Avio S.p.A.

Registered office in Rome, via Leonida Bissolati No. 76
Share Capital Euro 90,964,212 fully paid-in
Rome (RM) Companies Registration Office No.: 09105940960

2018 HALF-YEAR REPORT

CONTENTS

HIGHLIGHTS[1]

Net revenues[2]
Euro 178.8 million (+20.4% on H1 2017)

EBITDA
Reported: Euro 14.5 million (+29.3% on H1 2017)
Adjusted [3]: Euro 16.1 million (+6.0% on H1 2017)

EBIT
Reported: Euro 7.7 million (+78.5% on H1 2017)
Adjusted[3]: Euro 9.3 million (+12.0% on H1 2017)

Profit before taxes
Euro 7.4 million (+Euro 6.2 million compared to the first half-year of 2017)

Net Profit
Euro 6.2 million (+Euro 4.5 million compared to the first half-year of 2017)

Net Financial Position
Net cash position of Euro 21.7 million (cash of Euro 41.7 million at December 31, 2017)

Investments
Euro 6.4 million (8.7 in H1 2017)

Backlog[2]
Euro 962.5 million at June 30, 2018 (+Euro 257.9 million, up 36.6% on June 30, 2017 and +Euro 10.4 million, up 1.1% on December 31, 2017)

Research and development
Costs of Euro 74.3 million, net of pass-through costs [2] incurred in H1 2018, equal to 41.6% of revenues net of pass-through revenues [2] for H1 2018 (costs of Euro 39.5 million net of pass-through costs incurred in H1 2017, equal to 27.0% of revenues net of pass-through revenues for H1 2017)

Employees at period end
804 at June 30, 2018 (782 at December 31, 2017)

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[1] The "pro-forma" H1 2017 comparative income statement figures were prepared for the consolidated financial statements for the first half of 2017 and include the operations of Space2 S.p.A. before the corporate transaction with Avio S.p.A., for comparability with H1 2018.
[2] Net of "pass-through" revenues; pass-through revenues are defined in the "Group results and equity and financial position" paragraph.
[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.

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

The first half of 2018 featured generally reduced flight activity in comparison to preceding years (2 Ariane flights and no Vega flights), due to a number of clients requesting launch dates in the second part of the year. In July and August, a third Ariane flight took place, in addition to the Vega flight in August which built further on its track record of successes (12 consecutive flights).

In the absence of Vega flights in the initial months of the year, the main alterations to the Mobile Gantry in adaptation to the Vega C launcher were carried out at the Kourou launch site.

In March, the transaction involving the acquisition by Avio of the ELV SpA launchers business unit was completed, bringing in-house at Avio therefore all launcher operations previously segregated into propulsion operations at Avio and systems works at ELV. ELV SpA - renamed SpaceLab SpA - will continue its technology testing business unit operations, while also supporting Avio in constructing new engine testing infrastructure. In this regard, in the first half of the year a Regulatory Agreement was signed with the Ministry for Economic Development and the Sardinia Region to make funding available for the Space Propulsion Test Facility - a new liquid propellant and solid propellant engine testing facility set to drive future engine development.

The bench test of the Z40 engine was successfully held in March at the Salto di Quirra test range in Sardinia. This success is a key milestone for the Vega C program and provides certainty in terms of completion times for the new launcher.

A loan as per Law 808 was granted in February for the development of additional Vega launcher versions (Vega E and Vega light in particular), for a total of approx. Euro 22 million of maximum admissible costs. This loan will speed up the development of the product variants, bringing to market therefore solutions which increasingly match client demands.

In May, the second Shareholders' Meeting subsequent to the stock market listing of 2017 was called, with the distribution of a dividend approved for the first time - equating to Euro 0.38 per share and for a total of approx. Euro 10 million.

In terms of operations, Avio continued to develop the new Ariane 6 and Vega C launchers, completing in the period the first booster for the P120C dedicated to qualification flights, successfully tested subsequently in Kourou in July 2017. The bench test of the P120 and the excellent results emerging have further built our confidence in Vega C and Ariane 6 development.

The first launch contracts for small satellites for the first Vega-SSMS (Small Spacecraft Mission Service) flight was signed in the period with Spaceflight, ISIS, D-Orbit, Sitael and, in August, with Spire. These contracts indicate that the devised solution has immediately been welcomed by the market. In July and August, Avio held a roadshow in the United States to present amid widespread interest a range of solutions available in the future for US clients.

In June, an agreement was finalised with Arianespace (already part of the general agreements with the ESA for the restructuring of the launch activity system of responsibility), transferring to Avio full responsibility for all Ground Proximity Means operational and maintenance activities (Vega launch ramp plant and infrastructure, previously managed by Arianespace).

During the period, new contracts worth approx. Euro 190 million were added to the order portfolio, slightly ahead of expectations.

The H1 2018 results were very strong, in line with forecasts and improving on the same period of the previous year. Net revenues amounted to Euro 178.8 million (Euro 148.6 million in H1 2017), while Reported EBITDA was Euro 14.5 million (Euro 11.2 million in H1 2017).
The net financial position at June 30 was a cash position of Euro 21.7 million (compared to Euro 41.7 million in December 2017), reflecting normal working capital seasonality and the payment of dividends in May.

In conclusion, in the first half of 2018 your company solidified its position on the stock market, reaching a market capitalisation in excess of Euro 400 million in the months of May and June. The development of Avio into an international sector leader therefore continues on target, with the opportunities for growth and development broadening further.

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

DIRECTORS' REPORT

THE AVIO GROUP

PROFILE

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

The Group directly employs in Italy and overseas approx. 850 highly-qualified personnel 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;
- ground infrastructure for launcher preparation and launch.

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). Since the end of the 1980's, Avio has supplied the oxygen turbo-pump boosters for the Vulcain engine;
- Vega, for the launch of up to 2-ton satellites into Low Earth Orbit (between 300 and 2,000 km above sea level). Since 2000, Avio has been developing and implementing the **Vega** program for the European 2,000kg 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.

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 ArianeGroup ("AG") is the prime contractor and Avio operates as a subcontractor for the production of the P230 solid propulsion boosters 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 (i) the solid propellant P120C engine, (ii) the liquid oxygen turbo pump for the Vulcain 2 engine and (iii) the liquid oxygen turbo pump for the Vinci 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 for the production and integration of components for the entire launcher and for the production of the solid propulsion engines P80, Zefiro 23 and Zefiro 9 and of the AVUM liquid 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, in addition to (i) the development of the solid propulsion engine P120 C (first stage to replace the current P80), (ii) the Z40 solid propellant engine (second stage to replace the current Z23) and (iii) an oxygen-methane liquid engine for the upper Vega-E stage.

- **Tactical Propulsion**

  Avio is responsible for the design and production of the following 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 single stage 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.
  - TVC E (Electromechanical Trust Vector Control), a drive control system through the electromechanical system which will replace the current hydraulics to lengthen the maintenance times and operating life of the Aster missile.

With revenues net of pass-through revenues in the first half of 2018 of Euro 178.8 million and an adjusted EBITDA of Euro 16.1 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. 41.6% of revenues net of pass-through revenues in H1 2018. 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 AND COMMITTEES

Board of Directors

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 (c) (d)
Donatella Sciuto	Independent Director (a) (d)
Maria Rosaria Bonifacio	Independent Director (b)
Monica Auteri	Independent Director (a)
Giovanni Gorno Tempini	Independent Director (b) (c)
Vittorio Rabajoli	Director (a)
Luigi Pasquali	Director (c)
Stefano Ratti	Director (b) (d)

a. Member of the Risks Control and Sustainability Committee:
b. Member of the Appointments and Remuneration Committee
c. Member of the Investments Committee
d. Member of the Strategic Activities Committee

Board of Statutory Auditors

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. (2017-2025)

RECENT HISTORY

1994

The FIAT Group, operating since the early 1900's in the aviation sector, acquired in 1994 BPD Difesa e Spazio, 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 S.r.l., which operated its aeronautic 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.

<u>2018</u>

As part of the process initiated by European Space Agency (ESA) member states for new governance of the European launchers sector, in order to transfer to the prime contractors (Ariane Group for Ariane 6 and Avio for Vega C) the responsibility for commercial exploitation of the new products and the associated risks, and following completion of the accompanying flights for Vega launcher testing, the shareholders of ELV S.p.A. (held 70% by Avio S.p.A. and 30% by ASI) reorganised operations, with development, production and distribution of launchers carried out by the industrial shareholder Avio, while ELV S.p.A. concentrates on the research and development of new technologies and on aviation testing.

Therefore, on March 1, 2018, the subsidiary ELV S.p.A. transferred to Avio S.p.A. the launchers development, production and distribution business unit. Following this reorganisation, the subsidiary ELV S.p.A. took from May 9, 2018 the new name of Spacelab S.p.A., focusing on the research and development of new technologies and space transport product testing.

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, CAMM-ER

Main clients: Arianespace, ESA (European Space Agency), ArianeGroup (previously Airbus Safran Launchers), ASI (Italian Space Agency) and MBDA

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

REGION

ITALY

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

EUROPE

(IV) Suresnes – France, Europropulsion S.A.
(IV) Evry-Courcouronnes – France, Arianespace Partecipation 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) Joint ventures and investees

STRATEGY

In accordance with the outcomes of the December 2014 and December 2016 Ministerial Conferences, which confirmed the European strategy for developing its launchers, and pursuant to contracts entered into in 2015 and 2017, Avio is working on:

- developing the P120 engine as a common element of Vega C (stage one) and Ariane 6 (booster);

- developing the Vega C launcher to replace Vega, which will permit (i) an increase in performance of approximately 60% due to the new P120 engines (stage one) and Z40 (stage two), (ii) an increase in the launch system's flexibility due to larger-capacity liquid tanks and (iii) an increase in available market share due to a larger payload fairing in order to carry satellites with greater mass and volume and lighter structures;

- developing the Vega E Upper Stage with the new LOx-methane engine, in collaboration with KBKhA, following on from the successful bench testing of the liquid oxygen-methane engine in 2014. Vega E (a three-stage launcher based on P120, Z40 and a LOx-methane upper stage) will further improve on Vega C's performance, while also considerably increasing the flexibility of satellite services, owing to its upper stage, which enables much more extensive orbital parameter changes than possible with Vega and Vega C.

In addition, the strategy of expanding the market accessible to Vega and, above all, the greater flexibility in terms of services offered to end clients, were further consolidated through participation in the following ESA programs:

- **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;

- **Space Rider** (in partnership con TASI), 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, and ultimately earth re-entry for the recovery of Payloads.

In parallel, Avio began development of a Vega derivative and of the Vega C (called **Vega C Light**), to carry satellites of under 300 KG for dedicated customer services or fast deployment to a well-defined orbit at a specific moment. Avio to date (i) has finalised the configuration of 3 stages (Z40, Z9 and a new small solid propellant stage to be developed), (ii) is signing an agreement with the current supply chain of Vega / Vega C for "simplified" structures and avionics, (iii) is assessing options in Europe for a possible launch base.

The company recently 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 ArianeGroup (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 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 4-5 launches per year.

SHAREHOLDERS

At June 30, 2018, the share capital of Avio S.p.A. of Euro 90,964,212.90 comprised 26,359,346 ordinary shares, of which:

- 22,533,917 ordinary shares from the merger with Space2, which resulted in the listing of Avio S.p.A. on April 10, 2017 ("business combination") on the STAR segment of the Italian Stock Exchange (MTA);
- 1,800,000 following the conversion of 400,000 special shares into 2 tranches. In particular, the first tranche of 140,000 special shares was converted into 630,000 ordinary shares at the effective merger date of April 10, 2017, while the second tranche of 260,000 special shares was converted into 1,170,000 ordinary shares on May 17, 2017;
- 2,025,429 following the exercise of 7,465,267 Market Warrants in the June 16 - August 16, 2017 period.

In addition, Space Holding S.p.A., the promoter of the business combination, holds 800,000 Sponsor Warrants, exercisable within 10 years from the effective merger date of April 10, 2017, on the condition that 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. At June 30, 2018, no exercise requests have been received from holders.

At June 30, 2018, on the basis of the communications received as per Article 120 of the CFA and the information available to the company, the Avio S.p.A. shareholder structure was as follows:

Shareholder	**% share capital**
Leonardo	25.88%
Amundi Asset Management	5.92%
Space Holding	5.60%
In Orbit	3.85%
Remaining MTA free float	58.75%
Total	**100.00%**

H1 2018

H1 SIGNIFICANT EVENTS

Business

Vega

No Vega launches were held in the first half of 2018, due to the delay in the completion of the ESA ADM-Aeolus satellite, Vega's first mission in 2018 (undertaken in August).

Ariane

Two Ariane 5 launcher flights were carried out in the first half of 2018.
During the first launch of January 25, 2018, 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. None of the components supplied by Avio or the operations performed by Avio on the launcher were implicated in the cause of the anomaly.

The second launch of April 5, 2018 put into orbit the DSN-1/Superbird-8, HYLAS 4.

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.

Tactical Propulsion

The first few months of 2018 were dedicated to ASTER Booster maintenance and the creation of engine conduits.
Concurrently, three inert delivery engines were manufactured and accepted by the client for system level testing.
In the Aster 30 MLU programme, the first conduit was created and is set to undergo pressure testing, and loaded with the new propellant, static testing.
Turning to the CAMM ER development program, the Completion Design Review of the engine and the fins is expected to conclude in the second half of the year, in addition to production of the final pre-testing delivery units.

Main agreements and contractual events in H1 2018

With regards to Ariane 5 production:

- the company signed a variant for ten additional PC batches and a PB production contract to supply Ariane 5 solid-fuel boosters, in addition to the contract for Vulcain 2 oxygen turbo pumps, for a total value of over Euro 134 million, inclusive of the price adjustment for contracts completed in 2017;

- the signing of this contract was followed by the maintenance contract for the Ariane 5 production equipment (for over Euro 5 million), the signing of the "sub-contract" for technical support for Europropulsion, and the agreement to supply the PC batch of metallic parts for the Ariane 5 booster nozzle, signed in July. The contracts for the analysis of the Ariane 5 flights for the components supplied by Avio (i.e. booster and oxygen turbo pump) are also expected in the following months;

- the final months of the first half of 2018 also saw initial negotiations of the production contract for the supply of the P120 for the new Ariane 6 launcher.

With regards to Vega production:

- the subsidiary ex ELV S.p.A. (now Spacelab S.p.A.), before transferring the launcher business unit to Avio S.p.A., signed with the client ESA:
  - a Preliminary Authorization To Proceed (PATP) contract for the launch of production assistance activities for the 2017-2019 period;
  - some contractual variants (CCN) relating to Vega C development;

- Avio S.p.A., subsequent to the acquisition of the ex-ELV S.p.A. launchers business unit, signed:
  - with the client Arianespace Rider 2 to Batch 2, which incorporates Ground Proximity Means (GPM) activities into the Avio Group's scope at the French Guyana Space Centre;
  - with the client ESA:
    - a conversion proposal for production assistance activities for the 2015-2016 period;
    - the "Study of a Service Launch making use of a Micro-Launcher" contract;
    - some contractual variants (CCN) relating to Vega C development.
  - with the client Europropulsion Rider 1 to Batch 2 for the production of six additional P80 LMC units and igniter

With regards to Vega development operations:

- Following the signing of the Small Spacecraft Mission Service (SSMS) development agreement by Avio and ESA for the small satellites launch service, Arianespace signed contracts with three clients forming the group of small satellites that will fly in the mid-2019 Proof of Concept (PoC) Flight, i.e. SpaceFlight Industries (USA), D-Orbit (Italy) and Sitael (Italy).

With regards to tactical propulsion operations:

- the main event was the signing of the contract to produce 170 30-class boosters and 163 30-class fins for the end client Qatar, in addition to the request from MBDA for "remotorisation" works (Re Life9 with electromechanical TVC).

Other significant events

Acquisition from the subsidiary ELV S.p.A. (now Spacelab 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.

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, any adjustment of the payment regarding the definition of the overall expected potential benefits from the research and development tax credit included in the business unit sold to Avio S.p.A. would be established.

Following this reorganisation and redefinition of its mission, on May 9, 2018 ELV S.p.A. changed its name to Spacelab S.p.A..

Incorporation of the company Avio Guyana SAS

In the first half of 2018, the company Avio Guyana SAS was incorporated, operating at the Kourou launch site in French Guyana. The company will be involved in coordinating the launch campaigns and managing the ground infrastructure for the Vega launches, optimising the industrial processes and boosting productivity ahead of a future increase in the number of Vega launches.

First distribution of dividends

Following approval by the Shareholders' Meeting of May 24, 2018 of the statutory financial statements of the parent Avio S.p.A. and of the allocation of the net profit, in May 2018 dividends were distributed for the first time to shareholders, for a total of Euro 10,017 thousand.

This dividend distribution is in line with the approved dividend policy of the corporate boards and is considered sustainable over the medium/long-term on the basis of the economic-financial outlook, the solidity of the capital structure and also in view of "capital intensive" investment cycles over the medium to long-term.

The policy envisages the distribution of 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.

MARKET AND OPERATING PERFORMANCE

General overview

In the first half of 2018, 54 orbital launches were completed, up on the same period of 2016 and 2017 (respectively 43 and 41 launches). The majority of launches (80%) were institutional, or financed by governments (whether for civilian or military purposes), while the remainder were commercial (20%).

The 89 launches made in 2017 placed into orbit:

- 87 primary satellites (up from 63 satellites in 2017), of which 17 in GEO, 57 in LEO and 13 in other orbits;
- 97 generally small-mass secondary satellites, all in LEO and ridesharing as secondary payloads in primary satellite launches. This satellite class reduced on 181 for 2017.

In the decade from 2016 to 2025, of the satellites requiring launch services, GEO satellites reported the steadiest growth and were almost exclusively commercial and dedicated to broadcasting telecommunication services. This growth is expected to continue in the coming years. LEO satellite demand, on the other hand, is currently and is expected to continue growing 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

The first 6 months of 2018 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 in 2017, 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 launches marketed by ILS in 2017;
  - China and India, with 1 commercial launch each in 2017

  These trends were confirmed in the initial 6 months of 2018.

In terms of "failure" rates, Ariane 5 unfortunately saw its consecutive success streak ended (at 82), while Vega - not having flown in 2018 - maintained its score of 11 successful launches out of 11. There were no additional failures.

Globally, in the initial months of 2018:

- the countries undertaking the greatest number of launches were the USA (18), followed by China (18), Russia (8), Europe (3), Japan (4) and India (3); these numbers are substantially in line with the figures for recent years, with the significant increase in US launch activities confirmed, thanks to the record performance of Space X's Falcon 9 launcher;

- out of 54 total launches, there was 1 failure (Ariane 5), against 2 in 2017;

- the Falcon Heavy (Space X) debuted, an evolution of the Falcon 9.

GROUP OPERATING PERFORMANCE AND FINANCIAL AND EQUITY POSITION

Introduction

The H1 2017 consolidated results of the Avio Group presented for comparative purposes 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 resulted in Space2 taking the name Avio S.p.A., impacting the consolidated financial statements for the first half of 2017 and their comparability with these consolidated financial statements for the first half of 2018. Therefore, the "pro-forma" figures prepared for the purposes of the consolidated financial statements for the first half of 2017 are referenced and reported herein to ensure comparability of the operating performance on the basis of the Avio Group scope before the operation with the addition of Space2's operations.

Earnings and financial results

Outline of the process to obtain the "Pro-Forma" comparative economic and financial results for first half of 2017, as reported in the condensed consolidated half-year financial statements at June 30, 2017

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

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

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

The results reported in the H1 2017 “Pro-Forma” column stated above are therefore comparable with the consolidated H1 2018 Avio Group results.

Operating results

The table below summarises the comparable performance of the Group for the first half of 2018 and the first half of 2017 (in Euro thousands):

	H1 2018	**H1 2017 "Pro-Forma"**	**Change**
Revenues	202,005	161,184	40,821
of which: Pass-through revenues	23,180	12,626	10,554
Revenues, net of pass-through revenues	**178,825**	**148,558**	**30,267**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	5,739	5,423	316
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(171,826)	(143,585)	(28,241)
Effect valuation of investments under equity method - operating income/(charges)	1,768	825	943
EBITDA	**14,506**	**11,221**	**3,285**
Amortisation, depreciation & write-downs	(6,841)	(6,927)	86
EBIT	**7,664**	**4,293**	**3,371**
Interest and other financial income (charges)	(235)	(3,099)	2,865
Net financial charges	**(235)**	**(3,099)**	**2,865**
Investment income/(charges)	-	-	-
Profit before taxes	**7,430**	**1,194**	**6,236**
Current and deferred taxes	(1,223)	541	(1,763)
Group & minority interest net profit	**6,207**	**1,735**	**4,472**

The “pass-through revenues” derive from agreements reached between the subsidiary ex-ELV S.p.A. and the European Space Agency in August 2015 for the development and construction of the new “P120” engine for future generation 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 fully consolidated;

- a second invoice up until February 28, 2018 from the subsidiary ex-ELV S.p.A. and from March 1, 2018 (following the acquisition by the parent company Avio S.p.A. of the launcher's business unit of the subsidiary ex-ELV S.p.A.) directly by Avio 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 178,825 thousand in the first half of 2018, up Euro 30,267 thousand (+20.4%) on the first half of 2017. This net increase principally concerns the VEGA development program.

The above revenues breakdown by business line as follows:

	H1 2018	H1 2017 "Pro-Forma"	Change
Ariane	84,399	80,503	3,896
Vega	84,399	61,618	22,781
Tactical Propulsion	9,325	5,598	3,727
Other revenues	702	839	-137
Revenues, net of pass-through revenues	**178,825**	**148,558**	**30,267**

EBITDA in the first half of 2018 was Euro 14,506 thousand, increasing (Euro 3,285 thousand) on H1 2017.

EBIT of Euro 7,664 thousand was up Euro 3,371 thousand on H1 2017.

This significant improvement on the previous year principally derives from operations, in addition to the effect from the contribution of the research and development tax credit. In addition, non-recurring costs reduced, which in the first half of 2017 principally concerned the corporate transaction resulting in the stock market listing, partially offset in the first half of 2018 by an increase in "corporate" costs following the market listing.

The contribution of research and development tax credits, 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.
This contribution, of Euro 1.2 million for the first half of 2018, comprised the portion of the overall benefit matured in 2017 (Euro 20 million), recognised to the income statement in the first half of 2018 on the basis of the advancement of the costs incurred in the period with regards to long-term orders for the research and development operations to which the contribution refers.

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 year and period depending on the effective level of advancement of the qualifying orders.

In the first half of 2018, no portion of the additional potential benefits from the tax credits maturing in 2018 was recognised.

In addition to the "Pro-Forma" Avio Group consolidated figures for H1 2017 presented for comparative purposes to neutralise the results from corporate operations in H1 2017, for a more complete representation of the Group's earnings performance, the EBITDA and EBIT adjusted to exclude Group non-recurring and unusual components are presented below. The above adjusted amounts (in Euro thousands) and the relative margins for H1 2018 and "Pro-Forma" H1 2017 are reported below:

	H1 2018	H1 2017 "Pro-Forma"	Change
Adjusted EBITDA	**16,115**	**15,208**	**907**
Adjusted EBITDA Margin (against revenues net of pass-through revs.)	9.0%	10.2%	
Adjusted EBIT	**9,274**	**8,280**	**994**
Adjusted EBIT Margin (against revenues net of pass-through revs.)	5.2%	5.6%	

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 H1 2018 Adjusted EBITDA was Euro 16,115 thousand (9.0% of net revenues), up Euro 907 thousand on Euro 15,208 thousand for H1 2017 "Pro-Forma" (10.2% of net revenues).

The net decrease in the margin principally concerns the differing mix of operations, particularly with regards to the increase in Vega C programme development operations, involving activities carried out by sub-contractors on which the Group achieves a lower than average margin, in addition to the timing effect in the period of a number of contributions for research, partially offset by the benefit of tax credits for research and development not present in the first half of 2017.

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" H1 2018 Adjusted EBIT was Euro 9,274 thousand (5.2% of net revenues), up Euro 994 thousand on Euro 8,280 thousand for H1 2017 (5.6% of net revenues).

As part of the "Purchase Price Allocation" in the second half of 2017 following the corporate transactions resulting in the stock market listing, the value of intangible assets was recalculated on the basis of those held by customers and for programme participation, which generated lower amortisation in the first half of 2018. 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 the first half of 2018 and the first half of 2017 is provided below (Euro thousands):

		H1 2018	H1 2017 "Pro-Forma"	Change
A	**EBIT**	**7,664**	**4,293**	**3,371**
	Non-recurring Charges/(Income) comprising:			
	- Additional issues / incentives (1)	625	(35)	660
	- Consultancy and legal, corporate, administrative and IT system services (2)	890	3,556	(2,666)
	- Tax provisions (3)	25	90	(66)
B	**Total Non-recurring Charges/(Income)**	**1,539**	**3,611**	**(2,072)**
C	Investor Fees	71	375	(305)
D	**Adjusted EBIT A+B+C**	**9,274**	**8,280**(4)	**994**
E	Net amortisation & depreciation	6,841	6,928	(87)
	Adjusted EBITDA D+ E	**16,115**	**15,208**	**907**

(1) Costs and accruals to provisions relating to additional personnel charges including, among others, leaving incentives. The increase on the first half of 2017 principally concerns settlements for executives departing in the period.
(2) The account mainly concerns legal, corporate, administrative and IT system consultancy costs regarding the acquisition and integration of the ex-ELV S.p.A. launchers development, production and distribution business unit, in addition to other post-listing one-off operations. The significant reduction on the first half of 2017 mainly concerns the absence of corporate transaction costs for the stock market listing.
(3) Non-recurring tax provisions of the subsidiary Secosvim S.r.l.
(4) For comparability, this figure does not include the amortisation of the Customer Relationship Asset in H1 2017 pre-PPA.

Financial results analysis

Net financial charges in the first half of 2018 amounted to Euro 235 thousand, compared to Euro 3,099 thousand in H1 2017.
The significant decrease is principally due to the company's financial restructuring in view of the corporate transaction resulting in the stock market listing of April 2017. In particular, after obtaining from the lending banks cited above, with whom a loan contract was signed in 2015, utilised for Euro 100 million and with up to 7 years duration, approval of the merger with ex-Space 2 S.p.A., the change of control, in addition to the early repayment of the existing loan within 6 months of the stock market listing (October 10, 2017), in May 2017, the company, also in view of the funding sourced from the Space2-Avio transaction, undertook early repayment of the tranche B Loan of approx. Euro 65 million and in October 2017 repaid, through use of own funds, the entire residual capital amount of the "Term Loan A" tranche of approx. Euro 30 million, therefore completing repayment of the entire pre-existing loan.

Simultaneously, in October 2017, the company signed with the European Investment Bank (EIB) a Euro 40 million loan contract.
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 "pro-forma" financial management for the first half of 2017, presented for comparative purposes, reported a net financial charge of approx. Euro 3.1 million, principally due to the interest on the previous outstanding loan at that date, the charges related to its early repayment, essentially the residual value of the arrangement fees no longer due until 2022 (original duration), but rather entirely repayable in the first 9 months of 2017, in addition to the early repayment of the IRS on the loan.

Net financial charges for H1 2018 of Euro 235 thousand principally concerned interest on the EIB loan.

Balance Sheet

The Group balance sheet is broken down in the following table (in Euro thousands):

	June 30, 2018	December 31, 2017	Change
Tangible fixed assets and investment property	73,477	74,685	(1,207)
Goodwill	61,005	61,005	(0)
Intangible assets with definite life	118,373	117,577	796
Investments	5,034	6,347	(1,312)
Total fixed assets	**257,890**	**259,614**	**(1,724)**
Net working capital	**(3,971)**	**(25,114)**	**21,143**
Other non-current assets	66,241	65,521	720
Other non-current liabilities	(122,996)	(116,270)	(6,726)
Net deferred tax assets	75,528	76,547	(1,019)
Provisions for risks and charges	(14,545)	(16,340)	1,795
Employee benefits	(11,123)	(10,907)	(216)
Net capital employed	**247,024**	**233,052**	**13,973**
Non-current financial assets	7,440	7,440	-
Net capital employed & Non-current financial assets	**254,464**	**240,492**	**13,973**
Net Financial Position	21,700	41,714	(20,014)
Equity	(276,164)	(282,205)	6,041
Source of funds	**(254,464)**	**(240,492)**	**(13,973)**

"Total fixed assets" amounted to Euro 257,890 thousand at June 30, 2018, a net decrease of Euro 1,312 thousand on December 31, 2017 as a combined effect of the following movements:

- net decrease of Property, plant and equipment of Euro 1,207 thousand, principally due to investments in progress in buildings, for execution of the new P120 engine project for Euro 1,645 thousand, net of depreciation in the period of Euro 2,852 thousand.
- net increase in Intangible assets with definite life of Euro 796 thousand, principally due to increases for development costs capitalised for Euro 4,795 thousand, mainly concerning research projects on the Zefiro 40 stage and on the liquid oxygen and methane engine, net of amortisation in the year of Euro 3,999 thousand;
- decrease in Investments for Euro 1,312 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, 2018 to June 30, 2018 of Euro 1,768 thousand, net of Euro 3,080 thousand for dividends paid in the same period.

"Net working capital" reports a net increase of Euro 21,143 thousand, resulting in an excess of liabilities over assets of Euro 3,971 thousand. The main components are outlined in the following table (in Euro thousands):

	June 30, 2018	December 31, 2017	Change
Contract work-in-progress, net of advances	(71,097)	(131,282)	60,185
Inventories	50,355	52,993	(2,638)
Advances to suppliers	66,683	72,796	(6,113)
Trade payables	(111,904)	(89,441)	(22,463)
Trade receivables	4,641	8,508	(3,867)
Other current assets and liabilities	57,352	61,313	(3,961)
Net working capital	**(3,971)**	**(25,114)**	**21,143**

The increase in current trading, in line with expectations and substantially due to the cyclical nature of the receipt of advances from clients and works on orders, principally concerns increased Vega C programme development operations in the period against advances from clients received in the past, resulting in turn in the recognition of advances and an increase in payables to Sub-contractor suppliers, partially offset by an increase in other current liabilities for contributions received on the research projects on the Zefiro 40 stage and the liquid oxygen motor, in addition to positive timing effects concerning the receipt of trade receivables from the joint venture Europropulsion S.A..

"Other current assets and liabilities" of net working capital reported a net decrease of Euro 3,961 thousand to Euro 57,352 thousand. The main components of this account are outlined in the following table (in Euro thousands):

	June 30, 2018	December 31, 2017	Change
VAT receivables	49,370	46,459	2,910
Research and development tax receivables	13,226	20,000	(6,774)
Current tax receivables	5,244	5,771	(528)
Other current assets	12,602	8,664	3,938
Current tax liabilities	(2,040)	(1,982)	(59)
Other current liabilities	(21,049)	(17,600)	(3,449)
Other current assets and liabilities	**57,352**	**61,313**	**(3,961)**

"VAT receivables", no longer increasing significantly as was the case in the past, despite the maturation by the Group of VAT receivables on purchases from third parties, not offset by VAT payables on sales, as such were principally made overseas, thanks to the successful outcome in 2017 of the Group's VAT appeal to the tax authorities and the consequent recognition of the cap on purchases from 2018, resulting in the non-application of VAT on purchases. The lower increase in the period relates to the first two months of 2018, with regards to the integration of the ex-ELV S.p.A. operations from March 1, 2018.
However, as indicated in the subsequent events section, on August 2, 2018, as expected, a portion of the VAT receivables requested for repayment were received for an amount of Euro 8,289 thousand.

The research and development tax receivables were recognised at December 31, 2017 to the balance sheet for the amount matured of Euro 20 million. In the period, this receivable was utilised, in financial terms, to offset with taxes and pension contributions due according to the applicable regulation for an amount of Euro 6,774 thousand, totalling Euro 13,226 thousand at June 30, 2018.

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 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 net decrease in the period in the account "Provisions for risks and charges" of Euro 1,795 thousand principally concerns the settlement to personnel of the short-term variable components of remuneration against the achievement of individual and company objectives referring to financial year 2017, in addition to settlements to departing personnel.

Analysis of the financial position

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

	June 30, 2018	December 31, 2017	Change
Cash and cash equivalents	73,509	107,033	(33,524)
(A) Liquidity	**73,509**	**107,033**	**(33,524)**
(B) Current financial assets	-	-	-
(C) Total current financial assets (A+B)	**73,509**	**107,033**	**(33,524)**
Financial payables on interest rate hedges			-
Current financial payables to companies under joint control	(11,749)	(25,259)	13,510
(D) Current financial liabilities	**(11,749)**	**(25,259)**	**13,510**
Current portion of non-current bank payables	(60)	(60)	-
(E) Current portion of non-current financial payables	**(60)**	**(60)**	-
(F) Current financial debt (D+E)	**(11,809)**	**(25,319)**	**13,510**
(G) Net Current Financial Position (C+F)	**61,700**	**81,714**	**(20,014)**
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)*	**21,700**	**41,714**	**(20,014)**

(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 net financial position reduced from a cash position of Euro 41,714 thousand at December 31, 2017 to Euro 21,700 thousand at June 30, 2018, decreasing Euro 20,014 thousand, principally due to the cyclical nature of operating cash flows, in line with expectations, in addition to the payment in the period of dividends of Euro 10 million, approved together with the 2017 Annual Accounts.

Analysis of equity

Consolidated equity at June 30, 2018 amounts to Euro 276,164 thousand, decreasing Euro 6,041 thousand compared to Equity at December 31, 2017, as a result of the following main movements:

- recognition of the consolidated net profit of Euro 6,207 thousand;
- settlement by the parent Avio S.p.A. of FY 2017 dividends of Euro 10,017 thousand;
- settlement to third parties by the subsidiary Regulus S.A. of FY 2017 dividends of Euro 1,760 thousand.

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 by the Avio Group in H1 2018 amounted to Euro 97.5 million (Euro 52.1 million in H1 2017), equating to 48.3% of gross consolidated revenues for H1 2018 (32% in H1 2017).

Net of pass-through costs, research and development by the Group in H1 2018 incurred costs of Euro 74.3 million, 41.6% of revenues net of pass-through revenues (Euro 39.5 million in H1 2017, equal to 27% of revenues net of pass-through revenues).

Self-financed and executed activities amounted in H1 2018 to Euro 4.6 million (Euro 3.4 million in H1 2017).

Self-financed activities in H1 2018 included Euro 3.4 million relating to development costs capitalised as Intangible assets with definite life (Euro 1.5 million in H1 2017) and Euro 1.2 million concerning research costs or development costs not capitalisable and directly recharged to the income statement (Euro 1.9 million in H1 2017).

The total amount of costs related to self-financed activities charged to the income statement in H1 2018 was Euro 3.4 million (Euro 3.9 million in H1 2017), comprising Euro 1.2 million of directly expensed non-capitalisable costs (Euro 1.9 million in H1 2017) and Euro 2.2 million for the amortisation of development costs capitalised (principally) in previous years (Euro 3.4 million in H1 2017).

In the first half of 2018, Avio continued its innovation upon the main product lines, harmonising basic research, applied research and pre-competitive development activities.

Solid Propulsion

In Avio's strategic vision, solid propulsion represents a mature but competitive technology that significantly reduces the cost of launch services and keeps the European space carrier market competitive on the global scene. Avio has made clear that its vision includes the consolidation and further development of both VEGA and the forthcoming Ariane 6 launcher, set to replace Ariane 5. During the first half of 2018, Avio finalized its designs for the shared P120C stage of the next generation Ariane and VEGA launchers. This effort has brought Avio to the detailed design phase and the start of production of the first prototypes of the main engine components.

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

Development activities have continued for the Z40 engine (for use as a second stage for VEGA C and Vega E), which supports structural compression flows of up to 2KN/mm, the maximum value achieved by a composite propellant of this class.

Research and development in materials have focused mainly on the development of advanced, high performance and low toxicity solid propellants for implementation in the Ariane and Vega programs. Additionally, the possible expansion of the Avio composite materials production chain has been carefully researched and analyzed, leading to the identification of various possible spin-offs in other sectors.

Liquid Propulsion

Avio considers cryogenic propulsion based on liquid oxygen and methane as the answer to future generations of late stages for launch vehicles, as well as for spacecraft exploration. During the first six months of 2018, 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 the first half of 2018, Avio 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%.

In response to increasing small satellite demand, in the first half of 2018 research into developing the new VEGA Light C launcher began. The performance of this new launcher will be optimised to put into circular orbit (500X500 Km SSO) a payload of approx. 250 KG. The VEGA Light C development phase is scheduled for 2020 completion, with the first test flight in 2022.

Feasibility and market interest studies have also continued in relation to an electric module for integration into VEGA's upper composite stage for space exploration missions and a dispenser for the release of numerous satellites within the same mission, usable also for orbit test or orbit demonstration activities.

Tactical Propulsion

Activities focused on the design details of the CAMM-ER missile engine, including its main components, several of which are highly innovative for Avio, such as the propellant, the blast pipe, the energy principle based Safe & Arm controller and the system architecture that allows a high level of propulsion insensitivity. Important achievements have been demonstrated through the testing of several high-performance composite engine cases. The industrialization of low viscosity propellants has been implemented, also through the modification of facilities and equipment. Development activities have also been initiated for the fins, conduits and wiring of the missile.

Self-financed, pre-competitive development activities have continued for the electromechanical Thrust Vector Control of Aster 30 class tactical propulsion engines, and following the end of Phase A for the power distribution unit, activities began in relation to Phase B.

Preliminary activities were began to identify new parts and materials to extend the lifecycle of Avio products for Aster 30 missiles.

HUMAN RESOURCES

At June 30, 2018, Group employees numbered 804, increasing on 782 at December 31, 2017 and 769 at June 30, 2017. The number of employees does not include the company Europropulsion S.A. (91), consolidated at equity. The majority of the workforce is employed by the parent Avio S.p.A., which at the same date numbers 688 (590 at June 30, 2017).

On March 1, 2018, the ELV business unit involved in the development, production and distribution of Vega, Vega C, Vega E and Ariane launchers and the relative subsystems was sold to AVIO.
Operations for the development of subsystem innovative technologies, benefitting also the development of the "launcher" segment, which are not yet available industrially and the development of new infrastructures and technologies for the testing of new generation propulsion and flight systems are not part of the disposal of the business unit and continue to be undertaken by the company ELV.
A reorganisation was undertaken, in accordance with legal requirements and company policy, of Avio's organisational structure, with the inclusion of the Procurement, Commercial and Programme Management, Engineering, Industrial Operations, Quality, Finance Administration and Control, Legal Compliance & Corporate Affairs, Communications and External Relations and Human Resources and Organisation Departments, which directly report to the CEO.
On May 9, 2018, the Extraordinary Shareholders' Meeting of ELV changed the company's name to SPACELAB S.p.A., with all of the required statutory communications made.

Industrial Relations

The value of the Participation Bonus on the 2017 result was formalised through an agreement with the Unified Trade Unions (RSU) on June 25, 2018. The relative indicators were calculated by applying the formulas set out by the Agreement of November 23, 2017, ratified on December 15, 2017.

During the month of June, negotiations were initiated to extend company welfare as an additional incentive for employees, who may decide to convert the participation bonus or a part thereof into welfare services, with 50% of the financial benefit enjoyed by the company as reducing pension contributions. The agreement will be signed with the RSU in July 2018.

During the first half of 2018, Maintenance Department operators submitted requests to increase the on-call indemnities under the company Regulation, with an agreement signed with the RSU on June 15, 2018 to adjust the amount to be paid to maintenance staff from July 1, 2018.

The RSU's were also involved in the definition of summer closing periods.

No strikes or actions against the company took place during the year.

Development and Training

In the first half of 2018, within differing departments, 1 executive, 8 managers, 5 professionals and 11 administrative employees were hired, according to various degrees of experience and specific skills in line with business maintenance and development needs.

In addition, in March 2018 one employee advanced from the manager to the executive category.

Also in the first half of the year, 9 contracted blue-collar workers were converted to open-ended contracts at Avio.

In the same period, 15 Professional and White-collar employees were involved in professional mobility procedures, both in terms of department and office location, in order to optimize organizational and business development. In addition to the organisational benefits, these mobility courses, in the majority of cases, are opportunities for the professional growth of the staff involved.

In this regard, in March 2018 the company supported internal mobility with the introduction of internal job postings, offering employees therefore the opportunity to pro-actively pursue their professional development.

In terms of Personnel Development, in H1 2018, 1 employee transferred from the blue-collar category to the white-collar category. In addition, from March 2018 the white-collar category undertook development actions (7 cases). Specifically, in 3 cases, a Professional Expert qualification was achieved, and Professional in 1.

In support of training at the Avio Group, in the first half of 2018, 1,792 training days were held, involving 2,133 participations in update courses, professional development courses and informational activities, involving on average 2 training days per employee.

Approximately 16% of internal training was focused on safety, manufacturing (special and critical processes), IT and the Protection of classified information, with the use of internally trained and certified company trainers.

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

- training and updates on mandatory technical competences regarding safety and environment issues;
- training on special and critical processes in manufacturing;
- soft skills training: development of managerial skills (specific courses and participation at international conventions 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 individual and group language training (French, English and Russian).

Regarding training methods, the first half of 2018 saw the continuation of the structured learning organization model, in which the organisation learns through the active involvement of managers in the design of training activities for both direct groups and through designing activities for cross-departmental groups, therefore supporting increased integration among the company population.

The e-learning platform is used in particular for the provision of safety training to new hires and for the provision of quarterly training on Seveso directive safety issues in support of the HSE Area and for legal activities, such as the update to Law 231.

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.

The company 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

In addition to the events related to launches and the static tests commented upon in other sections of these financial statements, we highlight the following events in the first 6 months of the year:

- on March 16, Avio organised an Investor Day, with a group of investors visiting the Colleferro plant. CEO Ranzo and the Management team presented the 2017 consolidated financial statement figures to attendees and analysts connected by phone;

- on April 10, CEO Giulio Ranzo attended the opening ceremony of the "Salone del Risparmio" event in Milan, while the following day in Colleferro the military adviser to the President of the Council Ammiraglio Carlo Massagli visited the site;

- in May, we hosted at Avio's offices the Secretary of State to the Minister of Defense, Gioacchino Alfano, the new French ambassador S.E. Christian Masset, and an ESA delegation led by the launchers General Manager Daniel Neuenschwander;

- on May 26, the "Mini rocket contest" was held in Colleferro in collaboration with the "La Sapienza" University of Rome. A group of Space Transport Masters students launched self-designed and constructed rocket models at the contest. The winners received awards from the Engineering and Product Development Manager Paolo Bellomi;

- on May 30, a ceremony was held to recognise colleagues reaching 25 and 30 years of service at Avio;

- on June 1, Avio hosted a Czech Republic delegation representing government and industry. On the same day, Avio hosted in Colleferro the Honorable Silvia Costa, a European Parliament member;

- on June 8, Avio received a visit from the Lazio Region Minister for Economic Development Giampaolo Manzella;

- on June 23, Avio was visited by the AGET Italia Association and a number of high potential young persons who received a guided tour of company facilities;

- the first Avio Convention was held on July 5 in Rome entitled "Approaching the future together (Insieme verso il futuro)". At the event, after the contributions of the Avio Chairman, Roberto Italia, and the CEO Giulio Ranzo, all employees attended the "Il Giudizio Universale" show.

Non-Financial Disclosure

In the first half of 2018, as per Legislative Decree No. 254/2016, the 2017 Consolidated Non-Financial Report (hereafter "NFR") was published, outlining the social and environmental performances of Avio S.p.A. and the consolidated companies at December 31, 2017. The NFR was approved by the Board of Directors of Avio on March 15, 2018.

In order to establish the individual matters subject to non-financial disclosure, a materiality analysis was carried out in accordance with the recognised "GRI" (Global Reporting Initiative) international sustainability reporting guidelines, in order to identify the possible relevant non-financial issues for the aerospace sector.

The Report is also subject to limited examination ("limited assurance engagement" according to the criteria indicated by the ISAE 3000 Revised standard) by Deloitte & Touche S.p.A. which, at the end of the work performed, issued a specific report on its legal compliance.

The Group, subsequent to the approval of the NFR, initiated a process for the gradual incorporation of Sustainability into Avio's strategic objectives and business, through the following activities:

- improvement of the non-financial reporting process, particularly with regards to the "Environment" and "Human Resources";
- formalisation and communication of practiced policies through the establishment of a sustainability strategy.

In addition, a Stakeholder Engagement process is being organised to improve understanding of the expectations of Avio's various stakeholders, also in terms of social and environmental matters.

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 and spread 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 possible impact on the Group financial statements.

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 the EU. 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 and/or launchers 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, 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, at domestic, 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 adjusted, without however significant impacts on future revenues.

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.

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 ("whole life") 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 or to be incurred as part of the total costs 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 is not the Launch Service Provider) and consequently does not have direct access to the market information concerning the launch service. 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.
In this regard, 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 terms of the development of the European launchers operating model ("governance"), with regards to the Vega launcher, the scope of responsibility of Group ground activities extended to include, in addition to the H0 integration phase, also the management and maintenance of launch pad ground systems. This extension of Group operations and responsibilities, for which consolidated historic experience in line with the other activities carried out by the Group is not yet in place, may have - in the case of problems or unforeseen technical issues or non-compliance - impacts upon operations and upon the Group's 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 the Group 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 the insurance policies undertaken, operations and the Group financial statements may also be negatively impacted. Once accepted by clients, the Group is no longer responsible for damage deriving from the malfunctioning of its 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 the Group’s financial statements.

SUBSEQUENT EVENTS

Business

Vega

On August 22, 2018, the Vega launcher successfully concluded its first mission of 2018, successfully placing in low orbit a key ESA satellite (Aeolus), and the first to provide wind profiles on a global scale.
This is the Vega launcher's twelfth consecutive success. Two are scheduled for the current year.

Ariane

On July 25, 2018, Ariane 5 successfully completed its third mission of 2018, correctly positioning in orbit four satellites (SAT 23, SAT 24, SAT 25, SAT 26) for Europe's Galileo project, a European navigation and localisation system, designed for civil use and capable of providing highly-precise positioning indications. Once in orbit the entire Galileo constellation will be made up of 24 operative satellites.

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

On July 16, 2018, the fire bench test of the first P120C (DM1) motor was successfully carried out.
Test data analysis has just began, with initial indications appearing to confirm the achievement of correct ballistic, dynamic and structural parameters.
After the successful static test of the Z40 motor in March 2018, this event marks another important step towards Vega C's Qualification Launch, scheduled for the end of 2019.

Arianespace sign SSM agreement with Spire

In August, Spire signed a contract for multiple launches with the Vega, equipped with the new SSMS (Small Spacecraft Mission Service) dispenser. Spire is a leading global satellite services player, with more than 80 small satellites equipped to provide data for weather and marine and aviation sector applications. The contract with Spire follows the signing of agreements with ISIS, Spaceflight, Sitael and D-Orbit for the launch of satellites with the SSMS Vega mission in 2019 and confirms the popularity of the new dispenser developed by Avio among satellite operators.

Other significant events

First Avio Convention

The first Avio Convention was held on July 5 at the "Auditorium Conciliazione" in Rome entitled "Approaching the future together (Insieme verso il futuro)". At the event, after the contributions of the Avio Chairman, Roberto Italia, and the CEO Giulio Ranzo, who outlined the successes achieved by the Group over recent years and commented upon the main upcoming strategic challenges, all employees celebrated and attended the "Il Giudizio Universale" show.

Receipt of VAT receivable requested for repayment of Euro 8 million

On August 2, 2018, the subsidiary Spacelab S.p.A. (ex-ELV S.p.A.) received, as expected, a portion of the VAT receivable requested for repayment from the Tax Agency, for an amount of Euro 8,289 thousand.

Appointment of the new Internal Auditor

On June 25, 2018, the Board of Directors of Avio S.p.A. outsourced the Internal Audit function of the company Avio S.p.A. to Protiviti S.r.l., identifying Mr. Alessandro Cencioni, Managing Director of Protiviti S.r.l., as Manager-in-charge.

Outlook

Considering also the first half-year performance, the full-year 2018 forecast is for overall net revenue (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.

TRANSACTIONS WITH HOLDING COMPANIES, SUBSIDIARIES, JOINT VENTURES, ASSOCIATES AND INVESTEES

Transactions of the parent Avio S.p.A. with shareholders and with subsidiaries and associates of these latter, with subsidiaries, joint ventures, associates and investees, and with subsidiaries and associates of these latter, consist of industrial, commercial and financial transactions carried out as part of ordinary operations and concluded at normal market conditions. In particular, these concern the supply of goods and services, including of an administrative-accounting, IT, personnel management, assistance and funding and treasury management nature.

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, amended on September 13, 2017 by the Board of Directors of Avio S.p.A., in addition to a Related Party Transactions Policy, adopted by the Board of Directors of Space2 on 19/01/2017, amended on September 13, 2017 by the Board of Directors of Avio S.p.A., both with effect from the acquisition date. At the meeting of December 21, 2017, the Board of Directors approved 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.
On June 25, 2018, the Board of Directors of Avio S.p.A. outsourced the Internal Audit function of the company Avio to Protiviti S.r.l., with registered office and domicile at Via Tiziano n.32 – 20145 Milan, identifying Mr. Alessandro Cencioni, Managing Director of Protiviti S.r.l., as Manager-in-charge of the Function.
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 March 15, 2018, reference should be made to the "Corporate Governance and Ownership Structure Report" approved by the Board of Directors of Avio S.p.A. on May 15, 2018, prepared in compliance with Article 123-*bis* of the CFA and Article 89-bis of Consob Regulation 11971/1999 and in view of the recommendations of the Self-Governance Code, while also taking account of the reference documents prepared by Borsa Italiana S.p.A..

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September 13, 2018

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

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS AT JUNE 30, 2018

CONSOLIDATED BALANCE SHEET	Note	June 30, 2018	December 31, 2017
(in Euro)			
ASSETS			
Non-current assets			
Property, plant & equipment	3.1	70,669,054	71,852,360
Investment property	3.2	2,808,236	2,832,219
Goodwill	3.3	61,005,397	61,005,397
Intangible assets with definite life	3.4	118,372,902	117,577,280
Investments	3.5	5,034,420	6,346,612
Non-current financial assets	3.6	7,440,000	7,440,000
Deferred tax assets	3.7	75,527,895	76,546,723
Other non-current assets	3.8	66,241,000	65,521,105
Total non-current assets		**407,098,905**	**409,121,695**
Current assets			
Inventories and advances to suppliers	3.9	117,038,090	125,789,247
Contract work-in-progress	3.10	205,076,884	111,236,680
Trade receivables	3.11	4,640,605	8,507,533
Cash and cash equivalents	3.12	73,509,159	107,033,059
Current tax receivables	3.13	67,839,236	72,230,694
Other current assets	3.14	12,601,757	8,663,659
Total current assets		**480,705,730**	**433,460,873**
Assets held-for-sale and Discontinued Operations	3.40	**-**	**-**
		-	**-**
TOTAL ASSETS		**887,804,635**	**842,582,567**

CONSOLIDATED BALANCE SHEET	Note	June 30, 2018	December 31, 2017
(in Euro)			
EQUITY			
Share capital	3.15	90,964,212	90,964,212
Share premium reserve	3.16	144,255,918	163,897,217
Other reserves	3.17	14,487,640	(4,682,849)
Retained earnings		8,996,515	3,611,315
Group net profit for the period		5,947,648	18,360,625
Total Group Equity		**264,651,933**	**272,150,519**
Equity attributable to non-controlling interests	3.18	**11,512,456**	**10,054,880**
TOTAL SHAREHOLDERS' EQUITY		**276,164,389**	**282,205,399**
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	3.19	40,000,000	40,000,000
Employee benefit provisions	3.20	11,122,941	10,906,705
Provisions for risks and charges	3.21	7,640,281	7,788,960
Other non-current liabilities	3.22	122,995,905	116,269,657
Total non-current liabilities		**181,759,127**	**174,965,322**
Current liabilities			
Current financial liabilities	3.23	11,749,221	25,259,221
Current portion of non-current financial payables	3.24	60,000	60,000
Provisions for risks and charges	3.21	6,904,448	8,550,872
Trade payables	3.25	111,904,255	89,441,365
Advances from clients for contract work-in-progress	3.10	276,173,989	242,518,981
Current income tax liabilities	3.26	2,040,444	1,981,723
Other current liabilities	3.27	21,048,762	17,599,685
Total current liabilities		**429,881,119**	**385,411,847**
TOTAL LIABILITIES		**611,640,246**	**560,377,169**
Liabilities available-for-sale and discontinued operations	3.40	-	-
		-	-
TOTAL LIABILITIES AND EQUITY		**887,804,635**	**842,582,567**

CONSOLIDATED INCOME STATEMENT	**Note**	**H1 2018**	**H1 2017 [1]**
(in Euro)			
Revenues	3.28	202,004,928	101,287,263
Change in inventory of finished products, in progress and semi-finished		4,286,641	3,042,871
Other operating income	3.29	1,452,047	1,238,298
Consumption of raw materials	3.30	(64,882,242)	(32,209,358)
Service costs	3.31	(96,064,636)	(49,875,647)
Personnel expenses	3.32	(32,651,367)	(16,643,677)
Amortisation & Depreciation	3.33	(6,841,259)	(3,329,720)
Write-down and write-backs			-
Other operating costs	3.34	(4,983,914)	(1,264,493)
Effect valuation of investments under equity method - operating income/(charges)	3.35	1,767,620	259,026
Costs capitalised for internal works	3.36	3,576,441	754,775
EBIT		**7,664,259**	**3,259,337**
Financial income	3.37	590,413	653,645
Financial charges	3.38	(824,925)	(2,143,712)
NET FINANCIAL INCOME/(CHARGES)		**(234,512)**	**(1,490,067)**
Effect valuation of investments under equity method - financial income/(charges)			
Other investment income/(charges)			
INVESTMENT INCOME/(CHARGES)		**-**	**-**
PROFIT BEFORE TAXES AND DISCONTINUED OPERATIONS		**7,429,747**	**1,769,270**
Income taxes	3.39	(1,222,549)	575,014
PROFIT FROM CONTINUING OPERATIONS		**6,207,198**	**2,344,284**
NET PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS	3.40	**-**	**-**
NET PROFIT FOR THE PERIOD		**6,207,198**	**2,344,284**
-- of which: Owners of the parent		5,947,648	2,060,107
Non-controlling interests		259,549	284,177

[1] *In consideration of the business combination on March 31, 2017 with Space 2 S.p.A., the amounts of Space 2 S.p.A. operations in the half-year including Avio Group operations for the second quarter 2017 are reported. For a detailed analysis, reference should be made to the Director’s Report.*

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT	H1 2018	H1 2017 [1]
(in Euro)		
NET PROFIT (A)	**6,207,198**	**2,344,284**
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	(467,781)	11,957
Gains/(losses) recorded directly to equity (which will be subsequently reclassified to P&L)		
- Gains/(losses) on cash flow hedge instruments recorded directly to interest rate cash flow hedge reserve		257,125
Tax effect on other gains/(losses)	(2,919)	(1,737)
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	**(470,700)**	**267,345**
COMPREHENSIVE INCOME FOR THE YEAR (A+B)	**5,736,498**	**2,611,629**
-- of which: Owners of the parent	5,476,949	2,328,154
Non-controlling interests	259,549	283,475

[1] *In consideration of the business combination on March 31, 2017 with Space 2 S.p.A., the amounts of Space 2 S.p.A. operations in the half-year including Avio Group operations for the second quarter 2017 are reported. 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: *Interest rate cash flow hedge reserve*	Other reserves: *Actuarial gains/(losses) reserve*	Other reserves: *2015 share capital increase reserve*	Retained earnings	Group result for period	Total Group equity	Non-controlling interest equity	Total Equity
Equity at 31/12/2016	**30,845**	**277,155**	**15**	**0**	**0**	**(2,912)**	**290**	**(332)**	**305,061**	**0**	**305,061**
Allocation of prior year result							(332)	332	0		0
Distribution of dividends of the subsidiary Regulus S.A.										(1,920)	(1,920)
Effects deriving from Business Combination with Avio (March 31, 2017)	75,339	25,615	0	(317)	(3,245)	0	3,559	0	100,951	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)
Exercise Warrants	203								203		203
Comprehensive income											
Net profit for the period								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 period	0	0		317	12		94	18,361	18,783	3,942	22,724
Equity at 31.12.2017	**90,964**	**163,897**	**7**	**0**	**(3,234)**	**(1,456)**	**3,611**	**18,361**	**272,150**	**10,055**	**282,205**
Allocation of prior year result							8,344	(8,344)	0		0
Distribution of dividends of the parent Avio S.p.A.								(10,017)	(10,017)		(10,017)
Distribution of dividends of the subsidiary Regulus S.A.										(1,760)	(1,760)
Allocation to reserves		(19,641)	18,185			1,456					
Reallocation of retained earnings from sale of business held 70% Spacelab							(2,958)		(2,958)	2,958	0
Other changes									0		0
Comprehensive income											
Net profit for the period								5,948	5,948	260	6,207
Other changes									0		0
Other Gains/(Losses):											
- Actuarial gains/(losses), net of tax effect					(471)				(471)		(471)
Comprehensive income for period	0	0		0	(471)		0	5,948	5,476	260	5,736
Equity at 30/06/2018	**90,964**	**144,256**	**18,193**	**0**	**(3,705)**	**0**	**8,997**	**5,948**	**264,651**	**11,512**	**276,164**

CONSOLIDATED CASH FLOW STATEMENT

(Euro thousands)

		H1 2018	H1 2017 [1]
OPERATING ACTIVITIES			
Net profit for the period		6,207	2,344
Adjustments for:			
- Income taxes		1,223	(575)
- (Income)/charges from equity investments		(1,768)	-
- Financial (Income)/Charges		235	1,490
- Amortisation & Depreciation		6,841	3,330
Dividends received from Europropulsion S.A.		3,080	2,460
Net change provisions for risks and charges		(1,795)	(8,855)
Net change employee provisions		216	(28)
Changes in:			
- Inventories		8,751	3,893
- Contract work-in-progress & advances		(60,185)	(19,042)
- Trade receivables		3,867	1,642
- Trade payables		22,463	15,591
- Other current & non-current assets		752	(9,476)
- Other current & non-current liabilities		8,901	(4,208)
Income taxes paid		(476)	(289)
Interest paid		(120)	(2,622)
Net liquidity generated/(employed) in operating activities	(A)	**(1,807)**	**(14,346)**
INVESTING ACTIVITIES			
Investments in:			
- Tangible assets and investment property		(1,635)	(4,905)
- Intangible assets with definite life		(4,795)	(733)
- Equity Investments			
- Savings Bonds/Restricted Bank Deposits			
Disposal price of tangible, intangible & financial assets			
Changes in consolidation scope			
Avio Business combination			
- Price paid			(84,871)
- Cash and cash equivalents of Avio Group acquired at March 31, 2017			111,140
Disposal price financial assets			152,978
Liquidity generated (employed) in investing activities	(B)	**(6,430)**	**173,610**
FINANCING ACTIVITIES			
Senior Term and Revolving Facilities Agreement Repayments			(63,360)
Centralised treasury effect with Europropulsion S.A. joint control company		(13,510)	(615)
Dividends paid by the parent Avio S.p.A.		(10,017)	
Dividends paid by subsidiaries concerning minority shareholdings of the Avio Group		(1,760)	(1,920)
Other changes to financial assets and liabilities			(30,440)
Liquidity generated (employed) in financing activities	(C)	**(25,287)**	**(96,335)**
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C)	**(33,524)**	**62,930**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**107,033**	**445**
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD		**73,509**	**63,375**

[1] *In consideration of the business combination on March 31, 2017 with Space 2 S.p.A., the amounts of Space 2 S.p.A. operations in the half-year including Avio Group operations for the second quarter 2017 are reported. For a detailed analysis, reference should be made to the Director's Report.*

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS AT JUNE 30, 2018

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, 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.

Avio S.p.A. holds at June 30, 2018, directly or indirectly, investments in five subsidiary companies (Spacelab S.p.A., Regulus S.A., Avio Guyana SAS, 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 (collectively the "Group" or the "Avio Group").

The consolidation scope changed in the first half of 2018 with the inclusion of the newly incorporated French-registered Avio Guyana SAS. This company is entirely held by Avio S.p.A..

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

These condensed half-year financial statements at June 30, 2018 were prepared in accordance with International Accounting Standards (hereafter also "IFRS") issued by the International Accounting Standards Board ("IASB") and approved by the European Union. IFRS refers to the International Financial Reporting Standards, the revised international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") - previously known as the Standing Interpretations Committee ("SIC").

In the preparation of these Condensed half-year financial statements, drawn up in accordance with IAS 34 – *Interim Financial Reporting*, the same accounting standards were adopted as for the preparation of the consolidated financial statements of the Avio Group at December 31, 2017, except for that outlined in the Explanatory Notes - "Accounting standards, amendments and interpretations applied from January 1, 2018" paragraph. Therefore, these financial statements must be read together with the consolidated financial statements of the Avio Group at December 31, 2017.

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

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

2.2. Financial Statements

The Condensed half-year financial statements at June 30, 2018 consist of the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Comprehensive Income Statement, the Statement of changes in Consolidated Equity, the Consolidated Cash Flow Statement and the Explanatory Notes.

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

2.3. Comparative information

In accordance with IAS 34, these condensed half-year financial statements at June 30, 2018 present the 2017 comparative figures for the Balance Sheet items (Consolidated Balance Sheet) and the first half year 2017 for the Income Statement items (Consolidated Income Statement, Consolidated Comprehensive Income Statement, Statement of changes in Consolidated Equity and Consolidated Cash Flow Statement).

Following the acquisition of the Avio Group by Space2 S.p.A. on March 31, 2017, the comparative data in the Consolidated Income Statement, the Consolidated Comprehensive Income Statement and the Consolidated Cash Flow Statement for the period ended June 30, 2017 refer to Space2 S.p.A. and include the data of the Avio Group only for the second quarter (April 1 - June 30, 2017).

2.4. Consolidation principles

The consolidation principles adopted are in line with those utilised for the preparation of the consolidated financial statements at December 31, 2017 of the Avio Group, to which reference should be made for further information.

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

2.6. Consolidation Scope

The Condensed half-year financial statements at June 30, 2018 include the financial statements of the parent company, of the Italian and overseas companies in which it holds directly or indirectly at June 30, 2018 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.

In the first half of 2018, the French company Avio Guyana SAS, entirely held by the parent Avio S.p.A., was incorporated.

The consolidation scope at June 30, 2018 was as follows:

Companies included in the consolidation scope at June 30, 2018	Holding
Parent	
Avio S.p.A.	-
Companies consolidated by the line-by-line method	
Spacelab S.p.A.	70%
Regulus S.A.	60%
SE.CO.SV.IM. S.r.l.	100% (*)
Avio Guyana SAS	100%
ASPropulsion International B.V.	100%
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 is in liquidation. No financial commitments are expected for the Group related to the 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".

2.7. Accounting policies

The accounting policies adopted are in line with the recognition and measurement criteria utilised in the preparation of the consolidated financial statements at December 31, 2017 of the Avio Group, to which reference should be made for further information, with the exception of that outlined in the following paragraph.

2.8. New accounting standards

Accounting standards, amendments and IFRS interpretations applied from January 1, 2018

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from January 1, 2018:

- on May 28, 2014, the IASB published "**IFRS 15 Revenue from Contracts with Customers**" which, together with additional clarifications published on April 12, 2016, 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 applies 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 contained in 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 company has completed the project to identify any effects from the introduction of IFRS 15.

    Since the application of this new standard IFRS 15, the general principle of accounting for revenues through the advancement of the contracts method is confirmed, without amendments to the accounting treatment undertaken to date.

    The new standard IFRS 15 was applied with the "Modified Retrospective Approach".

- on July 24, 2014, the IASB published **IFRS 9 – Financial Instruments.** The document incorporates the results of the IASB project to replace IAS 39. The new standard must be applied for financial statements beginning on or after January 1, 2018.

    The standard introduces new criteria for the classification and measurement of financial assets and liabilities. In particular, for financial assets the new standard utilises a single approach based on the management method of financial instruments and on the contractual cash flow characteristics of the financial assets in order to determine the measurement criteria, replacing the various rules established by IAS 39. For financial liabilities however the standard is amended with regard to the accounting treatment of the fair value changes of a financial liability designated as a financial liability at fair value through profit or loss, in the case in which these changes relate to changes in the credit rating of the issuer of the liability. According to the new standard, these changes must be recorded to "Other comprehensive income" and no longer to the income statement. In addition, in the non-substantial changes to liabilities it is no longer permitted to record the economic effects of the renegotiation on the residual duration of the payable modifying the effective interest rate at that date, but it is necessary to record the relative effect in the income statement.

    In relation to impairment, the new standard requires that the doubtful debts estimate is based on the expected losses model (and not on the incurred losses model under IAS 39), utilizing supporting information, available without unreasonable charges or effort, which includes historic, current and projected figures. The standard establishes that this impairment model applies to all financial instruments, therefore financial assets valued at amortized cost, those valued at fair value through other comprehensive income and receivables deriving from rental contracts and trade receivables.

Finally, this standard introduces a new model of hedge accounting to adjust the requirements under the current IAS 39, which on occasion are considered too stringent and inappropriate to reflect the risk management policies of the company. The main amendments of the document relate to:

- increased number of transactions eligible for hedge accounting, in particular including also the risks of non-financial assets/liabilities eligible to be managed in hedge accounting;
- the change in the accounting method of the forward contracts and options when considered in a hedge accounting relationship in order to reduce the volatility of the income statement;
- the amendments to the effectiveness test through the replacement of the current methods based on the 80-125% parameter with the principle of the "economic relationship" between the item hedged and the hedge instrument; in addition, a retrospective evaluation of the effectiveness of the hedge relationship will no longer be required;

The greater flexibility of the new accounting rules is offset by the additional disclosure requirements on the risk management activities of the adopter.

The adoption of this standard did not have any effects on the Group consolidated financial statements at June 30, 2018.

- on September 12, 2016, the IASB published **"Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"**. 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 of the current IFRS 4 with IFRS 17 Insurance Contracts, under which however financial liabilities are measured.

  As the Avio Group does not operate in the insurance sector, it is not impacted by this amendment.

- Amendment to **IFRS 2 "Classification and measurement of share-based payment transactions** (published on June 20, 2016) which contains clarifications upon the recognition of the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with characteristics of net settlement and the recognition of the amendments to the terms and conditions of a share-based payment which changes the classification from cash-settled to equity-settled. The amendments were applied from January 1, 2018: The adoption of this amendment does not have effects on the consolidated financial statements of the Group.

- "**Annual Improvements to IFRSs**: **2014-2016 Cycle**", published on December 8, 2016, which partially supplements the existing standards, as part of its annual improvement process. The principal changes relate to:

  - IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*. The amendment concerns the elimination of certain short-term exemptions under paragraphs E3-E7 of Appendix E of IFRS 1 as the benefit of these exemptions is now considered exhausted. This amendment was applied from January 1, 2018.

- 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. The amendment clarifies that the option for a venture capital organization or similarly qualifying entities (e.g. a mutual investment fund or similar entity) to measure investments in associates and joint ventures at fair value through profit or loss (rather than through application of the equity method) is exercised for each individual investment on initial recognition. This amendment was applied from January 1, 2018.
- IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard. The amendment clarifies the scope of application of IFRS 12, specifying that the disclosure required by the standard, with the exception of that under paragraphs B10-B16, applies to all investments which are classified as held-for-sale, held-for-distribution to shareholders or as discontinued operations as per IFRS 5. This amendment was applied from January 1, 2018.

The adoption of these amendments does not have any effect on the Group consolidated financial statements at June 30, 2018.

- Amendment to **IAS 40 "Transfers of Investment Property"** (published on December 8, 2016). These amendments clarify the requirements for transfers of a building to, or from, investment property. In particular, an entity shall reclassify a building to, or from, investment property only when there is a clear indication of a change in the use of the building. This change must be attributable to a specific event and shall not therefore be limited to only a change in intention by management of the entity. The amendments were applied from January 1, 2018. The adoption of these amendments does not have any effect on the Group consolidated financial statements at June 30, 2018.

- Interpretation "**Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)**" (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.
  The interpretation clarifies that the transaction date is the initial between:

  a) the date on which the advance payment or payment on account received is recognized to the financial statements of the entity; and
  b) the date on which the asset, cost or revenue (or part of such) is recognized to the financial statements (with consequent reversal of the advance payment or payment on account received).

  Where numerous payments or receipts in advance are made, a specific settlement date should be identified for each. IFRIC 22 was applied from January 1, 2018.

IFRS and IFRIC accounting standards, amendments and interpretations approved by the EU, not yet mandatory and not adopted in advance by the Group at June 30, 2018

- On January 13, 2016, the IASB published the new standard **IFRS 16 - *Leases***, 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" (leasing contracts with an asset value below Euro 5,000) and leasing contracts less than 12 months. This Standard does not contain significant amendments for lessors.
The standard will be effective from January 1, 2019, although advance application is permitted.

The Directors began a project to introduce the new standard involving an initial phase of detailed analysis of contracts and of the accounting impacts, and a second phase to introduce and/or adjust the related administrative processes and the accounting system within the timeframe permitted for application of the standard.

- 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. The Directors do not expect these amendments to have a significant impact on the Group consolidated financial statements. However, the possible effects are currently under assessment.

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 new standard sets out in addition presentation and disclosure requirements to improve comparability between entities belonging to the same sector.
  It measures insurance contracts on the basis of a General Model or a simplified version of such, called the Premium Allocation Approach ("PAA").

  The main features of the General Model are:

  - the estimates and assumptions of future cash flows always refer to the current portion;
  - the measurement reflects the time value of money;
  - the estimates include an extensive use of observable market information;
  - a current and clear risk measurement exists;
  - the expected profit is deferred and aggregated into groups of insurance contracts on initial recognition; and,
  - the expected profit is recognised in the period of contractual coverage, taking account of adjustments from changes in the assumptions on cash flows for each group of contracts.

The PPA approach involves the measuring of the liability for the residual coverage of a group of insurance contracts on the condition that, on initial recognition, the entity expects that this liability reasonably reflects an approximation of the General Model. Contracts with a coverage period of one year or less are automatically considered appropriate for the PPA approach. The simplifications from application of the PPA method do not apply to the valuation of liabilities for existing claims, which are measured with the General Model. However, it is necessary to discount these cash flows where it is expected that the balance will be paid or received within one year from the date on which the claim occurred.
The entity should apply the new standard to insurance contracts issued, including reinsurance contracts issued, reinsurance contracts held and also investment contracts with a discretionary participation feature (DPF).
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 as it does not operate in the insurance sector.

- 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.
  The Directors do not expect these amendments to have a significant impact on the Group consolidated financial statements. However, the possible effects are currently under assessment.

- On October 12, 2017, the IASB published the document **"Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)"**. 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.
  The Directors do not expect these amendments to have a significant impact on the Group consolidated financial statements. However, the possible effects are currently under assessment.

- On December 12, 2017, the IASB published the **"Annual Improvements to IFRSs 2015-2017 Cycle"** which reflects the amendments to some standards within the annual improvements process. The principal changes relate to:

  - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that when an entity obtains control a business which represents a joint operation, it must remeasure its previous holding in the business. This process however is not required in relation to obtaining joint control.

  - IAS 12 Income Taxes: The amendment clarifies that all the tax effects related to dividends (including the payments on financial instruments classified within equity) must be recognised in line with the transaction which generated these profits (profit or loss, OCI or equity).

  - IAS 23 Borrowing costs: the amendment clarifies that in the case of loans which remain in place even after the qualifying asset is ready for use or for sale, these become part of the overall financing utilised to calculate the borrowing costs.

The amendments are applicable from January 1, 2019, although advance application is permitted.
The Directors do not expect these amendments to have a significant impact on the Group consolidated financial statements. However, the possible effects are currently under assessment.

- Amendment to IAS 19 "**Plant Amendment, Curtailment or Settlement**", published on February 7, 2018. The document clarifies that an entity must recognise a change (i.e. a curtailment or a settlement) of a defined benefit plan. The amendments require the entity to update their assumptions and remeasure the net liability or asset from the plan. The amendments clarify that after the occurrence of this event, an entity utilises updated assumptions to measure the current service cost and interest for the remainder of the period.
The Directors do not expect these amendments to have a significant impact on the Group consolidated financial statements. However, the possible effects are currently under assessment.

- On September 11, 2014, the IASB published an amendment to **IFRS 10 e 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.
According to IAS 28, the profit 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 is limited to the share held in the joint venture or associate by external investors to the transaction. On the other hand, IFRS 10 provides for the recognition of the entire profit or loss in the case of loss of control of a subsidiary, also if the entity continues to hold a non-controlling holding, including also upon the sale or conferment of a subsidiary to a joint venture or associate. The amendments introduced establish that for the disposal/conferment of an asset or of a subsidiary to a joint venture or associated company, the amount of profit or loss to be recognized to the financial statements of the disposing company/conferring company depends on whether the asset or the subsidiary disposed of/conferred constitutes a business, in the definition established by IFRS 3. In the case in which the assets or the subsidiary disposed of/conferred represents a business, the entity should recognize the profit or the loss on the entire share previously held; while, in the contrary case, the share of the profit or loss concerning the stake still held by the entity should be eliminated. Currently, the IASB has suspended the application of this amendment.

- On January 30, 2014 the IASB published **IFRS 14 Regulatory Deferral Accounts** 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 not a first-time adopter and as not applying regulated tariffs 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 June 30, 2018 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).
The table illustrates the comparison between the balances in Property, plant and equipment of the Avio Group at June 30, 2018 and December 31, 2017.

	30/06/2018			31/12/2017		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	7,563		7,563	7,563		7,563
Buildings	32,736	(15,729)	17,006	32,685	(15,135)	17,550
Plant and machinery	68,436	(51,309)	17,127	67,601	(49,740)	17,861
Industrial and commercial equipment	17,511	(15,357)	2,154	17,343	(15,045)	2,298
Other assets	7,868	(6,128)	1,740	7,667	(5,779)	1,888
Assets in progress and advances	25,078	-	25,078	24,692	-	24,692
Total	**159,191**	**(88,522)**	**70,669**	**157,551**	**(85,698)**	**71,852**

The changes between December 31, 2017 and June 30, 2018 in the gross values of property, plant and equipment are illustrated in the table below (Euro thousands):

Gross value	31/12/2017	Increases	Decreases for disposals	Reclassifications and other changes	30/06/2018
Land	7,563	-	-	-	7,563
Buildings	32,685	53	-	(3)	32,736
Plant and machinery	67,601	846	-	(12)	68,436
Industrial and commercial equipment	17,343	151	-	17	17,511
Other assets	7,667	188	-	13	7,868
Assets in progress and advances	24,692	392	-	(5)	25,078
Total	**157,551**	**1,631**	**-**	**10**	**159,191**

The increases in the period of Euro 1,631 thousand mainly concern the purchase of production machinery.

Between December 31, 2017 and June 30, 2018, the changes to accumulated amortisation were as follows (in Euro thousands):

Gross value	31/12/2017	Increases	Decreases for disposals	Reclassifications and other changes	30/06/2018
Land	-	-	-	-	-
Buildings	(15,135)	(597)	-	3	(15,729)
Plant and machinery	(49,740)	(1,569)	-	-	(51,309)
Industrial and commercial equipment	(15,045)	(312)	-	-	(15,357)
Other assets	(5,779)	(336)	-	(13)	(6,128)
Total	**(85,698)**	**(2,814)**	**-**	**(10)**	**(88,522)**

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

3.2. INVESTMENT PROPERTY

The values of Investment property at June 30, 2018 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).
The table illustrates the comparison between the balances in Investment property of the Avio Group at June 30, 2018 with December 31, 2017.

	30/06/2018			31/12/2017		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	1,834	-	1,834	1,834	-	1,834
Buildings & facilities	1,886	(912)	974	1,882	(884)	998
Total	**3,720**	**(912)**	**2,808**	**3,716**	**(884)**	**2,832**

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 December 31, 2017 and June 30, 2018 in the gross values of investment property of the Avio Group are illustrated in the table below (Euro thousands):

Gross value	31/12/2017	Increases	Decreases	Reclassifications and other changes	30/06/2018
Land	1,834	-	-	-	1,834
Buildings & facilities	1,882	4	-	-	1,886
Total	**3,716**	**4**	**-**	**-**	**3,720**

Between December 31, 2017 and June 30, 2018, the changes to accumulated depreciation were as follows (in Euro thousands):

Accumulated depreciation	31/12/2017	Depreciation	Utilisations	Reclassifications and other changes	30/06/2018
Land	-	-	-	-	-
Buildings & facilities	(884)	(28)	-	-	(912)
Total	**(884)**	**(28)**	**-**	**-**	**(912)**

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 June 30, 2018 for an amount of Euro 61,005 thousand, unchanged on December 31, 2017, concerns the portion which was allocated as part of the Purchase Price Allocation of March 31, 2017, following the acquisition 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 then 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 (14.32% 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. This transaction is considered a business combination and therefore was subject to the provisions of IFRS 3.

As indicated in Note 2.7. Accounting policies, where it is reported that the accounting policies adopted in preparing the condensed consolidated half-year financial statements are in line with the recognition and measurement criteria utilised in the preparation of the consolidated financial statements at December 31, 2017 of the Avio Group and to which reference should be made, goodwill is not amortised but written down for any impairment. 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 December 31, 2017 which did not indicate the need for a write-down of the carrying amount of goodwill at that date.

At June 30, 2018, the presence of impairment indicators was assessed and, in their absence, the value written to the financial statements was not submitted to additional recoverability checks.

In terms of the methodology and the main assumptions adopted for the impairment test at December 31, 2017, reference should be made to the consolidated financial statements at December 31, 2017 of the Avio Group.

3.4. INTANGIBLE ASSETS WITH DEFINITE LIFE

The values of Intangible assets with definite life at June 30, 2018 are shown net of the accumulated amortisation provisions, as illustrated in the table below (Euro thousands).
The table illustrates the comparison between the balances in Intangible assets with definite life of the Avio Group at June 30, 2018 with December 31, 2017.

	30/06/2018			31/12/2017		
	Gross value	Accumulated amortisation	Net book value	Gross values	Accumulated amortisation	Net book value
Development costs - amortisable	71,188	(46,585)	24,603	71,188	(44,479)	26,709
Development costs - in progress	49,446	-	49,446	46,090	-	46,090
Total devel. Costs	120,634	(46,585)	74,049	117,278	(44,479)	72,799
Assets from PPA 2017 - Programmes	44,785	(3,732)	41,053	44,785	(2,239)	42,546
Concessions, licenses, trademarks & similar	7,167	(5,548)	1,619	5,842	(5,354)	488
Other	2,730	(1,418)	1,312	2,493	(1,211)	1,282
Assets in progress and advances	339	-	339	462	-	462
Total	**175,655**	**(57,283)**	**118,372**	**170,860**	**(53,283)**	**117,577**

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 principally to the projects for the new Z40, P120 and liquid oxygen and methane engines.

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 in March 2017, two intangible assets were identified relating to the Ariane and Vega aerospace programmes for a total of Euro 44,785 thousand.
The assets deriving from this allocation were measured at fair value based on the present value of the expected future benefits of the above aerospace programmes and amortised over a period of 15 years on the basis of the average useful life of the programmes.

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

The changes between December 31, 2017 and June 30, 2018 in the gross values of Intangible assets with definite life of the Avio Group are illustrated in the table below (Euro thousands):

Gross value	31/12/2017	Increases	Decreases	Reclassifications and other changes	30/06/2018
Development costs - amortisable	71,188	-	-	-	71,188
Development costs - in progress	46,090	3,357	-	-	49,446
Total devel. Costs	117,278	3,357	-	-	120,634
Assets from PPA 2017 - Programmes	44,785	-	-	-	44,785
Concessions, licenses, trademarks & similar rights	5,842	1,325	-	-	7,167
Other	2,493	87	-	150	2,730
Assets in progress and advances	462	26	-	(150)	339
Total	**170,860**	**4,795**	**-**	**-**	**175,655**

The increases between December 31, 2017 and June 30, 2018 (acquisition date of the Avio Group by Space2) with reference to the development costs mainly relate to design and testing costs for the construction of the new Z40, P120 and liquid oxygen and methane engines within the VEGA C and Ariane 6 launcher programmes.

Between December 31, 2017 and June 30, 2018, the changes to accumulated amortisation were as follows (in Euro thousands):

Accumulated amortisation	31/12/2017	Increases	Decreases	Reclassifications and other changes	30/06/2018
Development costs – amortizable	(44,479)	(2,106)	-	-	(46,585)
Development costs - in progress	-	-	-	-	-
Total devel. Costs	(44,479)	(2,106)	-	-	(46,585)
Assets from PPA 2017 - Programmes	(2,239)	(1,493)	-	-	(3,732)
Concessions, licenses, trademarks & similar rights	(5,354)	(194)	-	-	(5,548)
Other	(1,211)	(206)	-	-	(1,418)
Total	**(53,283)**	**(3,999)**	**-**	**-**	**(57,283)**

3.5. INVESTMENTS

The investments held by the Avio Group at June 30, 2018 and December 31, 2017 follows (in Euro thousands).

	30/06/2018		31/12/2017		
	Group share	Total	Group share	Total	Change
Subsidiaries					
- Servizi Colleferro – Consortium	52.00%	63	52.00%	63	-
Total non-consolidated subsidiaries		**63**		**63**	**-**
Companies under joint control					
- Europropulsion S.A.	50.00%	2,439	50.00%	3,752	(1,312)
Total companies under joint control		**2,439**		**3,752**	**(1,312)**
Associates					
- Termica Colleferro S.p.A.	40.00%	2,007	40.00%	2,007	-
- Other consortiums		5		5	-
Total associates		**2,012**		**2,012**	**-**
Other companies					
- Other companies		520		520	-
Total other companies		**520**		**520**	**-**
Total		**5,034**		**6,347**	**(1,312)**

The changes between December 31, 2017 and June 30, 2018 in the investments are shown below (Euro thousands):

	31/12/2017	Increases	Decreases	Other changes	30/06/2018
Subsidiaries	63	-	-	-	63
Companies under joint control	3,752	1,768	(3,080)	-	2,439
Associates	2,012	-	-	-	2,012
Other companies	520	-	-	-	520
Total	**6,347**	**1,768**	**(3,080)**	**0**	**5,034**

The net decrease in the period of Euro 1,312 thousand entirely relates to the change in the investment in the jointly controlled company Europropulsion S.A., measured at equity, due to an increase of Euro 1,768 thousand, equal to 50% of the period net profit of the joint venture, which more than offset the Euro 3,080 thousand decrease (equal to 50% of the dividends issued in the period by the joint venture).

Investments in associated companies include the investment in the company Termica Colleferro S.p.A., held 40%; this investment is also valued at equity.

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.

3.6. NON-CURRENT FINANCIAL ASSETS

The table below illustrates the non-current financial assets of the Avio Group at June 30, 2018 and at December 31, 2017 (in Euro thousands).

	30/06/2018	31/12/2017	Change
Shareholder loan to Termica Colleferro S.p.A.	7,440	7,440	-
	7,440	**7,440**	**-**

The account, amounting to Euro 7,440 thousand, 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.

3.7. DEFERRED TAX ASSETS

The deferred tax assets of the Avio Group recorded in the accounts amount to Euro 75,528 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):

	30/06/2018
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.	34,942
Financial charges exceeding 30% of EBITDA	43,919
Temporary differences deriving from current corporate operations	
Provision for personnel charges, former employees and similar	1,786
Other deductible temporary differences	4,334
Total gross deferred tax assets	**84,981**
Deferred tax liability on temporary differences	
Temporary differences deriving from previous corporate operations	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(11,861)
Tax effect related to R&D expenses	(4,776)
Temporary differences deriving from current corporate operations	
Other temporary assessable differences	(804)
Total gross deferred tax liabilities	**(17,440)**
Net deferred tax assets/(liabilities)	**67,541**
Deferred tax assets on tax losses (1)	57,993
Deferred tax assets not recorded	(50,006)
Net deferred tax assets (liabilities) recorded	**75,528**

(1) *Calculated at 24% of the total value of tax losses at that date.*

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.

Deferred tax assets recognised to the financial statements mainly concern the future tax deductibility of the goodwill amortisation relating to the "Aviation" business unit (sold in 2013), the financial charges exceeding 30% of gross operating profit and the intangible assets for client accreditation redefined as part of the purchase price allocation of 2017, as commented upon previously, in addition to prior tax losses.

3.8. OTHER NON-CURRENT ASSETS

The table below illustrates other non-current assets at June 30, 2018 and December 31, 2017 (Euro thousands).

	30/06/2018	31/12/2017	Change
Other non-current assets	66,241	65,521	720
	66,241	**65,521**	**720**

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

	30/06/2018	31/12/2017	Change
Receivables from the General Electric Group	58,220	58,220	-
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	7,427	6,700	727
Guarantee deposits	453	454	(1)
Other non-current receivables	141	146	(6)
Total	**66,241**	**65,521**	**720**

"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 with reference to any liabilities which should arise in relation to indirect taxes concerning the above-mentioned operations in 2013, providing Avio the sums requested by the Tax Office within the time period for the payments.

For further information, reference should be made to Note "3.22. 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 - non-current portion", amounting to Euro 7,427 thousand, refer to the discounted value of the non-current portion of the concessions granted by the Ministry for Economic Development under the rules of Law 808/85.

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 3.22).

The amounts to be received within 12 months are classified under "Other current assets" (Note 3.14).

CURRENT ASSETS

3.9. INVENTORIES AND ADVANCES TO SUPPLIERS

The table below illustrates inventories at June 30, 2018 and December 31, 2017 (Euro thousands).

	30/06/2018	31/12/2017	Change
Inventories	117,038	125,789	(8,751)
	117,038	**125,789**	**(8,751)**

The breakdown of the account at June 30, 2018 is presented below (Euro thousands):

	30/06/2018		
	Gross value	Write-down provision	Net value
Raw materials, ancillaries and consumables	37,457	(3,277)	34,180
Products in work-in-progress	8,353	(424)	7,929
Finished products and other inventories	8,250	(4)	8,246
Advances to suppliers	66,683	-	66,683
	120,743	**(3,705)**	**117,038**

Finished products and other inventories relate principally to the land owned by the subsidiary Secosvim, which is expected to be sold during the normal operational activities of the subsidiary, classified to this account of the Group consolidated financial statements in accordance with the accounting standards applied.
Advances to suppliers concern payments made in advance of the execution of the relative supplies based on conditions established in the purchase contracts.

3.10. CONTRACT WORK-IN-PROGRESS

Production and research and development on orders are presented in the financial statements in two separate accounts: "Contract work-in-progress" and "Advances from clients for contract work-in-progress".

"Contract work-in-progress", recognised to the assets section of the Balance Sheet, includes the net balance of production orders and research and development for which, on the basis of analysis carried out by individual order, the gross value of contract work-in-progress is higher at the reporting date than the amount of advances received from clients.

"Advances from clients for contract work-in -progress", recognised to the liabilities section of the Balance Sheet, includes the net balance of production orders and research and development for which, on the basis of analysis carried out by individual order, the value of the advances received from clients is higher at the reporting date than the gross value of contract work-in-progress.

Contract work-in-progress is measured on the advancement of the production orders and research and development 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):

	30/06/2018	31/12/2017	Change
Contract work-in-progress	205,077	111,237	93,840
Advances from clients for contract work-in-progress	(276,174)	(242,519)	(33,655)
Net total	**(71,097)**	**(131,282)**	**60,185**

The following table outlines advances from clients for contracts work-in-progress concerning production orders and research and development whose gross value is higher than advances received from clients and, therefore, the net balance is recognised to assets in the Consolidated Balance Sheet (in Euro thousands):

	30/06/2018	31/12/2017	Change
Contract work-in-progress (gross)	969,486	570,720	398,766
Payments on account on work-in-progress (gross)	(764,409)	(459,483)	(304,926)
Contract work-in-progress (net)	**205,077**	**111,237**	**93,840**

The following table outlines the situation of advances from clients for contracts work-in-progress concerning production orders and research and development for which the value of advances received from clients is higher than the gross value of contract work-in-progress and, therefore, the net balance is recognised to the liabilities section of the Balance Sheet (in Euro thousands).

	30/06/2018	31/12/2017	Change
Contract work-in-progress (gross)	450,441	643,391	(192,950)
Payments on account on work-in-progress (gross)	(726,615)	(885,909)	159,294
Advances from clients on work-in-progress (net)	**(276,174)**	**(242,518)**	**(33,656)**

The Avio Group has matured benefits for research and development tax credits under Law No. 232 of December 11, 2016 "2017 Finance Act" against research and development commissioned by the European Space Agency. These benefits are recognised to the income statement based on the advancement of the research and development on long-term orders which are part of the contract work-in-progress.
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 June 30, 2018 and December 31, 2017 (Euro thousands).

	30/06/2018	31/12/2017	Change
Trade receivables	4,641	8,508	(3,867)
	4,641	**8,508**	**(3,867)**

The breakdown of trade receivables at the reporting date is shown below (Euro thousands):

	30/06/2018	31/12/2017	Change
Receivables from third parties	2,768	4,439	(1,671)
Receivables from associates and jointly controlled companies	1,231	3,397	(2,167)
	3,998	**7,836**	**(3,838)**
Receivables from associates and jointly controlled companies beyond one year	642	672	(29)
	642	672	(29)
Total	**4,641**	**8,508**	**(3,867)**

The nominal value of receivables from third parties was adjusted by a doubtful debt provision of Euro 483 thousand in order to reflect their fair value.

Receivables from third parties

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

	30/06/2018	31/12/2017	Change
Gross value	3,251	4,922	(1,671)
less: doubtful debt provision	(483)	(483)	-
Total	**2,768**	**4,439**	**(1,671)**

The principal receivables are due from ArianeGroup and the European Space Agency (ESA).

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

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

	30/06/2018	31/12/2017	Change
Europropulsion S.A.	588	2,858	(2,270)
Servizi Colleferro S.C.p.A.	280	101	179
Potable Water Services Consortium	290	333	(43)
Termica Colleferro S.p.A. due within one year	73	105	(33)
	1,231	3,397	(2,167)
Termica Colleferro S.p.A. due beyond one year	642	672	(29)
	642	672	(29)
Total	**1,873**	**4,069**	**(2,196)**

3.12. CASH AND CASH EQUIVALENTS

The table below illustrates cash and cash equivalents at June 30, 2018 and December 31, 2017 (Euro thousands).

	30/06/2018	31/12/2017	Change
Cash and cash equivalents	73,509	107,033	(33,524)
Total	**73,509**	**107,033**	**(33,524)**

Cash and cash equivalents mainly concerning balances on bank current accounts.
Reference should be made to the Cash flow statement with regards to the movements in the period.

3.13. CURRENT TAX RECEIVABLES

The table below illustrates tax receivables at June 30, 2018 and December 31, 2017 (Euro thousands).

	30/06/2018	31/12/2017	Change
Current tax assets	67,839	72,231	(4,392)
Total	**67,839**	**72,231**	**(4,392)**

The decrease between December 31, 2017 and June 30, 2018 was Euro 4,392 thousand; this essentially concerns the utilisation of the research and development tax credit, as outlined in the following table (in Euro thousands):

	30/06/2018	31/12/2017	Change
VAT receivables	49,370	46,459	2,910
Research and development tax receivable (year 2017)	13,226	20,000	(6,774)
Receivables from tax authorities	5,006	5,534	(528)
EU VAT receivables	237	237	-
Total	**67,839**	**72,231**	**(4,392)**

VAT receivables

VAT receivables, for Euro 49,370 thousand, include:
- Euro 42,965 thousand, relating to VAT reimbursement request to the Tax Authorities;
- Euro 6,404 thousand relating to VAT receivables not requested for repayment.

Between December 31, 2017 and June 30, 2018, the Group VAT receivable increased Euro 2.9 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/distribution, 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.

Given this structural generation of receivables due to the particular nature of the commercial transactions and considering that one of Avio's main clients was the subsidiary Spacelab, which was not required to apply VAT in invoicing the ESA, in 2016 the parent Avio S.p.A. appealed to the Tax Agency to access the same VAT non-applicability status as enjoyed by the subsidiary Spacelab, maintaining however the right to apply VAT ceilings for the issue of declarations of intent for the non-application of VAT by Italian suppliers. The acceptance of this appeal produced effects only from January 1, 2018, as the parent company was only permitted to use the VAT ceiling matured in 2017 from that date.
Therefore, as 2018 is the first year of applying that granted under the appeal, and as the complex activity of issuing the declarations of intent with the very many and widely-located suppliers of the parent Avio is still in the structuring phase, considering that the parent was not immediately able to utilise the VAT ceiling matured by Spacelab, in the first half of 2018 the above generated a VAT receivable on behalf of Avio S.p.A.. This receivable was however significantly lower than the increase of recent years. In the second half of 2018, with the optimisation of the management of the declarations of intent, a VAT receivable of a lesser amount is expected to be generated.

As reported in the "Subsequent events" paragraph of the Directors' Report, at the beginning of July, of the above-mentioned VAT receivables requested for repayment, the Tax Agency settled the VAT receivable of the subsidiary Spacelab concerning FY 2016, for a total Euro 8,191 thousand, in addition to interest of Euro 98 thousand.

Research and development tax credit (year 2017)

The research and development tax credit at December 31, 2017 was Euro 20 million and was matured by the subsidiary ELV (now Spacelab).
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 receivable 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 were particularly relevant for the subsidiary ELV (now Spacelab) 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 analysis indicates that:

- the research and development regarding VEGA C carried out by ELV (now Spacelab) on behalf of the ESA is covered by the tax credit;

- part of the 2017 costs incurred by ELV (now Spacelab) for such research and development are covered by the tax credit;

- the qualifying costs incurred in 2017 by ELV are greater than the 2012-2014 benchmark average of similar costs.

On the basis of that outlined above, at December 31, 2017 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.
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".
On the basis of that stated above:

- a benefit of Euro 6.1 million was recognised to the 2017 Income Statement;

- a benefit of Euro 1.2 million was recognised to H1 2018 Income Statement.

As described previously, in the first half of 2018 the parent Avio acquired the "launchers" business unit of Spacelab, including the stated tax credit. Avio therefore utilised the credit to offset its tax and social security charges, for Euro 6.8 million.

In the first half of 2018, no portion of the additional potential benefits from the tax credits maturing in 2018 was recognised.

Tax receivables

The Tax receivables account for Euro 5,006 thousand principally concerns the IRAP tax receivables of Euro 1,024 thousand, withholding taxes on interest receivables for Euro 915 thousand, tax receivables of the Guyanan subsidiary Regulus for Euro 1,848 thousand and other tax receivables for Euro 1,220 thousand.

EU VAT receivables

The EU VAT receivables relate to inter-EU transactions and amount to Euro 237 thousand.

3.14. OTHER CURRENT ASSETS

The table below illustrates other current assets at June 30, 2018 and December 31, 2017 (Euro thousands).

	30/06/2018	31/12/2017	Change
Other current assets	12,602	8,664	3,939
Total	**12,602**	**8,664**	**3,939**

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

	30/06/2018	31/12/2017	Change
Social security institutions	341	247	94
Employee receivables	902	1,004	(102)
Economic Development Ministry for disbursements pursuant to Law 808/85	7,616	4,881	2,734
Other receivables from non-consolidated subsidiaries			
- *Servizi Colleferro S.C.p.A.*	206	76	130
Other debtors	2,010	1,743	268
Prepayments and accrued income	1,526	712	814
Total	**12,602**	**8,664**	**3,939**

Receivables from the "Economic Development Ministry for disbursements pursuant to Law 808/85", amounting to Euro 7,616 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 increase of Euro 2,734 thousand over December 31, 2017 mainly concerns the issue of a Settlement Decree by the Ministry for Economic Development on March 15, 2018 regarding a research and development project.

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 2,010 thousand, mainly concern recharges to third parties for environmental and fiscal charges incurred by the Group.

EQUITY

3.15. SHARE CAPITAL

The share capital of the parent company Avio S.p.A. amounts to Euro 90,964,212 at June 30, 2018; 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 SPAC (Special Purpose Acquisition Company) Space2 S.p.A., following the partial proportional spin-off effective as of April 5, 2017, with the beneficiary being the new SPAC Space3 S.p.A. (this latter company therefore not part of the Avio Group). The company Space2, following the acquisition of the Avio Group on March 31, 2017, then merged by incorporation the parent Avio S.p.A., effective as of April 10, 2017, and was newly 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 June 30, 2018 comprised 26,359,346 ordinary shares.

3.16. SHARE PREMIUM RESERVE

The share premium reserve of Euro 163,897 thousand at December 31, 2017 was allocated, by Shareholders' Meeting motion of May 24, 2018, for Euro 18,185 thousand to reintegrate the legal reserve up to one-fifth of the share capital, and for Euro 1,456 thousand in coverage of the 2015 share capital increase reserve of the SPAC Space2 S.p.A..
The share premium reserve, following these allocations, was therefore Euro 144,256 thousand at June 30, 2018.

3.17. OTHER RESERVES

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

	31/12/2017
Actuarial gains/(losses) reserve	(3,705)
Legal reserve	18,193
Total	**14,488**

Other reserves comprises:
- a negative reserve of Euro 3,705 thousand regarding losses net of actuarial gains from the application of IAS 19 revised, with the relative tax effect where applicable;
- the legal reserve for a positive Euro 18,193 thousand.

3.18. NON-CONTROLLING INTERESTS

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

Consolidated companies	30/06/2018			
	% Non-controlling interests	Capital and reserves	Profit/(loss)	Equity non-controlling Interests
ELV S.p.A.	30.00%	6,724	(142)	6,582
Regulus S.A.	40.00%	4,529	401	4,930
		11,253	**260**	**11,512**

NON-CURRENT LIABILITIES

3.19. NON-CURRENT FINANCIAL LIABILIITES

Non-current financial liabilities at June 30, 2018 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.

3.20. 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 fulfil 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):

	30/06/2018	31/12/2017	Change
- Defined benefit plans:			
Post-employment benefit	5,286	5,508	(222)
Other defined benefit plans	2,474	2,353	121
	7,760	7,861	(101)
- Other long-term benefits	3,363	3,046	317
Total employee benefit provisions	**11,123**	**10,907**	**216**
of which:			
- Italy	9,571	9,589	(18)
- Other Countries	1,552	1,318	234
	11,123	**10,907**	**216**

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 31/12/2017	**7,861**	**3,046**	**10,907**
Financial charges/(income)	(11)	(2)	(13)
Extraordinary charges/(income) from actuarial adjustment	193	101	294
Actuarial (gains)/losses in income statement		(17)	(17)
Actuarial (gains)/losses in comprehensive income statement	(24)		(24)
Pension cost current employees	52	292	344
Benefits paid	(311)	(56)	(367)
Values at 30/06/2018	**7,760**	**3,363**	**11,123**

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

	30/06/2018	31/12/2017
Discount rate	0.60%	0.50%
Expected salary increases	2.24%	2.09%
Inflation rate	1.50%	1.50%
Average employee turnover rate	4.85%	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.

3.21. PROVISIONS FOR RISKS AND CHARGES

The table below illustrates provisions for risks and charges at June 30, 2018 and December 31, 2017 (Euro thousands).

	30/06/2018	31/12/2017	Change
Provisions for risks and charges	14,545	16,340	(1,795)
Total	**14,545**	**16,340**	**(1,795)**

The breakdown of the provisions for risks and charges at June 30, 2018 is presented below (Euro thousands):

	30/06/2018		
	Current portion	Non-current portion	Total
Provision for variable remuneration	2,788	1,513	4,301
Provision for legal and environmental risks and charges	3,101	2,917	6,018
Provision for contractual and commercial risks and charges	950	1,933	2,883
Provision for tax risks	65	1,277	1,342
Total	**6,904**	**7,640**	**14,545**

These provisions include:

- provisions for variable remuneration for Euro 4.3 million, mainly comprising employee remuneration on the achievement of individual and corporate objectives;
- provisions for legal and environmental risks and charges, against litigation and trade union disputes in course, amount to Euro 6 million;
- provisions for contractual and commercial risks and charges, mainly related to the provisions to cover potential commercial charges, 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 2.9 million;
- provisions for tax risks, amounting to Euro 1.3 million, mainly relating to the provision accrued against possible negative outcomes from Group tax disputes.

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 January 1, 2018 to June 30, 2018 in the total provisions, current and non-current portion, are illustrated in the table below (Euro thousands):

	31/12/2017	Provisions	Other changes	Utilisations	Releases	30/06/2018
Provision for variable remuneration	6,863	3,188		(5,750)		4,301
Provision for legal and environmental risks and charges	6,275			(258)		6,018
Provision for contractual and commercial risks and charges	1,754	1,153			(23)	2,883
Provision for tax risks	1,447			(105)		1,342
Total	**16,340**	**4,341**	**0**	**(6,113)**	**(23)**	**14,545**

The principal changes between January 1, 2018 and June 30, 2018 are shown:

- the provision for variable remuneration was utilised for Euro 5.7 million, mainly in consideration of the amounts paid to employees as bonuses related to the achievement of individual and company objectives. The provision of Euro 3.1 million mainly relates to variable remuneration which will be paid at the beginning of 2019, on the basis of the achievement of individual and company objectives for the year 2018, in addition to a long-term incentive plan for senior Group managers;

- the risks and legal and environmental charge provisions were utilised for Euro 258 thousand, of which Euro 242 thousand concerning environmental reclamation costs;

- the tax risk provisions reduced principally following the utilisation of Euro 105 thousand to settle the dispute concerning withholding taxes applied in the years 2012-2013 on loans received by the Group for the leveraged buyout of 2007, by which the previous owner (the Cinven fund) acquired the latter;

  For the tax risks, reference should be made to the "Legal and tax cases and contingent liabilities" paragraph of the Explanatory Notes.

3.22. OTHER NON-CURRENT LIABILITIES

The table below illustrates the account at June 30, 2018 and December 31, 2017 (Euro thousands).

	30/06/2018	31/12/2017	Change
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 (MiSE) for disbursements pursuant to Law 808/85 (rules pre-2007) - portion beyond one year	42,051	42,051	-
Payables to MiSE for disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	1,849		1,849
Deferred income on disbursements pursuant to Law 808/85 - beyond one year	19,743	14,828	4,915
Other tax payables	441	441	-
Other deferred income	692	731	(38)
Total	**122,996**	**116,270**	**6,726**

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 must indemnify Avio with reference to any liabilities which should arise in relation to indirect taxes concerning the above-mentioned operations, providing Avio 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 2018 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.

Payables to MiSE for disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year

Disclosure upon the payable to MiSE for disbursements as per Law 808/85 according to the ex MiSE Decree of 3/07/2015 of Euro 1,849 thousand is presented below.

With Economic Development Ministry Decree of July 3, 2015, the criteria and means for funding to promote and support aerospace research and development projects to consolidate and grow Italian technology and the sector's competitivity were defined.

The measures under the Decree concern zero-rate subsidised loans granted within the limits established by EU rules upon research, development and innovation.

The loans are repaid for 90% of the settlement amount through annual equal instalments over the issue duration and however for a period of not less than ten years, beginning from the year subsequent to the final disbursement.

On February 19, 2018, the parent Avio was recognised the Settlement Decree by the Economic Development Ministry with regards to expenses incurred as part of a research and development project which falls within the scope of the above-mentioned July 3, 2015 Decree.
The final disbursement under the plan reported in the Decree of February 19 is in 2029, with repayment therefore from the subsequent year (2030) until 2045.

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

The account, amounting to Euro 19,743 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.
An increase of Euro 4,915 thousand is reported over December 31, 2017, considering the issue of a Settlement Decree by the Economic Development Ministry on March 15, 2018 concerning a qualifying research and development project.

Other tax payables

This account entirely concerns the two 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 period between 2001 and August 2005.
The two instalments mature on September 30, 2019 and September 30, 2020.

CURRENT LIABILITIES

3.23. CURRENT FINANCIAL LIABILITIES

The table below illustrates current financial liabilities at June 30, 2018 and December 31,2017 (Euro thousands).

	30/06/2018	31/12/2017	Change
Current financial liabilities	11,749	25,259	(13,510)
Total	**11,749**	**25,259**	**(13,510)**

The account at June 30, 2018 comprised financial payables to the jointly-controlled company Europropulsion, relating to the mechanism of distributing to its shareholders the financial resources available to the joint venture, in accordance with a specific treasury management contract.

3.24. CURRENT PORTION OF NON-CURRENT FINANCIAL PAYABLES

The table below illustrates this account at June 30, 2018 and December 31,2017 (Euro thousands).

	30/06/2018	31/12/2017	Change
Current portion of non-current financial payables	60	60	-
Total	**60**	**60**	**-**

The current portion of Euro 60 thousand of financial payables refers to accumulated interest on the recent EIB loans. Interest matures bi-annually.

3.25. TRADE PAYABLES

The table below illustrates trade payables at June 30, 2018 and December 31, 2017 (Euro thousands).

	30/06/2018	31/12/2017	Change
Trade payables	111,904	89,441	22,463
Total	**111,904**	**89,441**	**22,463**

Trade payables of the Avio Group at June 30, 2018 amount to Euro 111.9 million; this amount includes, for Euro 2.8 million, trade payables to associated companies, jointly-controlled companies and non-consolidated subsidiaries as follows (Euro thousands):

	30/06/2018	31/12/2017	Change
Europropulsion S.A.	834	10,102	(9,268)
Termica Colleferro S.p.A.	1,697	70	1,627
Potable Water Services Consortium	65	-	65
Servizi Colleferro - Consortium Limited Liability Company	215	-	215
Total	**2,811**	**10,172**	**(7,361)**

3.26. CURRENT TAX PAYABLES

The table below illustrates current tax liabilities at June 30, 2018 and December 31,2017 (Euro thousands).

	30/06/2018	31/12/2017	Change
Tax payables	2,040	1,982	58
Total	**2,040**	**1,982**	**58**

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

	30/06/2018	31/12/2017	Change
Payables for withholding taxes	1,445	1,465	(20)
Payables for other taxes and duties	540	286	254
IRAP payables	55		55
Foreign income taxes		231	(231)
Total	**2,040**	**1,982**	**58**

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 period between 2001 and August 2005.

Payables for foreign taxes, present in the comparative December 31, 2017 figures, although not on an interim basis as the charges are paid in the meantime, 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.

3.27. OTHER CURRENT LIABILITIES

The table below illustrates other current liabilities at June 30, 2018 and December 31,2017 (Euro thousands).

	30/06/2018	31/12/2017	Change
Other current liabilities	21,049	17,600	3,449
Total	**21,049**	**17,600**	**3,449**

Other current liabilities at June 30, 2018 and December 31, 2017 were as follows (Euro thousands):

	30/06/2018	31/12/2017	Change
Customer advances for the supply of goods and services	3,355	3,462	(107)
Payables due to social security institutions	3,357	3,233	124
Employee payables	8,485	6,526	1,959
Other payables to third parties	721	1,239	(518)
Deferred income on disbursements pursuant to Law 808/85 - current portion	558	1,116	(558)
Other accrued liabilities and deferred income	4,574	2,025	2,549
Total	**21,049**	**17,600**	**3,449**

Customer advances for the supply of goods and services

The account mainly relates to advances received from final customers against supplies for Euro 3,355 thousand.

Amounts due to social security institutions

The account concerns amounts to be paid, amounting to Euro 3,357 thousand, relating to company and employee contributions, in accordance with regulations in force.

Employee payables

Employee payables amount to Euro 8,485 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 721 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 4,574 thousand, mainly refers to the deferment of commercial costs and grants.

INCOME STATEMENT

INTRODUCTION

The comparative H1 2017 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. 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 condensed consolidated half-year financial statements, with the aggregation of the result of the acquirer/incorporating company Space2 and of the Group result from April 1, 2017.

Therefore, the "pro-forma" figures for the first six months of 2017 were prepared and presented in the Directors' Report 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.

For a complete review on the H1 2017 performance, reference should therefore be made to the Directors' Report.

3.28. REVENUES

Total revenues, comprising the change in contract work-in-progress and revenues from product sales and the provision of services, amounted to Euro 202,005 thousand for H1 2018. They amounted Euro 101,287 thousand in the first half of 2017.

The revenues therefore include the effect of the accounting of research and development activities as described at paragraph 2.7 "Accounting policies" of the 2017 Annual Accounts, reported below.
Research and development tax credits (Law No. 232/2016) are recognised to the financial statements to the extent that the tax credit is considered recoverable and utilisable. These credits 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 credit was calculated in the accounts "Service costs" and "Change in contract work-in-progress".

3.29. OTHER OPERATING REVENUES

In the first half of 2018, the account totalled Euro 1,452 thousand (Euro 1,238 thousand in H1 2017) - increasing Euro 214 thousand.

In the first half of 2018, the account comprised:

- income for the portion recognised to the income statement of the disbursements as per Law 808/85 for Euro 558 thousand;
- recovery of costs, damages and other income for Euro 328 thousand;
- prior year income of Euro 338 thousand;
- other income of Euro 206 thousand;
- provision releases of Euro 23 thousand.

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.

3.30. CONSUMPTION OF RAW MATERIALS

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

	H1 2018	H1 2017	Change
Purchase of raw materials	61,187	34,532	26,655
Change in inventories of raw materials	3,695	(2,323)	6,018
Total	**64,882**	**32,209**	**32,673**

In terms of the significant change between the first half of 2018 and the first half of 2017, reference should be made to the "Introduction".

3.31. SERVICE COSTS

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

	H1 2018	H1 2017	Change
Service costs	95,042	49,763	45,279
Rent, lease and similar costs	1,023	113	910
Total	**96,065**	**49,876**	**46,189**

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.

In terms of the significant change between the first half of 2018 and the first half of 2017, reference should be made to the "Introduction".

3.32. PERSONNEL EXPENSES

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

	H1 2018	H1 2017	Change
Wages and salaries	22,168	11,117	11,051
Social security charges	6,919	2,662	4,256
Provision for variable remuneration	1,865	1,935	(70)
Other long-term benefits - current employees	292	178	114
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	(17)	19	(36)
Provision for "Other defined benefit plans"	54	17	37
Other personnel expenses	1,370	715	655
Total	**32,651**	**16,644**	**16,008**

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

	H1 2018	H1 2017	Change
Blue-collar	330	329	1
White-collar	441	410	31
Executives	25	23	2
Total	**796**	**762**	**34**

3.33. AMORTISATION & DEPRECIATION

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

	H1 2018	H1 2017	Change
Property, plant & equipment	2,814	1,262	1,552
Investment property	28	14	14
Intangible assets with definite life	3,999	2,054	1,945
Total	**6,841**	**3,330**	**3,511**

Amortisation of intangible assets with definite life mainly comprises Euro 2,106 thousand for the amortisation of development costs capitalised and Euro 1,493 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 in 2017.

3.34. OTHER OPERATING COSTS

This account amounts to Euro 4,984 thousand (Euro 1,264 thousand in H1 2017) and mainly comprises the following items:

- indirect taxes of Euro 1,611 thousand;
- accruals to extraordinary personnel charge provisions of Euro 1,276 thousand;
- accruals to the Contractual and commercial charges provisions of Euro 1,153 thousand;
- prior year charges of 489 thousand concerning, among others, the adjustment of the valuation of employee benefit provisions to actuarial valuations;
- other operating costs for Euro 330 thousand;

3.35. 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 first half of 2018, amounting to income of Euro 1,768 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).

In the comparative 2017 period, the effect of the valuation of investment in the above company was Euro 259 thousand.

3.36. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to costs capitalised for internally constructed assets, amounting to Euro 3,576 thousand, includes the costs for the internal construction of intangible assets, and to a lesser extent, tangible assets, recorded under assets in the Balance Sheet.

The details are as follows:

- internal development costs of Euro 3,357 thousand;
- costs for the internal production of tangible assets for Euro 220 thousand.

3.37. FINANCIAL INCOME

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

	H1 2018	H1 2017	Change
Bank interest income	8	103	(95)
Financial income on Savings Bonds	-	374	(374)
Other financial income	82	87	(5)
	90	564	(474)
Realised exchange gains	495	90	405
Unrealised exchange gains	5	-	5
	500	90	410
Total	**590**	**654**	**(64)**

Financial income of Euro 590 thousand principally concerned:

- interest income on bank current accounts for Euro 8 thousand;
- interest income from the discounting of receivables for Euro 82 thousand;
- exchange differences for Euro 500 thousand.

Excluding exchange differences, the decrease of Euro 474 thousand on the preceding half-year relates to the fact that in this period Savings Bonds of the SPAC Space2 were recognised to the financial statements (in which the liquidity of this vehicle which purchased the Avio Group was invested), which were settled at the beginning of the second half of 2017.

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

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

3.38. FINANCIAL CHARGES

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

	H1 2018	H1 2017	Change
Interest on Senior Term Loan Agreement	-	1,698	(1,698)
Interest on EIB loans	180		180
Interest on other payables	15	47	(32)
Discounting on employee benefits	(13)	(6)	(7)
Charges on interest hedge contracts (IRS)	-	239	(239)
	182	1,978	(1,796)
Realised exchange losses	569	93	476
Unrealised exchange losses	74	73	1
	643	166	477
Total	**825**	**2,144**	**(1,319)**

Financial charges, amounting to Euro 825 thousand, decreased Euro 1,319 thousand on the first half of 2017.

The difference principally relates to the presence in the first half of 2017 of interest charges and of charges concerning the derivative instruments relating to the Senior Term and Revolving Facilities Agreement signed on April 1, 2015, which 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.

3.39. INCOME TAXES

"Income taxes" report a net charge of Euro 1,223 thousand, comprising:

- current income taxes of Euro 494 thousand, of which Euro 476 thousand concerning the subsidiary Regulus;
- deferred tax charges of Euro 728 thousand.

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

	H1 2018
Pre-tax result	7,430
Ordinary rate applied	24.00%
Theoretical tax charge	1,783
Effect of increases (decreases) to the ordinary rate:	
Permanent increases	16,648
Permanent decreases	(10,004)
Temporary difference increases	6,526
Temporary difference decreases	(42,078)
Total changes	(28,907)
Group tax loss	(21,478)
Net deferred tax (income)/charge	(728)
Current taxes Italian companies	(19)
Current taxes overseas companies	(476)
	(1,223)

3.40. 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

	H1 2018	H1 2017
Group Net Profit (Euro thousands)	5,948	2,060
Weighted average number of shares in circulation	26,359,346	23,799,473
Basic earnings per share – in Euro	0.23	0.09
Diluted earnings per Share – in Euro	0.22[1]	0.08[1]

[1] The diluted earnings per share was calculated assuming the conversion of the 800,000 sponsor warrants into ordinary shares and, with regards to H1 2017, the potentially convertible 2,034,878 market warrants are considered, which converted into 2,025,429 ordinary shares.

4. DISCLOSURE BY OPERATING AND REGIONAL SEGMENTS

Disclosure by operating segment

In the first half of 2018, the Avio Group continued operating activities in line with previous years, exclusively in the Space business. Consequently, all the assets and liabilities, costs and revenues refer exclusively to a single sector of activity, which corresponds to the consolidation scope of the Group.

The Group workforce numbered 804 at June 30, 2018. At December 31, 2017, Group employees numbered 782.

Disclosure by regional segment

The regional breakdown of Group revenues (defined based on customer country location), in 2018 (and in line with the previous years) refers completely to Italy and Europe.

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

5. COMMITMENTS AND RISKS

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

	30/06/2018
Guarantees given:	
Unsecured guarantees:	
Sureties issued to third parties on behalf of Group	11,049
Other guarantees	13,402
Total guarantees given	24,451
Guarantees received:	
Sureties and guarantees received	1,703
	1,703

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 June 30, 2018, Termica Colleferro's residual debt on this loan was Euro 18.8 million.

Also on February 24, 2010, the shareholder SECI issued an independent guarantee for the prompt fulfilment 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 7.4 million. The residual commitment of Avio to grant additional shareholder loans to this associate is Euro 0.1 million, due to the fact that, as the bank loan is gradually being repaid by Termica Colleferro, the ordinary commitment of Euro 12.1 million has now reduced to Euro 7.5 million. 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, a number of Group companies were either plaintiffs or defendants to legal, civil, administrative and tax cases related to normal business operations, as outlined below.
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. 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. 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

Constitutional Court, with judgment No. 265/2017, declared the question of unlawfulness raised as unfounded, considering that the harmonisation of the terms to establish the parameters for deliberate and negligent culpability for the disaster as per Article 434 of the Criminal Code falls within the legitimate exercise of legislative discretion. After the Constitutional Court's pronouncement, the case "returned" to the Velletri Court: the judge (Mr. Coderoni) was transferred and the Chair of the Court is in the process of assigning the case to a differing judge. The next hearing is scheduled for 25/10/2018 before the assigned judge Mr. Luigi Tirone in furtherance of the case and the scheduling of additional investigative activities.

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 was held on June 20, 2018, while publication of the investigation order is awaiting publication, by which the Court will set a new deadline for the Chair of the Court to file documented clarifications to facilitate consideration of the criminal case pending before the Velletri Court.

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) Avio S.p.A. tax assessments and disputes

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" or "In") 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 S.A. 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 tax assessment notices;
- limited to the parent Avio S.p.A. formally concluded with the closure notice received on July 3, 2018, with the receipt on November 9, 2017 and May 31, 2018 of information concerning the commercial transactions undertaken with Nuovo Pignone Holding S.p.A. (previously GE Italia Holding S.p.A.) in the years 2013 and 2014.

Within this investigation the Finance Police issued the following formal assessment letters (hereafter also "PVC") relating to specific issues contested, which have not yet been settled or have recently been settled, which are illustrated below in greater detail.

a.1.1.1) Formal Assessment Letter (PVC) notified on June 27, 2017

1) <u>"black-list" costs</u>

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 proposes the recovery of income taxes, for IRES and IRAP, in relation to costs incurred by Avio S.p.A. in the 2012 and 2013 periods from suppliers located in "black list" countries or territories with privileged tax regimes pursuant to Article 110, paragraphs 10 and 11, of the CFA.

Challenge of black-list costs concerning the 2012 tax year

With regards to the challenge upon black-list costs drawn up by the Finance Police concerning the 2012 tax year, on January 4, 2018, in execution of the above PVC, the Large Contributions Office of the Piedmont Regional section of the Tax Agency (hereafter "Piedmont DRE") sent a tax assessment notice, for the tax year 2012, proposing the recovery of income taxes, for IRES alone, 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, taking account also of the information provided by Avio S.p.A. in response to the specific questionnaire Q00099/2017 of August 1, 2017, notified in the same Piedmont DRE.

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, which resulted in, on May 30, 2018, the settlement of a lesser recovery amount of Euro 187 thousand, with IRES, penalties and interest totalling Euro 76 thousand.

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 the above tax liabilities which may arise.

Challenge of black-list costs concerning the 2013 tax year

With regards to the challenge of black-list costs drawn up by the Finance Police for the 2013 tax year, on April 10, 2018, the Piedmont DRE sent to Avio S.p.A. questionnaire No. Q00040/2018, in response to which the company produced in a timely manner the documentation required to prove the existence of exemptions from the application of the black-list cost rules. The Piedmont DRE has to date yet to notify the company of any assessment regarding the issue.

2) Failure 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 failure 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.

Challenge upon non-payment of withholding taxes for the 2012 tax year

On January 3, 2018, based on the above-mentioned PVC and taking account also of the information provided by Avio S.p.A., the Piedmont DRE sent a tax assessment notice to the latter, for the tax year 2012, with the recovery of withholding taxes - reduced compared to the amount proposed by the Finance Police - of 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.

On May 30, 2018, the assessment was defined for a lower amount, including penalties and interest, of Euro 100 thousand.

Challenge upon non-payment of withholding taxes for the 2013 tax year

With regards to the 2013 tax year, at the reporting date, the Piedmont DRE had not sent to the company questionnaires or assessment notices.

a.1.1.2) 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 with judgment 729/05/17 of May 25, 2017.

An appeal was taken made against this decision to the Piedmont Regional Tax Commission. The hearing for this dispute was fixed for the end of October 2018.

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.1.2) Questionnaire of the Piedmont DRE of June 20, 2018 concerning transfer prices between Avio S.p.A. and Regulus S.A.

On June 20, 2018 the Piedmont DRE sent Avio S.p.A. questionnaire No. Q00071/2018 requesting information and documents concerning transactions undertaken in the 2013 tax year between the company and the subsidiary Regulus S.A., in order to assess the correct tax treatment of the remuneration according to the conditions and prices which would be paid between independent parties operating under free competition conditions and in comparable circumstances in accordance with Article 110, paragraph 7 of the Income Tax Law (covering the tax treatment of transfer pricing), on the basis that Regulus S.A. is tax resident in French Guyana.

Avio S.p.A. acted promptly, supported also by its tax consultants, to provide the Piedmont DRE with all of the requested information and documents.

At the reporting date, negotiations with the Piedmont DRE are still in progress as the document and information production phase has not yet been completed.

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 exemption from sanctions of 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 concerning 2012 and 2013, totalling Euro 530 thousand including interest, were paid in December 2017 and March and June 2018.

All the above amounts were recharged to the above-stated client, with the exception of interest in arrears, recharged to the General Electric Group, on the basis of its indemnification of Avio S.p.A. with regards to the AeroEngine sector.

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., alleging the tax residence of Regulus S.A. in Italy, which however has its legal and operating base in Kourou in French Guyana at the European Space Center. In particular, this challenge, concerning the years from 2010 to 2016, involves the contention of the Finance Police that Regulus S.A. had "administrative offices" (a significant concept for tax residence purposes) in Italy, at Avio's Colleferro offices.

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 claim. 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 S.A. 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 S.A., in addition to the ordinary tax regime of the country of establishment (France, as French 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 S.p.A., 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 French 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.

In relation to the contention, we cite that reported at paragraph *a.1.2)* above concerning questionnaire No. Q00071/2018 that the Piedmont DRE notified on June 20, 2018 to Avio S.p.A., in order to assess the correct tax treatment of the remuneration according to the conditions and prices which would be paid between independent parties operating under free competition conditions and in comparable circumstances in accordance with Article 110, paragraph 7 of the Income Tax Law (covering "transfer pricing"), on the basis that Regulus S.A. is tax resident in French Guyana. As stated, at the reporting date negotiations with the Piedmont DRE regarding questionnaire Q00071/2018 are still in progress as the document and information production phase has not yet been completed.

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 Tas 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 2018, with the second to be paid, with interest, by September 30, 2018. 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 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, was made 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 for the settlement procedure, appealed to the Rome Provincial Court, with a favourable outcome (judgment of June 12, 2018, against which an appeal to the Lazio Regional Court shall be proposed)

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. In July 2018, Secosvim proposed an appeal at the Rome Provincial Court.

c.3 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 (hearing fixed for October 23, 2018).

c.4 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 appealed 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 appealed 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 hearing at the Emilia Romagna Regional Court was fixed for September 24, 2018.

With regards to the above tax disputes, Secosvim S.r.l. recognised to its financial statements at June 30, 2018 an adequate tax risks provision.

d) Spacelab S.p.A. (previously ELV S.p.A.) tax audits and disputes

It should be noted that this company had not been and is not involved in any tax audits or disputes at the reporting date.

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 initially for tax years 2009, 2010 and 2011 and subsequently for 2012 and 2013.

The amounts contested are:

- for the years from 2009 and 2011, initially amounting to Euro 1.6 million, paid by the company in 2014. This amount was thereafter reduced to Euro 0.9 million following the recognition of partial relief of Euro 684 thousand by the French tax authorities;

- for the years 2012 and 2013 amounting to approx. Euro 250 thousand.

For the years 2009-2011, Europropulsion presented a first level appeal at the competent Tax Court, which judged against the company; the company appealed this decision on September 9, 2016.

With judgment of November 11, 2017, the competent French tax authorities cancelled the challenge concerning financial year 2010.

The total amount of tax liabilities arising from this issue for the years from 2009 to 2017 was estimated at approx. Euro 2.190 million. However, the company has not made any accrual to the tax risks provision as considering, also on the basis of the opinion of its consultants, to have valid arguments in defense of its position.

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 had not been and is not involved in any tax audits or disputes at the reporting date.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

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 June 30, 2018.

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.

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 June 30, 2018 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 4,641 thousand.

This amount was recognised to the Assets section of the Balance Sheet, as the net balance between the nominal value of trade receivables and, as counter-entry, advances to be received.

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 (ESA - European Space Agency, Arianespace, ArianeGroup).

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 June 30, 2018, trade receivables net of a doubtful debt provision were recorded of Euro 482 thousand. The overdue amounts were therefore not significant and mainly relate to timing factors.

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.

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 June 30, 2018 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 Avio under the threshold established by the IAS and Article 2359 of the Civil Code, final paragraph. Following the listing, although the shareholder agreement with Cinven had lapsed, Leonardo S.p.A. maintained this connection with the Avio Group on the basis of the increase of its investment in the Incorporated company over the threshold established by the above-stated rules.

The following tables present the quantification of transactions with related parties not falling within the Group consolidation on the Balance Sheet at June 30, 2018 and on the Group Income Statement for H1 2018 (in Euro thousands):

	June 30, 2018							
Counterparty	**Trade receivables**	**Other current assets**	**Contract work-in-progress**	**Non-current financial assets**	**Trade payables**	**Other current liabilities**	**Advances for contract work in progress**	**Financial liabilities**
Cinven	-	-	-	-	278	-	-	-
Former Holding companies	**-**	**-**	**-**	**-**	**278**	**-**	**-**	**-**
Leonardo S.p.A.	-	-	-	-	**239**	-	-	-
MBDA Italia S.p.A.	-	-	2,444	-	-	-	431	-
MBDA France S.A.	-	-	7,851	-	-	-	2,871	-
Thales Alenia Space Italia S.p.A.	-	-	147	-	-	-	-	-
Companies with a connecting relationship and relative investee companies	**-**	**-**	**10,442**	**-**	**239**	**-**	**3,302**	**-**
Termica Colleferro S.p.A.	715	-	-	7,440	1697	-	-	-
Europropulsion S.A.	588	-	19,182	-	834	-	31,918	11,749
Potable Water Services Consortium	290	-	-	-	65	-	-	-
Servizi Colleferro - Consortium Limited Liability Company	280	206	-	-	215	-	-	-
Associates and jointly controlled companies	**1,873**	**206**	**19,182**	**7,440**	**2,811**	**-**	**31,918**	**11,749**
Total related parties	**1,873**	**206**	**29,624**	**7,440**	**3,328**	**-**	**35,220**	**11,749**
Total book value	**4,641**	**12,602**	**205,077**	**7,440**	**111,904**	**21,049**	**276,174**	**51,809**
% on total account items	**40.36%**	**1.63%**	**14.45%**	**100.00%**	**2.97%**	**0.00%**	**12.75%**	**22.68%**

In H1 2018, the main income statement transactions by the Group with related parties were as follows (in Euro thousands):

	H1 2018			
Counterparty	**Operating Revenues and changes in contract work-in-progress**	**Operating Costs [(1)]**	**Financial Income**	**Financial Charges**
Cinven				
Former Holding companies	**-**	**-**	**-**	**-**
Leonardo S.p.A.		-	-	-
MBDA Italia S.p.A.	2,184	-	-	-
MBDA France S.A.	6,903	-	-	-
Thales Alenia Space Italia S.p.A.	63	-	-	-
Companies with a connecting relationship and relative investee companies	**9,150**	**-**	**-**	**-**
Termica Colleferro S.p.A.	71	4,296		
Europropulsion S.A.	79,319	20,459		
Potable Water Services Consortium	24	216		
Servizi Colleferro - Consortium Limited Liability Company	118	472	-	-
Associates and jointly controlled companies	**79,532**	**25,443**	**0**	**0**
Total related parties	**88,682**	**25,443**	**0**	**0**
Total book value	**206,292**	**193,598**	**590**	**825**
% on total account items	**42.99%**	**13.14%**	**0.00%**	**0.00%**

(1) 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.

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 JUNE 30, 2018

The following table presents the key details of Avio Group investees at June 30, 2018:

Companies included in the consolidation scope at June 30, 2018	Holding
Parent	
Avio S.p.A.	-
Companies consolidated by the line-by-line method	
Spacelab S.p.A.	70%
Regulus S.A.	60%
SE.CO.SV.IM. S.r.l.	100% (*)
Avio Guyana SAS	100%
ASPropulsion International B.V.	100%
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 is in liquidation. No financial commitments are expected for the Group related to the liquidation.
(***) Investment held in part directly by Avio S.p.A. (95%) and in part through ASPropulsion International B.V. (5%).

9. SUBSEQUENT EVENTS

Business

Vega

On August 22, 2018, the Vega launcher successfully concluded its first mission of 2018, successfully placing in low orbit a key ESA satellite (Aeolus), and the first to provide wind profiles on a global scale.
This is the Vega launcher's twelfth consecutive success. Two are scheduled for the current year.

Ariane

On July 25, 2018, Ariane 5 successfully completed its third mission of 2018, correctly positioning in orbit four satellites (SAT 23, SAT 24, SAT 25, SAT 26) for Europe's Galileo project, a European navigation and localisation system, designed for civil use and capable of providing highly-precise positioning indications. Once in orbit the entire Galileo constellation will be made up of 24 operative satellites.

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

On July 16, 2018, the fire bench test of the first P120C (DM1) motor was successfully carried out.
Test data analysis has just began, with initial indications appearing to confirm the achievement of correct ballistic, dynamic and structural parameters.
After the successful static test of the Z40 motor in March 2018, this event marks another important step towards Vega C's Qualification Launch, scheduled for the end of 2019.

Other significant events

First Avio Convention

The first Avio Convention was held on July 5 at the "Auditorium Conciliazione" in Rome entitled "Approaching the future together (Insieme verso il futuro)". At the event, after the contributions of the Avio Chairman, Roberto Italia, and the CEO Giulio Ranzo, who outlined the successes achieved by the Group over recent years and commented upon the main upcoming strategic challenges, all employees celebrated and attended the "Il Giudizio Universale" show.

Receipt of VAT receivable requested for repayment of Euro 8 million

On August 2, 2018, the subsidiary Spacelab S.p.A. (ex-ELV S.p.A.) received, as expected, a portion of the VAT receivable requested for repayment from the Tax Agency, for an amount of Euro 8,289 thousand.

Appointment of the new Internal Auditor

On June 25, 2018, the Board of Directors of Avio S.p.A. outsourced the Internal Audit function of the company Avio S.p.A. to Protiviti S.r.l., identifying Mr. Alessandro Cencioni, Managing Director of Protiviti S.r.l., as Manager-in-charge.

* * *

September 13, 2018

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

Deloitte.

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REPORT ON REVIEW OF THE HALF-YEARLY CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Avio S.p.A.

Introduction

We have reviewed the accompanying half-yearly consolidated financial statements of Avio S.p.A. and subsidiaries (the "Avio Group")], which comprise the statement of financial position as of June 30, 2018 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation of the half-yearly consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the half-yearly consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly consolidated financial statements of the Avio Group as at June 30, 2018 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Franco Chiavazza
Partner

Turin, Italy
September 13, 2018

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

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

1. The undersigned Giulio Ranzo and Alessandro Agosti, respectively CEO and Executive Officer for Financial Reporting of Avio S.p.A. declare, also in consideration of Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of February 24, 1998:

   - the consistency in relation to the characteristics of the company;
   - the effective application of the administrative and accounting procedures for the drawing up of the condensed consolidated half-year financial statements in the period between January 1 and June 30, 2018.

2. Verification of the adequacy and effective application of the administrative and accounting procedures for the preparation of the condensed consolidated half-year financial statements at June 30, 2018 was undertaken referring to the criteria established in the internationally accepted "Internal Controls – Integrated Framework" model.

3. We also declare that:

   3.1 The condensed interim consolidated financial statements:

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

   b) correspond to the underlying accounting documents and records;

   c) provide a true and fair view of the equity, economic and financial position of the issuer and of the other companies in the consolidation scope.

   3.2 The Directors' Report includes a reliable analysis of the significant events in the first six months of the year and their impact on the condensed consolidated half-year financial statements, with a description of the principal risks and uncertainties to which the Group is exposed, in addition to the subsequent events and outlook. It also contains a reliable analysis of the significant transactions with related parties.

Date: September 13, 2018

Avio S.p.A.

Giulio Ranzo Chief Executive Officer (Signed)	Alessandro Agosti Executive Officer for Financial Reporting (Signed)