2016 and which in fact extends its scope of expertise. 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 companies of ASL (Prime Contractor for the Ariane 5 launcher and its successor Ariane 6), Arianespace (Launch Service Provider) and ESA as Observer. 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. The company targets an increase in the number of annual Vega launches from the current 2-3 to a set 4 launches per year.

In 2018, the company will update its current industrial plan.

SHAREHOLDERS

As part of the listing and business combination conducted in 2017, 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 for 10 years 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 have been received from that date to the reporting date.

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 held by Space Holding S.p.A. 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.

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.

In the April 10-December 31, 2017 period, no sponsor warrants exercise requests were received.

At the report approval date, the number of ordinary company shares was 26,359,346.

Finally, based on the communications received as per Article 120 of the CFA and the internal company assessments concerning the effect of the dilution from the conversion of the special shares and market warrants of Avio, the company ownership at the Reporting date was as follows:

Shareholder	**% share capital**
Leonardo	25.88%
Space Holding	7.03%
In Orbit	3.51%
Free float on MTA	63.58%
Total	**100.00%**

FY 2017

SIGNIFICANT EVENTS IN 2017

Business

Ariane Launches

2017 again proved to be positive for the Ariane 5 launcher, which successfully completed 6 flights, entering 14 satellites into orbit, including 8 for commercial entities, 2 for non-European governments (Brazil and India) and 4 for European institutions (for the Galileo European navigation system). With this performance, Arianespace confirmed the trend of recent years, numbering on average 6 launches per year.

Vega Launches

In 2017, three Vega craft missions were successfully completed (VV09, VV10 and VV11), launching into orbit a total of 4 satellites, of which 3 for European institutions (Sentinel-2B, Optsat 3000 and Venus) and 1 for the Moroccan Government (Mohammed VI – A).
The VV10 launch was the first in which Avio supported Arianespace in its ground operations, extending the scope of company activities at the spaceport located in French Guyana. The VV11 campaign saw the Avio Group definitively take over Arianespace's ground operation responsibilities.

Tactical Propulsion

In the initial months of 2017, the ASTER Production Program saw a slow-down in the production of boosters and fins due to several raw material procurement difficulties. During the second part of the year, however, Avio implemented the established delay recovery plan and succeeded in manufacturing all ASTER 30 boosters and fins and ASTER 15 fins on budget.
In terms of the CAMM ER development program, the engine and equipment development stage successfully concluded with 4 engines static bench fire tested, two cases mechanical burst tested and several fin and conduit specimens mechanically tested.
The pre-qualification stage began in the second half of the year with the manufacture of all items. The tests have begun and will be completed in the initial months of 2018.
Concurrently, the first five inert delivery engines were manufactured and accepted by the client for system level testing. The first test performed by the client produced an extremely positive result.
For the Aster 30 MLU program, in the second part of the year the PDR took place and engineering activities began, which will lead to production and the test of the initial items in 2018.

Main agreements and contractual events

In 2017, with regards to current production:

- the company sent to ASL, on request, a proposal for the production of 10 additional Ariane 5 booster pairs and 10 Vulcain 2 turbo pumps (future Batch PC), a contract signed in February 2018;
- with regards to Vega, the subsidiary ELV signed with the client Arianespace:
    - Rider 1 to Batch 2, which incorporates ground activities into the Avio Group's scope at the French Guyana Space Centre
    - 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, after a transition, the current Vega and Ariane 5 launchers, in June 2016 the company signed a SSMS development contract for the "Small Satellites" launch service. The test flight of this service is scheduled for the first four-month period of 2019.

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.

A contract was also signed for the launch with Vega C of the 2nd generation Cosmo Sky Med satellite.

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 included:

- agreement for the production of the Marte Sustainer which Avio will undertake in 2018 and 2019
- Contract signing for the first extension of ASTER 30 booster and fin manufacturing; the full agreement stipulates a production commitment for the three-year period from 2018 to 2020.

Other significant events

Listing of Avio S.p.A. on the STAR segment of the Italian Stock Exchange

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 separate 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 separate 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.

On April 28, 2017, the Board of Directors of Avio S.p.A. approved the separate financial statements at December 31, 2016, reporting results in line with the 2016 preliminary figures outlined in Space 2 S.p.A.'s prospectus, formally filed at Consob and Borsa Italiana S.p.A. with regard only to the disclosure concerning the Avio Group.

Acquisition from the subsidiary ELV S.p.A. of the launcher development, production and distribution business unit

The subsidiary ELV S.p.A. was incorporated in 2000, with the mission of developing the Vega launcher.
After 12 years of research and development, in February 2012 the Maiden Flight successfully took place and subsequently the Vega launcher entered commercialisation.
As commercial operations are now fully up and running, the original mission of ELV S.p.A. has been achieved. In addition in 2016, the ESA member states set out a new governance structure for the launchers segment, which from 2019 will transfer to the prime contractors (both of VEGA and ARIANE) all responsibilities concerning commercial exploitation, with a parallel reduction in support from the space agencies. In this new scenario, commercial exploitation of the VEGA product, with all associated risks, may more naturally be managed by an industrial enterprise such as Avio S.p.A. rather than through a public-private partnership such as that with ASI, through ELV S.p.A., better suited to more research-focused activity.

On this basis, in December 2017 ELV S.p.A. agreed with the parent company Avio S.p.A. a preliminary contract for the disposal of the business unit engaged in the development, production and distribution of launchers (Vega, Vega-C, Vega-E, Ariane and the relative subsystems), excluding the business unit involved in the research and development of new technologies and test infrastructure for space transport. For additional information, reference should be made to the "Subsequent events" section.

European Investment Bank debt and loan restructuring

As part of the corporate operation outlined above resulting in the listing of Avio S.p.A. on the STAR segment of the MTA Market of Borsa Italiana S.p.A., the company restructured its debt.

In particular, Avio, on the basis of a waiver agreement with Banca IMI S.p.A. (agent bank of the lending syndicate) upon the merger and change of control events constituting default and the repayment of existing credit lines ("Senior Term and Revolving Facilities Agreement" signed on April 1, 2015), firstly postponed repayment to the initial date between the completion of six months from the effective merger date and December 31, 2017.

Subsequently, on May 22, 2017, Avio voluntarily repaid in advance the entire residual capital portion of the "Term Loan B" tranche of approx. Euro 63 million, ahead of its October 10, 2017 maturity, following completion of the merger between Avio S.p.A. and Space2 S.p.A.. As a result of this voluntary full early settlement, the residual capital portion of the "Term Loan A" tranche under the "Senior Term and Revolving Facilities Agreement" signed on April 1, 2015 was approx. Euro 30 million.

On October 6, 2017, Avio S.p.A. repaid, through recourse to own funds, the entire residual capital portion of the "Term Loan A" tranche of approx. Euro 30 million, fully repaying therefore the entire amount of the pre-existing loan, and simultaneously agreeing with the European Investment Bank (EIB) a loan of Euro 40 million of 7-year duration.

The EIB loan on the one hand will support the development of new space propulsion products and technologies through research and development, and on the other the modernisation and expansion of the Colleferro facility production capacity, Avio's main Italian industrial location.

It falls within the scope of a joint EIB, Ministry for Economic Development and Ministry for the Economy initiative supporting investment in innovation (the "Italian risk sharing initiative" to fund the research, development and innovation projects of SME's).

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.

Research and development tax receivables

Regulatory framework and developments in 2017

This incentive was initially introduced with Leg. Decree No. 145 of December 23, 2013 (converted, with amendments, by Law No. 9 of February 21, 2014, known as the "Destination Italy Decree") and thereafter amended with Law No. 190 of December 23, 2014 (2015 Stability Law) and latterly by Law No. 232 of December 11, 2016 (2017 Financial Statements Law). In particular, with paragraph 1-*bis,* included in Article 3 of letter b) of paragraph 15 of the 2017 Financial Statements Law, the tax credit may be applied also to resident companies undertaking research and development commissioned by certain non-resident countries, such as enterprises located in other member states of the European Union.
The regulatory framework includes also circulars from the Tax Agencies and enacting Ministerial Decrees. Circular No. 13/E of April 27, 2017 of the Tax Agency - based on the agreement with the Ministry for Economic Development - examined the amendments introduced by the 2017 Financial Statements Law, referring to, with regards to the existing legal framework, the enacting provisions contained in the Decree of the Ministry for the Economy and Finance, together with the Ministry for Economic Development, of May 27, 2015, in addition to circular No. 5/E of March 16, 2016 of the Agency, which provided the initial interpretative clarifications with regards to the tax break law at issue.

Effect of regulatory framework developments in 2017 on the Avio Group

The above extension of the benefit from 2017 to research and development commissioned by non-resident enterprises concerns the Avio Group with regards to the research and development commissioned by the European Space Agency.
Against this regulatory change, the Avio Group has conducted specific investigations to verify the qualification of the costs incurred for the research and development commissioned by the European Space Agency by means of specific questions submitted to the Tax Agency, having obtained opinions from external leading experts and undertaken investigations with the support of outside consultants.
On the positive conclusion of these investigations, in 2017 the Avio Group, through the subsidiary ELV S.p.A., matured a tax credit against research and development commissioned by the European Space Agency.

This benefit, as matured against such research and development, was recognised to the income statement on the basis of the advancement of these activities, proportionate to the advancement of the costs incurred for the long-term orders to which the benefit refers.
The tax credit accruing in 2017 amounts to Euro 20 million, of which, on the basis of the above methodology, a benefit of Euro 6,147 thousand was recognised to the 2017 income statement.
The cited long-term orders are those concerning research and development projects which principally include the future generation Vega C and Vega E launchers, which are part of the wider Vega launchers family. The recognition of the economic benefits shall be made over the duration of the research and development orders at issue and will derive from the effective advancement of the orders, calculated on the basis of the relative costs incurred.
From a regulatory viewpoint, the tax break in question concerns the 2017-2020 period to the extent that the costs may qualify.

MARKET AND OPERATING PERFORMANCE

General overview

In 2017, 89 orbital launches were made by 7 countries (including a new country, New Zealand, which completed its ever first launch, albeit in collaboration with the USA), in line with the number of launches in 2016 (85 launches in total, with launch services for 8 countries). The majority of launches (72%) were institutional, or financed by governments (whether for civilian or military purposes), while the remainder were commercial (28%). In 2017, the commercial portion increased at the expense of institutional launches; in 2016 in fact, the institutional share was 81%, with a 19% commercial share.
The 89 launches made in 2017 placed into orbit:

- 148 primary satellites (up from 104 satellites in 2016), of which 38 in GEO and 99 in LEO;
- 315 generally small-mass secondary satellites (biggest increasing class - up from 115 in 2016), all in LEO and ridesharing as secondary payloads in primary satellite launches.

In the decade from 2016 to 2025, of the satellites requiring launch services, GEO satellites reported the most steady growth and were almost exclusively commercial and dedicated to broadcasting telecommunication services. LEO satellite demand, on the other hand, is expected to grow strongly, with both institutional and commercial applications, especially in the fields of earth observation, navigation and telecommunications services, such as broadband internet and mobile telephony. Regarding these services, there is good reason to believe that a greater prominence will be seen of so-called small satellite constellations, typically in the order of 5-150 kg with unit numbers ranging from a few hundred to thousands (this trend was particularly evident from 2013 onwards and was confirmed in 2017). Consequently, it is expected that most of the increase in launches will be taken up by high frequency launchers with multi-load mission characteristics, for which Avio is developing the Vega C SSMS service.

Launchers market

2017 confirmed the global trend of recent years, in which:

- few nations have launch services capable of responding to the consistently strong institutional market: particularly the USA, Russia and China and, to a lesser extent, Europe, India and Japan;
- an even smaller number of nations can respond to commercial market needs:
  - the USA leads, with the Falcon 9 launcher marketed by Space X (11 commercial launches out of a total of 18, taking 47 commercial satellites into orbit);
  - Europe with its range of Ariane 5, Vega and Soyuz launchers offered by Arianespace (8 commercial satellites put into orbit in 2017 by Arianespace with Ariane 5 and Soyuz);
  - Russia with 3 Proton launched marketed by ILS.
  - China and India, with 1 commercial launch each;

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 82nd consecutive successful launch in 2017 and Vega achieved a score of 11 successful launches out of 11 (of the European range, only Soyuz, which however was manufactured in Russia, failed to launch in 2014).

Globally, in 2017:

- the countries undertaking the greatest number of launches were the USA (29), followed by Russia (19), China (18), Europe (11), Japan (6), India (5) and New Zealand (1); these numbers are substantially in line with the figures for the last 5 years, except for that concerning the US, which saw significantly increased launch activities, thanks to the record performance of Space X's Falcon 9 launcher (18 launches in 2017);

- of a total 89 launches, 5 were failures (2 involving Chinese launchers, 1 involving a qualifying mini-launcher flight for New Zealand, 1 Russian Soyuz launcher and 1 Indian PSLV launcher), compared to 4 in 2016.
- 3 new launchers debuted:
  - the Chinese Kaituozhe (KT)-2, with a 800 kg payload to low orbit SSO;
  - the Electron mini launcher (New Zealand) for launches of small satellites into low orbit;
  - the enhanced version of the Indian GSLV Mk3 vehicle for launches into GTO;
- a number of Falcon 9 re-used elements (first stages) recovered from previous flight launchers and reconditioned. Space X is continuing to recover early stages and has announced that launches using these reconditioned elements will be offered at 30-40% lower than current prices.

GROUP OPERATING PERFORMANCE AND FINANCIAL AND EQUITY POSITION

Introduction

The 2017 consolidated results of the Avio Group were influenced by the corporate transaction completed on March 31, 2017 with the acquisition by Space2 S.p.A., 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 (the remaining investment was held by the shareholder Leonardo) and the subsequent merger by incorporation into Space2 S.p.A. effective from April 10, 2017. This corporate transaction resulting in Space2 S.p.A. taking the name Avio S.p.A. impacted the 2017 financial statements and their comparability with the previous Avio Group financial statements. Therefore, the "pro-forma" figures illustrated below 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.p.A.'s operations.

Results

Obtaining of the "Pro-Forma" results

The following table outlines the process to obtain the 2017 "Pro-Forma" results, commented upon below, beginning with the consolidated IAS/IFRS financial statement figures at December 31, 2017.

	Space2 S.p.A. Q1 2017 (a)	Avio Group Q2+Q3+Q4 2017 (b)	IAS/IFRS Financial Statements Avio Group FY 2017 (c)=(a)+(b)	Avio Group Q1 2017 (d)	FY 2017 "Pro-Forma" (c)+(d)
Revenues		325,332	325,332	59,897	385,229
of which: Pass-through revenues		41,402	41,402	-	41,402
Revenues, net of pass-through revenues	**-**	**283,930**	**283,930**	**59,897**	**343,827**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished		4,326	4,326	1,142	5,468
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(1,695)	(254,459)	(256,154)	(56,973)	(313,126)
Effect valuation of investments under equity method - operating income/(charges)		2,513	2,513	566	3,079
EBITDA	**(1,695)**	**36,310**	**34,615**	**4,632**	**39,247**
Amortisation, depreciation & write-downs		(10,629)	(10,629)	(3,598)	(14,226)
EBIT	**(1,695)**	**25,682**	**23,987**	**1,034**	**25,021**
Interest and other financial income (charges)	428	(2,387)	(1,959)	(1,609)	(3,568)
Net financial charges	**428**	**(2,387)**	**(1,959)**	**(1,609)**	**(3,568)**
Investment income/(charges)		-	**-**	**-**	-
Profit/(loss) before taxes	**(1,267)**	**23,295**	**22,028**	**(575)**	**21,453**
Current and deferred taxes		369	369	(34)	335
Group & minority interest net profit/(loss)	**(1,267)**	**23,664**	**22,397**	**(609)**	**21,788**

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+Q3+Q4 2017" column presents the results of the Avio Group for the period between April 1 and December 31, 2017 included as a

result of the acquisition and merger in the financial statements of the incorporating company at December 31, 2017, added to the Q1 results of Space2 S.p.A.. The "Avio Group 2017 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 result of the company resulting from the merger, comprising the results 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 December 31, 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 2017" column presents the results for the full year 2017 of the Avio Group, including the results for the period of Space2 S.p.A., for comparability therefore with 2016.

The following table for the year 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 December 31, 2016.

	IAS/IFRS Financial Statements Space2 S.p.A. FY 2016 (a)	**IAS/IFRS Financial Statements Avio Group FY 2016 (b)**	**FY 2016 "Pro-Forma" *(a)+(b)***
Revenues	-	339,685	339,685
of which: Pass-through revenues	-	47,676	47,676
Revenues, net of pass-through revenues	**-**	**292,009**	**292,009**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	-	11,370	11,370
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(2,414)	(278,903)	(281,316)
Effect valuation of investments under equity method - operating income/(charges)	-	2,461	2,461
EBITDA	**(2,414)**	**26,936**	**24,523**
Amortisation, depreciation & write-downs	-	(13,727)	(13,727)
EBIT	**(2,414)**	**13,210**	**10,797**
Interest and other financial income (charges)	2,082	(6,950)	(4,868)
Net financial charges	**2,082**	**(6,950)**	**(4,868)**
Investment income/(charges)	-	**-**	-
Profit before taxes	**(332)**	**6,261**	**5,929**
Current and deferred taxes	-	(3,120)	(3,120)
Group & minority interest net profit/(loss)	**(332)**	**3,141**	**2,809**

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

"Pro-Forma" operating results

The "Pro-Forma" table below presents the operating performance of the Avio Group for 2017 and 2016 on a comparable basis (in Euro thousands).

	FY 2017 "Pro-Forma"	FY 2016 "Pro-Forma"	Change
Revenues	385,229	339,685	45,544
of which: Pass-through revenues	41,402	47,676	(6,275)
Revenues, net of pass-through revenues	**343,827**	**292,009**	**51,818**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	5,468	11,370	(5,902)
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(313,126)	(281,316)	(31,810)
Effect valuation of investments under equity method - operating income/(charges)	3,079	2,461	618
EBITDA	**39,247**	**24,523**	**14,724**
Amortisation, depreciation & write-downs	(14,226)	(13,727)	(499)
EBIT	**25,021**	**10,797**	**14,225**
Interest and other financial income (charges)	(3,568)	(4,868)	1,300
Net financial charges	**(3,568)**	**(4,868)**	**1,300**
Investment income/(charges)	-	-	-
Profit before taxes	**21,453**	**5,929**	**15,525**
Current and deferred taxes	335	(3,120)	3,455
Group & minority interest net profit/(loss)	**21,788**	**2,809**	**18,980**

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 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 received by Europropulsion, 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 343,827 thousand in 2017, up Euro 51,818 thousand (+17.7%) on 2016. This net increase is principally due to the differing mix of Ariane program development operations, which in 2017 included the construction of plant and machinery for the P120 motor funded by the ESA at the Colleferro facility, and the VEGA production program.

The above revenues breakdown by business line as follows:

	FY 2017 "Pro-Forma"	FY 2016 "Pro-Forma"	Change
Ariane	150,398	142,955	7,442
Vega	177,116	137,372	39,744
Tactical Propulsion	14,635	10,097	4,538
Other revenue	1,678	1,584	94
Revenues, net of pass-through revenues	**343,827**	**292,009**	**51,818**

EBITDA in 2017 amounted to Euro 39,247 thousand, increasing Euro 14,724 thousand (+60%) on 2016.

EBIT was Euro 25,021 thousand, increasing Euro 14,225 thousand on 2016.

This significant improvement on the previous year principally derives from operations and the reduction of non-recurring costs concerning the corporate operations resulting in the company's stock market listing, in addition to the effect from the contribution of the research and development tax credit. This contribution, benefitting the Group from 2017, concerns the research and development commissioned by the European Space Agency and is recognised to the results on the basis of the advancement of costs incurred for long-term Group orders for research and development to which the contribution refers. The contribution recognised to the income statement in 2017 was Euro 6,147 thousand. Currently, this benefit maturing in 2017, on the basis of the state of advancement of long-term orders which have incurred costs against which the tax credit may be applied, is expected to benefit the medium-term period with an effect on the results of each period depending on the effective level of advancement of the qualifying orders. For additional information on the nature of this contribution, reference should be made to the "Significant events 2017 - Research and development tax credit" section of this report.

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 2017 and 2016 are reported below:

	FY 2017 "Pro-Forma"	FY 2016 "Pro-Forma"	Change
Adjusted EBITDA	**46,493**	**36,411**	**10,082**
Adjusted EBITDA Margin (against revenues net of pass-through revs.)	13.5%	12.5%	
Adjusted EBIT	**32,267**	**22,684**	**9,582**
Adjusted EBIT Margin (against revenues net of pass-through revs.)	9.4%	7.8%	

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" 2017 Adjusted EBITDA was Euro 46,493 thousand (13.5% of net revenues), up Euro 10,082 thousand on Euro 36,411 thousand for 2016 (12.5% of net revenues).
The net increase in the margin is principally due to the combined effect of the differing mix of activities, the reduction in some operating costs, in addition to the above-stated contribution of research and development tax credits, which will be recognised on a recurring basis from financial year 2017 according to the level of advancement of the costs relating to long-term orders for research and development.

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.
The "pro-forma" 2017 Adjusted EBIT was Euro 32,267 thousand (9.4% of net revenues), up Euro 9,582 thousand on Euro 22,684 thousand for 2016 (7.8% of net revenues). As part of the "Purchase Price Allocation" commented upon in the "Subsequent events" section, the value of intangible assets was recalculated on the basis of those held by customers and for programme participation which, on the basis of the new useful life estimate, are no longer considered non-recurring. The components and movements of the EBIT and adjusted EBIT reconciliation items are the same as those commented upon for Adjusted EBITDA.

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

			FY 2017 "Pro-Forma"	FY 2016 "Pro-Forma"	Change
A	**EBIT**		**25,021**	**10,797**	**14,224**
	Non-recurring Charges/(Income) comprising:				
	- Additional issues / incentives		1,478	3,946	(2,468)
	- Corporate, legal and tax consultancy and services for IPO		3,472	6,127	(2,654)
	- Corporate, legal and tax consultancy and services		1,918	2,815	(896)
	- Costs for cash-settled share-based payment plans and other personnel costs		(445)	(1,016)	571
	- Registration tax provision			58,220	(58,220)
	- (Indemnity) registration tax			(58,220)	58,220
	- Provisions (utilisations and releases) of tax risk provisions		(26)	(4,113)	4,087
	- Other non-recurring charges/(income)		415	2,935	(2,521)
B	**Total Non-recurring Charges/(Income)**		**6,813**	**10,694**	**(3,881)**
C	*Investor Fees*		433	1,194	(761)
D	**Adjusted EBIT**	**A+B+C**	**32,267**	**22,684**	**9,582**
A N D	Amortisation & Depreciation		14,226	13,727	499
	Adjusted EBITDA	**D+E**	**46,493**	**36,411**	**10,082**

(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. The reduction on the previous year refers principally to that fact that in 2016 costs were present for an incentive plan consisting of a one-off bonus based on the successful outcome of the Space2-Avio transaction ("Exit Bonus 2017"), allocated to Avio Group Senior Management and also for retainment purposes, in addition to an incentive plan for the Chairman and the Vice Chairman of the Board of

Directors of Avio in office before the Space2-Avio transaction. The account in 2017 principally concerned leaving incentive provisions.

(2) It refers principally to outside consultancy costs for the company's listing, including costs incurred by the SPAC Space2, mainly in 2016 and until the stock market listing in the initial part of 2017.

(3) The account relates to the release of excess amounts provisioned in previous years in relation to the "LTIP" Long-term Incentive Plan.

(4) 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.

(5) The account, relating to financial year 2016, principally concerned the release of provisions for tax risks and charges established in previous years, principally in relation to the risk of penalties arising from disputes concerning the LBO operation, following the declaration by the Tax Agency of its intention to refrain from issuing penalties.

(6) 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.

(7) 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 portion of the shareholder Leonardo S.p.A. until the Avio-Space2 merger date, in addition to that concerning operations in the year carried out by Space Holding S.p.A..

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 was 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 in May 2015, while the Revolving Facility line was not utilised.

As part of the Space2-Avio transaction, on December 2016 Avio obtained from the lending banks a waiver on the merger clauses, which constituted a default event, and on the change of control clause, which on occurrence provides for the immediate repayment of the outstanding credit line amounts. Therefore, as an exception to these provisions, the loan became repayable at the first date between the completion of six months from the Effective Merger Date (fixed at October 10, 2017) and December 31, 2017.

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 above 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).

On October 6, 2017, Avio S.p.A. repaid, through recourse to own funds, the entire residual capital portion of the "Term Loan A" tranche of approx. Euro 30 million, fully repaying therefore the entire amount of the pre-existing loan, and simultaneously agreeing with the European Investment Bank (EIB) a loan of Euro 40 million.

This loan contract with the EIB was structured so as to provide for full "drawdown" in October 2017 at a fixed interest rate and is of 7 years duration, of which 2 constituting a grace period and repayment in ten equal half-yearly instalments from the third to the seventh years, of which the first maturing on April 30, 2020 and the final maturing on October 31, 2024. This is not supported by guarantees and stipulates the application of covenants (Gross Financial Debt/EBITDA and Gross Financial Debt/Equity), among other covenants. To date, these covenants have been complied with.
Hedging derivatives have been agreed on this loan.

It falls within the scope of a joint EIB, Ministry for Economic Development and Ministry for the Economy initiative supporting investment in innovation.

Therefore, the 2017 "pro-forma" net financial results reports a charge of approx. Euro 3.6 million, decreasing Euro 1.3 million on 2016, principally due to the combined effect of the charges related to the early repayment of the previous bank loan (with income statement impact, but without financial effect), more than offset by lower interest on the same bank loan repaid in two tranches in May and October 2017, in addition to the effect of the reduced cost of the new EIB loan in the final part of the year.

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	*Purchase Price Allocation*	
Tangible assets and investment property	61,789		61,789					61,789
Goodwill	221,000		221,000			(141,924)	(18,070) [1]	61,005
Intangible assets with definite life	90,677		90,677				25,387	116,064
Investments	5,728	50	5,778	85,040	(50)	(85,040)		5,728
Total fixed assets	**379,194**	**50**	**379,244**	**85,040**	**(50)**	**(226,965)**	**7,317**	**244,586**
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			26,466	(7,317)	75,236
Provisions for risks and charges	(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)**	**(200,499)**	**-**	**206,023**
Non-current financial assets	7,440	10	7,450					7,450
Net capital employed & Non-current financial assets	**328,701**	**450**	**329,151**	**84,871**	**(50)**	**(200,499)**	**-**	**213,473**
Net financial position	**(18,600)**	**304,611**	**286,011**	**(84,871)**	**(152,797)**			**48,343**
Equity	(310,101)	(305,061)	(615,162)		152,847	200,499		(261,816)
Source of funds	**(328,701)**	**(450)**	**(329,151)**	**(84,871)**	**50**	**200,499**	**-**	**(213,473)**

[1]: *Net change of Goodwill following the Purchase Price Allocation.*

The "Avio Group 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, finally, the effect of the merger by incorporation of Avio S.p.A. on April 10, 2017 and the subsequent purchase price allocation as per IFRS 3.
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 December 31, 2017 figures (Euro thousands).

Following the purchase price allocation process of the Avio Group by Space2, the merger deficit from the transaction was allocated to the separate financial statements as follows:

- to two intangible assets relating to aerospace programmes for Euro 44,875 thousand; on the other hand, the intangible asset relating to the programme accreditation of the Group was adjusted, identified within the purchase price allocation process undertaken in 2007 of the Group by the previous owner, for Euro 19,398 thousand: the effect on "Intangible assets with definite life", net of the deferred tax effect, was therefore Euro 25,387 thousand; and

- residually goodwill for an amount of Euro 61,005 thousand.

Balance sheet analysis

In the following "Pro-Forma" table, the balance sheet is summarised considering the amounts at December 31, 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 December 31, 2017 figures (Euro thousands).

	December 31, 2017	December 31, 2016 "Pro-Forma"	Change
Tangible assets and investment property	74,685	61,789	12,896
Goodwill	61,005	61,005	-
Intangible assets with definite life	117,577	116,064	1,513
Investments	6,347	5,728	619
Total fixed assets	**259,614**	**244,586**	**15,028**
Net working capital	**(25,114)**	**(27,717)**	**2,603**
Other non-current assets	65,521	67,448	(1,927)
Other non-current liabilities	(116,270)	(117,734)	1,464
Net deferred tax assets	76,547	75,236	1,311
Provisions for risks and charges	(16,340)	(24,865)	8,525
Employee benefits	(10,907)	(10,930)	23
Net capital employed	**233,052**	**206,023**	**27,028**
Non-current financial assets	7,440	7,450	(10)
Net capital employed & Non-current financial assets	**240,492**	**213,473**	**27,018**
Net Financial Position	41,714	48,343	(6,629)
Equity	(282,205)	(261,816)	(20,389)
Source of funds	**(240,492)**	**(213,473)**	**(27,018)**

"Total fixed assets" amounted to Euro 259,614 thousand at December 31, 2017, increasing Euro 15,028 thousand on the "Pro-Forma" amount at December 31, 2016 as a combined effect of the following movements:

- the net increase of Property, plant and equipment of Euro 12,896 thousand, principally due to investments in progress in buildings, for execution of the new P120 engine project for Euro 11,100 thousand, net of depreciation in the year;
- net increase in Intangible assets with definite life for Euro 1,513 thousand, relating to the increases for capitalised development costs;
- increase in Investments for Euro 619 thousand, due to the change in the period relating to the investment in the jointly-controlled company Europropulsion S.A., which is measured at equity, increasing due to the 50% share of profits matured in the period January 1, 2017 to December 31, 2017 of Euro 3,079 thousand, net of Euro 2,460 thousand for dividends paid in the same period.

"Net working capital" reports a net increase of Euro 2,603 thousand, resulting in an excess of liabilities over assets of Euro 25,114 thousand. The main components are outlined in the following table (in Euro thousands):

	December 31, 2017	December 31, 2016 "Pro-Forma"	Change
Contract work-in-progress, net of advances	(131,282)	(131,875)	593
Raw materials inventories and advances to suppliers	125,789	133,092	(7,303)
Trade payables	(89,441)	(57,298)	(32,144)
Trade receivables	8,508	10,907	(2,399)
Other current assets and liabilities	61,313	17,456	43,857
Net working capital	**(25,114)**	**(27,717)**	**2,603**

The "Net working capital" (current trading) was substantially unchanged due to the combined effect of an increase in trade payables, principally due to higher operating volumes (including the effect of payables for pass-through costs of Euro 8,276 thousand), intensified by the seasonal effect towards the end of the year, offset by an increase in VAT receivables and the research and development tax credits previously commented upon in the "Other 2017 significant events" section.

"Other current assets and liabilities" of net working capital reported a net increase of Euro 44,658 thousand to Euro 61,313 thousand. The main components are outlined in the following table (in Euro thousands):

	December 31, 2017	December 31, 2016 "Pro-Forma"	Change
VAT receivables	46,459	29,087	17,372
Research and development tax receivables	20,000		20,000
Tax receivables	5,771	3,342	2,430
Other current assets	8,664	5,320	3,343
Current income tax liabilities	(1,982)	(2,527)	546
Other current liabilities	(17,600)	(18,567)	967
Other current assets and liabilities	**61,313**	**16,655**	**44,658**

The "VAT Receivable" increased Euro 17,372 thousand in the year to Euro 46,459 thousand at December 31, 2017, principally due to the maturation by the Group of VAT receivables on purchases from third parties not offset with the VAT payables on sales, as such were principally made 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, from 2018 VAT will no longer be applied on purchases. The benefits of the positive outcome from the ruling, with the consequent reduction in VAT receivables, are therefore expected from January 1, 2018, as described in greater detail in the Explanatory Notes.

With regards to the research and development tax credit, reference should be made to that previously stated in the "Other 2017 significant events" section.

The "Other non-current assets" and "Other non-current liabilities" in the balance sheet 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. any 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 2017 in the "Provision for risks and charges" account of Euro 8,525 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 3.7 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 0.8 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 year of approx. Euro 5.0 million, mainly regarding remuneration for the achievement of individual and company objectives, in addition to the utilisation of tax provisions established in previous years for approx. Euro 2.1 million against the settlement of disputes.

Analysis of the financial position

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

	Dec 31, 2017	Dec 31, 2016 "Pro-Forma"	Change
Cash and cash equivalents	107,033	87,620	19,413
(A) Liquidity	**107,033**	**87,620**	**19,413**
(B) Current financial assets	-	66,499	(66,499)
(C) Total current financial assets (A+B)	**107,033**	**154,119**	**(47,085)**
Financial payables on interest rate hedges		(312)	312
Current financial payables to companies under joint control	(25,259)	(13,850)	(11,409)
(D) Current financial liabilities	**(25,259)**	**(14,162)**	**(11,098)**
Current portion of non-current bank payables	(60)	(91,615)	91,555
(E) Current portion of non-current financial payables	**(60)**	**(91,615)**	**91,555**
(F) Current financial debt (D+E)	**(25,319)**	**(105,776)**	**80,457**
(G) Net current financial position (C+F)	**81,714**	**48,342**	**33,371**
Non-current portion of bank payables	(40,000)	-	(40,000)
(H) Non-current financial liabilities	**(40,000)**	**-**	**(40,000)**
(I) Net non-current debt (H)	**(40,000)**	**-**	**(40,000)**
(J) Net Financial Position (G-I) *(Note 1)*	**41,714**	**48,342**	**(6,629)**

(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.

In 2017 these resources, together with the cash and cash equivalents at December 31, 2016 of the Avio Group, were utilised partly to repay the previous bank loan and partly to fund industrial development operations of the Avio Group post-merger.

The net financial position reduced from a "Pro-Forma" cash position of Euro 48,342 thousand at December 31, 2016 to Euro 41,714 thousand at December 31, 2017, reducing Euro -6,629 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 December 31, 2017 amounts to Euro 282,205 thousand, increasing Euro 20,389 thousand compared to the "Pro-Forma" Equity at December 31, 2016, as a result of the following main movements:

- recognition of the consolidated net profit of Euro 21,788 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 203 thousand due to the conversion of market warrants;
- increase of Euro 318 thousand relating to the cash flow hedge reserves settled in the year and actuarial gains/losses.

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.

Research and development costs incurred overall by the Avio Group in 2017 amounted to Euro 177.2 million (Euro 126.9 million in 2016), equating to 46.0% of gross consolidated revenues in 2017 (37.4% in 2016).

Net of pass-through costs, research and development by the Group in 2017 incurred costs of Euro 135.8 million, 39.5% of revenues net of pass-through revenues (Euro 79.2 million in 2016, equal to 27.1% of revenues net of pass-through revenues). These costs principally contributed to the research and development tax credit commented upon in the "Significant events in 2017" section.

Self-financed and executed activities amounted in 2017 to Euro 12.4 million (Euro 11.8 million in 2016).

Self-financed activities in 2017 included Euro 8.9 million relating to development costs capitalised as Intangible assets with definite life (Euro 9.0 million in 2016) and Euro 3.4 million concerning research costs or development costs not capitalisable and directly recharged to the income statement (Euro 2.9 million in 2016).

The total amount of costs related to self-financed activities charged to the income statement in 2017 was Euro 8.0 million (Euro 6.0 million in 2016), comprising Euro 3.4 million of directly expensed non-capitalisable costs (Euro 2.9 million in 2016) and Euro 4.6 million for the amortisation of development costs capitalised (principally) in previous years (Euro 3.2 million in 2016).

In 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 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 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 2018, 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 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 December 31, 2017, Group employees numbered 782, increasing on 758 at December 31, 2016. The number of employees does not include the company Europropulsion S.A. (89), consolidated at equity. The majority of the workforce is employed by the parent company Avio S.p.A., which at the same date numbers 596 (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.
In October 2017, the reorganisation of the Staff Departments was completed, positioning the "Human Resources and Organisation" and "IT Systems" departments at the 1st level of the Organisation, reporting directly to the CEO. In parallel, the "General Affairs and Staff coordination" unit, to which the above Departments belonged, was removed.
In November 2017, the organisational structure of ELV was updated, separating the scopes and responsibilities associated with launcher development and production from those concerning research and technological development and testing, acceptance and control.
The "Communication and External Relations" Department was developed further in the year and in December 2017, with the specific objective of strengthening the international and institutional relations of the company, the "Industrial Relations" function was established within the department.

Industrial Relations

Discussions with the trade unions, particularly Unified Trade Unions (RSU's), continued in 2017. An agreement was reached on a new method of making use of ROL rest days (additional rest days provided under collective contracts).
In the first half of the year, 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 signed in the second half of the year.
An agreement was in addition signed for the introduction of the "impartial" system and, also together with the trade unions, a number of modifications were introduced to make working hours more flexible, while a new method of utilising parental leave was introduced.
The RSU's were also involved in the definition of summer closing periods.
At year-end, the annual meeting between company management and the regional trade unions on production volume performance was held.
No strikes or actions against the company took place during the year.

Development and Training

In 2017, 25 new graduates were hired in various roles, of which 5 managerial, 8 professional and 12 administrative, according to various degrees of experience and specific skills in line with business maintenance and development needs.

Similarly, during the year 14 professional roles, equivalent to 5% 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 80% of cases represented opportunities for professional growth for the staff involved.

In terms of Personnel Development, in 2017, specifically for the "Industrial Operations" area, 4 employees transferred from the blue-collar category to the white-collar category. In addition, 10.22% of the white-collar category were involved in development initiatives. Specifically, in 10 cases, a Professional qualification was achieved, Manager qualification in 10 and Professional Expert in 7.

In support of learning and training at Group level, during 2017 approx. 2,390 days were provided, including: training meetings, updating and professional development informative meetings and courses, held both in classrooms and through e-learning. 2,914 participations were estimated, involving approx. 98% of the company workforce, on average involving 2 days of training per head. Approximately 22% 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 in the classroom and on-the-job on specialized and critical manufacturing processes
- development of managerial skills;
- participation at 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 and individual language training (French/English).

Regarding training methods, the structured learning organization model continued, in which:

- the organization learns through the active involvement of managers and participants through interviews 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.

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 Market at Piazza Affari, the home of the Italian Stock Exchange. The Stock Exchange event was hosted by the Italian European Space Agency astronaut Samantha Cristoforetti.
In 2017, Avio organized a number of important institutional visits. In March, the President of the European Parliament, Antonio Tajani, visited Avio's production facilities; in April, it was the turn of the Minister for Defense Roberta Pinotti. Finally, in June, the Prime Minister, Paolo Gentiloni, accompanied by his staff, met Avio employees during an official visit to the new Colleferro plant. At the event with the Italian Prime Minister, in addition to Avio's Chief Executive Officer Giulio Ranzo, the Management team, Avio's 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 attended.

In June, Avio participated in the Paris International Space Show at Le Bourget. The stand featured 1:10 scale models of the new Vega C, Vega E and Vega L (light) launchers and the brand new

Small Spacecrafts Mission Service (SSMS) for multiple satellite launches. Also on show were the first Vinci turbopumps for Ariane 6, the LOx Mira engine, the Zefiro 23 nozzle and the composite skirts of the engines Z23, Z40, P80 and P120C. Z23, Z40, P80 and P120C. Several important contracts for Avio were signed during the event, in particular the first agreement for two flights with the new Vega C launcher.

In July, the company 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 and Vega C launchers.

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.

A total of 6 Ariane 5 launches took place. The final mission, for the correct positioning into orbit of four Galileo constellation satellites (navigation and localisation) was completed on December 13, 2017.

Three Vega flights took place in 2017: in March, the earth observation satellite Sentinel 2 B entered into orbit, while in August Vega perfectly put into orbit an Italian-Israeli satellite, OPSAT-3000, and the Venus Franco-Israeli satellite, both for earth observation. Its final mission of November 2017 saw Vega put into orbit for the first time a Moroccan satellite, MOHAMMED VI-A, for earth observation. With its final launch from the French Guyana Space Centre, Vega built further on its world launcher record: 11 successful launches in 5 years without any failures.

In October, Avio signed with the European Investment Bank (EIB) a Euro 40 million loan, which was widely reported upon in the media.
Last November, the company signed in Paris with the ESA two contracts for the development of the Vega E launcher, of low environmental impact as using an oxygen and liquid methane motor, and of the Space Rider vehicle, which will re-enter earth at the end of the mission to be reutilised.

Non-Financial Disclosure

Alongside the 2017 Annual Accounts, Avio is required to prepare Consolidated Non-Financial Disclosure (NFD - as per Legislative Decree 254/216) upon the company's performance with regards to the following aspects: environmental and social impact, personnel activities, respect for human rights and the fight against active and passive corruption. This Disclosure covers the same scope of companies as the Consolidated Financial Statements, therefore the reporting included all of the fully-consolidated companies with relevance in terms of the above-stated material aspects.

For this purpose, an internal team was set up to define and deliver a "Reporting package" in line with that required by the regulation and to optimise the regulatory compliance process, also through analysis of the existing KPI's used by the company. The Consolidated Non-Financial Report prepared as per Legislative Decree No. 254/2016 was approved by the Board of Directors of Avio on March 15, 2018 by means of a specific motion on the agenda, separate from the approval of the separate financial statements at December 31, 2017 and the presentation of the consolidated financial statements at December 31, 2017. It forms a separate document from the 2017 Annual Report.

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.

SUBSEQUENT EVENTS

Business

Vega

In the initial months of 2018, no Vega flights took place. Three are scheduled for the current year.

New P120C motor (Vega C and Ariane 6's first stage)

June 2018 will see the first fire bench test of the P120C (DM1) motor. This event will mark another important step towards Vega C's Qualification Launch, scheduled for the end of 2019.

New Zefiro 40 motor bench test success (Vega C launcher's second stage)

March 7, 2018 saw the successful bench testing of the new Zefiro 40 motor, which is the second stage propulsion system of Vega C, the new European satellite launcher, whose qualification flight is scheduled for the end of 2019. As the latest version of the Vega launcher, Vega C will allow a 60% increase in performance, increasing market access for this launcher from 50% to 90% of Low Earth Orbit (LEO) satellites, a substantial part of which can be launched in multiple payloads.

Ariane 5

The first of the seven Ariane 5 launches scheduled for 2018 was carried out in the first few months of 2018. During the launch, an anomaly in improperly implemented flight software caused the launcher to suffer a trajectory deviation, leading, among other issues, to the loss of telemetry during certain phases of the flight. Although the satellites SES 14 and Yah 3, launched aboard Ariane 5 on this flight, were released on a deviated orbit, they are now operating in orbit normally.
An independent enquiry commission has ascertained the causes of the anomaly, allowing preparations for Ariane 5's second launch of the year to go ahead as planned.
None of the components supplied by Avio or the operations performed by Avio on the launcher were implicated in the cause of the anomaly.

Order intake

In February 2018, Avio signed the last Ariane 5 production lot supply contract with Europropulsion. This "PC" contract provides for the delivery of 10 pairs of Ariane 5 boosters, covering production of the components up until 2022. A further contract for the supply of 10 oxygen turbopumps for the Vulcain stage is set to be signed in the coming few months.

ESA tenders

Avio has been selected by the ESA to carry out feasibility studies under the Business Plan for a mini-launcher. The mini-launcher concept that Avio aims to develop is fundamentally derived from Vega components, which, suitably adapted and optimized, will be able to launch a payload of 200 to 300kg into low Earth orbit.

Other significant events

Acquisition from the subsidiary ELV S.p.A. of the launcher development, production and distribution business unit

With regards to the preliminary contract for the disposal of the business unit of December 2017 by ELV S.p.A. to the parent company Avio S.p.A., as outlined in the "2017 significant events" paragraph above, on March 1, 2018, on completion of the trade union consultation process as per Article 47 of Law No. 428/1990 and the golden power process, as per Legislative Decree No. 21/2012, converted with amendments into Law No. 56/2012, on the basis of the above preliminary contract, ELV S.p.A. and Avio S.p.A. signed the final contract for the disposal of the business unit with effect from that date. The accounting and tax effects of the disposal run also from March 1, 2018.

The sales price of the business unit was Euro 20.3 million, as per an estimate drawn up by a leading independent consultant on the basis of best practice methodologies utilised for such transactions, in addition to sector benchmarks.

With regards to the potential benefits from application of the research and development tax credit as per Article 3 of Legislative Decree No. 145/2013 and the related regulatory framework applied to the activities carried out by the business unit sold by ELV S.p.A. to Avio S.p.A., as at the signing date of the final business unit sales contract these overall potential benefits had not yet been precisely established among the parties as the analysis together with the tax consultants was still ongoing, the parties agreed that the tax credit from application of the above rule was to be included in the business unit sold at the signing date of the final contract, while the valuation of the business unit sold and consequently the sales price at the final contract signing date does not take into account the potential overall expected associated benefits. The parties therefore agreed that, on conclusion of the above analysis, by December 31, 2018 the value of the tax credit included in the business unit sold to Avio S.p.A. would be established, in addition to any adjustment of the consideration on the basis of the established potential overall expected benefits.

Dividend policy

On the same date as the approval of these financial statements, a dividend policy considered sustainable over the medium/long-term on the basis of the economic-financial outlook, the solidity of the capital structure and also in consideration of "capital intensive" investment cycles in the medium to long-term, was submitted for the approval of the Corporate Boards.

The objective of this policy is to distribute a dividend on the basis of:

- a "payout ratio" in a range of between 25% and 50% of the consolidated net profit;
- a "dividend yield" in a range of between 2% and 3.5% of the stock market capitalisation.

Outlook

The full-year 2018 forecast is for overall net revenues (excluding "Pass-through" revenues) growth on 2017, mainly due to increased development operations on the Vega programme.

The revenue forecast is currently covered by the backlog.

Overall operating profits are substantially expected to be in line with 2017, mainly due to reduced earnings on certain developments activities operated through subcontracting.

RESULTS & EQUITY AND FINANCIAL POSITION OF AVIO S.P.A.

Introduction

The 2017 results of Avio S.p.A. were influenced by the corporate transaction completed on March 31, 2017 with the acquisition by Space2 S.p.A., 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 the company (the remaining investment was held by the shareholder Leonardo) and the subsequent merger by incorporation into Space2 S.p.A. effective from April 10, 2017. This corporate transaction resulting in Space2 S.p.A. taking the name Avio S.p.A. impacted the 2017 financial statements and their comparability with the previous Avio Space2 S.p.A. financial statements. Therefore, the "pro-forma" figures illustrated below were prepared for the benefit of the reader, ensuring comparability of the operating performance on the basis of the Avio S.p.A. operations before the transaction, with the addition of Space2 S.p.A's operations.

Results

Obtaining of the "Pro-Forma" results

The following table outlines the process to obtain the 2017 "Pro-Forma" results, commented upon below, beginning with the statutory IAS/IFRS financial statement figures at December 31, 2017.

	Space2 S.p.A. 1.01.2017 - 9.04.2017 (a)	Avio S.p.A. 10.04.2017 - 31.12.2017 (b)	IAS/IFRS Financial Statements Avio S.p.A. FY 2017 (c)=(a)+(b)	Avio S.p.A. 1.01.2017-9.04.2017 (d)	FY 2017 "Pro-Forma" (c)+(d)
Revenues		256,563	256,563	72,214	328,777
of which: Pass-through revenues		41,402	41,402	-	41,402
Revenues, net of pass-through revenues	**-**	**215,161**	**215,161**	**72,214**	**287,375**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished		4,743	4,743	1,403	6,146
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(1,695)	(201,712)	(203,407)	(68,746)	(272,154)
EBITDA	**(1,695)**	**18,192**	**16,497**	**4,871**	**21,368**
Amortisation, depreciation & write-downs		(8,506)	(8,506)	(3,264)	(11,769)
EBIT	**(1,695)**	**9,686**	**7,991**	**1,608**	**9,599**
Interest and other financial income (charges)	428	(2,339)	(1,911)	(1,759)	(3,670)
Net financial charges	**428**	**(2,339)**	**(1,911)**	**(1,759)**	**(3,670)**
Investment income/(charges)		5,340	5,340	-	5,340
Profit before taxes	**(1,267)**	**12,687**	**11,420**	**(152)**	**11,268**
Current and deferred taxes		1,508	1,508		1,508
Total net result	**(1,267)**	**14,195**	**12,928**	**(152)**	**12,776**

The "Space2 S.p.A. 1.01.2017 - 9.04.2017" column reports the costs of the incorporating company Space2 S.p.A. for the period January 1 - April 9, 2017. The "Avio S.p.A. 10.04.2017 - 31.12.2017" column presents the results of Avio S.p.A. for the period between April 10 and December 31, 2017 included as a result of the acquisition and merger in the financial statements of the incorporating company at December 31, 2017, added to the results to April 9 (the day before

the merger) of Space2 S.p.A.. The "Avio S.p.A. IAS/IFRS Financial Statements at December 31, 2017" column presents the income statement results on the basis of IAS/IFRS following the Space2-Avio S.p.A. corporate transaction, reflecting the company resulting from the merger and therefore comprising the results of Space2 S.p.A. between January 1 and April 9, 2017 and the results of the incorporated Avio S.p.A. between April 10 and December 9, 2017.
The "Avio S.p.A. 1.01.2017-9.04.2017" column reports the income statement of the incorporated Avio S.p.A. between January 1, 2017 and April 9, 2017, the date immediately preceding April 10, on which the merger by incorporation into Space2 S.p.A. became effective.
Finally, the "Pro-Forma 2017" column presents the results for the full year 2017 of Avio S.p.A., including the results of Space2 S.p.A., for comparability therefore with 2016.

The following table for the year 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 December 31, 2016.

	IAS/IFRS Financial Statements Space2 S.p.A. FY 2016 (a)	IAS/IFRS Financial Statements Avio S.p.A. FY 2016 (b)	FY 2016 "Pro-Forma" *(a)+(b)*
Revenues	-	299,703	299,703
of which: Pass-through revenues	-	50,848	50,848
Revenues, net of pass-through revenues	**-**	**248,855**	**248,855**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	-	9,276	9,276
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(2,414)	(243,799)	(246,213)
EBITDA	**(2,414)**	**14,332**	**11,918**
Amortisation, depreciation & write-downs	-	(11,041)	(11,041)
EBIT	**(2,414)**	**3,292**	**878**
Interest and other financial income (charges)	2,082	(7,191)	(5,109)
Net financial charges	**2,082**	**(7,191)**	**(5,109)**
Investment income/(charges)	-	4,293	4,293
Profit before taxes	**(332)**	**394**	**62**
Current and deferred taxes	-	263	263
Total net result	**(332)**	**657**	**325**

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

"Pro-Forma" operating results

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

	FY 2017 "Pro-Forma"	FY 2016 "Pro-Forma"	Change
Revenues	328,777	299,703	29,074
of which: Pass-through revenues	41,402	50,848	(9,446)
Revenues, net of pass-through revenues	**287,375**	**248,855**	**38,520**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	6,146	9,276	(3,130)
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(272,154)	(246,213)	(25,941)
EBITDA	**21,368**	**11,918**	**9,449**
Amortisation, depreciation & write-downs	(11,769)	(11,041)	(728)
EBIT	**9,599**	**878**	**8,721**
Interest and other financial income (charges)	(3,670)	(5,109)	1,439
Net financial charges	**(3,670)**	**(5,109)**	**1,439**
Investment income/(charges)	5,340	4,293	1,047
Profit before taxes	**11,268**	**62**	**11,207**
Current and deferred taxes	1,508	263	1,245
Total net result	**12,776**	**325**	**12,452**

Revenues net of "pass-through" revenues were Euro 287,375 thousand, up Euro 38,520 thousand (+15.5%) on 2016. This net increase is principally due to the differing mix of Ariane program development operations, which in 2017 included the construction of buildings, plant and machinery at the Colleferro facility, and the VEGA production program, for which Avio S.p.A. acted as supplier for the subsidiary ELV S.p.A...

EBITDA in 2017 amounted to Euro 21,368 thousand, up Euro 9,449 thousand (+79.3%) on 2016.

EBIT was Euro 9,599 thousand, increasing Euro 8,721 thousand on 2016.

These results are principally the result of a differing mix of activities, in addition to lower non-recurring costs for the company's stock market listing.

For further information on the operating performance, reference should be made to the preceding section of the Directors' Report "Analysis of the results and balance sheet of the Group".

Financial results analysis

During the year, the "Senior Term and Revolving Facility" signed in April 2015 with a banking syndicate was settled in advance and a new loan with the EIB was signed. In this regard, reference should be made to the "Analysis of the results and balance sheet of the Group" section of the Directors' Report.

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 the separate Avio S.p.A. financial statements at December 31, 2016.

	Avio S.p.A 31/12/2016	Space2						31/12/2016 "Pro-Forma"
		31/12/2016	Aggregate	Acquisition Avio	Spin-off Space3 S.p.A.	Avio Merger	*Purchase Price Allocation*	
Property, plant & equipment	35,362		35,362					35,362
Goodwill	219,100		219,100			(127,271)	(30,823)[1]	61,005
Intangible assets with definite life	90,044		90,044				25,387	115,431
Investments	65,231	50	65,281	85,040	(50)	(85,040)	12,753	77,984
Total fixed assets	**409,737**	**50**	**409,787**	**85,040**	**(50)**	**(212,311)**	**7,317**	**289,782**
Net working capital	**(57,719)**	**390**	**(57,329)**	**(170)**				**(57,498)**
Other non-current assets	67,279		67,279					67,279
Other non-current liabilities	(117,380)		(117,380)					(117,380)
Net deferred tax assets	54,520		54,520			26,466	(7,317)	73,670
Provisions for risks and charges	(15,045)		(15,045)					(15,045)
Employee benefits	(8,344)		(8,344)					(8,344)
Net capital employed	**333,048**	**440**	**333,488**	**84,871**	**(50)**	**(185,845)**	**-**	**232,463**
Non-current financial assets	7,440	10	7,450					7,450
Net capital employed & Non-current financial assets	**340,488**	**450**	**340,938**	**84,871**	**(50)**	**(185,845)**	**-**	**239,913**
Net financial position	**(53,533)**	**304,611**	**251,078**	**(84,871)**	**(152,797)**			**13,410**
Equity	(286,955)	(305,061)	(592,016)		152,847	185,845		(253,323)
Source of funds	**(340,488)**	**(450)**	**(340,938)**	**(84,871)**	**50**	**185,845**	**-**	**(239,913)**

[1]: Net change of Goodwill following the Purchase Price Allocation.

The "Avio S.p.A. 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, the effect of the merger by incorporation of Avio S.p.A. on April 10, 2017 and the subsequent purchase price allocation as per IFRS 3.
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 December 31, 2017 figures (Euro thousands).

Following the purchase price allocation process of the Avio Group by Space2, the merger deficit from the transaction was allocated to the separate financial statements as follows:

- to two intangible assets relating to aerospace programmes for Euro 44,875 thousand; on the other hand, the intangible asset relating to the programme accreditation of the Group was adjusted, identified within the purchase price allocation process undertaken in 2007 of the Group by the previous owner, for Euro 19,398 thousand: the effect on "Intangible assets with definite life", and therefore on the net amount, was Euro 25,387 thousand;

- the investments in the subsidiaries Regulus and ELV and in the jointly-controlled Europropulsion which presented, at the acquisition date, Equity amounts greater than the respective investments for a total amount of Euro 12,753 thousand; and

- residually goodwill for an amount of Euro 61,005 thousand.

Balance sheet analysis

In the following "Pro-Forma" table, the balance sheet is summarised considering the amounts at December 31, 2017 of Avio S.p.A. 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 December 31, 2017 figures (Euro thousands).

	December 31, 2017	**December 31, 2016 "Pro-Forma"**	**Change**
Property, plant & equipment	47,833	35,362	12,471
Goodwill	61,005	61,005	-
Intangible assets with definite life	117,175	115,431	1,745
Investments	78,440	77,984	456
Total fixed assets	**304,454**	**289,782**	**14,672**
Net working capital	**(43,427)**	**(57,498)**	**14,071**
Other non-current assets	65,353	67,279	(1,926)
Other non-current liabilities	(115,489)	(117,380)	1,891
Net deferred tax assets	74,685	73,670	1,015
Provisions for risks and charges	(8,114)	(15,045)	6,931
Employee benefits	(8,171)	(8,344)	173
Net capital employed	**269,290**	**232,463**	**36,827**
Non-current financial assets	7,440	7,450	(10)
Net capital employed & Non-current financial assets	**276,730**	**239,913**	**36,817**
Net Financial Position	(9,640)	13,410	(23,050)
Equity	(267,089)	(253,323)	(13,766)
Source of funds	**(276,730)**	**(239,913)**	**(36,816)**

For further information on the equity differences, reference should be made to the preceding section of the Directors' Report "Analysis of the results and balance sheet of the Group".

"Net working capital" reports a net increase of Euro 14,071 thousand, resulting in an excess of liabilities over assets of Euro 43,427 thousand. The main components are outlined in the following table (in Euro thousands):

	December 31, 2017	December 31, 2016 "Pro-Forma"	Change
Contract work-in-progress, net of advances	(83,031)	(102,831)	19,800
Raw materials inventories and advances to suppliers	75,871	81,620	(5,749)
Trade payables	(77,004)	(58,647)	(18,357)
Trade receivables	7,224	9,818	(2,594)
Other current assets and liabilities	33,513	12,541	20,972
Net working capital	**(43,427)**	**(57,498)**	**14,071**

"Other current assets and liabilities" of net working capital reported a net increase of Euro 20,972 thousand to Euro 33,513 thousand. The main components are outlined in the following table (in Euro thousands):

	December 31, 2017	December 31, 2016 "Pro-Forma"	Change
VAT receivables	33,615	16,776	16,839
Tax receivables	3,451	3,199	252
Other current assets	9,205	5,108	4,097
Current income tax liabilities	(1,329)	(1,268)	(61)
Other current liabilities	(11,429)	(11,274)	(155)
Other current assets and liabilities	**33,513**	**12,541**	**20,972**

In terms of the increase in VAT receivables, reference should be made to the preceding section of the Directors' Report "Analysis of the results and balance sheet of the Group".

Analysis of the financial position

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

	Dec 31, 2017	Dec 31, 2016 "Pro-Forma"	Change
Cash and cash equivalents	100,424	84,639	15,785
(A) Liquidity	**100,424**	**84,639**	**15,785**
(B) Current financial assets	-	66,944	(66,944)
(C) Total current financial assets (A+B)	**100,424**	**151,583**	**(51,160)**
Financial payables on interest rate hedges		(312)	312
Current financial payables to subsidiaries and companies under joint control	(70,004)	(46,247)	(23,757)
(D) Current financial liabilities	**(70,004)**	**(46,558)**	**(23,445)**
Current portion of non-current bank payables	(60)	(91,615)	91,555
(E) Current portion of non-current financial payables	**(60)**	**(91,615)**	**91,555**
(F) Current financial debt (D+E)	**(70,064)**	**(138,173)**	**68,109**
(G) Net current financial position (C+F)	**30,360**	**13,410**	**16,949**
Non-current portion of bank payables	(40,000)	-	(40,000)
(H) Non-current financial liabilities	**(40,000)**	**-**	**(40,000)**
(I) Net non-current debt (H)	**(40,000)**	**-**	**(40,000)**
(J) Net Financial Position (G-I) *(Note 1)*	**(9,640)**	**13,410**	**(23,051)**

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".*

Change principally relating to investments in the year and the net working capital movements.

Analysis of equity

Equity at December 31, 2017 amounts to Euro 267,089 thousand, increasing Euro 13,766 thousand on December 31, 2016, as a result of the combined effect of the following main developments:

- 2016 net profit of Euro 12,776 thousand;
- increase of Euro 203 thousand due to the conversion of market warrants;
- increase of Euro 318 thousand relating to the cash flow hedge reserves settled in the year and actuarial gains/losses;
- increase of Euro 469 thousand in the other reserves as part of the purchase price allocation process.

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 its governance system to the regulations reported therein. In particular, the listed company has adopted an Inside Information Processing Policy and an Internal Dealing Policy, as approved by the Board of Directors of Space2 on 29/09/2016, in addition to a Related Party Transactions Policy, adopted by the Board of Directors of Space2 on 19/01/2017, with effect from the acquisition date.
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:
1) at the meeting of 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.

2) at the meeting of September 13, 2017
- the new versions of the Related Party Transactions Policy and the Internal Dealing Policy, following a number of market abuse regulatory updates.

3) at the meeting of December 21, 2017
- the new updated version of the Inside Information Processing Policy, incorporating a number of Consob recommendations concerning the management of inside information set out in the Guidelines published by the body on October 13, 2017.
- the Internal Audit Plan for 2018, outlining the audit activities on the Internal Control System scheduled in the year, the audit activities related to Legislative Decree 231/2001 agreed with the Supervisory Board of the company, in addition to the support to the Executive Officer with regards to the Law 262/2005 controls and to the Supervisory Boards of the Italian subsidiaries.

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

In inviting you to approve the 2017 Annual Accounts of Avio S.p.A., drawn up as per IFRS and reporting a net profit of Euro 12,928 thousand, taking account of the dividend policy under approval, we propose the allocation of the result as follows:

- Euro 10,017 thousand as dividend;
- Euro 2,911 thousand to retained earnings.

Simultaneously, we propose the allocation of part of the Share premium reserve of Euro 163,897 thousand, for Euro 18,185 thousand for the reconstitution of the Legal Reserve up to one-fifth of the Share Capital and for Euro 1,456 thousand as coverage of the ex-Space 2 S.p.A. 2015 share capital increase reserve.

* * *

March 15, 2018

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET	Note	December 31, 2017	December 31, 2016 [1]
(in Euro)			
ASSETS			
Non-current assets			
Property, plant & equipment	3.1	71,852,360	
Investment property	3.2	2,832,219	
Goodwill	3.3	61,005,397	
Intangible assets with definite life	3.4	117,577,280	
Investments	3.5	6,346,612	50,000
Non-current financial assets	3.6	7,440,000	10,000
Deferred tax assets	3.7	76,546,723	
Other non-current assets	3.8	65,521,105	
Total non-current assets		**409,121,695**	**60,000**
Current assets			
Inventories	3.9	125,789,247	
Contract work in progress	3.10	111,236,680	
Trade receivables	3.11	8,507,533	
Current financial assets	3.12	-	304,165,745
Cash and cash equivalents	3.13	107,033,059	444,788
Tax receivables	3.14	72,230,694	1,013,555
Other current assets	3.15	8,663,659	107,852
Total current assets		**433,460,873**	**305,731,940**
Assets held-for-sale and Discontinued Operations	3.42	-	-
		-	-
TOTAL ASSETS		**842,582,567**	**305,791,940**

[1] The figures at December 31, 2016 and for the year 2016 refer to the financial statements of Space2 S.p.A. which merged by incorporation Avio S.p.A. on April 10, 2017 and was renamed Avio S.p.A..

CONSOLIDATED BALANCE SHEET	Note	December 31, 2017	December 31, 2016 [1]
(in Euro)			
EQUITY			
Share capital	3.16	90,964,212	30,845,000
Share premium reserve	3.17	163,897,217	277,155,000
Other reserves	3.18	(4,682,849)	(2,896,914)
Retained earnings		3,611,315	289,682
Group net profit		18,360,625	(331,964)
Total Group Equity	3.19	**272,150,519**	**305,060,804**
Equity attributable to non-controlling interests	3.20	**10,054,880**	
TOTAL NET EQUITY		**282,205,399**	**305,060,804**
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	3.21	40,000,000	
Employee benefit provisions	3.22	10,906,705	
Provisions for risks and charges	3.23	7,788,960	
Other non-current liabilities	3.24	116,269,657	
Total non-current liabilities		**174,965,322**	**-**
Current liabilities			
Current financial liabilities	3.25	25,259,221	
Current portion of non-current financial payables	3.26	60,000	
Provisions for risks and charges	3.22	8,550,872	
Trade payables	3.27	89,441,365	580,780
Advances for contract work-in-progress	3.10	242,518,981	
Current income tax liabilities	3.28	1,981,723	88,450
Other current liabilities	3.29	17,599,685	61,906
Total current liabilities		**385,411,847**	**731,136**
TOTAL LIABILITIES		**560,377,169**	**731,136**
Liabilities available-for-sale and discontinued operations	3.42	-	-
		-	-
TOTAL LIABILITIES AND EQUITY		**842,582,567**	**305,791,940**

[1] The figures at December 31, 2016 and for the year 2016 refer to the financial statements of Space2 S.p.A. which merged by incorporation Avio S.p.A. on April 10, 2017 and was renamed Avio S.p.A..

CONSOLIDATED INCOME STATEMENT	Note	Year 2017 [2]	Year 2016 [1]
(in Euro)			
Revenues	3.30	325,331,684	
Change in inventory of finished products, in progress and semi-finished		(201,741)	
Other operating income	3.31	4,527,791	
Consumption of raw materials	3.32	(98,573,405)	(50)
Service costs	3.33	(155,101,661)	
Personnel expenses	3.34	(46,694,948)	
Amortisation & Depreciation	3.35	(10,628,811)	
Write-down and write-backs		-	
Other operating costs	3.36	(6,498,068)	(2,413,529)
Effect valuation of investments under equity method - operating income/(charges)	3.37	2,513,093	
Costs capitalised for internal works	3.38	9,312,658	
EBIT		**23,986,593**	**(2,413,579)**
Financial income	3.39	1,418,689	2,081,615
Financial charges	3.40	(3,377,345)	
NET FINANCIAL INCOME/(CHARGES)		**(1,958,655)**	**2,081,615**
Effect valuation of investments under equity method - financial income/(charges)			
Other investment income/(charges)			
INVESTMENT INCOME/(CHARGES)		**-**	**-**
PROFIT BEFORE TAXES AND DISCONTINUED OPERATIONS		**22,027,938**	**(331,964)**
Income taxes	3.41	369,477	
PROFIT FROM CONTINUING OPERATIONS		**22,397,415**	**(331,964)**
NET PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS	3.42	**-**	**-**
NET PROFIT		**22,397,415**	**(331,964)**
-- of which: Owners of the parent		18,360,625	
Non-controlling interests		4,036,790	
Basic earnings per share	3.43	0.73	(0.012)
Diluted earnings per share	3.43	0.70	(0.011)

[1] The figures for the year 2016 refer to the financial statements of Space2 S.p.A. which merged by incorporation Avio S.p.A. on April 10, 2017 and was renamed Avio S.p.A..
[2] For a detailed analysis, reference should be made to the Director's Report.

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT	**Year 2017** [2]	**Year 2016** [1]
(in Euro)		
NET PROFIT (A)	**22,397,415**	**331,964**
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	2,318	
Gains/(losses) recorded directly to equity (which will be subsequently reclassified to P&L)		
- Gains/(losses) on cash flow hedge instruments recorded directly to cash flow hedge reserve	316,508	
Tax effect on other gains/(losses)	(5,788)	
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	**313,038**	**-**
COMPREHENSIVE INCOME FOR THE YEAR (A+B)	**22,710,453**	**331,964**
-- of which: Owners of the parent	18,676,633	
Non-controlling interests	4,033,820	

[1] The figures for the year 2016 refer to the financial statements of Space2 S.p.A. which merged by incorporation Avio S.p.A. on April 10, 2017 and was renamed Avio S.p.A..
[2] 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	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)	-		-
Net profit for the year								(332)	(332)		(332)
Equity at 31/12/2016	**30,845**	**277,155**	**15**	**-**	**-**	**(2,912)**	**290**	**(332)**	**305,061**	**-**	**305,061**
Allocation of prior year result							(332)	332	-		-
Distribution dividends										(1,920)	(1,920)
Effects deriving from Business Combination with Avio (March 31, 2017)	75,339	25,615	-	(317)	(3,245)	-	3,559	-	100,951	8,033	108,984
Effects deriving from spin-off to Space3 (April 5, 2017)	(15,423)	(138,873)	(8)			1,456			(152,847)		(152,847)
Execcise Warrants	203								203		203
Net profit for the year								18,361	18,361	3,945	22,305
Other changes							94		94		94
Other Gains/(Losses):											
- Change in fair value of hedges				317					317		317
- Actuarial gains/(losses), net of tax effect					12				12	(3)	9
Comprehensive income for year	-	-		317	12		94	18,361	18,783	3,942	22,724
Equity at 31.12.2017	**90,964**	**163,897**	**7**	**-**	**(3,234)**	**(1,456)**	**3,611**	**18,361**	**272,150**	**10,055**	**282,205**

CONSOLIDATED CASH FLOW STATEMENT

(Euro thousands)

		2017 (2)	2016 (1)
OPERATING ACTIVITIES			
Net profit for the year		22,397	(332)
Adjustments for:			
- Income taxes		(369)	
- (Income)/charges from equity investments		(2,513)	
- Financial (Income)/Charges		1,959	1,903
- Amortisation & Depreciation		10,629	
- (Gains)/losses on sale of property, plant & equipment & other (income)/charges		-	
Dividends received		2,460	
Net change provisions for risks and charges		(6,445)	
Net change employee provisions		65	
Changes in:			
- Inventories		5,372	
- Contract work-in-progress & advances		10,286	
- Trade receivables		(1,076)	(649)
- Trade payables		14,454	465
- Other current & non-current assets		(37,375)	
- Other current & non-current liabilities		(3,485)	
Income taxes paid		(973)	
Interest paid		(2,147)	
Net liquidity generated/(employed) in operating activities	(A)	**13,237**	**1,387**
INVESTING ACTIVITIES			
Investments in:			
- Tangible assets and investment property		(16,452)	
- Intangible assets with definite life		(9,189)	
- Savings Bonds/Restricted Bank Deposits		-	(1,032)
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		111,585	
Disposal price financial assets		152,847	
Liquidity generated (employed) in investing activities	(B)	**153,920**	**(1,032)**
FINANCING ACTIVITIES			
New EIB loans		40,000	
Senior Term and Revolving Facilities Agreement Repayments		(90,654)	
Centralised treasury effect with Europropulsion S.A. joint control company		(4,343)	
Repayment / (Issue) of loans to associate Termica Colleferro S.p.A.		-	
Share capital increase and share premium reserve		203	
Dividends attributable to minorities of subsidiaries		(1,920)	
Other changes to financial assets and liabilities		(3,855)	(50)
Liquidity generated (employed) in financing activities	(C)	**(60,570)**	**(50)**
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C)	**106,588**	**305**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**445**	**140**
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**107,033**	**445**

(1) The figures for the year 2016 refer to the financial statements of Space2 S.p.A. which merged by incorporation Avio S.p.A. on April 10, 2017 and was renamed Avio S.p.A..
(2) For a detailed analysis, reference should be made to the Director’s Report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 December 31, 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 annual 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 - referring to the acquisition of the Avio Group - therefore concern 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 financial statements

These financial statements at December 31, 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").

The IFRS financial statements were prepared on a going concern basis.

With the exception of the provisions of IFRS 3 with reference to the business combination undertaken in the year, the financial statements were drawn up according to the historical cost criteria, adjusted for the measurement of certain financial instruments and other assets and liabilities at fair value.

The financial statements were prepared in accordance with the provisions of CONSOB in relation to financial statement lay-out pursuant to Article 9 of Legislative Decree No. 38/2015 and other CONSOB regulations and provisions concerning financial reporting.

2.2. Financial Statement format

The financial statements at December 31, 2017 consist of the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Comprehensive Income Statement, the Statement of changes in Consolidated Shareholders' 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 data in the Consolidated Income Statement, Consolidated Comprehensive Income Statement and Consolidated Cash Flow Statement, included in these financial statements - referring to the acquisition of the Avio Group - commence from April 1, 2017.

2.3. Comparative information

In accordance with IAS 1, these 2017 consolidated financial statements present the comparative 2016 figures for the Balance Sheet items (Consolidated Balance Sheet) and the full year 2016 figures 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 financial statements of the incorporating company Space2 S.p.A

2.4. Consolidation principles

The consolidated financial statements include the financial statements of the parent company, its direct or indirect subsidiaries and the companies over which the Group exercises joint control with other shareholders, as specified below and defined by standards IFRS 10 - Consolidated Financial Statements, IFRS 11 - Joint control arrangements, and IAS 28 - Investments in associates and joint ventures.

Subsidiaries
A company is considered a subsidiary where the Group exercises control as defined by IFRS 10 - Consolidated financial statements. The parent company controls an investee when, in the exercise of its power, it is exposed and has rights to the variable returns through managerial involvement, and simultaneously can impact upon the variable returns of the investee. The exercise of the power on the investee derives from the rights which permit the parent company to manage the significant

assets of the investee also in its own interests. For assessing whether the Group controls another entity, the existence and the effect of potential voting rights exercisable or convertible at that moment are considered. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control terminates.

Subsidiaries are consolidated according to the line-by-line method from the date on which the Group assumes control until the moment at which this control terminates.
Inactive subsidiaries, those for which the consolidation due to specific operating dynamics (such as non-equity based consortiums) does not produce significant effects and those with insignificant fixed assets, whether in terms of investment profile or the relative equity and earnings figures, are excluded from the consolidation. These businesses are valued according to the criteria applied for holdings in other companies.

In the consolidated financial statements, the assets and liabilities and the costs and the revenues of the companies consolidated according to the line-by-line method are fully included. The carrying amount of investments is eliminated against the corresponding share of the equity of the subsidiaries, allocating to the individual assets and liabilities their fair value at the acquisition control date.

Changes in the holdings of subsidiaries which do not result in the acquisition or loss of control are recognised to changes in equity.

The receivables, payables, costs and revenues among consolidated companies are eliminated. Profits and losses of insignificant amounts from transactions between companies included in the consolidation and not yet realised with third parties are also eliminated.

The dividends distributed between Group companies are eliminated from the income statement.

Profits and losses of significant amounts not realised through transactions with associates or jointly-controlled companies are eliminated according to the Group holding in such companies.

Non-controlling interests in the net assets and the result of consolidated subsidiaries are recorded separately from the Group equity.

Business combinations
Business combinations are recorded in accordance with the purchase method. The acquisition cost is measured as the aggregate of the fair values, at the acquisition control date, of assets acquired, liabilities incurred or assumed, and equity instruments issued by the Group, in exchange for control of the company acquired. Accessory charges to the transaction are generally recorded to the income statement at the moment in which they are incurred. The assets, liabilities and contingent liabilities identified in the entity acquired which comply with the recognition conditions as per IFRS 3 - Business combinations are recorded at fair value at the acquisition date; exceptions to this are the deferred tax assets and liabilities, employee benefit assets and liabilities, liabilities or equity instruments relating to share-based payments of the entity acquired or share-based payments relating to the Group issued in replacement of the contracts of the entity acquired, and the assets (or group of assets and liabilities) held-for-sale, which are instead valued according to the applicable standard. Goodwill acquired in a business combination is recognised as an asset and initially measured at cost. The goodwill represents the excess between the sum (i) of the consideration transferred, (ii) of the fair value of any share capital increase in favour of non-controlling interests, (iii) of the amount of non-controlling interests held, (iv) of the fair value of any holding previously held in the acquired company and the fair value of the net assets acquired and liabilities assumed at the acquisition date.
Where the fair value of the net assets acquired and the liabilities assumed at the acquisition date exceeds the sum of (i) the consideration transferred, (ii) the amount of non-controlling interests, (iii) the fair value of any holding previously held in the acquired company, this excess is immediately recorded to the income statement as income deriving from the transaction concluded.

Non-contolling interest equity, at the acquisition date, may be valued at fair value or pro-quota of the value of net assets recognised of the acquired entity. The valuation method is chosen on the basis of each individual transaction.

Any amount subject to conditions established by the business combination contract are valued at fair value at the acquisition date and included in the value of the amounts transferred to the business combination for the determination of goodwill. Any subsequent changes to the fair value, which qualify as adjustments in the measurement period, are included in goodwill retrospectively. The changes in the fair value which qualify as adjustments in the measurement period are those which are based on further information on the facts and circumstances which existed at the acquisition date, obtained during the measurement period (which may not exceed a period of one year from the business combination).
In the case of business combinations undertaken in a series of phases, the holding previously held by the Group in the acquired entity is revalued at fair value at the acquisition of control date and any profit or loss is recorded to the income statement. Any amounts related to the holding previously held and recorded to other comprehensive income/(losses) are reclassified in the income statement as if the holding had been sold.
Where the initial values of a business combination are incomplete at the period-end in which the business combination took place, the Group reports in its consolidated financial statements the provisional values of the items for which the final calculations could not be made. These provisional values are adjusted in the measurement period to take account of the new information obtained on the facts and circumstances existing at the acquisition date which, if known, would have had effects on the value of assets and liabilities recognised at this date.
Business combinations before January 1, 2010 were recognised according to the previous version of IFRS 3.
There are no significant restrictions in the capacity of the subsidiaries to transfer funds to the parent company, through the payment of dividends, loans or advance repayments.

Interests in joint ventures
Subsidiaries held directly with other shareholders where the relative agreements constitute joint ventures (or where the parties only have equity rights under the agreement) are consolidated as per IFRS 11, with the equity method applied once becoming operative.
Where agreements in place constitute a joint operation (in which the parties have rights over the assets and obligations for the liabilities of the agreement), the assets, liabilities and costs and revenues deriving from the joint operation are consolidated on a pro-rata basis.
Where necessary, adjustments are made to the financial statements of consolidated joint ventures in order to apply uniform Group accounting policies.

Investments in associates
Associates are companies over which the Group exercises significant influence, as defined by IAS 28 - Investments in associates and joint ventures, without control or joint control over financial and operating policies. Generally a shareholding between 20% and 50% of the voting rights indicates significant influence. Associates in which significant influence is exercised are measured at equity from the moment at which significant influence commences until the date at which it ceases. According to this method, the carrying amount of the investment is adjusted at each year-end by the share of the result of the investee, net of dividends received, after adjustments, where necessary, to the accounting policies of the companies for uniformity with those adopted by the Group. Any excess of the acquisition cost over the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date is recognised as goodwill. The recognition of goodwill at the acquisition date is made in accordance with that described in the previous paragraph "Business combinations" and is included in the carrying amount of the investment. The entire carrying amount of the investment is subject to an impairment test amid indicators of a possible reduction in the long-term value of the investment. Any impairments are not allocated to the individual assets (and in particular any goodwill) which comprises the carrying value of the investment, but to the overall value of the investment. However, if the conditions exist for a subsequent write-back, such must be fully recognised.
Any excess of the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the associate over the cost of acquisition is recorded in the Income Statement in the year of acquisition. Finally, where the share of losses pertaining to the Group in the associate exceeds the carrying value of the investment, the value of the investment is written down and the share of further losses is not recorded as a liability, unless the Group has the legal or implied obligation to cover such losses.
Investments in associates not considered significant are not aligned to equity for representation of the consolidated position.

Investments in other companies
The companies in which the Group holds between 20% and 50% of voting rights while not exercising significant influence and investments in other companies, for which the fair value is difficult to calculate, are measured using the acquisition or subscription cost method, adjusted for any impairments. Finally, where the share of losses pertaining to the Group exceeds the carrying value of the investment, the value of the investment is written down and the share of further losses is not recorded as a liability, unless the Group has the legal or implied obligation to cover such losses. The dividends received from these companies are written to "Investment income/(charges)".

2.5. Translation of foreign entity financial statements

The financial statements of each company consolidated are prepared in the primary currency where they operate. For the consolidated financial statements, the financial statements of each foreign entity is converted into Euro, as the Group's reporting 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.

2.6. Consolidation scope

The consolidated financial statements at December 31, 2017 include the financial statements of the parent company, of the Italian and overseas companies in which it holds directly or indirectly at December 31, 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.

As during 2017 Space2 S.p.A. (now Avio S.p.A.) acquired the Avio Group, these financial statements therefore represent the first full-year consolidation of the Group. Therefore, with regards to the other Group companies apart from the incorporated Avio S.p.A., there were no movements in the consolidation scope, which is reported in the following table:

Companies included in the consolidation scope at December 31, 2017	Holding
Parent Company	
Avio S.p.A.	-
Companies consolidated by the line-by-line method	
ASPropulsion International B.V.	100%
SE.CO.SV.IM. S.r.l.	100% (*)
ELV S.p.A.	70%
Regulus S.A.	60%
Avio India Aviation Aerospace Private Limited (**)	100% (***)
Jointly controlled companies, measured at equity	
Europropulsion S.A.	50%
Associates, measured at equity	
Termica Colleferro S.p.A.	40%

(*) Holding through ASPropulsion International B.V.
(** The company at December 31, 2016 was in liquidation.
(***) Investment held in part directly by Avio S.p.A. (95%) and in part through ASPropulsion International B.V. (5%).

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".

2.6.1 IFRS 3 Disclosure - Business combinations

On March 31, 2017 - Acquisition Date - the acquisition was completed by Space2 S.p.A., by Leonardo S.p.A., a company listed on the Mercato Telematico Azionario (MTA) of Borsa Italiana S.p.A. (hereafter "Leonardo") and by In Orbit S.p.A., an investee newly incorporated by a number of executives of Avio S.p.A., of a shareholding of 85.86% in the share capital of Avio S.p.A.. The remaining holding (14.798% of the share capital) was already held by the shareholder Leonardo. On the same date, CONSOB authorised publication of the listing prospectus for ordinary Space2 S.p.A post-merger with Avio S.p.A shares on the Italian Stock Exchange. The merger by incorporation of Space2 S.p.A. with Avio S.p.A. was effective as of April 10, 2017 and simultaneously Space2 S.p.A. was renamed Avio S.p.A. and began trading on the Italian Stock Exchange (MTA), STAR segment.

The transaction described is a business combination and therefore is subject to the provisions of IFRS 3. In detail, this involved the acquisition by Space2 S.p.A., Leonardo S.p.A. and In Orbit S.p.A. of the share capital of Avio S.p.A. and subsequent merger of this latter into Space2 S.p.A. The business combination resulted in a positive difference between the consideration transferred (equal to the consideration paid by Space2 S.p.A. aggregated with the fair value of the shares issued to service the merger in favour of Leonardo S.p.A. and In Orbit S.p.A.) and the fair value of the net assets acquired and net liabilities assumed at the acquisition date. Based on the provisions of IFRS 3, if the sum of the consideration transferred exceeds the fair value of the net assets acquired and net liabilities assumed at the acquisition date, this excess is recognised as Goodwill.

The identified assets acquired and identified liabilities assumed by the Avio Group were therefore measured at fair value at the date of acquisition of control by Space2 S.p.A., with exception of the deferred taxes and some liabilities associated with employee benefits which were recognised in accordance with the relative accounting standards, in accordance with IFRS 3. This measurement process was completed at the beginning of 2018, and resulted in the following values (Euro thousands):

Non-current assets	**At acquisition date (March 31, 2017)**
Property, plant & equipment	59,672
Investment property	2,787
Intangible assets with definite life	114,818
Investments	6,294
Non-current financial assets	7,440
Deferred tax assets	75,210
Other non-current assets	67,502
Total non-current assets	**333,723**
Current assets	
Inventories	131,161
Contract work-in-progress (gross of advances)	1,494,792
Trade receivables	6,607
Current financial assets	1
Cash and cash equivalents	111,585
Tax receivables	34,902
Other current assets	6,455
Total current assets	**1,785,504**
TOTAL ASSETS ACQUIRED (A)	**2,119,227**
Employee benefit provisions	10,842
Provisions for risks and charges	10,151
Other non-current liabilities	117,734
Total non-current liabilities	**138,727**
Current financial liabilities	29,923
Current portion of non-current financial payables	93,120
Provisions for risks and charges	10,245
Trade payables	74,727
Advances for contract work-in-progress	1,615,472
Current income tax liabilities	2,751
Other current liabilities	18,850
Total current liabilities	**1,847,476**
TOTAL LIABILITIES ASSUMED (B)	**1,986,203**
Net Assets/(Liabilities) acquired (C = A-B)	**133,023**

On completion of the measurement process and adjustment to fair value, the goodwill deriving from the acquisition was as follows:

Acquisition price of control by Space2 S.p.A. (now Avio S.p.A.)	84,871
Difference between Fair Value and nominal value of the share capital increase to service the share swap ratio of Leonardo S.p.A. and In Orbit S.p.A.	25,615
Nominal value of the share capital increase	75,509
Net assets acquired/net liabilities assumed (C)	(133,023)
Value attributed to non-controlling interests	8,033
Goodwill	**61,005**

The recognition of this goodwill at December 31, 2017 is based on the earnings and financial prospects of the Avio Group, supported by the results reported in 2017.
Had the acquisition taken place on January 1, 2017, the Group in 2017 would have reported the results as illustrated in detail in the paragraph "Group operating performance and financial and equity position" in the Directors' Report.

2.7. Accounting policies

Property, plant & equipment

Property, plant and equipment are measured at purchase or production cost, net of accumulated depreciation and any impairments.
The acquisition cost corresponds to the price paid, plus accessory charges incurred until entry into use (gross of any contributions received) and any expected dismantling and removal costs for the asset, in addition to reclamation costs for the areas on which the asset is located, where necessary and corresponding to IAS 37. For assets conferred, the cost corresponds to the value established in the relative deeds on the basis of expert opinions. The internal production cost includes all construction costs incurred until entry into service, whether direct and specifically relating to the tangible assets or relating, in general, to the construction activities and therefore to differing construction operations. Any financial charges incurred for the acquisition or production of property, plant and equipment that generally require a substantial period of time to prepare for their intended use (qualifying assets in accordance with IAS 23 - *Financial charges*) are capitalised and depreciated over the duration of the useful life of the category of assets to which they refer. All other financial charges are recognised to the income statement in the period in which they are incurred.

Costs incurred subsequently to acquisition (maintenance and repair costs and replacement costs) are recorded at the carrying amount of the assets, or are recognised as separate assets, only where it is considered probable that the future economic benefits associated with the assets may be exploited and that the cost of the assets may be measured reliably. Maintenance and repair costs or replacement costs not reflective of those reported above are recognised to the income statement in the period in which they are incurred.

The gross carrying amount of assets is depreciated on a straight-line basis over their useful life in relation to the estimated useful life and the residual value of the asset. Depreciation starts when the asset is available for use. For conferred assets, depreciation is calculated according to the residual useful life upon conferment.

The depreciation rates utilised by the Group are as follows:

Category	Depreciation rate
Buildings	3-10%
Plant & machinery	7-30%
Industrial and commercial equipment	25-40%
Other assets:	
- Furniture, equipment and EDP	12-20%
- Transport vehicles	20-25%
- Other assets	12-25%

During the year in which depreciation of the asset begins, such is calculated on the basis of the effective period of use. The useful life is reexamined annually and any changes are applied prospectively.

Capitalised costs for leasehold improvements are allocated to the categories of assets to which they refer and amortised at the lesser between the residual duration of the rental or concession contract and the residual useful life of the type of assets to which the improvements relate.

The assets composed of components, of significant amounts, and with different useful lives are considered separately for the calculation of depreciation (component approach).

The assets held through finance lease contracts within the scope of IAS 17 and for which the majority of the risks and rewards related to the ownership of an asset have been transferred to the Group are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability due to the lessor is recorded in the financial statements under financial payables.

Land is not depreciated.

In the event of a permanent impairment in the value of an asset, regardless of the depreciation recorded to date, the asset is written down accordingly; if in future years, the reasons for the write-down no longer apply, the asset is reinstated to its original value less the depreciation which would have been provisioned where the write-down had not been made or the recoverable value, where less.

Gains and losses deriving from the disposal or sale of assets are determined as the difference between the sales revenue and the net carrying amount of the asset on disposal or sale and are recorded in the income statement in the year.

Investment property

Owned land and buildings used for purposes not strictly relating to ordinary operations and held for rental or capital appreciation are initially recognised at cost, calculated according to the same methods indicated for property, plant and equipment. They are subsequently recognised at cost, net of depreciation (calculated for buildings at a single rate of 3% considered representative of the useful life) and any cumulative impairments. Investment properties are eliminated from the financial statements when they are sold or when they are unusable on a long-term basis and no future economic benefits are expected from their sale.

Intangible assets

An intangible asset is without physical form and recognised to the balance sheet only if identifiable, controllable, where future economic benefits are expected and its costs can be reliably calculated. Intangible assets include goodwill acquired for consideration following a business combination.

Intangible assets with a definite life are measured at purchase or production cost, net of amortisation and cumulative impairments. Amortisation is recognised over the useful life of the

asset and begins when the asset is available for use. The useful life is reviewed on an annual basis and any changes are made in accordance with future estimates.
The intangible assets with indefinite useful life are not amortised but are subject annually or, more frequently where necessary, to an impairment test.
Intangible assets recognised following a business combination are recorded separately from goodwill where their fair value can be reliably measured.

Intangible assets with indefinite life

Goodwill
The goodwill deriving from business combinations is initially recorded at the acquisition cost, as per the preceding paragraph *Business combinations*. Goodwill is recognised as an asset with indefinite useful life and is not amortised, although subject annually, or more frequently where an indication that specific events or changed circumstances indicate a possible reduction in value, to an impairment test. An impairment loss is recorded immediately in the income statement and is not restated in a subsequent period. After initial recognition, goodwill is measured net of any impairments. On the sale of a subsidiary, the net value of attributable goodwill is included in calculating the gain or loss.

For the purpose of the impairment test, goodwill is considered allocated to the individual Cash Generating Units (CGU's) representing the financially independent business units through which the Group operates. The Group situation at December 31, 2016 indicates a single CGU corresponding to the Space operating segment.

Negative goodwill originating from acquisitions is recognised directly to the income statement.

Intangible assets with definite life

Development costs
Development costs are capitalised only where the costs may be calculated reliably, the assets developed may be clearly identified and where there is proof that they will generate future economic benefits. In particular, for capitalisation the existence of technical feasibility and the intention to complete the asset to make it available for use or sale, the existence of adequate technical and financial resources to complete development and sale and the reliability of the valuation of the costs attributable to the asset during development are required. On meeting these conditions, the costs are recognised to the assets section of the Balance Sheet and amortised on a straight-line basis from the initiation of commercial production on the programs to which they refer. Amortisation in the initial period is proportional to the effective period of use. The useful lives are calculated on the basis of a prudent estimate of the duration of the programs from which the relative economic benefits derive and are initially estimated at 5, 10 or 15 years according to the characteristics of the relative programs. Capitalised development costs concerning programs whose production has not yet begun are amortised and maintained among definite life intangible assets, following verification of the absence of impairments, on the basis of the future earnings of the relative programs.

Research and development costs which do not meet the above conditions are recognised to the income statement when incurred and may not be capitalised in subsequent periods.

Intangible assets for Customer Programme Participation
The Group allocated, at the acquisition date by Space2 and with effect from financial year 2017, the cost of this acquisition recognising the assets, liabilities and contingent liabilities of the companies acquired at their relative fair values at that date. Following this allocation, the intangible assets held by customers for programme participation were identified as responding to the criteria required for recognition, as per IFRS 3 and IAS 38, which were valued at fair value applying an earnings valuation method, based on the present value of future cash flows generated by the assets for the period of residual expected useful life, calculated applying a discount rate which takes account both of the possible risks associated with the assets and the time value of money. In addition, the benefit attributable to the tax savings achievable for a potential purchaser deriving from the amortisation of the recognisable intangible assets was also considered (tax amortisation benefits).
The intangible assets for Customer Programme Participation are amortised, in relation to the average weighted residual life of the programs to which they refer, over a period of 15 years. Against the intangible assets recognised, the relative deferred taxes were recorded, calculated through application of the tax rates which are expected to be in force on recognition to the income statement of the amortisation.

Other intangible assets
Intangible assets are recognised to the Balance Sheet only when it is probable that the use of the asset will generate future economic benefits and its cost can be reliably calculated. Having complied with these conditions, the intangible assets are recognised at the acquisition cost which corresponds to the price paid, plus accessory charges and, for the assets conferred, to the values established in the relative deeds. Other intangible assets recognised on acquisition are recorded separately from goodwill where their fair value can be reliably calculated.

The gross carrying amount of the other definite life intangible assets is broken down on a straight-line basis over the estimated useful life. Amortisation begins when the asset is available for use and is proportionate for the first year to the period of effective use. For assets conferred, the amortisation is calculated according to the residual useful life. The amortisation rates utilised by the Group are as follows:

Category	Amortisation rate
Patents	20%
Brands	10%
Software	20-33%

<u>Investments</u>

Investments in non-consolidated companies are valued in accordance with that outlined in the "Consolidation principles" paragraph.

<u>Impairments</u>

The Group verifies, at least annually, the recoverability of the carrying amount of property, plant and equipment in order to determine whether there are indications that these assets may have incurred a loss in value. Where there are indications of impairment, the carrying amount of the asset is reduced to its recoverable amount. In addition, an intangible asset with indefinite useful life is subject annually or, more frequently where there is an indication that the asset may have suffered a loss in value, to an impairment test. The loss in value of an asset corresponds to the difference between its carrying amount and its recoverable value, defined as the higher between the fair value net of sales costs and its value in use. The value in use is calculated as the present value of expected future operating cash flows, excluding cash flows from financing activities. The cash flow projection is based on company plans and reasonable and documented assumptions concerning the Group's future results and macro-economic conditions. The discount rate utilised considers the time value of money and specific sector risks.

Where it is not possible to estimate the recoverable value of an asset individually, the Group estimates the recoverable value of the cash generating unit to which the asset belongs.

Where the recoverable value of an asset, or of a cash generating unit, is lower than the carrying amount, it is reduced to the recoverable value and the loss recognised to the income statement. Subsequently, where the loss on an asset other than on goodwill is no longer evident or reduces, the carrying amount of the asset (or of the cash generating unit) is increased, up to the new estimate of the recoverable value (which however may not exceed the net carrying amount that the asset would have had in the absence of the write-down). This recovery is immediately recognised to the income statement.

Financial assets

This category includes, in relation to the original expected maturity of within or beyond 12 months from the reporting date:

- *Loans and receivables*

  These are assets arising from financial transactions other than those concerning derivative instruments, at pre-fixed maturity and with fixed or calculable expected payments which are not listed on an active market and not for trading purposes. These instruments are valued according to the amortised cost method, utilising the effective interest rate and taking account of any discounts or bonuses obtained or paid on acquisition and recording such for the entire period until maturity of the instruments.

- *AFS financial assets*

  This is a "residual" category which includes financial assets designated as available-for-sale and not allocated to one of the previous categories.
  Profits and losses on available-for-sale financial assets are recognised directly to equity until the financial asset is sold or written down; upon sale, the accumulated profits or losses, including those previously recognised to equity, are written to the income statement for the period; on write-down, the accumulated losses are written to the income statement. Profits and losses generated from changes in the fair value of financial assets classified as held-for-trading are written to the income statement for the period.
  Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
  In the case of shares traded on regulated markets, the fair value is determined with reference to the stock market prices ("bid price") recorded at the end of trading at the reporting date.
  Where a market valuation is not available, the fair value is calculated according to the present value of a substantially similar financial instrument or through appropriate financial techniques (e.g. the discount cash flow).

Investments in financial assets may be eliminated (derecognition) only where the contractual rights to receive the cash flows from the investment have matured or where the company transfers the financial asset together with all of the related risks and benefits.

Inventories

Inventories are measured at the lower of the acquisition or production cost and the net market value, defined as the estimated sales price less expected completion costs and expenses necessary to carry out the sale.

In particular, raw materials, semi-finished products and work-in-progress are initially recognised at acquisition or production cost. The purchase costs include the cost paid to suppliers plus accessory charges incurred until the entry of the goods to Group warehouses, net of discounts. Production costs include costs incurred to bring the asset to its location and state at the reporting date: they include costs specific to the individual assets or categories of assets and general preparation costs (general production expenses). Inventories are generally measured according to the FIFO method. This calculation method is considered most suitable for providing a true and fair view, in addition to a uniform representation of the Group's equity position and earnings.
Inventories thus calculated may be adjusted by a write-down provision to take account of obsolete or slow moving materials on the basis of their future utility or realisation.
The land owned by the subsidiary SE.CO.SV.IM. S.r.l. (hereafter also "Secosvim") included in inventories and held-for-sale as part of normal operations are valued at the lower between purchase cost and the net market value.

Contract work-in-progress

Contract work-in-progress (or construction contracts) concerns contracts specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their final use. This principally concerns development and production activities in the space sector.

Where the result of a construction contract may be reliably estimated, contract work-in-progress is valued according to the percentage of completion method, with application to the total contractual value, whereby the costs, revenues and the relative margin are recognised according to the advancement of production activities. For the calculation of the percentage of completion, the ratio between production costs incurred to date and forecast total costs for the entire works (cost-to-cost) is adopted, on the basis of updated estimates at the reporting date. Periodically, the assumptions underlying the measurements are updated. The changes to the contract, the revision prices and the incentives are included for those amounts agreed with the buyer. Any economic effects are recognised in the period in which the updates are made.

Where the result of a construction contract may not be estimated reliably, the revenues related to the relative contract are recorded only to the extent of the project costs incurred which will probably be recovered. The project costs are recorded as expenses in the year in which they are incurred.
Account is in addition taken of charges to be incurred following closure of the order and those for expected losses through accruals to the risks provisions; in particular, any losses on contracts are recognised to the income statement in their entirety once noted.

Contract work-in-progress is stated to the assets section of the Balance Sheet net of advances invoiced to clients. The analysis is made by individual order: where the value of the individual order is greater than the advances, the positive differential is classified to the account considered in the Balance Sheet; where the value of the individual order is lesser than advances, the negative differential is classified to "Advances for contract work-in-progress" in the Balance Sheet.

Trade receivables

Receivables are initially stated at fair value, corresponding to the nominal value, and subsequently adjusted to reflect their realisable value through a doubtful debt provision. This provision is representative both of the risk concerning individual receivables and the generic risk concerning overall receivables, prudently estimated on the basis of past experience and the general level of debtor financial equilibrium.

Where settlement is deferred beyond the normal commercial terms applied to clients, the receivable is discounted and subsequently measured at amortised cost according to the effective interest method.

Factoring operations may be undertaken with recourse or without recourse; certain without recourse factoring implies the maintenance of a significant exposure to cash flows from factored receivables. These operations do not fulfill the requirements of IAS 39 for the elimination from the financial statements of assets where the substance of all relative risks and benefits are not transferred. Consequently, factored receivables which do not fulfill the requirements for elimination established by IAS 39 remain recognised to the financial statements, although legally considered factored. Against this, a financial liability of a similar amount is written to "Current financial receivables".

Cash and cash equivalents

These include cash, liquid bank deposits and other current readily tradable financial investments which may be quickly converted into cash and for which the risk of changes in value is insignificant.

Financial liabilities

Non-current financial liabilities and current account overdrafts are classified to this account, in addition to current and non-current payables which, although arising from commercial or however non-financial transactions, are negotiated at particular conditions as undertaken as a financial transaction, therefore de facto making them financial receivables. Current and non-current financial payables are initially recognised at fair value, less transaction costs incurred, and are subsequently valued at amortised cost utilising the effective interest rate method.

Non-current financial payables due within twelve months from the reporting date are classified to the "Current portion of non-current financial payables" account.

Derivative financial instruments

Derivative financial instruments are utilised with the intention of hedging, in order to reduce interest rate risk. In compliance with IAS 39, the derivative financial instruments can be recorded in accordance with the "hedge accounting" method only when at the beginning of the hedge, the formal designation and documentation relating to the hedge exists, it is presumed that the hedge is highly effective, such effectiveness can be reliably measured and the hedge is highly effective over the accounting periods for which it was designated.
Derivative financial instruments are measured at fair value in accordance with IAS 39.

When derivative financial instruments qualify for hedge accounting, the following treatment applies:

Fair value hedge – Where a derivative financial instrument is designated as a hedge to the exposure to changes in the fair value of an asset or liability in the financial statements attributable to a specific risk which can have effects on the income statement, the profit or loss after the initial valuation of the fair value of the hedge instrument is recognised to the income statement. The profit or loss on the hedged item, attributable to the hedged risk, adjusts the carrying amount of the hedged item and is recognised to the income statement.

Cash flow hedge - Where a derivative financial instrument is designated as a hedge against the variability in the future cash flows of an existing asset or liability or a transaction considered highly probable that could impact the income statement, the effective portion of the profit or loss on the hedging instrument is recognised directly to Other comprehensive income/(losses). The cumulative profits or losses are reversed from the comprehensive income statement and recorded to the income statement in the same period in which the correlated income effect of the hedged transaction is recorded.
The gain or loss associated with a hedge or part of a hedge that has become ineffective is recognized in the income statement immediately. Where a hedging instrument or a relation of a hedge is closed, but the transaction hedged has not yet been completed, the cumulative profits and losses, up to that moment recorded to the Comprehensive income statement, are recognised to the income statement in correlation to the recording of the economic effects of the hedged transaction.

If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised to the comprehensive income statement is immediately transferred to the income statement.

If hedge accounting cannot be applied, the gains or losses from the fair value measurement of derivative financial instruments are recognized immediately in the income statement.

Employee benefit provisions

Employees of Group companies enjoy post-employment benefits which may consist of defined contribution pension plans or defined benefit plans, and other long-term benefits, according to the conditions and local practices of the countries in which such companies operate.

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

Defined contribution plans are plans for benefits upon conclusion of employment for which the Group companies have made fixed contributions to a legally separate entity on an obligatory, contractual or voluntary basis, in the absence of which legal or implied obligations exist to make additional payments where the entity does not have sufficient assets to pay all of the pension benefits matured concerning employment services provided in the present and previous years. The contributions to be paid are recognised to the income statement on an accruals basis to personnel expenses.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.
The obligation to fund the defined benefit pension plans and the annual cost recognised to the income statement are determined by independent actuarial valuations using the projected unit credit method, on the basis of one or more factors such as age, years of service and expected future remuneration.
Actuarial gains and losses relating to defined benefit plans deriving from changes to the actuarial assumptions and adjustments based on past experience are immediately recognised in the period in which they arise to other comprehensive income/(losses) and are never reclassified to the income statement in subsequent periods.
The liabilities for post-employment benefits recorded in the balance sheet represent the present value of the liabilities for the defined benefit plans adjusted to take into account any actuarial profits and losses not recorded and reduced by the fair value of the asset plan, where existing. Any net assets calculated on this basis are recognised up to the amount of the actuarial losses and the cost for prior benefits not previously recognised, in addition to the present value of available repayments and the reductions in the future contributions to the plan.
Defined benefit plan costs are classified to personnel expenses, except for any costs associated with the increase in the present value of the obligation nearer to the payment date which are recognised under financial charges.

Until December 31, 2006, the post-employment benefits of the Italian companies were considered as defined benefit plans. The regulations of this provision were extensively modified by Law No. 296 of December 27, 2006 ("2007 Finance Act") and subsequent Decrees and Regulations.
In view of these changes, and particularly for companies with at least 50 employees, this provision is now to be considered a defined benefit plan exclusively for the amounts matured prior to January 1, 2007 (and not settled at the balance sheet date), while subsequent to this date they are similar to a defined contribution plan. Consequently, post-employment benefits matured subsequently to this date assume the nature of defined contribution plans, with exclusion therefore of actuarial estimate components in the calculation of the cost for the period.
Post-employment benefits matured until December 31, 2016 remain valued as defined benefit plans according to actuarial processes, excluding however from the calculation the component relating to future salary increases.

Other long-term benefits

The accounting treatment of other long-term benefits is similar to that for defined benefit plans, with the exception of the fact that the actuarial gains and losses are entirely recognised to the income statement in the period in which they arise.

Share based payment plans

Cash-settled share-based payments are recorded as a liability to the risks and charges provisions and are measured at fair value at the end of each reporting period until settlement. Any subsequent changes in fair value are recognized in profit or loss.

Provisions for risks and charges

The Group records provisions for risks and charges when it has a current obligation from a past event, legal or implicit, to third parties, and it is probable that it will be necessary to use resources of the Group to settle the obligation, and a reliable estimate of the amount can be made. Provisions are made based on the best estimate of the cost of fulfilling the obligation at the reporting date. Where the effect is significant, the provision is discounted and its increase due to the passage of time is subsequently recognised to the financial charges account of the Income Statement.
In the case of legal disputes, the amount of the provisions is calculated on the basis of risk assessments in order to calculate the probability, timing and the amounts involved.

In the case of liabilities for future dismantling, removal and reclamation charges relating to a tangible asset, the provision is recognised against the asset to which it refers; the charge is recognised to the income statement through the depreciation of the tangible asset to which the charge refers to.

The provisions are re-examined at each reporting date and adjusted to reflect any improvement to the present estimates; any changes to the estimate are reflected in the income statement in the period in which the change occurs.

Risks that may only potentially result in a liability are disclosed in the Explanatory Notes without any amounts being set aside.

Trade payables

Trade payables with maturities within the normal commercial terms are not discounted and recognised at the nominal value considered representative of the settlement value.
Trade payables are recognised to current liabilities, except where the Group has the contractual right to settle its obligations beyond 12 months from the reporting date.

Payables for disbursements in accordance with Law 808/85

These payables are recognised to the financial statements at nominal value and classified to "Other non-current liabilities" and "Other current liabilities".

Revenue recognition

Revenues are recognised in accordance with the probability that the Group will receive economic benefits and the amount can be measured reliably. Revenues are recognised on an accruals basis at the fair value of the amount received or due, less VAT, returns, premiums and discounts.

Revenues from the sale of goods are recognised where the Group has transferred to the purchaser the significant risks and benefits related to ownership of the goods, which generally coincides with shipping. Revenues from the provision of services are recognised according to the stage of completion of the services, based on the same criteria as for contract work-in-progress. In addition, where the result from the provision of services may not be reliably estimated, revenues are recognised only to the extent to which the relative costs are recoverable.
Revenues include also the changes in contract work-in-progress concerning long-term orders recognised according to the state of advancement of works against the sales price (as described in greater detail in the Contract works-in-progress note).

Interest income is recorded on an accruals basis, according to the amount financed and the effective interest rate applicable. This is the rate at which the expected future cash flow over the life of the financial asset is discounted to equate them with the carrying amount of the asset.

Dividends received

Dividends of non-consolidated companies are recognised in the period in which the right of shareholders to receive payment is established.

Grants

Grants from public bodies are recorded when there is a reasonable certainty that the conditions required to obtain them will be satisfied by the Group and that they will be received. Such grants are generally recorded in the income statement on a straight-line basis over the period in which the related costs are recorded.
In particular, grants obtained against investments in fixed assets and capitalised development costs are recognised to "Other non-current liabilities" or "Other current liabilities" in the liabilities section of the balance sheet and to the income statement on the basis of the residual duration of the depreciation of the assets to which they refer. Where a grant is awarded in a period after the start of the depreciation period of the asset, the portion of the grant relating to the prior periods is recorded in the income statement as other income.
The accounting treatment of benefits deriving from a public loan obtained at a reduced rate is similar to that for public grants. This benefit is calculated at the beginning of the loan as the difference between the initial book value of the loan (fair value plus direct costs attributable to obtaining the loan) and that received, and subsequently recorded in the income statement in accordance with the regulations for the recording of public grants.

Research and development tax credits

Research and development tax credits (Law No. 232/2016) are recognised to the financial statements to the extent that the tax receivable is considered recoverable and utilisable. These receivables are initially recorded in the account "Other current assets" and recognised to the income statement in each period on an accruals basis, according to the differing types of costs supported, in relation to the percentage of completion of the contract work-in-progress giving rise to the costs against which the due receivable was calculated in the accounts "Service costs" and "Change in contract work-in-progress".

Costs

Costs are recognised on an accruals and going concern basis for the Group companies, less VAT and returns, discounts and premiums. Provisions are recognised to the financial statements according to the methods described in the provisions for risks and charges note.

Interest charges are recognised on an accruals basis, according to the amount lent and the effective interest rate applicable.

Income taxes

Income taxes comprise of current and deferred taxes.

Current taxes are calculated on the estimated assessable result for the year and according to the applicable tax rates of the various countries in which the Group companies operate.
The assessable fiscal result differs from the result recorded in the income statement as it excludes positive and negative components that will be assessable or deductible in other periods and also includes accounts that are never assessable or deductible. The liability for current income taxes is calculated using the current rates at the reporting date.

Deferred tax assets and liabilities are the taxes that are expected to be recovered or paid on the temporary differences between the carrying value of the assets and of the liabilities in the financial statements and the corresponding fiscal value utilised in the calculation of the assessable income, accounted under the liability method. Deferred tax liabilities are generally recorded on all temporary assessable differences, while deferred tax assets are recorded based on the probability that the future assessable results will permit the use of the temporary deductible differences. These assets and liabilities are not recognised if the temporary differences deriving from the goodwill or the initial recognition (not in business combinations) of other assets or liabilities in operations do not have an impact on the accounting result or on the assessable fiscal result. The tax benefit from the carrying forward of tax losses is recorded upon, and to the extent of its probable availability, future assessable income arises for the utilisation of the losses. Deferred tax assets and liabilities are also calculated with regards to the consolidation adjustments.

The deferred tax liabilities are recognised on the temporary assessable differences relating to investments in subsidiary, associated and jointly controlled companies with the exception of the where the Group being is capable of controlling the elimination of these temporary differences and the it is probability existing that this latter will not be eliminated in the foreseeable future.

The carrying value of deferred tax assets is revised at the end of the year and reduced to the extent that it is no longer likely that there will be sufficient taxable income against which to recover all or part of the assets.

Deferred tax assets and liabilities are calculated based on the tax rates that are expected to be in force in the various countries where the Group operates on realisation of the asset or settlement of the liability. Current and deferred taxes are recognised directly to the income statement with the exception of those relating to accounts directly recognised to equity, in which case the taxes are also recognised to equity. Deferred tax assets and liabilities are offset when there is a direct right to compensate the tax assets and liabilities, when they concern the same company and when they refer to income taxes due to the same fiscal authority and the Group intends to pay the amount on a net basis. The balance following the offset, where positive, is recognised to "Deferred tax assets" and, where negative, to "Deferred tax liabilities".

Dividends distributed

Dividends payable by the Group are represented as changes to equity and recognised to current liabilities in the period in which distribution is approved by the Shareholders' Meeting.

2.8. Risk management

Credit risk

The Group has a concentration of credit risk due to the nature of its operating markets. Overall, trade receivables have a concentration risk in the European Union market. Trade receivables are recognised net of write-downs calculated in view of counterparty non-settlement risk, assessed according to the information available upon client solvency and considering also historic data.

Liquidity risk

The Group's liquidity risk arises from the difficulty to obtain according to an acceptable timeframe and financial conditions the funding to support operating and investing activities and repayments. 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, in order to ensure the timely and efficient sourcing of funding or the appropriate investment of liquidity.
The current difficult economic, Group market and financial environment requires a close focus on liquidity risk and therefore particularly on the generation of funding through operations and the establishment of a sufficient level of liquidity to meet Group obligations.

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

Currency and interest rate risk

The Group 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 income statement and equity of the Group. This risk is offset by the use of hedging instruments.

The Group is currently not considered subject to significant currency risk as operating almost exclusively in the Euro. The Group therefore has not undertaken specific hedges upon foreign currency cash flows.

Further qualitative and quantitative information on the financial risks to which the Group is subject is reported at Note 6.

2.9. Use of estimates

The preparation of the financial statements and the relative Explanatory Notes in application of IFRS requires the making of estimates and assumptions on the values of the assets and liabilities recorded, on the information relating to the assets and contingent liabilities at the reporting date and on the amount of costs and revenues.

Actual results may differ from estimates due to the uncertainty regarding the assumptions and conditions upon which the estimates are based. The estimates and assumptions are reviewed periodically by the Group according to the best information on Group operations and other factors reasonably discernable from current circumstances. The effects of all changes are immediately reflected in the income statement.

The current global economic environment, impacting the Group's business area, resulted in the need to make assumptions on a future outlook characterized by uncertainty, for which it cannot be excluded that results in the next year or in subsequent years will differ from such estimates and which therefore could require adjustments, clearly not possible to currently estimate or forecast, to the carrying amounts of the relative items. The estimates and assumptions are utilised in differing areas, such as non-current assets, deferred tax assets, the doubtful debt provision, the inventory obsolescence provision, the employee benefit plans, contingent liabilities and other risks provisions, in addition to an estimation of costs to complete orders and the relative state of advancement.

The principal measurement processes and key assumptions used by management in applying IFRS and which may have significant effects on the values recorded in the consolidated financial statements or give rise to significant adjustments to the accounting values of assets and liabilities in the year subsequent to the reporting date are summarised below.

Recoverable value of non-current assets

Non-current assets include Property, plant and machinery, Goodwill, Intangible assets with definite useful life and Investments. The Group periodically reviews the carrying value of the non-current assets held and utilised and of any assets to be disposed of, when events and circumstances require such. For Goodwill, this analysis is carried out at least annually and wherever required by circumstances. The recoverability analysis of the carrying amount of non-current assets is generally made utilising the estimates of the future cash flows expected from the utilisation or from the sale of the asset and adjusted by discount rates for the calculation of the fair value. When the carrying amount of a non-current asset is impaired, the Group recognises a write-down for the excess between the carrying amount of the asset and its recoverable amount through use or sale, with reference to the cash flows of the Group's most recent long-term plans.

The estimates and assumptions used for these analyses reflect the Group's knowledge upon developments concerning the business in which it operates and take account of reasonable estimates on future developments of the market and the aerospace sector, which remains subject to uncertainty also in view of the continued economic-financial crisis and its effect on the international economic environment. Although present Group estimates do not indicate impairments to non-current assets further than those recognised in these financial statements, any changes to this economic environment and divergent Group performances may result in differences from the originally estimates and, where necessary, adjustments to the carrying amount of certain non-current assets.

Recoverability of deferred tax assets

At December 31, 2017, the consolidated financial statements present deferred tax assets concerning deferred tax deductible income components, for an amount whose recovery in future periods is considered probable by management. In assessing the recoverability of these assets, future assessable income calculated on the basis of results consistent with those utilised for impairment test purposes and described in the previous paragraph concerning the recoverable value of non-current assets were taken into consideration.

Doubtful debt provision

The doubtful debt provision reflects the estimate of losses related to the Group's receivables portfolio. The accruals were made against expected losses on receivables, estimated according to past experience with regards to receivables with similar credit risk, current and historic unsettled amounts, reversals and receipts, in addition to the close monitoring of the quality of the client portfolio and present and forecast economic and market conditions.

Inventory obsolescence provision

The inventory obsolescence provision reflects management estimates on expected Group losses in value, based on past experience and historic and forecast market developments and any obsolescence or slow movement for technical or commercial reasons.

Employee benefit plans

Employee benefit provisions and net financial charges are valued according to an actuarial method which requires the use of estimates and assumptions for the calculation of the net value of the obligation. This process is based on estimates made periodically by actuarial consultants utilising a combination of statistical-actuarial factors, including statistics concerning prior years and estimates of future costs. Mortality and retirement indices, assumptions upon future discount rates, salary growth rates and inflation rates, in addition to analyses upon healthcare costs, are also considered as estimate components.
Changes to any of these parameters may impact future provision contributions. Following the adoption of IAS 19 revised with regards to the recognition of actuarial gains and losses generated by the valuation of employee benefit liabilities and assets, the effects deriving from the update to the estimates of the above-indicated parameters are recorded to the Balance Sheet through recognition to Group Equity of a specific reserve, with presentation in the comprehensive income statement.

Provision for risks, charges & contingent liabilities

The Group accrues a liability against disputes in progress when it considers it probable that there will be a financial payable and when the amount of the losses arising can be reasonably estimated. In the case in which a payment is considered possible, but is not yet determinable, such is reported in the financial statements.
The Group is involved in legal and tax cases regarding differing types of issues which are subject to varying degrees of uncertainty on the basis of their complexity, jurisdiction and applicable law. During the normal course of business, the Group monitors the state of cases in progress and liaises with its legal consultants and legal and tax experts; the value of the provisions for legal cases and disputes of the Group may therefore vary according to the future development of cases in progress.
In addition, the Group operates within sectors and markets where certain problems of a commercial nature may only be resolved after the lapsing of significant periods of time, requiring therefore an estimate by management on the outcome of these disputes and challenges through the monitoring of contractual conditions and the individual cases.

Valuation of contract work-in-progress

The Group operates according to particularly complex contracts, some of which recognised to the financial statements through the percentage of completion method. In these cases, the margins recognised to the income statement are dependent both on the advancement of the order and the margins expected on the entire works following completion: therefore, the correct recognition of works-in-progress and of margins upon works not yet concluded assumes a correct estimate by management on finishing costs, contractual changes, in addition to delays, extra costs and penalties which may impact the expected margin. In order to better support management estimates, the Group has adopted contract risk analysis management procedures which identify, monitor and quantify risks relating to the execution of these contracts. The values recognised to the financial statements are the best estimate at that date by management, with the aid of the above-stated procedural supports.

Other

In addition to the accounts listed above, estimates were used to value certain financial assets and liabilities, derivative financial instruments, remuneration plans for selected managers and to measure the fair value of assets acquired and of liabilities assumed through business combinations.

2.10. New accounting standards

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS APPLIED FROM JANUARY 1, 2017

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from January 1, 2017:

- 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. The adoption of this amendment does not have effects on the consolidated financial statements of the Group.
- 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 in the measurement of "Available for Sale" financial assets on the occurrence of certain circumstances and on estimates of assessable income for future years. The adoption of this amendment does not have effects on the consolidated financial statements of the Group.

IFRS and IFRIC standards, amendments and interpretations approved by the European Union, not yet mandatory and not adopted in advance by the company at December 31, 2017

The Group has not adopted the following new standards and amendments, but not yet in force.

- 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 new standard IFRS 15 (Revenue from contracts with customers), issued by the IASB in May 2014 and reviewed in September 2015, provides a new regulatory framework which replaces from the year 2018 (January 1) the previous provisions on revenues for the sale of goods and services to customers.

The standard provides that revenues are recognised on the transfer of control of the goods and services to the customers for an amount which reflects the expected price utilising a 5 step process. The new standard also requires additional disclosures on the nature, the amount, the timing and the level of uncertainty of the revenues and of the cash flows deriving from contracts.
The objective of the new standard is therefore to guarantee readers of financial statements a better understanding of the nature, amount and timing of the revenues and of the cash flows generated from contracts with customers.

The company has commenced a project to identify, once completed, any effects deriving from the introduction of the new standard IFRS 15.
Currently, the general principle of accounting for revenues through the advancement of the contracts method is confirmed without modifying the accounting treatment utilised to-date. The Group is completing its analysis on the effects that could arise from the application of the new standard however currently we do not expect significant effects on the financial statements.

The application of the new standard IFRS 15 will be applied with the "Modified Retrospective Approach".

- 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:

    - introduces new criteria for the classification and measurement of financial assets and liabilities (together with the measurement of the non-significant adjustments of the financial 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.

  Based on the analysis undertaken, the directors consider that the application of IFRS 9 will not have a significant impact on the amounts and on the relative disclosure in the Group consolidated financial statements.

- 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 already applied IFRS 15 - Revenue from Contracts with Customers.

The directors do not consider that application of IFRS 16 will have a significant impact on the amounts and the relative disclosure in the Group consolidated financial statements, in consideration of the fact that operating leases are of an insignificant amount.

- "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.

  The amendments introduced two possible approaches:
    - *overlay approach*
    - *deferral approach*.

  These approaches will permit:
    - the possibility to recognise to the comprehensive income statement (i.e. in the OCI statement), rather than the income statement, the effects from application of IFRS 9 rather than IAS 39 on certain designated financial assets before application of the new standard concerning insurance contracts ("overlay approach");
    - the possibility of a temporary extension to the application of IFRS 9 until the first between the application date of the new standard on insurance contracts or periods beginning January 1, 2021. Entities deferring application of IFRS 9 will continue to apply the current IAS 39 ("deferral approach").

  The directors do not expect these amendments to have a significant impact on the Group consolidated financial statements.

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

At the date of the Financial Statements, the relevant bodies of the European Union have not yet concluded the process necessary for the implementation of the amendments and standards described below.

- 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. The Directors do not expect this standard to have a significant impact on the Group consolidated financial statements.

- 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. These changes will be applied from January 1, 2018.

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.

- "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. The majority of changes will be applied from January 1, 2018. 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.

- 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. 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.

- 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. These amendments are applicable from January 1, 2018. 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 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 these amendments, however the directors are currently assessing any possible effects deriving from its introduction.

- Amendment to IFRS 9 "Prepayment Features with Negative Compensation (published on October 12, 2017). This document specifies that instruments which provide for an advance repayment could comply with the "SPPI" test also in the case where the "reasonable additional compensation" to be paid in the event of advance repayment is a "negative compensation" for the lender. The amendment 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 these amendments, however the directors are currently assessing any possible effects deriving from its introduction.

- Amendment to IAS 28 "Long-term Interests in Associates and Joint Ventures" (published on October 12, 2017)". This document clarifies the need to apply IFRS 9, including the impairment requirements, to other long-term interests in associates and joint ventures for which the equity method is not applied. The amendment applies from January 1, 2019, although early application is permitted.
- Document "Annual Improvements to IFRSs 2015-2017 Cycle", published on December 12, 2017 (among which IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – Remeasurement of previously held interest in a joint operation, IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity, IAS 23 Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalisation) which include the amendments to some standards within the annual improvement process. The amendments are applicable from January 1, 2019, although advance application is permitted. 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 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.
- Standard IFRS 14 - Regulatory Deferral Accounts (published on January 30, 2014) which permits only those adopting IFRS for the first time to continue to recognise amounts concerning Rate Regulation Activities according to the previous accounting standards adopted. As the Group is a first-time adopter, this standard is not applicable.

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 December 31, 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 December 31, 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.

	31/12/2017 - Avio Group			Balances of Avio Group at 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	32,685	(15,135)	17,550	32,572	(14,238)	18,333	-
Plant and machinery	67,601	(49,740)	17,861	65,038	(47,482)	17,557	-
Industrial and commercial equipment	17,343	(15,045)	2,298	16,730	(14,587)	2,143	-
Other assets	7,667	(5,779)	1,888	7,057	(5,359)	1,698	-
Assets in progress and advances	24,692	-	24,692	12,379	-	12,379	-
Total	**157,551**	**(85,698)**	**71,852**	**141,338**	**(81,666)**	**59,672**	**-**

The changes between March 31, 2017 (acquisition date of the Avio Group by Space2) and December 31, 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 Avio Group at business combination date 31/03/2017	Increases	Decreases for disposals	Reclassifications and other changes	Exchange adjustments	31/12/2017
Land	7,563					7,563
Buildings	32,572	113				32,685
Plant and machinery	65,038	2,563				67,601
Industrial and commercial equipment	16,730	606	(45)	52		17,343
Other assets	7,057	661	(107)	55		7,667
Assets in progress and advances	12,379	12,420		(107)		24,692
Total	**141,338**	**16,364**	**(152)**	**-**	**-**	**157,551**

Assets in progress and advances refer, at December 31, 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 December 31, 2017 the changes in the accumulated depreciation provisions were as follows (Euro thousands):

Gross value	Balances of Avio Group at business combination date 31/03/2017	Increases	Decreases for disposals	Reclassifications and other changes	Exchange adjustments	31/12/2017
Land	-					0
Buildings	(14,238)	(896)				(15,135)
Plant and machinery	(47,482)	(2,258)				(49,740)
Industrial and commercial equipment	(14,587)	(487)	29			(15,045)
Other assets	(5,359)	(515)	95			(5,779)
Total	**(81,666)**	**(4,156)**	**124**	**-**	**-**	**(85,698)**

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 December 31, 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 December 31, 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.

	31/12/2017 - Avio Group			Balances of Avio Group at 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	1,882	(884)	998	1,794	(842)	952	
Total	**3,716**	**(884)**	**2,832**	**3,628**	**(842)**	**2,787**	**-**

Investment property refers to part of the 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 December 31, 2017 in the gross values of investment property of the Avio Group are illustrated in the table below (Euro thousands):

Gross value	Balances of Avio Group at business combination date 31/03/2017	Increases	Decreases	Reclassifications	31/12/2017
Land	1,834				1,834
Buildings & facilities	1,794	88			1,882
Total	**3,628**	**88**	**-**	**-**	**3,716**

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

Accumulated depreciation	Balances of Avio Group at business combination date 31/03/2017	Depreciation	Utilisations	Reclassifications	31/12/2017
Land	-				-
Buildings & facilities	(842)	(42)			(884)
Total	**(842)**	**(42)**	**-**	**-**	**(884)**

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

3.3. GOODWILL

The goodwill recognised at December 31, 2017 for an amount of Euro 61,005 thousand relates to the Purchase Price Allocation at March 31, 2017 commented upon in the Directors' Report. For further details, reference should also be made to IFRS 3 disclosures at paragraph 2.6.1 of these Notes.

As indicated in Note 2.7. Accounting policies, goodwill is not amortised but written down for impairments. The Group assesses the recoverability of goodwill at least annually, or more frequently where specific events and circumstances arise which may result in long-term value reductions, through impairment tests on each of the Cash Generating Units (CGU's). The CGU identified by the Group for the monitoring of goodwill coincides with the level of aggregation required by IFRS 8 - *Operating segments,* which for the Group is identified by the *Space business* alone.

Goodwill allocated to the *Space* CGU was subject to an impairment test at the reporting date which did not indicate the need for a write-down of the carrying amount of goodwill at December 31, 2017.

The recoverability of the amounts recognised are verified through comparing the net capital employed (carrying amount) of the CGU with the relative recoverable value. The recoverable value of goodwill is based on the calculation of the value in use i.e. the present value of future operating cash flows on the basis of the estimates included in the long-term plans approved by the Group and an adjusted terminal value, employed to express a summary estimate of future results over the explicitly considered timeframe. These cash flows are thereafter discounted according to discount rates reflecting the present market valuations of the cost of money and which take account of the specific risks of Group operations and of the CGU considered.

At December 31, 2017, the cash flows of the Space CGU were estimated according to forecasts from the latest Business Plan prepared by company Management approved by the Board of Directors on January 19, 2017 for the 2017-2019 three-year period supplemented with some updates for the year 2018 (contained in the approved budget) and 2019, as well as the projections for 2020. For the calculation of the terminal value, the expected cash flows for the final projection year (2020) were normalised according to the perpetuity method, assuming 2% growth for forecast cash flows from 2021.

The average discount rate (average weighted cost of capital) utilised for discounting cash flows was, net of taxes, 8.90% (8.72% in the previous year).

The estimates and the plan data used in the application of the above indicated parameters are calculated by management based on past experience and forecasts concerning Group markets. It is therefore highlighted that the current international economic environment and the possible economic-financial repercussions, in particular on spending levels by national governments and supranational institutions on space access policies, may create uncertainties around the achievement of objectives and the level of activities considered in the plan, without however resulting in impairments to the goodwill recognised to the financial statements. However, the estimate of the recoverable value of goodwill requires subjectivity and the use of estimates by management and, although considering that the production and commercialisation cycles for products cover extensive timeframes which therefore permit the recovery of any delays on plan objectives, it should be considered that goodwill may be impaired in future periods due to changes in the general environment which are currently unforeseeable. The circumstances and events which may result in further impairments are constantly monitored by Group management.

In consideration of that indicated, the Group undertook the following sensitivity analysis.

The first sensitivity analysis concerned the growth rate of the terminal value and the discount rate of the cash flows:

- for the terminal value growth rate a decrease of 50 basis points was assumed; alternatively
- for the cash flow discount rate an increase of 50 basis points was assumed.

On the basis of these sensitivities, the recoverable value of the Space CGU was higher than the carrying amount. Where considering a similar decrease for the above parameters, the recoverable value of the Space CGU is higher than the carrying amount. A second sensitivity analysis concerned the inclusion in the value in use of the "Surplus Asset" deriving from the equity value of the Europropulsion joint-venture. On the basis of these sensitivities, the recoverable value of the Space CGU was higher than the carrying amount. Even considering jointly the two sensitivities, or rather the inclusion in the value in use of the "Surplus Asset" deriving from the equity value of the Europropulsion joint-venture and a negative change in both the parameters of the first sensitivity, the recoverable value of the Space CGU would be higher than the carrying amount recognised in the financial statements.

3.4. INTANGIBLE ASSETS WITH DEFINITE LIFE

The values of Intangible assets with definite life at December 31, 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 December 31, 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.

	31/12/2017 - Avio Group			Balances of Avio Group at business combination date 31/03/2017			31/12/2016 - Space2 S.p.A.
	Gross values	Accumulated amortisation	Net book value	Gross values	Accumulated amortization	Net book value	Net book value
Development costs - amortisable	71,188	(44,479)	26,709	71,188	(40,919)	30,269	
Development costs - in progress	46,090	-	46,090	38,077	-	38,077	
Total development costs	117,278	(44,479)	72,799	109,265	(40,919)	68,346	-
Assets held by customers for programme participation accreditation (PPA 2007 Cinven)	-	-	-	61,257	(41,859)	19,398	
Assets from PPA 2017 - Programmes	44,785	(2,239)	42,546				
Concessions, licenses, trademarks & similar rights	5,842	(5,354)	488	5,639	(4,965)	674	
Other	2,492	(1,211)	1,281	1,823	(977)	846	
Assets in progress and advances	462	-	462	167	-	167	
Total	**170,859**	**(53,283)**	**117,576**	**178,150**	**(88,719)**	**89,431**	**-**

The amortisable development costs mainly refer to design and testing costs relating to the P80 motor, while the largest part of the development costs in progress relate to the future motors Z40 and P120.

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. Following the purchase price allocation process of the Avio Group by Space2, two intangible assets were identified relating to aerospace programmes for Euro 44,785 thousand.
On the other hand, the intangible asset relating to the programme accreditation of the Group was adjusted, which was identified within the purchase price allocation process undertaken in 2007 of the Group by Cinven, for a net book value of Euro 19,398 thousand.
The assets deriving from this allocation were measured at fair value based on the present value of the expected future benefits of the aerospace programmes and amortised over a period of 15 years on the basis of the average useful life of the programmes to which they refer.

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 December 31, 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 Avio Group at business combination date 31/03/2017	Purchase Price Allocation acquisition by Space2 - 31/03/2017	Increases	Decreases	Reclassifications	31/12/2017
Development costs - amortisable	71,188					71,188
Development costs - in progress	38,076		8,013			46,090
Total development costs	109,265	-	8,013	-	-	117,278
Assets held by customers for programme participation accreditation (PPA 2007 Cinven)	61,257	(61,257)				-
Assets from PPA 2017 - Programmes		44,785				44,785
Concessions, licenses, trademarks & similar rights	5,639		203			5,842
Other	1,823		646	(7)	30	2,492
Assets in progress and advances	167		325		(30)	462
Total	**178,150**	**(16,472)**	**9,187**	**(7)**	**-**	**170,859**

The increases between March 31, 2017 (acquisition date of the Avio Group by Space2) and December 31, 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 December 31, 2017 the changes in the accumulated depreciation provisions were as follows (Euro thousands):

Accumulated amortization	Balances of Avio Group at business combination date 31/03/2017	Purchase Price Allocation acquisition by Space2 - 31/03/2017	Increases	Decreases	Reclassifications	31/12/2017
Development costs – amortizable	(40,919)		(3,560)			(44,479)
Development costs - in progress						-
Total development costs	(40,919)	-	(3,560)	-	-	(44,479)
Assets held by customers for programme participation accreditation (PPA 2007 Cinven)	(41,859)	41,859				-
Assets from PPA 2017 – Programmes			(2,239)			(2,239)
Concessions, licenses, trademarks & similar rights	(4,965)		(389)			(5,354)
Other	(977)		(241)	7		(1,211)
Assets in progress and advances	-					-
Total	**(88,719)**	**41,859**	**(6,430)**	**7**	**-**	**(53,283)**

3.5. INVESTMENTS

The table below illustrates the investments of the Avio Group at December 31, 2017 and at March 31, 2017 (acquisition date of the Group by Space2), in addition to the amounts in the incorporating company Space2 at December 31, 2016 (Euro thousands):

	31/12/2017		Balances of Avio Group at 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%	3,752	50.00%	3,699		
Total companies under joint control		**3,752**		**3,699**		**-**
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**		**-**
Other companies						
- Other companies		520		520		
Total other companies		**520**		**520**		**-**
Total		**6,347**		**6,294**		**50**

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

	Balances of Avio Group at business combination date 31/03/2017	Increases	Decreases	Other changes	31/12/2017
Subsidiaries	63	-	-	-	63
Companies under joint control	3,699	2,513	(2,460)	-	3,752
Associated companies	2,012	-	-	-	2,012
Other companies	520	-	-	-	520
Total	**6,294**	**2,513**	**(2,460)**	**-**	**6,347**

The change in the period relates to the investment in the jointly-controlled company Europropulsion S.A., which is measured at equity with an increase of Euro 53 thousand (50% share of profits matured in the period April 1, 2017 to December 31, 2017 of Euro 2,513 thousand, net of Euro 2,460 thousand for dividends paid 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 was no longer held at the reporting date.

3.6. NON-CURRENT FINANCIAL ASSETS

The table below illustrates the non-current financial assets of the Avio Group at December 31, 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):

	31/12/2017	Balances of Avio Group at 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 December 31, 2017 and March 31, 2017, 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

The deferred tax assets of the Avio Group recorded in the accounts amount to Euro 76,547 thousand.

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 financial statements and the respective values for fiscal purposes and the tax losses carried forward.

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):

	31/12/2017
Gross deferred tax assets on temporary differences	
Temporary differences deriving from previous corporate operations	
Fiscal amortisation on previous goodwill whose tax benefits remain in the Group	44,106
Financial charges exceeding 30% of EBITDA	44,636
Temporary differences deriving from current corporate operations	
Provision for personnel charges, former employees and similar	2,454
Other deductible temporary differences	4,662
Total gross deferred tax assets	**95,858**
Deferred tax liability on temporary differences	
Temporary differences deriving from previous corporate operations	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(12,291)
Tax effect R&D expenses First-Time Adoption	(5,144)
Temporary differences deriving from current corporate operations	
Other temporary assessable differences	(900)
Total gross deferred tax liabilities	**(18,335)**
Net deferred tax assets/(liabilities)	**77,522**
Deferred tax assets on tax losses	41,926
Deferred tax assets not recorded	(42,902)
Net deferred tax assets (liabilities) recorded	**76,547**

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, as well as based on a projection of these forecasts over a subsequent time horizon considered representative of the life cycle of the business equal to 15 years.

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. recognises deferred tax assets, in particular deriving from the future tax deductibility of the goodwill amortisation relating to the "Aviation" business unit (sold in 2013) 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.

In relation to this matter, the ruling requested by the company obtained a positive response from the Tax Office and therefore supporting the reasonableness of the future recovery of these deferred 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 Avio included, with reference to the last financial statements of this latter, at December 31, 2016, also deferred tax liabilities, amounting to approx. Euro 26 million, deriving from goodwill tax amortisation relating to the "Space" business recorded in the accounts before the acquisition by Space2. In addition the account included deferred tax liabilities, amounting to Euro 5.6 million, deriving from the recognition of intangible assets for the customer accreditation recorded on the previous acquisition. Following this latter operation on March 31 and the consequent treatment in accordance with IFRS 3, the goodwill and the intangible assets for accreditation were 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 net deferred tax assets.

As described in the previous paragraphs on the purchase price allocation a new intangible asset was identified for customer accreditation which resulted in the recognition of new deferred tax liabilities for Euro 12.9 million at the transaction date.

3.8. OTHER NON-CURRENT ASSETS

The table below illustrates other non-current assets at December 31, 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.

	31/12/2017	Balances of Avio Group at business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Other non-current assets	65,521	67,502	-
	65,521	**67,502**	**-**

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

	31/12/2017
Receivables from the General Electric Group	58,220
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	6,700
Guarantee deposits	454
Other non-current receivables	147
Total	**65,521**

"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 "3.24. 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 6,700 thousand, refers to the discounted value of the non-current portion of the concessions granted at December 31, 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 the realisation of a European common interest project, whose disbursement 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 3.24).

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 December 31, 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.

	31/12/2017	Balances of Avio Group at business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Inventories	125,789	131,161	-
	125,789	**131,161**	**-**

The breakdown of the account at December 31, 2017 follows (in Euro thousands):

	31/12/2017		
	Gross Value	Write-down provision	Net Value
Raw material, ancillaries and consumables	41,152	(3,277)	37,875
Products in work-in-progress	7,296	(424)	6,871
Finished products	8,250	(4)	8,247
Advances	72,796	-	72,796
	129,494	**(3,705)**	**125,789**

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

The contract work-in-progress relates to production and development activities. These amounts are 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.
Contract work-in-progress is measured on the advancement of the projects in accordance with the percentage of completion method based on the ratio between the costs incurred and the total estimated costs for the entire project.

The gross value of contract work-in-progress and advances received from clients is as follows (in Euro thousands):

	31/12/2017	31/12/2016	Change
Contract work-in-progress	111,237	-	111,237
Advances for contract work-in-progress	(242,519)	-	(242,519)
Net total	**(131,282)**	**-**	**(131,282)**

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

	31/12/2017	31/12/2016	Change
Contract work-in-progress (gross)	570,720	-	570,720
Advances for contract work-in-progress (gross)	(459,483)	-	(459,483)
Contract work-in-progress (net)	**111,237**	**-**	**111,237**

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

	31/12/2017	31/12/2016	Change
Contract work-in-progress (gross)	643,391	-	643,391
Advances for contract work-in-progress (gross)	(885,909)	-	(885,909)
Advances for contract work-in-progress (net)	**(242,519)**	**-**	**(242,519)**

During 2017, as described in detail in the paragraph "Significant events in 2017 - Tax credit for R&D activities" in the Directors' Report, the Avio Group through the subsidiary ELV S.p.A. matured a tax credit against research and development commissioned by the European Space Agency. This benefit was recognised to the income statement based on the advancement of the research and development activities which are part of the contract work-in-progress (and of the relative multi-year projects).

The multi-year projects mainly concern those relating to the Vega C and Vega E future generation launchers and the recognition of the economic benefits shall be made over the duration of the orders at issue and from the effective advancement of the orders, calculated on the basis of the relative costs incurred.

3.11. TRADE RECEIVABLES

The table below illustrates trade receivables at December 31, 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.

	31/12/2017	Balances of Avio Group at business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Trade receivables	8,508	6,607	-
	8,508	**6,607**	**-**

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

	31/12/2017
Receivables from third parties	4,439
Receivables from associates and jointly controlled companies	4,069
Total	**8,508**

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):

	31/12/2017
Gross value	4,439
less: doubtful debt provision	(483)
Total	**3,956**

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

3.12. CURRENT FINANCIAL ASSETS

The account amounts to zero at December 31, 2017 (Euro 1 thousand at March 31, 2017, date of the acquisition of the Group by Space2).

At December 31, 2016 however, the financial statements of the incorporating company Space2 reported current financial assets of Euro 304,165 thousand, comprising Euro 184 million of Savings Bonds and Euro 121 million of Escrow Bank Deposits, representing a part of the funds received from the offer undertaken by the above SPAC 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.

During the year, the financial assets of Space2 S.p.A reduced to zero as a result of the following:

- 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 66 million were divested and classified under cash and cash equivalents.

3.13. CASH AND CASH EQUIVALENTS

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

	31/12/2017	Balances of the Avio Group at the business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Cash and cash equivalents	107,033	111,585	445
Total	**107,033**	**111,585**	**445**

Cash and cash equivalents mainly concerning balances on bank current accounts.
Reference should be made to the Cash Flow Statement for a better understanding of the increase of approx. Euro 107 million of cash and cash equivalents between the standalone Space2 S.p.A. at December 31, 2016 and of the Avio Group at December 31, 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 tax receivables at December 31, 2017, March 31, 2017 (acquisition date of the Group by Space2) and December 31,2016 (Euro thousands).

	31/12/2017	Balances of Avio Group at business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Current tax assets	72,231	34,902	1,014
Total	**72,231**	**34,902**	**1,014**

The increase in the account between March 31, 2017 and December 31, 2017 was Euro 37,329 thousand; this essentially was due to the increase in the Group VAT receivable and the recognition of the research and development tax credit, as outlined elsewhere.

The breakdown of current tax receivables is as follows (Euro thousands):

	31/12/2017
VAT receivables	46,459
Research and development tax credit	20,000
Income tax receivables	5,534
EU VAT receivables	238
Total	**72,231**

VAT receivables

VAT receivables, amounting to Euro 46,459 thousand, includes Euro 23,400 thousand for VAT reimbursement requests. During 2017, the VAT receivable requested for repayment by the Avio Group had been offset by a tax charge of Euro 887 thousand, following the settlement of a VAT dispute for financial year 2007 agreed with the Tax Agency on April 26, 2017. The charge was recognised among the risks and charges provisions which were, therefore, correspondingly adjusted downwards. Reference in this regard should also be made to paragraph "3.22. Provisions for risks and charges", in addition to the "Legal and tax cases and contingent liabilities" paragraph.

Between March 31, 2017 and December 31, 2017, the Group VAT receivable increased Euro 14.2 million: this is due to the fact that the Group's main clients, the European Space Agency (ESA) for the development of launchers and Ariane Group for their production/commercialisation, in addition to the jointly-controlled company Europropulsion for both of these phases, do not generate VAT payables as outside of the applicable VAT scope.
On the other hand, the Group has Italian suppliers whose supplies - further to the amounts permitted under the VAT ceilings used by the Group - result in the recognition of VAT receivables.

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 launcher development activities undertaken on behalf of the subsidiary ELV S.p.A. with the final customer European Space Agency (ESA), issues invoices from the beginning of 2017 to ELV benefitting from a specific non-assessable VAT regime, with simultaneous 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, relating to the significant development phase of the launchers, is expected to result in the probable non-generation of further VAT receivables in Avio, from 2018.

Research and development tax credit

The research and development tax credit amounts to Euro 20,000 thousand and was matured by the subsidiary ELV.
The following is outlined with regards to this tax credit.
Article 3 of Legislative Decree No. 145 of December 23, 2013, converted with amendments, by law No. 9 of February 21, 2014, establishes a tax credit for businesses resident in Italy investing in research and development. In particular, the tax credit in question:

- concerns investment in fundamental research, industrial research and experimental development;
- is recognised against the investment specifically identified by the law (personnel costs, depreciation on laboratory instruments and equipment, research contract expenses ("extra-muros") and patent and industrial property expenses) made in the years between 2015 and 2020;

- equates to, for each of the tax break periods, the excess of investments made in the year over average similar investments over the 2012-2014 three-year period ("historic benchmark average").
- is equal to 50% of the excess costs incurred in the year over the historic benchmark average;
- is utilisable for an annual maximum amount of Euro 20 million;
- may be accessed also where research and development is contracted to third parties. In this case, the break may be utilised by the commissioner, if resident in Italy;
- is automatically accessible, without the need for a request for concession or administrative authorisation;
- is utilisable exclusively as an offset from the subsequent tax period to that in which the qualifying costs are incurred.

Due to the major changes introduced by Law No. 232 of December 11, 2016 ("2017 Financial Statements Law"), from the 2017 tax year, the tax credit was, among other issues, extended also to costs incurred for research and development carried out by resident companies, as agents, on behalf of overseas commissioners.

The new aspects introduced by the 2017 Financial Statements law are particularly relevant for the subsidiary ELV as bringing the costs incurred by the company for research and development carried out as an agent on behalf of the commissioner ESA within the scope of the tax credit.
In view of the option granted by the 2017 Finance Act, and taking account of the clarifications provided by the Tax Agency, the company undertook a detailed analysis - with the support of outside consultants - concerning this potential benefit. The results of the analysis were as follows:

- the research and development regarding VEGA C carried out by ELV on behalf of the ESA is covered by the tax credit;
- part of the costs incurred by ELV for such research and development are covered by the tax credit;
- the qualifying costs incurred by ELV are greater than the 2012-2014 benchmark average of similar costs.

On the basis of that outlined above, a research and development tax credit was recognised for the 2017 financial year equal to the maximum amount permitted by the law of Euro 20 million and a benefit was recorded in 2017 of Euro 6,147 thousand.

These receivables are initially recorded in the account "Research and development tax credit" and recognised to the income statement in each period on an accruals basis, according to the differing types of costs supported, in relation to the percentage of completion of the contract work-in-progress giving rise to the costs against which the due receivable was calculated in the accounts "Service costs" and "Change in contract work-in-progress".

Tax receivables

The Tax receivables account for Euro 5,534 thousand principally concerns the IRAP tax receivables of Euro 1,723 thousand, withholding taxes on interest receivables for Euro 914 thousand, tax receivables of the Guyanan subsidiary Regulus for Euro 1,770 thousand and other tax receivables for Euro 1,128 thousand.

EU VAT receivables

The EU VAT receivables relate to inter-EU transactions and amount to Euro 238 thousand.

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 December 31, 2017, March 31, 2017 (acquisition date of the Group by Space2) and December 31,2016 (Euro thousands).

	31/12/2017	Balances of Avio Group at business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Other current assets	8,664	6,455	108
Total	**8,664**	**6,455**	**108**

The breakdown of the account at December 31, 2017 is shown in the table below (Euro thousands):

	31/12/2017
Social security institutions	247
Employee receivables	1,004
Economic Development Ministry for disbursements pursuant to Law 808/85	4,881
Other debtors	1,819
Prepayments and accrued income	712
Total	**8,664**

Receivables from the "Economic Development Ministry for disbursements pursuant to Law 808/85", amounting to Euro 4,881 thousand, refer to the discounted value 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).

Other receivables, amounting to Euro 1,819 thousand, concern recharges to third parties for environmental and fiscal charges incurred by the Group.

"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 90,964,212 at December 31, 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, following the transaction on March 31, 2017, then merged by incorporation Avio S.p.A. effective as of April 10, 2017 and was 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.
- of which Euro 202,542 thousand as the increase due to the exercise, in the second half of 2017, of market warrants (see the "Shareholders" paragraph of the Directors' Report)

The share capital at December 31, 2017 amounted to Euro 90,964,212 and was divided into 26,359,346 ordinary shares, of which 1,170,000 following the conversion on May 17, 2017 of 260,000 special shares.

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.

3.17. SHARE PREMIUM RESERVE

The share premium reserve at December 31, 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):

	31/12/2017
Actuarial gains/(losses) reserve	(3,234)
2015 share capital increase reserve	(1,456)
Legal reserve	8
Total	**(4,683)**

The Other reserves account, negative for Euro 4,683 thousand at December 31, 2017, includes, in addition to the Legal reserve of Euro 8 thousand:

- for Euro 3,234 thousand the actuarial gains and losses deriving from the application of IAS 19 revised, with the relative tax effect where applicable;

- for Euro 1,456 thousand the costs of the share capital increase in 2015 in the SPAC Space2.

3.19. RECONCILIATION BETWEEN PARENT AND CONSOLIDATED EQUITY

The reconciliation between equity at December 31, 2017 and the 2017 parent result and the corresponding consolidated financial statement amounts is outlined as follows (in Euro thousands):

	Equity at 31.12.2017	2017 Result (9 months)
Financial Statements of Avio S.p.A.	**267,089**	**12,928**
Elimination of investments recognised to the statutory financial statements	(129,829)	
Recognition of the equity and result of the consolidated companies	135,887	8,386
Elimination of inter-company dividends		(2,880)
Other consolidation adjustments	(997)	(73)
Consolidated financial statements (attributable to the Group)	**272,150**	**18,361**

With regards to the reconciliation, the following is reported:

- the elimination of inter-company dividends entirely concerned dividends issued by the subsidiary Regulus S.A. in 2017 (Euro 2,880 thousand);
- the elimination of gains and losses from inter-company transactions and other consolidation adjustments including the measurement at equity of the jointly controlled Europropulsion S.A..

3.20. NON-CONTROLLING INTERESTS

Non-controlling interests relate to the share of the equity in ELV S.p.A and Regulus S.A consolidated under the line-by-line method, as illustrated below:

	31/12/2017			
Consolidated companies	% Non-controlling interests	Capital and reserves	Profit/(loss)	Equity non-controlling Interests
ELV S.p.A.	30.00%	1,638	2,217	3,766
Regulus S.A.	40.00%	4,472	1,817	6,289
		6,110	**4,034**	**10,055**

NON-CURRENT LIABILITIES

3.21. NON-CURRENT FINANCIAL LIABILIITES

Non-current financial liabilities at December 31, 2017 amounted to Euro 40 million and concerned the loan agreed in October 2017 with the European Investment Bank (EIB). This loan contract with the EIB was structured so as to provide for full "drawdown" in October 2017 at a fixed interest rate and is of 7 years duration, of which 2 constituting a grace period and repayment in ten equal half-yearly instalments from the third to the seventh years, of which the first maturing on April 30, 2020 and the final maturing on October 31, 2024. This is not supported by guarantees and stipulates the application of covenants (Gross Financial Debt/EBITDA and Gross Financial Debt/Equity), among other covenants. To-date, these covenants have been complied with.
Hedging derivatives have been agreed on this loan.

3.22. 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 provisions are broken down as follows (in Euro thousands):

	31/12/2017	Balances of Avio Group at business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
- Defined benefit plans:			
Employee leaving indemnity	5,508	5,577	-
Other defined benefit plans	2,353	2,364	-
	7,861	7,941	-
- Other long-term benefits	3,046	2,901	-
Total employee benefit provisions	**10,907**	**10,842**	**-**
of which:			
- Italy	9,589	9,747	-
- other countries	1,318	1,095	-
	10,907	**10,842**	**-**

The following table presents the principal changes in the employee benefit provisions (in Euro thousands):

	Defined benefit plans	Other long-term benefits	Total employee benefit provisions
At 31/03/2017	**7,941**	**2,901**	**10,842**
Financial charges/(income)	(5)	(4)	(8)
Extraordinary charges/(income) from actuarial adjustment	166	(153)	13
Actuarial (gains)/losses in income statement		82	82
Actuarial (gains)/losses in comprehensive income statement	(34)		(34)
Pension cost current employees	75	302	377
Benefits paid	(282)	(82)	(364)
At 31/12/2017	**7,861**	**3,046**	**10,907**

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

	31/12/2017	31/12/2016
Discount rate	0.50%	0.52%
Expected salary increases	2.09%	2.11%
Inflation rate	1.50%	1.50%
Average employee turnover rate	4.88%	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.

3.23. PROVISIONS FOR RISKS AND CHARGES

The table below illustrates provisions for risks and charges at December 31, 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.

	31/12/2017	Balances of Avio Group at business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Provisions for risks and charges	16,340	20,396	-
Total	**16,340**	**20,396**	**-**

The breakdown of the Provision for risks and charges at December 31, 2017 at the reporting date is shown below (Euro thousands):

	At 31/12/2017		
	Current portion	Non-current portion	Total
Provision for variable remuneration	5,993	863	6,856
Provision for personnel charges and organisational restructuring	7		7
Provision for legal and environmental risks and charges	1,268	5,007	6,275
Provision for contractual and commercial risks and charges		1,754	1,754
Provision for tax risks	1,282	165	1,447
Total	**8,551**	**7,789**	**16,340**

These provisions include:

- provisions for variable remuneration for Euro 6.9 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 7 thousand;
- provisions for legal and environmental risks and charges, against litigation and trade union disputes in course, amount to Euro 6.3 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 1.8 million;
- provisions for tax risks, amounting to Euro 1.4 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 2017. 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 Group – 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 December 31, 2017 in the total provisions, current and non-current portion, are illustrated in the table below (Euro thousands):

	Balances from business combination at 31/03/2017	Provisions	Other changes	Utilisations	Releases	31/12/2017	31/12/2016 - Space2 S.p.A.
Provision for variable remuneration	10,245	5,844		(8,789)	(445)	6,856	
Provision for personnel charges and organisational restructuring	356			(19)	(330)	7	
Provision for legal and environmental risks and charges	6,501	430		(655)		6,275	
Provision for contractual and commercial risks and charges	2,125	288			(659)	1,754	
Provision for tax risks	3,558	9	161	(2,106)	(175)	1,447	
Total	**22,785**	**6,571**	**161**	**(11,569)**	**(1,609)**	**16,340**	**-**

The principal changes between March 31, 2017 and December 31, 2017 are shown below:

- provision for variable remuneration was utilised for Euro 8.8 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 4.5 million). The provision of Euro 5.8 million mainly relates 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;
- provision for tax risks decreased principally due to the utilisation of Euro 2.1 million, of which:
  - Euro 887 thousand following the settlement of the VAT dispute for the 2007 income tax period 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.;
  - Euro 846 thousand following the settlement by the subsidiary Secosvim with the Customs and Monopolies Agency on September 29, 2017 with regards to the tax disputes concerning taxes for electricity sold to the companies of the Colleferro industrial district in the years between 2001 and 2005.

  Reference should be made to the “Legal and tax cases and contingent liabilities” paragraph of the Explanatory Notes.

3.24. OTHER NON-CURRENT LIABILITIES

The table below illustrates trade payables at December 31, 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.

	31/12/2017	Balances of Avio Group at business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
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	58,220	-
Payables to the Economic Development Ministry for disbursements pursuant to Law 808/85 - portion beyond one year	42,051	42,051	
Deferred income on disbursements pursuant to Law 808/85 - beyond one year	14,828	16,602	
Other tax payables	441		
Other deferred income - beyond one year	730	861	
Total	**116,270**	**117,734**	**-**

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 14,828 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.

Other tax payables

This account entirely concerns the medium/long term tax payable relating to the settlement as per Article 5-bis of Legislative Decree 193/2016 (converted by Law 225 of 2016) agreed by the subsidiary Secosvim with the Customs and Monopolies Agency on September 29, 2017, with regards to the tax dispute concerning electricity sold to the companies of the Colleferro industrial district in the years 2001 and 2005.
As reported above at paragraph "3.23 Provisions for risks and charges", following this settlement, the risks provision utilised for this dispute was partially reclassified to medium/long term tax payables and "Current tax payables".

CURRENT LIABILITIES

3.25. CURRENT FINANCIAL LIABILITIES

The table below illustrates current financial liabilities at December 31, 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.

	31/12/2017	Balances of Avio Group at business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Current financial liabilities	25,259	29,923	-
Total	**25,259**	**29,923**	**-**

The account at December 31, 2017, amounting to Euro 25.3 million, comprises financial payables to the jointly-controlled company Europropulsion for Euro 25.2 million and other payables for financial services of Euro 10 thousand to third parties.

At March 31, 2017, this account amounted to Euro 29.9 million, of which financial payables to Europropulsion for Euro 29.6 million and derivative instruments at fair value of Euro 373 thousand, concerning the interest rate swap undertaken on the variable interest rate of the Senior Term and Revolving Facilities Agreement. This loan was settled in October and, therefore, at December 31, 2017 no debt positions on the interest rate swap existed.

Payables to the jointly-controlled company Europropulsion relate to the mechanism of distributing to its shareholders the financial resources available to the joint venture, in accordance with a specific treasury management contract.

3.26. CURRENT PORTION OF NON-CURRENT FINANCIAL PAYABLES

The table below illustrates this account at December 31, 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.

	31/12/2017	Balances of Avio Group at business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Current portion of non-current financial payables	60	93,120	-
Total	**60**	**93,120**	**-**

The current portion of Euro 60 thousand of financial payables refers to accumulated interest on the recent EIB loans.

The account at March 31, 2017 entirely concerned the residual debt on 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.
In addition to the revolving line, never accessed by the Group, the loan is broken down 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").

This loan was fully settled through two payments in the March 31 - December 31 period:

- between March 31 and June 30, following the merger by incorporation of Avio into Space2, resulting in the receipt of new financial resources recorded to the accounts of the incorporating company for Euro 65.6 million, the residual payable relating to Term Loan B was repaid in advance and which in contrast to Term Loan A attracted higher interest (Euribor + spread 4.5% against Euribor + spread 4%).
- at the beginning of October, the Group however repaid in advance Term Loan A for approx. Euro 30 million.

3.27. TRADE PAYABLES

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

	31/12/2017	Balances of Avio Group at business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Trade payables	89,441	74,727	581
Total	**89,441**	**74,727**	**581**

Trade payables of the Avio Group at December 31, 2017 amount to Euro 89.4 million; this amount includes, for Euro 10.2 million, trade payables to associated companies, jointly controlled companies and non-consolidated subsidiaries as follows (Euro thousands):

	31/12/2017
Europropulsion S.A.	10,102
Termica Colleferro S.p.A.	70
Total	**10,172**

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.

3.28. CURRENT TAX PAYABLES

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

	31/12/2017	Balances of Avio Group at business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Current tax payables	1,982	2,751	88
Total	**1,982**	**2,751**	**88**

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

	31/12/2017 - Avio Group	31/12/2016 - Space2 S.p.A.
Payables for withholding taxes	1,465	88
Payables for other taxes and duties	286	
Foreign income taxes	231	
Total	**1,982**	**88**

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

Tax payables refer for Euro 220 thousand to the short term payables of the settlement as per Article 5-bis of Legislative Decree 193/2016 (converted by Law 225 of 2016) agreed by the subsidiary Secosvim with the Customs and Monopolies Agency on September 29, 2017, with regards to the tax dispute concerning electricity sold to the companies of the Colleferro industrial district in the years 2001 and 2005.

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 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.

3.29. OTHER CURRENT LIABILITIES

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

	31/12/2017	Balances of Avio Group at business combination date 31/03/2017	31/12/2016 - Space2 S.p.A.
Other current liabilities	17,600	18,850	62
Total	**17,600**	**18,850**	**62**

Other current liabilities at December 31, 2017 were as follows (Euro thousands):

	31/12/2017	31/12/2016 - Space2 S.p.A.
Customer advances for the supply of goods and services	3,462	-
Payables due to social security institutions	3,233	5
Employee payables	6,526	-
Other payables to third parties	1,239	24
Deferred income on disbursements pursuant to Law 808/85 - current portion	1,115	-
Other accrued liabilities and deferred income	2,025	33
Total	**17,600**	**62**

Customer advances for the supply of goods and services

The account mainly relates to advances received from final customers against supplies for Euro 3,462 thousand.

Amounts due to social security institutions

The account concerns amounts to be paid, amounting to Euro 3,233 thousand, relating to company and employee contributions, in accordance with regulations in force.

Employee payables

Employee payables amount to Euro 6,526 thousand and include remuneration to be settled, in addition to vacations and other rights matured and not utilised .

Other payables to third parties

"Other payables to third parties" of Euro 1,239 thousand principally concern payables to third parties of the subsidiary Regulus.

Deferred income on disbursements pursuant to Law 808/85 - current portion

The account concerns the accrual of the contribution, with regards to the portion expected to be recognised as income to the income statement within the next 12 months.

Accrued liabilities and deferred income

This account, amounting to Euro 1,967 thousand, mainly refers to the deferment of commercial costs and grants.

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.

INCOME STATEMENT

INTRODUCTION

The comparison of the income statement items is impacted by the acquisition of the Avio Group on March 31, 2017 by Space2 S.p.A.. For a complete review on the full-year 2017 performance, reference should be made to the Directors' Report.

3.30. REVENUES

The breakdown of revenues, comprising those for the sale of goods and services and the change in contract work-in-progress amounts to Euro 325,332 thousand for the period April 1 - December 31, 2017.

The revenues therefore includes the effect of the accounting of receivables for research and development activities as described at paragraph 2.7 "Accounting policies".

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

3.31. OTHER OPERATING REVENUES

Other operating revenues in 2017 amounted to Euro 4,528 thousand, as follows:

	Financial Year 2017 - Avio Group (period 1/04 – 31/12)	Financial Year 2017 - Space2 S.p.A.	Change
Income from the release of provisions	1,774		1,774
Income for the portion recognised to the income statement of the disbursements as per Law 808/85	1,561		1,561
Other income	493		493
Over-accruals and similar in prior periods	449		449
Recovery of costs, damages and other income	251		251
Total	**4,528**	**-**	**4,528**

During the year over-accruals mainly related to the provisions for contract risks, personnel incentives and mobility provisions (see also Note "3.23. Provisions for risks and charges).

Income for the portion recognised to the income statement of disbursements as per Law 808/85 includes the type of costs against which the disbursement was granted and in correlation to the periods in which the related expenses and depreciation were recognised to the income statement.

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

3.32. CONSUMPTION OF RAW MATERIALS

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

	Financial Year 2017 - Avio Group (period 1/04 – 31/12)	Financial Year 2017 - Space2 S.p.A.	Change
Purchase of raw materials	93,053		93,053
Change in inventories of raw materials	5,520		5,520
Total	**98,573**	**-**	**98,573**

3.33. SERVICE COSTS

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

	Financial Year 2017 - Avio Group (period 1/04 – 31/12)	Financial Year 2017 - Space2 S.p.A.	Change
Service costs	154,747		154,747
Rent, lease and similar costs	355		355
Total	**155,102**	**-**	**155,102**

Service costs, in particular, include costs for activities carried out by co-producers, for consultancy and technical and professional services, for outsourcing, for maintenance and for temporary personnel.

The service costs therefore includes the effect of the accounting of receivables for research and development activities as described at paragraph 2.7 “Accounting policies”.

In 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”.

3.34. PERSONNEL EXPENSES

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

	Financial Year 2017 - Avio Group (period 1/04 – 31/12)	Financial Year 2017 - Space2 S.p.A.	Change
Wages and salaries	29,835		29,835
Social security charges	10,303		10,303
Provision for variable remuneration	4,077		4,077
Other long-term benefits - current employees	302		302
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	81		81
Provision for "Other defined benefit plans"	65		65
Other personnel expenses	2,032		2,032
Total	**46,695**	**-**	**46,695**

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:

	Year 2017
Blue-collar	329
White-collar	419
Executives	23
Total	**770**

3.35. AMORTISATION & DEPRECIATION

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

	Financial Year 2017 - Avio Group (period 1/04 – 31/12)	Financial Year 2017 - Space2 S.p.A.	Change
Property, plant & equipment	4,156		4,156
Investment property	42		42
Intangible assets with definite life	6,430		6,430
Total	**10,629**	**-**	**10,629**

Amortisation of intangible assets with definite life mainly comprises Euro 3,560 thousand for the amortisation of development costs and Euro 2,239 thousand for the amortisation of intangible assets regarding the Ariane and Vega programmes, identified following the purchase price allocation process regarding the Group by Space2.

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.

3.36. OTHER OPERATING COSTS

This account amounts to Euro 6,498 thousand (Euro 2,414 thousand in Space2 S.p.A. in 2016) and mainly comprises the following items:

- indirect taxes of Euro 1,674 thousand;
- accruals to extraordinary personnel charge provisions of Euro 1,497 thousand;
- other operating costs for Euro 1,319 thousand;
- prior year charges of Euro 659 thousand;
- accruals to environmental risks provisions for Euro 430 thousand.

3.37. 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 - December 31, 2017, amounting to income of Euro 2,513 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 Space2 did not have investments valued with this method at December 31, 2016 and therefore there is no amount for the comparative period.

3.38. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to costs capitalised for internally constructed assets, amounting to Euro 9,313 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 1,149 thousand, development costs for Euro 8,014 thousand and costs for the internal construction of other intangible assets for Euro 150 thousand.

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

3.39. FINANCIAL INCOME

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

	Financial Year 2017 - Avio Group (period 1/04 – 31/12)	Financial Year 2017 - Space2 S.p.A.	Change
Bank interest income	141	542	(401)
Financial income on Savings Bonds	558	1,539	(981)
Discounts and other financial income	92		92
	792	2,081	(1,289)
Realised exchange gains	627	-	627
Unrealised exchange gains	-		-
	627	-	627
Total	**1,419**	**2,081**	**(662)**

Financial income of Euro 1,419 thousand principally concerned:

- interest income on bank current accounts for Euro 141 thousand;
- income from the Savings Bonds in which Space2 liquidity was invested for Euro 558 thousand; these bonds were in part transferred following the spin-off to Space3 and subsequently completely divested of in October 2017;
- interest income on VAT receivables requested for repayment of Euro 92 thousand;
- exchange gains of Euro 627 thousand.

Realised exchange gains arise on the collection of receivables and settlement of payables in foreign currencies.
The decrease of Euro 662 thousand on the previous year essentially concerns the above stated reduced 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. 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.

3.40. FINANCIAL CHARGES

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

	Financial Year 2017 - Avio Group (period 1/04 – 31/12)	Financial Year 2017 - Space2 S.p.A.	Change
Interest on Senior Term Loan Agreement	2,147		2,147
Interest on EIB loans	60		60
Interest on other payables	231		231
Discounting on employee benefits	(16)		(16)
Charges on interest hedge contracts (IRS)	311		311
	2,733	-	2,733
Realised exchange losses	628		628
Unrealised exchange losses	16		16
	645	-	645
Total	**3,377**	**-**	**3,317**

Financial charges, amounting to Euro 3,377 thousand, increased on 2016 for a similar amount: Space2 did not have financial debt at December 31, 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, which as previously described was settled in advance during 2017.

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.

3.41. INCOME TAXES

Net "income taxes" amount to net income of Euro 369 thousand, comprising deferred tax income of Euro 1,308 thousand, net of current income taxes of Euro 939 thousand.

In 2016, the incorporating company Space2 did not record any income tax.

The reconciliation between the theoretical and effective IRES corporate income tax is presented below (in Euro thousands):

	Year 2017
Pre-tax result	22,028
Ordinary rate applied	24.00%
Theoretical tax charge	5,287
Effect of increases (decreases) to the ordinary rate:	
Permanent increases	1,949
Permanent decreases	(13,433)
Temporary difference increases	14,693
Temporary difference decreases	(64,588)
Total changes	(61,379)
Group tax loss	(39,351)
Net deferred tax (income)/charge	(1,308)
Current taxes Italian companies	-
Current taxes overseas companies	939
	(369)

3.42. NET PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS

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

3.43. EARNINGS PER SHARE

	Financial Year 2017 - Avio Group (period 1/04 – 31/12)	Financial Year 2017 - Space2 S.p.A.
Group Net Profit (Euro thousands)	18,361	(332)
Weighted average number of shares in circulation	25,305,773	30,000,000
Basic earnings per share – in Euro	0.73	(0.012)
Diluted earnings per Share – in Euro	0,70 (1)	(0.011) (2)

(1) Diluted earnings per share was determined assuming the conversion of the 800,000 sponsor warrants into ordinary shares.
(2) The 2016 loss per share of Space2 S.p.A. was calculated taking into account also the special shares and market warrants.

4. DISCLOSURE BY OPERATING AND REGIONAL SEGMENTS

Disclosure by operating segment

In 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 counted a workforce of 782 employees at December 31, 2017. At December 31, 2016, Group employees numbered 758.

Disclosure by regional segment

The regional breakdown of Group revenues (defined based on customer country location), in 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):

	31/12/2017
Gaurantees given:	
Unsecured guarantees:	
Sureties issued to third parties on behalf of Group	13,078
Other guarantees	29,788
Total guarantees given	43,747
Guarantees received:	
Sureties and guarantees received	1,090
	1,364

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.

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 December 31, 2017, Termica Colleferro's residual debt on this loan was Euro 19.9 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

Municipality of Colleferro/Secosvim (Arpa1 and Arpa2)

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.

Criminal case against Consorzio Servizi Colleferro for pollution of the Sacco river

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. The case will resume only following the decision of the Court. We are currently awaiting communication of the hearing date (currently not predictable).
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%).
(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, fixed for November 8, 2017, was deferred to June 20, 2018 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.

Group tax audits

Information is provided below on the most significant tax audits and disputes which, at the date of the present financial statements, concerned Avio S.p.A. and its subsidiaries, with details on the specific disputes and the relative amounts.

a) *Tax audits and disputes relating to Avio S.p.A. (company incorporated by Space2 S.p.A.)*

a.1) *Tax audits and disputes in course*

a.1.1.) *The general tax audit initiated on December 18, 2015 by the Rome Finance Police*
On December 18, 2015, the Rome Finance Police Tax Unit (hereafter "Finance Police") began a general tax audit of Avio S.p.A. with regards to income, IRAP and other taxes, and subsequently extended the investigation to VAT limited to certain specific issues, in relation to the tax years 2011, 2012 and 2013.
This audit in addition included the subsidiary Regulus (see the "Subsequent events" section of the Directors' Report).
At the reporting date this general tax audit:

- limited to the subsidiary Regulus formally concluded with a formal assessment letter relating to the tax years 2010 to 2016. To date, the Tax Agency has not implemented these findings with any tax assessment notices;
- limited to the parent company Avio S.p.A. has not been formally concluded as no closure letter has been received.

Within this investigation the Finance Police issued formal assessment letters (hereafter also "PVC") relating to specific issues contested which are illustrated below in greater detail.

a.1.1.1) Formal Assessment Letter (PVC) notified on September 23, 2016
On September 23, 2016, within the general audit initiated on December 18, 2015, the Finance Police notified Avio S.p.A. of a PVC which, for the tax year 2011, proposes the recovery of income taxes, for IRES and IRAP, of a total amount of Euro 2,571 thousand, in relation to costs incurred by Avio S.p.A. from some suppliers located in countries or territories with privileged tax regimes pursuant to Article 110, paragraphs 10 and 11, of the CFA.
On January 4, 2017, based on the above-mentioned PVC, the Tax Agency, Piedmont Regional Section - Large Contributions Office (hereafter "Piedmont DRE"), taking account also of the information provided by Avio S.p.A. in reply to the specific questionnaire of September 30, 2016, notified Avio S.p.A. of a tax assessment notice, for the tax year 2011, with the recovery of income taxes, for only IRES, of an amount - reduced compared to the amount proposed by the Finance Police - totalling Euro 1,352 thousand, with higher IRES equal to Euro 372 thousand, in addition to interest and penalties.
On May 26, 2017, following the agreed settlement procedure, the assessment was defined for a lower amount of Euro 357 thousand with IRES, interest and penalties totalling Euro 145 thousand.
Therefore in relation to this investigation there is no pending dispute concerning Avio S.p.A.

a.1.1.2) Formal Assessment Letter (PVC) notified on June 27, 2017

1) *Black-list costs*

On June 27, 2017, within the general audit initiated on December 18, 2015, the Finance Police notified Avio S.p.A. of a PVC which, for the tax year 2012, proposes the recovery of income taxes, for IRES and IRAP, of a total amount of Euro 1,762 thousand, in relation to costs incurred by Avio S.p.A. from suppliers located in countries or territories with privileged tax regimes pursuant to Article 110, paragraphs 10 and 11, of the CFA.
On January 4, 2018, based on the above-mentioned PVC, the "Piedmont DRE", taking account also of the information provided by Avio S.p.A. in reply to the specific questionnaire of August 1, 2017, sent a tax assessment notice, for the tax year 2012, with the recovery of income taxes, for only IRES, of an amount - reduced compared to the amount proposed by the Finance Police - totalling Euro 245 thousand, with higher IRES equal to Euro 67 thousand, in addition to interest and penalties.
Avio S.p.A. initiated discussions with the "Piedmont DRE" concerning the resolution of the dispute and proposed, on February 6, 2018, an agreed settlement procedure.
At the reporting date, this procedure has not been completed.
In relation to the tax year 2013, the incorporated company has not yet received any assessment notifications.
In terms of these matters, under the Share Purchase Agreement signed on December 21, 2012 between, among others, Avio (as seller) and Nuovo Pignone Holding S.p.A. (as buyer), the General Electric Group is required to indemnify Avio for any tax liabilities which may arise.

2) Omission to deduct withholding taxes

With the PVC notified to Avio on June 27, 2017 the Finance Police raised a specific issue, for the tax years 2012 and 2013, concerning the omission to deduct and pay withholding taxes on interest paid to foreign residents, for an amount of Euro 1,046 thousand for 2012 and Euro 502 thousand for 2013.
On January 4, 2018, based on the above-mentioned PVC, the "Piedmont DRE", taking account also of the information provided by Avio S.p.A., sent a tax assessment notice, for the tax year 2012, with the recovery of income taxes - reduced compared to the amount proposed by the Finance Police - totalling Euro 165 thousand, in addition to interest and penalties of Euro 207 thousand. Avio S.p.A. initiated discussions with the "Piedmont DRE" concerning the resolution of the dispute and proposed, on February 6, 2018, an agreed settlement procedure. At the reporting date, this procedure has not been completed.
In relation to the tax year 2013 we report that the "Piedmont DRE" has not yet issued the tax assessment notice and, in addition, discussions are ongoing between Avio S.p.A. and the tax office for the provision of further documentation.
On the basis of the information available at the reporting date, while also taking account of the above-stated General Electric indemnity, these liabilities are considered as probable for an amount covered by the tax liability provision.

a.1.1.3) Settlement Notice of July 28, 2016

On March 8, 2016, as part of the general tax audit initiated on December 18, 2015, the Finance Police notified Avio S.p.A. (as co-responder) of a PVC specifically concerning the tax treatment of transactions for indirect taxes which in 2013 resulted in the transfer of the AeroEngine business unit from Avio S.p.A. to the General Electric Group. In particular, the Finance Police requalified the transfer of the AeroEngine business unit by Avio S.p.A. 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 this type of deed, requesting also payment of penalties and interest.

On July 28, 2016, based on the above matter raised, the Turin 1 Provincial Section (hereafter "Turin DP1"), notified Avio S.p.A. (as co-responder), of a settlement notice for registry, mortgage and land taxes. In particular, the Turin DP1 confirmed the issue reported by the Finance Police recognising, as requested and extensively outlined in the defense petition presented by Avio S.p.A., the inapplicability of penalties and interest and the quantification of the higher taxes due on an assessable base significantly lower than that proposed by the Finance Police.
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 0.9 million.

On September 26, 2016, Avio S.p.A. presented - together with the General Electric Group - an appeal, challenging the Settlement Notice within the deadline established by the applicable rules, rejected by the Turin Provincial Tax Commission on ....
An appeal was taken made against this decision to the Piedmont Regional Tax Commission.
It should be noted that the potential liability relating to this settlement notice is in any case also covered by the indemnities undertaken by the General Electric Group with Avio S.p.A. in relation to the AeroEngine sector activities of the Avio Group.
Therefore, in view of the contractual commitments existing between Avio S.p.A. and the General Electric Group, in the present financial statements Avio S.p.A. recognised:

- under non-current liabilities a tax payable with regards to increased registration, mortgage and land taxes for a total of Euro 58.2 million:
- under non-current assets, a receivable of the same amount from the buyer, Nuova Pignone Holding S.p.A, part of the General Electric Group.

a.2) *Tax audits and disputes concluded with financial effects in 2017 and in the first months of 2018*

a.2.1.) Assessment notices on significant transactions for VAT purposes for the years 2011, 2012 and 2013.

At the end of 2016 Avio S.p.A, following a specific request from the "Piedmont DRE",, 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 and October 31, 2017, the "Piedmont DRE" notified Avio S.p.A. of the relative assessment notices, contesting the non-application of VAT, for the tax years 2011, 2012 and 2013.
Avio S.p.A. requested application of an agreed settlement process for this dispute. This initiative resulted in the completion of an agreed settlement process with the "Piedmont DRE", and which resulted in the non-application of sanctions on Avio S.p.A.. In relation to the amounts subject to recovery of income taxes we report that at the reporting date:

- the amount relating to 2011, totalling Euro 535 thousand including interest, was paid during 2017 in three quarterly instalments;
- the amounts relating to 2012 and 2013, totalling Euro 530 thousand including interest, are in the course of payment as the first of the three instalments was paid in December 2017, while the second and third instalments will be paid respectively in March and June 2018.

b) *Tax dispute concerning Regulus S.A.*

On February 28, 2017, the Finance Police communicated a PVC with regards to the French company Regulus S.A., held 60% by Avio S.p.A. The Finance Police 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, although alleging the non-presentation of an annual income declaration, 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), 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)".* Regulus was thereafter invited 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 in France.

Regulus S.A. appointed a consultant of proven 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 the Italian tax charge.

In particular, the main elements for consideration 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 taxes paid in France would be in line with those in Italy.

In April 2017, a meeting was held with the Tax Agency at which the company put forward its arguments and subsequently 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.

c) Tax audits and disputes relating to Secosvim

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

c.1 Tax dispute with the Rome Customs Agency 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 pending before the Court of Cassation. On September 29, 2017 it was considered appropriate, in view of the unfavourable opinion on the outcome of the dispute, to undertake an agreed settlement procedure with the Customs Agency pursuant to Article 5-*bis* Legislative Decree 193/2016, with payment in four annual instalments (plus interest of 2.10% annually) of the total amount of Euro 846 thousand, with the first instalment, totalling Euro 211 thousand, paid in November 2017. The settlement stipulated the cancellation of interest, late payment penalties and sanctions.

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 the company'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 and still pending). The provisional payment, activated in 2013 and paid in monthly instalments, will be completed in May 2018 on a cautionary basis, with request of repayment of the excess amounts following the agreed settlement procedure pursuant to Article 6 of Legislative Decree 193/2016.

c.2 Tax dispute with the Municipality of Segni relating to Property tax (ICI)

Tax year 2011: with tax assessment notice of December 15, 2016, the Municipality of Segni initiated, for the tax year 2011, recovery of property taxes of Euro 36 thousand, plus penalties and interest, for a total of Euro 57 thousand. Secosvim, following an unsuccessful application of the settlement procedure, appealed to the Rome CTP in May 2017. This dispute is still pending.

Tax years 2012 and 2013: with assessment notice of January 12, 2018, the Municipality of Segni similarly initiated the recovery of higher taxes and the relative penalties, totalling Euro 14 thousand. Secosvim intends to appeal the assessment before the Rome CTP.

c.3 Tax dispute relating to the derecognition of the IRES 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 S.p.A. jointly appealed to the Rome CTP; these appeals were accepted on October 27, 2015.

On October 18, 2017, the Lazio CTR rejected the appeal of the Tax Agency.

On February 26, 2018, the sentence of the Lazio CTR became effective as the Tax Agency did not appeal before the Cassation Supreme Court.

c.4 Tax dispute relating to non-application of VAT on reclamation costs recharged to Avio in the years 2010, 2011 and 2012

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 S.p.A. (total amounts, including penalties and interests, of Euro 2.5 million). The Lazio CTR on December 12, 2016 accepted the appeal of the Tax Agency against the judgement of the Rome CTR of September 7, 2015, favouring the company.

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 S.p.A. and thereafter transferred from the latter to Secosvim - should have been subject to the same VAT regime.

Considering that the application of VAT was not configurable in any form, in the absence of any services on behalf of Avio S.p.A., Secosvim appealed to the Cassation Supreme Court in June 2017. The provisional payment of this amount of Euro 2.5 million has not yet been activated, although the related request for suspension was rejected by the Rome CTP in December 2017.

On October 31, 2017 the assessment notice for the following year 2012 was received for higher taxes of Euro 644 thousand, in addition to penalties and interest of Euro 127 thousand, and against which an appeal was made to the Rome CTP on January 11, 2018.

c.5 Tax dispute relating to omission of revenues for IRES and IRAP for the years 2011, 2012 and 2013

With tax assessment of March 19, 2013, the Tax Agency Provincial Controls Office III cited the company for the non-recognition of revenues for IRAP purposes relating to penalty income from a third party in accordance with contractual conditions and concerning, following renegotiation, a reduction for the amount, in the tax year 2011, of Euro 777 thousand and, in the tax year 2012, of Euro 850 thousand.

At the end of 2013, Secosvim was notified of the assessment notice for IRAP only for the year 2011, cancelled by the Rome CTP on June 12, 2016 following timely appeal.

On December 22, 2016, the Agency drew up the same charge also for IRES for the 2011 tax period, requesting additional taxes of Euro 214 (plus interest and penalties). The assessment was extended to Avio as the consolidating company.

On May 17, 2017, the agreed settlement procedure was finalised, with a payment of Euro 44 thousand for IRES, while there was no payment due for IRAP. On this occasion, following specific invitations, settlement agreements were also agreed upon for 2012 and 2013. Payments for the three years amount to Euro 73 thousand for higher taxes, penalties and interest.

c.6 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..

The Tax Agency appeled before the Emilia Romagna CTR, 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 S.p.A. The amount of the dispute is Euro 130 thousand. The Emilia Romagna CTR hearing is pending.

In parallel, The Tax Agency appeled before the Emilia Romagna CTR, 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. The amount of the dispute is Euro 17 thousand. The Emilia Romagna CTR hearing is pending.

With regards to the above tax disputes, Secosvim S.r.l. recognised to its financial statements at December 31, 2017 an adequate tax risks provision.

d) *Tax audits and disputes relating to ELV S.p.A.*
This company is not involved in any tax disputes.

e) *Tax audits and disputes relating to Europropulsion S.A*
Europropulsion was 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 therefore presented a first level appeal at the competent Tax Court, which judged against the company; the company appealed this decision 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. No accrual was recognised in the Tax risks provision as the company, and based on their consultant's opinions, believe they have valid defensive arguments, although these assets are owned by ESA, which benefits from a specific exemption in relation to the application of the "*taxe professionnelle*".

f) *Tax audits and disputes relating to Avio S.p.A. (formerly Space2 S.p.A. - incorporating company)*
It should be noted that this company was not involved in any tax audits or disputes at the reporting date.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Categories and fair value of financial assets and liabilities

The following table breaks down financial assets and liabilities as per IFRS 7, on the basis of the categories under IAS 39 for 2017 and 2016:

Amounts at December 31, 2017

In Euro thousands	Total accounts	Categories IAS 39			*Fair value**
		Loans and receivables	*Liabilities at amortised cost*	*Derivative financial instruments*	
FINANCIAL ASSETS					
- Non-current financial assets	7,440	7,440			7,440
- Other non-current assets	65,521	65,521			65,521
- Current financial assets	-	-			-
- Trade receivables	8,508	8,508			8,508
- Other current assets	8,664	8,664			8,664
- Cash and cash equivalents	107,033	107,033			107,033
	197,166	**197,166**			**197,166**
FINANCIAL LIABILITIES					
- Non-Current financial liabilities	40,000		40,000		40,000
- Current financial liabilities	25,259		25,259		25,259
- Current portion of non-current financial payables	60		60		60
- Other non-current liabilities	116,270		116,270		116,270
- Other current liabilities	17,600		17,600		17,600
- Trade payables	89,441		89,441		89,441
	288,630		**288,630**		**288,630**

** where not available, the fair value was indicated as cost.*

Amounts at December 31, 2016

In Euro thousands	Total accounts	Categories IAS 39			*Fair value**
		Loans and receivables	*Liabilities at amortised cost*	*Derivative financial instruments*	
FINANCIAL ASSETS					
- Non-current financial assets	10	10			10
- Current financial assets	304,166	304,166			304,166
- Other current assets	1,121	1,121			1,121
- Cash and cash equivalents	445	445			445
	305,742	**305,742**			**305,742**
FINANCIAL LIABILITIES					
- Other current liabilities	150		150		150
- Trade payables	581		581		581
	731		**731**		**731**

** where not available, the fair value was indicated as cost.*

For the asset and liability items, no differences compared to those reported in the financial statements are noted, as representing a reasonable approximation of the relative fair value.

Fair value of financial assets and liabilities and calculation models utilised

In relation to any financial instruments recorded in the balance sheet 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 Company and the Avio Group did not have derivative financial instruments in place at December 31, 2017.

During 2017, with the early settlement of the "Senior Term and Revolving Facilities Agreement" agreed with Banca IMI and other leading credit institutions on April 1, 2015, four interest rate swap agreements originally undertaken to hedge against fluctuations in interest rates relating on this loan were also settled in advance.

Financial income and charges recognised as per IAS 39

The following table presents the financial charges and income generated by financial assets and liabilities, broken down by category as per IAS 39 for 2017 and 2016.

Year 2017

	Financial income/(charges) recognised through profit or loss		Actuarial gains/(losses) recognised to comprehensive income statement
In Euro thousands	From interest	From fair value changes	From fair value changes
Loans and receivables	792	-	-
Liabilities at amortised cost	(2,438)	-	-
Derivative financial instruments	-	(311)	317
Total categories IAS 39	(1,646)	(311)	317

Year 2016

	Financial income/(charges) recognised through profit or loss		Actuarial gains/(losses) recognised to comprehensive income statement
In Euro thousands	From interest	From fair value changes	From fair value changes
Loans and receivables	2,081		
Liabilities at amortised cost	-		
Derivative financial instruments	-		
Total categories IAS 39	2,081		

Types of financial risks and related hedging

The Company and the Group are not exposed to financial risks through its operating activities, in particular relating to:

- 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.

These financial risks are continually monitored, undertaking initiatives to offset and contain potential impacts through appropriate policies and, where in general considered necessary, also through specific hedging instruments (currently not necessary as the loan interest rate with the EIB is fixed and competitive compared to the market).
This section provides qualitative and quantitative disclosure upon the impact of these risks on the Company and 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 Company and 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 the credit risk for the Group at December 31, 2017 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 8,508.
This amount is comprised of:

- trade receivables, amounting at December 31, 2017 to Euro 29,477 thousand (including receivables concerning invoices for advances yet to be paid of Euro 20,486 thousand, of which Euro 11,012 thousand from the jointly-controlled company Europropulsion),
- the "advances to be collected", amounting to Euro 20,486 thousand (including also advances to be received from Europropulsion, equal - as illustrated above - to Euro 11,012 thousand),
- the Doubtful Debt Provision, which totals Euro 483 thousand.

Regarding the reasons for the exposure to credit risk represented by receivables net of "advances to be repaid", in accounting terms, the issuing of invoices involves as a counter-entry, against the recognition of an asset from the clients, the recognition of a liability concerning the advances to be received. These are both recognised to the balance sheet. The ageing analysis therefore is made net of the above-stated advances.

The main Group clients are government bodies and public sector clients, which by their nature do not present significant risk concentrations (European Spatial Agency, Arianespace, Airbus Safran Launchers).

In addition, operating on an order basis, the Avio Group plans the management of advances so as to attain the funding before and during the incursion of order costs, on the basis of the various contractual milestones and mitigating therefore the risk regarding the payment of receivables against the initiated production activities.

Based on an analysis of overdue trade receivables at December 31, 2017 these are recorded net of a doubtful debt provision of Euro 482 thousand. The overdue amounts were therefore not significant and entirely relate to timing factors.

For trade receivables, each financial year, an individual assessment of risk is 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.

Liquidity risk

The Company and Group's liquidity risk concerns any difficulties in obtaining at appropriate conditions the funding necessary to support operations. The principal factors which influence liquidity 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.

Liquidity analysis
The following table breaks down future contractual cash flows generated by financial and commercial liabilities and by the principal other liabilities of the Company at December 31, 2017 (in Euro thousands).

The table reports non-discounted cash flows, including the capital portion and any interest, on the basis of market conditions at the reporting date. The analysis incorporates expectations upon the materialisation of cash flows on the basis of the contractually-established repayment dates or in certain cases the estimated dates. Without an established repayment date, the cash flows are included on the basis of the first date on which payment may be requested. For this reason, the treasury accounts were included in the on-demand bracket.
Amounts at December 31, 2017

	Book values	On demand	Within 12 months	Bet. 1 and 2 years	Bet. 2 and 3 years	Bet. 3 and 4 years	Bet. 5 years	Over 5 years	Total cash flows
Current financial liabilities:									
- Current financial payables companies under joint control	25,249	25,249	-	-	-	-	-	-	25,249
- Financial payables *EIB Loan*	60	-	60	-	-	-	-	-	60
	25,309	25,249	60	-	-	-	-	-	25,309
Trade payables (including companies under joint control)	89,441	-	89,441	-	-	-	-	-	89,441
	89,441	-	89,441	-	-	-	-	-	89,441
Other non-current liabilities:									
- Financial payables *EIB Loan*	40,000	-	360	360	8,331	8,258	8,186	16,156	41,650
- Payables for disbursements in accordance with Law 808/85	42,051	-	-	-	-	-	-	42,051	42,051
	82,051	-	360	360	8,331	8,258	8,186	58,207	83,701
Other current liabilities:									
- Social security institutions	3,233	-	3,233	-	-	-	-	-	3,233
- Employee payables	6,526	-	6,526	-	-	-	-	-	6,526
- Other payables third parties	1,239	-	1,239	-	-	-	-	-	1,239
	10,998	-	10,998	-	-	-	-	-	10,998
Total cash flows	207,799	25,249	100,859	360	8,331	8,258	8,186	58,207	209,449

At December 31, 2016 the company Space2 S.p.A. only had trade payables and other payables on demand totalling Euro 731 thousand.

Market risk

With regards to the current financial structure of the Company and of the Group 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 and the Group, considering that stated with regards to the insignificant market risk related to exchange rate and interest rate movements, at December 31, 2017 had not undertaken specific cash flow hedges in relation to these types of risks.

Interest rate risk

The Company has only one loan with the European Investment Bank (EIB) for Euro 40 million, at a competitive interest rate compared to the market.

Therefore this risk is not considered applicable to the company and, therefore, to the Avio Group.

7. RELATED PARTY TRANSACTIONS

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 Avio Group 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 December 31, 2017 and on the Group Income Statement for 2017 (in Euro thousands):

	At December 31, 2017							
Counterparty	**Trade receivables**	**Other curr. assets**	**Contract work-in-progress**	**Non current financial assets**	**Trade payables**	**Other current liab.**	**Advances for contract work in progress**	**Financial liab.**
Cinven					278			
Former Holding companies					**278**			
Leonardo S.p.A.					166			
MBDA Italia S.p.A.			991				786	
MBDA France S.A.	9		8,755				5,939	
Thales Alenia Space Italia S.p.A.								
Companies with a connecting relationship and relative investee companies	**9**		**9,746**		**166**		**6,725**	
Termica Colleferro S.p.A.	777			7,440	70			
Europropulsion S.A.	2,858		2,414		10,102		14,061	25,249
Potable Water Services Consortium	333	30						
Servizi Colleferro - Consortium Limited Liability Company	101	106						
Associates and jointly controlled companies	**4,069**	**136**	**2,414**	**7,440**	**10,172**		**14,061**	**25,249**
Total related parties	**4,069**	**136**	**12,160**	**7,440**	**10,616**		**20,786**	**25,249**
Total book value	**8,508**	**8,664**	**111,237**	**7,440**	**89,441**	**17,600**	**242,519**	**65,319**
% on total account items	**47.83%**	**31.57%**	**10.93%**	**100.00%**	**11.87%**	**0.00%**	**8.57%**	**38.65%**

In 2017, the main income statement transactions by the Group with related parties were as follows (in Euro thousands):

	At December 31, 2017			
Counterparty	**Operating Revenues and changes in contract work-in-progress**	**Operating Costs** [(1)]	**Financial Income**	**Financial Charges**
Cinven				
Former Holding companies	**0**	**0**	**0**	**0**
Leonardo S.p.A.		76		
MBDA Italia S.p.A.	991			
MBDA France S.A.	3064			
Thales Alenia Space Italia S.p.A.				
Companies with a connecting relationship and relative investee companies	**4,055**	**76**	**0**	**0**
Termica Colleferro S.p.A.	84	5,408		
Europropulsion S.A.	22,981	59,617		
Potable Water Services Consortium	4	54		
Servizi Colleferro - Consortium Limited Liability Company	2	216	-	-
Associates and jointly controlled companies	**23,071**	**65,295**	**0**	**0**
Total related parties	**27,126**	**65,371**	**0**	**0**
Total book value	**325,332**	**300,370**	**1,419**	**3,377**
% on total account items	**8.34%**	**21.76%**	**0.00%**	**0.00%**

(1) The account includes raw material consumables, service costs and personnel expenses.

Holding 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.

8. LIST OF GROUP COMPANIES AT DECEMBER 31, 2017

The following table presents the key details of Avio Group investees at December 31, 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.

9. DISCLOSURE PURSUANT TO ARTICLE 149 *DUODECIES* OF THE CONSOB ISSUER'S REGULATION

In accordance with Article 149 *duodecies* of the Consob Issuer's Regulation, we report below the information concerning fees paid in 2017 for audit and other services by the audit firm Deloitte & Touche SPA and its network (in Euro thousands):

Type of service	Company	Service provider	2017 Fees
Audit Services	Parent - Avio S.p.A.	Deloitte & Touche S.p.A.	131
	Subsidiaries	Deloitte & Touche S.p.A.	27
Audit Services [1]	Parent - Avio S.p.A.	Deloitte & Touche S.p.A.	25
Total	**Total**		183

[1] Concerns the limited audit of the Avio Group's Non-Financial Report

10. SUBSEQUENT EVENTS

Acquisition from the subsidiary ELV S.p.A. of the launcher development, production and distribution business unit

With regards to the preliminary contract for the disposal of the business unit of December 2017 by ELV S.p.A. to the parent company Avio S.p.A., as outlined in the "2017 significant events" paragraph above, on March 1, 2018, on completion of the trade union consultation process as per Article 47 of Law No. 428/1990 and the golden power process, as per Legislative Decree No. 21/2012, converted with amendments into Law No. 56/2012, on the basis of the above preliminary contract, ELV S.p.A. and Avio S.p.A. signed the final contract for the disposal of the business unit with effect from that date. The accounting and tax effects of the disposal run also from March 1, 2018.

The sales price of the business unit was Euro 20.3 million, as per an estimate drawn up by a leading independent consultant on the basis of best practice methodologies utilised for such transactions, in addition to sector benchmarks.

With regards to the potential benefits from application of the research and development tax credit as per Article 3 of Legislative Decree No. 145/2013 and the related regulatory framework applied to the activities carried out by the business unit sold by ELV S.p.A. to Avio S.p.A., as at the signing date of the final business unit sales contract these overall potential benefits had not yet been precisely established among the parties as the analysis together with the tax consultants was still ongoing, the parties agreed that the tax credit from application of the above rule was to be included in the business unit sold at the signing date of the final contract, while the valuation of the business unit sold and consequently the sales price at the final contract signing date does not take into account the potential overall expected associated benefits. The parties therefore agreed that, on conclusion of the above analysis, by December 31, 2018 the value of the tax credit included in the business unit sold to Avio S.p.A. would be established, in addition to any adjustment of the consideration on the basis of the established potential overall expected benefits.

Dividend policy

On the same date as the approval of these financial statements, a dividend policy considered sustainable over the medium/long-term on the basis of the economic-financial outlook, the solidity of the capital structure and also in consideration of "capital intensive" investment cycles in the medium to long-term, was submitted for the approval of the Corporate Boards.

The objective of this policy is to distribute a dividend on the basis of:

- a "payout ratio" in a range of between 25% and 50% of the consolidated net profit;
- a "dividend yield" in a range of between 2% and 3.5% of the stock market capitalisation.

* * *

March 15, 2018

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

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Avio S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Avio S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

Accounting recognition of the business combination of Space2 S.p.A. (now Avio S.p.A.)

Description of the key audit matter

During 2017, the acquisition of previous Avio Group was finalized by Space2 S.p.A., an Italian "SPAC" listed on MIV/segment SIV of market stock exchange managed by Borsa Italiana. This transaction was completed on March 31, 2017 with the acquisition by Space2 S.p.A., Leonardo S.p.A. and In Orbit S.p.A. of an 85.68% stake in the Company's share capital. On the same date, the publication of the listing prospectus of the ordinary shares of Space2 S.p.A. was authorized on the Mercato Telematico Azionario of Borsa Italiana. Then, the merger by incorporation of Avio S.p.A. in Space2 S.p.A. (which then took the corporate name of Avio S.p.A.) took effectively place on April 10, 2017.

The business combination was recognized in the consolidated financial statements of the Group, as required by the international accounting standard IFRS 3 "Business Combinations", in accordance with the "purchase method" that provides the process of Purchase Price Allocation – "PPA" and entailed the Management's evalutation of the fair value of the assets transferred and the liabilities incurred, also through the support of professionals appointed for this purposes.

The allocation of PPA values generated, among others, the recognition in the consolidated financial statements of the Group as at December 31, 2017 of "Intangible assets with definite life" related to aerospace programs of Euro 42.5 million, Deferred Taxes of Euro 19.1 million and a Goodwill of Euro 61 million.

In consideration of the complexity of the business combination and the relevance of the evaluation made by the Management with particular reference to "Intangible assets with definite life", we considered such business combination a key audit matter of the consolidated financial statements of Avio Group as at December 31, 2017.

Disclosures related to this matter are reported in the explanatory notes of the consolidated financial statements and in particular in Note 2.6.1 "IFRS 3 Disclosures – Business Combination".

Audit procedures performed

As part of our audit, among other things, we performed the following audit procedures:

- analysis of the criteria used by Management to recognize the transaction in accordance with the accounting standard IFRS 3;
- analysis of the procedure carried out and understanding of the relevant controls put in place by the Management;
- discussion with the Management about the application of the "purchase method" for accounting recognition of the transaction;
- examining of the criteria for determining the consideration transferred and related ancillary charges;
- analysis of the criteria used for the identification of the assets transferred and liabilities incurred, for the estimate of their related fair value and, if necessary, their useful lives, with particular reference to the "Intangible assets with definite life" related to aerospace programs;
- examination, also through our specialists support, of the reports and the opinions prepared by the professionals appointed by the Company to support the Management's evaluation. Analysis of the methodology approach, their competence and the objectivity of the professionals appointed by the Company;
- examinination of the methods used for determining the value of goodwill.

Finally, we have examined the adequacy of disclosures provided by the Group on the business combination and the compliance with the accounting standard IFRS 3.

Deloitte.

Evaluation of contracts work in progress and related income effects.

Description of the key audit matter

The consolidated financial statements for the year ended December 31, 2017 include assets and liabilities respectively of Euro 111 thousand and Euro 243 thousand relating to the execution of contracts work in progress and related advances.

These contracts work in progress are attributable to development and production activities of space sector, whose revenues and related margin are recognized to income statement based on the progress of orders according to the percentage of completion method determined on the basis of the ratio between the costs incurred and the total estimated costs of the entire work.

The methods for evaluating those contracts work in progress and the revenue recognitions are based on complex assumptions which by their nature imply recourse to the opinion of the Management with particular reference to the estimated costs to complete the entire work including the estimate of contractual risks.

In 2017, the Group has also benefited of a tax credit related to research and development costs included in the evaluation of contracts work in progress, accounted in consistency to the progress of the related orders. In consideration of the significance of these activities with respect to the overall business profile of the Group and the complexity of the assumptions used for forecasting the costs to complete the related contracts, also influenced by the engineering complexity of the activities, we consider that this topic represents a key audit matter of the consolidated financial statements of Avio Group as at December 31, 2017.

Disclosures related to this matter are reported in the explanatory notes of the consolidated financial statements of the Group and in particular in note 2.7 "Accounting policies", note 2.9 "Use of estimates" and note 3.10 "Contract work-in-progress".

Audit procedures performed

As part of our audit, among other things, we performed the following audit procedures:

- understanding of the accounting approach adopted by Avio Group for the evaluation of the contracts work in progress and the revenue recognition criteria and related margin;
- analysis of the procedure carried out and the design and implementation of controls put in place by Management to verify the evaluation of the contracts work in progress;
- analysis of existing contracts with the customers and the related change contract clauses;
- examining the accuracy of the calculation of the completion percentage and related revenue recognition;
- comparative analysis of the main changes in contract results with respect to the original and previous year estimations;
- analysis of the assumptions that required significant judgement from Management and in particular with the method for determining estimates of costs to complete the entire work including foreseeable contractual risks, as well as the subsequent events to the closing date;
- analysis of contract reporting and inquiry with project managers with particular reference to the contractual changes occurred during the year and the effects of these variation on the determination of costs to complete the entire work included any foreseeable losses;
- analysis of the accounting of the tax and development tax credit of which the subsidiary ELV S.p.A. benefits in 2017 and the effects recognized in the income statement based on the on the progress of orders according to the percentage of completion of these development activities;
- verification, also on a sample basis, of contract costs with reference to the various cost components.

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Finally, we have examined the adequacy of disclosures provided by the Group and the compliance with the related accounting standards.

Other aspects

The consolidated financial statements as at December 31, 2017 represents the first consolidated financial statements prepared by the Group. As a result, comparative data related to previous accounting period are referred to the merging entity Space2 S.p.A. whose financial statements as at December 31, 2016 was subject to audit by another auditor who issued an unqualified report on April 29, 2017.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Avio S.p.A. has appointed us on June 15, 2017 as auditors of the Company for the years from December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Avio S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Avio Group as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of the Group as at December 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.
In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Avio Group as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 54

The Directors of Avio S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Franco Chiavazza
Partner

Turin, Italy
March 30, 2017

This report has been translated into the English language solely for the convenience of international readers.

FINANCIAL STATEMENTS

BALANCE SHEET	Note	December 31, 2017	December 31, 2016
(in Euro)			
ASSETS			
Non-current assets			
Property, plant & equipment	3.1	47,833,292	
Goodwill	3.2	61,005,397	
Intangible assets with definite life	3.3	117,175,288	
Investments	3.4	78,439,869	50,000
Non-current financial assets	3.5	7,440,000	10,000
Deferred tax assets	3.6	74,684,624	
Other non-current assets	3.7	65,352,564	
Total non-current assets		**451,931,034**	**60,000**
Current assets			
Inventories	3.8	75,871,062	
Contract work-in-progress	3.9	46,198,448	
Trade receivables	3.10	7,223,709	
Current financial assets	3.11		304,165,745
Cash and cash equivalents	3.12	100,423,571	444,788
Tax receivables	3.13	37,066,067	1,013,555
Other current assets	3.14	9,205,128	107,852
Total current assets		**275,987,985**	**305,731,940**
Assets held-for-sale and Discontinued Operations	3.39	-	-
		-	-
TOTAL ASSETS		**727,919,019**	**305,791,940**

BALANCE SHEET	Note	December 31, 2017	December 31, 2016
(in Euro)			
EQUITY			
Share capital	3.15	90,964,212	30,845,000
Share premium reserve	3.16	163,897,217	277,155,000
Other reserves	3.17	(4,174,836)	(2,896,914)
Retained earnings		3,475,031	289,682
Net profit/(loss) for the year		12,927,785	(331,964)
Total Net Equity		**267,089,410**	**305,060,804**
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	3.18	40,000,000	
Employee benefit provisions	3.19	8,171,438	
Provisions for risks and charges	3.20	2,088,557	
Other non-current liabilities	3.21	115,489,066	
Total non-current liabilities		**165,749,061**	**0**
Current liabilities			
Current financial liabilities	3.22	70,003,744	
Current portion of non-current financial payables	3.23	60,000	
Provisions for risks and charges	3.20	6,025,185	
Trade payables	3.24	77,003,985	580,780
Advances for contract work-in-progress	3.9	129,229,703	
Current income tax liabilities	3.25	1,329,019	88,450
Other current liabilities	3.26	11,428,912	61,906
Total current liabilities		**295,080,548**	**731,136**
TOTAL LIABILITIES		**460,829,609**	**731,136**
Liabilities available-for-sale and discontinued operations	3.39	-	-
		-	-
TOTAL LIABILITIES AND EQUITY		**727,919,019**	**305,791,940**

INCOME STATEMENT	Note	2017 [1]	2016
(in Euro)			
Revenues	3.27	256,562,939	
Change in inventory of finished products, in progress and semi-finished		(270,146)	
Other operating income	3.28	5,013,017	
Consumption of raw materials	3.29	(68,117,188)	(50)
Service costs	3.30	(149,517,594)	
Personnel expenses	3.31	(32,877,198)	
Amortisation & Depreciation	3.32	(8,505,753)	
Write-down and write-backs		-	
Other operating costs	3.33	(3,280,478)	(2,413,529)
Costs capitalised for internal works	3.34	8,983,229	
EBIT		**7,990,828**	**(2,413,579)**
Financial income	3.35	1,133,236	2,081,615
Financial charges	3.36	(3,044,221)	
NET FINANCIAL INCOME/(CHARGES)		**(1,910,985)**	**2,081,615**
Effect valuation of investments under equity method - financial income/(charges)			
Other investment income/(charges)	3.37	5,340,000	
INVESTMENT INCOME/(CHARGES)		**5,340,000**	**-**
PROFIT/(LOSS) BEFORE TAXES AND DISCONTINUED OPERATIONS		**11,419,843**	**(331,964)**
Income taxes	3.38	1,507,943	
PROFIT(LOSS) FROM CONTINUING OPERATIONS		**12,927,785**	**(331,964)**
NET PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS	3.39	**-**	**-**
NET PROFIT/(LOSS)		**12,927,785**	**(331,964)**
Basic earnings per share	3.40	**0.51**	**(0.012)**
Diluted earnings per share	3.40	**0.50**	**(0.011)**

(1) For a detailed analysis, reference should be made to the Director's Report.

COMPREHENSIVE INCOME STATEMENT	2017 [1]	2016
(in Euro)		
NET PROFIT/(LOSS) (A)	**12,927,785**	**331,964**
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	12,607	
Gains/(losses) recorded directly to equity (which will be subsequently reclassified to P&L)		
- Gains/(losses) on cash flow hedge instruments recorded directly to cash flow hedge reserve	316,508	
Tax effect on other gains/(losses)	2,708	
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	**331,823**	**-**
COMPREHENSIVE INCOME (A+B)	**13,259,609**	**331,964**

(1) For a detailed analysis, reference should be made to the Director's Report.

STATEMENT OF CHANGES IN EQUITY

(Euro thousands)

	Share capital	Share premium reserve	Legal reserve	Other reserves			Retained earnings	Loss for the year	Total Equity
				Interest rate cash flow hedge reserve	*Actuarial gains/(losses) reserve*	*2015 share capital increase reserve*			
Equity at 31/12/2015	**30,845**	**277,155**				**(2,912)**		**305**	**305,393**
Allocation of prior year result			15				290	(305)	-
Loss for the year								(332)	(332)
Equity at 31/12/2016	**30,845**	**277,155**	**15**	**-**	**-**	**(2,912)**	**290**	**(332)**	**305,061**
Allocation of prior year result							(332)	332	-
Distribution dividends									
Effects deriving from the merger by incorporation of Avio S.p.A. (April 10, 2017)	75,339	25,615	-	(317)	(2,745)	-	3,062	-	100,954
Effects deriving from spin-off to Space3 (April 5, 2017)	(15,423)	(138,873)	(8)			1,456			(152,847)
Execcise Warrants	203								203
Profit for the year								12,928	12,928
Other changes							456		456
Other Gains/(Losses):									
- Change in fair value of hedges				317					317
- Actuarial gains/(losses), net of tax effect					15				15
Comprehensive income for year	-	-		317	15		456	12,928	13,716
Equity at 31.12.2017	**90,964**	**163,897**	**7**	**-**	**(2,730)**	**(1,456)**	**3,476**	**12,928**	**267,089**

CASH FLOW STATEMENT

(Euro thousands)

		2017 [1]	2016
OPERATING ACTIVITIES			
Profit/(loss) for the year		12,928	(332)
Adjustments for:			
- Income taxes		(1,508)	
- (Income)/charges from equity investments		-	
- Financial (Income)/Charges		1,911	1,903
- Amortisation & Depreciation		8,506	
- (Gains)/losses on sale of property, plant & equipment & other (income)/charges		-	
Net change provisions for risks and charges		(3,860)	
Net change employee provisions		(92)	
Changes in:			
- Inventories		653	
- Contract work-in-progress & advances		8,754	
- Trade receivables		(3,394)	(649)
- Trade payables		(2,326)	465
- Other current & non-current assets		(11,394)	
- Other current & non-current liabilities		(3,279)	
Income taxes paid		-	
Interest paid		(2,147)	
Net liquidity generated/(employed) in operating activities	(A)	**4,752**	**1,387**
INVESTING ACTIVITIES			
Investments in:			
- Property, plant & equipment		(13,811)	
- Intangible assets with definite life		(8,933)	
- Savings Bonds/Escrow Bank Deposits		-	(1,032)
Disposal price of tangible, intangible & financial assets		-	
Changes in consolidation scope			
Avio Business combination			
- Price paid		(84,871)	
- Cash and cash equivalents of Avio S.p.A. at April 10, 2017		123,655	
Disposal price financial assets		152,847	
Liquidity generated (employed) in investing activities	(B)	**168,887**	**(1,032)**
FINANCING ACTIVITIES			
New EIB loans		40,000	
Senior Term and Revolving Facilities Agreement Repayments		(90,653)	
Centralised treasury effect with subsidiary and jointly controlled company		(19,576)	
Repayment / (Issue) of loans to associate Termica Colleferro S.p.A.		-	
Share capital increase and share premium reserve		202	
Other changes to financial assets and liabilities		(3,632)	(50)
Liquidity generated (employed) in financing activities	(C)	**(73,660)**	**(50)**
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C)	**99,979**	**305**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**445**	**140**
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**100,424**	**445**

(1) For a detailed analysis, reference should be made to the Director's Report.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

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 December 31, 2017, directly or indirectly, investments in five subsidiary companies (ELV S.p.A., Regulus S.A., Secosvim S.r.l., AS Propulsion International BV and Avio India Aviation Aerospace Private Ltd. in liquidation) and in a jointly controlled company (Europropulsion S.A.) included in the consolidation scope of these financial statements (the "Group" or the "Avio Group").

There were no changes in the consolidation scope in 2017.

Avio S.p.A. leads the space propulsion sector and operations are undertaken through 6 Group facilities in Europe and in South America. The main Group activities are described in the Directors' Report.

The financial statements are presented in Euro which is the Company's functional currency. The Balance Sheet, the Income Statement and the Comprehensive Income Statement are reported in units of Euro; the Statement of Changes in Shareholders' Equity and the Cash Flow Statement, as well as these Explanatory Notes, are reported in thousands of Euro, where not otherwise indicated.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Accounting standards for the preparation of the financial statements

These financial statements were prepared in accordance with International Accounting Standards (hereafter also "IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, for the preparation of the statutory financial statements. 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 Standard Committee ("IFRS IC", formerly "IFRIC") - previously known as the Standing Interpretations Committee ("SIC").

The IFRS prepared financial statements, except for the provisions of IFRS 3 with reference to the business combination undertaken in the year, were drawn up according to the historical cost criteria, adjusted for the measurement of certain financial instruments and other assets and liabilities at fair value, and on a going concern basis. They were also prepared in accordance with the provisions of CONSOB in relation to financial statement lay-out pursuant to Article 9 of Legislative Decree No. 38/2015 and other CONSOB regulations and provisions concerning financial reporting. The financial statements were prepared with clarity and represent in a true and fair manner the financial position, the result and the cash flow of the Company.

The preparation of financial statements consistent with IFRS requires a number of major accounting estimates to be made. It in addition requires that Company Management exercise their judgment with regards to the application of the Company accounting policies. The areas of the accounts which require greater attention or complexity and which require the use of significant assumptions and estimates for the financial statements are illustrated below.

2.2. Financial Statement format

The financial statements relating to the year 2017 consist of the Balance Sheet, the Income Statement, the Comprehensive Income Statement, the Cash Flow Statement, the Statement of changes in Shareholders' Equity and the Notes to the financial statements.

The financial statements of the Company are presented as follows:
- for the 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 Income Statement, the classification of costs based on their nature;
- for the 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 Cash Flow Statement, the adoption of the indirect method.

2.3. Comparative information

In accordance with IAS 1, these 2017 financial statements present the comparative 2016 figures for the Balance Sheet items (Balance Sheet) and the full year 2016 figures for the Income Statement items (Income Statement, Comprehensive Income Statement, Statement of changes in Equity and Cash Flow Statement).
The comparative figures refer to the incorporating company Space2 S.p.A

2.4. Accounting policies

Property, plant & equipment

Property, plant and equipment are measured at purchase or production cost, net of accumulated depreciation and any impairments.
The acquisition cost corresponds to the price paid, plus accessory charges incurred until entry into use (gross of any contributions received) and any expected dismantling and removal costs for the asset, in addition to reclamation costs for the areas on which the asset is located, where necessary and corresponding to IAS 37. For assets conferred, the cost corresponds to the value established in the relative deeds on the basis of expert opinions. The internal production cost includes all construction costs incurred until entry into service, whether direct and specifically relating to the tangible assets or relating, in general, to the construction activities and therefore to differing construction operations. Any financial charges incurred for the acquisition or production of property, plant and equipment that generally require a substantial period of time to prepare for their intended use (qualifying assets in accordance with IAS 23 - *Financial charges*) are capitalised and depreciated over the duration of the useful life of the category of assets to which they refer. All other financial charges are recognised to the income statement in the period in which they are incurred.

Costs incurred subsequently to acquisition (maintenance and repair costs and replacement costs) are recorded at the carrying amount of the assets, or are recognised as separate assets, only where it is considered probable that the future economic benefits associated with the assets may be exploited and that the cost of the assets may be measured reliably. Maintenance and repair costs or replacement costs not reflective of those reported above are recognised to the income statement in the period in which they are incurred.

The gross carrying amount of assets is depreciated on a straight-line basis over their useful life in relation to the estimated useful life and the residual value of the asset. Depreciation starts when the asset is available for use. For conferred assets, depreciation is calculated according to the residual useful life upon conferment.
The depreciation rates utilised by the Company are as follows:

Category	Depreciation rate
Buildings	3-10%
Plant & machinery	7-30%
Industrial and commercial equipment	25-40%
Other assets:	
- Furniture, equipment and EDP	12-20%
- Transport vehicles	20-25%
- Other assets	12-25%

During the year in which depreciation of the asset begins, such is calculated on the basis of the effective period of use. The useful life is reexamined annually and any changes are applied prospectively.

Capitalised costs for leasehold improvements are allocated to the categories of assets to which they refer and amortised at the lesser between the residual duration of the rental or concession contract and the residual useful life of the type of assets to which the improvements relate.

The assets composed of components, of significant amounts, and with different useful lives are considered separately for the calculation of depreciation (component approach).

The assets held through finance lease contracts within the scope of IAS 17 and for which the majority of the risks and rewards related to the ownership of an asset have been transferred to the Company are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability due to the lessor is recorded in the financial statements under financial payables.
The contracts which are not leasing contracts in a legal form, but which, in accordance with the provisions of IFRIC 4 - *Determining whether an arrangement contains a lease*, are recognised as finance lease contracts.

Land is not depreciated.

In the event of a permanent impairment in the value of an asset, regardless of the depreciation recorded to date, the asset is written down accordingly; if in future years, the reasons for the write-down no longer apply, the asset is reinstated to its original value less the depreciation which would have been provisioned where the write-down had not been made or the recoverable value, where less.

Gains and losses deriving from the disposal or sale of assets are determined as the difference between the sales revenue and the net carrying amount of the asset on disposal or sale and are recorded in the income statement in the year.

Intangible assets

An intangible asset is without physical form and recognised to the balance sheet only if identifiable, controllable, where future economic benefits are expected and its costs can be reliably calculated.
Intangible assets include goodwill acquired for consideration following a business combination.

Intangible assets with a definite life are measured at purchase or production cost, net of amortisation and cumulative impairments. Amortisation is recognised over the useful life of the asset and begins when the asset is available for use. The useful life is reviewed on an annual basis and any changes are made in accordance with future estimates.
The intangible assets with indefinite useful life are not amortised but are subject annually or, more frequently where necessary, to an impairment test.

Intangible assets recognised following a business combination are recorded separately from goodwill where their fair value can be reliably measured.

Intangible assets with indefinite life

Goodwill
The goodwill arises in part from the merger in 2007, as allocation of the residual difference deriving from the cancellation between the value of the investment and the corresponding share of the net equity of the companies incorporated, and in part from the recognition of the goodwill resulting from the merger in the financial statements of the incorporated Avio S.p.A. and deriving from the conferment in 2003 and from minor business unit acquisitions in 2004 and 2005, which represent the higher value attributed to the business units conferred or acquired compared to the fair value of the assets, liabilities and contingent liabilities conferred or acquired. The goodwill paid deriving from the acquisition of a business unit was also recognised.

Goodwill is recognised as an asset with indefinite useful life and is not amortised, although subject annually, or more frequently where an indication that specific events or changed circumstances indicate a possible reduction in value, to an impairment test. An impairment loss is recorded immediately in the income statement and is not restated in a subsequent period. After initial recognition, goodwill is measured net of any impairments.

For the purpose of the impairment test, goodwill is considered allocated to the individual Cash Generating Units (CGU's) representing the financially independent business units through which the Company operates. The Company situation at December 31, 2016 indicates a single CGU corresponding to the Space operating segment.

Intangible assets with definite life

Development costs
Development costs are capitalised only where the costs may be calculated reliably, the assets developed may be clearly identified and where there is proof that they will generate future economic benefits. In particular, for capitalisation the existence of technical feasibility and the intention to complete the asset to make it available for use or sale, the existence of adequate technical and financial resources to complete development and sale and the reliability of the valuation of the costs attributable to the asset during development are required. On meeting these conditions, the costs are recognised to the assets section of the Balance Sheet and amortised on a straight-line basis from the initiation of commercial production on the programs to which they refer. Amortisation in the initial period is proportional to the effective period of use. The useful lives are calculated on the basis of a prudent estimate of the duration of the programs from which the relative economic benefits derive and are initially estimated at 5, 10 or 15 years according to the characteristics of the relative programs. Capitalised development costs concerning programs whose production has not yet begun are amortised and maintained among definite life intangible assets, following verification of the absence of impairments, on the basis of the future earnings of the relative programs.

Research and development costs which do not meet the above conditions are recognised to the income statement when incurred and may not be capitalised in subsequent periods.

Intangible assets for Customer Programme Participation
The Company allocated, at the acquisition date by Space2 and with effect from financial year 2017, the cost of this acquisition recognising the assets, liabilities and contingent liabilities of the companies acquired at their relative fair values at that date. Following this allocation, the intangible assets held by customers for programme participation were identified as responding to the criteria required for recognition, as per IFRS 3 and IAS 38, which were valued at fair value applying an earnings valuation method, based on the present value of future cash flows generated by the assets for the period of residual expected useful life, calculated applying a discount rate which takes account both of the possible risks associated with the assets and the time value of money. In addition, the benefit attributable to the tax savings achievable for a potential purchaser deriving from the amortisation of the recognisable intangible assets was also considered (tax amortisation benefits).
The intangible assets for Customer Programme Participation are amortised, in relation to the average weighted residual life of the programs to which they refer, over a period of 15 years. Against the intangible assets recognised, the relative deferred taxes were recorded, calculated through application of the tax rates which are expected to be in force on recognition to the income statement of the amortisation.

Other intangible assets
Intangible assets are recognised to the Balance Sheet only when it is probable that the use of the asset will generate future economic benefits and its cost can be reliably calculated. Having complied with these conditions, the intangible assets are recognised at the acquisition cost which corresponds to the price paid, plus accessory charges and, for the assets conferred, to the values established in the relative deeds.

The gross carrying amount of the other definite life intangible assets is broken down on a straight-line basis over the estimated useful life. Amortisation begins when the asset is available for use and is proportionate for the first year to the period of effective use. For assets conferred, the amortisation is calculated according to the residual useful life.

The amortisation rates utilised by the Company are as follows:

Category	Amortisation rate
Patents	20%
Brands	10%
Software	20-33%

Investments

The holdings in subsidiaries, associates and jointly controlled companies are recorded at cost, adjusted for loss in value. The cost is represented by the acquisition value or recognition value following the Merger and corresponding to the value of their contribution in the consolidated financial statements at the date considered in the financial statements as the acquisition date.

Any positive difference, arising on purchase, between the acquisition cost and the fair value of the share of net equity of the investment is included in the carrying value of the investment and is tested annually for impairment, comparing the entire book value of the investment with its recoverable value (the higher value between the value in use and the fair value net of selling costs).

Where an impairment loss exists, it is recognised through the income statement. Where the share of losses pertaining to the company in the investment exceeds the carrying value of the investment, and the company has an obligation to cover such losses, the investment is written down and the share of further losses is recorded as a provision under liabilities. Where an impairment loss is subsequently reversed, this is recognised through the income statement within the limit of the original recognition value.

Investments in other companies, which consists of non-current financial assets that are not held for trading (i.e., "available-for-sale" financial assets) and whose fair value is difficult to determine, concerning non-listed companies, are measured with the acquisition cost or subscription method, adjusted for any loss in value. Where the share of losses pertaining to the Company exceeds the carrying value of the investment, the value of the investment is written down and the share of further losses is not recorded as a liability, unless the Company has the legal or implied obligation to cover such losses.

Impairments

The Company verifies, at least annually, the recoverability of the carrying amount of property, plant and equipment, intangible assets and investments in order to determine whether there are indications that these assets may have incurred a loss in value. Where there are indications of impairment, the carrying amount of the asset is reduced to its recoverable amount. In addition, an intangible asset with indefinite useful life is subject annually or, more frequently where there is an indication that the asset may have suffered a loss in value, to an impairment test. The loss in value of an asset corresponds to the difference between its carrying amount and its recoverable value, defined as the higher between the fair value net of sales costs and its value in use. The value in use is calculated as the present value of expected future operating cash flows, excluding cash flows from financing activities. The cash flow projection is based on company plans and reasonable and documented assumptions concerning the Company's future results and macro-economic conditions. The discount rate utilised considers the time value of money and specific sector risks.
Where it is not possible to estimate the recoverable value of an asset individually, the Company estimates the recoverable value of the cash generating unit to which the asset belongs.

When testing for impairment of investments, concerning investments in non-listed companies and whose market value cannot be reliably measured (fair value less costs to sell), in line with the requirements of paragraph 33 of IAS 28, the recoverable value ("equity value") is determined based on the value in use of the investee, intended as the sum of a) the estimated present value of the future operating cash flows of the investee, b) an estimated theoretical terminal value ("ultimate disposal") and c) the net financial position at the date of the test.

Where the recoverable value of an asset, or of a cash generating unit, is lower than the carrying amount, it is reduced to the recoverable value and the loss recognised to the income statement. Subsequently, where the loss on an asset other than on goodwill is no longer evident or reduces, the carrying amount of the asset (or of the cash generating unit) is increased, up to the new estimate of the recoverable value (which however may not exceed the net carrying amount that the asset would have had in the absence of the write-down). This recovery is immediately recognised to the income statement.

Financial assets

This category includes, in relation to the original expected maturity of within or beyond 12 months from the reporting date:
- these assets arising from financial transactions other than those concerning derivative instruments, at pre-fixed maturity and with fixed or calculable expected payments;
- the initial fair value of the derivative instruments;
- the effect of the subsequent adjustment to fair value of the derivative instruments, with the exception of changes in the value of the hedged item of the currency derivative instruments.

The gains and losses of all the assets included in this category are recorded in the income statement.
For the assets other than derivative instruments, valuations are made in order to assess whether a non-current financial asset has incurred a loss in value. If there exists objective evidence of a loss, this recognised immediately in the income statement. When, in subsequent periods, the reasons for the write-down no longer exist, the value of the asset is restated up to the value deriving from the application of the amortised cost where no impairment had been applied.

Inventories

Inventories are measured at the lower of the acquisition or production cost and the net market value, defined as the estimated sales price less expected completion costs and expenses necessary to carry out the sale.
In particular, raw materials, semi-finished products and work-in-progress are initially recognised at acquisition or production cost. The purchase costs include the cost paid to suppliers plus accessory charges incurred until the entry of the goods to Company warehouses, net of discounts. Production costs include costs incurred to bring the asset to its location and state at the reporting date: they include costs specific to the individual assets or categories of assets and general preparation costs (general production expenses). Inventories are generally measured according to the FIFO method. This calculation method is considered most suitable for providing a true and fair view, in addition to a uniform representation of the Company's equity position and earnings.

Inventories thus calculated may be adjusted by a write-down provision to take account of obsolete or slow moving materials on the basis of their future utility or realisation.

Contract work-in-progress

Contract work-in-progress (or construction contracts) concerns contracts specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their final use. This principally concerns development and production activities in the space sector.

Where the result of a construction contract may be reliably estimated, contract work-in-progress is valued according to the percentage of completion method, with application to the total contractual value, whereby the costs, revenues and the relative margin are recognised according to the advancement of production activities. For the calculation of the percentage of completion, the ratio between production costs incurred to date and forecast total costs for the entire works (cost-to-cost) is adopted, on the basis of updated estimates at the reporting date. Periodically, the assumptions underlying the measurements are updated. The changes to the contract, the revision prices and the incentives are included for those amounts agreed with the buyer. Any economic effects are recognised in the period in which the updates are made.

Where the result of a construction contract may not be estimated reliably, the revenues related to the relative contract are recorded only to the extent of the project costs incurred which will probably be recovered. The project costs are recorded as expenses in the year in which they are incurred.
Account is in addition taken of charges to be incurred following closure of the order and those for expected losses through accruals to the risks provisions; in particular, any losses on contracts are recognised to the income statement in their entirety once noted.

Contract work-in-progress is stated to the assets section of the Balance Sheet net of advances invoiced to clients. The analysis is made by individual order: where the value of the individual order is greater than the advances, the positive differential is classified to the account considered in the Balance Sheet; where the value of the individual order is lesser than advances, the negative differential is classified to "Advances for contract work-in-progress" in the Balance Sheet.

Trade receivables

Receivables are initially stated at fair value, corresponding to the nominal value, and subsequently adjusted to reflect their realisable value through a doubtful debt provision. This provision is representative both of the risk concerning individual receivables and the generic risk concerning overall receivables, prudently estimated on the basis of past experience and the general level of debtor financial equilibrium.

Where settlement is deferred beyond the normal commercial terms applied to clients, the receivable is discounted and subsequently measured at amortised cost according to the effective interest method.

Factoring operations may be undertaken with recourse or without recourse; certain without recourse factoring implies the maintenance of a significant exposure to cash flows from factored receivables. These operations do not fulfill the requirements of IAS 39 for the elimination from the financial statements of assets where the substance of all relative risks and benefits are not transferred. Consequently, factored receivables which do not fulfill the requirements for elimination established by IAS 39 remain recognised to the financial statements, although legally considered factored. Against this, a financial liability of a similar amount is written to "Current financial receivables".

Cash and cash equivalents

These include cash, liquid bank deposits and other current readily tradable financial investments which may be quickly converted into cash and for which the risk of changes in value is insignificant. The bank overdrafts are recorded as a reduction of cash and cash equivalents only for the purposes of the cash flow statement.

Financial liabilities

Non-current financial liabilities and current account overdrafts are classified to this account, in addition to current and non-current payables which, although arising from commercial or however non-financial transactions, are negotiated at particular conditions as undertaken as a financial transaction, therefore de facto making them financial receivables. Current and non-current financial payables are initially recognised at fair value, less transaction costs incurred, and are subsequently valued at amortised cost utilising the effective interest rate method.

Non-current financial payables due within twelve months from the reporting date are classified to the "Current portion of non-current financial payables" account.

Employee benefit provisions

Employees of the Company enjoy post-employment benefits which may consist of defined contribution pension plans or defined benefit plans, and other long-term benefits.

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

Defined contribution plans are plans for benefits upon conclusion of employment for which the Company have made fixed contributions to a legally separate entity on an obligatory, contractual or voluntary basis, in the absence of which legal or implied obligations exist to make additional payments where the entity does not have sufficient assets to pay all of the pension benefits matured concerning employment services provided in the present and previous years.

The contributions to be paid are recognised to the income statement on an accruals basis to personnel expenses.

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The obligation to fund the defined benefit pension plans and the annual cost recognised to the income statement are determined by independent actuarial valuations using the projected unit credit method, on the basis of one or more factors such as age, years of service and expected future remuneration.
Actuarial gains and losses relating to defined benefit plans deriving from changes to the actuarial assumptions and adjustments based on past experience are immediately recognised in the period in which they arise to other comprehensive income/(losses) and are never reclassified to the income statement in subsequent periods.

Up to December 31, 2006, the employee leaving indemnities were considered as defined benefit plans. The regulations of this provision were extensively modified by Law No. 296 of December 27, 2006 ("2007 Finance Act") and subsequent Decrees and Regulations. In view of these changes, and particularly for companies with at least 50 employees, this provision is now to be considered a defined benefit plan exclusively for the amounts matured prior to January 1, 2007 (and not settled at the balance sheet date), while subsequent to this date they are similar to a defined contribution plan.
Consequently, post-employment benefits matured subsequently to this date assume the nature of defined contribution plans, with exclusion therefore of actuarial estimate components in the calculation of the cost for the period.
Post-employment benefits matured until December 31, 2016 remain valued as defined benefit plans according to actuarial processes, excluding however from the calculation the component relating to future salary increases.

Other long-term benefits
The accounting treatment of other long-term benefits is similar to that for defined benefit plans, with the exception of the fact that the actuarial gains and losses are entirely recognised to the income statement in the period in which they arise.

Share based payment plans

Cash-settled share-based payments are recorded as a liability to the risks and charges provisions and are measured at fair value at the end of each reporting period until settlement. Any subsequent changes in fair value are recognized in profit or loss.

Provisions for risks and charges

The Company records provisions for risks and charges when it has a current obligation from a past event, legal or implicit, to third parties, and it is probable that it will be necessary to use resources of the Company to settle the obligation, and a reliable estimate of the amount can be made. Provisions are made based on the best estimate of the cost of fulfilling the obligation at the reporting date. Where the effect is significant, the provision is discounted and its increase due to the passage of time is subsequently recognised to the financial charges account of the Income Statement.
In the case of legal disputes, the amount of the provisions is calculated on the basis of risk assessments in order to calculate the probability, timing and the amounts involved.

In the case of liabilities for future dismantling, removal and reclamation charges relating to a tangible asset, the provision is recognised against the asset to which it refers; the charge is recognised to the income statement through the depreciation of the tangible asset to which the charge refers to.

The provisions are re-examined at each reporting date and adjusted to reflect any improvement to the present estimates; any changes to the estimate are reflected in the income statement in the period in which the change occurs.

Risks that may only potentially result in a liability are disclosed in the Explanatory Notes without any amounts being set aside.

Trade payables

Trade payables with maturities within the normal commercial terms are not discounted and recognised at the nominal value considered representative of the settlement value.
Trade payables are recognised to current liabilities, except where the Company has the contractual right to settle its obligations beyond 12 months from the reporting date.

Payables for disbursements in accordance with Law 808/85

These payables are recognised to the financial statements at nominal value and classified to "Other non-current liabilities" and "Other current liabilities".

Revenue recognition

Revenues are recognised in accordance with the probability that the company will receive economic benefits and the amount can be determined reliably. Revenues are recognised on an accruals basis at the fair value of the amount received or due, less VAT, returns, premiums and discounts.

Revenues from the sale of goods are recognised where the Company has transferred to the purchaser the significant risks and benefits related to ownership of the goods, which generally coincides with shipping. Revenues from the provision of services are recognised according to the stage of completion of the services, based on the same criteria as for contract work-in-progress. In addition, where the result from the provision of services may not be reliably estimated, revenues are recognised only to the extent to which the relative costs are recoverable.

Revenues include also the changes in contract work-in-progress concerning long-term orders recognised according to the state of advancement of works against the sales price (as described in greater detail in the Contract works-in-progress note).

Interest income is recorded on an accruals basis, according to the amount financed and the effective interest rate applicable. This is the rate at which the expected future cash flow over the life of the financial asset is discounted to equate them with the carrying amount of the asset.

Dividends received

Dividends are recognised in the period in which the right of shareholders to receive payment is established.

Grants

Government grants are recognised when it is reasonably certain that the conditions required to obtain them will be satisfied and that they will be received. Such grants are generally recorded in the income statement on a straight-line basis over the period in which the related costs are recorded.
In particular, grants obtained against investments in fixed assets and capitalised development costs are recognised to "Other non-current liabilities" or "Other current liabilities" in the liabilities section of the balance sheet and to the income statement on the basis of the residual duration of the depreciation of the assets to which they refer. Where a grant is awarded in a period after the start of the depreciation period of the asset, the portion of the grant relating to the prior periods is recorded in the income statement as other income.
The accounting treatment of benefits deriving from a public loan obtained at a reduced rate is similar to that for public grants. This benefit is calculated at the beginning of the loan as the difference between the initial book value of the loan (fair value plus direct costs attributable to obtaining the loan) and that received, and subsequently recorded in the income statement in accordance with the regulations for the recording of public grants.

Costs

Costs are recognised on an accruals and going concern basis of the Company, less VAT and returns, discounts and premiums. Provisions are recognised to the financial statements according to the methods described in the provisions for risks and charges note.
Interest charges are recognised on an accruals basis, according to the amount lent and the effective interest rate applicable.

Income taxes

Income taxes comprise of current and deferred taxes.

Current taxes are calculated on the estimated assessable result for the year and according to the applicable tax rates.

The assessable fiscal result differs from the result recorded in the income statement as it excludes positive and negative components that will be assessable or deductible in other periods and also includes accounts that are never assessable or deductible. The liability for current income taxes is calculated using the current rates at the reporting date.

During the year, the Company and some of its Italian subsidiaries decided to renew, from 2012 and for a three-year period, the national tax consolidation regime pursuant to Article 117/129 of the Consolidated Finance Act (CFA). Avio S.p.A. acts as the consolidating company and calculates a single assessable base for the Group of companies adhering to the tax consolidation and therefore benefits from the possibility of offsetting assessable income with assessable losses in a single tax declaration.

Each company participating in the consolidation transfers its taxable income or tax loss to the consolidating company. Avio S.p.A. recognises a receivable for companies contributing taxable income, corresponding to the amount of IRES to be payable, in accordance with the consolidation contract. For companies contributing a tax loss, Avio S.p.A. recognises a payable for the amount of the loss actually set off at Group level, in accordance with the consolidation contract.
The IRAP payable is recorded under "Current tax payables" net of any payments of account in the year.

Deferred tax assets and liabilities are the taxes that are expected to be recovered or paid on the temporary differences between the carrying value of the assets and of the liabilities in the financial statements and the corresponding fiscal value utilised in the calculation of the assessable income, accounted under the liability method. Deferred tax liabilities are generally recorded on all temporary assessable differences, while deferred tax assets are recorded based on the probability that the future assessable results will permit the use of the temporary deductible differences. These assets and liabilities are not recognised if the temporary differences deriving from the goodwill or the initial recognition (not in business combinations) of other assets or liabilities in operations do not have an impact on the accounting result or on the assessable fiscal result. The tax benefit from the carrying forward of tax losses is recorded upon, and to the extent of its probable availability, future assessable income arises for the utilisation of the losses.

The carrying value of deferred tax assets is revised at the end of the year and reduced to the extent that it is no longer likely that there will be sufficient taxable income against which to recover all or part of the assets.

Deferred tax assets are calculated based on the fiscal rates that are expected to be in force at the moment of the realization of the asset or the settlement of the liability. Current and deferred taxes are recognised directly to the income statement with the exception of those relating to accounts directly recognised to equity, in which case the taxes are also recognised to equity. The deferred tax assets and liabilities are offset when there is a direct right to compensate the tax assets and liabilities and there is the intention to pay the amount on a net basis. The balance following the offset, where positive, is recognised to "Deferred tax assets" and, where negative, to "Deferred tax liabilities".

Dividends distributed

Dividends payable by the Company are represented as changes to equity and recognised to current liabilities in the period in which distribution is approved by the Shareholders' Meeting.

Exchange rate differences

The revenues and costs relating to transactions in foreign currencies are recorded at the exchange rate on the transaction date.
The monetary assets and liabilities in foreign currencies are converted into Euro applying the exchange rate at the reporting date with the exchange gains or losses recorded 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.
Any net gain deriving from the adjustment of foreign currency amounts at year-end, on the approval of the financial statements and consequent allocation of the result to the legal reserve, is recorded, for the part not absorbed by any losses for the year, in a non-distributable reserve until subsequent realisation.
At each year-end the overall unrealised exchange gains and losses are determined. Where the overall net exchange gain is higher than the equity reserve, this latter amount is released. If, however, a net gain or loss arises lower than the amount recorded in the reserve, respectively the entire reserve or the excess is reclassified in a freely distributable reserve on the preparation of the financial statements.

Business combinations

Business combinations are recorded in accordance with the purchase method. The acquisition cost is measured as the aggregate of the fair values, at the acquisition control date, of assets acquired, liabilities incurred or assumed, and equity instruments issued by the Group, in exchange for control of the company acquired. Accessory charges to the transaction are generally recorded to the income statement at the moment in which they are incurred. The assets, liabilities and contingent liabilities identified in the entity acquired which comply with the recognition conditions as per IFRS 3 - Business combinations are recorded at fair value at the acquisition date; exceptions to this are the deferred tax assets and liabilities, employee benefit assets and liabilities, liabilities or equity instruments relating to share-based payments of the entity acquired or share-based payments relating to the Group issued in replacement of the contracts of the entity acquired, and the assets (or group of assets and liabilities) held-for-sale, which are instead valued according to the applicable standard. Goodwill acquired in a business combination is recognised as an asset and initially measured at cost. The goodwill represents the excess between the sum (i) of the consideration transferred, (ii) of the fair value of any share capital increase in favour of non-controlling interests, (iii) of the fair value of any holding previously held in the acquired company and the fair value of the net assets acquired and liabilities assumed at the acquisition date.
Where the fair value of the net assets acquired and the liabilities assumed at the acquisition date exceeds the sum of (i) the consideration transferred, (ii) the amount of non-controlling interests, (iii) the fair value of any holding previously held in the acquired company, this excess is immediately recorded to the income statement as income deriving from the transaction concluded.

Non-contolling interest equity, at the acquisition date, may be valued at fair value or pro-quota of the value of net assets recognised of the acquired entity. The valuation method is chosen on the basis of each individual transaction.
Any amount subject to conditions established by the business combination contract are valued at fair value at the acquisition date and included in the value of the amounts transferred to the business combination for the determination of goodwill. Any subsequent changes to the fair value, which qualify as adjustments in the measurement period, are included in goodwill retrospectively. The changes in the fair value which qualify as adjustments in the measurement period are those which are based on further information on the facts and circumstances which existed at the acquisition date, obtained during the measurement period (which may not exceed a period of one year from the business combination).
In the case of business combinations undertaken in a series of phases, the holding previously held by the Group in the acquired entity is revalued at fair value at the acquisition of control date and any profit or loss is recorded to the income statement. Any amounts related to the holding previously held and recorded to other comprehensive income/(losses) are reclassified in the income statement as if the holding had been sold.
Where the initial values of a business combination are incomplete at the period-end in which the business combination took place, the Group reports in its consolidated financial statements the provisional values of the items for which the final calculations could not be made. These provisional values are adjusted in the measurement period to take account of the new information obtained on the facts and circumstances existing at the acquisition date which, if known, would have had effects on the value of assets and liabilities recognised at this date.
Business combinations before January 1, 2010 were recognised according to the previous version of IFRS 3.
There are no significant restrictions in the capacity of the subsidiaries to transfer funds to the parent company, through the payment of dividends, loans or advance repayments.

2.4.1 IFRS 3 Disclosure

The transaction described in the Directors' Report of the acquisition by Space2 S.p.A., Leonardo S.p.A. and In Orbit S.p.A. of the share capital of Avio S.p.A. and the subsequent merger of this latter into Space2 S.p.A. is a business combination and therefore subject to the provisions of IFRS 3. The business combination resulted in a positive difference between the consideration transferred (equal to the consideration paid by Space2 S.p.A. aggregated with the fair value of the shares issued to service the merger in favour of Leonardo S.p.A. and In Orbit S.p.A.) and the net assets acquired. Based on the provisions of IFRS 3, if the sum of the consideration transferred exceeds the fair value of the net assets acquired and net liabilities assumed at the acquisition date, this excess is recognised as Goodwill. As the merger was effective on April 10, 2017 and as the changes were not significant between the acquisition date and the effective date of the merger, in the separate financial statements of Avio S.p.A., the business combination date was recognised at the merger date.

The identified assets acquired and identified liabilities assumed by Avio S.p.A. were therefore measured at fair value at the merger date, with exception of the deferred taxes and some liabilities associated with employee benefits which were recognised in accordance with the relative accounting standards, in accordance with IFRS 3. This measurement process was completed in March 2018, and resulted in the following values (Euro thousands):

Non-current assets	**At acquisition date**
Property, plant & equipment	36,648
Intangible assets with definite life	114,121
Investments	77,984
Non-current financial assets	7,440
Deferred tax assets	73,667
Other non-current assets	67,338
Total non-current assets	**377,198**
Current assets	
Inventories	76,524
Contract work-in-progress (gross of advances)	829,438
Trade receivables	3,830
Cash and cash equivalents	123,655
Tax receivables	23,421
Other current assets	7,859
Total current assets	**1,064,727**
TOTAL ASSETS ACQUIRED (A)	**1,441,925**
Employee benefit provisions	8,263
Provisions for risks and charges	11,973
Other non-current liabilities	116,936
Total non-current liabilities	**137,172**
Current financial liabilities	89,580
Current portion of non-current financial payables	93,279
Trade payables	78,749
Advances for contract work-in-progress	903,715
Current income tax liabilities	2,850
Other current liabilities	11,590
Total current liabilities	**1,179,763**
TOTAL LIABILITIES ASSUMED (B)	**1,316,935**
Net Assets/(Liabilities) acquired (A-B)	**124,990**

On completion of the measurement process and adjustment to fair value, the goodwill deriving from the acquisition was as follows:

Acquisition price of control by Space2 S.p.A. (now Avio S.p.A.)	84,871
Difference between Fair Value and nominal value of the share capital increase to service the share swap ratio of Leonardo S.p.A. and In Orbit S.p.A.	25,615
Nominal value of the share capital increase	75,509
Net assets acquired/net liabilities assumed	(124,990)
Goodwill	**61,005**

The recognition of this goodwill at December 31, 2017 is based on the earnings and financial prospects of the Avio Group, supported by the results reported in 2017.
Had the acquisition taken place on January 1, 2017, the Company in 2017 would have reported the results as illustrated in detail in the paragraph "Avio S.p.A. operating performance and financial and equity position" in the Directors' Report.

2.5. Risk management

Credit risk

The Company has a concentration of credit risk due to the nature of its operating markets. Overall, trade receivables have a concentration risk in the European Union market. Trade receivables are recognised net of write-downs calculated in view of counterparty non-settlement risk, assessed according to the information available upon client solvency and considering also historic data.

Liquidity risk

The liquidity risk of the company may arise from the difficulty to obtain, at reasonable economic conditions, financing resources to support operating activities in a timely manner. The principal factors which influence the liquidity of the Company 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, in order to ensure the timely and efficient sourcing of funding or the appropriate investment of liquidity.
The current difficult economic, market and financial environment requires a close focus on liquidity risk and therefore particularly on the generation of funding through operations and the establishment of a sufficient level of liquidity to meet Group obligations.
Management considers that the funds and credit lines currently available, in addition to those that will be generated from operating activities and any restructuring of the current debt structure, will permit the Company to satisfy its requirements for investment activities, working capital management and the repayment of debt on maturity.

2.6. Use of estimates

The preparation of the financial statements and the relative Explanatory Notes in application of IFRS requires the making of estimates and assumptions on the values of the assets and liabilities recorded, on the information relating to the assets and contingent liabilities at the reporting date and on the amount of costs and revenues.

Actual results may differ from estimates due to the uncertainty regarding the assumptions and conditions upon which the estimates are based. The estimates and assumptions are reviewed periodically by the Company according to the best information on Company operations and other factors reasonably discernable from current circumstances. The effects of all changes are immediately reflected in the income statement.

The current global economic environment, impacting some of the Company's business areas, resulted in the need to make assumptions on a future outlook characterized by uncertainty, for which it cannot be excluded that results in the next year or in subsequent years will differ from such estimates and which therefore could require adjustments, clearly not possible to currently estimate or forecast, to the carrying amounts of the relative items. The estimates and assumptions are utilised in differing areas, such as non-current assets, the doubtful debt provision, the inventory obsolescence provision, the employee benefit plans, contingent liabilities and other risks provisions, in addition to an estimation of costs to complete orders and the relative state of advancement.

The principal measurement processes and key assumptions used by management in applying IFRS and which may have significant effects on the values recorded in the financial statements or give rise to significant adjustments to the accounting values of assets and liabilities in the year subsequent to the reporting date are summarised below.

Recoverable value of non-current assets

Non-current assets include Property, plant and machinery, Goodwill, Intangible assets with definite useful life and Investments. The Company periodically reviews the carrying value of the non-current assets held and utilised and of any assets to be disposed of, when events and circumstances require such. For Goodwill, this analysis is carried out at least annually and wherever required by circumstances. The recoverability analysis of the carrying amount of non-current assets is generally made utilising the estimates of the future cash flows expected from the utilisation or from the sale of the asset and adjusted by discount rates for the calculation of the fair value. When the carrying amount of a non-current asset is impaired, the Company recognises a write-down for the excess between the carrying amount of the asset and its recoverable amount through use or sale, with reference to the cash flows of the Group's most recent long-term plans.

The estimates and assumptions used for these analyses reflect the Company's knowledge upon developments concerning the business in the various sectors in which it operates and take account of reasonable estimates on future developments of the market and the aerospace sector, which remains subject to uncertainty also in view of the continued economic-financial crisis and its effect on the international economic environment. Although present Company estimates do not indicate impairments to non-current assets further than those recognised in these financial statements, any changes to this economic environment and divergent Company performances may result in differences from the originally estimates and, where necessary, adjustments to the carrying amount of certain non-current assets.

Doubtful debt provision

The doubtful debt provision reflects the estimate of losses related to the Company's receivables portfolio. The accruals were made against expected losses on receivables, estimated according to past experience with regards to receivables with similar credit risk, current and historic unsettled amounts, reversals and receipts, in addition to the close monitoring of the quality of the client portfolio and present and forecast economic and market conditions.

Inventory obsolescence provision

The inventory obsolescence provision reflects management estimates on expected Company losses in value, based on past experience and historic and forecast market developments and any obsolescence or slow movement for technical or commercial reasons.

Employee benefit plans

Employee benefit provisions and net financial charges are valued according to an actuarial method which requires the use of estimates and assumptions for the calculation of the net value of the obligation. This process is based on estimates made periodically by actuarial consultants utilising a combination of statistical-actuarial factors, including statistics concerning prior years and estimates of future costs. Mortality and retirement indices, assumptions upon future discount rates, salary growth rates and inflation rates, in addition to analyses upon healthcare costs, are also considered as estimate components.
Changes to any of these parameters may impact future provision contributions. Following the adoption of IAS 19 revised with regards to the recognition of actuarial gains and losses generated by the valuation of employee benefit liabilities and assets, the effects deriving from the update to the estimates of the above-indicated parameters are recorded to the Balance Sheet through recognition to Group Equity of a specific reserve.

Provision for risks, charges & contingent liabilities

The Company accrues a liability against disputes in progress when it considers it probable that there will be a financial payable and when the amount of the losses arising can be reasonably estimated. In the case in which a payment is considered possible, but is not yet determinable, such is reported in the financial statements.
The Company is involved in legal and tax cases regarding differing types of issues which are subject to varying degrees of uncertainty on the basis of their complexity, jurisdiction and applicable law. During the normal course of business, the Company monitors the state of cases in progress and liaises with its legal consultants and legal and tax experts; the value of the provisions for legal cases and disputes of the Company may therefore vary according to the future development of cases in progress.
In addition, the Company operates within sectors and markets where certain problems of a commercial nature may only be resolved after the lapsing of significant periods of time, requiring therefore an estimate by management on the outcome of these disputes and challenges through the monitoring of contractual conditions and the individual cases.

Valuation of contract work-in-progress

The Company operates according to particularly complex contracts, some of which recognised to the financial statements through the percentage of completion method. In these cases, the margins recognised to the income statement are dependent both on the advancement of the order and the margins expected on the entire works following completion: therefore, the correct recognition of works-in-progress and of margins upon works not yet concluded assumes a correct estimate by management on finishing costs, contractual changes, in addition to delays, extra costs and penalties which may impact the expected margin. In order to better support management estimates, the Company has adopted contract risk analysis management procedures which identify, monitor and quantify risks relating to the execution of these contracts. The values recognised to the financial statements are the best estimate at that date by management, with the aid of the above-stated procedural supports.

Other

In addition to the accounts listed above, estimates were used to value certain financial assets and liabilities, remuneration plans for selected managers and to measure the fair value of assets acquired and of liabilities assumed through business combinations.

2.7. New accounting standards

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS APPLIED FROM JANUARY 1, 2017

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from January 1, 2017:

- 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. The adoption of this amendment does not have effects on the company's financial statements.
- 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 in the measurement of "Available for Sale" financial assets on the occurrence of certain circumstances and on estimates of assessable income for future years. The adoption of this amendment does not have effects on the company's financial statements.

IFRS AND IFRIC STANDARDS, AMENDMENTS AND INTERPRETATIONS APPROVED BY THE EUROPEAN UNION, NOT YET MANDATORY AND NOT ADOPTED IN ADVANCE BY THE COMPANY AT DECEMBER 31, 2017

The Company has not adopted the following new standards and amendments, but not yet in force.

- 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 new standard IFRS 15 (Revenue from contracts with customers), issued by the IASB in May 2014 and reviewed in September 2015, provides a new regulatory framework which replaces from the year 2018 (January 1) the previous provisions on revenues for the sale of goods and services to customers.

  The standard provides that revenues are recognised on the transfer of control of the goods and services to the customers for an amount which reflects the expected price utilising a 5 step process. The new standard also requires additional disclosures on the nature, the amount, the timing and the level of uncertainty of the revenues and of the cash flows deriving from contracts.
  The objective of the new standard is therefore to guarantee readers of financial statements a better understanding of the nature, amount and timing of the revenues and of the cash flows generated from contracts with customers.

  The company has commenced a project to identify, once completed, any effects deriving from the introduction of the new standard IFRS 15.

Currently, the general principle of accounting for revenues through the advancement of the contracts method is confirmed without modifying the accounting treatment utilised to-date. The Group is completing its analysis on the effects that could arise from the application of the new standard however currently we do not expect significant effects on the financial statements.

The application of the new standard IFRS 15 will be applied with the "Modified Retrospective Approach".

- 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:

    - introduces new criteria for the classification and measurement of financial assets and liabilities (together with the measurement of the non-significant adjustments of the financial 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.

    Based on the analysis undertaken, the directors consider that the application of IFRS 9 will not have a significant impact on the amounts and on the relative disclosure in the financial statements.

- 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 already applied IFRS 15 - Revenue from Contracts with Customers.

    The directors do not consider that application of IFRS 16 will have a significant impact on the amounts and the relative disclosure in the financial statements, in consideration of the fact that operating leases are of an insignificant amount.

- "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.

The amendments introduced two possible approaches:

- *overlay approach*
- *deferral approach*.

These approaches will permit:

- the possibility to recognise to the comprehensive income statement (i.e. in the OCI statement), rather than the income statement, the effects from application of IFRS 9 rather than IAS 39 on certain designated financial assets before application of the new standard concerning insurance contracts ("overlay approach");
- the possibility of a temporary extension to the application of IFRS 9 until the first between the application date of the new standard on insurance contracts or periods beginning January 1, 2021. Entities deferring application of IFRS 9 will continue to apply the current IAS 39 ("deferral approach").

The Directors do not expect these amendments to have a significant impact on the financial statements of the Company.

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

At the date of the Financial Statements, the relevant bodies of the European Union have not yet concluded the process necessary for the implementation of the amendments and standards described below.

- 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. The directors do not expect this standard to have a significant impact on the financial statements of the Company.

- 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. These changes will be applied from January 1, 2018.
  No significant impacts are expected on the financial statements of the Company from the adoption of these amendments, 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. The majority of changes will be applied from January 1, 2018. No significant impacts are expected on the financial statements of the Company from the adoption of these amendments, 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. No significant impacts are expected on the financial statements of the Company from the adoption of these amendments, 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. These amendments are applicable from January 1, 2018. No significant impacts are expected on the financial statements of the Company from the adoption of these amendments, 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 financial statements of the Company from the adoption of these amendments, however the directors are currently assessing any possible effects deriving from its introduction.

- Amendment to IFRS 9 "Prepayment Features with Negative Compensation (published on October 12, 2017). This document specifies that instruments which provide for an advance repayment could comply with the "SPPI" test also in the case where the "reasonable additional compensation" to be paid in the event of advance repayment is a "negative compensation" for the lender. The amendment applies from January 1, 2019, although early application is permitted. No significant impacts are expected on the financial statements of the Company from the adoption of these amendments, however the directors are currently assessing any possible effects deriving from its introduction.

- Amendment to IAS 28 "Long-term Interests in Associates and Joint Ventures" (published on October 12, 2017)". This document clarifies the need to apply IFRS 9, including the impairment requirements, to other long-term interests in associates and joint ventures for which the equity method is not applied. The amendment applies from January 1, 2019, although early application is permitted. No significant impacts are expected on the financial statements of the Company from the adoption of these amendments, however the directors are currently assessing any possible effects deriving from its introduction.

- Document "Annual Improvements to IFRSs 2015-2017 Cycle", published on December 12, 2017 (among which IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – Remeasurement of previously held interest in a joint operation, IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity, IAS 23

Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalisation) which include the amendments to some standards within the annual improvement process. The amendments are applicable from January 1, 2019, although advance application is permitted. No significant impacts are expected on the financial statements of the Company from the adoption of these amendments, 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.

- Standard IFRS 14 - Regulatory Deferral Accounts (published on January 30, 2014) which permits only those adopting IFRS for the first time to continue to recognise amounts concerning Rate Regulation Activities according to the previous accounting standards adopted. As the Company is a first-time adopter, this standard is not applicable.

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 December 31, 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 Avio S.p.A. at December 31, 2017 with April 10, 2017, date of the merger by incorporation by Space2. There were no Property, plant and equipment recorded in this latter company at December 31, 2016.

	At 31/12/2017				Balances of Avio S.p.A. at 10/04/2017 - date of merger by incorporation				31/12/2016 - Space2 S.p.A.
	Gross value	Accumulated depreciation	Write-down provision	Net book value	Gross value	Accumulated depreciation	Write-down provision	Net book value	Net book value
Land									
Buildings	13,049	(5,579)		7,470	13,049	(5,242)		7,807	
Plant and machinery	57,456	(41,032)		16,424	55,293	(39,135)		16,158	
Industrial and commercial equipment	10,492	(10,318)		174	10,386	(10,205)		181	
Other assets	4,209	(2,851)		1,358	3,748	(2,572)		1,176	
Assets in progress and advances	22,408	0		22,408	11,327			11,327	
Total	**107,614**	**(59,780)**	**-**	**47,834**	**93,803**	**(57,154)**	**-**	**36,649**	**-**

The changes between April 10, 2017 and December 31, 2017 in the gross values of property, plant and equipment of Avio S.p.A. are illustrated in the table below (Euro thousands):

Gross value	At 10/04/2017	Increases	Decreases for disposals	Reclassifications and other changes	At 31/12/2017
Land					
Buildings	13,049				13,049
Plant and machinery	55,293	2,163			57,456
Industrial and commercial equipment	10,386	106			10,492
Other assets	3,748	461			4,209
Assets in progress and advances	11,327	11,081			22,408
Total	**93,803**	**13,811**	**-**	**-**	**107,614**

Assets in progress and advances refer, at December 31, 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.

The changes between April 10, 2017 and December 31, 2017 in the gross values of property, plant and equipment of the Avio Group are illustrated in the table below (Euro thousands):

Accumulated depreciation	At 10/04/2017	Depreciation	Decreases for disposals	Reclassifications and other changes	At 31/12/2017
Land					
Buildings	(5,242)	(337)			(5,579)
Plant and machinery	(39,135)	(1,897)			(41,032)
Industrial and commercial equipment	(10,205)	(113)			(10,318)
Other assets	(2,572)	(279)			(2,851)
Total	**(57,154)**	**(2,626)**	**-**	**-**	**(59,780)**

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

3.2. GOODWILL

The goodwill recognised at December 31, 2017 for an amount of Euro 61,005 thousand relates to the Purchase Price Allocation at March 31, 2017 commented upon in the Directors' Report. For further details, reference should also be made to IFRS 3 disclosures at paragraph 2.4.1 of these Notes.

As indicated in Note 2.7. Accounting policies, goodwill is not amortised but written down for impairments. The Group assesses the recoverability of goodwill at least annually, or more frequently where specific events and circumstances arise which may result in long-term value reductions, through impairment tests on each of the Cash Generating Units (CGU's). The CGU identified by the Group for the monitoring of goodwill coincides with the level of aggregation required by IFRS 8 - *Operating segments,* which for the Group is identified by the *Space business* alone.

Goodwill allocated to the *Space* CGU was subject to an impairment test at the reporting date which did not indicate the need for a write-down of the carrying amount of goodwill at December 31, 2017.

The recoverability of the amounts recognised are verified through comparing the net capital employed (carrying amount) of the CGU with the relative recoverable value. The recoverable value of goodwill is based on the calculation of the value in use i.e. the present value of future operating cash flows on the basis of the estimates included in the long-term plans approved by the Group and an adjusted terminal value, employed to express a summary estimate of future results over the explicitly considered timeframe. These cash flows are thereafter discounted according to discount rates reflecting the present market valuations of the cost of money and which take account of the specific risks of Group operations and of the CGU considered.

At December 31, 2017, the cash flows of the Space CGU were estimated according to forecasts from the latest Business Plan prepared by company Management approved by the Board of Directors on January 19, 2017 for the 2017-2019 three-year period supplemented with some updates for the year 2018 (contained in the approved budget) and 2019, as well as the projections for 2020. For the calculation of the terminal value, the expected cash flows for the final projection year (2020) were normalised according to the perpetuity method, assuming 2% growth for forecast cash flows from 2021.

The average discount rate (average weighted cost of capital) utilised for discounting cash flows was, net of taxes, 8.90% (8.72% in the previous year).

The estimates and the plan data used in the application of the above indicated parameters are calculated by management based on past experience and forecasts concerning Group markets. It is therefore highlighted that the current international economic environment and the possible economic-financial repercussions, in particular on spending levels by national governments and supranational institutions on space access policies, may create uncertainties around the achievement of objectives and the level of activities considered in the plan, without however resulting in impairments to the goodwill recognised to the financial statements. However, the estimate of the recoverable value of goodwill requires subjectivity and the use of estimates by management and, although considering that the production and commercialisation cycles for products cover extensive timeframes which therefore permit the recovery of any delays on plan objectives, it should be considered that goodwill may be impaired in future periods due to changes in the general environment which are currently unforeseeable. The circumstances and events which may result in further impairments are constantly monitored by Group management.

In consideration of that indicated, the Group undertook the following sensitivity analysis.

The first sensitivity analysis concerned the growth rate of the terminal value and the discount rate of the cash flows:

- for the terminal value growth rate a decrease of 50 basis points was assumed; alternatively
- for the cash flow discount rate an increase of 50 basis points was assumed.

On the basis of these sensitivities, the recoverable value of the Space CGU was higher than the carrying amount. Where considering a similar decrease for the above parameters, the recoverable value of the Space CGU is higher than the carrying amount.

A second sensitivity analysis concerned the inclusion in the value in use of the "Surplus Asset" deriving from the equity value of the Europropulsion joint-venture. On the basis of these sensitivities, the recoverable value of the Space CGU was higher than the carrying amount.

Even considering jointly the two sensitivities, or rather the inclusion in the value in use of the "Surplus Asset" deriving from the equity value of the Europropulsion joint-venture and a negative change in both the parameters of the first sensitivity, the recoverable value of the Space CGU would be higher than the carrying amount recognised in the financial statements.

3.3. INTANGIBLE ASSETS WITH DEFINITE LIFE

The values of Intangible assets with definite life at December 31, 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 of Avio S.p.A. at December 31, 2017 with April 10, 2017, date of the merger by incorporation by Space2. There were no Intangible assets with definite life recorded in this latter company at December 31, 2016.

	At 31/12/2017				Balances of Avio S.p.A. at 10/04/2017 - date of merger by incorporation				31/12/2016 - Space2 S.p.A.
	Gross values	Accumulated amortisation	Write-down provision	Net book value	Gross values	Accumulated amortisation	Write-down provision	Net book value	Net book value
Development costs - amortisable	68,517	(41,808)		26,709	68,517	(38,603)		29,914	
Development costs - in progress	46,090			46,090	38,188			38,188	
Total development costs	114,607	(41,808)	-	72,799	106,635	(38,603)	-	68,032	-
Assets held by customers for programme participation accreditation (PPA 2007 Cinven)					61,257	(41,961)		19,296	
Assets from PPA 2017 - Programmes	44,785	(2,239)		42,546				0	
Concessions, licenses, trademarks & similar rights	4,420	(4,014)		406	4,247	(3,685)		562	
Industrial patents & intellectual property rights				0				0	
Other	2,477	(1,053)		1,424	1,688	(844)		844	
Total	**166,289**	**(49,114)**	**-**	**117,175**	**173,827**	**(85,093)**	**-**	**88,734**	**-**

The amortisable development costs mainly refer to design and testing costs relating to the P80 motor, while the largest part of the development costs in progress (not yet amortised) relate to the future motor Z40 and the new motor P120.

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.

Within the purchase price allocation process of the Avio Group by Space2, two intangible assets were identified relating to aerospace programmes for Euro 44,785 thousand; on the other hand, the intangible asset relating to the programme accreditation of the Group was adjusted, identified within the purchase price allocation process undertaken in 2007 of the Group by Cinven, for a net book value of Euro 19,398 thousand.
The assets deriving from this allocation were measured at fair value based on the present value of the expected future benefits of the aerospace programmes and amortised over a period of 15 years on the basis of the average useful life of the programmes to which they refer.

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

The changes between April 10, 2017 (acquisition date of the Avio Group by Space2) and December 31, 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	At 10/04/2017	Purchase Price Allocation acquisition by Space2 - 31.03.2017	Increases	Decreases for disposals	Reclassifications and other changes	At 31/12/2017
Development costs – amortizable	68,517					68,517
Development costs - in progress	38,118		7,972			46,090
Total development costs	106,635		7,972	0	0	114,607
Assets held by customers for programme participation accreditation (PPA 2007 Cinven)	61,257	(61,257)				0
Assets from PPA 2017 – Programmes		44,785				44,785
Concessions, licenses, trademarks & similar rights	4,247		173			4,420
Industrial patents & intellectual property rights						
Other	1,688		789			2,477
Total	**173,827**	**(16,472)**	**8,934**	**0**	**0**	**166,289**

The increases between April 10, 2017 (acquisition date of the Avio Group by Space2) and December 31, 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 April 10 and December 31, 2017, the changes to accumulated amortisation were as follows (in Euro thousands):

Accumulated amortisation	At 10/04/2017	Purchase Price Allocation acquisition by Space2 - 31.03.2017	Amortisation	Decreases for disposals	Reclassifications and other changes	At 31/12/2017
Development costs - amortisable	(38,603)		(3,205)			(41,808)
Development costs - in progress	0					0
Total development costs	(38,603)	0	(3,205)	0	0	(41,808)
Assets held by customers for programme participation accreditation (PPA 2007 Cinven)	(41,961)	41,859				(102)
Assets from PPA 2017 - Programmes			(2,137)			(2,137)
Concessions, licenses, trademarks & similar rights	(3,685)		(329)			(4,014)
Industrial patents & intellectual property rights						
Other	(844)		(209)			(1,053)
Total	**(85,093)**	**41,859**	**(5,880)**	**0**	**0**	**(49,114)**

3.4. INVESTMENTS

The breakdown of the investments held by the parent company Avio S.p.A. at December 31, 2017 follows (in Euro thousands):

Company	Registered Office	% held	Book value	Net Equity	Equity share	Difference Book value / Equity share
Investments in subsidiaries						
ASPropulsion International B.V.	Amsterdam (Netherlands)	100%	58,640	57,744	57,744	896
ELV S.p.A.	Rome	70%	3,825	12,552	8,787	(4,962)
Regulus S.A.	Kourou (French Guyana)	60%	9,590	15,722	9,433	157
Avio India Aviation Aerospace Private Limited	New Delhi (India)	100%	114	105	105	9
Sub-total			**72,170**	**86,123**	**76,068**	**(3,898)**
Associates and jointly-controlled companies						
Europropulsion S.A. (*)	Suresnes (France)	50%	3,699	7,503	3,752	(53)
Termica Colleferro S.p.A.	Bologna	40%	2,008	5,430	2,172	(165)
Servizi Colleferro - Consortium Limited Liability Company	Colleferro (Rm)	32%	38	166	53	(15)
Sitab Consortium in liquidation	Rome	20%	5	(20)	(4)	9
Potable Water Services Consortium	Colleferro (Rm)	25%	-	-	-	-
Sub-total			**5,750**	**13,079**	**5,973**	**(223)**
Total investments in companies subsidiaries, associates and jointly controlled companies			**77,920**	**99,202**	**82,041**	**(4,121)**
Investments in other companies			**520**			
Total			**78,440**			

(*) Companies under joint control

The foreign subsidiary Avio India Aviation Aerospace at December 31, 2017 was in liquidation.

The investments in other companies amount to Euro 520 thousand and concern minor holdings in Arianespace, in C.I.R.A. - Centro Italiano Ricerche Aerospaziali S.c.p.A., in Imast S.c.a.r.l. and in Distretto Aerospaziale Sardegna S.c.a.r.l.

At December 31, 2016, which constitutes the period of comparison in these financial statements, 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 was no longer held at the reporting date.

3.5. NON-CURRENT FINANCIAL ASSETS

The table below illustrates the non-current financial assets of Avio S.p.A. at December 31, 2017 and at April 10, 2017, effective merger by incorporation date of Avio S.p.A into Space2 S.p.A. The table also shows the balances of Space2 at December 31, 2016 (Euro thousands):

	31/12/2017	Balances of Avio S.p.A. at the merger date 10/04/2017	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 December 31 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.

3.6. DEFERRED TAX ASSETS

The deferred tax assets of Avio S.p.A recorded in the accounts amount to Euro 74,685 thousand.

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 financial statements and the respective values for fiscal purposes and the tax losses carried forward.

The table below illustrates the deferred tax assets at December 31, 2017 and at April 10, 2017, merger by incorporation date of Avio 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.

	31/12/2017	Balances of Avio S.p.A. at the merger date 10/04/2017	31/12/2016 - Space2 S.p.A.
Net deferred tax assets	74,685	73,667	-
	74,685	**73,667**	**-**

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):

	31/12/2017
Gross deferred tax assets on temporary differences	
Temporary differences deriving from previous corporate operations	
Fiscal amortisation on previous goodwill whose tax benefits remain in the Group.	44,106
Financial charges exceeding 30% of EBITDA	44,636
Temporary differences deriving from current corporate operations	
Provision for personnel charges, former employees and similar	2,086
Other deductible temporary differences	2,649
Total gross deferred tax assets	**93,477**
Deferred tax liability on temporary differences	
Temporary differences deriving from previous corporate operations	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(12,291)
Tax effect R&D expenses First-Time Adoption	(5,144)
Temporary differences deriving from current corporate operations	
Other temporary assessable differences	(381)
Total gross deferred tax liabilities	**(17,816)**
Net deferred tax assets/(liabilities)	**75,661**
Deferred tax assets on tax losses	41,926
Deferred tax assets not recorded	(42,902)
Net deferred tax assets (liabilities) recorded	**74,685**

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, 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. recognises deferred tax assets, in particular deriving from the future tax deductibility of the goodwill amortisation relating to the "Aviation" business unit (sold in 2013) 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.

In relation to this matter, the ruling requested by the company obtained a positive response from the Tax Office and therefore supporting the reasonableness of the future recovery of these deferred 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 Avio included, with reference to the last financial statements of this latter, at December 31, 2016, also deferred tax liabilities, amounting to approx. Euro 26 million, deriving from goodwill tax amortisation relating to the "Space" business recorded in the accounts before the acquisition by Space2. In addition the account included deferred tax liabilities, amounting to Euro 5.6 million, deriving from the recognition of intangible assets for the customer accreditation recorded on the previous acquisition. Following this latter operation on March 31 and the consequent treatment in accordance with IFRS 3, the goodwill and the intangible assets for accreditation were 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 net deferred tax assets.

As described in the previous paragraphs on the purchase price allocation a new intangible asset was identified for customer accreditation which resulted in the recognition of new deferred tax liabilities for Euro 12.9 million at the transaction date.

3.7. OTHER NON-CURRENT ASSETS

The table below illustrates other non-current assets at December 31, 2017 and at April 10, 2017, merger by incorporation date of Avio S.p.A. into Space2 S.p.A. (Euro thousands). With reference to the comparative period at December 31, 2016, the incorporating company Space2 did not record other non-current assets.

	31/12/2017	Balances of Avio S.p.A. at the merger date 10/04/2017	31/12/2016 - Space2 S.p.A.
Other non-current assets	65,353	67,338	-
	65,353	**67,338**	**-**

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

	31/12/2017
Receivables from the General Electric Group	58,220
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	6,700
Guarantee deposits	432
Total	**65,353**

"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 "3.21. 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 6,700 thousand, refers to the discounted value of the non-current portion of the concessions granted at December 31, 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 the realisation of a European common interest project, whose disbursement 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 3.21).

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

CURRENT ASSETS

3.8. INVENTORIES

The table below illustrates inventories at December 31, 2017 and at April 10, 2017, merger by incorporation date of Avio S.p.A. into Space2 S.p.A. (Euro thousands). With reference to the comparative period at December 31, 2016, the incorporating company Space2 did not record inventories.

	31/12/2017	Balances of Avio S.p.A. at the merger date 10/04/2017	31/12/2016 - Space2 S.p.A.
Inventories	75,871	76,524	0
	75,871	**76,524**	**-**

The breakdown of the account at December 31, 2017 follows (in Euro thousands):

	31/12/2017		
	Net value	Write-down provision	Net Equity
Raw material, ancillaries and consumables	24,985	(3,088)	21,897
Products in work-in-progress	1,985	(424)	1,561
Finished products	7	(4)	3
Advances	52,410	-	52,410
	79,388	**(3,516)**	**75,871**

Advances include the sums paid to suppliers in advance of the execution of the relative supplies based on conditions established in the purchase contracts.

3.9. CONTRACT WORK-IN-PROGRESS

The contract work-in-progress relates to production and development activities. These amounts are 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.
Contract work-in-progress is measured on the advancement of the projects in accordance with the percentage of completion method based on the ratio between the costs incurred and the total estimated costs for the entire project.

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

	31/12/2017	31/12/2016 - Space2 S.p.A.	Change
Contract work-in-progress	46,198	-	46,198
Advances for contract work-in-progress	(129,230)	-	(129,230)
Net total	**(83,031)**	**-**	**(83,081)**

The table below summarises the contract work-in-progress relating to the projects where the gross value is higher than the advances and is therefore recorded for the net value under assets in the Balance Sheet of Avio S.p.A. (Euro thousands):

	31/12/2017	31/12/2016 - Space2 S.p.A.	Change
Contract work-in-progress (gross)	317,974	-	317,974
Advances for contract work-in-progress (gross)	(271,776)	-	(271,776)
Contract work-in-progress (net)	**46,198**	**-**	**46,198**

The table below summarises the contract work-in-progress relating to the projects where the gross value is lower than the advances and is therefore recorded, net of the advances, under liabilities in the Balance Sheet of Avio S.p.A. (Euro thousands):

	31/12/2017	31/12/2016 - Space2 S.p.A.	Change
Contract work-in-progress (gross)	606,281	-	606,281
Advances for contract work-in-progress (gross)	(735,511)	-	(735,511)
Advances for contract work-in-progress (net)	**(129,230)**	**-**	**(129,230)**

3.10. TRADE RECEIVABLES

The table below illustrates trade receivables at December 31, 2017 and at April 10, 2017, merger by incorporation date of Avio S.p.A. into Space2 S.p.A. (Euro thousands). With reference to the comparative period at December 31, 2016 the incorporating company Space2 did not record trade receivables.

	31/12/2017	Balances of Avio S.p.A. at the merger date 10/04/2017	31/12/2016 - Space2 S.p.A.
Trade receivables	7,224	3,830	-
	7,224	**3,830**	**-**

The breakdown of trade receivables is as follows:

	31/12/2017
Receivables from third parties	1,832
Receivables from subsidiaries	2,159
Receivables from associates and jointly controlled companies	3,233
Total	**7,224**

The book value of the receivables approximates their fair value.

Receivables from third parties

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

	31/12/2017
Gross value	1,915
less: doubtful debt provision	(83)
Total	**1,832**

The receivables are all due within 12 months.

3.11. CURRENT FINANCIAL ASSETS

The account amounts to zero at December 31, 2017 (Euro 1 thousand at April 10, 2017, merger by incorporation date of Avio S.p.A. into Space2 S.p.A.).

At December 31, 2016 however, the financial statements of the incorporating company Space2 reported current financial assets of Euro 304,165 thousand, comprising Euro 184 thousand of Savings Bonds and Euro 121 thousand of Escrow Bank Deposits, representing a part of the funds received from the offer undertaken by the above SPAC 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 year, the financial assets of Space2 reduced to zero as a result of the following:

- 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 66 million were divested and classified under cash and cash equivalents.

3.12. CASH AND CASH EQUIVALENTS

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

	31/12/2017	Balances of Avio S.p.A. at the merger date 10/04/2017	31/12/2016 - Space2 S.p.A.
Cash and cash equivalents	100,424	123,655	445
Total	**100,424**	**123,655**	**445**

Cash and cash equivalents mainly concerning balances on bank current accounts.

For analysis of the factors resulting in this decrease between April 10 and December 31. reference should be made to the cash flow statement of Avio S.p.A.

3.13. CURRENT TAX RECEIVABLES

The table below illustrates tax receivables at December 31, 2017, April 10, 2017 and December 31,2016 (Euro thousands).

	31/12/2017	Balances of Avio S.p.A. at the merger date 10/04/2017	31/12/2016 - Space2 S.p.A.
Current tax assets	37,066	23,421	1,014
Total	**37,066**	**23,421**	**1,014**

The increase in the account between April 10, 2017 and December 31, 2017 was Euro 13,645 thousand; this essentially was due to the increase in the Group VAT receivable.

The breakdown of current tax receivables is as follows (Euro thousands):

	31/12/2017
VAT receivables	33,615
Income tax receivables	3,214
EU VAT receivables	237
Total	**37,066**

VAT receivables

VAT receivables, for Euro 33,615 thousand, include:

- Euro 14,140 thousand, relating to VAT reimbursement request to the Tax Authorities. During 2017, the VAT receivable requested for repayment by the parent company Avio S.p.A. at December 31, 2016 had been offset by a tax charge of Euro 887 thousand, following the settlement of a VAT dispute for financial year 2007 agreed with the Tax Agency on April 26, 2017. The charge was recognised among the risks and charges provisions which were, therefore, correspondingly adjusted downwards.
  Reference in this regard should also be made to paragraph "3.20. Provisions for risks and charges", in addition to the "Legal and tax cases and contingent liabilities" paragraph.
- Euro 19,474 thousand concerning the VAT receivables not requested for repayment by the reporting date, principally concerning Avio S.p.A.

Between April 10, 2017 and December 31, 2017, the VAT receivable increased Euro 12.7 million: this is due to the fact that the Company's main clients, the European Space Agency (ESA) for the development of launchers and Ariane Group for their production/commercialisation, in addition to the jointly-controlled company Europropulsion for both of these phases, do not generate VAT payables as outside of the applicable VAT scope.
On the other hand, the Company has a number of Italian suppliers whose supplies - further to the amounts permitted under the VAT ceilings used by the Group - result in the recognition of VAT receivables.

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 launcher development activities undertaken on behalf of the subsidiary ELV S.p.A. with the final customer European Space Agency (ESA), issues invoices from the beginning of 2017 to ELV benefitting from a specific non-assessable VAT regime, with simultaneous 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.

Tax receivables

The Tax receivables account for Euro 3,214 thousand principally concerns the IRAP tax receivables of Euro 1,616 thousand and tax receivables carried forward from the incorporating Space2 for Euro 751 thousand.

EU VAT receivables

The EU VAT receivables relate to inter-EU transactions and amount to Euro 237 thousand.

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.

3.14. OTHER CURRENT ASSETS

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

	31/12/2017	Balances of Avio S.p.A. at the merger date 10/04/2017	31/12/2016 - Space2 S.p.A.
Other current assets	9,205	7,859	108
Total	**9,205**	**7,859**	**108**

Details of this account are shown below:

	31/12/2017
Social security institutions	246
Employee receivables	960
Economic Development Ministry for disbursements pursuant to Law 808/85	4,881
Receivables from subsidiaries	932
Other receivables from non-consolidated subsidiaries	
- Servizi Colleferro S.C.p.A.	76
Other debtors	1,443
Doubtful debt provision - other debtors	-
Prepayments and accrued income	667
Total	**9,205**

Receivables from the "Economic Development Ministry for disbursements pursuant to Law 808/85", amounting to Euro 4,881 thousand, refer to the discounted value 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 3.7).

Receivables from subsidiaries mainly derive from the tax consolidation.

Other receivables, amounting to Euro 1,443 thousand, mainly concern recharges to third parties for environmental and fiscal charges incurred.

"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

3.15. SHARE CAPITAL

The share capital of the parent company amounts to Euro 90,964,212 at December 31, 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, following the transaction on March 31, 2018, then merged by incorporation Avio S.p.A. effective as of April 10, 2017 and was 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.
- of which Euro 202,542 thousand as the increase due to the exercise, in the second half of 2017, of market warrants (see the "Shareholders" paragraph of the Directors' Report)

The share capital at December 31, 2017 amounted to Euro 90,964,212 and was divided into 26,359,346 ordinary shares, of which 1,170,000 following the conversion on May 17, 2017 of 260,000 special shares.

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.

3.16. SHARE PREMIUM RESERVE

The share premium reserve at December 31, 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..

3.17. OTHER RESERVES

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

	31/12/2017
Actuarial gains/(losses) reserve	(2,726)
2015 share capital increase reserve	(1,456)
Legal reserve	8
Total	**(4,175)**

The Other reserves account, negative for Euro 4,175 thousand at December 31, 2017, includes, in addition to the Legal reserve of Euro 8 thousand:

- for Euro 2,726 thousand the actuarial gains and losses deriving from the application of IAS 19 revised, with the relative tax effect where applicable;
- for Euro 1,456 thousand the costs of the share capital increase in 2015 in the SPAC Space2.

The breakdown of the equity accounts according to their origin, utilisation and distribution, as well as utilisation in previous years, is shown in the table below (Euro thousands):

Nature/Description	Amount	Poss. of utilisation	Quota available	Summary of utilisations in previous years	
				To cover losses	Other reasons
Share capital	90,964				
Capital reserves:					
- Share premium reserve	163,897	A, B, C	163,897	-	-
Profit reserves:					
- Legal reserve	8	B			
- Actuarial gains and losses	(2,726)	-			
- 2015 share capital increase reserve	(1,456)				
Retained earnings	(1,406)			(332)	
Total	**249,280**		**163,897**		
Non-distributable amount			(72,799)		
Residual distributable amount			**91,098**		

Key: A: for share capital increase, B: for coverage of losses and C: for distribution to shareholders.

The non-distributable portion relates to the share premium reserve, non-distributable for an amount equal to the residual value of the development costs capitalised.

NON-CURRENT LIABILITIES

3.18. NON-CURRENT FINANCIAL LIABILIITES

Non-current financial liabilities at December 31, 2017 amounted to Euro 40 million and concerned the loan agreed in October 2017 with the European Investment Bank (EIB). This loan contract with the EIB was structured so as to provide for full "drawdown" in October 2017 at a fixed interest rate competitive with market rates and is of 7 years duration, of which 2 constituting a grace period and repayment in ten equal half-yearly instalments from the third to the seventh years, of which the first maturing on April 30, 2020 and the final maturing on October 31, 2024. This is not supported by guarantees and stipulates the application of covenants (Gross Financial Debt/EBITDA and Gross Financial Debt/Equity), among other covenants. To-date, these covenants have been complied with.
Hedging derivatives have been agreed on this loan.

3.19. EMPLOYEE BENEFIT PROVISIONS

The account relates to post-employment benefits and other long-term benefits.
These benefits are generally based on remuneration and years of employee service. The obligations refer to employees in service.

Post-employment benefits
The Company 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 Company pays the contributions to public or private insurance institutions based on legal or contractual obligations. With the payment of the contributions the company satisfies its 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, 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, the portion of the employee leaving indemnity matured subsequent to this date is treated as a defined contribution plan, as the obligation of the Company 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.

Other long-term employee benefits
The Company 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 provisions are broken down as follows (in Euro thousands):

	31/12/2017
- Defined benefit plans:	
Employee leaving indemnity	4,740
Other defined benefit plans	1,941
	6,681
- Other long-term benefits	1,490
Total employee benefit provisions	**8,171**

The following table presents the principal changes in the employee benefit provisions (in Euro thousands):

	Defined benefit plans	Other long-term benefits	Total employee benefit provisions
At 10/04/2017	**6,686**	**1,577**	**8,263**
Financial charges/(income)	(2)	(3)	(5)
Extraordinary charges/(income) from actuarial adjustment	165	(152)	12
Actuarial (gains)/losses in income statement		71	71
Actuarial (gains)/losses in comprehensive income statement	(47)		(47)
Pension cost current employees	59	66	125
Benefits paid	(179)	(68)	(247)
At 31/12/2017	**6,681**	**1,490**	**8,171**

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

	31/12/2017
Discount rate	0.50%
Expected salary increases	2.09%
Inflation rate	1.50%
Average employee turnover rate	4.88%

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.

3.20. PROVISIONS FOR RISKS AND CHARGES

The table below illustrates provisions for risks and charges at December 31, 2017, April 10, 2017 (merger by incorporation date into Space2) and December 31,2016 (Euro thousands). At December 31, 2016 the incorporating company Space2 did not have any provisions for risks and charges.

	31/12/2017	Balances of Avio S.p.A. at the merger date 10/04/2017	31/12/2016 - Space2 S.p.A.
Provisions for risks and charges	8,114	11,973	-
Total	**8,114**	**11,973**	**-**

The breakdown of the Provision for risks and charges at December 31, 2017 at the reporting date is shown below (Euro thousands):

	At 31/12/2017		
	Current portion	Non-current portion	Total
Provision for variable remuneration	5,338	863	6,201
Provision for personnel charges and organisational restructuring	7		7
Provisions for risks and legal charges	55	171	226
Provision for contractual and commercial risks and charges		1,055	1,055
Provision for tax risks	625	-	625
Total	**6,025**	**2,089**	**8,114**

These provisions include:

- provisions for variable remuneration for Euro 6.2 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 7 thousand;
- provisions for legal risks and charges, against litigation and trade union disputes in course, amount to Euro 0.2 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 1.1 million;
- provisions for tax risks, amounting to Euro 0.6 million, mainly relating to the provision accrued against possible negative outcomes from tax audits conducted on the Company, also following tax assessments received.

The principal changes between April10, 2017 and December 31, 2017 are shown below:

- payment to employees as bonuses related to the achievement of individual and company objectives (Euro 3.7 million) and payments made relating to the incentive plans for the successful outcome of the Space2-Avio operation (Euro 4.5 million);
- provision of over Euro 4.5 million mainly relating 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.

3.21. OTHER NON-CURRENT LIABILITIES

The table below illustrates trade payables at December 31, 2017, April 10, 2017 (merger by incorporation date of Avio S.p.A. into Space2 S.p.A.) and December 31,2016 (Euro thousands). At December 31, 2016 the incorporating company Space2 did not have any other non-current liabilities.

	31/12/2017	Balances of Avio S.p.A. at the merger date 10/04/2017	31/12/2016 - Space2 S.p.A.
Non-current liabilities	115,489	116,936	
Total	**115,489**	**116,936**	**-**

The breakdown of the account at December 31, 2017 is shown in the table below (Euro thousands):

	31/12/2017
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	14,828
Other deferred income	390
Total	**115,489**

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 14,828 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.

CURRENT LIABILITIES

3.22. CURRENT FINANCIAL LIABILITIES

The table below illustrates current financial liabilities at December 31, 2017,April 10, 2017 (merger by incorporation date of Avio S.p.A. into Space2 S.p.A.)) and December 31,2016 (Euro thousands). At December 31, 2016 the incorporating company Space2 did not have financial payables.

	31/12/2017	Balances of Avio S.p.A. at the merger date 10/04/2017	31/12/2016 - Space2 S.p.A.
Current financial liabilities	70,004	89,580	-
Total	**70,004**	**89,580**	**-**

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

	31/12/2017
Financial payables subsidiary Secosvim	29,949
Financial payables subsidiary ELV	14,793
Financial payables Europropulsion S.A. joint control company	25,249
Other financial payables	12
	70,004

Payables to subsidiaries comprise the current account balances within the Group centralised treasury management undertaken by the company. These transactions are undertaken at normal market conditions.

Payables to the jointly-controlled company Europropulsion relate to the mechanism of distributing to its shareholders the financial resources available to the joint venture, in accordance with a specific treasury management contract.

3.23. CURRENT PORTION OF NON-CURRENT FINANCIAL PAYABLES

The table below illustrates this account at December 31, 2017, April 10, 2017 (merger by incorporation date into Space2) and December 31,2016 (Euro thousands). At December 31, 2016 the incorporating company Space2 did not have financial payables.

	31/12/2017	Balances of Avio S.p.A. at the merger date 10/04/2017	31/12/2016 - Space2 S.p.A.
Current portion of non-current financial payables	60	93,279	-
Total	**60**	**93,279**	**-**

The current portion of Euro 60 thousand of financial payables refers to accumulated interest on the recent EIB loans.

The account at April 10, 2017 entirely concerned the residual debt on 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.
In addition to the revolving line, never accessed by the Group, the loan is broken down 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").

This loan was fully settled through two payments in the March 31 - December 31 period:

- between March 31 and June 30, following the merger by incorporation of Avio into Space2, resulting in the receipt of new financial resources recorded to the accounts of the incorporating company for Euro 65.6 million, the residual payable relating to Term Loan B was repaid in advance and which in contrast to Term Loan A attracted higher interest (Euribor + spread 4.5% against Euribor + spread 4%).
- at the beginning of October, the Group however repaid in advance Term Loan A for approx. Euro 30 million.

3.24 TRADE PAYABLES

The table below illustrates trade payables at December 31, 2017, April 10, 2017 (merger by incorporation date into Space2) and December 31,2016 (Euro thousands).

	31/12/2017	Balances of Avio S.p.A. at the merger date 10/04/2017	31/12/2016 - Space2 S.p.A.
Trade payables	77,004	78,749	581
Total	**77,004**	**78,749**	**581**

Trade payables at December 31, 2017 include the following payables to subsidiaries:

- payables to ELV for Euro 2,928 thousand;
- payables to Regulus for Euro 17,924 thousand;
- payables to Secosvim for Euro 61 thousand.

These payables include, in addition, Euro 10,102 thousand to the jointly controlled company Europropulsion and Euro 70 to the associate Termica Colleferro.

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.

3.25. CURRENT TAX PAYABLES

The table below illustrates current tax payables at December 31, 2017, April 10, 2017 (merger by incorporation date into Space2) and December 31,2016 (Euro thousands).

	31/12/2017	Balances of Avio S.p.A. at the merger date 10/04/2017	31/12/2016 - Space2 S.p.A.
Tax payables	1,329	2,849	88
Total	**1,329**	**2,849**	**88**

The payable mainly refers to withholding taxes on employees and consultants on behalf of the tax authorities.

The 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.

3.26. OTHER CURRENT LIABILITIES

The table below illustrates other current payables at December 31, 2017, April 10, 2017 (merger by incorporation date into Space2) and December 31,2016 (Euro thousands).

	31/12/2017	Balances of Avio S.p.A. at the merger date 10/04/2017	31/12/2016 - Space2 S.p.A.
Other current liabilities	11,429	11,590	62
Total	**11,429**	**11,590**	**62**

The breakdown of the account at December 31, 2017 is shown in the table below (Euro thousands):

	31/12/2017	31/12/2016 - Space2 S.p.A.
Customer advances for the supply of goods and services	2,529	-
Payables due to social security institutions	1,957	5
Employee payables	2,644	-
Payable to subsidiaries	1,634	
Other payables to third parties	584	24
Deferred income on disbursements pursuant to Law 808/85 - current portion	1,116	-
Other accrued liabilities and deferred income	965	33
Total	**11,429**	**62**

Customer advances for the supply of goods and services

The account mainly relates to advances received from final customers against supplies for Euro 2,529 thousand.

Amounts due to social security institutions

The account concerns amounts to be paid, amounting to Euro 1,957 thousand, relating to company and employee contributions, in accordance with regulations in force.

Employee payables

Employee payables amount to Euro 2,644 thousand and include remuneration to be settled, in addition to vacations and other rights matured and not utilised.

Subsidiaries

The account, amounting to Euro 1,634 thousand, mainly includes the payable to subsidiaries, in particular ELV S.p.A., following the tax consolidation.

Deferred income on disbursements pursuant to Law 808/85 - current portion

The account concerns the accrual of the contribution, with regards to the portion expected to be recognised as income to the income statement within the next 12 months.

Accrued liabilities and deferred income

This account, amounting to Euro 965 thousand, mainly refers to the deferment of commercial costs and grants.

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.

INCOME STATEMENT

INTRODUCTION

The comparison of the income statement items is impacted by the merger by incorporation of Avio S.p.A. on April 10, 2017 into Space2 S.p.A.. For a complete review on the full-year 2017 performance, reference should be made to the Directors' Report.

3.27. REVENUES

The breakdown of revenues, comprising those for the sale of goods and services and the change in contract work-in-progress amounts to Euro 256,563 thousand for the period April 10 - December 31, 2017, as illustrated below

	Year 2017 – Avio (period 10/04 – 31/12)	Year 2016 – Space2 S.p.A.	Change
Revenues from sales	161,674		161,674
Revenues from services	528		528
	162,202	0	162,202
Change in contract work-in-progress	94,361		94,361
Total	**256,563**	**0**	**256,563**

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

3.28. OTHER OPERATING REVENUES

The account, amounting to Euro 5,013 thousand, is as follows:

	Year 2017 – Avio (period 10/04 – 31/12)	Year 2016 – Space2 S.p.A.	Change
Income from the release of provisions	1,274		1,274
Income for the portion recognised to the income statement of the disbursements as per Law 808/85	1,337		1,337
Other income	723		723
Over-accruals and similar in prior periods	350		350
Recovery of costs, damages and other income	1,329		1,329
Total	**5,013**	**0**	**5,013**

During the year over-accruals mainly related to the provisions for contract risks, personnel incentives and mobility provisions.

"Recovery of costs, damages and other income" includes the recovery of costs incurred during the period by the company, regarding mainly operations in favour of Group companies and other income.

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

3.29. CONSUMPTION OF RAW MATERIALS

The account, amounting to Euro 68,117 thousand, relates to costs for raw material purchases and changes in inventories, as shown below.

	Year 2017 – Avio (period 10/04 – 31/12)	Year 2016 – Space2 S.p.A.	Change
Purchase of raw materials	74,014	0	74,014
Change in inventories of raw materials	(5,897)		(5,897)
Total	**68,117**	**0**	**68,117**

Space2 S.p.A. recorded an immaterial amount of purchases for raw materials in 2016, less than Euro 1 thousand.

3.30. SERVICE COSTS

Service costs, amounting to Euro 149,518 thousand, in particular, include costs for activities carried out by co-producers, for consultancy and technical and professional services, for outsourcing, for maintenance and for temporary personnel.

The breakdown of services and rent, lease and similar costs is shown below:

	Year 2017 – Avio (period 10/04 – 31/12)	Year 2016 – Space2 S.p.A.	Change
Service costs	145,680		145,680
Rent, lease and similar costs	3,838		3,838
Total	**149,518**	**0**	**149,518**

Service costs include so-called pass-through costs, amounting to Euro 41,402 thousand, invoiced to Avio by the Europropulsion joint-venture regarding the contract for the development and production of the new "P120" engine, related and equal to the "pass-through" revenues (Euro 41,402 thousand and Euro 47,676 thousand in 2016), as described in greater detail in the Directors' Report and to which reference should be made.

"Service costs" also include the amount of emoluments to the Boards of the company, including fees paid to the statutory auditors for Euro 94 thousand, directors for Euro 259 thousand and, finally, internal committees for Euro 88 thousand.

In 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".

3.31. PERSONNEL EXPENSES

This account, amounting to Euro 32,877 thousand, relates to personnel expenses matured in the period April 10 - December 31, 2017.

The breakdown of personnel expenses is shown in the table below:

	Year 2017 – Avio (period 10/04 – 31/12)	Year 2016 – Space2 S.p.A.	Change
Wages and salaries	19,968		19,968
Social security charges	6,490		6,490
Provision for variable remuneration	4,497		4,497
Other long-term benefits - current employees	125		125
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	70		70
Provision for "Other defined benefit plans"	1,727		1,727
Total	**32,877**	**0**	**32,877**

In 2016 the incorporating company Space2 S.p.A., as the company had no employees, did not incur industrial/operational services costs.

The breakdown of the average number of employees is shown below:

The table below illustrates, divided by category, the average number of employees of the Company:

	Year 2017
Blue-collar	273
White-collar	297
Executives	20
Total	**590**

3.32. AMORTISATION & DEPRECIATION

Amortisation and depreciation amount to Euro 8,506 thousand and refer for Euro 2,626 thousand to depreciation on tangible fixed assets and for Euro 5,879 thousand amortisation on intangible fixed assets. Amortisation on intangible fixed assets includes amortisation on intangibles recognised following the purchase price allocation process of Avio by Space2, equal to Euro 2,137 thousand.

3.33. OTHER OPERATING COSTS

The account amounts to Euro 3,280 thousand and mainly refers to:
- an accrual to extraordinary personnel charge provisions of Euro 1,497 thousand;
- other operating charges for Euro 942 thousand;
- prior year charges for Euro 615 thousand.

3.34. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to internal costs capitalised, amounting to Euro 8,983 thousand, includes:
- costs for the construction of internal tangible fixed assets for Euro 1,011 thousand;
- costs for the construction of internal intangible assets, all concerning development, for Euro 7,972 thousand.

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

3.35. FINANCIAL INCOME

The breakdown of financial income, amounting to Euro 1,133 thousand, refers to:

	Year 2017 – Avio (period 10/04 – 31/12)	Year 2016 – Space2 S.p.A.	Change
Bank interest income	141	542	(401)
Financial income on Savings Bonds	374	1,539	(1,165)
Discounts and other financial income	179		179
	694	2,081	(1,387)
Realised exchange gains	439	0	439
Unrealised exchange gains	0		0
	439	0	439
Total	**1,133**	**2,081**	**(948)**

3.36. FINANCIAL CHARGES

The breakdown of the financial charges is as follows:

	Year 2017 – Avio (period 10/04 – 31/12)	Year 2016 – Space2 S.p.A.	Change
Interest on Senior Term Loan Agreement	1,988		1,988
Interest on EIB loans	60		60
Interest expense – subsidiaries	5		5
Interest on other payables	180		180
Discounting on employee benefits	(13)		(13)
Charges on interest hedge contracts (IRS)	305		305
	2,525	0	2,525
Realised exchange losses	515		515
Unrealised exchange losses	3		3
	519	0	519
Total	**3,044**	**0**	**3,044**

As previously illustrated, the Senior Term and Revolving Facilities Agreement signed on April 1, 2015, was settled in advance during 2017.

3.37. INVESTMENT INCOME/(CHARGES)

Net investment income in 2017refers to net income of Euro 5,340 thousand as follows:
- dividends for Euro 2,880 thousand received in the period from the subsidiary Regulus S.A.;
- dividends for Euro 2,460 thousand received in the period from the jointly controlled company Europropulsion S.A.

3.38. INCOME TAXES

Net "income taxes" amount to "Net income" of Euro 1,508 thousand, comprising income for current taxes from the tax consolidation of Euro 493 thousand and deferred tax income of Euro 1,015 thousand.

In 2016, the incorporating company Space2 did not record any income tax.

The reconciliation between the theoretical and effective IRES corporate income tax is presented below (in Euro thousands):

	Year 2017
Pre-tax result	11,420
Ordinary rate applied	24.00%
Theoretical tax charge	2,741
Effect of increases (decreases) to the ordinary rate:	
Permanent increases	1,274
Permanent decreases	(7,231)
Temporary difference increases	11,666
Temporary difference decreases	(62,570)
Total changes	(56,861)
(Tax loss)/Assessable income	(45,441)
Net deferred tax (income)/charge	(1,015)
(Income from tax consolidation)/Tax liability provision	(493)
	(1,508)

3.39. NET PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS

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

3.40. EARNINGS PER SHARE

	Year 2017 – Avio (period 10/04 – 31/12)	Year 2016 – Space2 S.p.A.
Group Net Profit (Euro thousands)	12,928	(332)
Weighted average number of shares in circulation	25,305,773	30,000,000
Basic earnings per share – in Euro	0.51	(0.012)
Diluted earnings per Share – in Euro	0,50(1)	(0.011)(2)

(1) Diluted earnings per share was determined assuming the conversion of the 800,000 sponsor warrants into ordinary shares.
(2) The 2016 loss per share of Space2 S.p.A. was calculated taking into account also the special shares and market warrants.

4. COMMITMENTS AND RISKS

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

	31/12/2017
Gaurantees given:	
Unsecured guarantees:	
Sureties issued to third parties on behalf of Group	7,325
Other guarantees	29,788
Total guarantees given	37,112
Guarantees received:	
Sureties and guarantees received	1,090
	1,090

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.

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 December 31, 2017, Termica Colleferro's residual debt on this loan was Euro 19.9 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 Company as part of ordinary operations is involved in legal, civil and administrative proceedings (including tax judgments), both as plaintiff and respondent.
The Company established in their 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.
Company management consider the risks and charges provision estimates as appropriate with regards to the Company'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 Company 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 Company against the *ex-ante* estimates may not be excluded.
A summary of current proceedings considered by the Company as significant on the basis of the amount or matters considered is provided below.

Group tax audits

Information is provided below on the most significant tax audits and disputes which, at the date of the present financial statements, concerned Avio S.p.A. and its subsidiaries, with details on the specific disputes and the relative amounts.

a) *Tax audits and disputes relating to Avio S.p.A. (company incorporated by Space2 S.p.A.)*

a.1) *Tax audits and disputes in course*

a.1.1.) *The general tax audit initiated on December 18, 2015 by the Rome Finance Police*
On December 18, 2015, the Rome Finance Police Tax Unit (hereafter "Finance Police") began a general tax audit of Avio S.p.A. with regards to income, IRAP and other taxes, and subsequently extended the investigation to VAT limited to certain specific issues, in relation to the tax years 2011, 2012 and 2013.
This audit in addition included the subsidiary Regulus (see the "Subsequent events" section of the Directors' Report).
At the reporting date this general tax audit:
- limited to the subsidiary Regulus formally concluded with a formal assessment letter relating to the tax years 2010 to 2016. To date, the Tax Agency has not implemented these findings with any tax assessment notices;
- limited to the parent company Avio S.p.A. has not been formally concluded as no closure letter has been received.

Within this investigation the Finance Police issued formal assessment letters (hereafter also "PVC") relating to specific issues contested which are illustrated below in greater detail.

a.1.1.1) Formal Assessment Letter (PVC) notified on September 23, 2016
On September 23, 2016, within the general audit initiated on December 18, 2015, the Finance Police notified Avio S.p.A. of a PVC which, for the tax year 2011, proposes the recovery of income taxes, for IRES and IRAP, of a total amount of Euro 2,571 thousand, in relation to costs incurred by Avio S.p.A. from some suppliers located in countries or territories with privileged tax regimes pursuant to Article 110, paragraphs 10 and 11, of the CFA.

On January 4, 2017, based on the above-mentioned PVC, the Tax Agency, Piedmont Regional Section - Large Contributions Office (hereafter "Piedmont DRE"), taking account also of the information provided by Avio S.p.A. in reply to the specific questionnaire of September 30, 2016, notified Avio S.p.A. of a tax assessment notice, for the tax year 2011, with the recovery of income taxes, for only IRES, of an amount - reduced compared to the amount proposed by the Finance Police - totalling Euro 1,352 thousand, with higher IRES equal to Euro 372 thousand, in addition to interest and penalties.
On May 26, 2017, following the agreed settlement procedure, the assessment was defined for a lower amount of Euro 357 thousand with IRES, interest and penalties totalling Euro 145 thousand.
Therefore in relation to this investigation there is no pending dispute concerning Avio S.p.A.

a.1.1.2) Formal Assessment Letter (PVC) notified on June 27, 2017

1) *Black-list costs*
On June 27, 2017, within the general audit initiated on December 18, 2015, the Finance Police notified Avio S.p.A. of a PVC which, for the tax year 2012, proposes the recovery of income taxes, for IRES and IRAP, of a total amount of Euro 1,762 thousand, in relation to costs incurred by Avio S.p.A. from suppliers located in countries or territories with privileged tax regimes pursuant to Article 110, paragraphs 10 and 11, of the CFA.
On January 4, 2018, based on the above-mentioned PVC, the "Piedmont DRE", taking account also of the information provided by Avio S.p.A. in reply to the specific questionnaire of August 1, 2017, sent a tax assessment notice, for the tax year 2012, with the recovery of income taxes, for only IRES, of an amount - reduced compared to the amount proposed by the Finance Police - totalling Euro 245 thousand, with higher IRES equal to Euro 67 thousand, in addition to interest and penalties.
Avio S.p.A. initiated discussions with the "Piedmont DRE" concerning the resolution of the dispute and proposed, on February 6, 2018, an agreed settlement procedure.
At the reporting date, this procedure has not been completed.
In relation to the tax year 2013, the incorporated company has not yet received any assessment notifications.
In terms of these matters, under the Share Purchase Agreement signed on December 21, 2012 between, among others, Avio (as seller) and Nuovo Pignone Holding S.p.A. (as buyer), the General Electric Group is required to indemnify Avio for any tax liabilities which may arise.

2) Omission to deduct withholding taxes
With the PVC notified to Avio on June 27, 2017 the Finance Police raised a specific issue, for the tax years 2012 and 2013, concerning the omission to deduct and pay withholding taxes on interest paid to foreign residents, for an amount of Euro 1,046 thousand for 2012 and Euro 502 thousand for 2013.
On January 4, 2018, based on the above-mentioned PVC, the "Piedmont DRE", taking account also of the information provided by Avio S.p.A., sent a tax assessment notice, for the tax year 2012, with the recovery of income taxes - reduced compared to the amount proposed by the Finance Police - totalling Euro 165 thousand, in addition to interest and penalties of Euro 207 thousand. Avio S.p.A. initiated discussions with the "Piedmont DRE" concerning the resolution of the dispute and proposed, on February 6, 2018, an agreed settlement procedure. At the reporting date, this procedure has not been completed.
In relation to the tax year 2013 we report that the "Piedmont DRE" has not yet issued the tax assessment notice and, in addition, discussions are ongoing between Avio S.p.A. and the tax office for the provision of further documentation.
On the basis of the information available at the reporting date, while also taking account of the above-stated General Electric indemnity, these liabilities are considered as probable for an amount covered by the tax liability provision.

a.1.1.3) Settlement Notice of July 28, 2016

On March 8, 2016, as part of the general tax audit initiated on December 18, 2015, the Finance Police notified Avio S.p.A. (as co-responder) of a PVC specifically concerning the tax treatment of transactions for indirect taxes which in 2013 resulted in the transfer of the AeroEngine business unit from Avio S.p.A. to the General Electric Group. In particular, the Finance Police requalified the transfer of the AeroEngine business unit by Avio S.p.A. 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 this type of deed, requesting also payment of penalties and interest.

On July 28, 2016, based on the above matter raised, the Turin 1 Provincial Section (hereafter "Turin DP1"), notified Avio S.p.A. (as co-responder), of a settlement notice for registry, mortgage and land taxes. In particular, the Turin DP1 confirmed the issue reported by the Finance Police recognising, as requested and extensively outlined in the defense petition presented by Avio S.p.A., the inapplicability of penalties and interest and the quantification of the higher taxes due on an assessable base significantly lower than that proposed by the Finance Police.

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 0.9 million.

On September 26, 2016, Avio S.p.A. presented - together with the General Electric Group - an appeal, challenging the Settlement Notice within the deadline established by the applicable rules, rejected by the Turin Provincial Tax Commission on ....

An appeal was taken made against this decision to the Piedmont Regional Tax Commission.

It should be noted that the potential liability relating to this settlement notice is in any case also covered by the indemnities undertaken by the General Electric Group with Avio S.p.A. in relation to the AeroEngine sector activities of the Avio Group.

Therefore, in view of the contractual commitments existing between Avio S.p.A. and the General Electric Group, in the present financial statements Avio S.p.A. recognised:

- under non-current liabilities a tax payable with regards to increased registration, mortgage and land taxes for a total of Euro 58.2 million:
- under non-current assets, a receivable of the same amount from the buyer, Nuova Pignone Holding S.p.A, part of the General Electric Group.

a.2) *Tax audits and disputes concluded with financial effects in 2017 and in the first months of 2018*

a.2.1.) Assessment notices on significant transactions for VAT purposes for the years 2011, 2012 and 2013.

At the end of 2016 Avio S.p.A, following a specific request from the "Piedmont DRE",, 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 and October 31, 2017, the "Piedmont DRE" notified Avio S.p.A. of the relative assessment notices, contesting the non-application of VAT, for the tax years 2011, 2012 and 2013.

Avio S.p.A. requested application of an agreed settlement process for this dispute. This initiative resulted in the completion of an agreed settlement process with the "Piedmont DRE", and which resulted in the non-application of sanctions on Avio S.p.A.. In relation to the amounts subject to recovery of income taxes we report that at the reporting date:

- the amount relating to 2011, totalling Euro 535 thousand including interest, was paid during 2017 in three quarterly instalments;
- the amounts relating to 2012 and 2013, totalling Euro 530 thousand including interest, are in the course of payment as the first of the three instalments was paid in December

2017, while the second and third instalments will be paid respectively in March and June 2018.

b) *Tax audits and disputes relating to Avio S.p.A. (formerly Space2 S.p.A. - incorporating company)*

It should be noted that this company was not involved in any tax audits or disputes at the reporting date.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Categories and fair value of financial assets and liabilities

The following table breaks down financial assets and liabilities as per IFRS 7, on the basis of the categories under IAS 39 for 2017 and 2016:

Amounts at December 31, 2017

In Euro thousands	Total accounts	Categories IAS 39			*Fair value**
		Loans and receivables	*Liabilities at amortised cost*	*Derivative financial instruments*	
FINANCIAL ASSETS					
- Non-current financial assets	7,440	7,440			7,440
- Other non-current assets	65,353	65,353			65,353
- Current financial assets	-	-			-
- Trade receivables	7,224	7,224			7,224
- Other current assets	9,205	9,205			9,205
- Cash and cash equivalents	100,424	100,424			100,424
	189,646	**189,646**			**189,646**
FINANCIAL LIABILITIES					
- Non-Current financial liabilities	40,000		40,000		40,000
- Current financial liabilities	70,004		70,004		70,004
- Current portion of non-current financial payables	60		60		60
- Other non-current liabilities	115,489		115,489		115,489
- Other current liabilities	11,429		11,429		11,429
- Trade payables	77,004		77,004		77,004
	313,986		**313,986**		**313,986**

** where not available, the fair value was indicated as cost.*

Amounts at December 31, 2016

In Euro thousands	Total accounts	Categories IAS 39			*Fair value**
		Loans and receivables	*Liabilities at amortised cost*	*Derivative financial instruments*	
FINANCIAL ASSETS					
- Non-current financial assets	10	10			10
- Current financial assets	304,166	304,166			304,166
- Other current assets	1,121	1,121			1,121
- Cash and cash equivalents	445	445			445
	305,742	**305,742**			**305,742**
FINANCIAL LIABILITIES					
- Other current liabilities	150		150		150
- Trade payables	581		581		581
	731		**731**		**731**

** where not available, the fair value was indicated as cost.*

For the asset and liability items, no differences compared to those reported in the financial statements are noted, as representing a reasonable approximation of the relative fair value.

Fair value of financial assets and liabilities and calculation models utilised

In relation to any financial instruments recorded in the balance sheet 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 Company and the Avio Group did not have derivative financial instruments in place at December 31, 2017.

During 2017, with the early settlement of the "Senior Term and Revolving Facilities Agreement" agreed with Banca IMI and other leading credit institutions on April 1, 2015, four interest rate swap agreements originally undertaken to hedge against fluctuations in interest rates relating on this loan were also settled in advance.

Financial income and charges recognised as per IAS 39

The following table presents the financial charges and income generated by financial assets and liabilities, broken down by category as per IAS 39 for 2017 and 2016.

Year 2017

	Financial income/(charges) recognised through profit or loss		Actuarial gains/(losses) recognised to comprehensive income statement
In Euro thousands	From interest	From fair value changes	From fair value changes
Loans and receivables	694	-	-
Liabilities at amortised cost	(2,233)	-	-
Derivative financial instruments	-	(305)	317
Total categories IAS 39	(1,539)	(305)	317

Year 2016

	Financial income/(charges) recognised through profit or loss		Actuarial gains/(losses) recognised to comprehensive income statement
In Euro thousands	From interest	From fair value changes	From fair value changes
Loans and receivables	2,081		
Liabilities at amortised cost	-		
Derivative financial instruments	-		
Total categories IAS 39	2,081		

Types of financial risks and related hedging

The Company and the Group are not exposed to financial risks through its operating activities, in particular relating to:

- 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.

These financial risks are continually monitored, undertaking initiatives to offset and contain potential impacts through appropriate policies and, where in general considered necessary, also through specific hedging instruments (currently not necessary as the loan interest rate with the EIB is fixed and competitive compared to the market).
This section provides qualitative and quantitative disclosure upon the impact of these risks on the Company and 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 Company and 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 the credit risk for the Company at December 31, 2017 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 7,224.
This amount is comprised of:

- trade receivables, amounting at December 31, 2017 to Euro 45,566 thousand (including receivables concerning invoices for advances yet to be paid of Euro 38,260 thousand, of which Euro 11,012 thousand from the jointly-controlled company Europropulsion) and Euro 17,773 thousand from subsidiaries),
- the “advances to be collected”, amounting to Euro 38,260 thousand (including also advances to be received from Europropulsion, equal - as illustrated above - to Euro 11,012 thousand and from subsidiaries equal to Euro 17,773 thousand),
- the Doubtful Debt Provision, which totals Euro 82 thousand.

Regarding the reasons for the exposure to credit risk represented by receivables net of “advances to be repaid”, in accounting terms, the issuing of invoices involves as a counter-entry, against the recognition of an asset from the clients, the recognition of a liability concerning the advances to be received. These are both recognised to the balance sheet. The ageing analysis therefore is made net of the above-stated advances.

The main Company clients are government bodies and public sector clients, which by their nature do not present significant risk concentrations (European Spatial Agency, Arianespace, Airbus Safran Launchers).

In addition, operating on an order basis, the Avio Group plans the management of advances so as to attain the funding before and during the incursion of order costs, on the basis of the various contractual milestones and mitigating therefore the risk regarding the payment of receivables against the initiated production activities.

Overdue trade receivables at December 31, 2017 amounted to approx. Euro 3,087 thousand (Euro 3,005 thousand, net of the above Doubtful Debt Provision of Euro 82 thousand). The overdue amounts were therefore not significant and entirely relate to timing factors.

For trade receivables, each financial year, an individual assessment of risk is 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.

Liquidity risk

The Company and Group’s liquidity risk concerns any difficulties in obtaining at appropriate conditions the funding necessary to support operations. The principal factors which influence liquidity 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.

Liquidity analysis

The following table breaks down future contractual cash flows generated by financial and commercial liabilities and by the principal other liabilities of the Company at December 31, 2017 (in Euro thousands).

The table reports non-discounted cash flows, including the capital portion and any interest, on the basis of market conditions at the reporting date. The analysis incorporates expectations upon the materialisation of cash flows on the basis of the contractually-established repayment dates or in certain cases the estimated dates. Without an established repayment date, the cash flows are included on the basis of the first date on which payment may be requested. For this reason, the treasury accounts were included in the on-demand bracket.

Amounts at December 31, 2017

	Book values	On demand	Within 12 months	Bet. 1 and 2 years	Bet. 2 and 3 years	Bet. 3 and 4 years	Bet. 4 and 5 years	Over 5 years	Total cash flows
Current financial liabilities:									
- Current financial payables subsidiaries	44,742	44,742	-	-	-	-	-	-	44,742
- Current financial payables companies under joint control	25,249	25,249	-	-	-	-	-	-	25,249
- Current other financial payables	12	12	-	-	-	-	-	-	12
- Financial payables *EIB Loan*	60	-	60	-	-	-	-	-	60
	70,064	70,004	60	-	-	-	-	-	70,064
Trade payables (including subsidiaries, associates and under joint control)	77,004	-	77,004	-	-	-	-	-	77,004
	77,004	-	77,004	-	-	-	-	-	77,004
Other non-current liabilities:									
- Financial payables *EIB Loan*	40,000	-	360	360	8,331	8,258	8,186	16,156	41,650
- Payables for disbursements in accordance with Law 808/85	42,051	-	-	-	-	-	-	42,051	42,051
	82,051	-	360	360	8,331	8,258	8,186	58,207	83,701
Other current liabilities:									
- Social security institutions	1,957	-	1,957	-	-	-	-	-	1,957
- Employee payables	2,644	-	2,644	-	-	-	-	-	2,644
- Other payables to third parties	584	-	584	-	-	-	-	-	584
	5,185	-	5,185	-	-	-	-	-	5,185
Total cash flows	234,304	70,004	82,609	360	8,331	8,258	8,186	58,207	235,954

At December 31, 2016 the company Space2 S.p.A. only had trade payables and other payables on demand totalling Euro 731 thousand.

Market risk

With regards to the current financial structure of the Company and of the Group 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 and the Group, considering that stated with regards to the insignificant market risk related to exchange rate and interest rate movements, at December 31, 2017 had not undertaken specific cash flow hedges in relation to these types of risks.

Interest rate risk

The Company has only one loan with the European Investment Bank (EIB) for Euro 40 million, at a competitive interest rate compared to the market.

Therefore this risk is not considered applicable to the Company and, therefore, to the Avio Group.

6. RELATED PARTIES TRANSACTIONS

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 December 31, 2017 and on the Group Income Statement for 2017 (in Euro thousands):

	At December 31, 2017							
Counterparty	**Trade receivables**	**Other curr. assets**	**Contract work-in-progress**	**Non current financial assets**	**Trade payables**	**Other current liab.**	**Advances for contract work in progress**	**Financial liab.**
Cinven					278			
Former Holding companies					**278**			
Leonardo S.p.A.					166			
MBDA Italia S.p.A.			991				786	
MBDA France S.A.	9		8,755				5,939	
Thales Alenia Space Italia S.p.A.								
Companies with a connecting relationship and relative investee companies	**9**		**9,746**		**166**		**6,725**	
ELV S.p.A.	845		24,446		2,928	567	104,030	14,793
Regulus S.A.	316	32			17,924		542	
SE.CO.SV.IM. S.r.l.		681			61	1,067		29,949
Subsidiaries	**1,161**	**713**	**24,446**		**20,913**	**1,634**	**104,572**	**44,742**
Termica Colleferro S.p.A.	75			7,440	70			
Europropulsion S.A.	2,858		2,414		10,102		14,061	25,249
Potable Water Services Consortium	199							
Servizi Colleferro - Consortium Limited Liability Company	101	76						
Associates and jointly controlled companies	**3,233**	**76**	**2,414**	**7,440**	**10,172**		**14,061**	**25,249**
Total related parties	**4,394**	**789**	**36,606**	**7,440**	**31,529**	**1,634**	**125,358**	**69,991**
Total book value	**7,224**	**9,205**	**46,198**	**7,440**	**77,004**	**11,429**	**129,230**	**110,064**
% on total account items	**60.83%**	**8.57%**	**79.24%**	**100.00%**	**40.94%**	**14.30%**	**97.00%**	**63.59%**

In 2017, the main income statement transactions by the Group with related parties were as follows (in Euro thousands):

	At December 31, 2017				
Counterparty	**Operating Revenues** (1)	**Change in contract work-in-progress**	**Operating Costs** (2)	**Financial Income**	**Financial Charges**
Cinven					
Former Holding companies	**0**	**0**	**0**	**0**	**0**
Leonardo S.p.A.			76		
MBDA Italia S.p.A.		991			
MBDA France S.A.	3,201	(137)			
Thales Alenia Space Italia S.p.A.					
Companies with a connecting relationship and relative investee companies	**3,201**	**854**	**76**	**0**	**0**
ELV S.p.A.	103,648	(1,051)	2,400		3
Regulus S.A.	3,202		31,894		
SE.CO.SV.IM. S.r.l.	57		1,914		2
Subsidiaries	**106,907**	**(1,051)**	**36,208**	**0**	**5**
Termica Colleferro S.p.A.	84		5,408		
Europropulsion S.A.	26,943	(3,962)	59,617		
Potable Water Services Consortium	4		54		
Servizi Colleferro - Consortium Limited Liability Company	2		216	-	-
Associates and jointly controlled companies	**27,033**	**(3,962)**	**65,295**	**0**	**0**
Total related parties	**137,141**	**(4,159)**	**101,579**	**0**	**5**
Total book value	**162,202**	**94,361**	**250,512**	**1,133**	**3,044**
% on total account items	**84.55%**	**4.41%**	**40.55%**	**0.00%**	**0.16%**

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

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. REGIONAL DISCLOSURE

As indicated previously, with reference to the assets and liabilities by regional location (based on the location of the counterparty), we report that all the receivables and payables at the reporting date are with counterparties located in Italy and Europe.

8. DISCLOSURE PURSUANT TO ARTICLE 149 *DUODECIES* OF THE CONSOB ISSUER'S REGULATION

In accordance with Article 149 *duodecies* of the Consob Issuer's Regulation, we report below the information concerning fees paid in 2017 for audit and other services by the audit firm Deloitte & Touche SPA and its network (in Euro thousands):

Type of service	Company	Service provider	2017 Fees
Audit Services	Parent - Avio S.p.A.	Deloitte & Touche S.p.A.	131
Audio Services (1)	Parent - Avio S.p.A.	Deloitte & Touche S.p.A.	25
Total	**Total**		156

(1) Concerns the limited audit of the Avio Group's Non-Financial Report

9. SUBSEQUENT EVENTS

Acquisition from the subsidiary ELV S.p.A. of the launcher development, production and distribution business unit

With regards to the preliminary contract for the disposal of the business unit of December 2017 by ELV S.p.A. to the parent company Avio S.p.A., as outlined in the "2017 significant events" paragraph above, on March 1, 2018, on completion of the trade union consultation process as per Article 47 of Law No. 428/1990 and the golden power process, as per Legislative Decree No. 21/2012, converted with amendments into Law No. 56/2012, on the basis of the above preliminary contract, ELV S.p.A. and Avio S.p.A. signed the final contract for the disposal of the business unit with effect from that date. The accounting and tax effects of the disposal run also from March 1, 2018.

The sales price of the business unit was Euro 20.3 million, as per an estimate drawn up by a leading independent consultant on the basis of best practice methodologies utilised for such transactions, in addition to sector benchmarks.

With regards to the potential benefits from application of the research and development tax credit as per Article 3 of Legislative Decree No. 145/2013 and the related regulatory framework applied to the activities carried out by the business unit sold by ELV S.p.A. to Avio S.p.A., as at the signing date of the final business unit sales contract these overall potential benefits had not yet been precisely established among the parties as the analysis together with the tax consultants was still ongoing, the parties agreed that the tax credit from application of the above rule was to be included in the business unit sold at the signing date of the final contract, while the valuation of the business unit sold and consequently the sales price at the final contract signing date does not take into account the potential overall expected associated benefits. The parties therefore agreed that, on conclusion of the above analysis, by December 31, 2018 the value of the tax credit included in the business unit sold to Avio S.p.A. would be established, in addition to any adjustment of the consideration on the basis of the established potential overall expected benefits.

Dividend policy

On the same date as the approval of these financial statements, a dividend policy considered sustainable over the medium/long-term on the basis of the economic-financial outlook, the solidity of the capital structure and also in consideration of "capital intensive" investment cycles in the medium to long-term, was submitted for the approval of the Corporate Boards.

The objective of this policy is to distribute a dividend on the basis of:
- a "payout ratio" in a range of between 25% and 50% of the consolidated net profit;
- a "dividend yield" in a range of between 2% and 3.5% of the stock market capitalisation.

10. PROPOSAL FOR THE ALLOCATION OF THE RESULT OF AVIO S.P.A.

In inviting you to approve the 2017 Annual Accounts of Avio S.p.A., drawn up as per IFRS and reporting a net profit of Euro 12,928 thousand, taking account of the dividend policy under approval, we propose the allocation of the result as follows:

- Euro 10,017 thousand as dividend;
- Euro 2,911 thousand to retained earnings.

Simultaneously, we propose the allocation of part of the Share premium reserve of Euro 163,897 thousand, for Euro 18,185 thousand for the reconstitution of the Legal Reserve up to one-fifth of the Share Capital and for Euro 1,456 thousand as coverage of the ex-Space 2 S.p.A. 2015 share capital increase reserve.

* * *

March 15, 2017

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

Statement on the Separate Financial Statement and the Consolidated Financial Statement pursuant to art. 81-ter of Consob's Regulation n. 11971 of May 14, 1999 as amended

1. The undersigned Giulio Ranzo and Alessandro Agosti, respectively Chief Executive Officer and Officer in charge of Financial Reporting for Avio S.p.A., certify, in accordance with Article 154-bis, paragraphs 3 and 4 of Legislative Decree 58 of February 24, 1998:
    - the appropriateness of the financial statements with regard to the nature of the business and also the nature and the effects of the Corporate transaction that was finalized on April 10, 2017 with the merger with incorporation of Avio S.p.A. in Space2 S.p.A. (which then took the corporate name of Avio S.p.A.) and the listing of the Company on the Mercato Telematico Azionario managed by Borsa Italiana on the same date and
    - the effective application of administrative and accounting procedures in preparing the separate and consolidated financial statements during the period from January 1, 2017 to December 31, 2017.

2. In this respect the following significant matters arose:
    - it was performed the evaluation of internal control;
    - the evaluation was performed in accordance to the criteria defined in "Internal Controls – Integrated Framework" model;
    - based on the evaluation of internal control no significant matters arose.

3. It is also certified that:
    3.1 The separate financial statements and the consolidated financial statements:
        a) were prepared in accordance with International Financial Reporting Standards endorsed by the European Community pursuant to EC regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002;
        b) correspond to the entries in the books and accounting records;
        c) they provide a true and fair view of the financial position and results of operations of the issuer and of the entities included within the scope of consolidation.

    3.2 The Report on Operations includes a reliable analysis of the performance and the operating result, as well as the position of the issuer and of the entities included within the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

Date: March 30, 2018

Giulio Ranzo	Alessandro Agosti
(Chief Executive Officer)	(Officer in charge of financial reporting)

Deloitte.

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INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Avio S.p.A. (the "Company"), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting recognition of the business combination of Space2 S.p.A. (now Avio S.p.A.)

Description of the key audit matter

During 2017, the acquisition of previous Avio S.p.A. was finalized by Space2 S.p.A., an Italian "SPAC" listed on MIV/segment SIV of market stock exchange managed by Borsa Italiana. This transaction was completed on March 31, 2017 with the acquisition by Space2 S.p.A., Leonardo S.p.A. and In Orbit S.p.A. of an 85.68%

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stake in the Company's share capital. On the same date, the publication of the listing prospectus of the ordinary shares of Space2 S.p.A. was authorized on the Mercato Telematico Azionario of Borsa Italiana. Then, the merger by incorporation of Avio S.p.A. in Space2 S.p.A. (which then took the corporate name of Avio S.p.A.) took effectively place on April 10, 2017.

The business combination was recognized in the Company's financial statements, as required by the international accounting standard IFRS 3 "Business Combinations", in accordance with the "purchase method" that provides the process of Purchase Price Allocation – "PPA" and entailed the Management's evalutation of the fair value of the assets transferred and the liabilities incurred, also through the support of professionals appointed for this purposes.

The allocation of PPA values generated, among others, the recognition in the Avio's financial statements as at December 31, 2017 of "Intangible assets with definite life" related to aerospace programs of Euro 42.5 million, Deferred Taxes of Euro 19.1 million and a Goodwill of Euro 61 million.

In consideration of the complexity of the business combination and the relevance of the evaluation made by the Management with particular reference to "Intangible assets with definite life", we considered such business combination a key audit matter of the financial statements of Avio S.p.A. as at December 31, 2017.

Disclosures related to this matter are reported in the explanatory notes of the financial statements and in particular in Note 2.4.1 "IFRS 3 Disclosures – Business Combination".

Audit procedures performed

As part of our audit, among other things, we performed the following audit procedures:

- analysis of the criteria used by Management to recognize the transaction in accordance with the accounting standard IFRS 3;
- analysis of the procedure carried out and understanding of the relevant controls put in place by the Management;
- discussion with the Management about the application of the "purchase method" for accounting recognition of the transaction;
- examining of the criteria for determining the consideration transferred and related ancillary charges;
- analysis of the criteria used for the identification of the assets transferred and liabilities incurred, for the estimate of their related fair value and, if necessary, their useful lives, with particular reference to the "Intangible assets with definite life" related to aerospace programs;
- examination, also through our specialists support, of the reports and the opinions prepared by the professionals appointed by the Company to support the Management's evaluation. Analysis of the methodology approach, their competence and the objectivity of the professionals appointed by the Company;
- examinination of the methods used for determining the value of goodwill.

Finally, we have examined the adequacy of disclosures provided by Avio S.p.A. on the business combination and the compliance with the accounting standard IFRS 3.

Evaluation of contracts work in progress and related income effects.

Description of the key audit matter

The financial statements for the year ended December 31, 2017 include assets and liabilities respectively of Euro 46 thousand and Euro 129 thousand relating to the execution of contracts work in progress and related advances.

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These contracts work in progress are attributable to development and production activities of space sector, whose revenues and related margin are recognized to income statement based on the progress of orders according to the percentage of completion method determined on the basis of the ratio between the costs incurred and the total estimated costs of the entire work.

The methods for evaluation those contracts work in progress and the revenue recognitions are based on complex assumptions which by their nature imply recourse to the opinion of the Management with particular reference to the estimated costs to complete the entire work including the estimate of contractual risks.

In consideration of the significance of these activities with respect to the overall business profile of the Company and the complexity of the assumptions used for forecasting the costs to complete the related contracts, also influenced by the engineering complexity of the activities, we consider that this topic represents a key audit matter of the financial statements of Avio S.p.A. as at December 31, 2017.

Disclosures related to this matter are reported in the explanatory notes of the financial statements and in particular in note 2.4 "Accounting policies", note 2.6 "Use of estimates" and note 3.9 "Contract work-in-progress".

Audit procedures performed

As part of our audit, among other things, we performed the following audit procedures:

- understanding of the accounting approach adopted by Avio S.p.A. for the evaluation of the contracts work in progress and the revenue recognition criteria and related margin;
- analysis of the procedure carried out and the design and implementation of controls put in place by Management to verify the evaluation of the contracts work in progress;
- analysis of existing contracts with the customers and the related change contract clauses;
- examining the accuracy of the calculation of the completion percentage and related revenue recognition;
- comparative analysis of the main changes in contract results with respect to the original and previous year estimations;
- analysis of the assumptions that required significant judgement from Management and in particular with the method for determining estimates of costs to complete the entire work including foreseeable contractual risks as well as the subsequent events to the closing date;
- analysis of contract reporting and inquiry with project managers with particular reference to the contractual changes occurred during the year and the effects of these variation of the determination of costs to complete the entire work included any foreseeable losses;
- verification, also on a sample basis, of contract costs with reference to the various cost components.

Finally, we have examined the adequacy of disclosures provided by Avio S.p.A. and the compliance with the related accounting standards.

Other aspects

The financial statements of Space2 S.p.A. as at December 31, 2016 was subject to audit by another auditor who issued an unqualified report on April 29, 2017.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and

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the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Avio S.p.A. has appointed us on June 15, 2017 as auditors of the Company for the years from December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Avio S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Avio S.p.A. as at December 31, 2017, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Avio S.p.A. as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Avio S.p.A. as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

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Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 54

The Directors of Avio S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Franco Chiavazza
Partner

Turin, Italy
March 30, 2018

This report has been translated into the English language solely for the convenience of international readers.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF AVIO S.P.A. PURSUANT TO ART. 153 OF LEGISLATIVE DECREE 58/1998

Dear Shareholders,

In the financial year ended December 31, 2017, the Board of Statutory Auditors of Avio S.p.A. (hereinafter, the "**company**" or "**AVIO**") carried out its supervisory activity in compliance with the law. It observed the Board of Statutory Auditors' principles of conduct as recommended by the National Council of Chartered Accountants and Accounting Professionals ("Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili") and the communications issued by Consob concerning corporate controls and the Board of Statutory Auditors' activity. This report is drawn up in accordance with the indications provided by Consob with Communication DAC/RM/97001574 of February 20, 1997 and Communication DEM/1025564 of April 6, 2001, as amended and supplemented by Communications DEM/3021582 of April 4, 2003 and DEM/6031329 of April 7, 2006.

The Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting of December 1, 2016 with effect from April 10, 2017 in accordance with applicable legal, regulatory and statutory provisions. Its mandate will cease at the shareholders' meeting for the approval of the financial statements as at December 31, 2019.

Members of the Board of Statutory Auditors have complied with the limit on the number of offices envisaged by Art. 144-*terdecies* of the Issuers' Regulation.

In accordance with Legislative Decree 58/1998 and Legislative Decree 39/2010, the audit is carried out by Deloitte & Touche S.p.A. (hereinafter: the "**Independent Audit**

Firm"), as resolved by the Shareholders' Meeting of June 15, 2017 for a duration of nine financial years (2017-2025).

During the year in question and with reference to activities that fall within the scope of its responsibility, the Board of Statutory Auditors declares to have:

• Participated in the Shareholders' Meeting of June 15, 2017, as well as Board of Directors' meetings, obtaining appropriate information from directors on the general performance of operations and their expected development, as well as on significant transactions in terms of size and characteristics, carried out by the Company and its subsidiaries;

• Acquired the elements of information needed to verify compliance with the law, By-Laws, principles of good administration and suitability of the company's organisational structure, through the acquisition of documents and information from the managers of departments concerned, as well as through regular exchanges of information with the Independent Audit Firm;

• Through its Chairman or another member, participated in the meetings of the Risk Control and Sustainability Committee, the Appointments and Remuneration Committee, the Investment Committee, the Committee for Strategic Activities, as well as the Joint Committee in the capacity of Related Parties Committee;

• Monitored the functioning and effectiveness of internal control systems and the suitability of the administrative and accounting system, particularly in terms of the latter's reliability in representing accounting data;

• Promptly exchanged data and information relevant to the performance of respective duties with the managers of the Independent Audit Firm pursuant to Art. 150 of Legislative Decree 58/98, including by reviewing the results of work performed and the receipt of reports envisaged by Art. 14 of Legislative Decree 39/2010 and Art. 11of EU Regulation 537/2014;

• Examined the content of the Additional Report pursuant to Art. 11 of EU Regulation 537/2014 sent to the Board of Directors. Its review did not reveal any aspects that should

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be highlighted in this report;

• Monitored the functionality of the control system on Group companies and the suitability of instructions imparted to them, also pursuant to Art. 114, paragraph 2 of Legislative Decree 58/1998;

• Noted the preparation of the Remuneration Report pursuant to Art. 123-*ter* of Legislative Decree 58/1998 and Art. 84-*quater* of the Issuers' Regulation, without any observations to report;

• Ascertained the compliance of statutory provisions with legal and regulatory provisions;

• Monitored the procedures on the pragmatic implementation of corporate governance rules adopted by the company in accordance with the Self-Governance Code for listed companies as promoted by Borsa Italiana S.p.A.;

• Supervised the compliance of the internal procedure concerning Transactions with Related Parties according to the principles indicated in the Regulation approved by Consob with Resolution No. 17221 of March 12, 2010 and subsequent amendments, and its observance, pursuant to Art. 4, paragraph 6 of this Regulation;

• Supervised the corporate information process, verifying the directors' compliance with procedural rules concerning the drafting, approval and publication of the statutory and consolidated financial statements;

• Ascertained the methodological suitability of the impairment process implemented to determine the possible existence of impairment losses on assets recorded in the balance sheet;

• Verified that the Directors' Report for the financial year 2017 conformed to applicable legislation and was consistent with the decisions taken by the Board of Directors and with the facts represented in the statutory and consolidated financial statements;

• In the role of Internal Control and Audit Committee, pursuant to Art. 19, paragraph 1 of Legislative Decree 39/2010, as amended by Legislative Decree 135/2016, performed the specific information, monitoring, control and audit functions envisaged therein and accomplished the duties and tasks indicated by the aforesaid legislation;

• Supervised compliance with the provisions set forth in Legislative Decree 254/2016 by examining, *inter alia*, the Non-Financial Consolidated Statement, while also ascertaining compliance with the provisions governing its preparation pursuant to the abovementioned decree.

During the supervisory activities carried out by the Board of Statutory Auditors in accordance with the methods described above, the information and data acquired did not reveal any facts that inferred non-compliance with the law and the articles of association, nor to justify reports to the Supervisory Authorities or a mention in this report.

***

Additional information required by Consob Communication No. DEM/ 1025564 of April 6, 2001, as subsequently amended, is as follows.

1. Significant events indicated by the company in the Directors' Report and statutory financial statements, as well as in the Consolidated Financial Statements for the financial year 2017, include the following significant economic, financial and equity transactions made by the company and its subsidiaries during the aforesaid year. These are described in more detail in the relevant reports which the Board of Statutory Auditors monitored:

• *AVIO's listing on the STAR segment of Borsa Italiana Spa*'s *Italian Stock Exchange*. On April 10, 2017, the merger by incorporation of AVIO S.p.A. in Space2 S.p.A. was finalised, as a result of which the latter assumed the name AVIO S.p.A. and admission to trading of AVIO S.p.A.'s post-merger shares on the MTA, STAR segment of the Milan Stock Exchange.

• *The acquisition from the subsidiary company ELV S.p.A. of the business unit related to the development, production and marketing of launchers*. A preliminary agreement for the sale of the business unit was signed on December 20, 2017 and finalised on March 1, 2018 with the signing of the final agreement.

• *Redefinition of the debt and financing structure with the European Investment Bank.*

On May 22, 2017, AVIO made a voluntary early repayment of Term Loan B's full residual principal amount of approximately Euro 63 million ahead of its maturity on October 10, 2017. On October 6, 2017 and by means of its own funds, AVIO repaid Term Loan A's full residual principal amount for approximately Euro 30 million in respect of its maturity on October 10, 2017. This completed the repayment of the full pre-existing bank loan and at the same time, it signed a seven-year term loan agreement of Euro 40 million with the European Investment Bank. This loan is intended for research and development projects in the space sector and for the upgrading of the Colleferro plant.

• *Tax credits for research and development activities*. These relate to the positive outcome of specific detailed studies to verify the eligibility of costs incurred for its research and development activities commissioned by the European Space Agency, primarily for the Vega C and Vega E future generation launchers. Following specific questions to the Revenue Agency, opinions of leading professionals and external consultants, the AVIO Group recognised a benefit for tax credits in the consolidated financial statements' income statement for the year 2017 through the subsidiary ELV S.p.A. for the above research activities based on the advancement of these activities. This is commensurate with the costs incurred of approximately Euro 6 million, for orders to which the benefit refers.

On the basis of information provided by the company and data acquired on the aforesaid transactions, the Board of Statutory Auditors ascertained its compliance with the law, the articles of association and the principles of correct administration, ensuring that these were not manifestly imprudent or risky, in possible conflict of interest, inconsistent with the resolutions taken by the Shareholders' Meeting or such as to compromise the integrity of corporate assets.

2. During its audits, the Board did not identify atypical and/ or unusual transactions as defined by Consob Resolution No. DEM/ 6064293 of July 28, 2006.

It is hereby acknowledged that information provided in the Financial Report is adequate as regards significant events and transactions that do not recur frequently and any atypical and/or unusual transactions, including intragroup transactions or those with related parties.

3. The nature of intragroup and related-party transactions made by the company and its subsidiaries during 2017, the parties involved and the corresponding economic effects are listed in the section "Transactions with Related Parties" in the 2017 Consolidated Financial Statements. It is hereby specified that all reports mentioned therein are regulated according to conditions that are in line with market practices. The Board of Statutory Auditors assesses the information provided in the manner indicated for the aforesaid transactions as being overall adequate and concludes that, on the basis of data acquired, the latter appear consistent and in line with the company's interest, also given their ongoing monitoring as requested by the company in view of its ownership structure's characteristics.

Transactions with related parties, identified on the basis of international accounting standards and the provisions issued by Consob, are regulated by an internal procedure (the "Procedure") adopted by the company's Board of Directors on September 13, 2017 - in compliance with the provisions of Art. 2391-*bis* of the Civil Code and by the guidelines issued by Consob – as last amended on November 12, 2014. The Board of Statutory Auditors examined the Procedure, ascertaining compliance with Consob Regulation No. 17221 of March 12, 2010, as amended by Resolution No. 17389 of June 23, 2010 and interpreted with Resolution No. 78683 of September 24, 2010.

In the year 2017, the company and its subsidiaries made transactions with related parties that qualify as "less significant" transactions in accordance with the aforesaid Procedure. These were approved by the Board of Directors in the meetings of November 9, 2017 and December 21, 2017.

The Board of Statutory Auditors has verified the compliance of each of the abovementioned transactions with the terms of approval established by the Procedure and, in particular, that the opinion issued by the Risk Control and Sustainability Committee in the capacity of Related Parties Committee contained an adequate justification of the company's interest in carrying out the transactions, as well as their convenience and the substantial correctness of their conditions.

Furthermore, it is noted that in the year 2017, the company also entered into transactions with related parties through its subsidiaries in the form of transactions qualifiable as "Ordinary Transactions" and qualifiable as "Significant or Less Significant Transactions" in accordance with the Internal Procedure, which were also examined and assessed by the Risk Control and Sustainability Committee in the capacity of Related Parties Committee.

4. On March 30, 2018, the Independent Audit Firm issued Reports pursuant to Art. 14 of Legislative Decree. 39/ 2010 and Art. 10 of EU Regulation 537/2014, with which it attested that:

- The company's statutory financial statements and the Group consolidated financial statements as at December 31, 2017 give a true and fair representation of the balance sheet as at December 31, 2017, the economic result and cash flow for the year ended on that date in compliance with International Financial Reporting Standards adopted by the European Union and the provisions issued in implementation of Art. 9 of Legislative Decree 38/05;
- The Directors' Report and certain specific information contained in the Corporate Governance and Ownership Structure Report indicated in Art. 123-*bis*, paragraph 4 of Legislative Decree 58/1998, are consistent with the company's statutory financial statements and Group consolidated financial statements and are drawn up in accordance with the law;
- The opinion on the statutory financial statements and the consolidated financial statements expressed in the abovementioned Reports is in line with that indicated in the

Additional Report drawn up pursuant to Art. 11 of EU Regulation 537/2014.

In the consolidated financial statements' audit report, the Independent Audit Firm also stated that it had checked AVIO directors' approval of the Non-Financial Statement for the year 2017.

The abovementioned Independent Audit Firm's reports did not contain any findings or requests for disclosure, nor statements issued pursuant to the provisions of Art. 14, paragraph 2(d) and (e) of Legislative Decree 39/2010.

The Independent Audit Firm also:

- Sent the Additional Report envisaged by Art. 11 of EU Regulation No. 537/ 2014 to the Board of Statutory Auditors as the body responsible for overseeing internal control;
- Issued the statutory declaration, pursuant to Art. 3, paragraph 10 of Legislative Decree 254/2016 and Art. 5 of Consob Reg. 20267/ 2018, in all significant aspects of the Non-Financial Consolidated Statement prepared by the company according to the requirements of the abovementioned decree and the principles and methodologies referred to in the GRI Standards selected by the company. In this Report, the Independent Audit Firm stated that no elements were brought to its attention. The Report declares that no matters came to its attention to suggest that the AVIO Group's Non-Financial Statement for the year ended December 31, 2017 was not drawn up, in all significant aspects, in compliance with the requirements of Arts. 3 and 4 of the Decree and selected GRI Standards.

The regular meetings held by the Board of Statutory Auditors with the Independent Audit Firm, pursuant to Art. 150, paragraph 3 of Legislative Decree 58/1998, did not reveal aspects that should be highlighted in this Report.

Moreover, the Board did not receive any disclosures from the Independent Audit Firm on reprehensible facts detected during the audit activity on the annual and consolidated financial statements.

5. The Board did not receive any statements pursuant to Art. 2408 of the Civil Code, or

complaints from shareholders or third parties in the financial year 2017.

In the year 2017, on the basis of reports from the Independent Audit Firm, AVIO and some of its subsidiaries conferred appointments for services, other than for the auditing of accounts, to the Independent Audit Firm and entities in its network, in favour of the Parent Company and some of the Group companies and their employees.

Fees for the abovementioned appointments, as confirmed by the Independent Audit Firm and as required by Art. 149-*duodecies* of the Issuers' Regulation are reported in the schedules to the Avio Group consolidated financial statements and amount to a total of Euro 25,000 for other services rendered by the Independent Audit Firm or by entities in its network in favour of AVIO or its subsidiaries in the year 2017.

The Board of Statutory Auditors, in its role of Internal Control and Audit Committee, has fulfilled the obligations required by Art. 19, paragraph 1(e) of Legislative Decree 39/2010 as amended by Legislative Decree 135/ 2016 and by Art. 5, para. 4 of EU Regulation 537/2014, with regard to the prior approval of these appointments, where applicable in the circumstances, verifying their compatibility with applicable legislation and, specifically, with the provisions of Art. 17 of Legislative Decree 39/ 2010 – as amended by Legislative Decree 135/2016 – as well as the prohibitions referred to in Art. 5 of EU Regulation 537/2014 referred to therein. Moreover, the Board has:

a) Verified and monitored the independence of the Independent Audit Firm, in accordance with Arts. 10, 10a, 10b, 10c and 17 of Legislative Decree 39/ 2010 and Art. 6 of EU Regulation No. 537/2014, ascertaining compliance with applicable regulations and that the appointments for services other than audits conferred to this company do not appear to generate potential risks for the auditor's independence and for the safeguards referred to in Art. 22-*ter* of Directive 2006/ 43/ EC;

b) Reviewed the additional report drawn up by the Independent Audit Firm in compliance with the criteria referred to in EU Regulation 537/2014 noting that, on the basis of acquired information, no critical aspects emerged in relation to this Audit Firm's independence;

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c) Received written confirmation on March 30, 2018 that, in the period from June 15, 2017 up to the time of issuing the statement, the Independent Audit Firm did not find any situations that could compromise its independence from AVIO pursuant to the combined provisions of Arts. 6, para. 2(a) of EU Regulation 537/2014, 10 and 17 of Legislative Decree 39/ 2010, as well as 4 and 5 of EU Regulation 537/2014;

d) Discussed with the Independent Audit Firm, the risks regarding its independence and the measures taken to mitigate them, pursuant to Art. 6, para. 2(b) of EU Reg. No. 537/2014.

6. In the year 2017 and up to the date of this report, the Board of Statutory Auditors issued the opinions requested, also pursuant to law and regulatory provisions, in particular regarding:

a. The approval of the final MBO for the variable part of the Chief Executive Officer's remuneration for 2017 and also examined the guidelines on the 2018 remuneration policy for directors and management;

b. The approval of the objectives underpinning the Chief Executive Officer's 2018 MBO as identified by the company's Board of Directors.

It also expressed itself in all those cases in which it was requested to do so by the Board of Directors, also in compliance with the provisions which, for certain decisions, require prior consultation with the Board of Statutory Auditors.

7. In general, in order to acquire the information necessary to accomplish its supervisory duties, the Board of Statutory Auditors met eleven times in the financial year 2017. Activities carried out in the abovementioned meetings are documented in the relevant minutes. Furthermore, the Board of Statutory Auditors participated:

- In all eight meetings of the company's Board of Directors, thus obtaining ongoing information from directors on the activity performed and on significant economic, financial and equity transactions made by the Company and its subsidiaries;

- In the Shareholders' Meeting of June 15, 2017;

- In the six meetings of the Risk Control and Sustainability Committee, the six meetings of the Appointments and Remuneration Committee, the two meetings of the Investment Committee and in one meeting of the Committee for Strategic Activities, through its Chairman or another member;

- The Supervisory Body met twice for the mutual exchange of information and updating of the Organisation and Management Model referred to in Legislative Decree 231/ 2001.

Finally, the Board of Statutory Auditors exchanged information with subsidiary companies' control bodies pursuant to Art. 151 of Legislative Decree 58/1998, without there having been ascertained any significant aspects or circumstances to be mentioned in this report.

8. The Board of Statutory Auditors has monitored observance with the law, the Articles of Association and compliance with the principles of correct administration, ensuring that the transactions resolved and implemented by directors conformed to the abovementioned rules and principles and were inspired by the principles of economic rationality and not demonstrably imprudent or risky, in conflict with the company's interests, inconsistent with the decisions taken by the Shareholders' Meeting, or such as to compromise the integrity of corporate assets. The Board considers that the tools and governance procedures adopted by the company represent a valid safeguard for compliance with the principles of correct administration.

9. The suitability of the company and Group organisational structures was monitored through an understanding of the company's administrative structure and the exchange of data and information with the managers of the various corporate functions, the Internal Audit Department and the Independent Audit Firm.

The company's Board of Directors retains broad decision-making powers. In fact, it is vested with power over decisions relating to significant transactions that are, therefore, excluded from the delegation of powers to executive directors.

Delegation of powers are conferred by the Board of Directors exclusively to the Chief Executive Officer which allow him to perform all acts that fall within the corporate purpose, save for the limitations provided for by law or the By-Laws and excluding transactions reserved to the Board of Directors.

The Chairman and the Chief Executive Officer have the statutory right to legally represent the company in dealings with third parties and in legal proceedings.

The Chairman is not vested with operational powers and has authority over institutional, guidance and control functions.

The company and Group's organisational structure is managed by the Chief Executive Officer and implemented through an internal communications system that has identified the managers responsible for different areas and conferred powers of attorney consistent with assigned responsibilities. The guidelines are indicated in the 231 Model.

The organisational structure was modified on March 1, 2018 with better effectiveness and efficiency of the assigned roles and reporting to the Chief Executive Officer.

In the light of checks carried out and in the absence of any critical issues noted, the company's organisational structure appears to be suitable in view of the object, characteristics and size of the company.

10. With reference to monitoring the suitability and effectiveness of the internal control system, also pursuant to the applicable Art. 19 of Legislative Decree 39/2010, the Board held regular meetings with the Internal Audit Manager and managers of other corporate departments and, through the participation of at least one of its members, in the meetings of the Risk Control and Sustainability Committee. It met with the Supervisory Body every six months regarding the Model's adaptation pursuant to Legislative Decree 231 / 2001. The Board noted that AVIO's internal control system is based on a structured and organic set of rules, procedures and organisational structures aimed at preventing or limiting the consequences of unexpected results and to enable the achievement of

strategic and operational objectives (that is, consistency of activities with the activities' objectives, efficiency and effectiveness and the safeguarding of corporate assets), compliance with applicable laws and regulations, and correct and transparent internal disclosure and disclosure to the market.

This system's guidelines are defined by the Board of Directors with the assistance of the Risk Control and Sustainability Committee. The Board of Directors also assesses its suitability and correct functioning at least once a year with the support of the Internal Audit Department.

The Board of Statutory Auditors regularly met with the Risk Control and Sustainability Committee and with the Internal Audit Function to assess the 2018 Audit Plan and its findings, both in the set-up phase and in the analysis of audits carried out and associated follow-ups.

The company makes use of additional tools, including at Group level, to safeguard operational and compliance objectives. These include a structured and periodic system of planning, management control and reporting, a governance structure for financial risks, a corporate risk management system in accordance with the principles of Enterprise Risk Management (ERM), and the Accounting Control Model according to Law 262/2005 on financial information. The structure and functional features of these systems and models are described in the Corporate Governance and Ownership Structure Report.

The Board regularly reviewed the development of risk mapping according to the ERM methodology with the responsible department's managers. The Board also monitored the suitability of the organisational structure and the correct functioning of the safeguards adopted by the company to ensure compliance with the law.

AVIO possesses the organisational model envisaged by Legislative Decree 231 / 2001, of which the Code of Ethics is an integral part, aimed at preventing relevant offences pursuant to the Decree and, consequently, the extension of administrative responsibility to the company. In 2017, the company updated the Protocol for the Management of

Confidential and Insider Information following the update of the AVIO Group Procedure on the methods of processing and managing confidential and insider information in order to adapt it to the Community guidelines issued on the subject of market abuse (EU Regulation 596/2014 and Directive 57/ 2014).

In the second half of 2017, following the introduction of Legislative Decree 231/2001 on new types of underlying offences in: 1) unlawful intermediation and labour exploitation (Art. 603-*bis* of the Criminal Code); 2) corruption between private individuals (Art. 2635 of the Civil Code) and incitement to corruption between private individuals (Art. 2635-*bis* of the Civil Code), the company updated the Model and Decision Protocols affected by these regulatory changes. These are, namely, the Protocol for the Management of Confidential and Insider Information, the Protocol for the Management of the Procurement of Goods and Services, the Protocol for the Selection and Recruitment of Staff, the Protocol for the Management of Professional Designates to Third Parties, the Protocol for the Management of Sponsorships, Membership Fees and Charitable Contributions and the Protocol for the Management of Gifts and Gratuities. Also in the second half of 2017, the company launched an activity to assess the possible operational impacts on the Procedure for the Management of Confidential and Insider Information arising from the publication of Consob Guidelines No.1 2017 on the "Management of Insider Information".

The Company has managed staff training initiatives on the principles and requirements of the 231 Model, the Code of Ethics and the implementation of whistleblowing legislation. The Supervisory Body has monitored the introduction, functioning and compliance with the 231 Model - which it assessed as "suitable" pursuant to Legislative Decree 231 / 2001 - by monitoring the development of the relevant legislation, implementation of staff training initiatives, and observance of the Protocols by their recipients, including through audits carried out with the support of the Internal Audit Department.

Finally, in order to support and facilitate compliance with the rules to protect competition in terms of internal dealing, notwithstanding the obligations relating to the regulation of market abuse, the company has regulated the obligation to refrain from carrying out transactions on financial instruments issued by the company and listed on regulated markets in accordance with the provision of EU Regulation 596/2014 on market abuse. The company applied the abstention obligation only to obligatory financial documents and has indicated the time and duration of the obligation in accordance with the provisions on the matter by the abovementioned Regulation.

In relation to the year 2017, on the basis of information and evidence gathered and also with the support of the Risk Control and Sustainability Committee's preliminary activities, the Board of Directors carried out an overall assessment on the suitability of the internal control and risk management system and concluded that it is overall suitable to enable, with reasonable certainty, the adequate management of the main risks identified.

In the Board's opinion and in the light of information acquired, the company's internal control and risk management system appears suitable, efficacious and is functionally effective.

11. The Board also monitored the suitability and reliability of the administrative and accounting system to correctly represent accounting data, by obtaining information from the managers of the respective departments, examining company documents and analysing the results of the work performed by the independent audit firm. The Executive Officer for Financial Reporting has been jointly assigned the functions established by law and granted adequate powers and means to exercise the related duties. Moreover, the Chief Executive Officer, through the Executive Officer in charge, is responsible for the implementation of the "Accounting Control Model pursuant to Law 262/2005" having the objective of defining the lines to be applied within the AVIO Group with reference to the requirements arising from Art. 154-*bis* of Legislative Decree 58/1998 on the drafting of corporate accounting documents and associated declaratory

obligations. The preparation of accounting disclosures and statutory and consolidated financial statements is governed by the Group's Accounting Principles Manual and by other administrative and accounting procedures that are part of the Model pursuant to Law 262/2005. The Model referred to in Law 262/2005 also formalises procedures concerning the impairment process in compliance with the IAS 36 accounting standard. The analysis on the recoverability of asset and goodwill values was conducted with the assistance of an external consultancy firm belonging to the "Big Four", different to the Independent Audit Firm appointed for the audit of the financial statements and as shared by the Board of Directors on March 15, 2018. A more complete description of the methodologies and assumptions applied may be viewed in the related note of the Statutory and Consolidated Financial Statements.

The impairment procedure and its results were monitored by the Board of Statutory Auditors through meetings with company management and the Independent Audit Firm, also through the participation of one of its members in the meeting of the Risk Control and Sustainability Committee which examined them.

The Board of Statutory Auditors took note of the statements issued by AVIO's Chief Executive Officer and the Executive Officer for Financial Reporting with regard to the suitability of the administrative and accounting system in relation to the company's characteristics and the effective application of the administrative and accounting procedures for the compilation of AVIO's statutory financial statements and the AVIO Group's consolidated financial statements. Furthermore, it monitored the financial reporting process, including through the gathering of information from the company's management and deems the company's administrative and accounting system to be suitable and reliable to correctly represent accounting data.

The company has defined criteria for the preparation of the AVIO Group non-financial data report and is therefore functional for the reporting and collection of information of a qualitative and quantitative type needed to draw up the Statement itself with the support of consultants.

The Board of Statutory Auditors examined these criteria and assessed them as being generally suitable. The Non-Financial Statement is drawn up by the Communications Department, which coordinates and integrates the contributions of the departments and divisions competent in the respective sustainability issues, in collaboration with an external consultancy firm.

12. The Board monitored the suitability of instructions issued by the company to its subsidiaries pursuant to Art. 114, paragraph 2 of Legislative Decree 58/98 and, on the basis of information rendered by the company, ascertained its suitability to provide the information necessary to fulfil the communication obligations envisaged by law, without exceptions.

13. As regards the audit on the procedures for the pragmatic implementation of corporate governance rules envisaged by the current edition of Borsa Italiana's Self-Governance Code ("Code"), the Board carried out this audit with the assistance of the Legal and Corporate Affairs Department, also with reference to their adaptation to the provisions of the Self-Governance Code.

The Corporate Governance and Ownership Structure Report gives an account of the Code's recommendations which the Board of Directors decided not to implement, providing due reasons and describing any alternative conduct adopted.

14. The company's Board of Directors is currently composed of nine directors, four of whom are independent. Its composition complies with the rules on gender balance. The directors were appointed by the Shareholders' Meeting of December 1, 2016 and will cease office with the Shareholders' Meeting for the approval of the financial statements as at December 31, 2019.

In 2017, the Board of Directors carried out a self-assessment on the size, composition and functioning of the Board and its Committees. The results were presented at the meeting of the Board of Directors of March 15, 2018 and are mentioned in the Corporate Governance and Ownership Structure Report.

With regard to the procedure followed by the Board of Directors to verify the independence of its members, the Board of Statutory Auditors carried out the assessments under its responsibility, noting the correct application of the criteria and procedures to assess the requirements of independence pursuant to law and the Self-Governance Code and compliance with the requirements of the administrative body's composition in its entirety.

Finally, the Board of Statutory Auditors has verified, and notified the company's Board of Directors, that its members possess the same requirements of independence as required for directors.

It also adopted the recommendation of the Corporate Governance Code, which requires declaring one's own interests or those of third parties in specific transactions submitted to the Board of Directors. In the year 2017, there were no situations wherein members of the Board of Statutory Auditors had to make such statements.

The following committees were set up within the Board of Directors:

• The Risk Control and Sustainability Committee, with advisory and recommendation functions, reporting to the Board of Directors on activities performed, the suitability of the internal control and risk management system, sustainability policies and Corporate Social Responsibility implemented within AVIO, and also with respect to the obligations of drawing up the Non-Financial Statement referred to in Legislative Decree 254/2016; the Risk Control and Sustainability Committee is composed of three non-executive directors, only two of whom are independent. This Committee met six times in 2017.

• The Appointments and Remuneration Committee composed of three non-executive directors, two of whom are independent. This Committee met six times in 2017;

15. The Board of Statutory Auditors reviewed the Remuneration Report approved by the Board of Directors on March 15, 2018 on the proposal of the Appointments and Remuneration Committee and verified its compliance with legal and regulatory requirements and the clarity and completeness of information with regard to the remuneration policy adopted by the Company.

16. The Board of Statutory Auditors also reviewed the proposals that the Board of Directors, in its meeting of March 15, 2018 resolved to submit to the Shareholders' Meeting, and states that it has no observations to make in this regard.

17. Finally the Board of Statutory Auditors carried out its own audits on compliance with legal provisions relating to the compilation of the statutory financial statements and Group consolidated financial statements as at December 31, 2017, the respective explanatory notes and the Directors' Report included in them. These audits were carried out directly and with the assistance of departmental managers and through information obtained from the Independent Audit Firm. In particular, the Board of Statutory Auditors, based on the checks carried out and information provided by the Company, within the limits of its own responsibility according to Art. 149 of Legislative Decree 58/ 98, notes that the schedules to AVIO's separate and consolidated financial statements as at December 31, 2017 were drawn up in compliance with the legal provisions governing their preparation and presentation. They are also compliant with International Financial Reporting Standards issued by the International Accounting Standards Board on the basis of the text published in the Official Journal of the European Union.

The statutory and consolidated financial statements are accompanied by the prescribed declarations of conformity signed by the Chief Executive Officer and the Executive Officer for Financial Reporting. Furthermore, the Board of Statutory Auditors confirmed that the company has fulfilled the obligations envisaged by Legislative Decree 254/ 2016 and that, in particular, it has drawn up the Non-Financial Consolidated Statement in compliance with the provisions of Arts. 3 and 4 of this decree. On this point, the Board of Statutory Auditors notes that the company availed itself of the exemption from the obligation to draw up an Individual Non-Financial Statement envisaged Art. 6, paragraph 1 of Legislative Decree 254/2016, having drawn up the Non-Financial Consolidated Statement referred to in Art. 4. This statement was accompanied with the prescribed Independent Audit Firm's statements on the compliance of information provided with the mentioned legislative decree, with reference to the principles, methodologies and procedures established for their preparation, and also pursuant to the Consob Regulation adopted with Resolution No. 20267 of January 18, 2018.

18. The Board has renounced the deadline in its favour, referred to in Art. 2429, paragraph 1 of the Civil Code for the drafting and filing of this report.

Based on the foregoing considerations, which provide an overview of the supervisory activities carried out in the year, the Board of Statutory Auditors has not identified specific critical issues, omissions, reprehensible facts or irregularities. It has no observations or proposals to submit to the shareholders' meeting pursuant to Art. 153 of Legislative Decree. 58/1998, for matters falling within its competence and has no objections to raise for the approval of the proposed resolutions submitted by the Board of Directors to the Shareholders' Meeting.

Milan, March 30, 2018

The Board of Statutory Auditors

Prof. Riccardo Raul Bauer, Chairman

Ms. Claudia Mezzabotta, Statutory Auditor

Mr. Maurizio Salom, Statutory Auditor