Avio S.p.A.

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

2018 ANNUAL REPORT

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HIGHLIGHTS[1]

Net revenues[2]
Euro 388.7 million (+13.0% on 2017)

EBITDA
Reported: Euro 42.6 million (+Euro 3.3 million and +8.4% on 2017)

EBIT
Reported: Euro 28.5 million (+Euro 3.5 million and +14.0% on 2017)

Profit before taxes
Euro 27.9 million (+Euro 6.4 million on 2017)

Net Profit
Euro 25.8 million (+Euro 4.0 million on 2017)

Net Financial Position
cash position of Euro 49.1 million (+Euro 7.4 million on December 31, 2017)

Investments
Euro 22.9 million (-Euro 5.7 million and -19.9% on December 31, 2017)

Backlog [2]
Euro 877.4 million at December 31, 2018 (-Euro 74.7 million and -7.8% on December 31, 2017)

Research and development
costs of Euro 145.0 million, net of pass-through costs incurred in 2018, equal to 37.3% of revenues net of pass-through revenues for 2018 (Euro 135.8 million net of pass-through costs incurred in 2017, equal to 39.5% of revenues net of pass-through revenues for 2017)

Employees
838 at December 31, 2018 (782 at December 31, 2017)

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

LETTER TO THE SHAREHOLDERS

Dear Shareholders

2018 was the second year of your company's listing on the STAR segment of the Italian Stock Exchange and saw the consolidation of a floating share capital of over 60% encompassing a broad range of diversified financial investors. New production and development contracts worth over Euro 300 million were acquired in 2018. During the year, contracts were agreed with the ESA for the final tranche of the Vega C development program, in addition to a further Vega E program tranche (latest Vega to launch from 2024). In addition, contracts were agreed for new Vega launcher production (Batch 3 production, 10 launchers in the 2019-2021 period), for the Ariane 5 launcher (PC batch for the last 8 launchers before the introduction of the new Ariane 6 launcher), and also regarding production support activities (Batch 2 production). Overall, commercial acquisitions consolidated the order portfolio at close to Euro 900 million.

The first launch contracts for small satellites for the first Vega-SSMS (Small Spacecraft Mission Service) flight was signed in 2018 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.

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.

The bench test of the Z40 motor 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.

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).

Avio in addition continued the development of the new Ariane 6 and Vega C launchers, successfully completing the first two bench tests of the P120 motor (first stage both of Vega C and Ariane 6) in the second part of 2018 and the beginning of 2019.

The excellent results emerging have further built our confidence in Vega C and Ariane 6 development, demonstrating Avio's full maturity in delivering new technologically-advanced products.

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. These works were substantially completed in 2018, allowing for the integration activities on Vega C in 2019 ahead of the first launch, currently scheduled for the beginning of 2020.

In the second half of the year, two Vega flights took place in August and November, respectively for the Aeolus mission of the ESA and Mohammed VI B of Morocco, both successfully executed. In 2018, Vega therefore further stretched its already lengthy track record of consecutive successes since the Maiden Flight to 13 - one which is unmatched in space launcher history.

11 launches took place at the Guyana Space Centre in 2018, of which 5 with Ariane, 2 with Vega and 3 with Soyuz.

A launch is scheduled for March 2019 to put into orbit an all-Italian mission, as a collaboration between OHB Italia and Telespazio under the auspices of the Italian Space Agency.

The first few months of 2018 also saw the signing of an addendum to the Industrial Agreement between Avio and Ariane Group concerning Vega marketing conditions (stipulated in 2016), in order to better define Avio's partnership and supervising role in the Vega commercial activities managed by Arianespace. In particular, the role of a Vega Cross Functional Manager was established at Arianespace to oversee the overall performance of the Vega Business Unit.

Space launch operations in 2018 grew significantly, with a total of 114 launches undertaken (of which 39 in China, overtaking the USA, which however increased to 31 launches from 29 in 2017, 20 in Russia, 8 in Europe, 7 in India, 6 in Japan and 3 in New Zealand).

In March, the transaction was completed involving the sale by the subsidiary ELV S.p.A. (now SpaceLab S.p.A.) to Avio of the launchers business unit, bringing in-house at Avio therefore all launcher operations previously segregated into propulsion operations at Avio and systems works at ELV. SpaceLab S.p.A. will continue to focus on developing new testing operations and propulsion technology, also supporting Avio in building new motor test 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.

At the beginning of 2019, a new Euro 10 million loan was agreed with the European Investment Bank in support of new product investment and development projects earmarked by Avio for the coming years. The new loan is at the same conditions as the previous loan, is of 7-year duration and was stipulated at a very contained fixed rate in view of the company's financial solidity.

Continued growth was again evident in 2018. Revenues increased to Euro 388.7 million, up 13% on 2017 and beating 2018 Guidance of Euro 345-365 million - mainly owing to the advancement of Vega C and the development of the new P120C motor.

EBITDA was Euro 42.6 million, up 8% on the previous year, mainly due to lower non-recurring costs, as indicated by 2018 Guidance, and the better absorption of overheads against a greater volumes of operations. EBIT was also up at Euro 28.5 million (+14% on 2017).
Net profit of Euro 25.8 million rose to Euro 21.8 million (+18% on 2017), thanks to the improved EBITDA and the considerable reduction in financial charges (Euro 0.7 million against Euro 3.6 million in 2017) relating to the new Group debt structure - whose benefits became fully apparent in 2018. The net financial position at the end of 2018 was a cash position of Euro 49.1 million (compared to Euro 41.7 million in 2017), on the basis of operations and despite the capex rolled out in the year and the payment in 2018 of the first dividend since your company's STAR market listing.

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 future developments);
- solid and liquid propulsion systems for launchers (Ariane 5 Launcher and Ariane 6 Launcher);
- solid propulsion systems for tactical missiles (Aspide, Aster, CAMM-ER, MARTE);
- 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 (36,000 km). Since the end of the 1980's, Avio has supplied the oxygen turbo-pump boosters (solid propulsion motors) for the Vulcain engine;
- Ariane 6 currently under development. The launcher has two distinct configurations for feasible missions, guaranteeing greater payload flexibility. In particular, the A62, with two P120C solid propulsion boosters, and the A64, with four P120C solid propulsion boosters, will be used for both GEO (geostationary) satellite positioning, at an altitude of 36,000 km, and other kinds of mission, such as launches to LEO orbits, SSO (sun-synchronous) polar orbits, MEO (medium earth) orbits, 4.5 ton satellites to GEO orbits, and 20 ton satellites to LEO orbits. In this context, AVIO supplies solid boosters for both Ariane 6 configurations, as well as two oxygen turbopumps for the liquid stages of the Vulcain 2 and Vinci engines;
- 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;
- Vega C, the latest evolution of Vega, is a launcher under development as part of the European Space Agency's space program. Vega C is designed for a greater payload than the Vega and at the same time optimizes production costs thanks to the sharing of the new first stage (P120C) with Ariane 6.

Regarding **tactical missiles**, Avio participates in the major national and international programs. These include:

- ASTER, ground-to-air weapon system;
- CAMM-ER, ground-air weapon system currently under development;
- MARTE, helicopter and ship launched anti-ship weapon.

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), which is constructed in synergy with the Ariane program 6), (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 propulsion units;
  - Marte sustainer.

  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.

- E TVC (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 2018 of Euro 388.7 million and an adjusted EBITDA of Euro 47.3 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. 37.3% of revenues net of pass-through revenues in 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 Director (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.

2018

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 DIVISIONS

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)

INTERNATIONAL PRESENCE

ITALY

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

EUROPE

(IV)	Suresnes – France, Europropulsion S.A.
(IV)	Evry-Courcouronnes – Francia, 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)and lighter structures, (ii) an increase in the launch system's flexibility due to larger-capacity liquid tanks and (iii) an increase in available market share due its greater performances and therefore larger payload fairing in order to carry satellites with greater mass and volume and lighter structures;
- development of 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, and the subsequent testing of the prototype of the new liquid oxygen and methane M10 motor. Vega E (a three-stage launcher based on P120, Z40 and a LOx-methane upper stage) will further improve (i) Vega C's performance and (ii) the range and flexibility of satellite services, which enables, among other benefits, 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, PSLV and Falcon 9, 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, to be utilised on the small satellites market, for dedicated customer services, or (i) the replacement of a satellite in orbit, (ii) a particular orbital service, or (iii) 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 (among these, Portugal and Norway seem the most promising candidates).

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.

The recently incorporated company AVIO Guyana S.A.S. acquired control of the Zone de Lancement Vega (ZLV) launch area and the management, in particular, of (i) launcher integration coordination and (ii) main assembly installation maintenance (e.g. Control Centre, Integration and Launch building, Propellant Loading Stations).

Since 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.

Finally, during the year, ELV S.p.A., following the sale of the "launchers" business unit to the parent company Avio S.p.A., was renamed Spacelab S.p.A., continuing to be held 70% by Avio S.p.A. and 30% by the Italian Space Agency - ASI, with the objective to undertake in the space transport sector the research and development of new technologies, the development of test infrastructure, with specific regard to technologies not yet applied industrially, although potentially capable of providing a competitive advantage.

SHAREHOLDERS

At December 31, 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 December 31, 2018, no exercise requests have been received from holders.

At December 31, 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 S.p.A.	25.88%
Amundi Asset Management	5.92%
Space Holding S.p.A.	5.60%
In Orbit S.p.A.	3.85%
Remaining MTA free float	58.75%
Total	**100%**

YEAR 2018

SIGNIFICANT EVENTS IN 2018

Business

Vega

Two Vega launches were carried out in 2018, the first for ESA's ADM-Aeolus weather and earth observation scientific satellite, in August, and the second, for Morocco's Mohammed VI B earth observation satellite, in November.

Ariane

2018 saw six Ariane 5 launchers, taking a total of 13 commercial, European institutional and export, or other nations' institutional, satellites into orbit.

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. As the latest version of the Vega launcher, Vega C will allow a 60% increase in performance, increasing market access for this launcher of Low Earth Orbit (LEO) satellites, a substantial part of which can be launched in multiple payloads.

P120 C motor bench test success (Vega C launcher's first stage)

On July 16, 2018, the qualification test of the P120C solid propellant engine successfully took place at the European Space Centre in Kourou, French Guyana. The outcome of the test is a key step in the construction of the new generation European Vega-C and Ariane 6 launchers. AVIO plays a central role in the development of the P120C, the largest monolithic, carbon-fibre construction, solid propellant engine in the world, built at AVIO facilities in Colleferro, near Rome, Italy. The engine is loaded with solid propellant produced by Regulus, a subsidiary of AVIO, and forms part of the Europropulsion joint venture between AVIO and ArianeGroup.

M10 C motor bench test success (Vega C launcher's first stage)

In November, test bench trials were successfully completed for the new M10 liquid oxygen and methane prototype engine, developed by AVIO as part of the European Space Agency's Vega E (Vega Evolution) programme.
The prototype being tested is a scaled-down model of the upper-stage engine to be integrated in the Vega E launcher from 2024. The technology used is particularly innovative in terms of both propulsive and environmental efficiency, boasting extremely low emissions and combustion waste. The engine under test was built, according to AVIO's SMSP (Single Material Single Part) patent, entirely by additive manufacturing, using advanced laser-based three-dimensional printing.

Tactical Propulsion

2018 saw the construction of 55 Boosters and the maintenance of Defence Ministry ASTER Boosters.

For the Aster 30 MLU programme, the first qualification test of the casing was undertaken and the bench testing of the first motor with the new propellant undertaken.
The CAMM ER programme's Critical Design Review (CDR) was completed, and inert engines for ammunition level tests and the first flight tests were built. Manufacturing began of qualification engines and for IM.

Main agreements and contractual events in 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;

- the signing of this contract was followed by the maintenance contract for the Ariane 5 production equipment, 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. In the final quarter of 2018 contracts were also signed for the analysis of the Ariane 5 flights for the components supplied by Avio (i.e. booster and oxygen turbo pump).

With regards to Vega production:

- the subsidiary 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;
  - with the client Arianespace:
    - an order for additional Batch 3 production activities;
- subsequent to the disposal of the business unit by the subsidiary ELV S.p.A. (now Spacelab S.p.A.) to the parent company Avio S.p.A., this latter 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;
    - various orders for additional Batch 2 and 3 production activities;
  - with the client ESA:
    - a conversion proposal for production assistance activities for the 2015-2016 period;
    - the production assistance contract (LEAP) for the period 2017-2019;
    - a Conversion Proposal (CP#1) for the implementation of several ceiling activities in the scope of LEAP 2017-2019;
  - with the client Europropulsion:
    - Rider 1 to Batch 2 for the production of six additional P80 LMC units and igniter;
    - an order for technical support to EUP for additional activities outside the standard technical assistance scope;

With reference to the Vega development operations:

- various contractual variants were established to specify the technical scope and industrial configuration and organization of Vega C, Vega E, Space Rider and VENUS;
- two study contracts were signed (with ESA and ARIANESPACE) for future Vega C mini and micro satellite services:
    - The Study of a Service Launch making use of a Micro-Launcher (contract with ESA);
    - Standardisation of Launch Service for Ligh-Sats (contract with ARIANESPACE);
- several development activities were also acquired parallel to Vega C with the medium-term goal of finding alternatives to certain near to end-of-life or costly equipment (e.g. inertial platform, fine trim control system).

With regards to the tactical propulsion, the main event of the year was the signing of the contract with the Client Qatar. The second stage of the MLU development contract was entered into.

Prima Convention Avio S.p.A.

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.

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

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 June 30, 2019 the value of the tax credit included in the business unit sold to Avio S.p.A. would be established, in addition to any adjustment of the consideration on the basis of the established potential overall expected benefits.

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

Change to the organisational structure of Avio S.p.A.

In 2018, following the above-mentioned sale of the business unit by the subsidiary ELV S.p.A. (now Spacelab S.p.A.) to the parent company Avio S.p.A., the Organisational structure of the company was consequently amended.

Research and development tax credits

Amendment of the research and development tax credits regulation

The 2019 Budget Law introduced, among other measures, the following new developments:

- the reduction in the above maximum annual incentive from Euro 20 million to Euro 10 million from 2019;
- an authentic interpretation rule of paragraph 1-*bis* of Legislative Decree No. 145/2013 to establish, for research and development carried out on behalf of foreign clients, the recognition of a tax benefit to the resident commissioner exclusively in relation to the expenses concerning research and development carried out directly and in laboratories or structures located in the State;
- the option only to utilise the receivable as an offset after the completion of the required documentary formalities, including the certification required by law.

Effect of the regulatory amendment on the Avio Group

The Group has calculated the tax credit matured in 2018 for research and development previously commissioned by the European Space Agency, taking into account and applying the above provisions introduced by the 2019 Budget Law, and only quantifying the benefit for which a reasonable certainty exists that the entity will satisfy the set conditions.

The cited long-term orders are those concerning research and development projects which principally include the future generation Vega C and Vega E launchers, which are part of the wider Vega launchers family.

This benefit, as matured against such research and development, was recognised to the income statement on the basis of the advancement of these activities, proportionate to the advancement of the costs incurred for the long-term orders to which the benefit refers.

The tax credit accruing in 2018 amounts to Euro 10.604 million, of which, on the basis of the above methodology, a benefit of Euro 4,514 thousand was recognised to the 2018 income statement. In the income statement for the year 2018, the latter is in addition to the portion of the credit accrued in 2017 and allocated on an accrual basis according to the progress of the long-term orders, in accordance with the aforementioned method, with effect from 2018, in the amount of Euro 2,903 thousand. Consequently, the overall economic benefit recognized in the income statement for the year 2018 was Euro 7,417 thousand.

The accounting method applied by the Group involves the economic recognition of the benefit according to the state of advancement of the relative long-term orders, while the balance sheet usage of the same receivable is not linked to this dynamic but with the maturation of the debt cash flows which may be offset with the tax credit in accordance with the applicable legal rules.

The regulatory developments in 2019 require this offset to be made only after the completion of the required documentary formalities, including the certification required by law.

Incorporation of the company Avio Guyana S.A.S.

On February 7, 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 since Avio S.p.A.'s listing on the STAR segment of the Italian Stock Exchange

In May 2018, dividends were distributed for the first time since the company's stock market listing, totalling Euro 10,017 thousand.

Audit on transfer pricing between Avio S.p.A. and Regulus S.A.

In June 2018 the Piedmont Regional Department sent Avio S.p.A. a questionnaire 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.

The proceeding in question was concluded on December 17, 2018 with the signing of two assessment agreements, one in respect of IRES (company income tax) and the other of IRAP (regional business tax), both relating to the 2013 tax period, resulting in the recovery from the Company of a total of approximately Euro 796 thousand, inclusive of taxes, interest and penalties.

This case concerns the indemnity agreement between the sellers and buyers as part of the acquisition by Space2, Leonardo S.p.A. and In Orbit S.p.A of the 85.68% investment in Avio S.p.A. held by Cinven Limited, other institutional investors and Viasimo S.à.r.l.. The indemnity is currently being established.

Appointment of Avio Group’s Internal Audit Manager

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.

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 8,191 thousand.

MARKET PERFORMANCE AND OPERATIONS

General overview: historic and future outlook

In 2018, 114 orbital launches were performed, up by as much as 25% on 2017's 91 launches. However, this increase was not seen in total mass transported (approximately 325 tons in 2018, compared to approximately 360 tons in 2017) or in the total number of satellites launched (455 in 2018, compared to 471 in 2017), confirming a reduction in the unit mass of individual satellites. The majority of launches were institutional, or financed by governments (whether for civilian or military purposes), while the remainder were commercial.
Excluding "Unknown" satellites (of an undisclosed nature), the 114 launches in 2018 placed in orbit:

- 166 main satellites (up from 156 in 2017), the majority of which for LEO orbits, and constant numbers for GEO, MEO and the ISS. These satellites were mainly of a "governmental" or, more generally, "institutional" nature;

- 264 secondary satellites (reducing on 309 in 2017), almost exclusively for LEO orbits. These were generally small mass satellites piggybacking on main satellite launches, but also included the first multi-satellite rideshare launch, via a Spaceflight Industries operated Space X Falcon 9 launcher, of many, mostly "commercial" or "academic" small-scale satellites, without a main satellite payload. The company will undertake the first launch of this kind in Europe in the second half of 2019 using its SSMS Dispenser;

- 25 satellites via a "dedicated" launch service (up from 5 in 2017). These were generally small mass satellites using a Mini-Launcher, confirming the emerging importance of this kind of launcher.

With regards to the satellites market outlook, for the 2018-2027 ten-year period, the trend for the number of satellites requiring a launch service indicates:

- substantial stability for GEO satellites (almost exclusively commercial and dedicated to broadcasting telecommunication services);

- LEO satellite demand, on the other hand, is expected to grow strongly, with both institutional and commercial applications, especially in the fields of earth observation, navigation and telecommunications services, such as broadband internet, mobile telephony and Internet of Things. 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 dozen to thousands (this trend was particularly evident from 2013 onwards and was confirmed in 2017 and 2018). 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 and Vega Light SSMS service.

Launchers market

Although reporting some interesting new developments, 2018 confirmed the global trend of recent years, in which:

- few nations have launch services capable of responding to the consistently strong institutional market: the USA, Russia and China and, to a lesser extent, Europe, India and Japan; New Zealand in 2018 carried out 3 launches of the Mini Electron Launcher, developed and operated by Rocket Lab;

- an even smaller number of nations can respond to commercial market needs;

  - the USA leads, with the Falcon 9 launcher marketed by Space X (12 commercial launches, equal to a mass of 61 t, out of a total of 21 in 2018);
  - Europe with its range of Ariane 5, Vega and Soyuz launchers offered by Arianespace (3 commercial launches, equal to a mass 27 t, with Ariane 5 of 6 total launches);
  - Russia with its Soyuz 2.1a and 2.1b (n.b. no commercial launch with Proton by ILS, which, until the advent of Falcon 9, was the main competitor of Ariane 5);
  - India with its PSLV, Vega's main competitor;
  - China, which is increasingly entering the commercial market with small CZ Class institutional launchers, but also Kuaizhou and LandSpace (whose maiden flight failed in 2018);
- China, with a total of 39 launches (almost exclusively for institutional purposes) achieved a new record, overtaking the USA, remaining at a total of 31 launches. Russia confirmed a downward trend with only 17 launches, while Europe remains stable with 11 (including the Soyuz marketed by Arianespace);
- Operations began for Falcon Heavy (Space X), an enhanced version of Falcon 9, and Zhu-Que 1, a Chinese Mini-Launcher;
- In terms of "failure" rates, Ariane 5 unfortunately saw its consecutive success streak ended (at 82). 2018 also saw the failures of a Soyuz FG during a manned mission to the ISS and of a Chinese Zhu-Que 1 Mini-Launcher during its maiden flight. Over the last decade, Russia has confirmed its position as the nation with the highest number of failures (14 out of 260 launches), followed by China (8 out of 188 launches). Japan and Europe are the most successful with zero and two failures respectively.

Finally, 2018 confirmed that the space sector is attracting more and more capital from private investors, such as business angels and venture capitalists, destined for both established companies, such as Space X, or start-ups, such as Vector, Alpha, Orbex, Rocket Lab, and LandSpace. The last 10 years have seen investments to the tune of USD 18 billion, equally divided between launcher and satellite sectors, with USD 4.5B in 2017 and USD 3B in 2018. Such capital incentives are allowing more and more companies to enter the restricted circle of business with nations acting on space ambitions, examples, in 2018, despite their first launch failures, being Rocket Lab and LandSpace. In view of the above, in addition to (i) the ever stronger market growth in 1 to 500 kg mass satellites, and (ii) the increase demand for LEO satellites typically in the 1-2 ton mass class, AVIO considers that it will be able to cover the wide range of demand through products and services supplied through Vega, Vega C, SSMS, Space Rider, Vega Light and the various VSS modules under development for increased performance, flexibility and versatility. Meeting the challenge will require reductions in the costs of the products and services, opportune timing and responsiveness in proposing them (with several Mini-Launchers already operative outside Europe) and an aggressive commercial strategy, particularly towards commercial customers, which make up the majority of the demand.

GROUP OPERATING PERFORMANCE AND FINANCIAL AND EQUITY POSITION

Introduction

The 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 2017 and their comparability with these consolidated financial statements for 2018. Therefore, the "pro-forma" figures prepared for the purposes of the consolidated financial statements for 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 2017, as reported in the consolidated financial statements at December 31, 2017

The following table outlines the process to obtain the 2017 "Pro-Forma" results, presented for comparative purposes, beginning with the consolidated IAS/IFRS figures at December 31, 2017.

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

The “Space2 S.p.A. Q1 2017” column reports the costs of the incorporating company Space2 S.p.A. for the period January 1 - March 31, 2017. The “Avio Group Q2+Q3+Q4 2017” column presents the results of the Avio Group for the period between April 1 and December 31, 2017 included as a result of the acquisition and merger in the financial statements of the incorporating company at December 31, 2017, added to the Q1 results of Space2 S.p.A.. The “Avio Group 2017 IAS/IFRS Financial Statements” column presents the income statement results on the basis of IAS/IFRS following the Space2-Avio S.p.A. corporate operation, relating to the result of the company resulting from the merger, comprising the results of Space2 S.p.A. in the period between January 1 and March 31, 2017 and the results of the Avio Group between April 1 and December 31, 2017.
The “Avio Group Q1 2017” column presents the results of the Avio Group for the period between January 1, 2017 and March 31, 2017, date of the “business combination” with Space2 S.p.A..
Finally, the “Pro-Forma 2017” column presents the results for the full year 2017 of the Avio Group, including the results for the period of Space2 S.p.A., for comparability therefore with 2018.

Operating results

The table below presents the operating performance of the Group for 2018 and 2017 “Pro-Forma” on a comparable basis (in Euro thousands):

	FY 2018	FY 2017 "Pro-Forma"	Change
Revenues	439,695	385,229	54,466
of which: Pass-through revenues	51,000	41,402	9,598
Revenues, net of pass-through revenues	**388,695**	**343,827**	**44,868**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	7,132	5,468	1,664
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(356,514)	(313,126)	(43,388)
Effect valuation of investments under equity method - operating income/(charges)	3,239	3,079	160
EBITDA	**42,552**	**39,247**	**3,305**
Amortisation, depreciation & write-downs	(14,032)	(14,226)	194
EBIT	**28,520**	**25,021**	**3,501**
Interest and other financial income (charges)	(663)	(3,568)	2,905
Net financial charges	**(663)**	**(3,568)**	**2,905**
Investment income/(charges)	-	-	-
Profit before taxes	**27,857**	**21,453**	**6,404**
Current and deferred taxes	(2,020)	335	(2,355)
Group & minority interest net profit	**25,837**	**21,788**	**4,049**

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

- an initial invoice from the parent company Avio S.p.A., as the sub-supplier, to the Europropulsion S.A. joint venture with revenues and margins not eliminated during the consolidation of the Avio Group as this joint venture is not consolidated;

- a second invoice, as prime contractor, to the end client, the European Space Agency from January 1 to February 28, 2018 by the subsidiary ELV S.p.A. (now Spacelab S.p.A.) and from March 1, 2018 directly by Avio S.p.A. due to its acquisition of the launchers research, production and distribution business unit of the above subsidiary. 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 388,695 thousand in 2018, up Euro 44,869 thousand (+13.0%) on 2017. This net increase principally concerns the future Vega C launcher development program.

The above revenues breakdown by business line as follows:

	FY 2018	FY 2017 "Pro-Forma"	Change
Ariane	161,051	150,398	10,653
Vega	206,489	177,116	29,373
Tactical Propulsion	19,271	14,635	4,636
Other revenue	1,885	1,678	207
Revenues, net of pass-through revenues	**388,695**	**343,827**	**44,869**

EBITDA in 2018 amounted to Euro 42,552 thousand, up Euro 3,306 thousand (+8.4%) on 2017.

EBIT was Euro 28,520 thousand, increasing Euro 3,501 thousand on 2017.

This improvement on the previous year principally derives from operations and the reduction of non-recurring costs concerning the corporate operations resulting in the company’s stock market listing, in addition to the effect from the contribution of the research and development tax credit. This contribution, benefitting the Group from 2017, concerns the research and development commissioned by the European Space Agency and is recognised to the results on the basis of the advancement of costs incurred for long-term Group orders for research and development to which the contribution refers. The contribution recognised to the income statement in 2018 was Euro 7,417 thousand (Euro 6,147 thousand). Currently, this benefit, on the basis of the state of advancement of long-term orders which have incurred costs against which the tax credit may be applied, is expected to benefit the medium-term period with an effect on the results of each period depending on the effective level of advancement of the qualifying orders. For additional information on the nature of this contribution, reference should be made to the “Subsequent events - Research and development tax credit” section of this report.

In addition to the “Pro-Forma” presentation of the 2017 consolidated figures to neutralise the results from corporate transactions, 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 2018 and 2017 are reported below:

	FY 2018	FY 2017 "Pro-Forma"	Change
Adjusted EBITDA	**47,260**	**46,493**	**767**
Adjusted EBITDA Margin (against revenues net of pass-through revs.)	12.2%	13.5%	
Adjusted EBIT	**33,228**	**32,267**	**961**
Adjusted EBIT Margin (against revenues net of pass-through revs.)	8.5%	9.4%	

The Adjusted EBITDA, 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, also excludes non-recurring and extraordinary components of Group operations, improving the comparability of the operating results.
The 2018 Adjusted EBITDA was Euro 47,260 thousand (12.2% of net revenues), up Euro 767 thousand on Euro 46,493 thousand for 2017 "pro-forma" (13.5% of net revenues).
The significant reduction in the margin is mainly due to a combined effect of the differing mix of activity.

Adjusted EBIT consists of EBIT excluding non-recurring or extraordinary components, already excluded for the calculation of Adjusted EBITDA.
The 2018 Adjusted EBIT was Euro 33,228 thousand (8.5% of net revenues), up Euro 961 thousand on Euro 32,267 thousand for 2017 "pro-forma" (9.4% of net revenues). 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 2018 and the previous year is provided below (Euro thousands):

	FY 2018	FY 2017 "Pro-Forma"	Change
EBIT	**28,520**	**25,021**	**3,500**
Non-recurring Charges/(Income) comprising:			
- Additional issues / incentives [(1)]	1,088	1,478	(390)
- Corporate, legal and tax consultancy and services for IPO [(2)]		3,472	(3,472)
- Corporate, legal and tax consultancy and services [(3)]	1,474	1,918	(444)
- Costs for cash-settled share-based payment plans and other personnel costs		(445)	445
- Provisions, utilisations and releases of tax risk provisions/Tax charges [(4)]	796	(26)	822
- Other non-recurring charges/(income) [(5)]	1,201	415	786
Total Non-recurring Charges/(Income)	**4,558**	**6,813**	**(2,254)**
Investor Fees [(6)]	150	433	(283)
Adjusted EBIT A+B+C	**33,228**	**32,267**	**961**
Net amortisation & depreciation	14,032	14,226	(195)
Adjusted EBITDA D+E	**47,260**	**46,493**	**767**

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

(2) The account refers principally to outside consultancy costs for the company's listing in 2017, including costs incurred by the SPAC Space2.

(3) The account refers to service and outside consultancy costs due to tax and legal firms, in addition to the advisors of an extraordinary nature and *one-off* expenses concerning Group operations.

(4) The account concerns charges for the tax consolidation incurred in 2018, all concerning financial year 2013.
(5) "Other non-recurring charges/(income)" include non-recurring costs or income, including for example registration tax paid by Avio S.p.A. for the acquisition of the launchers business unit of the subsidiary ELV S.p.A. (now Avio S.p.A.).
(6) The Investor Fees include in 2018 those regarding Space Holding S.p.A. accruing in the year. These costs reduced on 2017, as then including (i) those matured at March 31, 2017 by Cinven Limited, an exiting shareholder following the business combination for the acquisition of the Avio Group by Space2 executed at the same date; (ii) the portion of the shareholder Leonardo S.p.A. until the Avio-Space2 merger date; (iii) that concerning operations in the year carried out by Space Holding S.p.A..

Financial results analysis

The significant reduction in financial charges on the previous year is due to the settlement during 2017 of the previous loan contract with an international banking syndicate, signed in 2015 and its replacement with a loan contract agreed with the European Investment Bank (EIB).
It falls within the scope of a joint EIB, Ministry for Economic Development and Ministry for the Economy initiative supporting investment in innovation.

This latter contract was signed in October 2017 for an original amount of Euro 40 million 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.

In January 2019, this loan contract was increased by Euro 10 million at the same original contract conditions agreed in October 2017. Reference should be made to the "Subsequent events" section for further details.

Balance Sheet

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

	December 31, 2018	December 31, 2017	Change
Tangible assets and investment property	92,260	82,928	9,332
Goodwill	61,005	61,005	(0)
Intangible assets with definite life	116,954	117,577	(624)
Investments	8,138	7,975	163
Total fixed assets	**278,357**	**269,485**	**8,872**
Net working capital	**(30,957)**	**(33,357)**	**2,400**
Other non-current assets	66,521	65,521	1,000
Other non-current liabilities	(122,453)	(116,270)	(6,183)
Net deferred tax assets	76,150	76,547	(396)
Provisions for risks and charges	(15,864)	(16,340)	476
Employee benefits	(10,706)	(10,907)	200
Net capital employed	**241,049**	**234,680**	**6,369**
Non-current financial assets	5,812	5,812	-
Net capital employed & Non-current financial assets	**246,861**	**240,492**	**6,369**
Net Financial Position	49,126	41,714	7,412
Equity	(295,986)	(282,205)	(13,781)
Source of funds	**(246,861)**	**(240,492)**	**(6,369)**

"Total fixed assets" amounted to Euro 278,357 thousand at December 31, 2018, increasing Euro 8,872 thousand on December 31, 2017 as a combined effect of the following movements:

- the net increase of Property, plant and equipment of Euro 9,332 thousand, principally due to investments in progress in buildings, for the execution of the new P120 engine project and to expand production capacity for Euro 15,129 thousand, net of depreciation in the year;

- net decrease of Intangible assets with definite life attributable to investments of Euro 7,559 thousand, principally for capitalised development costs (Zefiro 40, Lox Methane and Vega Light) and amortisation in the year of Euro 8,183 thousand;

- increase in Investments for Euro 163 thousand, due to the change in the period relating to the investment in the jointly-controlled company Europropulsion S.A., which is measured at equity, increasing due to the 50% share of profits matured in the period January 1, 2017 to December 31, 2017 of Euro 3,239 thousand, net of Euro 3,080 thousand for dividends paid in the same period, plus an increase of Euro 4 thousand concerning the investment in Distretto Aerospaziale Sardegna S.c.a.r.l..

"Net working capital" reports a net decrease of Euro 2,400 thousand, resulting in an excess of liabilities over assets of Euro 30,957 thousand. The main components are outlined in the following table (in Euro thousands):

	December 31, 2018	December 31, 2017	Change
Contract work-in-progress, net of advances	(73,921)	(131,282)	57,362
Inventories	36,444	44,750	(8,306)
Advances to suppliers	79,636	72,796	6,840
Trade payables	(131,407)	(89,441)	(41,966)
Trade receivables	7,017	8,508	(1,490)
Other current assets and liabilities	51,274	61,313	(10,039)
Net working capital	**(30,957)**	**(33,357)**	**2,400**

The "Net working capital" (current trading) increased principally due to the combined effect of an increase in trade payables, principally due to higher operating volumes (including the effect of payables for pass-through costs of Euro 12,200 thousand), intensified by the seasonal effect towards the end of the year, in addition to the effect from the reduction of some physical inventory, partially offset by advancements, mainly on development activity orders against advances received in previous years.

"Other current assets and liabilities" of net working capital reported a net decrease of Euro 10,039 thousand to Euro 51,274 thousand. The main components are outlined in the following table (in Euro thousands):

	December 31, 2018	December 31, 2017	Change
VAT receivables	46,253	46,459	(206)
Research and development tax credits	12,705	20,000	(7,295)
Current tax receivables	3,817	5,771	(1,955)
Other current assets	7,608	8,664	(1,056)
Current income tax liabilities	(2,308)	(1,982)	(327)
Other current liabilities	(16,801)	(17,600)	799
Other current assets and liabilities	**51,274**	**61,313**	**(10,039)**

The "Research and development tax credits" decreased Euro 7,295 thousand, with a balance at December 31, 2018 of Euro 12,705 thousand, on the basis of the residual balance of the receivable matured in 2017 of Euro 2,101 thousand and the recognition of the receivable matured in 2018 of Euro 10,604 thousand.

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

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

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

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

“Provisions for risks and charges” remained substantially unchanged and mainly comprised provisions for variable remuneration charges and other legal, contractual and environmental charge provisions.

“Employee benefit provisions” were also substantially unchanged and principally comprise post-employment benefits and other long-term benefits.

Analysis of the financial position

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

	December 31, 2018	December 31, 2017	Change
Cash and cash equivalents	108,435	107,033	1,402
(A) Liquidity	**108,435**	**107,033**	**1,402**
(B) Current financial assets	-	-	-
(C) Total current financial assets (A+B)	**108,435**	**107,033**	**1,402**
Current financial payables to companies under joint control	(19,249)	(25,259)	6,010
(D) Current financial liabilities	**(19,249)**	**(25,259)**	**6,010**
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)	**(19,309)**	**(25,319)**	**6,010**
(G) Net current financial position (C+F)	**89,126**	**81,714**	**7,412**
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)*	**49,126**	**41,714**	**7,412**

(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 increased from a cash position of Euro 41,714 thousand at December 31, 2017 to Euro 49,126 thousand at December 31, 2018, increasing Euro 7,412 thousand, principally due to operating cash flows.

Analysis of equity

Consolidated equity at December 31, 2018 amounts to Euro 295,986 thousand, increasing Euro 13,781 thousand compared to December 31, 2017, as a result of the following main movements:

- recognition of the consolidated net profit of Euro 25,837 thousand;
- decrease of Euro 10,017 thousand for dividends distributed by Avio S.p.A.;
- decrease of Euro 1,760 thousand in non-controlling interest equity as a result of the dividend issued by the subsidiary Regulus S.A. (held 60% by Avio S.p.A. and 40% by Airbus Safran Launchers).

RESEARCH AND DEVELOPMENT

Investment in research and development is a key factor in achieving and maintaining a competitive position in the space industry.

Avio, as always, devoted considerable resources to the research, development and innovation of products and processes which further its mission. Among its objectives is also the environmentally sustainable development of its activities and products, with particular attention paid to the issues of environmental protection, facility safety and the protection of its workforce.

Regarding such key issues, Avio continues to collaborate closely with national institutions such as the Italian Space Agency (ASI), the Ministry of Education, Universities and Research (MIUR) and the Economic Development Ministry (MISE), in addition to international institutions such as the European Space Agency (ESA) and the European Union.

Avio has developed a network of partnerships with Universities and research bodies in Italy and Europe, among which the Italian Aerospace Research Center (CIRA), the Italian National Agency for New Technologies, Energy and Sustainable Economic Development (ENEA), the Universities of Rome, the Polytechnic University of Milan, the ‘Federico II’ University of Naples, the University of Padua, the University of Forlì, the Sardinian AeroSpace District (DASS) and the Polymeric and Composite Materials and Structures Engineering cluster of Campania (IMAST). Avio also forms part of various consortia between European research institutes and industrial partners for the development of research in the field of energetic materials.

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

Research and development costs incurred overall by the Avio Group in 2018 amounted to Euro 196.0 million (Euro 177.2 million in 2017), equating to 44.6% of gross consolidated revenues in 2018 (46.0% in 2017).

Net of pass-through costs, research and development by the Group in 2018 incurred costs of Euro 145.0 million, 37.3% of revenues net of pass-through revenues (Euro 135.8 million in 2017, equal to 39.5% of revenues net of pass-through revenues).

Self-financed and executed activities amounted in 2018 to Euro 9.2 million (Euro 12.4 million in 2017).

Self-financed activities in 2018 included Euro 6.9 million relating to development costs capitalised as Intangible assets with definite life (Euro 8.9 million in 2017) and Euro 2.3 million concerning research costs or development costs not capitalisable and directly recharged to the income statement (Euro 3.4 million in 2017).

The total amount of costs related to self-financed activities charged to the income statement in 2018 was Euro 6.5 million (Euro 8.0 million in 2017), comprising Euro 2.3 million of directly expensed non-capitalisable costs (Euro 3.4 million in 2017) and Euro 4.2 million for the amortisation of development costs capitalised (principally) in previous years (Euro 4.6 million in 2017).

In 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 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, the production of the first prototypes of the main engine components and the subsequent integration and the bench testing. The first firing bench test in the development of the P120 was successfully carried out in the second half of 2018. The subsequent qualification test is scheduled for the beginning of 2019.

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. The first firing bench test in the development of the Z40 engine was successfully carried out in the first half of 2018. The subsequent qualification test is scheduled for the beginning of 2019.

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.
In 2018, development activities continued on the M10 engine for propulsion of the third stage of the future VEGA E, with the Preliminary Design Review (PDR) successfully completed and the main subsystems activities begun, whose PDR is expected to conclude at the start of 2019.

Avio has also conducted a series of 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 an innovative high performance and low-cost oxygen-methane engine to be introduced into the development of Vega E, whose first flight is expected to take place in 2024.
Vega E will be capable of launching approximately three tons into orbit, that is twice the current Vega version. In addition, one of its main features, thanks to its M10 cryogenic engine, will be the release of numerous satellites in various orbits on the same mission and at competitive cost.

In particular, in 2018 the first European test campaign was successfully completed on a prototype for an innovative 20KN combustion chamber with cooling channel, 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, opening up therefore the road to developing a 100 KN combustion chamber (a feature of the M10 motor for Vega E), constructed with one piece and one material utilising ALM technology and to be fire tested in the second half of 2019.

The first development phase (2017-2019) of the M10 engine and the definition and architecture of the Vega E (VUS) Upper Stage (VUS) was finalised as part of the CM2016.
The second development phase is set to be approved and funded at the next European ministerial

conference scheduled for the end of 2019.
Avio has also launched, with excellent preliminary results, a self-funded development program of LOx and LNG cryogenic resins for a new generation of large liner-free composite tanks to be included in the future version of the Vega E Upper Stage.
The first prototype is expected to be built and tested in the first half of 2019.

Space Transport Systems

During 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 2018 research into developing the new VEGA Light launcher continued. 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 development phase is scheduled for 2020 completion, with the first test flight in 2022.

In 2018, studies were carried out on the Space Rider system, unmanned and reusable space transport, which, thanks to its integration with Vega, will create an integrated family of services under the title of Vega Space Systems (VSS).
Within this scope, development of the new SSMS (Small Spacecraft Mission Service) was pursued, a dispenser adaptor 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 development 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 electronic Safe & Arm device with primary pyrotechnic charge and system architecture for guaranteeing a high thrust ratio between booster and sustainer engine phases. Important achievements have been demonstrated through the testing of several high-performance composite engine cases.
The industrialization of low viscosity propellants has begun, also through the modification of facilities and equipment.
The first three CAMM ER active engines were then built for use, in early 2019, in missile flight qualification tests.

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 continued in relation to Phase B.

Activities began on obsolescence solutions for the Aster 30 Booster, which led to the use of AVIO-developed fibre and a new propellant with unprecedented high speed and low temperature mechanical qualities. The replacement of materials restricted by US legislation is also continuing.

HUMAN RESOURCES

At December 31, 2018, Group employees numbered 838, increasing on 782 at December 31, 2017. The number of employees does not include the company Europropulsion S.A. (88), consolidated at equity. The majority of the workforce is employed by the parent company Avio S.p.A., which at the same date numbers 724 (597 at December 31, 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 2018, 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 was signed with the trade union representatives 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 2018, in line with business support and development needs, the following personnel were hired: 1 executive, 18 senior managers, 10 professionals, and 36 white-collar employees, of which 94% graduates possessing specific skills in various professional areas and with varying degrees of experience.

In addition, 15 blue-collar workers were hired.

During the year, 20 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. Overall, during the year, 6 job posts were published.

Regarding Personnel Development in 2018, one senior manager was promoted to executive management, while 2 blue-collar workers were promoted to white-collar positions.
Furthermore, as part of 2018's implementation of the Merit and Development Policy, 60 professional development interventions were made involving 15% of white-collar personnel. Specifically, in 3 cases, a Professional Expert qualification was achieved, and Professional in 13.

In support of training at the Avio Group, in 2018, 2,483 training days were held, involving 3,764 participations in update courses, professional development courses and informational activities, involving on average 2 training days per employee.

During the year, training activities were focused on the following main areas:

- 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);
- information on health, safety and data 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).

Internal training accounted for 17% of the total provision. Using certified in-house trainers, safety, manufacturing (special and critical processes), IT and Classified information protection training was undertaken.

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

The e-learning platform is utilised in particular: to support the HSE Area, to provide training on newly hired personnel safety and on the Seveso quarterlies; in the Legal area, for the updating concerning Legislative Decree No. 231/2001.

COMMUNICATION AND SOCIAL RESPONSIBILITY

Avio promotes its image and its products 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 ManagerDaniel 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)” involving all company employees. At the event, after the contributions of the Avio Chairman, Roberto Italia, and the CEO Giulio Ranzo, the “Il Giudizio Universale” show was held.
- Ariane 5 flights in 2018 numbered 5. Vega, on the other hand, saw two launches in 2018 - the first on August 22 for Aeolus, the European Space Agency’s (ESA) Earth Explorer Class satellite dedicated to studying the planet’s winds. The second, constituting the 13th mission, took place on November 21, with the VV13’s launch of the earth observation satellite Mohammed VI-B, built by Thales Alenia Space and Airbus for the Kingdom of Morocco;
- On July 11, CEO Giulio Ranzo met with numerous potential investors at the Equity Road Show in New York;
- On July 12, the P120C engine’s firing test was live streamed to all employees in the company auditorium;
- In August, AVIO participated in the Small Satellite Conference, dedicated to small satellite producers, in Logan, USA;

- On September 17, the new corporate intranet was launched, and, for the first time, all AVIO employees were assigned an e-mail address to facilitate information exchange and participation in the life of the company;

- On October 24, AVIO presented the Group's performance and growth prospects at the STAR Conference, organized by Borsa Italiana in London and dedicated to Italian mid-caps;

- On November 13, an event dedicated to the future Vega E launcher was held in Colleferro, Italy, and was attended by both Italian and international institutions and press. The following day saw the visit of Portugal's Minister of Scientific Research, Heitor Louis Santos. Also in November, the AVIO Investor Relations team participated in a meeting to present the company to institutional investors in Madrid;

- On December 4, the Communication and External Relations Department organized a pre-Christmas event in Milan to engage investors, clients, the financial community and the press. The event took place at Milan's Science and Technology Museum.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES

General economic risks

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

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

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

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

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

Specific business risks

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

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

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

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

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

The Group is not a Launch Service Provider with regards to Vega launch services sales. Although the Group has 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, where the Launch Service Provider does not correctly execute its role or adopts commercial practices which do not align with the Group's interest, this may have an impact on the operations and financial statements of the Group.

The position of Arianespace was the subject of an investigation by the European Antitrust Commission as the Ariane Group was expected to assume control of Arianespace, with the Commission approving the acquisition in December 2017. Recently, the market has significantly evolved, with demand for geostationary satellites declining (core Ariane market) and demand for low orbit satellites on the rise (Vega core market). Therefore, in 2018 Avio prudently presented an appeal against the European Antitrust Commission before the European Court of Justice in order not to lose its right to request a review of the market reconstruction assumptions underlying the decision of the Commission, in view of the possible development of the market as described above.

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

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

SUBSEQUENT EVENTS

Business

Vega

In 2019 the second fire bench test of the P120 engine, which is intended for use in the new versions of the Vega C and Ariane 6 launchers, was successfully completed.
The 2019 launch campaign for the first Vega has also begun.

Ariane

Ariane 5 successfully completed its first launch in 2019.

Other significant events

Signing of an additional Euro 10 million loan contract with the European Investment Bank (EIB)

On January 16, 2019 the Company signed an additional Euro 10 million loan contract with the European Investment Bank (EIB). This loan is in fact in addition to, and subject to similar economic conditions as, the aforementioned original loan of Euro 40 million contracted in October 2017.

This increase will further support the planned development of new technologies in the field of space propulsion systems in view of the offering of the new products for the Ariane 6 and Vega 6 programs and the expansion of industrial capacity at the Colleferro facility required to meet the Company's production volume targets for the coming years.

Modification of dividend policy

On the same date as the approval of the financial documents for the year ended on December 31, 2018, the amendment of the dividend policy in accordance with the principle of sustainability over the medium/long-term on the basis of the economic-financial outlook, the solidity of the capital structure and also in consideration of "capital intensive" investment cycles in the medium to long-term, was submitted for the approval of the Corporate Boards.

The amendment of the policy submitted for the approval of the Corporate Boards was as follows: a "dividend yield" (the dividend per share as a percentage of the market value of the share), from a range of 2% to 3.5% of stock market capitalization to a range of 1% to 5% of stock market capitalization.

The "payout ratio" remains unchanged however in a range of between 25% and 50% of the consolidated net profit.

Proposal for the authorization of the purchase of treasury shares

The purchase of treasury shares in Avio S.p.A. was submitted for the approval of the Corporate Boards on the same date on which the financial documents for the year ended December 31, 2018 were approved.

The reasons for proposing that the Corporate Boards approve the purchase of treasury shares include, among others, support for share liquidity, containment of any anomalous price movements and investment of the liquidity generated by the Company.

The request for authorization regards the power for the Board of Directors of Avio S.p.A to undertake a series of treasury share purchase and sale transactions on a revolving basis for a period of 18 months from the date of approval of the relevant shareholders' meeting resolution, while not collectively exceeding 10% of the share capital of Avio S.p.A and otherwise while in accordance with applicable laws and regulations.

The purchase price of the treasury shares will be set from time to time on the basis of the intended transaction structure and in accordance with any regulatory prescriptions or standard market practice, and will range between a minimum and maximum to be set in the course of the shareholders' meeting called to authorize the purchase of the treasury shares.

In any event, it is proposed that the treasury shares be purchased for a price per share not more than 10% (ten percent) below and not more than 10% (ten percent) above the price of the share recorded during the Borsa Italiana trading session on the day before each transaction, or for a different price in accordance with market practice or Regulation (EC) No. 596/2014 of the European Parliament of April 16, 2014, for transactions subject to the said Regulation.

Outlook

The full-year 2019 forecast is for overall net revenues (excluding "Pass-through" revenues) growth on 2018, 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 2018, mainly due to reduced earnings on certain developments activities operated through subcontracting.

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

Introduction

The 2018 figures of Avio S.p.A. include the effects from the acquisition of the launchers business unit of the subsidiary ELV S.p.A. (now Spacelab S.p.A.) on March 1, 2018.

The 2017 results of Avio S.p.A. were influenced by the corporate transaction completed on March 31, 2017 with the acquisition by Space2 S.p.A., Leonardo S.p.A. and In Orbit S.p.A. (company comprising a number of Avio managers) of 85.68% of the share capital of the company (the remaining investment was held by the shareholder Leonardo) and the subsequent merger by incorporation into Space2 S.p.A. effective from April 10, 2017. This corporate transaction resulting in Space2 S.p.A. taking the name Avio S.p.A. impacted the 2017 financial statements.

Following the transactions outlined above, one in 2018 and the other in 2017, for the benefit of the reader the “pro-forma” figures were prepared for financial year 2017, presented below, for comparability of the 2018 and 2017 operating performances:

- on the basis of the Avio S.p.A. operations before the acquisition/merger by incorporation of March/April 2017, with the addition of Space2 S.p.A’s operations;

- considering for pro-forma purposes, also for financial year 2017, the effects of the acquisition by Avio S.p.A. of the launchers business unit of the subsidiary ELV S.p.A. (now Spacelab S.p.A.).

Earnings and financial results

Obtaining of the "Pro-Forma" results

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

	Space2 S.p.A. 1.01.2017 - 9.04.2017 (a)	Avio S.p.A. 10.04.2017 - 31.12.2017 (b)	IAS/IFRS Financial Statements Avio S.p.A. 31.12.2017 (c)=(a)+(b)	Avio S.p.A. 1.01.2017-9.04.2017 (d)	ELV S.p.A. 1.03.2017-31.12.2017 (e)	Eliminations (f)	FY 2017 "Pro-Forma" (c)+(d)+(e)+(f)
Revenues		256,563	256,563	72,214	198,511	(124,901)	402,387
of which: Pass-through revenues		41,402	41,402	-	-		41,402
Revenues, net of pass-through revenues	**-**	**215,161**	**215,161**	**72,214**	**198,511**	**(124,901)**	**360,985**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished		4,743	4,743	1,403	(64)		6,083
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(1,695)	(201,712)	(203,407)	(68,746)	(191,624)	124,901	(338,876)
EBITDA	**(1,695)**	**18,192**	**16,497**	**4,871**	**6,824**	**-**	**28,192**
Amortisation, depreciation & write-downs		(8,506)	(8,506)	(3,264)	(448)		(12,217)
EBIT	**(1,695)**	**9,686**	**7,991**	**1,608**	**6,376**	**-**	**15,975**
Interest and other financial income (charges)	428	(2,339)	(1,911)	(1,759)	119		(3,551)
Net financial charges	**428**	**(2,339)**	**(1,911)**	**(1,759)**	**119**	**-**	**(3,551)**
Investment income/(charges)		5,340	5,340	-	-		5,340
Profit / (loss) before taxes	**(1,267)**	**12,687**	**11,420**	**(152)**	**6,496**	**-**	**17,764**
Current and deferred taxes		1,508	1,508		260		1,768
Total net result	**(1,267)**	**14,195**	**12,928**	**(152)**	**6,756**	**-**	**19,532**

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

The "Avio S.p.A. IAS/IFRS Financial Statements at December 31, 2017" column presents the income statement results on the basis of IAS/IFRS following the Space2-Avio S.p.A. corporate transaction, reflecting the company resulting from the merger and therefore comprising the results of Space2 S.p.A. between January 1 and April 9, 2017 and the results of the incorporated Avio S.p.A. between April 10 and December 9, 2017.

The "Avio S.p.A. 1.01.2017-9.04.2017" column reports the income statement of the incorporated Avio S.p.A. between January 1, 2017 and April 9, 2017, the date immediately preceding April 10, on which the merger by incorporation into Space2 S.p.A. became effective.

The "ELV S.p.A. 1.03.2017-31.12.2017" column presents the Income Statement of the subsidiary for the period between March 1, 2017 and December 31, 2017, in order to simulate the effects of the business unit's acquisition. In fact, this transaction took place in 2018 on March 1, permitting the allocation of the revenues/costs and income/charges of the subsidiary from this date onwards, with the transaction therefore similarly presented on a pro-forma basis for 2017 from March 1.

The "Eliminations" column concerns the elimination of costs and revenues from inter-company transactions between Avio and ELV.

Finally, the "Pro-Forma 2017" column presents the results for the full year 2017 of Avio S.p.A., including the results of Space2 S.p.A. and ELV S.p.A., for comparability therefore with 2018.

Operating results

The following table compares the company performance in 2018 and 2017 (in Euro thousands):

	FY 2018	FY 2017 "Pro-Forma"	Change
Revenues	443,358	402,387	40,970
of which: Pass-through revenues	51,000	41,402	9,598
Revenues, net of pass-through revenues	**392,358**	**360,985**	**31,372**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	5,987	6,083	(95)
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(367,852)	(338,876)	(28,976)
EBITDA	**30,492**	**28,192**	**2,300**
Amortisation, depreciation & write-downs	(12,035)	(12,217)	182
EBIT	**18,457**	**15,975**	**2,482**
Interest and other financial income (charges)	(757)	(3,551)	2,794
Net financial charges	**(757)**	**(3,551)**	**2,794**
Investment income/(charges)	5,720	5,340	380
Profit before taxes	**23,420**	**17,764**	**5,656**
Current and deferred taxes	(76)	1,768	(1,844)
Total net result	**23,344**	**19,532**	**3,812**

Revenues net of "pass-through" revenues were Euro 443,358 thousand, up Euro 40,970 thousand (+10.2%) on 2017. This net increase is mainly due to the Vega C future launcher development programme, which following the acquisition of the launchers business unit of the subsidiary ELV S.p.A. (now Spacelab S.p.A.), was sub-entered by Avio S.p.A..

EBITDA in 2018 amounted to Euro 30,492 thousand, up Euro 2,300 thousand (+8.2%) on 2017.

EBIT was Euro 18,457 thousand, increasing Euro 2,482 thousand on 2017.

These results stem from the differing mix of activities carried out, the acquisition of the business unit, in addition to lower non-recurring costs than those incurred in 2017 for the stock market listing.

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

Financial results analysis

The significant reduction in financial charges on the previous year is due to the settlement during 2017 of the previous loan contract with an international banking syndicate, signed in 2015 and its replacement with a loan contract agreed with the European Investment Bank (EIB).
It falls within the scope of a joint EIB, Ministry for Economic Development and Ministry for the Economy initiative supporting investment in innovation.

This latter contract was signed in October 2017 for an original amount of Euro 40 million at a fixed interest rate in line with the market 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.

In January 2019, this loan contract was increased by Euro 10 million at the same conditions as the original contract signed in October 2017. Reference should be made to the "Subsequent events" section for further details.

Balance Sheet

The acquisition of the business unit is presented in the following pro-forma table illustrating the equity effects:

	Avio S.p.A 31/12/2017	Acquisition of the launchers business unit of the subsidiary ELV S.p.A. (now Spacelab S.p.A.)		31/12/2017 "Pro-Forma"
		Acquisition of the business unit	Post-acquisition eliminations	
Property, plant & equipment	47,833	298		48,131
Goodwill	61,005			61,005
Intangible assets with definite life	117,175			117,175
Investments	80,068	4,281		84,349
Total fixed assets	**306,082**	**4,579**	**-**	**310,661**
Net working capital	**(43,427)**	**(5,369)**	**(0)**	**(48,796)**
Other non-current assets	65,353			65,353
Other non-current liabilities	(115,489)			(115,489)
Net deferred tax assets	74,685			74,685
Provisions for risks and charges	(8,114)	(598)		(8,712)
Employee benefits	(8,171)	(904)		(9,076)
Net capital employed	**270,918**	**(2,293)**	**(0)**	**268,625**
Non-current financial assets	5,812			5,812
Net capital employed & Non-current financial assets	**276,730**	**(2,293)**	**(0)**	**274,437**
Net Financial Position	(9,640)	245		(9,396)
Equity	(267,089)	2,048	-	(265,041)
Source of funds	**(276,730)**	**2,293**	**-**	**(274,437)**

The pro-forma net working capital accounts are presented below:

	Avio S.p.A. 31/12/2017	Acquisition of the business unit	Post-acquisition eliminations	31/12/2017 "Pro-Forma"
Contract work-in-progress, net of advances	(83,031)	(138,950)	72,224	(149,758)
Raw materials inventories and advances to suppliers	75,871	122,834	(90,482)	108,223
Trade payables	(77,004)	(23,047)	22,031	(78,020)
Trade receivables	7,224	2,928	(3,773)	6,379
Other current assets and liabilities	33,513	30,866		64,379
Net working capital	**(43,427)**	**(5,369)**	**-**	**(48,796)**

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

	December 31, 2018	December 31, 2017 "Pro-Forma"	Change
Property, plant & equipment	57,227	48,131	9,096
Goodwill	61,005	61,005	-
Intangible assets with definite life	116,641	117,175	(534)
Investments	84,403	84,349	54
Total fixed assets	**319,276**	**310,661**	**8,615**
Net working capital	**(42,880)**	**(48,796)**	**5,917**
Other non-current assets	66,506	65,353	1,154
Other non-current liabilities	(122,038)	(115,489)	(6,549)
Net deferred tax assets	74,756	74,685	72
Provisions for risks and charges	(9,232)	(8,712)	(520)
Employee benefits	(8,774)	(9,076)	301
Net capital employed	**277,614**	**268,625**	**8,990**
Non-current financial assets	5,812	5,812	-
Net capital employed & Non-current financial assets	**283,426**	**274,437**	**8,990**
Net Financial Position	(5,323)	(9,396)	4,072
Equity	(278,103)	(265,041)	(13,062)
Source of funds	**(283,426)**	**(274,437)**	**(8,990)**

For further information on the equity differences, reference should be made to the preceding section of the Directors' Report "Analysis of the results and balance sheet of the Group" and in addition that reported in the introduction outlining the equity effects of the acquisition of the business unit.

Analysis of the financial position

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

	31/12/2018	31/12/2017 "Pro-Forma"	Change
Cash and cash equivalents	106,307	100,668	5,639
(A) Liquidity	**106,307**	**100,668**	**5,639**
(B) Current financial assets	-	-	-
(C) Total current financial assets (A+B)	**106,307**	**100,668**	**5,639**
Financial payables on interest rate hedges		-	-
Current financial payables to subsidiaries and companies under joint control	(71,570)	(70,004)	(1,567)
(D) Current financial liabilities	**(71,570)**	**(70,004)**	**(1,567)**
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)	**(71,630)**	**(70,064)**	**(1,567)**
(G) Net current financial position (C+F)	**34,677**	**30,604**	**4,072**
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)***	**(5,323)**	**(9,396)**	**4,072**

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 change principally relates to investments in the year and the net working capital movements.

Analysis of equity

Equity at December 31, 2018 amounts to Euro 278,103 thousand, increasing Euro 13,062 thousand on pro-forma equity at December 31, 2017, as a result of the combined effect of the following main developments:

- 2018 net profit of Euro 23,344 thousand;
- decrease of Euro 10,017 thousand for dividends distributed by Avio S.p.A.;
- decrease of Euro 481 thousand due to the negative result of the actuarial profit/losses reserve.

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 (latterly amended in July 2018 and available to the public on the website of the Corporate Governance Committee at the page *"https://www.borsaitaliana.it/comitato-corporate-governance/codice/2018clean.pdf"*), adjusting its governance system to the regulations reported therein.

The company, at March 14, 2019, had adopted:

i. the **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., with effect from the acquisition date.

ii. a **Related party transactions policy** approved by the Board of Directors of Space2 S.p.A. on January 19, 2017, with effect from the efficacy date of the merger by incorporation and latterly amended by the Board of Directors of Avio on September 13, 2017.

iii. the **Inside Information processing policy**, approved on December 21, 2017 by the Board of Directors of Avio and amended on January 24, 2019 to incorporate regulatory changes, introduced by Legislative Decree No. 107 of August 10, 2018, concerning *"Domestic law adjustment provisions in view of regulation (EC) No. 596/2014, concerning market abuse and cancellation of Directive 2003/6/EC and Directives 2003/124/EC, 2003/125/EC and 2004/72/EC"*;

iv. an **Organisation, management and control model (Legislative Decree 231/2001 and subsequent),** as latterly amended on November 8, 2018 by the Board of Directors of Avio, including all of the new legislative issues concerning Legislative Decree 231/2001, in addition to the amendments necessary as a result of the listing of the company and the Supervisory Board's transition from a single-member body to the current multi-member body;

v. an **Avio Group Conduct Code**, approved on March 29, 2004 and amended latterly on June 28, 2017 by the Board of Directors of Avio, containing the requirements demanded by the company's stock market listing;

vi. the **Guidelines to the Internal Control and Risk Management System of the company**, approved on March 29, 2004 and latterly amended on June 28, 2017 by the Board of Directors of Avio;

vii. a **Diversity policy**, approved by the Board of Directors of Avio on March 14, 2019, in compliance with Article 123-*bis*, paragraph 2, letter d-*bis*) of the CFA, as supplemented by Article 10 of Legislative Decree 254/2016, in addition to the recommendations of the Self-Governance Code.

viii. an **Anti-corruption policy**, approved by the Board of Directors of Avio on March 14, 2019 in compliance with Legislative Decree 231/2001 and international best practices.

On June 25, 2018, the Board of Directors of Avio 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 and on January 24, 2019 the Board of Directors of Avio approved a **three-year Audit Plan 2019-2021** concerning Audit activities on the Internal Control System; verification activities related to Legislative Decree 231/2001 agreed with the Supervisory Board of the company, in addition to the support to the Executive Officer with regards to the Law 262/2005 controls and to the Supervisory Boards of the Italian subsidiaries.

For all additional details in relation to the corporate governance of the company following the stock market listing and all corporate governance decisions undertaken until March 14, 2019, reference should be made to the “Corporate Governance and Ownership Structure Report”, published in the “Corporate Governance” section of the website, approved by the Board of Directors of Avio on March 14, 2019, 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..

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

In inviting you to approve the 2018 Annual Accounts of Avio S.p.A., drawn up as per IFRS and reporting a net profit of Euro 23,344 thousand, taking account of the change to the dividend policy under approval, we propose the allocation of the result as follows:

- Euro 11,598 thousand as dividend;
- Euro 11,746 thousand to retained earnings.

* * *

March 14, 2019

for THE BOARD OF DIRECTORS
SIGNED
The Chief Executive Officer and General Manager
Giulio Ranzo

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET	Note	December 31, 2018	December 31, 2017
(in Euro)			
ASSETS			
Non-current assets			
Property, plant & equipment	3.1	89,314,581	71,852,360
Investment property	3.2	2,945,216	2,832,219
Goodwill	3.3	61,005,397	61,005,397
Intangible assets with definite life	3.4	116,953,729	117,577,280
Investments	3.5	8,137,948	7,974,612
Non-current financial assets	3.6	5,812,000	5,812,000
Deferred tax assets	3.7	76,150,361	76,546,723
Other non-current assets	3.8	66,520,882	65,521,105
Total non-current assets		**426,840,114**	**409,121,695**
Current assets			
Inventories and advances to suppliers	3.9	116,079,957	125,789,247
Contract work-in-progress	3.10	103,151,448	111,236,680
Trade receivables	3.11	7,017,095	8,507,533
Cash and cash equivalents	3.12	108,434,880	107,033,059
Tax receivables	3.13	62,775,066	72,230,694
Other current assets	3.14	7,607,803	8,663,659
Total current assets		**405,066,249**	**433,460,873**
Assets held-for-sale and Discontinued Operations	3.41	-	-
		-	-
TOTAL ASSETS		**831,906,363**	**842,582,567**

CONSOLIDATED BALANCE SHEET	Note	December 31, 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	14,580,499	(4,682,849)
Retained earnings		10,442,902	3,611,315
Group net profit		24,337,954	18,360,625
Total Group Equity		**284,581,484**	**272,150,519**
Equity attributable to non-controlling interests	3.19	**11,404,835**	**10,054,880**
TOTAL NET EQUITY		**295,986,319**	**282,205,399**
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	3.20	40,000,000	40,000,000
Employee benefit provisions	3.21	10,706,213	10,906,705
Provisions for risks and charges	3.22	7,841,101	7,788,960
Other non-current liabilities	3.23	122,452,889	116,269,657
Total non-current liabilities		**181,000,203**	**174,965,322**
Current liabilities			
Current financial liabilities	3.24	19,249,221	25,259,221
Current portion of non-current financial payables	3.25	60,000	60,000
Provisions for risks and charges	3.22	8,022,416	8,550,872
Trade payables	3.26	131,407,118	89,441,365
Advances from clients for contract work-in-progress	3.10	177,072,126	242,518,981
Current income tax liabilities	3.27	2,308,320	1,981,723
Other current liabilities	3.28	16,800,639	17,599,685
Total current liabilities		**354,919,841**	**385,411,847**
TOTAL LIABILITIES		**535,920,044**	**560,377,169**
Liabilities available-for-sale and discontinued operations	3.41	-	-
		-	-
TOTAL LIABILITIES AND EQUITY		**831,906,363**	**842,582,567**

CONSOLIDATED INCOME STATEMENT	**Note**	**Year 2018**	**Year 2017 (1)**
(in Euro)			
Revenues	3.29	439,695,356	325,331,684
Change in inventory of finished products, in progress and semi-finished		1,527,204	(201,741)
Other operating income	3.30	5,605,138	4,527,791
Consumption of raw materials	3.31	(131,840,876)	(98,573,405)
Service costs	3.32	(213,800,538)	(155,101,661)
Personnel expenses	3.33	(62,402,976)	(46,694,948)
Amortisation & Depreciation	3.34	(14,031,856)	(10,628,811)
Write-down and write-backs			-
Other operating costs	3.35	(9,393,759)	(6,498,068)
Effect valuation of investments under equity method - operating income/(charges)	3.36	3,239,413	2,513,093
Costs capitalised for internal works	3.37	9,924,245	9,312,658
EBIT		**28,521,351**	**23,986,593**
Financial income	3.38	813,223	1,418,689
Financial charges	3.39	(1,476,390)	(3,377,345)
NET FINANCIAL CHARGES		**(663,167)**	**(1,958,655)**
Effect valuation of investments under equity method - financial income/(charges)			
Other investment income/(charges)			
INVESTMENT INCOME/(CHARGES)		**-**	**-**
PROFIT BEFORE TAXES AND DISCONTINUED OPERATIONS		**27,858,184**	**22,027,938**
Income taxes	3.40	(2,020,269)	369,477
PROFIT FROM CONTINUING OPERATIONS		**25,837,916**	**22,397,415**
NET PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS	3.41	**-**	**-**
NET PROFIT		**25,837,916**	**22,397,415**
-- of which: Owners of the parent		24,337,954	18,360,625
Non-controlling interests		1,499,962	4,036,790
Basic earnings per share	3.42	0.92	0.73
Diluted earnings per share	3.42	0.90	0.70

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

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT	Year 2018	Year 2017
(in Euro)		
NET PROFIT (A)	**25,837,916**	**22,397,415**
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	(442,978)	2,318
Gains/(losses) recorded directly to equity (which will be subsequently reclassified to P&L)		
- Gains/(losses) on cash flow hedge instruments recorded directly to interest rate cash flow hedge reserve		316,508
Tax effect on other gains/(losses)	142,762	(5,788)
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	**(300,216)**	**313,038**
COMPREHENSIVE INCOME FOR THE YEAR (A+B)	**25,537,700**	**22,710,453**
-- of which: Owners of the parent	23,983,298	18,676,633
Non-controlling interests	1,554,402	4,033,820

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(Euro thousands)

			Other reserves								
	Share capital	Share premium reserve	*Legal reserve*	*Interest rate cash flow hedge reserve*	*Act. (gains/(losses) reserve*	*2015 share capital increase reserve*	Retain. earnings	Group result	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 year								18,361	18,361	3,945	22,305
Other changes							94		94		94
Other Gains/(Losses):											
- Change in fair value of hedges				317					317		317
- Actuarial gains/(losses), net of tax effect					12				12	(3)	9
Comprehensive income for the year	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					
Effect on retained earnings attributable to the Group and reserves attributable to minority interests of transactions under common control							(1,556)		(1,556)	1,556	0
Other changes							21		21		21
Comprehensive income for the year											
- Net profit for the year								24,338	24,338	1,500	25,838
- Other changes									0		0
- Actuarial gains/(losses), net of tax effect					(378)		24		(355)	54	(300)
Comprehensive income for the year	0	0	0	0	(378)	0	24	24,338	23,983	1,554	25,538
Equity at 31/12/2018	**90,964**	**144,256**	**18,193**	**0**	**(3,612)**	**0**	**10,443**	**24,338**	**284,581**	**11,405**	**295,986**

CONSOLIDATED CASH FLOW STATEMENT

(Euro thousands)

		2018	2017 [1]
OPERATING ACTIVITIES			
Net profit for the year		25,838	22,397
Adjustments for:			-
- Income taxes		2,020	(369)
- (Income)/charges from equity investments		(3,239)	(2,513)
- Financial (Income)/Charges			1,959
- Amortisation & Depreciation		14,032	10,629
- (Gains)/losses on sale of property, plant & equipment & other (income)/charges			-
Dividends received		3,080	2,460
			-
Net change provisions for risks and charges		(476)	(6,445)
Net change employee provisions		(200)	65
			-
Changes in:			-
- Inventories		1,466	5,372
- Contract work-in-progress & advances		(57,362)	10,286
- Trade receivables		1,490	(1,076)
- Trade payables		41,966	14,454
- Other current & non-current assets		9,912	(37,375)
- Other current & non-current liabilities		6,361	(3,485)
			-
Income taxes paid		(1,474)	(973)
Interest paid		(1,476)	(2,147)
Net liquidity generated/(employed) in operating activities	(A)	**41,937**	**13,237**
INVESTING ACTIVITIES			
Investments in:			
- Tangible assets and investment property		(15,181)	(16,452)
- Intangible assets with definite life		(7,559)	(9,189)
- Equity Investments		(4)	
- Savings Bonds/Restricted Bank Deposits			-
Disposal price of tangible, intangible & financial assets			0
Changes in consolidation scope			
Avio Business combination			-
- Price paid			(84,871)
- Cash and cash equivalents of Avio Group acquired at March 31, 2017			111,585
			-
Disposal price financial assets			152,847
Liquidity generated (employed) in investing activities	(B)	**(22,744)**	**153,920**
FINANCING ACTIVITIES			
New EIB loans			40,000
Senior Term and Revolving Facilities Agreement Repayments			(90,654)
Centralised treasury effect with Europropulsion S.A. joint control company		(6,014)	(4,343)
Dividends paid by the parent Avio S.p.A.		(10,017)	
Share capital increase and share premium reserve			203
Dividends attributable to minorities of subsidiaries		(1,760)	(1,920)
Other changes to financial assets and liabilities			(3,855)
Liquidity generated (employed) in financing activities	(C)	**(17,791)**	**(60,570)**
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C)	**1,402**	**106,588**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**107,033**	**445**
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**108,435**	**107,033**

[1] *For a detailed analysis, reference should be made to the Director's Report.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

The parent company holds at December 31, 2018, directly or indirectly, investments in six subsidiary companies (Space S.p.A. (ex ELV S.p.A.), Regulus S.A., SE.CO.SV.IM. S.r.l., Avio Guyana S.A.S., AS Propulsion International BV and Avio India Aviation Aerospace Private Ltd. in liquidation) and in a jointly controlled company (Europropulsion S.A.) included in the consolidation scope of these financial statements (the "Group" or the "Avio Group").

The consolidation scope changed in 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 financial statements

These financial statements at December 31, 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").

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

With the exception of the provisions of IFRS 3 with reference to the business combination undertaken in 2017, which allowed Space2 S.p.A to acquire the Avio Group, the financial statements have been drawn up according to the historical cost criteria, adjusted, where applicable, for the measurement of certain financial instruments and other assets and liabilities at fair value.

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

2.2. Financial Statements

The financial statements at December 31, 2018 consist of the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Comprehensive Income Statement, the Statement of changes in Consolidated Shareholders' Equity, the Consolidated Cash Flow Statement and the Explanatory Notes.

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

2.3. Comparative information

In accordance with IAS 1, these 2018 consolidated financial statements present the comparative 2017 figures for the Balance Sheet items (Consolidated Balance Sheet) and the 2017 figures 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 completed on March 31, 2017 by Space2, the data in the Consolidated Income Statement, Consolidated Comprehensive Income Statement and Consolidated Cash Flow Statement, included in the comparative 2017 financial statements - referring to the acquisition of the Avio Group - commence from April 1, 2017.

The investments in associates account at December 31, 2017 was reclassified in order to improve comparability with the financial statements at December 31, 2018.

2.4. Consolidation principles

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

Subsidiaries
A company is considered a subsidiary where the Group exercises control as defined by IFRS 10 - Consolidated financial statements. The parent company controls an investee when, in the exercise of its power, it is exposed and has rights to the variable returns through managerial involvement, and simultaneously can impact upon the variable returns of the investee. The exercise of the power on the investee derives from the rights which permit the parent company to manage the significant assets of the investee also in its own interests. For assessing whether the Group controls another entity, the existence and the effect of potential voting rights exercisable or convertible at that moment are considered. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control terminates.

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

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

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

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

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

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

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

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

Non-controlling interest equity, at the acquisition date, may be valued at fair value or pro-quota of the value of net assets recognised of the acquired entity. The valuation method is chosen on the basis of each individual transaction.
Any amount subject to conditions established by the business combination contract are valued at fair value at the acquisition date and included in the value of the amounts transferred to the business combination for the determination of goodwill. Any subsequent changes to the fair value, which qualify as adjustments in the measurement period, are included in goodwill retrospectively. The changes in the fair value which qualify as adjustments in the measurement period are those which are based on further information on the facts and circumstances which existed at the acquisition date, obtained during the measurement period (which may not exceed a period of one year from the business combination).
In the case of business combinations undertaken in a series of phases, the holding previously held by the Group in the acquired entity is revalued at fair value at the acquisition of control date and any profit or loss is recorded to the income statement. Any amounts related to the holding previously held and recorded to other comprehensive income/(losses) are reclassified in the income statement as if the holding had been sold.
Where the initial values of a business combination are incomplete at the period-end in which the business combination took place, the Group reports in its consolidated financial statements the

provisional values of the items for which the final calculations could not be made. These provisional values are adjusted in the measurement period to take account of the new information obtained on the facts and circumstances existing at the acquisition date which, if known, would have had effects on the value of assets and liabilities recognised at this date.
Business combinations before January 1, 2010 were recognised according to the previous version of IFRS 3.
There are no significant restrictions in the capacity of the subsidiaries to transfer funds to the parent company, through the payment of dividends, loans or advance repayments.

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

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

Investments in other companies
The companies in which the Group holds between 20% and 50% of voting rights while not exercising significant influence and investments in other companies, are included in non-current assets or current assets where they are expected to remain within the Group for a period, respectively, in excess of or less than 12 months. The other investments are classified to "financial assets measured at fair value through consolidated profit or loss" (FVTPL) under current assets. On the purchase of each investment, IFRS 9 establishes the irrevocable option to recognise these assets among "financial assets measured at fair value through consolidated other comprehensive income" (FVOCI), under non-current or current assets. Other investments classified as "financial assets measured at fair value through other comprehensive income" are measured at fair value; the changes in the value of these investments are recognised to an equity reserve through other comprehensive income items (Reserve for financial assets measured at fair value recognised to other comprehensive income), without reclassification to the separate income statement, on derecognition (sale) or a definitive impairment. Dividends are however recognised to the separate consolidated income statement. Changes in the value of other investments classified as "financial assets measured at fair value through the separate consolidated income statement" are recognised directly to the separate consolidated income statement.

2.5. Translation of foreign entity financial statements

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

2.6. Consolidation Scope

The consolidated financial statements at December 31, 2018 include the financial statements of the parent company, of the Italian and overseas companies in which it holds directly or indirectly at December 31, 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.

The consolidation scope changed as a result of the formation, in the first half of 2018, of the company Avio Guyana S.A.S., 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.

The consolidation scope is shown in the following table:

Companies included in the consolidation scope at December 31, 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 S.A.S.	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

Property, plant & equipment

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

over the duration of the useful life of the category of assets to which they refer. All other financial charges are recognised to the income statement in the period in which they are incurred.

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

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

The depreciation rates utilised by the Group are as follows:

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

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

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

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

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

Land is not depreciated.

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

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

Investment property

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

Intangible assets

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

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

Intangible assets with indefinite life

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

For the purpose of the impairment test, goodwill is considered allocated to the individual Cash Generating Units (CGU's) representing the financially independent business units through which the Group operates. The Group situation at December 31, 2018 indicates a single CGU corresponding to the Space operating segment.

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

Intangible assets with definite life

Development costs

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

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

Intangible assets for Customer Relationships

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

Other intangible assets

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

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

The amortisation rates utilised by the Group are as follows:

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

Investments

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

Impairments

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

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

Financial assets

The Group classifies financial assets in the following categories:

- financial assets measured at amortised cost;
- financial assets measured at fair value through profit or loss for the year;
- financial assets measured at fair value through other comprehensive income items.

The Group establishes the classification on the basis of the business model used to manage financial assets and according to the characteristics of the contractual cash flows of the financial asset.
The financial assets are initially recognized at fair value, plus or minus, in the case of financial assets or liabilities not at FVTPL, the transaction costs directly attributable to the acquisition or issue of the financial asset. Trade receivables which do not contain a significant financial component are however initially measured at their transaction price.
On initial recognition, financial assets are classified to one of the above categories and may not subsequently be reclassified to other categories, except where the Group amends its business model for their management.

The Group recognises under doubtful debts the expected losses for financial assets measured at amortised costs, the assets deriving from contracts and debt securities measured at fair value through other comprehensive income. The expected losses are calculated over the full duration of the receivable, awaiting the results of various scenarios on the basis of their probability and discounting the amounts utilising the effective interest criterion.

The classification between current and non-current reflects the expectations of the management on their trading:

Financial assets measured at amortised cost

This category includes financial assets Held to Collect contractual cash flows, represented only by the payments in capital and interest on the amount of the capital to be repaid. This category includes outstanding receivables and loans. These assets are measured at amortised costs, in accordance with the effective interest criterion, reduced for impairment. These are included in current or non-current assets on the basis of whether the contractual maturity is less than or greater than twelve months from the reporting date. Interest income, exchange gains and losses and impairments are recognised to the profit or loss for the year, as are derecognition gains and losses.

Financial assets measured at fair value through profit or loss for the year

This category includes financial assets not classified as measured at amortised cost or fair value through other comprehensive income. This category includes all derivative instruments (Note 3.11) and financial assets held for trading. The fair value of the financial assets held for trading is calculated on the basis of the market prices at the reporting date or the interim reports, or through financial measurement techniques and models.

Financial assets measured at fair value through other comprehensive income items

This category includes financial assets held with the dual purpose of collecting the contractual cash flows, represented only by the payment of capital and of interest on the amount of capital to be repaid, and the sale of financial assets (Held to Collect and Sell).

Inventories

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

Contract work-in-progress

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

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

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

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

Trade and Other Receivables

Receivables are initially stated at fair value, corresponding to their nominal value, and subsequently measured according to the amortised cost method, net of a write-down provision.
In relation to trade receivables and other receivables, the Group has applied the simplified approach indicated by IFRS 9 to measure the doubtful debt provision as the expected loss over the life of the receivable. The Group measures the amount of expected losses in relation to these elements through the use of a provisioning matrix, estimated on the basis of historic experience of receivable losses according to creditor due dates, adjusted to reflect current conditions and estimates concerning future economic conditions. Consequently, the credit risk profile of these assets is presented according to due dates on the basis of the provisioning matrix.

The Group does not undertake the factoring of receivables.

Cash and cash equivalents

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

Research and development tax credits

Research and development tax credits relating to Decree-Law No. 145 of December 23, 2013, converted, with amendments, by Law No. 9 of February 21, 2014, as amended by Law No. 232 of December 11, 2016 (the "2017 Budget Act") and the 2019 Budget Act (Art. 1, paragraphs 70-72, of Law No. 145 of December 30, 2018) are recognized to the extent that the tax credit is considered recoverable and utilizable, while ensuring that only the benefit for which it is reasonable certain that the entity has met the established requirements is quantified. 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".

Financial liabilities

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

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

Employee benefit provisions

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

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

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

Defined benefit plans are post-employment benefit plans other than defined contribution plans.
The obligation to fund the defined benefit pension plans and the annual cost recognised to the income statement are determined by independent actuarial valuations using the projected unit credit method, on the basis of one or more factors such as age, years of service and expected future remuneration.

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

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

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

Share based payment plans

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

Provisions for risks and charges

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

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

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

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

Trade payables

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

Payables for disbursements in accordance with Law 808/85

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

Revenue recognition

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

Revenues from the sale of goods are recognised where the Group has transferred to the purchaser the significant risks and benefits related to ownership of the goods, which generally coincides with shipping. In addition, the Group establishes whether contractual conditions are in place which represent obligations on which the consideration of the transaction should be allocated (e.g. guarantees), in addition to effects from the existence of variable payments, significant financial components or non-monetary consideration and to be paid to the client. In the case of variable payments, the amount of the consideration is estimated on the basis of the amount expected on the transfer of control of the goods to the client; this consideration is estimated on the signing of the contract and may be recognised only when highly probable. Revenues from the provision of services are recognised according to the stage of completion of the services, based on the same criteria as for contract work-in-progress. In addition, where the result from the provision of services may not be reliably estimated, revenues are recognised only to the extent to which the relative costs are recoverable.
Revenues include also the changes in contract work-in-progress concerning long-term orders recognised according to the state of advancement of works against the sales price (as described in greater detail in the Contract works-in-progress note).

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

Dividends received

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

Grants

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

regulations for the recording of public grants.

Costs

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

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

Income taxes

Income taxes comprise of current and deferred taxes.

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

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

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

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

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

Dividends distributed

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

2.8. Risk management

Credit risk

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

Liquidity risk

The Group's liquidity risk arises from the difficulty to obtain according to an acceptable timeframe and financial conditions the funding to support operating and investing activities and repayments. The principal factors which influence the liquidity of the Group are, on the one hand, the resources generated and absorbed by the operating and investment activities and on the other the conditions concerning the maturity of the payable or the liquidity of the financial commitments.

Cash flows, funding requirements and liquidity are centrally monitored and managed, in order to ensure the timely and efficient sourcing of funding or the appropriate investment of liquidity.
The current difficult economic, Group market and financial environment requires a close focus on liquidity risk and therefore particularly on the generation of funding through operations and the establishment of a sufficient level of liquidity to meet Group obligations.

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

Currency and interest rate risk

The company has a loan with the European Investment Bank (EIB) for Euro 40 million - increasing Euro 50 million in 2019 - at a fixed interest rate for 7 years.

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

2.9. Use of estimates

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

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

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

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

Recoverable value of non-current assets

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

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

Recoverability of deferred tax assets

At December 31, 2018, the consolidated financial statements present deferred tax assets concerning deferred tax-deductible income components, for an amount whose recovery in future periods is considered probable by management. In assessing the recoverability of these assets, future assessable income calculated on the basis of results consistent with those utilised for impairment test purposes and described in the previous paragraph concerning the recoverable value of non-current assets were taken into consideration.

Doubtful debt provision

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

Inventory obsolescence provision

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

Employee benefit plans

Employee benefit provisions and net financial charges are valued according to an actuarial method which requires the use of estimates and assumptions for the calculation of the net value of the obligation. This process is based on estimates made periodically by actuarial consultants utilising a combination of statistical-actuarial factors, including statistics concerning prior years and estimates of future costs. Mortality and retirement indices, assumptions upon future discount rates, salary growth rates and inflation rates, in addition to analyses upon healthcare costs, are also considered as estimate components.

Changes to any of these parameters may impact future provision contributions. Following the adoption of IAS 19 revised with regards to the recognition of actuarial gains and losses generated by the valuation of employee benefit liabilities and assets, the effects deriving from the update to the estimates of the above-indicated parameters are recorded to the Balance Sheet through recognition to Group Equity of a specific reserve, with presentation in the comprehensive income statement.

Provision for risks, charges & contingent liabilities

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

Valuation of contract work-in-progress

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

Other

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

2.10. New accounting standards

Accounting standards, amendments and IFRS interpretations applied from January 1, 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 will apply to all contracts with clients, with the exception of those falling under the application of other IAS/IFRS such as leasing, insurance contracts and financial instruments.

The essential issues for the recognition of revenues according to the new model are:

- the identification of the contract with the client;
- the identification of the performance obligations 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.

The application of this new standard IFRS 5 confirmed the general principle of accounting for revenues through the advancement of the order method, without amendments to the accounting treatment undertaken to date and has not had any financial statement effects for the Group.

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

- on July 24, 2014, the IASB published **IFRS 9 – *Financial Instruments: recognition and measurement***. 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 financial 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 company.

This standard is effective as of January 1, 2018.

The application of this standard did not cause any financial statement effects for the Group.

- 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. This amendment is effective as of January 1, 2018.

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

- On June 20, 2016 the IASB published the amendment to **IFRS 2 "*Classification and measurement of share-based payment transactions*** 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.

- on December 8, 2016, the IASB published the document **"*Annual Improvements to IFRSs 2014-2016 Cycle*"** which partially reflects the amendments to some standards within the annual improvements 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 was applied from January 1, 2018 and 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.
  - 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. The 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 this amendment does not have effects on the consolidated financial statements of the Group.

- On December 8, 2016, the IASB published the amendment to **IAS 40 "*Transfers of Investment Property*"**. These amendments clarify the requirements necessary for the transfers of a building to, or from, investment property. In particular, an entity shall reclassify a building to, or from, investment property only when there is a clear indication of a change in the use of the building. This change must be attributable to a specific event that has occurred 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 this amendment does not have effects on the consolidated financial statements of the Group.

- on December 8, 2016, the IASB published the interpretation *"**Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)**"*. The interpretation provides guidelines for transactions in foreign currencies where advances or non-monetary payments on account are recorded in the financial statements (against cash received/paid), 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 first 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.

  The adoption of this interpretation did not have any effects on the Group consolidated financial statements.

IFRS and IFRIC standards, amendments and interpretations approved by the EU, not yet mandatory and not adopted in advance by the Group at December 31, 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.

It establishes a single model to recognise and measure leasing contracts for the lessee, which provides also for the recognition of operating leases under assets with a related financial payable. This Standard does not contain significant amendments for lessors.
The standard will be effective from January 1, 2019, although advance application is permitted.

The Company completed its preliminary assessment of the potential impacts of the application of the new Standard as at the transition date (January 1, 2019). This process is divided into stages, including the full mapping and analysis of the contracts potentially including a lease in order to understand the main clauses of such contracts that are relevant to IFRS 16.

The Company adopted the option provided for in ***IFRS 16:C3***, which permits reference to be made to the conclusions previously reached on the basis of IFRIC 4 and IAS 17 regarding the operating lease quantification for a specific contract. This option was applied to all contracts, as provided for in ***IFRS 16:C4***.

The *implementation* process for the Standard, involving set-up of the IT infrastructure for the accounting management of the Standard and the alignment of the administrative and control processes applicable to the critical areas governed by the Standard, is in the process of being completed. This process is expected to be completed in early 2019.

The Group shall apply the new standard utilising the modified retrospective method. In particular, with regard to lease contracts previously classified as operating leases, the Company will measure the items below as follows:

a) financial assets at the present value of the residual future payments at the transition date, discounted according to the incremental borrowing rate applicable to each contract at the transition date;
b) a right of use equal to the value of the financial liability at the transition date, net of any prepayments and accruals associated with the lease carried in the balance sheet at the reporting date of these financial statements.

The following table shows the estimated impact of the adoption of IFRS 16 as at the transition date of January 1, 2019 on the Avio Group's consolidated financial statements and the separate financial statements of Avio S.p.A (figures millions of euro).

ASSETS	Effects at the transition date 01.01.2019 on the consolidated financial statements of the Avio Group
Non-current assets	
Usage rights Buildings	4
Usage rights Motor Vehicles	1
Total	**5**

LIABILITIES	Effects at the transition date 01.01.2019 on the consolidated financial statements of the Avio Group
Non-current liabilities	
Non-current financial liabilities for leases	4
Current liabilities	
Current financial liabilities for leases	1
Total	**5**

In adopting IFRS 16, the Company intends to opt for the exemption permitted under paragraph IFRS 16:5(a) in respect of short-term leases for the following types of assets: hardware and certain IT materials.

Likewise, the Company intends to opt for the exemption permitted under IFRS 16:5(B) with regard to lease contracts for which the underlying asset qualifies as a "low-value asset" (i.e., the asset underlying the lease contract does not exceed Euro 5,000.00 when new). The contracts for which the exemption has been applied primarily fall within the following categories:

- computers, telephones and tablets;
- printers;
- other electronic devices;
- furniture and fittings.

For such contracts, the introduction of IFRS 16 will not entail the recognition of the financial liability associated with the lease and relevant right of use. Rather, the lease payments will be taken to the income statement on a straight-line basis over the term of the relevant contracts.

As per IFRS 16, the company will not separate the non-lease components from leases. The categories of assets for which the Company intends to exercise the exemption granted by IFRS 16:15 are as follows:

- automobiles;
- apartments.

The non-lease components of such assets will not be separated and accounted for separately from the lease components. Rather, they will be considered together with the lease components when determining the financial liability associated with the lease and relevant right of use.

In addition, with regard to transition rules, the Company intends to opt for the following practical expedients available in the event of the selection of the modified retrospective transition method (only the exemptions that the Company has decided to apply are indicated):

- classification of contracts set to expire within 12 months of the transition date as short-term leases. The lease payments for such contracts will be taken to the income statement on a straight-line basis;
- exclusion of the initial direct costs from the measurement of the right of use at January 1, 2019;
- use of the information available at the transition date to determine the lease term, with particular regard to the exercise of extension and early termination options.

The transition to IFRS 16 introduces some elements of professional judgment that entail the definition of certain accounting policies and the use of assumptions and estimates with regard to the lease term and the definition of the incremental borrowing rate. The main such assumptions and estimates are summarized below:

- the Company has decided not to apply IFRS 16 for contracts containing a lease the underlying asset for which is an intangible asset;

- *lease term*: identification of the lease term is a very important issue since the form, legislation and commercial practices of property lease contracts vary considerably from one jurisdiction to another. On the basis of its historical experience, the Group has adopted the accounting policy of including not only the period that cannot be cancelled, but also the first contractual extension where such depends solely on the Group. For contracts with automatic extensions for an annual (or shorter) period, the Group has adopted the accounting policy of estimating the lease term at an average of six years, based on the historical evidence and the assessment of the extension period as "reasonably certain" given significant penalties, in the broad meaning of the term, for the lessor in terminating the contract. In cases of property lease contracts with multi-year extensions at the discretion of both parties, the Group has assessed the specific facts and circumstances, together with the penalties, broadly construed, associated with a potential termination of the contract.

- definition of the *incremental borrowing rate*: since most lease contracts entered into by the Group do not include an implicit interest rate, the discount rate to be applied to future lease payments has been taken as the risk-free rate in each country in which the contracts were entered into, with maturities commensurate with the term of the specific lease contract, plus the specific credit spread of the subsidiary/Group.

- the IASB published an amendment to **IFRS 9 "Prepayment Features with Negative Compensation"** on October 12, 2017. This document specifies that instruments which provide for an advance repayment could comply with the Solely Payments of Principal and Interest ("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.

- the IASB published the interpretation **IFRIC 23** "***Uncertainty over Income Tax Treatments"*** *on* June 7, 2017.

The interpretation deals with uncertainties on the tax treatment to be adopted for income taxes. In particular, the interpretation requires an entity to analyze uncertain tax treatments (individually or collectively, depending on their characteristics), always assuming that the tax authority will examine the tax position in question, with access to all relevant information. Where the entity deems it improbable that the tax authority will accept the tax treatment adopted, the entity must reflect the uncertainty in the measurement of its current and deferred income taxes. 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 this interpretation 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 present Consolidated 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, as not operating in the insurance sector, do not expect that the adoption of this standard will have a significant impact on the consolidated financial statements.

- 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.

- the IASB published the document "***Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)"*** 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 October 22, 2018, the IASB published the document ***"Definition of a Business (Amendments to IFRS 3)"***. The document provides clarification regarding the definition of business for the purposes of the proper application of IFRS 3. In particular, the amendment clarifies that while a business normally yields an output, the existence of an output is not strictly necessary to identify a business when there is an integrated set of activities and assets. However, in order to meet the definition of a business, an integrated set of activities and assets must include, at minimum, an input and a substantial process that together contribute significantly to the capacity to create output. For this purpose, the IASB has replaced the term "capacity to create output" with "capacity to contribute to the creation of output" to clarify that a business may exist even without all the inputs and processes necessary to create an output.

  The amendment also introduced an optional test ("concentration test") for an entity to determine whether a set of activities and assets acquired is not a business. If the test yields a positive result, the set of activities and assets acquired does not constitute a business and the Standard does not require further verification. If the test yields a negative result, the entity must conduct additional analyses of the activities and assets acquired to identify the presence of a business. To this end, the amendment adds numerous examples illustrating IFRS 3 with the aim of ensuring an understanding of the practical application of the new definition of a business in specific cases. The amendments apply to all business combinations and acquisitions of activities after January 1, 2020, although advance application is permitted.

  Considering that the amendment will be applied to any new acquisitions concluded with effect from January 1, 2020, any effects will be recognized in the consolidated financial statements as at and for years ending after that date.

- on October 31, 2018, the IASB published the document ***"Definition of Material (Amendments to IAS 1 and IAS 8)"***. The document modified the definition of "material" in IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendment aims to provide a more specific definition of "material" and introduce the concept of "obscured information" alongside the concepts of omitted or misstated information previously included in the two amended Standards. The amendment clarifies that information is obscured if it is described in a way that results in an effect for the primary users of the financial statements similar to that which would have resulted if the information in question had been omitted or misstated.

  The Directors do not expect this document 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 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture***. The document was published in order to resolve the current conflict between IAS 28 and IFRS 10.

  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 the standard - ***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 December 31, 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 December 31, 2018 and December 31, 2017.

	31/12/2018			31/12/2017		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	15,806		15,806	7,563		7,563
Buildings	33,575	(16,329)	17,246	32,685	(15,135)	17,550
Plant and machinery	75,476	(52,995)	22,480	67,601	(49,740)	17,861
Industrial and commercial equipment	17,892	(15,688)	2,205	17,343	(15,045)	2,298
Other assets	8,787	(6,361)	2,426	7,667	(5,779)	1,888
Assets under construction and payments on account	29,151		29,151	24,692		24,692
Total	**180,687**	**(91,372)**	**89,315**	**157,551**	**(85,698)**	**71,852**

The changes between December 31, 2017 and December 31, 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	Reclass. and other changes	31/12/2018
Land	7,563			8,243	15,806
Buildings	32,685	892		(3)	33,575
Plant and machinery	67,601	7,890	(3)	(12)	75,476
Industrial and commercial equipment	17,343	588	(127)	89	17,892
Other assets	7,667	1,158	(103)	66	8,787
Assets under construction and payments on account	24,692	4,602		(142)	29,151
Total	**157,551**	**15,129**	**(234)**	**8,241**	**180,687**

The increases in the period of Euro 15,129 thousand mainly concern the purchase of production machinery and buildings under construction.
During the year, the value of the land associated with the Colleferro industrial complex, carried at December 31, 2017 on a residual basis among inventories in the amount of Euro 8,243 thousand, was reclassified to Property, plant & equipment, in view of the fact that the land in question, adjacent to the industrial complex, is used for Group operations and therefore this classification is most appropriate.

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

Gross value	31/12/2017	Increases	Decreases for disposals	Reclass. and other changes	31/12/2018
Land	-				0
Buildings	(15,135)	(1,196)		3	(16,329)
Plant and machinery	(49,740)	(3,259)	3		(52,995)
Industrial and commercial equipment	(15,045)	(687)	44		(15,688)
Other assets	(5,779)	(650)	68		(6,361)
Total	**(85,698)**	**(5,792)**	**115**	**3**	**(91,372)**

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 December 31, 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 December 31, 2018 with December 31, 2017.

	31/12/2018			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	2,052	(941)	1,111	1,882	(884)	998
Total	**3,886**	**(941)**	**2,945**	**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 third parties. Secosvim undertakes property management activities.

The changes between December 31, 2017 and December 31, 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	31/12/2018
Land	1,834				1,834
Buildings & facilities	1,882	170			2,052
Total	**3,716**	**170**	**0**	**0**	**3,886**

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

Accumulated amortization	31/12/2017	Amortisation & Depreciation	Utilisations	Reclassifications and other changes	31/12/2018
Land	-				-
Buildings & facilities	(884)	(58)			(941)
Total	**(884)**	**(58)**	**0**	**0**	**(941)**

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

3.3. GOODWILL

The goodwill recognised at December 31, 2018 for an amount of Euro 61,005 thousand relates to the Purchase Price Allocation at March 31, 2017 commented upon in the Directors' Report.

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

Goodwill allocated to the *Space* CGU was subject to an impairment test at the reporting date which did not indicate the need for a write-down of the carrying amount of goodwill at December 31, 2018.

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

At December 31, 2018, the cash flows of the Space CGU were estimated according to forecasts in the 2019 Budget and business plans. For the calculation of the terminal value, the expected cash flows for the final year were normalised according to the perpetuity method, assuming 2% growth for forecast cash flows, in line with the previous year and the general forecasts for the space and defence sector.

The average discount rate (average weighted cost of capital) utilised for discounting cash flows was, net of taxes, 8.7% (8.9% in the previous year).

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

In consideration of that indicated, the Group undertook a sensitivity analysis concerned the growth rate of the terminal value and the discount rate of the cash flows:

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

In the base case, the recoverable value of the Space CGU is Euro 57 million higher than the carrying amount of the net capital employed.

Where the above-stated sensitivities are applied separately to the base case, the recoverable value shall however be in excess of the carrying amount of the net capital employed respectively by Euro 40 million and Euro 38 million.

As further support of the analysis conducted, an additional stress test was prudently carried out which does not consider any effect of the research and development tax credit for the years 2019 and subsequent. Also on the basis of this additional stress test, the recoverable value of the Space CGU was comfortably greater than the carrying amount of the net capital employed recorded in the financial statements.

3.4. INTANGIBLE ASSETS WITH DEFINITE LIFE

The values of Intangible assets with definite life at December 31, 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 December 31, 2018 with December 31, 2017.

	31/12/2018			31/12/2017		
	Gross value	Accumulated amortisation	Net book value	Gross values	Accumulated amortisation	Net book value
Development costs - amortisable	71,188	(48,692)	22,496	71,188	(44,479)	26,709
Development costs - in progress	52,989	-	52,989	46,090	-	46,090
Total development costs	124,177	(48,692)	75,485	117,278	(44,479)	72,799
Assets held by customers for programme participation accreditation (PPA 2017)	44,785	(5,225)	39,560	44,785	(2,239)	42,546
Concessions, licenses, trademarks & similar rights	6,355	(5,850)	505	5,842	(5,354)	488
Other	3,065	(1,699)	1,365	2,641	(1,211)	1,430
Assets under construction and payments on account	186	-	186	313	-	313
Total	**178,419**	**(61,466)**	**116,953**	**170,859**	**(53,283)**	**117,576**

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 December 31, 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	31/12/2018
Development costs – amortisable	71,188				71,188
Development costs - in progress	46,090	6,899			52,989
Total development costs	117,278	6,899	-	-	124,177
Assets held by customers for programme participation accreditation (PPA 2017)	44,785				44,785
Concessions, licenses, trademarks & similar rights	5,842	513			6,355
Other	2,641	88		335	3,065
Assets under construction and payments on account	313	59		(335)	37
Total	**170,859**	**7,559**	**-**	**-**	**178,419**

The increases in 2018 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 December 31, 2018, the changes to accumulated depreciation were as follows (in Euro thousands):

Accumulated amortisation	31/12/2017	Increases	Decreases	Reclassifications and other changes	31/12/2018
Development costs – amortisable	(44,479)	(4,213)			(48,692)
Development costs - in progress	-				-
Total development costs	(44,479)	(4,213)	-	-	(48,692)
Assets held by customers for programme participation accreditation (PPA 2017)	(2,239)	(2,986)			(5,225)
Concessions, licenses, trademarks & similar rights	(5,354)	(496)			(5,850)
Other	(1,211)	(488)			(1,699)
Total	**(53,283)**	**(8,183)**	**-**	**-**	**(61,466)**

3.5. INVESTMENTS

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

	31/12/2018		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%	3,911	50.00%	3,752	159
Total companies under joint control		**3,911**		**3,752**	**159**
Associates					
- Termica Colleferro S.p.A.	40.00%	3,635	40.00%	3,635	-
- Other consortiums		5		5	-
Total associates		**3,640**		**3,640**	**-**
Other companies					
- Other companies		524		520	4
Total other companies		**524**		**520**	**4**
Total		**8,138**		**7,975**	**163**

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

	31/12/2017	Increases	Decreases	Other changes	31/12/2018
Subsidiaries	63	-	-	-	63
Companies under joint control	3,752	3,239	(3,080)	-	3,911
Associated companies	3,640	-	-	-	3,640
Other companies	520	4	-	-	524
Total	**7,975**	**3,243**	**(3,080)**	**-**	**8,138**

The interest in Europropulsion S.A. has been classified among "Companies under joint control". The change in the year relating to this interest was due to measurement at equity, which resulted in an increase of Euro 159 thousand (due to the 50% share of profits accrued in 2018, Euro 3,239 thousand, net of the decrease of Euro 3,080 thousand for dividends paid by the company during the year).

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

The investments in other associated companies (mainly consortiums) are valued at acquisition or subscription cost, as these companies are not considered significant in relation to the Group financial

position and also as non-operating companies. In addition, the valuation as per the equity method would not result in a significant effect compared to valuation at cost.
There are no significant restrictions in the capacity of the associated companies to transfer funds to the owners of the company, through payment of dividends, loans or advance repayments.

The investments in other companies are valued at cost. The increase of Euro 4 thousand was related to the purchase of an additional interest in the investee Distretto Aerospaziale Sardegna S.C.A.R.L.

3.6. NON-CURRENT FINANCIAL ASSETS

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

	31/12/2018	31/12/2017	Change
Shareholder loan to Termica Colleferro S.p.A.	5,812	5,812	-
	5,812	**5,812**	**-**

The account, amounting to Euro 5,812 thousand (Euro 7,440 thousand at nominal values), 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 and subordinate to the bank loan of the associate.

3.7. DEFERRED TAX ASSETS

The deferred tax assets of the Avio Group recorded in the accounts amount to Euro 76,150 thousand.

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

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

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

	31/12/2018
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.	25,835
Financial charges exceeding 30% of EBITDA	43,867
Temporary differences deriving from current corporate operations	
Provision for personnel charges, former employees and similar	2,260
Other deductible temporary differences	4,518
Total gross deferred tax assets	**76,479**
Deferred tax liability on temporary differences	
Temporary differences deriving from previous corporate operations	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(11,431)
Tax effect R&D expenses First-Time Adoption	(4,133)
Temporary differences deriving from current corporate operations	
Other temporary assessable differences	(797)
Total gross deferred tax liabilities	**(16,361)**
Net deferred tax assets / (liabilities)	**60,118**
Deferred tax assets on tax losses	59,049
Deferred tax assets not recorded	(43,018)
Net deferred tax assets (liabilities) recorded	**76,150**

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 December 31, 2018 and December 31, 2017 (Euro thousands).

	31/12/2018	31/12/2017	Change
Other non-current assets	66,521	65,521	1,000
	66,521	**65,521**	**1,000**

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

	31/12/2018	31/12/2017	Change
Receivables from the General Electric Group	58,542	58,220	322
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	7,357	6,700	656
Guarantee deposits	479	454	25
Other non-current receivables	142	146	(4)
Total	**66,521**	**65,521**	**1,000**

The caption “Receivables from the General Electric Group” of Euro 58,542 thousand refers to the recharge of the following tax charges:

- Euro 58,220 thousand relates to the payment notice received in July 2016 from the Tax Agency relating to registration, mortgage and land tax for 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. This receivable is recognized against an amount payable to the Treasury of like amount among non-current liabilities;

- Euro 322 thousand of charges relating to the tax dispute pertaining to tax year 2013, which was settled in 2018.

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 either indirect taxes concerning the above-mentioned extraordinary operations in 2013 or in general to the sector of the above-mentioned sale, providing Avio the sums requested by the Tax Office within the time period for the payments.

Regarding the dispute, in 2018 an appeal was made before the Piedmont Regional Tax Commission, which in judgment 1740/18 rendered on October 24, 2018 and filed on November 7, 2018 granted the Company’s appeal in full. At the reporting date, there was no record of any appeal by the Italian Tax Office of the above judgment before the Court of Cassation.

For further information, reference should be made to Note “3.24. Other non-current liabilities” and to the section “Legal and tax disputes and contingent liabilities” in the Explanatory Notes.

"Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion", amounting to Euro 7,357 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 3.24).

The increase of Euro 656 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 amounts to be received within 12 months are classified under "Other current assets" (Note 3.15).

CURRENT ASSETS

3.9. INVENTORIES AND ADVANCES TO SUPPLIERS

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

	31/12/2018	31/12/2017	Change
Inventories	116,080	125,789	(9,709)
	116,080	**125,789**	**(9,709)**

The movements in the year are shown below (in Euro thousands):

	31/12/2017	Change	Other changes	31/12/2018
Raw material, ancillaries and consumables	41,152	(5,308)		35,844
Raw material, ancillary and consumables obsolescence provision	(3,277)	(1,084)		(4,361)
Raw material, ancillary and consumables - net value	37,875	(6,392)	-	31,483
Products in work-in-progress	7,296	(1,914)		5,382
Provision for the write-down of work in progress	(424)			(424)
Products in work-in-progress - net value	6,872	(1,914)	-	4,957
Finished products and other inventories	8,250		(8,243)	7
Finished products and other inventories obsolescence provision	(4)			(4)
Finished products and other inventories - net value	8,246	-	(8,243)	3
Advances to suppliers	72,796	6,840		79,636
	125,789	**(1,466)**	**(8,243)**	**116,080**

As reported in "3.1 Property, plant and equipment", during the year the value of the land associated with the industrial complex, carried at December 31, 2017 on a residual basis among inventories in the amount of Euro 8,243 thousand, was reclassified to Property, plant and equipment as better representing the property held by the Group.

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, net of advances received from clients is as follows (in Euro thousands):

	31/12/2018	31/12/2017	Change
Contract work-in-progress	103,151	111,237	(8,086)
Advances for contract work-in-progress	(177,072)	(242,519)	65,447
Net total	**(73,921)**	**(131,282)**	**(57,361)**

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

	31/12/2018	31/12/2017	Change
Contract work-in-progress (gross)	503,157	570,720	(67,563)
Advances for contract work-in-progress (gross)	(400,006)	(459,483)	59,477
Contract work-in-progress (net)	**103,151**	**111,237**	**8,086**

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

	31/12/2018	31/12/2017	Change
Contract work-in-progress (gross)	1,150,960	643,390	507,570
Advances for contract work-in-progress (gross)	(1,328,032)	(885,909)	(442,123)
Advances for contract work-in-progress (net)	**(177,072)**	**(242,519)**	**65,447**

The Avio Group is entitled to the research and development tax credits provided for in Decree-Law No. 145 of December 23, 2013, converted, with modifications, by Law No. 9 of February 21, 2014, as amended by Law No. 232 of December 11, 2016 (the “2017 Finance Act”) and by the 2019 Finance Act (Art. 1, paragraphs 70-72, of Law No. 145 of December 30, 2018), on the basis of research and development services 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 December 31, 2018 and December 31, 2017 (Euro thousands).

	31/12/2018	31/12/2017	Change
Trade receivables	7,017	8,508	(1,491)
	7,017	**8,508**	**(1,491)**

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

	31/12/2018	31/12/2017	Change
Receivables from third parties	5,479	4,439	1,040
Receivables from associates and jointly controlled companies	939	3,397	(2,458)

	6,418	**7,836**	**(1,418)**
Receivables from associates and jointly controlled companies beyond one year	599	672	(73)
	599	672	(73)
Total	**7,017**	**8,508**	**(1,491)**

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):

	31/12/2018	31/12/2017	Change
Gross value	5,962	4,922	1,040
less: doubtful debt provision	(483)	(483)	0
Total	**5,479**	**4,439**	**1,040**

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):

	31/12/2018	31/12/2017	Change
Europropulsion S.A.	524	2,858	(2,334)
Servizi Colleferro S.C.p.A.	151	101	50
Potable Water Services Consortium	159	333	(174)
Termica Colleferro S.p.A. due within one year	105	105	0
	939	3,397	(2,458)
Termica Colleferro S.p.A. due beyond one year	599	672	(73)
	599	672	(73)
Total	**1,538**	**4,069**	**(2,531)**

3.12. CASH AND CASH EQUIVALENTS

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

	31/12/2018	31/12/2017	Change
Cash and cash equivalents	108,435	107,033	1,402
Total	**108,435**	**107,033**	**1,402**

Cash and cash equivalents mainly concerning balances on bank current accounts.
This caption is consistent with the balance from the previous year; see the Statement of Cash Flows for further details.

3.13. CURRENT TAX RECEIVABLES

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

	31/12/2018	31/12/2017	Change
Tax receivables	62,775	72,231	(9,456)
Total	**62,775**	**72,231**	**(9,456)**

The following table shows the net changes by type of tax credit and tax (amounts in thousands of euro):

	31/12/2018	31/12/2017	Change
VAT	46,253	46,459	(206)
Research and development tax credit (year 2018)	10,604		10,604
Research and development tax credit (year 2017)	2,101	20,000	(17,899)
Receivables from tax authorities	3,577	5,534	(1,958)
EU VAT receivables	240	237	3
Total	**62,775**	**72,231**	**(9,456)**

VAT receivables

VAT receivables, for Euro 46,253 thousand, include:

- Euro 37,623 thousand, relating to VAT reimbursement request to the Tax Authorities;
- Euro 8,630 thousand relating to VAT receivables not requested for repayment.

This net decrease is due to the following factor:

- decrease in VAT receivable following the collection, in early July, of a VAT receivable claimed by the subsidiary Spacelab for 2016, totalling Euro 8.2 million, and interest of Euro 98 thousand;
- increase in VAT receivables claimed by the parent company Avio SpA of Euro 10 million;
- decrease in VAT receivables claimed by subsidiaries of Euro 1.9 million.

The reasons for the increase in Avio's receivable is due to the fact that the Group's main clients are 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. In particular, the VAT exemptions for intra-Community exports, transactions similar to exports and sales of goods apply to the transactions undertaken with the parties in question. This circumstance entails the quasi-absence of VAT payable on the sales transactions undertaken by the Group.
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.

Research and development tax credit

Regulatory framework

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. The main provisions governing the tax credit concerned may be summarized as follows:

- 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 (until the amendments applied by the 2019 Finance Act, as set out below);
- is utilizable for an annual maximum amount of Euro 20 million (until the amendments applied by the 2019 Finance Act, as set out below);
- 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 utilizable exclusively as an offset from the subsequent tax period to that in which the qualifying costs are incurred (until the amendments applied by the 2019 Finance Act, as set out below).

Due to the 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. In particular, the 2017 Finance Act introduced paragraph 1-*bis* to Art. 3 of Decree-Law 145/2013, which with effect from 2017 provides for a tax credit for a resident entity that performs research and development services commissioned by a non-resident entity. This provision was introduced in order to render research and development activities conducted in Italy eligible for the benefit.

The 2019 Budget Act (Art. 1, paragraphs 70-72, of Law No. 145 of December 30, 2018) further modified the rules governing R&D tax credits. In particular, among other provisions:

- the maximum amount of the tax credit that may be granted to each company was reduced from Euro 20 million to Euro 10 million. This amendment will enter into effect for years after that in progress at December 31, 2018, i.e. from January 1, 2019 for companies whose tax periods coincide with the calendar year;

- the maximum amount of the tax credit was reduced from 50% to 25%, as limited to the costs of research and development activities not organized internally to the company, incurred in excess of the average amount of such investments undertaken in the three tax periods from 2012 to 2014. However, the 50% rate was confirmed for research and development activities organized internally to the company, i.e. for the personnel costs of employees directly assigned to such activities and, for externally commissioned activities, solely for contracts entered into with universities, research entities and organizations and innovative, independent start-ups and small and medium enterprises (SMEs). This amendment will enter into effect for years after that in progress at December 31, 2018, i.e. from January 1, 2019 for companies whose tax periods coincide with the calendar year;

- the tax credit may only be used after specific certification of the costs incurred has been issued by the independent auditor of the accounts. This amendment is already applicable to the tax credit accrued on the basis of the costs incurred in 2018.

In addition, paragraph 72 of the 2019 Finance Act includes an official interpretation of the scope of paragraph 1-*bis* of Art. 3 of Decree-Law 145/2013, clarifying that for the purposes of eligibility for the tax credit for resident entities that are commissioned to perform R&D services on behalf of resident enterprises or enterprises located in other Member States of the European Union, "*only eligible expenses relating to research and development activities carried out directly and in laboratories or facilities located in Italian territory qualify*". The above provision therefore appears not to permit a resident taxpayer that conducts R&D commissioned by a non-resident entity to benefit from the tax credit in respect of research costs charged to it by a non-resident sub-contractor.

Recognition in the Financial Statements

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".

Based on that outlined above a tax credit was accrued for research and development activity in 2018 amounting to Euro 10,604 thousand, of which, on the basis of the above methodology, a benefit of Euro 4,514 thousand was recognised to the 2018 income statement. In the income statement for the year 2018, the latter is in addition to the portion of the credit accrued in 2017 and allocated on an accrual basis according to the progress of the long-term orders, also in accordance with the aforementioned method, with effect from 2018, in the amount of Euro 2,903 thousand. Consequently, the overall economic benefit recognized in the income statement for the year 2018 was Euro 7,417 thousand.

The credit will be set off against taxes and contributions as permitted by applicable law, only after the completion of the required documentary formalities, including the certification required by law.

Tax receivables

The Tax receivables account for Euro 3,577 thousand principally concerns the IRAP tax receivables of Euro 973 thousand, withholding taxes on interest receivables for Euro 931 thousand, tax receivables of the Guyanan subsidiary Regulus for Euro 429 thousand and other tax receivables for Euro 1,244 thousand.

EU VAT receivables

The EU VAT receivables relate to inter-EU transactions and amount to Euro 240 thousand.

3.14. OTHER CURRENT ASSETS

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

	31/12/2018	31/12/2017	Change
Other current assets	7,608	8,664	(1,056)
Total	**7,608**	**8,664**	**(1,056)**

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

	31/12/2018	31/12/2017	Change
Social security institutions	5	247	(243)
Employee receivables	1,008	1,004	4
Economic Development Ministry for disbursements pursuant to Law 808/85	2,624	4,881	(2,257)
Receivables for public grants	-	-	-
Other receivables from non-consolidated subsidiaries			
- *Servizi Colleferro S.C.p.A.*	126	76	50
Other debtors	2,714	1,743	971
Doubtful debt provision - other debtors	-	-	-
Prepayments and accrued income	1,130	712	418
Total	**7,608**	**8,664**	**(1,056)**

Receivables from the "Economic Development Ministry for disbursements pursuant to Law 808/85", amounting to Euro 2,624 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 decrease of Euro 2,257 thousand compared to December 31, 2017 was due to the sums collected during the year.

The portion which will be received beyond 12 months is classified in the account "Other non-current assets" (Note 3.7).

Other receivables, amounting to Euro 2,714 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 December 31, 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 December 31, 2018comprised 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. (now Avio S.p.A.).
The share premium reserve, following these allocations, was therefore Euro 144,256 thousand at December 31, 2018.

3.17. OTHER RESERVES

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

	31/12/2018	31/12/2017	Change
Actuarial gains/(losses) reserve	(3,612)	(3,234)	(378)
2015 share capital increase reserve		(1,456)	1,456
Legal reserve	18,193	7	18,186
Total	**14,580**	**(4,683)**	**19,263**

3.18. RECONCILIATION BETWEEN PARENT AND CONSOLIDATED EQUITY

The reconciliation between equity at December 31, 2018 and the 2018 parent result and the corresponding consolidated financial statement amounts is outlined as follows (in Euro thousands):

	Equity at 31.12.2018	Result 2018
Financial Statements of Avio S.p.A.	**278,103**	**23,344**
Elimination of investments recognised to the statutory financial statements	(134,236)	
Recognition of the equity and result of the consolidated companies	140,502	3,474
Elimination of inter-company dividends		(2,640)
Other consolidation adjustments	212	159
Consolidated financial statements (attributable to the Group)	**284,581**	**24,338**

With regards to the reconciliation, the following is reported:

- the elimination of inter-company dividends entirely concerned dividends issued by the subsidiary Regulus S.A. in 2018 (Euro 2,640 thousand);
- the elimination of gains and losses from inter-company transactions and other consolidation adjustments relate to the measurement at equity of the jointly controlled Europropulsion S.A..

3.19. 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:

	31/12/2018			
Consolidated companies	% Non-controlling interests	Capital and reserves	Profit/(loss)	Equity non-controlling Interests
Spacelab S.p.A.	30.00%	5,376	101	5,477
Regulus S.A.	40.00%	4,529	1,399	5,928
		9,905	**1,500**	**11,405**

NON-CURRENT LIABILITIES

3.20. NON-CURRENT FINANCIAL LIABILIITES

Non-current financial liabilities at December 31, 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.

As also reported in the paragraph "Subsequent events" of the Directors' Report, on January 16, 2019 Avio signed an additional Euro 10 million loan contract with the European Investment Bank (EIB). This loan is subject to similar economic conditions as the aforementioned original loan of Euro 40 million.

Both loans are intended to support the planned development of new technologies in the field of space propulsion systems in view of the offering of the new products for the Ariane 6 and Vega 6 programs and the expansion of industrial capacity at the Colleferro facility required to meet the Company's production volume targets for the coming years.

3.21. EMPLOYEE BENEFIT PROVISIONS

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

Post-employment benefits

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

Defined contribution plans
In the case of defined contribution plans, the Group pays the contributions to public or private insurance institutions based on legal or contractual obligations. With the payment of contributions, the companies 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):

	31/12/2018	31/12/2017	Change
- Defined benefit plans:			
Post-employment benefit	5,006	5,508	(502)
Other defined benefit plans	2,478	2,353	126
	7,484	7,861	(377)
- Other long-term benefits	3,222	3,046	176
Total employee benefit provisions	**10,706**	**10,907**	**(200)**
of which:			
- Italy	9,254	9,589	(335)
- Other Countries	1,452	1,318	134
	10,706	**10,907**	**(200)**

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)	(20)	(5)	(25)
Extraordinary charges/(income) from actuarial adjustment	110	98	209
Actuarial (gains)/losses in income statement		(16)	(16)
Actuarial (gains)/losses in comprehensive income statement	148		148
Pension cost current employees	106	247	353
Benefits paid	(721)	(149)	(870)
At 31/12/2018	**7,484**	**3,222**	**10,706**

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

	31/12/2018	31/12/2017
Discount rate	0.65%	0.50%
Expected salary increases	2.12%	2.09%
Inflation rate	1.50%	1.50%
Average employee turnover rate	4.76%	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.

3.22. PROVISIONS FOR RISKS AND CHARGES

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

	31/12/2018	31/12/2017	Change
Provisions for risks and charges	15,864	16,340	(476)
Total	**15,864**	**16,340**	**(476)**

The breakdown of the provisions for risks and charges at December 31, 2018 is presented below (Euro thousands):

	31/12/2018		
	Current portion	Non-current portion	Total
Provision for variable remuneration	4,440	1,513	5,953
Provision for legal and environmental risks and charges	1,228	4,497	5,725
Provision for contractual and commercial risks and charges	2,289	1,682	3,971
Provision for tax risks	65	149	214
Total	**8,022**	**7,841**	**15,864**

These provisions include:

- provisions for variable remuneration for Euro 6 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 5.7 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 4 million;
- provisions for tax risks, amounting to Euro 0.2 million, mainly relating to the provision accrued against possible negative outcomes from Group tax disputes.

With reference in particular 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 in relation to the Colleferro site.
After years of collaboration between the parties in examining the environmental costs to be indemnified by FCA Partecipazioni and the regular payment of the indemnities to Avio pursuant to the above Agreement, 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. Accordingly, in July 2017 Avio was forced to initiate arbitration with FCA Partecipazioni seeking a finding that the aforementioned contractual warranty remained in effect.
Given the particular nature of the warranty in question and the complexity of the related environmental testing, reclamation and monitoring activity, the possibility that Avio might at some point in the future be forced to bear the costs of reclamation of the Colleferro facility (at issue in the arbitration proceedings), without being able to recover them from FCA Partecipazioni pursuant to the Agreement, depends on the outcome of the said arbitration and thus on the decision by the arbitrators as to whether the contractual warranty granted by FCA Partecipazioni extends to the areas of the Colleferro facility and the related environmental problems at issue in the arbitration.

The arbitration proceeding should be completed by the end of the current year. 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 in 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	31/12/2018
Provision for variable remuneration	6,856	5,437		(6,074)	(265)	5,953
Provision for personnel charges and organisational restructuring	7			(7)		-
Provision for legal and environmental risks and charges	6,275		197	(747)		5,725
Provision for contractual and commercial risks and charges	1,754	2,169	479		(431)	3,971
Provision for tax risks	1,447		(821)	(151)	(261)	215
Total	**16,340**	**7,606**	**(145)**	**(6,980)**	**(957)**	**15,864**

The principal changes between January 1, 2018 and December 31, 2018 are shown:

- the provision for variable remuneration was utilised for Euro 6.1 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 5.4 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 747 thousand, of which Euro 720 thousand concerning environmental reclamation costs;

- An accrual of Euro 2.2 million was made to provisions for contractual and commercial risks and charges;

- the tax risk provisions reduced principally following the utilisation of Euro 151 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.

3.23. OTHER NON-CURRENT LIABILITIES

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

	31/12/2018	31/12/2017	Change
Non-current liabilities	122,453	116,270	6,183
Total	**122,453**	**116,270**	**6,183**

In detail, the changes in the item were as follows:

	31/12/2018	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	1,265		1,265
Deferred income on disbursements pursuant to Law 808/85 (post 2007) - beyond one year	18,654	14,828	3,826
Deferred income on disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	483		483
Other tax payables	1,096	441	656
Other deferred income	684	731	(46)
Total	**122,453**	**116,270**	**6,183**

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 (rules pre-2007) - 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 Economic Development Ministry 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 1,265 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. The remaining 10% is an outright grant.

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.

Both the grants receivable from the Ministry for Economic Development and the subsequent reimbursements payable to the Ministry have been accounted for at amortized cost.
The difference between the nominal and present values of the amount receivable and payable is recognized over the course of the benefit.

Deferred income on disbursements pursuant to Law 808/85 (post 2007) - beyond one year

The account, amounting to Euro 18,654 thousand, represents the initial counter-entry of the receivable from the Economic Development Ministry against the grants pursuant to Law 808/85, relating to the projects qualifying as functional to national security or projects with common European interest, for the amount to be allocated to the income statement in future years, beyond one year, in correlation to the allocation of the costs against which the disbursements were granted.

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

See above for an account of the rules for grants pursuant to Law 808/85 set out in the Decree of the Ministry for Economic Development of July 3, 2015.
The caption, which amounted to Euro 483 thousand, represents the difference between the nominal values and present values of the amount receivable and payable in respect of the aforementioned liquidation decree dated February 19, 2018.

Other tax payables

This caption, which amounted to Euro 1,096 thousand, refers to:

- for Euro 876 thousand, the portion beyond 12 months concerning amounts payable in connection with the settlement of a tax dispute relating to tax year 2013 reached with the Italian Tax Office in 2018 and broken down into 12 quarterly instalments;

- for Euro 220 thousand the two remaining 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

3.24. CURRENT FINANCIAL LIABILITIES

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

	31/12/2018	31/12/2017	Change
Current financial liabilities	19,249	25,259	(6,010)
Total	**19,249**	**25,259**	**(6,010)**

The account comprises 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.

3.25. CURRENT PORTION OF NON-CURRENT FINANCIAL PAYABLES

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

	31/12/2018	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 EIB loans. Interest matures bi-annually.

3.26. TRADE PAYABLES

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

	31/12/2018	31/12/2017	Change
Trade payables	131,407	89,441	41,966
Total	**131,407**	**89,441**	**41,966**

The increase in trade payables is mainly due to the greater volume of activities compared to the previous year, in addition to the timing of certain development activities towards the end of the year.

Trade payables of the Avio Group at December 31, 2018 amount to Euro 131.4 million; this amount includes, for Euro 23 million, trade payables to associated companies, jointly controlled companies and non-consolidated subsidiaries as follows (Euro thousands):

	31/12/2018	31/12/2017	Change
Europropulsion S.A.	21,190	10,102	11,088
Termica Colleferro S.p.A.	1,962	70	1,892
Potable Water Services Consortium	(135)	-	(135)
Total	**23,017**	**10,172**	**12,845**

3.27. CURRENT TAX PAYABLES

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

	31/12/2018	31/12/2017	Change
Current income tax liabilities	2,308	1,982	326
Total	**2,308**	**1,982**	**326**

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

	31/12/2018	31/12/2017	Change
IRAP payables	43		43
Payables for withholding taxes	1,200	1,465	(265)
Other tax payables	621	286	335
Foreign income taxes	443	231	212
Total	**2,308**	**1,982**	**326**

Payables for withholding taxes, amounting to Euro 1,200 thousand, refer to employee and consultant withholding taxes.

Other payables to the Treasury of Euro 621 thousand comprise the following main items:

- Euro 337 thousand of the short-term instalments of settlements of a tax dispute relating to tax year 2013 reached with the Italian Tax Office in 2018;
- 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 relate to the tax liabilities of the subsidiaries Regulus S.A. and Avio Guyana S.A.S, operating in Kourou in French Guyana, a French overseas region and department in South America.

3.28. OTHER CURRENT LIABILITIES

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

	31/12/2018	31/12/2017	Change
Other current liabilities	16,801	17,600	(799)
Total	**16,801**	**17,600**	**(799)**

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

	31/12/2018	31/12/2017	Change
Customer advances for the supply of goods and services	2,013	3,462	(1,449)
Payables due to social security institutions	3,775	3,233	542
Employee payables	6,448	6,526	(78)
Other payables to third parties	1,381	1,239	143
Deferred income on disbursements pursuant to Law 808/85 - current portion	702	1,116	(414)
Other accrued liabilities and deferred income	2,482	2,025	457
Total	**16,801**	**17,600**	**(799)**

Customer advances for the supply of goods and services

The account mainly relates to advances received from final customers against supplies for Euro 2,013 thousand.

Amounts due to social security institutions

The account concerns amounts to be paid, amounting to Euro 3,775 thousand, relating to company and employee contributions, in accordance with regulations in force.

Employee payables

Employee payables amount to Euro 6,448 thousand and include remuneration to be settled, in addition to vacations and other rights matured and not utilised.

Other payables to third parties

"Other payables to third parties" of Euro 1,381 thousand principally concern payables to third parties of the subsidiary Regulus.

Deferred income on disbursements pursuant to Law 808/85 (post 2007) - 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 2,482 thousand, mainly refers to the deferment of commercial costs and grant to the following year.

INCOME STATEMENT

INTRODUCTION

The comparative 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 consolidated 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 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 2017 performance, reference should therefore be made to the Directors’ Report.

3.29. REVENUES

The breakdown of revenues, comprising those for the sale of goods and services and the change in contract work-in-progress amounts to Euro 439,695 thousand for 2018. They amounted to Euro 325,332 thousand in 2017.

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

3.30. OTHER OPERATING REVENUES

Other operating revenues in 2018 amounted to Euro 4,605 thousand, as follows:

	FY 2018	FY 2017 (Avio Group period 1/04 - 31/12)	Change
Income from the release of provisions	431	1,774	(1,343)
Income for the portion recognised to the income statement of the disbursements as per Law 808/85	1,576	1,561	15
Other income	3,109	493	2,616
Over-accruals and similar in prior periods	489	449	40
Recovery of costs, damages and other income	-	251	(251)
Total	**5,605**	**4,528**	**1,077**

Income for the portion recognised to the income statement of disbursements as per Law 808/85 amounted to Euro 1,576 thousand; this income includes the type of costs against which the disbursements were granted and in correlation to the periods in which the related expenses and depreciation were recognised to the income statement.

"Other income" of Euro 3,109 thousand includes grants of Euro 1,612 thousand.

3.31. CONSUMPTION OF RAW MATERIALS

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

	FY 2018	FY 2017 - (Avio Group period 1/04 – 31/12)	Change
Purchase of raw materials	126,533	93,053	33,480
Change in inventories of raw materials	5,308	5,520	(212)
Total	**131,841**	**98,573**	**33,268**

3.32. SERVICE COSTS

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

	FY 2018	FY 2017 (Avio Group period 1/04 – 31/12)	Change
Service costs	211,348	154,747	56,601
Rent, lease and similar costs	2,452	355	2,097
Total	**213,801**	**155,102**	**58,699**

Service costs, amounting to Euro 213,801 thousand, in particular, include costs for activities carried out by co-producers, for consultancy and technical and professional services, for outsourcing, for maintenance and for temporary personnel.

The item "Service costs" includes the amount of the emoluments due to the Avio Group's governing bodies, relating to:

- directors' fees of Euro 338 thousand and specific committee fees of Euro 126 thousand;
- supervisory body fees of Euro 172 thousand;
- Board of Statutory Auditors' fees of Euro 211 thousand;
- auditing firm fees of Euro 210 thousand.

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

3.33. PERSONNEL EXPENSES

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

	FY 2018	FY 2017 (Avio Group period 1/04 – 31/12)	Change
Wages and salaries	41,584	29,835	11,749
Social security charges	14,376	10,303	4,073
Provision for variable remuneration	3,582	4,077	(495)
Other long-term benefits - current employees	106	302	(196)
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	(16)	81	(97)
Provision for "Other defined benefit plans"	2,771	2,097	674
Total	**62,403**	**46,695**	**15,708**

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

	FY 2018	*FY 2017*
Blue-collar	333	329
White-collar	456	419
Executives	24	23
Total	**813**	**771**

3.34. AMORTISATION & DEPRECIATION

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

	FY 2018	FY 2017 (Avio Group period 1/04 – 31/12)	Change
Property, plant & equipment	5,792	4,156	1,636
Investment property	58	42	16
Intangible assets with definite life	8,183	6,430	1,753
Total	**14,032**	**10,628**	**3,404**

Amortization of intangible assets with a definite life primarily includes:

- amortization of capitalized development costs of Euro 4,216 thousand (Euro 3,204 thousand in 2017);
- Euro 2,986 thousand for the amortisation of intangible assets regarding the Ariane and Vega programmes, identified following the purchase price allocation process regarding the acquisition of the Group by Space2 in 2017 (Euro 2,137 thousand at December 31, 2017).

3.35. OTHER OPERATING COSTS

This account amounts to Euro 9,394 thousand (Euro 6,498 thousand in 2017) and mainly comprises the following items:

- costs incurred and accruals to extraordinary personnel charge provisions of Euro 1,486 thousand;
- indirect taxes of Euro 2,125 thousand. This caption includes a non-recurring tax charge relating to the registration tax paid on the purchase of the launchers business unit of the subsidiary ELV S.p.A (now Spacelab S.p.A) in the amount of Euro 609 thousand;
- prior year charges of Euro 1,133 thousand concerning, among others, the adjustment of the valuation of employee benefit provisions to actuarial valuations;
- other operating costs for Euro 874 thousand, relating to entertainment expenses, association dues, donations and contributions;
- non-recurring tax charges relating to the tax dispute pertaining to tax year 2013, which was settled in 2018, of Euro 796 thousand;
- provisions for rights pursuant to the provisions of Law 808/85 (post 2006), amounting to Euro 148 thousand;

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

The account includes the effect of the application of the equity method for the valuation of the investment held in the jointly-controlled company Europropulsion S.A. These effects are recorded, in accordance with the option permitted by IFRS 11, under operating income and charges of the Group, based on the operating nature of the investment of the Avio Group in the company. The effect recorded with reference to 2018, amounting to income of Euro 3,239 thousand, corresponds to the share of the net result recorded by the investee in the period (in the absence of consolidation adjustments impacting the result of the jointly controlled company). The effect generated in 2017 was Euro 2,513 thousand.

3.37. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to costs capitalised for internally constructed assets, amounting to Euro 9,924 thousand, includes principally development costs for Euro 6,899 thousand and costs for the internal construction of tangible and intangible assets for Euro 3,015 thousand.

3.38. FINANCIAL INCOME

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

	FY 2018	FY 2017 (Avio Group period 1/04 - 31/12)	Change
Bank interest income	68	141	(73)
Financial income on Savings Bonds	0	558	(558)
Discounts and other financial income	167	92	75
	235	791	(556)
Realised exchange gains	550	627	(77)
Unrealised exchange gains	29	0	29
	578	627	(49)
Total	**813**	**1,418**	**(605)**

Financial income of Euro 813 thousand principally concerned:
- interest income on bank current accounts for Euro 68 thousand;
- interest income from the application of the amortised cost of receivables of Euro 167 thousand;
- exchange differences for Euro 578 thousand.

Excluding exchange differences, the decrease of Euro 556 thousand on the preceding 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.

3.39. FINANCIAL CHARGES

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

	FY 2018	FY 2017 (period 10/04 – 31/12)	Change
Interest on Senior Term Loan Agreement	0	2,147	(2,147)
Interest on EIB loans	360	60	300
Interest on other payables	128	231	(103)
Discounting on employee benefits	(25)	(16)	(9)
Charges on interest hedge contracts (IRS)	0	311	(311)
	463	2,733	(2,270)
Realised exchange losses	1,034	628	406
Unrealised exchange losses	(21)	16	(37)
	1,013	644	369
Total	**1,476**	**3,377**	**(1,901)**

Financial charges decreased Euro 1,901 thousand on 2017.

The difference principally relates to the presence in 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 period-end translation of receivables and payables in foreign currencies.

3.40. INCOME TAXES

The net balance of the item "income taxes" amounts to tax of Euro 2,020 thousand, comprising current income taxes of Euro 1,852 thousand and deferred income taxes of Euro 168 thousand.

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

	FY 2018	FY 2017
Pre-tax result	27,858	22,028
Ordinary rate applied	24.00%	24.00%
Theoretical tax charge	6,686	5,287
Effect of increases (decreases) to the ordinary rate:		
Permanent increases	16,871	1,949
Permanent decreases	(4,408)	(13,433)
Temporary difference increases	16,323	14,693
Temporary difference decreases	(77,327)	(64,588)
Total changes	(48,542)	(61,379)
Group tax loss	(20,683)	(39,351)
Net deferred tax (income)/charge	(168)	(1,308)
Current taxes Italian companies	(366)	0
Current taxes overseas companies	(1,486)	939
	(2,020)	(369)

3.41. 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.

3.42. EARNINGS PER SHARE

	FY 2018	FY 2017 (Avio Group period 1/04 – 31/12)
Group Net Profit (Euro thousands)	24,338	18,361
Weighted average number of shares in circulation	26,359,346	25,305,773
Basic earnings per share – in Euro	0.92	0.73
Diluted earnings per Share – in Euro	0,90[1]	0,70[1]

[1] Diluted earnings per share was determined assuming the conversion of the 800,000 sponsor warrants into a similar number of ordinary shares.

4. DISCLOSURE BY OPERATING AND REGIONAL SEGMENTS

Disclosure by operating segment

In 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 counted a workforce of 838 employees at December 31, 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):

	31/12/2018
Guarantees given:	
Unsecured guarantees:	
Sureties issued to third parties on behalf of Group	9,683
Other guarantees	13,402
Total guarantees given	23,085
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, carried according to the amortized cost method at Euro 5.8 million. Considering the total original commitment of Euro 12.1 million, the Euro 7.4 million already disbursed and the gradual repayment of the lenders by Termica Colleferro SpA, there was no residual commitment at the reporting date. 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 is the responsibility of the Lazio Region.

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. Following the decision by the Constitutional Court, the case was returned to the Court of Velletri. At the hearing held on October 25, 2018, presided over by Judge Luigi Tirone, the evidentiary filings were repeated and the trial was added to the docket according to the following schedule:

December 6, 2018: testimony from witnesses and consultants to the civil claimants;
December 13, 2018: testimony from witnesses and consultants to the civil claimants (continued);
January 10, 2019: testimony from witnesses and consultants to the civil claimants (conclusion);
February 28, 2019: testimony from witnesses to the defense;
March 14, 2019: testimony from witnesses to the defense (conclusion);
March 28, 2019: expert witnesses to the defense;
April 11, 2019: testimony from the defendants;
April 18, 2019: closing arguments.

At the hearing on December 6, 2018 the hearing scheduled for Thursday, December 13, 2018 was cancelled and the hearing scheduled for January 10, 2019 was confirmed for testimony from all the other witnesses and consultants named by the civil claimants (including the Mayor of Colleferro). At the hearing of December 6, 2018, the court ruled that the terms for the lawyers to the civil claimant Laurenzano and Giacomelli (Ass.ne Codici Onlus), Cevalotto, Barra (Province of Rome), and Caravita di Toritto (Municipality of Anagni) to enter evidence had expired due to the failure to issue summons to the witnesses previously named.
The court also granted our application for the return of the seized property. The court order, release of the seized property and repossession of the areas were formalized by the competent Environmental Operating Unit. <u>The court fully acquitted Secosvim of the charges</u>, finding that the company had undertaken extensive safety and reclamation measures. The court also ordered periodic inspections by the Environmental Operating Unit until the reclamation work is completed.

In December 2015, the Consortium was held directly by the Incorporated Company 18% and indirectly through Secosvim S.r.l. for 9%, and by the other consortium members Caffaro S.r.l. (32%), Alstom Ferroviaria S.p.A. (8%), EP Sistemi S.p.A. (3%), Key Safety Systems S.r.l. (8%), Mobilservice S.r.l. (3%), Simmel Difesa S.p.A. (approx. 11%) and ARC Automotive Italia S.p.A. (8%). At the reporting date, Società Consortile per Azioni Servizi Colleferro is held by the following shareholders: Avio (32%), Secosvim (20%), Termica Colleferro S.p.A. (6%), Caffaro s.r.l. in liquidation (5%), Alstom Ferroviaria S.p.A. (5%), Municipality of Colleferro (5%), EP Sistemi S.p.A. (6%), Lazio Ambiente S.p.A. (6%), Key Safety Systems S.r.l. (5%) and Simmel Difesa S.p.A. (10%).
Based on the advice of its legal advisers on the expected outcome of the proceedings and in accordance with IFRS accounting standards, Avio has not made any provision, considering the possibility remote of a criminal conviction of the Consortium members and, consequently, of the Consortium itself in civil liability to compensate for damage resulting from the offense. In addition, Avio considers the quantification of the claim for damages to be abnormal and arbitrary, and in any case formulated in apparent non-compliance with the special environmental damage law which provides for partial and non-joint liability of those responsible for environmental damage.
However, where criminal charges against the defendants are proven, and if the Consortium (at the reporting date called Società Consortile per Azioni Servizi Colleferro) was required, definitively or on a provisional basis, to indemnify the damages resulting from the criminal offenses, or if the Consortium was otherwise responsible for the environmental damage resulting from the pollution of the Sacco Valley, the current Servizi Colleferro will be liable to compensate the damages to the extent of its liability. In this circumstance, Avio may be called, as a consortium member at the time of the offence, to provide Società Consortile per Azioni Servizi Colleferro with the funds necessary to cover the damages for compensation or jointly respond through use of consortiums funds.

Secosvim/Caffaro

The Colleferro industrial district includes an industrial area known as "Benzoin and derivatives" that until December 31, 2007 was leased to Caffaro S.p.A., which since September 2009 was subject to an extraordinary administration proceeding. For the collection of Caffaro debts, Secosvim submitted an application for admission to its insolvency proceedings, which was accepted.
At the same time, the Emergency Commissioners Office of Sacco Valley issued a claim for damages against Caffaro for land pollution for an estimated amount of approx. Euro 7 million, corresponding to the expected cost for the recovery of these areas. Caffaro challenged in the period between 2008 and 2012, before the Lazio Regional Administrative Court a series of administrative acts (minutes of the conferences of service, notes with which Caffaro was requested to present contaminated waste disposal plans, approval deeds of characterization activities), requesting cancellation, with which the Commissioner's Office sought damages from Caffaro. These motions were notified also to Secosvim as owner of the Benzoin area (leased by Caffaro until 2007), which was therefore summoned before the court in accordance with law.
As the company Caffaro may claim these costs from Secosvim as the owner of the buildings, Secosvim therefore has requested since October 2009 before the Velletri court a prior technical declaration ("ATP") to establish any liability upon Caffaro for the contamination of the Benzoin area, which concluded with the filing of an opinion which confirmed the direct liability of Caffaro for the above-stated contamination.
In this regard, during the proceedings the State Prosecutor requested the Regional Administrative Court to assess the judicial incompatibility of the appeal decision. On conclusion of the hearing of 6.12.2016, the Lazio Regional Administrative Court consequently adopted separate ordinances (of identical tenor), with which (for each appeal) the President of the Counsel was requested to file within 90 days documented clarifications with regards to the criminal proceeding pending before the Velletri Court No. 1831/2014 (as reported in the previous paragraph, relating to the *"Criminal proceeding against Consorzio Servizi Colleferro with regards to the pollution of the Sacco river"*). The hearing of the above appeals 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**.** The next hearing for closing arguments has been scheduled for April 17, 2019.

Group tax audits

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

A) Avio S.p.A. tax audits 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 "Auditors") 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 the framework of this audit, the Italian Finance Police issued an auditors' report served on June 27, 2017 (the "Auditors' Report"), identifying the following irregularities, inter alia, in respect of the 2012 and 2013 tax periods:

- the non-deductibility of the costs incurred by Avio S.p.A. from suppliers located in "black list" countries or territories with privileged tax regimes pursuant to Article 110, paragraphs 10 and 11, of the CFA;

- failure to apply withholdings to interest on loans paid to non-resident entities.

In the dispute regarding black-list costs, during the 2018 tax period the Large Taxpayers Office of the Piedmont Regional Department of the Italian Tax Office (hereinafter the "Piedmont Department") served the following documents in connection with the aforementioned Notice:

- in respect of the 2012 tax period, an assessment notice, in relation to which Avio S.p.A applied for a settlement, which culminated on May 30, 2018 in the determination of a total sum due from the Company of approximately Euro 187 thousand, inclusive of taxes, penalties and interest;

- for the 2013 tax year, a questionnaire in 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. In particular, the proceeding originating from the above questionnaire was resolved by assessment agreement signed on December 17, 2018, resulting in total recovery from the Company of approximately Euro 56 thousand, inclusive of taxes, penalties and interest.

Both the liabilities are subject to the Share Purchase Agreement signed on December 21, 2012 between, among others, Avio (as seller) and Nuovo Pignone Holding S.p.A. (as buyer), and therefore continue to be borne by the General Electric Group.

With regard to the alleged failure to apply withholdings outlined in the Notice dated June 27, 2017, during the 2018 tax period the Piedmont Department served:

- in respect of the 2012 tax period, an assessment notice, in relation to which the Company applied for a settlement, which culminated on May 30, 2018 in the determination of a total sum due from the Company of approximately Euro 100 thousand, inclusive of penalties and interest;

- in respect of the 2013 tax period, an invitation to appear that led to the resolution of the dispute through the signing on December 17, 2018 of an assessment agreement providing for a total amount due from the Company of approximately Euro 46 thousand, inclusive of penalties and interest.

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. This appeal was rejected by the Turin Provincial Tax Commission with judgment 729/05/17 of May 25, 2017.

This decision was appealed before the Piedmont Regional Tax Commission, which in judgment 1740/18 rendered on October 24, 2018 and filed on November 7, 2018 granted the Company's appeal in full. At the time of this report, there was no record of any appeal by the Italian Tax Office of the above judgment before the Court of Cassation.

It bears remarking that lawmakers have addressed the subject-matter of this dispute, which has to do with the application of Art. 20 of Italian Presidential Decree 131/1986 (the "Consolidated Law on Registration Tax"), in paragraph 1084 of Law 145 of December 30, 2018 (the "2019 Finance Act"), expressly granting the force of an official interpretation – and thus retroactive effect – to Art. 1, paragraph 87, letter a) of Law 205 of December 27, 2017 (the "2018 Finance Act"), which amended Art. 20 of the Consolidated Law on Registration Tax, limiting the discretion of the revenue authorities in reclassifying deeds subject to registration. In the light of the provision of the 2019 Finance Act, the provision introduced by the 2018 Finance Act should therefore also apply retroactively, for the benefit of the taxpayer, with the result that there is no longer any case to answer.

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.

The proceeding in question was concluded on December 17, 2018 with the signing of two assessment agreements, one in respect of IRES (company income tax) and the other of IRAP (regional business tax), both relating to the 2013 tax period, resulting in the recovery from the Company of a total of approximately Euro 795 thousand, inclusive of taxes, interest and penalties.

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

A.2.1.) *Refiling of IRES refund applications relating to failure to deduct personnel costs for the years 2007-2011 for the purposes of IRAP.*

On October 11, 2018 the Piedmont Department served Avio S.p.A., as consolidating entity of the tax consolidation program for the 2013 tax period, with invitation to appear TSBI1LR00102/2018, alleging various irregularities relating to:

a) the content of the IRES (company income tax) refund applications relating to the failure to deduct IRAP (regional business tax) on personnel costs filed by the Company pursuant to Art. 2, paragraph 1-*quater* of Decree Law No. 201/2011 for the 2007 to 2011 tax periods;

b) the content of the CNM2014 return model filed by the Company, as consolidating entity, for the 2013 tax period, as a consequence of the use of tax losses arising from the aforementioned refund applications.

The Company acted promptly to provide the Piedmont Department with all of the requested information and clarification. Following its interactions with the Company, the Piedmont Department reconsidered the irregularities it had proposed, while continuing to allege that the refund application submitted by the Company for the 2011 tax period was incorrect. On December 17, 2018 this proceeding culminated in the signing of an assessment agreement and in the recovery from the Company of a total of Euro 426 thousand, inclusive of taxes and interest. This liability is covered by the Share Purchase Agreement signed on December 21, 2012 between, among others, Avio (as seller) and Nuovo Pignone Holding S.p.A. (as buyer), and therefore continues to be borne by the General Electric Group.

B) Secosvim S.r.l. -Tax audits and disputes

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

B.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 was paid, with interest, in September 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. 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. The judgment of the Supreme Court following the hearing of February 21, 2019 is currently pending.

B2 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 settlement procedure, appealed to the Rome Provincial Tax Commission, which in June 2018 rendered a judgment unfavourable to the Company. In February 2019 Secosvim lodged a timely appeal against the unfavourable judgment rendered by the Rome Provincial Tax Commission.

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. At the date of preparation of the present financial statements, discussion of the case was pending.

B.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 Company appealed the above assessment notices before the Rome Provincial Tax Commission, which found in favour of the Company in its judgment of September 7, 2015. The Lazio CTR on December 12, 2016 accepted the appeal of the Tax Agency against the judgement of the Rome CTR. Therefore, 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. At the reporting date, the hearing before the Supreme Court had yet to be scheduled. The Company is considering whether to apply for the expedited resolution program governed by Decree Law 119/2018.

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. The Rome Provincial Tax Commission rejected the Company's appeal by judgment 18883/18 of November 11, 2018. The Company is considering whether to apply for the expedited resolution program governed by Decree Law 119/2018.

B.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. By judgment 2300/6/18, rendered on September 24, 2018, the Emilia Romagna Regional Tax Commission rejected in full the appeal lodged by the Office, granting the Company's claims. The Company is considering whether to apply for the expedited resolution program governed by Decree Law 119/2018.

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. At the hearing on December 17, 2018, the Emilia Romagna Regional Tax Commission ordered a stay of the proceeding pending the resolution of the dispute concerning the correction and settlement notice for additional registration, mortgage and land taxes from the reclassification as the disposal of a business of the transfer of the "Energia Colleferro" business unit to Termica Colleferro S.p.A. and the subsequent transfer of the investment in this latter to the indirect parent company Avio.

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

C) Spacelab S.p.A. (ex 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.

D) Europropulsion S.A. – Tax audits and disputes.

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.

E) Avio S.p.A. (formerly Space2 S.p.A. - incorporating company) – 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.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Categories and fair value of financial assets and liabilities

The following table breaks down financial assets and liabilities as per IFRS 7, on the basis of the categories under IAS 9 for 2018 and 2017.

Amounts at December 31, 2018:

In Euro thousands	Total accounts	IFRS 9 Category		
		Assets at amortised cost	*Assets at fair value through profit or loss*	*Liabilities at amortised cost*
FINANCIAL ASSETS				
- Investments in other companies	524		524	
- Non-current financial assets	5,812	5,812		
- Other non-current assets	66,521	66,521		
- Current financial assets	-	-		
- Trade receivables	7,017	7,017		
- Other current assets	7,608	7,608		
- Cash and cash equivalents	108,435	108,435		
	195,917	**195,393**	**524**	
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	40,000			40,000
- Current financial liabilities	19,249			19,249
- Current portion of non-current financial payables	60			60
- Other non-current liabilities	122,453			122,453
- Other current liabilities	16,801			16,801
- Trade payables	131,407			131,407
	329,970			**329,970**

Amounts at December 31, 2017

In Euro thousands	Total accounts	IFRS 9 Category		
		Assets at amortised cost	*Assets at fair value through profit or loss*	*Liabilities at amortised cost*
FINANCIAL ASSETS				
- Investments in other companies	524		524	
- Non-current financial assets	5,812	5,812		
- Other non-current assets	65,521	65,521		
- Current financial assets	-	-		
- Trade receivables	8,508	8,508		
- Other current assets	8,664	8,664		
- Cash and cash equivalents	107,033	107,033		
	196,062	**195,538**	**524**	
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	40,000			40,000
- Current financial liabilities	25,259			25,259
- Current portion of non-current financial payables	60			60
- Other non-current liabilities	116,270			116,270
- Other current liabilities	17,600			17,600
- Trade payables	89,441			89,441
	288,630			**288,630**

Fair value of financial assets and liabilities and calculation models utilised

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

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

The Company and the Avio Group did not have derivative financial instruments in place at December 31, 2018.

Financial income and charges recognised as per IAS 9

The following table presents the financial income and charges generated by financial assets and liabilities, broken down by category as per IFRS 9 for 2018 and 2017.

FY 2018

	Financial income/(charges) recognised through profit or loss		Actuarial gains/(losses) recognised to comprehensive income statement
In Euro thousands	From interest	From fair value changes	From fair value changes
Assets at amortised cost	360	-	-
Assets at fair value through profit or loss			
Liabilities at amortised cost	-	-	-
Derivative financial instruments	-	-	-
Total categories	360	-	-

FY 2017

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

Types of financial risks and related hedging

The Avio Group through its operating activities is exposed to financial risks, in particular:
- credit risks, related to commercial transactions with clients and funding operations;
- liquidity risk, related to the availability of financial resources and access to the credit market;
- market risks;
- interest rate risk.

These financial risks are continually monitored, undertaking initiatives to offset and contain potential impacts through appropriate policies and, where in general considered necessary, also through specific hedging instruments (currently not necessary as the loan interest rate with the EIB is fixed and competitive compared to the market).

This section provides qualitative and quantitative disclosure upon the impact of these risks on the Company and on the Group.
The following quantitative data cannot be used for forecasting purposes or completely reflect the complexity and the related market reactions which can derive from any change in assumptions.

Credit Risk

Credit risk represents the exposure of the Company and of the Group to potential losses due to the non-compliance with obligations by commercial and financial counterparties.
The exposure to credit risk is essentially related to receivables recognised to the financial statements, particularly trade receivables and guarantees provided in favour of third parties.
The maximum theoretical exposure to the credit risk for the Group at December 31, 2018 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 7,017 thousand.
This amount is comprised of:

- trade receivables, amounting at December 31, 2018 to Euro 95,160 thousand (including receivables concerning invoices for advances yet to be paid of Euro 87,659 thousand, of which Euro 20,628 thousand from the jointly-controlled company Europropulsion),
- the "advances to be collected", amounting to Euro 87,659 thousand (including also advances to be received from Europropulsion, equal - as illustrated above - to Euro 20,628 thousand),
- the Doubtful Debt Provision, which totals Euro 483 thousand.

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

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

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

Based on an analysis of overdue trade receivables at December 31, 2018 these are recorded net of a doubtful debt provision of Euro 482 thousand. The overdue amounts were therefore not significant and entirely relate to timing factors.

For trade receivables, each financial year, an individual assessment of risk is carried out and a specific doubtful debt provision accrued, which takes account of an estimate of recoverable amounts and any disputes in progress and possible maturity extensions.

Liquidity risk

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

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

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

Liquidity analysis

The following tables break down future contractual cash flows generated by financial and commercial liabilities and by the principal other liabilities of the Group (in Euro thousands).

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

Amounts at December 31, 2018:

	Book values	On demand	Within 12 months	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Over 5 years	Total cash flows
Current financial liabilities:									
- Current financial payables to companies under joint control	19,249	19,249	-	-	-	-	-	-	19,249
- Financial payables *EIB Loan*	60	-	60	-	-	-	-	-	60
	19,309	19,249	60	0	0	0	0	0	19,309
Trade payables (including companies under joint control)	131,407	-	131,407	-	-	-	-	-	131,407
	131,407	0	131,407	0	0	0	0	0	131,407
Other non-current liabilities:									
- Financial payables *EIB Loan*	40,000	-	360	8,330	8,258	8,186	8,114	8,042	41,290
- Payables for disbursements in accordance with Law 808/85	42,051	-	-	-	-	-	-	42,051	42,051
	82,051	0	360	8,330	8,258	8,186	8,114	50,093	83,341
Other current liabilities:									
- Social security institutions	3,775	-	3,775	-	-	-	-	-	3,775
- Employee payables	6,448	-	6,448	-	-	-	-	-	6,448
- Other payables to third parties	1,381	-	1,381	-	-	-	-	-	1,381
	11,604	0	11,604	0	0	0	0	0	11,604
Total cash flows	244,371	19,249	143,431	8,330	8,258	8,186	8,114	50,093	245,661

Amounts at December 31, 2017

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

Market risk

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

The Company and the Group, considering that stated with regards to the insignificant market risk related to exchange rate and interest rate movements, at December 31, 2018 had not undertaken specific cash flow hedges in relation to these types of risks.

Interest rate risk

The Company and the Group has only one loan with the European Investment Bank (EIB) for Euro 40 million - increased to Euro 50 million in 2019 - at a competitive fixed interest rate compared to the market.

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

7. RELATED PARTY TRANSACTIONS

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

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

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

The following tables present the quantification of transactions with related parties not falling within the Group consolidation on the Balance Sheet at December 31, 2018 and on the Group Income Statement for 2017 (in Euro thousands):

	At December 31, 2018							
Counterparty	**Trade receivables**	**Oth. Curr. assets**	**Contract work-in-progress**	**Non-current finan. assets**	**Trade payables**	**Other curr. liabilities**	**Advances for contract work in progress**	**Financial liabilities**
Leonardo S.p.A.					1106	223		
MBDA Italia S.p.A.	17		991				786	
MBDA France S.A.			8,755				5,939	
Thales Alenia Space Italia S.p.A.								
Companies with a connecting relationship and relative investee companies	**17**	**0**	**9,746**	**0**	**1106**	**223**	**6,725**	**-**
Termica Colleferro S.p.A.	704			5,812	1962			
Europropulsion S.A.	524		2,414		21,190		14,061	19,249
Potable Water Services Consortium	159				(135)			
Servizi Colleferro - Consortium Limited Liability Company	151	126						
Associates and jointly controlled companies	**1,538**	**126**	**2,414**	**5,812**	**23,017**	**-**	**14,061**	**19,249**
Total related parties	**1,555**	**126**	**12,160**	**5,812**	**24,123**	**223**	**20,786**	**19,249**
Total book value	**7,017**	**7,608**	**103,152**	**5,812**	**131,407**	**16,801**	**177,027**	**59,309**
% on total account items	**22.2%**	**1.67%**	**11.8%**	**100%**	**18.4%**	**1.3%**	**11.7%**	**32.5%**

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

	At December 31, 2018			
Counterparty	**Operating Revenues and changes in contract work-in-progress**	**Operating Costs [1]**	**Financial Income**	**Financial Charges**
Leonardo S.p.A.		645		
MBDA Italia S.p.A.	53			
MBDA France S.A.	0			
Thales Alenia Space Italia S.p.A.	12			
Companies with a connecting relationship and relative investee companies	**65**	**645**	**0**	**0**
Termica Colleferro S.p.A.	101	9,619		
Europropulsion S.A.	2,074	80,433		
Potable Water Services Consortium	50	140		
Servizi Colleferro - Consortium Limited Liability Company	277	489	-	-
Associates and jointly controlled companies	**2,502**	**90,681**	**0**	**0**
Total related parties	**2,567**	**91,326**	**0**	**0**
Total book value	**446,828**	**408,044**	**813**	**1,476**
% on total account items	**0.57%**	**22.38%**	**0.00%**	**0.00%**

[1] The account includes raw material consumables, service costs and personnel expenses.

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

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

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

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

- financial payables, relating to the short-term inter-company financial payables of Avio S.p.A. to Europropulsion S.A.;
- revenues, relating to the transactions described previously with regards to trade receivables;
- operating costs, relating to the transactions described previously with regards to trade payables;
- financial income, related to interest on the financial receivables previously stated.

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

Transactions with other related parties

Group transactions with other related parties concern the following operations:

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

8. LIST OF GROUP COMPANIES AT DECEMBER 31, 2018

The following table presents the key details of Avio Group investees at December 31, 2018:

Companies included in the consolidation scope at December 31, 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 S.A.S.	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. DISCLOSURE PURSUANT TO ARTICLE 149 *DUODECIES* OF THE CONSOB ISSUER'S REGULATION

In accordance with Article 149 duodecies of the Consob Issuer's Regulation, we report below the information concerning fees paid in 2018 for audit and other services by the audit firm Deloitte & Touche SPA and its network (in Euro thousands):

Type of service	Company	Service provider	2018 Fees
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	103
	Subsidiaries	Deloitte & Touche S.p.A.	27
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	25 [1]
Total	**Total**		155

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

In 2019 a specific engagement was awarded to audit the statement of the research and development costs incurred in 2018 and the comparative years (2012 - 2014) by Avio S.p.A, prepared pursuant to Decree-Law 145 of December 23, 2013, converted by Law 9 of February 21, 2014, as amended by Law 145 of December 30, 2018. The fees for this service amounted to Euro 58 thousand.

10. DISCLOSURE ON PUBLIC GRANTS AS PER ARTICLE 1, PARAGRAPHS 125-129, OF LAW NO. 124/2017

The following information is provided in accordance with the public disclosure requirements imposed by public grant legislation: This disclosure concerns, as required by the regulation, only disbursements accruing in 2018:

Grants under Law No. 808 of December 24, 1985 "*Incentives for the development and improved competitivity of the aerospace sector industries*"

Project	Years_costs Project	Loans issued (€M)	Collection date	Ministry for Economic Development (M€)
80-ton solid propellant engine - P80	2006-2008	2.32	27/09/2018	1.16
80-ton solid propellant engine - P80	2009	0.51	27/09/2018	0.77
80-ton solid propellant engine - P80	2010	0.29	27/09/2018	0.44
Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2009	0.29	27/09/2018	0.44
Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2010	0.31	27/09/2018	0.77
Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2011-2012	0.58	27/09/2018	1.14
Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2012-2013	0.61	27/09/2018	2.29
Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2014-2015	2.77	23/03/2018	2.23
LOX/LCH technology demonstrator for the first stage of the Vega E launcher	2014-2016	0.61	01/03/2018	1.16
LOX/LCH technology demonstrator for the first stage of the Vega E launcher	2014-2016	0.07	16/11/2018	
		8.36		**10.40**

Receivables from the Economic Development Ministry" for disbursements in accordance with Law 808/85, amounting to Euro 10.40 million, refer to the nominal value of the grants to be issued by the Economic Development Ministry. The amounts by Project are broken down as follows: Euro 2.37 million for the "80 ton solid propellant motor - P80" project; Euro 6.87 million for the "Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines” project; Euro 1.16 million for the “LOX/LCH demonstrated technology for the third stage of the Vega E launcher” project. 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”.

Other grants

Receiving company	Disbursing PA	Project	Years_costs Project	Loans issued (€M)	Collection date
AVIO SPA	European community	SpaceCarbon	NA	0.56	06/02/2018
AVIO SPA	Ministry for University, Education and Research	P R A D E	NA	0.24	19/02/2018
AVIO SPA	Ministry for University, Education and Research	P R A D E	NA	0.01	16/03/2018
AVIO SPA	European community	GRAIL	NA	0.01	23/08/2018
				0.82	

As reported in the Directors’ Report and the Explanatory Notes in the tax receivable paragraphs, the Avio Group has recognised with regards to financial year 2018, the Research and development tax credit permitted under Article 3 of Legislative Decree No. 145 of December 23, 2013 and subsequent amendments (the second year considered for this credit, with the Group having also recognised and utilised the research and development tax credit with reference to financial year 2017).

11. SUBSEQUENT EVENTS

Business

Vega

In 2019 the second fire bench test of the P120 engine, which is intended for use in the new versions of the Vega C and Ariane 6 launchers, was successfully completed.
The 2019 launch campaign for the first Vega has also begun.

Ariane

Ariane 5 successfully completed its first launch in 2019.

Other significant events

Signing of an additional Euro 10 million loan contract with the European Investment Bank (EIB)

On January 16, 2019 the Company signed an additional Euro 10 million loan contract with the European Investment Bank (EIB). This loan is in fact in addition to, and subject to similar economic conditions as, the aforementioned original loan of Euro 40 million contracted in October 2017.

This increase will further support the planned development of new technologies in the field of space propulsion systems in view of the offering of the new products for the Ariane 6 and Vega 6 programs and the expansion of industrial capacity at the Colleferro facility required to meet the Company's production volume targets for the coming years.

Modification of dividend policy

On the same date as the approval of the financial documents for the year ended on December 31, 2018, the amendment of the dividend policy in accordance with the principle of sustainability over the medium/long-term on the basis of the economic-financial outlook, the solidity of the capital structure and also in consideration of "capital intensive" investment cycles in the medium to long-term, was submitted for the approval of the Corporate Boards.

The amendment of the policy submitted for the approval of the Corporate Boards was as follows: a "dividend yield" (the dividend per share as a percentage of the market value of the share), from a range of 2% to 3.5% of stock market capitalization to a range of 1% to 5% of stock market capitalization.

The "payout ratio" remains unchanged however in a range of between 25% and 50% of the consolidated net profit.

Proposal for the authorization of the purchase of Avio own shares

The purchase of shares in Avio S.p.A. was submitted for the approval of the Corporate Boards on the same date on which the financial documents for the year ended December 31, 2018 were approved.

The reasons for proposing that the Corporate Boards approve the purchase of own shares include, among others, support for share liquidity, containment of any anomalous price movements and investment of the liquidity generated by the Company.

The request for authorization regards the power for the Board of Directors of Avio S.p.A to undertake a series of share purchase and sale transactions on a revolving basis for a period of 18 months from the date of approval of the relevant shareholders' meeting resolution, while not collectively exceeding 10% of the share capital of Avio S.p.A and otherwise while in accordance with applicable laws and regulations.

The purchase price of the shares will be set from time to time on the basis of the intended transaction structure and in accordance with any regulatory prescriptions or standard market practice, and will range between a minimum and maximum to be set in the course of the shareholders' meeting called to authorize the purchase of Avio shares.

In any event, it is proposed that the shares be purchased for a price per share not more than 10% (ten percent) below and not more than 10% (ten percent) above the price of the share recorded during the Borsa Italiana trading session on the day before each transaction, or for a different price in accordance with market practice or Regulation (EC) No. 596/2014 of the European Parliament of April 16, 2014, for transactions subject to the said Regulation.

* * *

March 14, 2019

THE BOARD OF DIRECTORS
The Chief Executive Officer and General Manager
Giulio Ranzo

Deloitte.

Deloitte & Touche S.p.A.
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10121 Torino
Italia

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

To the Shareholders of
Avio S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Avio Group (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

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

Key Audit Matters

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

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Evaluation of contracts work in progress and related income effects

Description of the key audit matter	The consolidated financial statements for the year ended December 31, 2018 include assets and liabilities respectively of Euro 103.2 thousand and Euro 177.1 thousand relating to the execution of contract work in progress and related advances. These contract work in progress are attributable to development and production activities of space sector, whose revenues and related margin are recognized to income statement based on the progress of orders according to the percentage of completion method determined on the basis of the ratio between the costs incurred and the total estimated costs of the entire work. The Group has also booked in the consolidated financial statements as at December 31, 2018 a tax credit related to research and development costs to be sold to clients and therefore included in the evaluation of contract work in progress, accounted in consistency to the progress of the related orders. The methods for evaluation those contract work in progress and the revenue recognitions are based on complex assumptions which by their nature imply recourse to the opinion of the Management with particular reference to the estimated costs to complete the entire work including the estimate of contractual risks. In consideration of the significance of these activities with respect to the overall business profile of the Group and the complexity of the assumptions used for forecasting the costs to complete the related contracts, also influenced by the engineering complexity of the mentioned contracts, we consider that this topic represents a key audit matter of the Group consolidated financial statements as at December 31, 2018. Disclosures related to this matter are reported in the explanatory notes of the financial statements and in particular in note 2.7 "Accounting policies", note 2.9 "Use of estimates" and note 3.10 "Contract work-in-progress".

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Evaluation of contracts work in progress and related income effects

Audit procedures performed

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

- understanding of the accounting approach adopted by the Group for the evaluation of the contract work in progress and the revenue recognition criteria and related margin;
- analysis of the procedure carried out and the design and implementation of relevant controls put in place by Management to verify the evaluation of the contract work in progress;
- sample analysis of existing contracts with the customers and the related change contract clauses;
- review of the accuracy of the calculation of the completion percentage and related revenue recognition;
- comparative analysis of the main changes in contract results with respect to the original and previous year estimations;
- analysis of the assumptions that required significant judgement from Management and in particular with the method for determining estimates of costs to complete the entire work including foreseeable contractual risks as well as the subsequent events to the closing date;
- analysis of contract reporting and inquiry with project managers with particular reference to the contractual changes occurred during the year and the effects of these variation on the determination of costs to complete the entire work included any foreseeable losses;
- analysis of the accounting of the tax credit and development activities incurred in 2017 and 2018 financial statements and the effects recognized in the income statement based on the on the progress of orders according to the percentage of completion of these development activities;
- sample verification of contract costs with reference to the various cost components and physical inspection of a sample of contract work in progress as of December 31, 2018;
- analysis of the new IFRS 15 effects;
- review of the adequacy of disclosures provided by Avio S.p.A. and the compliance with the related accounting standards.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The Directors of Avio S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Avio Group as at December 31, 2018, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of the Group as at December 2018 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Avio Group as at December 31, 2018 and are prepared in accordance with the law.

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

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

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

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

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

DELOITTE & TOUCHE S.p.A.

Signed by
Franco Chiavazza
Partner

Turin, Italy
March 28, 2019

SEPARATE FINANCIAL STATEMENTS

BALANCE SHEET	Note	December 31, 2018	December 31, 2017
(in Euro)			
ASSETS			
Non-current assets			
Property, plant & equipment	3.1	57,226,726	47,833,292
Goodwill	3.2	61,005,397	61,005,397
Intangible assets with definite life	3.3	116,641,054	117,175,288
Investments	3.4	84,402,700	80,067,869
Non-current financial assets	3.5	5,812,000	5,812,000
Deferred tax assets	3.6	74,756,323	74,684,624
Other non-current assets	3.7	66,506,252	65,352,564
Total non-current assets		**466,350,452**	**451,931,034**
Current assets			
Inventories and advances to suppliers	3.8	111,537,309	75,871,062
Contract work-in-progress	3.9	103,151,448	46,198,448
Trade receivables	3.10	3,646,540	7,223,709
Cash and cash equivalents	3.11	106,306,821	100,423,571
Tax receivables	3.12	59,077,699	37,066,067
Other current assets	3.13	10,882,507	9,205,128
Total current assets		**394,602,325**	**275,987,985**
Assets held-for-sale and Discontinued Operations	3.38	-	-
		-	-
TOTAL ASSETS		**860,952,776**	**727,919,019**

BALANCE SHEET	Note	December 31, 2018	December 31, 2017
(in Euro)			
EQUITY			
Share capital	3.14	90,964,212	90,964,212
Share premium reserve	3.15	144,255,918	163,897,217
Other reserves	3.16	13,152,374	(4,174,836)
Retained earnings		6,386,265	3,475,031
Net income for the year		23,344,256	12,927,785
Total Shareholders' Equity		**278,103,026**	**267,089,410**
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	3.17	40,000,000	40,000,000
Employee benefit provisions	3.18	8,774,459	8,171,438
Provisions for risks and charges	3.19	3,365,270	2,088,557
Other non-current liabilities	3.20	122,038,121	115,489,066
Total non-current liabilities		**174,177,850**	**165,749,061**
Current liabilities			
Current financial liabilities	3.21	71,570,289	70,003,744
Current portion of non-current financial payables	3.22	60,000	60,000
Provisions for risks and charges	3.19	5,866,418	6,025,185
Trade payables	3.23	141,810,833	77,003,985
Advances for contract work-in-progress	3.9	176,978,565	129,229,703
Tax payables	3.24	1,554,867	1,329,019
Other current liabilities	3.25	10,830,930	11,428,912
Total current liabilities		**408,671,900**	**295,080,548**
TOTAL LIABILITIES		**582,849,750**	**460,829,609**
Liabilities available-for-sale and discontinued operations	3.38	-	-
		-	-
TOTAL LIABILITIES AND EQUITY		**860,952,776**	**727,919,018**

INCOME STATEMENT	Note	FY 2018	FY 2017 [1]
(in Euro)			
Revenues	3.26	443,357,660	256,562,939
Change in inventory of finished products, in progress and semi-finished		473,336	(270,146)
Other operating income	3.27	5,513,853	5,013,017
Consumption of raw materials	3.28	(120,802,929)	(68,117,188)
Service costs	3.29	(253,081,216)	(149,517,594)
Personnel expenses	3.30	(48,414,244)	(32,877,198)
Amortisation & depreciation	3.31	(12,035,429)	(8,505,753)
Write-down and write-backs		-	-
Other operating charges	3.32	(6,309,041)	(3,280,478)
Costs capitalised for internal works	3.33	9,755,069	8,983,229
EBIT		**18,457,060**	**7,990,828**
Financial income	3.34	699,559	1,133,236
Financial charges	3.35	(1,456,334)	(3,044,221)
NET FINANCIAL CHARGES		**(756,775)**	**(1,910,985)**
Effect valuation of investments under equity method - financial income/(charges)			
Other investment income/(charges)	3.36	5,720,000	5,340,000
INVESTMENT INCOME		**5,720,000**	**5,340,000**
PROFIT BEFORE TAXES AND DISCONTINUED OPERATIONS		**23,420,284**	**11,419,843**
Income taxes	3.37	(76,028)	1,507,943
PROFIT FROM CONTINUING OPERATIONS		**23,344,256**	**12,927,785**
NET PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS	3.38	**-**	**-**
NET PROFIT		**23,344,256**	**12,927,785**
Basic earnings per share	3.39	0.89	0.51
Diluted earnings per share	3.39	0.86	0.50

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

COMPREHENSIVE INCOME STATEMENT	FY 2018	FY 2017 [1]
(in Euro)		
NET PROFIT (A)	**23,344,256**	**12,927,785**
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	(593,963)	12,607
Gains/(losses) recorded directly to equity (which will be subsequently reclassified to P&L)		
- Gains/(losses) on cash flow hedge instruments recorded directly to interest rate cash flow hedge reserve	-	316,508
Tax effect on other gains/(losses)	114,989	2,708
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	**(478,974)**	**331,823**
COMPREHENSIVE INCOME FOR THE YEAR (A+B)	**22,865,282**	**13,259,609**

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Euro thousands)

			Other reserves							
	Share capital	Share premium reserve	*Legal reserve*	*Interest rate cash flow hedge reserve*	*Act. (gains/ (losses) reserve*	*2015 share capital increase reserve*	Under common control transac. reserve	Retain. earnings	Net result	Total Equity
Equity at 31/12/2016	**30,845**	**277,155**	**15**	**0**	**0**	**(2,912)**		**290**	**(332)**	**305,061**
Allocation of prior year result								(332)	332	0
Distribution dividends										
Effects deriving from the merger by incorporation of Avio S.p.A. (April 10, 2017)	75,339	25,615		(317)	(2,745)			3,062		100,954
Effects deriving from spin-off to Space3 (April 5, 2017)	(15,423)	(138,873)	(8)			1,456				(152,847)
Exercise Warrants	203									203
Comprehensive income										
- Net profit/(loss) for the year									12,928	12,928
- Other changes								454		454
- Change in fair value of hedges				317						317
- Actuarial gains/(losses), net of tax effect					20					20
Comprehensive income	0	0	0	317	20	0		454	12,928	13,719
Equity at 31.12.2017	**90,964**	**163,897**	**7**	**0**	**(2,725)**	**(1,456)**		**3,474**	**12,928**	**267,089**
Allocation of prior year result								12,928	(12,928)	0
Distribution dividends								(10,017)		(10,017)
Allocation to reserves		(19,641)	18,185			1,456				0
Other changes							(1,835)			(1,835)
Comprehensive income										
- Net profit/(loss) for the year									23,344	23,344
- Other changes								2		2
- Actuarial gains/(losses), net of tax effect					(481)					(481)
Comprehensive income	0	0	0	0	(481)	0	0	2	23,344	22,865
Equity at 31/12/2018	**90,964**	**144,256**	**18,193**	**0**	**(3,206)**	**0**	**(1,835)**	**6,386**	**23,344**	**278,103**

CASH FLOW STATEMENT
(Euro thousands)

		2018	2017
OPERATING ACTIVITIES			
Net profit for the year		23,344	12,928
Adjustments:			
- Income taxes		76	(1,508)
- Financial (Income)/Charges		757	1,911
- Amortisation & Depreciation		12,035	8,506
- (Gains)/losses on sale of property, plant & equipment & other (income)/charges		-	-
Net change provisions for risks and charges		520	(3,860)
Net change employee provisions		(301)	(92)
			-
Changes in:			-
- Inventories		87,167	653
- Contract work-in-progress & advances		(148,154)	8,754
- Trade receivables		6,505	(3,394)
- Trade payables		41,760	(2,326)
- Other current & non-current assets		4,548	(11,394)
- Other current & non-current liabilities		5,254	(3,279)
Income taxes paid		-	-
Interest paid		(1,456)	(2,147)
Net liquidity generated/(employed) in operating activities	(A)	**32,055**	**4,752**
INVESTING ACTIVITIES			
Investments in:			
- Property, plant & equipment		(13,049)	(13,811)
- Intangible assets with definite life		(7,547)	(8,933)
- Equity Investments		(4)	
- Savings Bonds/Restricted Bank Deposits			-
Disposal price of tangible, intangible & financial assets			(0)
			-
			-
Acquisition price of the launchers business unit of ELV (now SpaceLab)		(20,311)	
Changes in consolidation scope			-
Avio Business combination			-
- Price paid			(84,871)
- Cash and cash equivalents of Avio S.p.A. at April 10, 2017			123,655
Disposal price financial assets			152,847
Liquidity generated (employed) in investing activities	(B)	**(40,912)**	**168,887**
FINANCING ACTIVITIES			
New EIB loans			40,000
Senior Term and Revolving Facilities Agreement Repayments			(90,653)
Centralised treasury effect with subsidiary and jointly controlled company		24,757	(19,576)
Repayment / (Issue) of loans to associate Termica Colleferro S.p.A.			-
Dividends paid by the parent Avio S.p.A.		(10,017)	
Share capital increase and share premium reserve			202
Other changes to financial assets and liabilities			(3,632)
Liquidity generated (employed) in financing activities	(C)	**14,740**	**(73,660)**
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C)	**5,883**	**99,979**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**100,424**	**445**
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**106,307**	**100,424**

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

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Accounting standards for the preparation of the financial statements

These financial statements at December 31, 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”).

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

With the exception of the provisions of IFRS 3 with reference to the business combination undertaken in 2017, which allowed Space2 S.p.A to acquire the Avio Group, the financial statements have been drawn up according to the historical cost criteria, adjusted, where applicable, for the measurement of certain financial instruments and other assets and liabilities at fair value.

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

2.2. Financial Statements

The financial statements relating to the year 2018 consist of the Balance Sheet, the Income Statement, the Comprehensive Income Statement, the Cash Flow Statement, the Statement of changes in Shareholders’ Equity and the Notes to the financial statements.

The financial statements of the Company are presented as follows:
- for the Balance Sheet, the separate presentation of non-current and current assets and of non-current and current liabilities, generally adopted by industrial and commercial groups;
- for the Income Statement, the classification of costs based on their nature;

- for the Comprehensive Income Statement, the adoption of the separate presentation ("two-statement approach") with indication of other gains/losses net of the relative tax effect;
- for the Cash Flow Statement, the adoption of the indirect method.

2.3. Comparative information

In accordance with IAS 1, these 2018 financial statements present the comparative 2017 figures for the Balance Sheet items (Balance Sheet) and the full year 2017 figures for the Income Statement items (Income Statement, Comprehensive Income Statement, Statement of changes in Equity and Cash Flow Statement).

Following the acquisition of Avio S.p.A., completed on March 31, 2017 by Space2 and the merger by incorporation of the former into the latter with accounting, tax and real efficacy from April 10, 2017, the comparative Income Statement, Comprehensive Income Statement and Cash Flow Statement for 2017 - relating to the incorporated Avio S.p.A. - run from April 10, 2017.

Some financial statement items at December 31, 2017 were reclassified for comparison with the year-ending December 31, 2018.

2.4. Accounting policies

Property, plant & equipment

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

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

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

The depreciation rates utilised by the Group are as follows:

Category	Depreciation rate

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

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

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

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

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

Land is not depreciated.

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

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

Intangible assets

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

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

Intangible assets with indefinite life

Goodwill

The goodwill derives from the acquisition and subsequent merger of Avio S.p.a. by Space2 S.p.A. in 2017, as an allocation of the residual difference between the cancellation of the value of the investment and the corresponding fraction of the shareholders' equity of the incorporated company.

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

For the purpose of the impairment test, goodwill is considered allocated to the individual Cash Generating Units (CGU's) representing the financially independent business units through which the Company operates. The Company situation at December 31, 2018 indicates a single CGU corresponding to the Space operating segment.

Intangible assets with definite life

Development costs

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

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

Intangible assets for Customer Relationships

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

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

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

The amortisation rates utilised by the Company are as follows:

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

Investments

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

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

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

The companies in which the Company holds between 20% and 50% of voting rights while not exercising significant influence and investments in other companies, are included in non-current assets or current assets where they are expected to remain within the Company for a period, respectively, in excess of or less than 12 months. The other investments are classified to "financial assets measured at fair value through consolidated profit or loss" (FVTPL) under current assets. On the purchase of each investment, IFRS 9 establishes the irrevocable option to recognise these assets among "financial assets measured at fair value through consolidated other comprehensive income" (FVOCI), under non-current or current assets. Other investments classified as "financial assets measured at fair value through other comprehensive income" are measured at fair value; the changes in the value of these investments are recognised to an equity reserve through other comprehensive income items (Reserve for financial assets measured at fair value recognised to other comprehensive income), without reclassification to the separate income statement, on derecognition (sale) or a definitive impairment. Dividends are however recognised to the separate consolidated income statement. Changes in the value of other investments classified as "financial assets measured at fair value through the separate consolidated income statement" are recognised directly to the separate consolidated income statement.

Impairments

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

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

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

Financial assets

The Company classifies financial assets in the following categories:

- financial assets measured at amortised cost;
- financial assets measured at fair value through profit or loss for the year;
- financial assets measured at fair value through other comprehensive income items.

The Company establishes the classification on the basis of the business model used to manage financial assets and according to the characteristics of the contractual cash flows of the financial asset.
The financial assets are initially recognized at fair value, plus or minus, in the case of financial assets or liabilities not at FVTPL, the transaction costs directly attributable to the acquisition or issue of the financial asset. Trade receivables which do not contain a significant financial component are however initially measured at their transaction price.
On initial recognition, financial assets are classified to one of the above categories and may not subsequently be reclassified to other categories, except where the Company amends its business model for their management.

The Company recognises under doubtful debts the expected losses for financial assets measured at amortised costs, the assets deriving from contracts and debt securities measured at fair value through other comprehensive income. The expected losses are calculated over the full duration of the receivable, awaiting the results of various scenarios on the basis of their probability and discounting the amounts utilising the effective interest criterion.

The classification between current and non-current reflects the expectations of the management on their trading:

Financial assets measured at amortised cost

This category includes financial assets Held to Collect contractual cash flows, represented only by the payments in capital and interest on the amount of the capital to be repaid. This category includes outstanding receivables and loans. These assets are measured at amortised costs, in accordance with the effective interest criterion, reduced for impairment. These are included in current or non-current assets on the basis of whether the contractual maturity is less than or greater than twelve months from the reporting date. Interest income, exchange gains and losses and impairments are recognised to the profit or loss for the year, as are derecognition gains and losses.

Financial assets measured at fair value through profit or loss for the year

This category includes financial assets not classified as measured at amortised cost or fair value through other comprehensive income. This category includes all derivative instruments and financial assets held for trading. The fair value of the financial assets held for trading is calculated on the basis of the market prices at the reporting date or the interim reports, or through financial measurement techniques and models.

Financial assets measured at fair value through other comprehensive income items

This category includes financial assets held with the dual purpose of collecting the contractual cash flows, represented only by the payment of capital and of interest on the amount of capital to be repaid, and the sale of financial assets (Held to Collect and Sell).

Inventories

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

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

Contract work-in-progress

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

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

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

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

Trade and Other Receivables

Receivables are initially stated at fair value, corresponding to their nominal value, and subsequently measured according to the amortised cost method, net of a write-down provision.
In relation to trade receivables and other receivables, the Company has applied the simplified approach indicated by IFRS 9 to measure the doubtful debt provision as the expected loss over the life of the receivable. The Company measures the amount of expected losses in relation to these elements through the use of a provisioning matrix, estimated on the basis of historic experience of receivable losses according to creditor due dates, adjusted to reflect current conditions and estimates concerning future economic conditions. Consequently, the credit risk profile of these assets is presented according to due dates on the basis of the provisioning matrix.

The Company does not undertake the factoring of receivables.

Cash and cash equivalents

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

Research and development tax credits

Research and development tax credits relating to Decree-Law No. 145 of December 23, 2013, converted, with amendments, by Law No. 9 of February 21, 2014, as amended by Law No. 232 of December 11, 2016 (the “2017 Budget Act”) and the 2019 Budget Act (Art. 1, paragraphs 70-72, of Law No. 145 of December 30, 2018) are recognized to the extent that the tax credit is considered recoverable and utilizable, while ensuring that only the benefit for which it is reasonable certain that the entity has met the established requirements is quantified. 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 “Revenues” deriving from change in contract work in progress.

Financial liabilities

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

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

Employee benefit provisions

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

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

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

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

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

The liabilities for post-employment benefits recorded in the balance sheet represent the present value of the liabilities for the defined benefit plans adjusted to take into account any actuarial profits and losses not recorded and reduced by the fair value of the asset plan, where existing. Any net assets calculated on this basis are recognised up to the amount of the actuarial losses and the cost for prior benefits not previously recognised, in addition to the present value of available repayments and the reductions in the future contributions to the plan.
Defined benefit plan costs are classified to personnel expenses, except for any costs associated with the increase in the present value of the obligation nearer to the payment date which are recognised under financial charges.

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

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

<u>Share based payment plans</u>

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

<u>Provisions for risks and charges</u>

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

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

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

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

Trade payables

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

Payables for disbursements in accordance with Law 808/85

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

Revenue recognition

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

Revenues from the sale of goods are recognised where the Company has transferred to the purchaser the significant risks and benefits related to ownership of the goods, which generally coincides with shipping. In addition, the Group establishes whether contractual conditions are in place which represent obligations on which the consideration of the transaction should be allocated (e.g. guarantees), in addition to effects from the existence of variable payments, significant financial components or non-monetary consideration and to be paid to the client. In the case of variable payments, the amount of the consideration is estimated on the basis of the amount expected on the transfer of control of the goods to the client; this consideration is estimated on the signing of the contract and may be recognised only when highly probable. Revenues from the provision of services are recognised according to the stage of completion of the services, based on the same criteria as for contract work-in-progress. In addition, where the result from the provision of services may not be reliably estimated, revenues are recognised only to the extent to which the relative costs are recoverable.

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

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

Dividends received

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

Grants

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

Costs

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

Income taxes

Income taxes comprise of current and deferred taxes.

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

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

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

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

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

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

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

<u>Dividends distributed</u>

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

<u>Exchange rate differences</u>

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

Business combinations

Business combinations are recorded in accordance with the purchase method. The acquisition cost is measured as the aggregate of the fair values, at the acquisition control date, of assets acquired, liabilities incurred or assumed, and equity instruments issued by the Group, in exchange for control of the company acquired. Accessory charges to the transaction are generally recorded to the income statement at the moment in which they are incurred. The assets, liabilities and contingent liabilities identified in the entity acquired which comply with the recognition conditions as per IFRS 3 - Business combinations are recorded at fair value at the acquisition date; exceptions to this are the deferred tax assets and liabilities, employee benefit assets and liabilities, liabilities or equity instruments relating to share-based payments of the entity acquired or share-based payments relating to the

Group issued in replacement of the contracts of the entity acquired, and the assets (or group of assets and liabilities) held-for-sale, which are instead valued according to the applicable standard. Goodwill acquired in a business combination is recognised as an asset and initially measured at cost. The goodwill represents the excess between the sum (i) of the consideration transferred, (ii) of the fair value of any share capital increase in favour of non-controlling interests, (iii) of the fair value of any holding previously held in the acquired company and the fair value of the net assets acquired and liabilities assumed at the acquisition date.
Where the fair value of the net assets acquired and the liabilities assumed at the acquisition date exceeds the sum of (i) the consideration transferred, (ii) the amount of non-controlling interests, (iii) the fair value of any holding previously held in the acquired company, this excess is immediately recorded to the income statement as income deriving from the transaction concluded.

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

2.5. Risk management

Credit risk

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

Liquidity risk

The liquidity risk of the company may arise from the difficulty to obtain, at reasonable economic conditions, financing resources to support operating activities in a timely manner. The principal factors which influence the liquidity of the Company are, on the one hand, the resources generated and absorbed by the operating and investment activities and on the other the conditions concerning the maturity of the payable or the liquidity of the financial commitments.

Cash flows, funding requirements and liquidity are centrally monitored and managed, in order to ensure the timely and efficient sourcing of funding or the appropriate investment of liquidity.

The current difficult economic, market and financial environment requires a close focus on liquidity risk and therefore particularly on the generation of funding through operations and the establishment of a sufficient level of liquidity to meet Group obligations.

Management considers that the funds and credit lines currently available, in addition to those that will be generated from operating activities and any restructuring of the current debt structure, will permit the Company to satisfy its requirements for investment activities, working capital management and the repayment of debt on maturity.

2.6. Use of estimates

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

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

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

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

Recoverable value of non-current assets

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

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

Doubtful debt provision

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

Inventory obsolescence provision

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

Employee benefit plans

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

Provision for risks, charges & contingent liabilities

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

Valuation of contract work-in-progress

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

Other

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

2.7. New accounting standards

Accounting standards, amendments and IFRS interpretations applied from January 1, 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 will apply to all contracts with clients, with the exception of those falling under the application of other IAS/IFRS such as leasing, insurance contracts and financial instruments.

  The essential issues for the recognition of revenues according to the new model are:

  - the identification of the contract with the client;
  - the identification of the performance obligations 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 application of this standard did not have any balance sheet or income statement impacts for the company.

- on July 24, 2014, the IASB published **IFRS 9 – *Financial Instruments: recognition and measurement***. 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 financial 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 company.

This standard is effective as of January 1, 2018.

The application of this standard did not have any balance sheet or income statement impacts for the company.

- 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. This amendment is effective as of January 1, 2018.

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

- On June 20, 2016 the IASB published the amendment to **IFRS 2 "*Classification and measurement of share-based payment transactions*** 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 separate financial statements of Avio S.p.A and on the consolidated financial statements of the Group.

- on December 8, 2016, the IASB published the document **"*Annual Improvements to IFRSs 2014-2016 Cycle*"** which partially reflects the amendments to some standards within the annual improvements 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 was applied from January 1, 2018 and 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.

  - 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. The 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 this document does not have effects on the separate financial statements of Avio S.p.A and on the consolidated financial statements of the Group.

- On December 8, 2016, the IASB published the amendment to **IAS 40 "*Transfers of Investment Property*"**. These amendments clarify the requirements necessary for the transfers of a building to, or from, investment property. In particular, an entity shall reclassify a building to, or from, investment property only when there is a clear indication of a change in the use of the building. This change must be attributable to a specific event that has occurred 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 this amendment does not have effects on the separate financial statements of Avio S.p.A and on the consolidated financial statements of the Group.

- on December 8, 2016, the IASB published the interpretation *"**Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)**".* The interpretation provides guidelines for transactions in foreign currencies where advances or non-monetary payments on account are recorded in the financial statements (against cash received/paid), 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 first between:

c) the date on which the advance payment or payment on account received is recognized to the financial statements of the entity; and

d) 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.

The adoption of this interpretation does not have effects on the separate financial statements of Avio S.p.A and on the consolidated financial statements of the Group.

IFRS and IFRIC standards, amendments and interpretations approved by the EU, not yet mandatory and not adopted in advance by the Group at December 31, 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.

  It establishes a single model to recognise and measure leasing contracts for the lessee, which provides also for the recognition of operating leases under assets with a related financial payable. This Standard does not contain significant amendments for lessors.
  The standard will be effective from January 1, 2019, although advance application is permitted.

  The Company completed its preliminary assessment of the potential impacts of the application of the new Standard as at the transition date (January 1, 2019). This process is divided into stages, including the full mapping and analysis of the contracts potentially including a lease in order to understand the main clauses of such contracts that are relevant to IFRS 16.

  The Company adopted the practical expedient provided for in ***IFRS 16:C3***, which permits reference to be made to the conclusions previously reached on the basis of IFRIC 4 and IAS 17 regarding the operating lease quantification for a specific contract. This practical expedient was applied to all contracts, as provided for in ***IFRS 16:C4***.

  The *implementation* process for the Standard, involving set-up of the IT infrastructure for the accounting management of the Standard and the alignment of the administrative and control processes applicable to the critical areas governed by the Standard, is in the process of being completed. This process is expected to be completed in early 2019.

  The Company shall apply the new standard utilising the modified retrospective method. In particular, with regard to lease contracts previously classified as operating leases, the Company will measure the items below as follows:

c) financial assets at the present value of the residual future payments at the transition date, discounted according to the incremental borrowing rate applicable to each contract at the transition date;
d) a right of use equal to the value of the financial liability at the transition date, net of any prepayments and accruals associated with the lease carried in the balance sheet at the reporting date of these financial statements.

The following table shows the estimated impact of the adoption of IFRS 16 as at the transition date of January 1, 2019 on the separate financial statements of Avio S.p.A (figures millions of euro).

ASSETS	**Impact at the transition date 01.01.2019 on the separate financial statements of Avio S.p.A.**
Non-current assets	
Usage rights Buildings	43
Usage rights Motor Vehicles	1
Total	**44**

LIABILITIES	**Impact at the transition date 01.01.2019 on the separate financial statements of Avio S.p.A.**
Non-current liabilities	
Financial liabilities for non-current leases	39
Current liabilities	
Financial liabilities for current leases	5
Total	**44**

In adopting IFRS 16, the Company intends to opt for the exemption permitted under paragraph IFRS 16:5(a) in respect of short-term leases for the following types of assets: hardware and certain IT materials.

Likewise, the Company intends to opt for the exemption permitted under IFRS 16:5(B) with regard to lease contracts for which the underlying asset qualifies as a “low-value asset” (i.e., the asset underlying the lease contract does not exceed Euro 5,000.00 when new). The contracts for which the exemption has been applied primarily fall within the following categories:

- computers, telephones and tablets;
- printers;
- other electronic devices;
- furniture and fittings.

For such contracts, the introduction of IFRS 16 will not entail the recognition of the financial liability associated with the lease and relevant right of use. Rather, the lease payments will be taken to the income statement on a straight-line basis over the term of the relevant contracts.

As per IFRS 16, the company will not separate the non-lease components from leases. The categories of assets for which the Company intends to exercise the exemption granted by IFRS 16:15 are as follows:

- automobiles;
- apartments.

The non-lease components of such assets will not be separated and accounted for separately from the lease components. Rather, they will be considered together with the lease components when determining the financial liability associated with the lease and relevant right of use.

In addition, with regard to transition rules, the Company intends to opt for the following practical expedients available in the event of the selection of the modified retrospective transition method (only the exemptions that the Company has decided to apply are indicated):

- classification of contracts set to expire within 12 months of the transition date as short-term leases. The lease payments for such contracts will be taken to the income statement on a straight-line basis;
- exclusion of the initial direct costs from the measurement of the right of use at January 1, 2019;
- use of the information available at the transition date to determine the lease term, with particular regard to the exercise of extension and early termination options.

The transition to IFRS 16 introduces some elements of professional judgment that entail the definition of certain accounting policies and the use of assumptions and estimates with regard to the lease term and the definition of the incremental borrowing rate. The main such assumptions and estimates are summarized below:

- the Company has decided not to apply IFRS 16 for contracts containing a lease the underlying asset for which is an intangible asset;

- *lease term*: identification of the lease term is a very important issue since the form, legislation and commercial practices of property lease contracts vary considerably from one jurisdiction to another. On the basis of its historical experience, the Group has adopted the accounting policy of including not only the period that cannot be cancelled, but also the first contractual extension where such depends solely on the Group. For contracts with automatic extensions for an annual (or shorter) period, the Group has adopted the accounting policy of estimating the lease term at an average of six years, based on the historical evidence and the assessment of the extension period as “reasonably certain” given significant penalties, in the broad meaning of the term, for the lessor in terminating the contract. In cases of property lease contracts with multi-year extensions at the discretion of both parties, the Group has

assessed the specific facts and circumstances, together with the penalties, broadly construed, associated with a potential termination of the contract.

- definition of the *incremental borrowing rate*: since most lease contracts entered into by the Group do not include an implicit interest rate, the discount rate to be applied to future lease payments has been taken as the risk-free rate in each country in which the contracts were entered into, with maturities commensurate with the term of the specific lease contract, plus the specific credit spread of the subsidiary/Group.

- the IASB published an amendment to **IFRS 9 "Prepayment Features with Negative Compensation"** on October 12, 2017. This document specifies that instruments which provide for an advance repayment could comply with the Solely Payments of Principal and Interest ("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 separate financial statements of Avio S.p.A and on the Group consolidated financial statements. However, the possible effects are currently under assessment.

- the IASB published the interpretation **IFRIC 23** "***Uncertainty over Income Tax Treatments"*** *on* June 7, 2017.

  The interpretation deals with uncertainties on the tax treatment to be adopted for income taxes. In particular, the interpretation requires an entity to analyze uncertain tax treatments (individually or collectively, depending on their characteristics), always assuming that the tax authority will examine the tax position in question, with access to all relevant information. Where the entity deems it improbable that the tax authority will accept the tax treatment adopted, the entity must reflect the uncertainty in the measurement of its current and deferred income taxes. 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 interpretations to have a significant impact on the separate financial statements of Avio S.p.A and 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 present Consolidated 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:

- o the estimates and assumptions of future cash flows always refer to the current portion;
- o the measurement reflects the time value of money;
- o the estimates include an extensive use of observable market information;
- o a current and clear risk measurement exists;
- o the expected profit is deferred and aggregated into groups of insurance contracts on initial recognition; and,
- o 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, as not operating in the insurance sector, do not expect that the adoption of this standard will have a significant impact on the separate financial statements and on the consolidated financial statements.

- 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 separate financial statements of Avio S.p.A and 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 separate financial statements of Avio S.p.A and on the Group consolidated financial statements. However, the possible effects are currently under assessment.

- the IASB published the document "***Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)"*** 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 separate financial statements of Avio S.p.A and on the Group consolidated financial statements. However, the possible effects are currently under assessment.

- on October 22, 2018, the IASB published the document ***"Definition of a Business (Amendments to IFRS 3)"***. The document provides clarification regarding the definition of business for the purposes of the proper application of IFRS 3. In particular, the amendment clarifies that while a business normally yields an output, the existence of an output is not strictly necessary to identify a business when there is an integrated set of activities and assets. However, in order to meet the definition of a business, an integrated set of activities and assets must include, at minimum, an input and a substantial process that together contribute significantly to the capacity to create output. For this purpose, the IASB has replaced the term "capacity to create output" with "capacity to contribute to the creation of output" to clarify that a business may exist even without all the inputs and processes necessary to create an output.

  The amendment also introduced an optional test ("concentration test") for an entity to determine whether a set of activities and assets acquired is not a business. If the test yields a positive result, the set of activities and assets acquired does not constitute a business and the Standard does not require further verification. If the test yields a negative result, the entity must conduct additional analyses of the activities and assets acquired to identify the presence of a business. To this end, the amendment adds numerous examples illustrating IFRS 3 with the aim of ensuring an understanding of the practical application of the new definition of a business in specific cases. The amendments apply to all business combinations and acquisitions of activities after January 1, 2020, although advance application is permitted.

Considering that the amendment will be applied to any new acquisitions concluded with effect from January 1, 2020, any effects will be recognized in the financial statements as at and for years ending after that date.

- on October 31, 2018, the IASB published the document ***"Definition of Material (Amendments to IAS 1 and IAS 8)"***. The document modified the definition of "material" in IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendment aims to provide a more specific definition of "material" and introduce the concept of "obscured information" alongside the concepts of omitted or misstated information previously included in the two amended Standards. The amendment clarifies that information is obscured if it is described in a way that results in an effect for the primary users of the financial statements similar to that which would have resulted if the information in question had been omitted or misstated.

  The Directors do not expect this document to have a significant impact on the separate financial statements of Avio S.p.A and 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 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture***. The document was published in order to resolve the current conflict between IAS 28 and IFRS 10.

  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 the standard - ***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 December 31, 2018 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).
The table compares the Property, plant and equipment of Avio S.p.A. at December 31, 2018 with December 31, 2017, indicating the value of the property, plant and equipment transferred to Avio S.p.A. as part of the sale of the business unit by the subsidiary ELV S.p.A. (now Spacelab S.p.A.) to the company.

	31/12/2018				31/12/2017			
	Gross gross	Accumulated depreciation	Write-down provision	Net book value	Gross value	Accumulated depreciation	Write-down provision	Net book value
Land								
Buildings	13,233	(6,228)		7,005	13,049	(5,579)		7,470
Plant and machinery	65,789	(44,665)		21,124	57,456	(41,032)		16,424
Industrial and commercial equipment	11,801	(11,607)		194	10,492	(10,318)		174
Other assets	6,475	(4,467)		2,008	4,209	(2,851)		1,358
Assets under construction and payments on account	26,895			26,895	22,408			22,408
Total	**124,194**	**(66,967)**	**-**	**57,227**	**107,614**	**(59,780)**	**-**	**47,834**

The changes in the year in the gross values of property, plant and equipment are illustrated in the table below (Euro thousands):

Gross value	31/12/2017	Acquisition of the "launchers" business unit	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2018
Land						
Buildings	13,049	184				13,233
Plant and machinery	57,456	816	7,520	(3)		65,789
Industrial and commercial equipment	10,492	1,172	137			11,801
Other assets	4,209	1,301	965			6,475
Assets under construction and payments on account	22,408		4,487			26,895
Total	**107,614**	**3,474**	**13,109**	**(3)**	**-**	**124,194**

Assets in progress and advances refer, at December 31, 2018, to investments in course of completion mainly relating to the construction of the facilities for the development and construction of the P120C motor, which will be utilised in the new VEGA-C and Ariane 6 launchers.

The changes in the year in the gross values of property, plant and equipment are illustrated in the table below (Euro thousands):

Accumulated depreciation	31/12/2017	Acquisition of the "launchers" business unit	Depreciation	Decreases for disposals	Reclassifications and other changes	31/12/2018
Buildings	(5,579)	(184)	(465)			(6,228)
Plant and machinery	(41,032)	(750)	(2,886)	3		(44,665)
Industrial and commercial equipment	(10,318)	(1,159)	(130)			(11,607)
Other assets	(2,851)	(1,143)	(473)			(4,467)
Total	**(59,780)**	**(3,237)**	**(3,954)**	**3**	**0**	**(66,967)**

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

3.2. GOODWILL

The goodwill recognised at December 31, 2018 for an amount of Euro 61,005 thousand relates to the Purchase Price Allocation at March 31, 2017 commented upon in the Directors' Report.

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

Goodwill allocated to the Space CGU was subject to an impairment test at the reporting date which did not indicate the need for a write-down of the carrying amount of goodwill at December 31, 2018.

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

In this regard, as the cash flows of the parent company are substantially similar to those of the Group, the Directors consider the results of the impairment test at Group level to be representative also of those of the parent company. Therefore, the main assumptions utilised in preparing the Group consolidated financial statements impairment test are reported below.

At December 31, 2018, the cash flows of the Space CGU were estimated according to forecasts in the 2019 Budget and business plans. For the calculation of the terminal value, the expected cash flows for the final year were normalised according to the perpetuity method, assuming 2% growth for forecast cash flows, in line with the previous year and the general forecasts for the space and defence sector.

The average discount rate (average weighted cost of capital) utilised for discounting cash flows was, net of taxes, 8.7% (8.9% in the previous year).

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

In consideration of that inidcated, the Group undertook a sensitivity analysis concerned the growth rate of the terminal value and the discount rate of the cash flows:

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

For the results and effects of the impairment tests, reference should be made to Note 3.3. of the consolidated financial statements of the Avio Group.

3.3. INTANGIBLE ASSETS WITH DEFINITE LIFE

The values of Intangible assets with definite life at December 31, 2018 are shown net of the accumulated amortisation provisions, as illustrated in the table below (Euro thousands).
The table compares the Intangible assets with definite life of Avio S.p.A. at December 31, 2018 with December 31, 2018, indicating the value of the Intangible assets with definite life transferred to Avio S.p.A. as part of the sale of the business unit by the subsidiary ELV S.p.A. (now Spacelab S.p.A.) to the company.

	31/12/2018				31/12/2017			
	Gross value	Accumulated amortisation	Write-down provision	Net book value	Gross values	Accumulated amortisation	Write-down provision	Net book value
Development costs – amortisable	70,281	(47,785)		22,496	68,517	(41,808)		26,709
Development costs - in progress	52,989	0		52,989	46,090	0		46,090
Total development costs	123,271	(47,785)	0	75,485	114,607	(41,808)	0	72,799
Assets held by customers for programme participation accreditation (PPA 2017)	44,785	(5,225)		39,560	44,785	(2,239)		42,548
Concessions, licenses, trademarks & similar rights	6,318	(5,822)		496	4,420	(4,014)		406
Other	2,552	(1,453)		1,099	2,477	(1,053)		1,424
Total	**176,925**	**(60,285)**	**-**	**116,641**	**166,289**	**(49,114)**	**-**	**117,175**

The amortisable development costs mainly refer to design and testing costs relating to the P80 motor, while the largest part of the development costs in progress (not yet amortised) relate to the future motor Z40 and the new motor P120.

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

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

Following the purchase price allocation process of the Avio Group by Space2, two intangible assets were identified relating to aerospace programmes for Euro 44,785 thousand.
The assets deriving from this allocation were measured at fair value based on the present value of the expected future benefits of the aerospace programmes and amortised over a period of 15 years on the basis of the average useful life of the programmes to which they refer.

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

The changes 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	Acquisition of the "launchers" business unit	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2018
Development costs – amortisable	68,517	1,764				70,281
Development costs - in progress	46,090		6,899			52,989
Total development costs	114,607	1,764	6,899	-	-	123,271
Assets held by customers for programme participation accreditation (PPA 2017)	44,785					44,785
Concessions, licenses, trademarks & similar rights	4,420	1,385	513			6,318
Other	2,477		75			2,552
Total	**166,289**	**3,149**	**7,487**	**-**	**-**	**176,925**

The increases between December 31, 2017 and December 31, 2017 with reference to the development costs mainly relate to design and testing costs for the construction of the "Z40" and "P120" motors within the VEGA and Ariane 6 launcher programmes.

The changes in 2018 to accumulated amortisation were as follows (in Euro thousands):

Accumulated amortization	31/12/2017	Acquisition of the "launchers" business unit	Depreciation	Decreases for disposals	Reclassifications and other changes	31/12/2018
Development costs - amortisable	(41,808)	(1,764)	(4,213)			(47,785)
Development costs - in progress	-					-
Total development costs	(41,808)	(1,764)	(4,213)	-	-	(47,785)
Assets held by customers for programme participation accreditation (PPA 2017)	(2,239)		(2,986)			(5,225)
Concessions, licenses, trademarks & similar rights	(4,014)	(1,325)	(484)			(5,822)
Other	(1,053)		(400)			(1,453)
Total	**(49,114)**	**(3,089)**	**(8,082)**	**-**	**-**	**(60,285)**

3.4. INVESTMENTS

The breakdown of the investments held by the parent company Avio S.p.A. at December 31, 2018 follows (in Euro thousands):

Company	Registered Office	% held	Book value	Net Equity	Equity share	Difference book value / Equity share
Investments in subsidiaries						
ASPropulsion International B.V.	Amsterdam (Netherlands)	100%	58,640	57,682	57,682	958
Spacelab S.p.A.	Rome	70%	8,107	18,256	12,779	(4,672)
Regulus S.A.	Kourou (French Guyana)	60%	9,590	14,820	8,892	698
Avio Guyana SAS	Kourou (French Guyana)	100%	50	76	76	(26)
Avio India Aviation Aerospace Private Limited	New Delhi (India)	100%	114	105	105	9
Sub-total			**76,501**	**90,939**	**79,534**	**(3,033)**
Associates and jointly-controlled companies						
Europropulsion S.A. (*)	Suresnes (France)	50%	3,698	7,822	3,911	(213)
Termica Colleferro S.p.A.	Bologna	40%	3,636	6,314	2,525	1,111
Servizi Colleferro - Consortium Limited Liability Company	Colleferro (Rm)	32%	38	125	40	(2)
Sitab Consortium in liquidation	Rome	20%	5	(20)	(4)	9
Potable Water Services Consortium	Colleferro (Rm)	25%	-	-	-	-
Sub-total			**7,377**	**14,153**	**6,472**	**905**
Total Equity holdings in subsidiaries, associates and jointly-controlled companies			**83,878**	**105,092**	**86,006**	**(2,128)**
Investments in other companies			**524**			
Total			**84,403**			

(*) Companies under joint control

The foreign subsidiary Avio India Aviation Aerospace at December 31, 2018 was in liquidation.

In the first half of 2018, the company Avio Guyana SAS was incorporated, wholly owned by Avio S.p.A; 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.

The investments in other companies amount to Euro 524 thousand and concern minor holdings in Arianespace, in C.I.R.A. - Centro Italiano Ricerche Aerospaziali S.c.p.A., in Imast S.c.a.r.l. and in Distretto Aerospaziale Sardegna S.c.a.r.l.

The positive difference between the value of the investment and the pro-quota share of net equity of the company ASPropulsion International B.V. was considered recoverable due to the gains deriving from the subsidiary Se.co.sv.im. S.r.l.

The positive difference between the value of the investment and the pro-quota share of net equity of the company Regulus S.A. was considered recoverable due to the strong business results reported.

The positive difference between the value of the investment and the pro-quota share of net equity of the associate Termica Colleferro S.p.A. principally stems from the accounting effect from the application of the amortised cost to the non-interest-bearing loan granted by the shareholders to Termica Colleferro S.p.A.. Net of this effect, the difference was zero.

3.5. NON-CURRENT FINANCIAL ASSETS

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

	31/12/2018	31/12/2017	Change
Shareholder loan to Termica Colleferro S.p.A.	5,812	5,812	-
	5,812	**5,812**	**0**

The account, amounting to Euro 5,812 thousand (Euro 7,440 thousand at nominal values), 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 loan is non-interest bearing and repayment is subordinate to the total settlement of the bank loans in place and maturing on February 24, 2017.

3.6. DEFERRED TAX ASSETS

The deferred tax assets of Avio S.p.A recorded in the accounts amount to Euro 74,756 thousand.

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

The table below illustrates deferred tax assets at December 31, 2018 and December 31,2017 (Euro thousands).

	31/12/2018	31/12/2017	Change
Net deferred tax assets	74,756	74,685	72
	74,756	**74,685**	**72**

Deferred taxes are determined applying the tax rates which are expected to be applied in the period when the temporary differences will be reversed, or the benefits related to the tax losses will be utilised.
The summary of the temporary differences (deductible and assessable) and of the tax losses which resulted in the recognition of deferred tax assets and liabilities is illustrated in the table below with reference to the reporting date (Euro thousands):

	31/12/2018
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 Company.	25,835
Financial charges exceeding 30% of EBITDA	43,867
Temporary differences deriving from current corporate operations	
Provision for personnel charges, former employees and similar	2,163
Other deductible temporary differences	2,723
Total gross deferred tax assets	**74,589**
Deferred tax liability on temporary differences	
Temporary differences deriving from previous corporate operations	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(11,431)
Tax effect R&D expenses First-Time Adoption	(4,133)
Temporary differences deriving from current corporate operations	
Other temporary assessable differences	(300)
Total gross deferred tax liabilities	**(15,864)**
Net deferred tax assets / (liabilities)	**58,725**
Deferred tax assets on tax losses	59,049
Deferred tax assets not recorded	(43,018)
Net deferred tax assets (liabilities) recorded	**74,756**

3.7. OTHER NON-CURRENT ASSETS

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

	31/12/2018	31/12/2017	Change
Other non-current assets	66,506	65,353	1,153
	66,506	**65,353**	**1,153**

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

	31/12/2018	31/12/2017	Change
Receivables from the General Electric Group	58,542	58,220	322
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	7,357	6,700	656
Guarantee deposits	607	432	175
Total	**66,506**	**65,353**	**1,153**

The caption “Receivables from the General Electric Group” of Euro 58,542 thousand refers to the recharge of the following tax charges:

- Euro 58,220 thousand relates to the payment notice received in July 2016 from the Tax Agency relating to registration, mortgage and land tax for 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. This receivable is recognized against an amount payable to the Treasury of like amount among non-current liabilities;

- Euro 322 thousand of charges relating to the tax dispute pertaining to tax year 2013, which was settled in 2018.

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 either indirect taxes concerning the above-mentioned extraordinary operations in 2013 or in general to the sector of the above-mentioned sale, providing Avio the sums requested by the Tax Office within the time period for the payments.

Regarding the dispute, in 2018 an appeal was made before the Piedmont Regional Tax Commission, which in judgment 1740/18 rendered on October 24, 2018 and filed on November 7, 2018 granted the Company’s appeal in full. At the reporting date, there was no record of any appeal by the Italian Tax Office of the above judgment before the Court of Cassation.

For further information, reference should be made to Note “3.24. Other non-current liabilities” and to the section “Legal and tax disputes and contingent liabilities” in the Explanatory Notes.

“Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion”, amounting to Euro 7,357 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 3.24).

The increase of Euro 656 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 amounts to be received within 12 months are classified under “Other current assets” (Note 3.15).

CURRENT ASSETS

3.8. INVENTORIES AND ADVANCES TO SUPPLIERS

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

	31/12/2018	31/12/2017	Change
Inventories	111,537	75,871	35,666
	111,537	**75,871**	**35,666**

The breakdown of the account at December 31, 2018 and relative movements follow (in Euro thousands):

	31/12/2017	Acquisition of the "launchers" business unit	Change	31/12/2018
Raw material, ancillaries and consumables	24,985	8,434	(1,692)	31,727
Raw material, ancillary and consumables obsolescence provision	(3,089)		(792)	(3,881)
Raw material, ancillary and consumables - net value	21,896	8,434	(2,485)	27,845
Products in work-in-progress	1,985		881	2,866
Provision for the write-down of work in progress	(424)		0	(424)
Products in work-in-progress - net value	1,561		881	2,441
Finished products and other inventories	7		0	7
Finished products and other inventories obsolescence provision	(4)		0	(4)
Finished products and other inventories - net value	3		0	3
Advances to suppliers	52,410	23,684	5,154	81,247
	75,871	**32,118**	**3,550**	**111,537**

Advances include the sums paid to suppliers in advance of the execution of the relative supplies based on conditions established in the purchase contracts.

3.9. CONTRACT WORK-IN-PROGRESS

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, net of advances received from clients is as follows (in Euro thousands):

	31/12/2018	31/12/2017	Change
Contract work-in-progress	103,152	46,198	56,954
Advances for contract work-in-progress	-176,979	(129,230)	(47,749)
Net total	**(73,827)**	**(83,032)**	**9,205**

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

	31/12/2018	31/12/2017	Change
Contract work-in-progress (gross)	503,157	317,974	185,183
Advances for contract work-in-progress (gross)	(400,005)	(271,776)	(128,229)
Contract work-in-progress (net)	**103,152**	**46,198**	**56,954**

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

	31/12/2018	31/12/2017	Change
Contract work-in-progress (gross)	1,150,328	606,281	544,047
Advances for contract work-in-progress (gross)	(1,327,307)	(735,511)	(591,796)
Advances for contract work-in-progress (net)	**(176,979)**	**(129,230)**	**(47,749)**

The Avio Group is entitled to the research and development tax credits provided for in Decree-Law No. 145 of December 23, 2013, converted, with modifications, by Law No. 9 of February 21, 2014, as amended by Law No. 232 of December 11, 2016 (the “2017 Finance Act”) and by the 2019 Finance Act (Art. 1, paragraphs 70-72, of Law No. 145 of December 30, 2018), on the basis of research and development services 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.

3.10. TRADE RECEIVABLES

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

	31/12/2018	31/12/2017	Change
Trade receivables	3,647	7,224	(3,577)
	3,647	**7,224**	**(3,577)**

The breakdown of trade receivables is as follows:

	31/12/2018
Receivables from third parties	554
Receivables from subsidiaries	1,195
Receivables from associates and jointly controlled companies	1,897
Total	**3,647**

The book value of the receivables approximates their fair value.

Receivables from third parties

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

	31/12/2018
Gross value	637
less: doubtful debt provision	(83)
Total	**554**

The receivables are all due within 12 months.

3.11. CASH AND CASH EQUIVALENTS

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

	31/12/2018	31/12/2017	Change
Cash and cash equivalents	106,307	100,424	5,883
Total	**106,307**	**100,424**	**5,883**

Cash and cash equivalents mainly concerning balances on bank current accounts.
This caption is consistent with the balance from the previous year; see the Statement of Cash Flows for further details.

3.12. CURRENT TAX RECEIVABLES

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

	31/12/2018	31/12/2017	Change
Current tax assets	59,078	37,066	22,012
Total	**59,078**	**37,066**	**22,012**

The increase is due to:

- the recognition of the research and development tax credit for 2018 for Euro 10,604 thousand;
- the recognition of the research and development tax credit for financial year 2017 for Euro 20 million, which was transferred to Avio S.p.A. following the acquisition of the "launchers" business unit of ELV S.p.A. (now Spacelab S.p.A.), net of its utilisation for offsetting by Avio S.p.A. during the year;
- the increase in the VAT receivable for Euro 10 million.

The following table shows the net changes by type of tax credit and tax (amounts in thousands of euro):

	31/12/2018	31/12/2017	Change
VAT	43,601	33,615	9,986
Research and development tax credit (year 2018)	10,604		10,604
Research and development tax credit (year 2017)	2,101	-	2,101
Receivables from tax authorities	2,532	3,214	(683)
EU VAT receivables	240	237	3
Total	**59,078**	**37,066**	**22,012**

VAT receivables

VAT receivables, for Euro 43,601 thousand, include:

- Euro 35,739 thousand, relating to VAT reimbursement request to the Tax Authorities;
- Euro 7,862 thousand relating to VAT receivables not requested for repayment.

Between December 31, 2017 and December 31, 2018, the VAT receivable of Avio S.p.A. increased Euro 10 million.

The reasons for the increase is due to the fact that the Group's main clients are 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. In particular, the VAT exemptions for intra-Community exports, transactions similar to exports and sales of goods apply to the transactions undertaken with the parties in question. This circumstance entails the quasi-absence of VAT payable on the sales transactions undertaken by the Group.
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.

Research and development tax credit

Regulatory framework

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. The main provisions governing the tax credit concerned may be summarized as follows:

- 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 (until the amendments applied by the 2019 Finance Act, as set out below);
- is utilizable for an annual maximum amount of Euro 20 million (until the amendments applied by the 2019 Finance Act, as set out below);
- 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 utilizable exclusively as an offset from the subsequent tax period to that in which the qualifying costs are incurred (until the amendments applied by the 2019 Finance Act, as set out below).

Due to the 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. In particular, the 2017 Finance Act introduced paragraph 1-*bis* to Art. 3 of

Decree-Law 145/2013, which with effect from 2017 provides for a tax credit for a resident entity that performs research and development services commissioned by a non-resident entity. This provision was introduced in order to render research and development activities conducted in Italy eligible for the benefit.

The 2019 Budget Act (Art. 1, paragraphs 70-72, of Law No. 145 of December 30, 2018) further modified the rules governing R&D tax credits. In particular, among other provisions:

- the maximum amount of the tax credit that may be granted to each company was reduced from Euro 20 million to Euro 10 million. This amendment will enter into effect for years after that in progress at December 31, 2018, i.e. from January 1, 2019 for companies whose tax periods coincide with the calendar year;

- the maximum amount of the tax credit was reduced from 50% to 25%, as limited to the costs of research and development activities not organized internally to the company, incurred in excess of the average amount of such investments undertaken in the three tax periods from 2012 to 2014. However, the 50% rate was confirmed for research and development activities organized internally to the company, i.e. for the personnel costs of employees directly assigned to such activities and, for externally commissioned activities, solely for contracts entered into with universities, research entities and organizations and innovative, independent start-ups and small and medium enterprises (SMEs). This amendment will enter into effect for years after that in progress at December 31, 2018, i.e. from January 1, 2019 for companies whose tax periods coincide with the calendar year;

- the tax credit may only be used after specific certification of the costs incurred has been issued by the independent auditor of the accounts. This amendment is already applicable to the tax credit accrued on the basis of the costs incurred in 2018.

In addition, paragraph 72 of the 2019 Finance Act includes an official interpretation of the scope of paragraph 1-*bis* of Art. 3 of Decree-Law 145/2013, clarifying that for the purposes of eligibility for the tax credit for resident entities that are commissioned to perform R&D services on behalf of resident enterprises or enterprises located in other Member States of the European Union, "*only eligible expenses relating to research and development activities carried out directly and in laboratories or facilities located in Italian territory qualify*". The above provision therefore appears not to permit a resident taxpayer that conducts R&D commissioned by a non-resident entity to benefit from the tax credit in respect of research costs charged to it by a non-resident sub-contractor.

Recognition in the Financial Statements

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".

Based on that outlined above a tax credit was accrued for research and development activity in 2018 amounting to Euro 10,604 thousand, of which, on the basis of the above methodology, a benefit of Euro 4,514 thousand was recognised to the 2018 income statement. In the income statement for the year 2018, the latter is in addition to the portion of the credit accrued in 2017 and allocated on an accrual basis according to the progress of the long-term orders, also in accordance with the aforementioned method, with effect from 2018, in the amount of Euro 2,503 thousand. Consequently, the overall economic benefit recognized in the income statement for the year 2018 was Euro 7,017 thousand.

The credit will be set off against taxes and contributions as permitted by applicable law, only after the completion of the required documentary formalities, including the certification required by law.

Tax receivables

The Tax receivables account for Euro 2,532 thousand principally concerns the IRAP tax receivables of Euro 916 thousand, withholding taxes on interest receivables for Euro 931 thousand and other tax receivables for Euro 685 thousand.

EU VAT receivables

The EU VAT receivables relate to inter-EU transactions and amount to Euro 240 thousand.

3.13. OTHER CURRENT ASSETS

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

	31/12/2018	31/12/2017	Change
Other current assets	10,883	9,205	1,678
Total	**10,883**	**9,205**	**1,678**

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

	31/12/2018	31/12/2017	Change
Social security institutions	2	246	(244)
Employee receivables	971	960	11
Economic Development Ministry for disbursements pursuant to Law 808/85	2,624	4,881	(2,257)
Receivables from subsidiaries	3,599	932	2,667
Other receivables from non-consolidated subsidiaries			-
- Servizi Colleferro S.C.p.A.	126	76	50
Other debtors	2,497	1,443	1,054
Prepayments and accrued income	1,062	667	396
Total	**10,883**	**9,205**	**1,678**

Receivables from the "Economic Development Ministry for disbursements pursuant to Law 808/85", amounting to Euro 2,624 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 decrease of Euro 2,257 thousand compared to December 31, 2017 was due to the sums collected during the year.

The portion which will be received beyond 12 months is classified in the account "Other non-current assets" (Note 3.7).

Receivables from subsidiaries essentially include the receivables for the tax consolidation, including that from the subsidiary Spacelab for the tax charge on the gain from the sale of the business unit.

Other receivables, amounting to Euro 2,497 thousand, mainly concern recharges to third parties for environmental and fiscal charges incurred by the Group.

EQUITY

3.14. SHARE CAPITAL

The share capital of the parent company Avio S.p.A. amounts to Euro 90,964,212 at December 31, 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 December 31, 2018comprised 26,359,346 ordinary shares.

3.15. 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. (now Avio S.p.A.).
The share premium reserve, following these allocations, was therefore Euro 144,256 thousand at December 31, 2018.

3.16. OTHER RESERVES

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

	31/12/2018
Actuarial gains/(losses) reserve	(3,206)
Under common control transactions reserve	(1,835)
Legal reserve	18,193
Total	**13,152**

Other reserves, in addition to the Legal reserve for Euro 18,193 thousand comprises:

- for Euro 3,206 thousand the actuarial losses deriving from the application of IAS 19 revised, with the relative tax effect where applicable;
- for Euro 1,835 thousand a negative reserve consequent to the acquisition of the business unit of ELV.

The breakdown of the equity accounts according to their origin, utilisation and distribution, as well as utilisation in previous years, is shown in the table below (Euro thousands):

Nature/Description	Amount	Poss. of utilisation	Quota available	Summary of utilisations in previous years	
				To cover losses	Other reasons
Share capital	90,964				
Capital reserves:					
- Share premium reserve	144,256	A, B, C	144,256	-	-
Profit reserves:					
- Legal reserve	18,193	B			
- Actuarial gains and losses	(3,206)	-			
- Under common control transactions reserve	(1,835)	-			
Retained earnings	6,386			(332)	
Total	**254,758**		**144,256**		
Non-distributable amount			(75,485)		
Residual distributable amount			**68,770**		

Key: A: for share capital increase, B: for coverage of losses and C: for distribution to shareholders.

The share premium reserve is not distributable for Euro 75,485 thousand, as the amount relating to the residual value of development costs subject to capitalisation.

NON-CURRENT LIABILITIES

3.17. NON-CURRENT FINANCIAL LIABILIITES

Non-current financial liabilities at December 31, 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.

As also reported in the paragraph "Subsequent events" of the Directors' Report, on January 16, 2019 Avio signed an additional Euro 10 million loan contract with the European Investment Bank (EIB). This loan is subject to similar economic conditions as the aforementioned original loan of Euro 40 million.

Both loans are intended to support the planned development of new technologies in the field of space propulsion systems in view of the offering of the new products for the Ariane 6 and Vega 6 programs and the expansion of industrial capacity at the Colleferro facility required to meet the Company's production volume targets for the coming years.

3.18. EMPLOYEE BENEFIT PROVISIONS

The account relates to post-employment benefits and other long-term benefits.
These benefits are generally based on remuneration and years of employee service. The obligations refer to employees in service.

Post-employment benefits

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

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

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

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

Other long-term employee benefits

The Company also recognises to employees other long-term benefits issued on the reaching of a fixed number of years of service. In this instance, the value of the obligation recognised to the financial statements reflects the probability that the payment will be issued and the duration for which payment will be made. The value of these liabilities recorded in the accounts are calculated on an actuarial basis, utilising the "projected unit credit" method.

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

	31/12/2018	31/12/2017	Change
- Defined benefit plans:			
Post-employment benefit	4,700	4,740	(40)
Other defined benefit plans	2,349	1,941	408
	7,050	6,681	368
- Other long-term benefits	1,725	1,490	235
Total employee benefit provisions	**8,774**	**8,171**	**603**

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	**6,681**	**1,490**	**8,171**
Financial charges/(income)	(18)	(4)	(22)
Extraordinary charges/(income) from actuarial adjustment	185	114	298
Actuarial (gains)/losses in income statement		(23)	(23)
Actuarial (gains)/losses in comprehensive income statement	85		85
Pension cost current employees	99	109	207
Provisions transferred from ELV following the acquisition of the "launchers" business unit	727	179	905
Benefits paid	(709)	(139)	(848)
At 31/12/2018	**7,050**	**1,725**	**8,774**

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

	31/12/2018	31/12/2017
Discount rate	0.65%	0.50%
Expected salary increases	2.12%	2.09%
Inflation rate	1.50%	1.50%
Average employee turnover rate	4.76%	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.

3.19. PROVISIONS FOR RISKS AND CHARGES

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

	31/12/2018	31/12/2017	Change
Provisions for risks and charges	9,232	8,114	1,118
Total	**9,232**	**8,114**	**1,118**

The breakdown of the provisions for risks and charges at December 31, 2018 is presented below (Euro thousands):

	31/12/2018		
	Current portion	Non-current portion	Total
Provision for variable remuneration	4,375	1,513	5,888
Provisions for risks and legal charges	41	171	212
Provision for contractual and commercial risks and charges	1,450	1,681	3,132
Provision for tax risks	-	-	-
Total	**5,866**	**3,365**	**9,232**

These provisions include:

- provisions for variable remuneration for Euro 5.9 million, mainly comprising employee remuneration on the achievement of individual and corporate objectives;
- provisions for legal risks and charges, against litigation and trade union disputes in course, amount to Euro 212 thousand;
- 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 3.1 million;

The changes from January 1, 2018 to December 31, 2018 in the total provisions, current and non-current portion, are illustrated in the table below (Euro thousands):

	31/12/17	Provisions	Other changes	Balance trans. from ELV*	Utilisations	Releases	31/12/18
Provision for variable remuneration	6,201	5,369		598	(6,015)	(265)	5,888
Provision for personnel charges and organisational restructuring	7				(7)		(0)
Provisions for risks and legal charges	226				(14)		212

Provision for contractual and commercial risks and charges	1,055	1,599	478				3,132
Provision for tax risks	625		(478)		(147)		-
Total	**8,114**	**6,967**	**-**	**598**	**(6,183)**	**(265)**	**9,232**

** following the acquisition of the "launchers'" business unit by the parent company Avio S.p.A..*

The principal changes between January 1, 2018 and December 31, 2018 are shown:

- the provision for variable remuneration was utilised for Euro 6 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 5.4 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;
- provisions for legal risks and charges were utilised for Euro 14 thousand;
- the tax risk provisions reduced principally following the utilisation of Euro 147 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.

3.20. OTHER NON-CURRENT LIABILITIES

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

	31/12/2018	31/12/2017	Change
Non-current liabilities	122,038	115,489	6,549
Total	**122,038**	**115,489**	**6,549**

The breakdown of the account at December 31, 2018 is shown in the table below (Euro thousands):

	31/12/2018	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	1,265		1,265
Deferred income on disbursements pursuant to Law 808/85 (post 2007) - beyond one year	18,654	14,828	3,826
Deferred income on disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	483		483
Other tax payables	876	-	876
Other deferred income	490	390	100
Total	**122,038**	**115,488**	**6,550**

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 (rules pre-2007) - 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 Economic Development Ministry 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 1,265 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. The remaining 10% is an outright grant.

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.

Both the grants receivable from the Ministry for Economic Development and the subsequent reimbursements payable to the Ministry have been accounted for at amortized cost.
The difference between the nominal and present values of the amount receivable and payable is recognized over the course of the benefit.

Deferred income on disbursements pursuant to Law 808/85 (post 2007) - beyond one year

The account, amounting to Euro 18,654 thousand, represents the initial counter-entry of the receivable from the Economic Development Ministry against the grants pursuant to Law 808/85, relating to the projects qualifying as functional to national security or projects with common European interest, for the amount to be allocated to the income statement in future years, beyond one year, in correlation to the allocation of the costs against which the disbursements were granted.

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

See above for an account of the rules for grants pursuant to Law 808/85 set out in the Decree of the Ministry for Economic Development of July 3, 2015.
The caption, which amounted to Euro 483 thousand, represents the difference between the nominal values and present values of the amount receivable and payable in respect of the aforementioned liquidation decree dated February 19, 2018.

Other tax payables

This account, for Euro 876 thousand, refers to the portion beyond 12 months concerning amounts payable in connection with the settlement of a tax dispute relating to tax year 2013 reached with the Italian Tax Office in 2018 and broken down into 12 quarterly instalments;

<u>CURRENT LIABILITIES</u>

3.21. CURRENT FINANCIAL LIABILITIES

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

	31/12/2018	31/12/2017	Change
Current financial liabilities	71,570	70,004	1,567
Total	**71,570**	**70,004**	**1,567**

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

	31/12/2018	31/12/2017	Change
Financial payables subsidiary Secosvim	31,982	29,949	2,033
Financial payables subsidiary Secosvim	20,339	14,793	5,546
Financial payables Europropulsion S.A. joint control company	19,249	25,249	(6,000)
Other financial payables	0	12	(12)
	71,570	**70,004**	**1,567**

Payables to subsidiaries comprise the current account balances within the Group centralised treasury management undertaken by the company. These transactions are undertaken at normal market conditions.

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

3.22. CURRENT PORTION OF NON-CURRENT FINANCIAL PAYABLES

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

	31/12/2018	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 EIB loans. Interest matures bi-annually.

3.23. TRADE PAYABLES

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

	31/12/2018	31/12/2017	Change
Trade payables	141,811	77,004	64,807
Total	**141,811**	**77,004**	**64,807**

Trade payables at December 31, 2018 include the following payables to subsidiaries:

- payables to Spacelab for Euro 78 thousand;
- payables to Regulus for Euro 19,370 thousand;
- payables to Avio Guyana for Euro 172 thousand.

These payables include, in addition, Euro 21,190 thousand to the jointly controlled company Europropulsion and Euro 1,828 thousand to the associate Termica Colleferro.

The increase in trade payables is mainly due to the acquisition of the business unit, in addition to the greater volume of activities compared to the previous year and the timing of certain development activities towards the end of the year.

3.24. CURRENT TAX PAYABLES

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

	31/12/2018	31/12/2017	Change
Tax payables	1,555	1,329	226
Total	**1,555**	**1,329**	**226**

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

	31/12/2018	31/12/2017	Change
Payables for withholding taxes	1,158	1,269	(111)
Other tax payables	397	60	337
Total	**1,555**	**1,329**	**226**

Payables for withholding taxes, amounting to Euro 1,158 thousand, refer to employee and consultant withholding taxes.

Other tax payables, amounting to Euro 397 thousand, mainly refer to the short-term instalments of settlements of a tax dispute relating to tax year 2013 reached with the Italian Tax Office in 2018.

3.25. OTHER CURRENT LIABILITIES

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

	31/12/2018	31/12/2017	Change
Other current liabilities	10,831	11,429	(598)
Total	**10,831**	**11,429**	**(598)**

The breakdown of the account at December 31, 2018 is shown in the table below (Euro thousands):

	31/12/2018	31/12/2017	Change
Customer advances for the supply of goods and services	2,013	2,529	(516)
Payables due to social security institutions	2,547	1,957	590
Employee payables	3,349	2,644	705
Payables to subsidiaries	1,051	1,634	(583)
Other payables to third parties	606	584	23
Deferred income on disbursements pursuant to Law 808/85 - current portion	702	1,116	(414)
Other accrued liabilities and deferred income	562	965	(403)
Total	**10,831**	**11,429**	**(598)**

Customer advances for the supply of goods and services

The account mainly relates to advances received from final customers against supplies for Euro 2,013 thousand.

Amounts due to social security institutions

The account concerns amounts to be paid, amounting to Euro 2,547 thousand, relating to company and employee contributions, in accordance with regulations in force.

Employee payables

Employee payables amount to Euro 3,349 thousand and include remuneration to be settled, in addition to vacations and other rights matured and not utilised.

Subsidiaries

The account, amounting to Euro 1,051 thousand, mainly includes the payable to subsidiaries following the tax consolidation and some payables to be recharged.

Deferred income on disbursements pursuant to Law 808/85 (post 2007) - 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 562 thousand, mainly refers to the deferment of commercial costs and grant to the following year.

INCOME STATEMENT

INTRODUCTION

The comparative 2017 results of Avio S.p.A were influenced by the corporate transaction completed on March 31, 2017 with the acquisition by Space2 S.p.A., Leonardo S.p.A. and In Orbit S.p.A. of 85.68% of the share capital of Avio (the remaining investment was held by the shareholder Leonardo) and the subsequent merger by incorporation into Space2 S.p.A. effective from April 10, 2017. This corporate transaction resulting in Space2 S.p.A. taking the name Avio S.p.A. impacted the 2017 financial statements, with the aggregation of the result of the acquirer/incorporating company Space2 and of the incorporated Avio result from April 10, 2017.

In addition, on March 1, 2018, as reported previously, Avio S.p.A. acquired the launchers business unit of its subsidiary ELV S.p.A. (now Spacelab S.p.A.). In view of this transaction, the 2018 figures are not comparable with the previous year.

For the reasons described above, the “pro-forma” figures for 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 Avio S.p.A before the operation with the addition of Space2 S.p.A.’s operations and, in addition, pro-forming the acquisition of the business unit to the year 2017. For further details, reference should therefore be made to the Directors’ Report.

3.26. REVENUES

Total revenues, comprising the change in contract work-in-progress and revenues from product sales and the provision of services, amounted to Euro 443,358 thousand for the current year. They amounted Euro 256,563 thousand in 2017.

	FY 2018	FY 2017 (period 10/04 – 31/12)	Change
Revenue from sales	12,717	161,674	(148,957)
Revenues from services	1,087	528	559
	13,804	162,202	(148,398)
Change in contract work-in-progress	429,554	94,361	335,193
Total	**443,358**	**256,563**	**186,795**

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

3.27. OTHER OPERATING REVENUES

In 2018, the account totalled Euro 5,514 thousand (Euro 5,013 thousand in 2017) - increasing Euro 501 thousand.

	FY 2018	FY 2017 (period 10/04 – 31/12)	Change
Income from the release of provisions	-	1,274	(1,274)
Income for the portion recognised to the income statement of the disbursements as per Law 808/85	1,576	1,337	239
Other income	2,296	723	1,574
Over-accruals and similar in prior periods	405	350	55
Recovery of costs, damages and other income	1,237	1,329	(93)
Total	**5,514**	**5,013**	**501**

During the year, no provisions were released.

Income for the portion recognised to the income statement of disbursements as per Law 808/85 amounted to Euro 1,576 thousand; this income includes the type of costs against which the disbursements were granted and in correlation to the periods in which the related expenses and depreciation were recognised to the income statement.

"Other income" of Euro 2,296 thousand includes grants of Euro 1,612 thousand and the recharge of management fees to the subsidiary Regulus for Euro 684 thousand.

"Recovery of costs, damages and other income" includes the recovery of costs incurred during the period by the company, regarding mainly operations in favour of Group companies and other income.

3.28. CONSUMPTION OF RAW MATERIALS

The account, amounting to Euro 120,803 thousand, relates to costs for raw material purchases and changes in inventories, as shown below.

	FY 2018	FY 2017 (period 10/04 – 31/12)	Change
Purchase of raw materials	118,725	74,014	44,711
Change in inventories of raw materials	2,078	(5,897)	7,975
Total	**120,803**	**68,117**	**52,686**

3.29. SERVICE COSTS

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

	FY 2018	FY 2017 (period 10/04 – 31/12)	Change
Service costs	246,357	145,680	100,677
Rent, lease and similar costs	6,725	3,838	2,887
Total	**253,082**	**149,518**	**103,564**

Service costs, amounting to Euro 253,082 thousand, in particular, include costs for activities carried out by co-producers, for consultancy and technical and professional services, for outsourcing, for maintenance and for temporary personnel.

The item "Service costs" includes the amount of the emoluments due to the governing bodies, relating to:

- directors' fees of Euro 289 thousand and specific committee fees of Euro 126 thousand;
- supervisory body fees of Euro 136 thousand;
- Board of Statutory Auditors' fees of Euro 128 thousand;
- auditing firm fees of Euro 128 thousand.

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

3.30. PERSONNEL EXPENSES

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

	FY 2018	FY 2017 (period 10/04 – 31/12)	Change
Wages and salaries	32,008	19,968	12,040
Social security charges	10,285	6,490	3,794
Provision for variable remuneration	3,508	4,497	(989)
Other long-term benefits - current employees	207	125	82
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	(23)	70	(93)
Provision for “Other defined benefit plans”	2,429	1,727	702
Total	**48,414**	**32,877**	**15,537**

The table below illustrates, divided by category, the average number of employees of the Company:

	FY 2018	*FY 2017*
Blue-collar	278	273
White-collar	386	297
Executives	22	20
Total	**686**	**590**

3.31. AMORTISATION & DEPRECIATION

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

	FY 2018	FY 2017 (period 10/04 – 31/12)	Change
Intangible assets with definite life	8,082	5,880	2,202
Property, plant & equipment	3,954	2,626	1,328
Total	**12,036**	**8,506**	**3,530**

Amortization of intangible assets with a definite life primarily includes:

- amortization of capitalized development costs of Euro 4,213 thousand (Euro 3,204 thousand in 2017);
- Euro 2,986 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.

3.32. OTHER OPERATING COSTS

This account amounts to Euro 6,309 thousand (Euro 4,236 thousand in 2017) and mainly comprises the following items:

- costs incurred and accruals to extraordinary personnel charge provisions of Euro 1,786 thousand;
- indirect taxes of Euro 1,126 thousand. This caption includes a non-recurring tax charge relating to the registration tax paid on the purchase of the launchers unit of the subsidiary ELV S.p.A (now Spacelab S.p.A) in the amount of Euro 609 thousand;
- prior year charges of Euro 1,080 thousand concerning, among others, the adjustment of the valuation of employee benefit provisions to actuarial valuations;
- other operating costs for Euro 1,374 thousand, relating to entertainment expenses, association dues, donations and contributions;
- non-recurring tax charges relating to the tax dispute pertaining to tax year 2013, which was settled in 2018, of Euro 796 thousand;
- provisions for rights pursuant to the provisions of Law 808/85 (post 2006), amounting to Euro 148 thousand;

3.33. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to costs capitalised for internally constructed assets, amounting to Euro 9,755 thousand (Euro 8,983 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:

- costs for the internal construction of intangible assets for Euro 6,909 thousand, of which for internal development for Euro 6,899 thousand and the internal design of software for Euro 10 thousand;
- costs for the internal production of tangible assets for Euro 2,846 thousand.

3.34. FINANCIAL INCOME

The breakdown of financial income of Euro 700 thousand (Euro 1,133 thousand in 2017) is presented below:

	FY 2018	FY 2017 (period 10/04 – 31/12)	Change
Bank interest income	68	141	(73)
Financial income on Savings Bonds	0	374	(374)
Discounts and other financial income	162	179	(17)
	230	694	(464)
Realised exchange gains	442	388	54
Unrealised exchange gains	29	51	(22)
	470	439	31
Total	**700**	**1,133**	**(434)**

Financial income of Euro 700 thousand principally concerned:

- interest income on bank current accounts for Euro 68 thousand;
- interest income from the application of the amortised cost of receivables of Euro 162 thousand;
- exchange differences for Euro 470 thousand.

Excluding exchange differences, the decrease of Euro 464 thousand on the preceding 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.

3.35. FINANCIAL CHARGES

The breakdown of financial charges of Euro 1,456 thousand (Euro 3,043 thousand at December 31, 2017) is presented below:

	FY 2018	FY 2017 (period 10/04 – 31/12)	Change
Interest on Senior Term Loan Agreement	-	1,988	(1,988)
Interest on EIB loans	360	60	300
Interest expense to subsidiaries	5	5	-
Interest on other payables	115	180	(65)
Discounting on employee benefits	(22)	(13)	(9)
Charges on interest hedge contracts (IRS)	0	305	(305)
	458	2,525	(2,067)
Realised exchange losses	992	515	477
Unrealised exchange losses	7	3	4
	999	518	481
Total	**1,456**	**3,043**	**(1,587)**

Financial charges decreased Euro 1,587 thousand on 2017.

The difference principally relates to the presence in 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 period-end translation of receivables and payables in foreign currencies.

3.36. INVESTMENT INCOME/(CHARGES)

Net investment income in 2018 refers to net income of Euro 5,720 thousand, as follows:

- dividends for Euro 2,640 thousand received in the period from the subsidiary Regulus S.A.;
- dividends for Euro 3,080 thousand received in the period from the jointly controlled company Europropulsion S.A.

3.37. INCOME TAXES

Net "income taxes" amount to "Net tax charge" of Euro 76 thousand, comprising current taxes from the tax consolidation of Euro 103 thousand and deferred tax income of Euro 27 thousand.

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

	FY 2018	FY 2017
Pre-tax result	23,420	11,420
Ordinary rate applied	24.00%	24.00%
Theoretical tax charge	5,621	2,741
Effect of increases (decreases) to the ordinary rate:		
Permanent increases	8,253	1,274
Permanent decreases	(3,851)	(7,231)
Temporary difference increases	16,220	11,666
Temporary difference decreases	(74,948)	(62,570)
Total changes	(54,325)	(56,861)
(Tax loss)/Assessable income	(30,905)	(45,441)
Net deferred tax (income)/charge	(26)	(1,015)
Current assessable	103	(493)
	76	(1,508)

3.38. 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.

3.39. EARNINGS PER SHARE

	FY 2018	Year 2017 – Avio (period 10/04 – 31/12)
Group Net Profit (Euro thousands)	23,344	12,928
Weighted average number of shares in circulation	26,359,346	25,305,773

Basic earnings per share – in Euro	0.89	0.51
Diluted earnings per Share – in Euro	0,86[1]	0,50[1]

[1] Diluted earnings per share was determined assuming the conversion of the 800,000 sponsor warrants into a similar number of ordinary shares.

4. COMMITMENTS AND RISKS

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

	At 31/12/2018
Guarantees given:	
Unsecured guarantees:	
Sureties issued to third parties on behalf of Avio	7,460
Other guarantees	13,402
Total guarantees given	20,862
Sureties and guarantees received	1,703
Total	22,564

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, carried according to the amortized cost method at Euro 5.8 million. Considering the total original commitment of Euro 12.1 million, the Euro 7.4 million already disbursed and the gradual repayment of the lenders by Termica Colleferro SpA, there was no residual commitment at the reporting date. Avio however has not undertaken any commitment to increase the share capital of the associate.

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

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

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

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

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

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

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

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

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

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

	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**from 2023 until Date of Maturity**
NFP/E ≤	2.00x	2.00x	2.00x	2.00x	1.50x	1.50x	1.50x	1.00x
NFP/EBITDA ≤	6.00x	5.50x	5.00x	4.00x	4.00x	3.50x	3.50x	3.00x

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

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

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

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

Legal and tax cases and contingent liabilities

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

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 audits 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 "Auditors") 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 the framework of this audit, the Italian Finance Police issued an auditors' report served on June 27, 2017 (the "Auditors' Report"), identifying the following irregularities, inter alia, in respect of the 2012 and 2013 tax periods:

- the non-deductibility of the costs incurred by Avio S.p.A. from suppliers located in "black list" countries or territories with privileged tax regimes pursuant to Article 110, paragraphs 10 and 11, of the CFA;

- failure to apply withholdings to interest on loans paid to non-resident entities.

In the dispute regarding black-list costs, during the 2018 tax period the Large Taxpayers Office of the Piedmont Regional Department of the Italian Tax Office (hereinafter the "Piedmont Department") served the following documents in connection with the aforementioned Notice:

- in respect of the 2012 tax period, an assessment notice, in relation to which Avio S.p.A applied for a settlement, which culminated on May 30, 2018 in the determination of a total sum due from the Company of approximately Euro 187 thousand, inclusive of taxes, penalties and interest;

- for the 2013 tax year, a questionnaire in 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. In particular, the proceeding originating from the above questionnaire was resolved by assessment agreement signed on December 17, 2018, resulting in total recovery from the Company of approximately Euro 56 thousand, inclusive of taxes, penalties and interest.

Both the liabilities are subject to the Share Purchase Agreement signed on December 21, 2012 between, among others, Avio (as seller) and Nuovo Pignone Holding S.p.A. (as buyer), and therefore continue to be borne by the General Electric Group.

With regard to the alleged failure to apply withholdings outlined in the Notice dated June 27, 2017, during the 2018 tax period the Piedmont Department served:

- in respect of the 2012 tax period, an assessment notice, in relation to which the Company applied for a settlement, which culminated on May 30, 2018 in the determination of a total sum due from the Company of approximately Euro 100 thousand, inclusive of penalties and interest;

- in respect of the 2013 tax period, an invitation to appear that led to the resolution of the dispute through the signing on December 17, 2018 of an assessment agreement providing for a total amount due from the Company of approximately Euro 46 thousand, inclusive of penalties and interest.

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. This appeal was rejected by the Turin Provincial Tax Commission with judgment 729/05/17 of May 25, 2017.

This decision was appealed before the Piedmont Regional Tax Commission, which in judgment 1740/18 rendered on October 24, 2018 and filed on November 7, 2018 granted the Company's appeal in full. At the time of this report, there was no record of any appeal by the Italian Tax Office of the above judgment before the Court of Cassation.

It bears remarking that lawmakers have addressed the subject-matter of this dispute, which has to do with the application of Art. 20 of Italian Presidential Decree 131/1986 (the "Consolidated Law on Registration Tax"), in paragraph 1084 of Law 145 of December 30, 2018 (the "2019 Finance Act"), expressly granting the force of an official interpretation – and thus retroactive effect – to Art. 1, paragraph 87, letter a) of Law 205 of December 27, 2017 (the "2018 Finance Act"), which amended Art. 20 of the Consolidated Law on Registration Tax, limiting the discretion of the revenue authorities in reclassifying deeds subject to registration. In the light of the provision of the 2019 Finance Act, the provision introduced by the 2018 Finance Act should therefore also apply retroactively, for the benefit of the taxpayer, with the result that there is no longer any case to answer.

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.

The proceeding in question was concluded on December 17, 2018 with the signing of two assessment agreements, one in respect of IRES (company income tax) and the other of IRAP (regional business tax), both relating to the 2013 tax period, resulting in the recovery from the Company of a total of approximately Euro 795 thousand, inclusive of taxes, interest and penalties.

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

A.2.1.) *Refiling of IRES refund applications relating to failure to deduct personnel costs for the years 2007-2011 for the purposes of IRAP.*

On October 11, 2018 the Piedmont Department served Avio S.p.A., as consolidating entity of the tax consolidation program for the 2013 tax period, with invitation to appear TSBI1LR00102/2018, alleging various irregularities relating to:

c) the content of the IRES (company income tax) refund applications relating to the failure to deduct IRAP (regional business tax) on personnel costs filed by the Company pursuant to Art. 2, paragraph 1-*quater* of Decree Law No. 201/2011 for the 2007 to 2011 tax periods;

d) the content of the CNM2014 return model filed by the Company, as consolidating entity, for the 2013 tax period, as a consequence of the use of tax losses arising from the aforementioned refund applications.

The Company acted promptly to provide the Piedmont Department with all of the requested information and clarification. Following its interactions with the Company, the Piedmont Department reconsidered the irregularities it had proposed, while continuing to allege that the refund application submitted by the Company for the 2011 tax period was incorrect. On December 17, 2018 this proceeding culminated in the signing of an assessment agreement and in the recovery from the Company of a total of Euro 426 thousand, inclusive of taxes and interest. This liability is covered by the Share Purchase Agreement signed on December 21, 2012 between, among others, Avio (as seller) and Nuovo Pignone Holding S.p.A. (as buyer), and therefore continues to be borne by the General Electric Group.

B) Avio S.p.A. (formerly Space2 S.p.A. - incorporating company) – 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.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Categories and fair value of financial assets and liabilities

The following table breaks down financial assets and liabilities as per IFRS 7, on the basis of the categories under IAS 9 for 2018 and 2017.

Amounts at December 31, 2018:

In Euro thousands	Total accounts	IFRS 9 Category		
		Assets at amortised cost	*Assets at fair value through profit or loss*	*Liabilities at amortised cost*
FINANCIAL ASSETS				
- Investments in other companies	524		524	
- Non-current financial assets	5,812	5,812		
- Other non-current assets	66,506	66,506		
- Current financial assets				
- Trade receivables	3,647	3,647		
- Other current assets	10,883	10,883		
- Cash and cash equivalents	106,307	106,307		
	193,678	**193,154**	**524**	
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	40,000			40,000
- Current financial liabilities	71,570			71,570
- Current portion of non-current financial payables	60			60
- Other non-current liabilities	122,038			122,038
- Other current liabilities	10,831			10,831
- Trade payables	141,811			141,811
	386,310			**386,310**

Amounts at December 31, 2017

In Euro thousands	Total accounts	IFRS 9 Category		
		Assets at amortised cost	*Assets at fair value through profit or loss*	*Liabilities at amortised cost*
FINANCIAL ASSETS				
- Non-current financial assets	5,812	5,812		
- Other non-current assets	65,353	65,353		
- Current financial assets	-	-		
- Trade receivables	7,224	7,224		
- Other current assets	9,205	9,205		
- Cash and cash equivalents	100,424	100,424		
	188,018	**188,018**		
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	40,000			40,000
- Current financial liabilities	70,004			70,004
- Current portion of non-current financial payables	60			60
- Other non-current liabilities	115,489			115,489
- Other current liabilities	11,429			11,429
- Trade payables	77,004			77,004
	313,986			**313,986**

Fair value of financial assets and liabilities and calculation models utilised

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

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

The Company and the Avio Group did not have derivative financial instruments in place at December 31, 2018.

Financial income and charges recognised as per IAS 39

The following table presents the financial income and charges generated by financial assets and liabilities, broken down by category as per IFRS 9 for 2018 and 2017.

FY 2018

In Euro thousands	Financial income/(charges) recognised through profit or loss		Actuarial gains/(losses) recognised to comprehensive income statement
	From interest	From fair value changes	From fair value changes
Assets at amortised cost	360	-	-
Assets at fair value through profit or loss			
economic Liabilities at amortised cost	-	-	-
Derivative financial instruments	-	-	-
Total categories	360	-	-

FY 2017

In Euro thousands	Financial income/(charges) recognised through profit or loss		Actuarial gains/(losses) recognised to comprehensive income statement
	From interest	From fair value changes	From fair value changes
Assets at amortised cost	694	-	-
Assets at fair value through profit or loss			
economic Liabilities at amortised cost	(2,233)	-	-
Derivative financial instruments	-	(305)	317
Total categories	(1,539)	(305)	317

Types of financial risks and related hedging

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

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

These financial risks are continually monitored, undertaking initiatives to offset and contain potential impacts through appropriate policies and, where in general considered necessary, also through specific hedging instruments (currently not necessary as the loan interest rate with the EIB is fixed and competitive compared to the market).

This section provides qualitative and quantitative disclosure upon the impact of these risks on the Company and on the Group.
The following quantitative data cannot be used for forecasting purposes or completely reflect the complexity and the related market reactions which can derive from any change in assumptions.

Credit Risk

Credit risk represents the exposure of the Company and of the Group to potential losses due to the non-compliance with obligations by commercial and financial counterparties.
The exposure to credit risk is essentially related to receivables recognised to the financial statements, particularly trade receivables and guarantees provided in favour of third parties.
The maximum theoretical exposure to the credit risk for the Company at December 31, 2018 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 3,647 thousand.

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

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

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

Overdue trade receivables at December 31, 2018 amounted to approx. Euro 3,837 thousand (Euro 3,754 thousand, net of the above Doubtful Debt Provision of Euro 83 thousand). The overdue amounts were therefore not significant and entirely relate to timing factors.

For trade receivables, each financial year, an individual assessment of risk is carried out and a specific doubtful debt provision accrued, which takes account of an estimate of recoverable amounts and any disputes in progress and possible maturity extensions.

Liquidity risk

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

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

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

Liquidity analysis
The following tables break down future contractual cash flows generated by financial and commercial liabilities and by the principal other liabilities of the Company (in Euro thousands).

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

Amounts at December 31, 2018:

	Book values	On demand	Within 12 months	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Over 5 years	Total cash flows
Current financial liabilities:									
- Current financial payables subsidiaries	52,321	52,321	-	-	-	-	-	-	52,321
- Current financial payables to companies under joint control	19,249	19,249	-	-	-	-	-	-	19,249
- Current other financial payables	-	-	-	-	-	-	-	-	-
- Financial payables *EIB Loan*	60	-	60	-	-	-	-	-	-
	71,630	71,570	60	-	-	-	-	-	71,630
Trade payables (including subsidiaries, associates and under joint control)	141,811	-	141,811	-	-	-	-	-	141,811
	141,811	-	141,811	-	-	-	-	-	141,811
Other non-current liabilities:									
- Financial payables *EIB Loan*	40,000	-	360	8,330	8,258	8,186	8,114	8,042	41,290
- Payables for disbursements in accordance with Law 808/85	42,051	-	-	-	-	-	-	42,051	42,051
	82,051	-	360	8,330	8,258	8,186	8,114	50,093	83,341
Other current liabilities:									
- Social security institutions	2,547	-	2,547	-	-	-	-	-	2,547
- Employee payables	3,349	-	3,349	-	-	-	-	-	3,349
- Other payables to third parties	606	-	606	-	-	-	-	-	606
	6,503	-	6,503	-	-	-	-	-	6,503
Total cash flows	301,995	71,570	148,733	8,330	8,258	8,186	8,114	50,093	303,285

Amounts at December 31, 2017

	Book values	On demand	Within 12 months	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Over 5 years	Total cash flows
Current financial liabilities:									
- Current financial payables subsidiaries	44,742	44,742	-	-	-	-	-	-	44,742
- Current financial payables to companies under joint control	25,249	25,249	-	-	-	-	-	-	25,249
- Current other financial payables	12	12	-	-	-	-	-	-	12
- Financial payables *EIB Loan*	60	-	60	-	-	-	-	-	60
	70,064	70,004	60	-	-	-	-	-	70,064
Trade payables (including subsidiaries, associates and under joint control)	77,004	-	77,004	-	-	-	-	-	77,004
	77,004	-	77,004	-	-	-	-	-	77,004
Other non-current liabilities:									
- Financial payables *EIB Loan*	40,000	-	360	360	8,331	8,258	8,186	16,156	41,650
- Payables for disbursements in accordance with Law 808/85	42,051	-	-	-	-	-	-	42,051	42,051
	82,051	-	360	360	8,331	8,258	8,186	58,207	83,701
Other current liabilities:									
- Social security institutions	1,957	-	1,957	-	-	-	-	-	1,957
- Employee payables	2,644	-	2,644	-	-	-	-	-	2,644
- Other payables to third parties	584	-	584	-	-	-	-	-	584
	5,185	-	5,185	-	-	-	-	-	5,185
Total cash flows	234,304	70,004	82,609	360	8,331	8,258	8,186	58,207	235,954

Market risk

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

The Company and the Group, considering that stated with regards to the insignificant market risk related to exchange rate and interest rate movements, at December 31, 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 - increased to Euro 50 million in 2019 - at a competitive fixed interest rate compared to the market.

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

6. TRANSACTIONS WITH RELATED PARTIES

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

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

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

The following tables report the related party transactions of Avio S.p.A., with balance sheet effects (in thousands of Euro):

	At December 31, 2018							
Counterparty	**Trade receivables**	**Other curr. assets**	**Cont work-in-prog.**	**Non-curr. finan. assets**	**Trade payables**	**Other curr. liabilities**	**Adv. for cont. work in prog.**	**Finan. liabilities**
Leonardo S.p.A.					1106	223		
MBDA Italia S.p.A.	17		991				786	
MBDA France S.A.			8,755				5,939	
Thales Alenia Space Italia S.p.A.								
Companies with a connecting relationship and relative investee companies	**17**	**0**	**9746**	**0**	**1106**	**223**	**6725**	**0**
ELV S.p.A.	60	2709	24,446		78	31	104,030	20,338
Regulus S.A.	576	377			19,370		542	
SE.CO.SV.IM. S.r.l.	8	891				1,020		31,981
Subsidiaries	**644**	**3,977**	**24,446**	**0**	**19,448**	**1,051**	**104,572**	**52,319**
Termica Colleferro S.p.A.	61			5,812	1651			
Europropulsion S.A.	524		2,414		21,190		14,061	19,249
Potable Water Services Consortium	175				(135)			
Servizi Colleferro - Consortium Limited Liability Company	102	126						
Associates and jointly controlled companies	**862**	**126**	**2,414**	**5,812**	**22,706**	**0**	**14,061**	**19,249**
Total related parties	**1,523**	**4,103**	**36,606**	**5,812**	**43,260**	**1,274**	**125,358**	**71,568**
Total book value	**3,647**	**10,883**	**103,152**	**5,812**	**141,811**	**10,831**	**176,979**	**111,630**
% on total account items	**41.76%**	**37.70%**	**35.49%**	**100.00%**	**30.50%**	**11.76%**	**70.83%**	**64.11%**

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

	At December 31, 2018				
Counterparty	Operating Revenues (1)	Change in contract work-in-progress	Operating Costs (2)	Financial Income	Financial Charges
Leonardo S.p.A.			645		
MBDA Italia S.p.A.	53	991			
MBDA France S.A.	0	(137)			
Thales Alenia Space Italia S.p.A.	12				
Companies with a connecting relationship and relative investee companies	**65**	**854**	**645**	**0**	**0**
ELV S.p.A.	835	(1,051)	1,396		2
Regulus S.A.	3,925		45,622		
SE.CO.SV.IM. S.r.l.	205		4,279		3
Subsidiaries	**4,965**	**(1,051)**	**51,297**	**0**	**5**
Termica Colleferro S.p.A.	97		9,318		
Europropulsion S.A.	2,074	(3,962)	80,433		
Potable Water Services Consortium	2		140		
Servizi Colleferro - Consortium Limited Liability Company	2		292	-	-
Associates and jointly controlled companies	**2,175**	**(3,962)**	**90,183**	**0**	**0**
Total related parties	**7,205**	**(4,159)**	**142,125**	**0**	**5**
Total book value	**13,804**	**429,554**	**422,298**	**700**	**1,456**
% on total account items	**52.19%**	**0.94%**	**33.66%**	**0.00%**	**0.34%**

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

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

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

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

- trade receivables, relating to revenues from the sale of company core business products, as part of ordinary operations and concluded at normal market conditions. In particular, with regard to the company Europropulsion S.A., revenues are included from the sale of company core business products, as part of ordinary operations and concluded at normal market conditions.
- financial receivables, relating to short and long-term financial receivables from Termica Colleferro S.p.A.;

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

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

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

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

7. REGIONAL DISCLOSURE

As indicated previously, with reference to the assets and liabilities by regional location (based on the location of the counterparty), we report that all the receivables and payables at the reporting date are with counterparties located in Italy and Europe.

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

In accordance with Article 149 duodecies of the Consob Issuer's Regulation, we report below the information concerning fees paid in 2018 for audit and other services by the audit firm Deloitte & Touche SPA and its network (in Euro thousands):

Type of service	Company	Service provider	2018 Fees
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	103
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	25[1]
Total	**Total**		128

(1) Concerns the limited audit of the Avio Group's Non-Financial Report

In 2019 a specific engagement was awarded to audit the statement of the research and development costs incurred in 2018 and the comparative years (2012 - 2014) by Avio S.p.A, prepared pursuant to Decree-Law 145 of December 23, 2013, converted by Law 9 of February 21, 2014, as amended by Law 145 of December 30, 2018. The fees for this service amounted to Euro 58 thousand.

9. SUBSEQUENT EVENTS

Business

Vega

In 2019 the second fire bench test of the P120 engine, which is intended for use in the new versions of the Vega C and Ariane 6 launchers, was successfully completed.
The 2019 launch campaign for the first Vega has also begun.

Ariane

Ariane 5 successfully completed its first launch in 2019.

Other significant events

Signing of an additional Euro 10 million loan contract with the European Investment Bank (EIB)

On January 16, 2019 the Company signed an additional Euro 10 million loan contract with the European Investment Bank (EIB). This loan is in fact in addition to, and subject to similar economic conditions as, the aforementioned original loan of Euro 40 million contracted in October 2017.

This increase will further support the planned development of new technologies in the field of space propulsion systems in view of the offering of the new products for the Ariane 6 and Vega 6 programs and the expansion of industrial capacity at the Colleferro facility required to meet the Company's production volume targets for the coming years.

Modification of dividend policy

On the same date as the approval of the financial documents for the year ended on December 31, 2018, the amendment of the dividend policy in accordance with the principle of sustainability over the medium/long-term on the basis of the economic-financial outlook, the solidity of the capital structure and also in consideration of "capital intensive" investment cycles in the medium to long-term, was submitted for the approval of the Corporate Boards.

The amendment of the policy submitted for the approval of the Corporate Boards was as follows: a "dividend yield" (the dividend per share as a percentage of the market value of the share), from a range of 2% to 3.5% of stock market capitalization to a range of 1% to 5% of stock market capitalization.

The "payout ratio" remains unchanged however in a range of between 25% and 50% of the consolidated net profit.

Proposal for the authorization of the purchase of treasury shares

The purchase of treasury shares in Avio S.p.A. was submitted for the approval of the Corporate Boards on the same date on which the financial documents for the year ended December 31, 2018 were approved.

The reasons for proposing that the Corporate Boards approve the purchase of treasury shares include, among others, support for share liquidity, containment of any anomalous price movements and investment of the liquidity generated by the Company.

The request for authorization regards the power for the Board of Directors of Avio S.p.A to undertake a series of treasury share purchase and sale transactions on a revolving basis for a period of 18 months from the date of approval of the relevant shareholders' meeting resolution, while not collectively exceeding 10% of the share capital of Avio S.p.A and otherwise while in accordance with applicable laws and regulations.

The purchase price of the treasury shares will be set from time to time on the basis of the intended transaction structure and in accordance with any regulatory prescriptions or standard market practice, and will range between a minimum and maximum to be set in the course of the shareholders' meeting called to authorize the purchase of the treasury shares.

In any event, it is proposed that the treasury shares be purchased for a price per share not more than 10% (ten percent) below and not more than 10% (ten percent) above the price of the share recorded during the Borsa Italiana trading session on the day before each transaction, or for a different price in accordance with market practice or Regulation (EC) No. 596/2014 of the European Parliament of April 16, 2014, for transactions subject to the said Regulation.

10. DISCLOSURE ON PUBLIC GRANTS AS PER ARTICLE 1, PARAGRAPHS 125-129, OF LAW NO. 124/2017

The following information is provided in accordance with the public disclosure requirements imposed by public grant legislation: This disclosure concerns, as required by the regulation, only disbursements accruing in 2018:

Grants under Law No. 808 of December 24, 1985 "*Incentives for the development and improved competitivity of the aerospace sector industries*"

Project	Years_costs Project	Loans issued (€M)	Collection date	Ministry for Economic Development (M€)
80-ton solid propellant engine - P80	2006-2008	2.32	27/09/2018	1.16
80-ton solid propellant engine - P80	2009	0.51	27/09/2018	0.77
80-ton solid propellant engine - P80	2010	0.29	27/09/2018	0.44
Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2009	0.29	27/09/2018	0.44
Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2010	0.31	27/09/2018	0.77
Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2011-2012	0.58	27/09/2018	1.14
Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2012-2013	0.61	27/09/2018	2.29
Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2014-2015	2.77	23/03/2018	2.23
LOX/LCH technology demonstrator for the first stage of the Vega E launcher	2014-2016	0.61	01/03/2018	1.16
LOX/LCH technology demonstrator for the first stage of the Vega E launcher	2014-2016	0.07	16/11/2018	
		8.36		**10.40**

Receivables from the Economic Development Ministry" for disbursements in accordance with Law 808/85, amounting to Euro 10.40 million, refer to the nominal value of the grants to be issued by the Economic Development Ministry. The amounts by Project are broken down as follows: Euro 2.37 million for the "80 ton solid propellant motor - P80" project; Euro 6.87 million for the "Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines" project; Euro 1.16 million for the "LOX/LCH demonstrated technology for the third stage of the Vega E launcher" project. 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".

Other grants

Receiving company	Disbursing PA	Project	Years_costs Project	Loans issued (€M)	Collection date
AVIO SPA	European community	SpaceCarbon	NA	0.56	06/02/2018
AVIO SPA	Ministry for University, Education and Research	P R A D E	NA	0.24	19/02/2018
AVIO SPA	Ministry for University, Education and Research	P R A D E	NA	0.01	16/03/2018
AVIO SPA	European community	GRAIL	NA	0.01	23/08/2018
				0.82	

As reported in the Directors' Report and the Explanatory Notes in the tax receivable paragraphs, the Avio Group has recognised with regards to financial year 2018, the Research and development tax credit permitted under Article 3 of Legislative Decree No. 145 of December 23, 2013 and subsequent amendments (the second year considered for this credit, with the Group having also recognised and utilised the research and development tax credit with reference to financial year 2017).

11. PROPOSAL FOR THE ALLOCATION OF THE RESULT OF AVIO S.P.A.

In inviting you to approve the 2018 Annual Accounts of Avio S.p.A., drawn up as per IFRS and reporting a net profit of Euro 23,344 thousand, taking account of the change to the dividend policy under approval, we propose the allocation of the result as follows:

- Euro 11,598 thousand as dividend;
- Euro 11,746 thousand to retained earnings.

* * *

March 14, 2019

for THE BOARD OF DIRECTORS
The Chief Executive Officer and General Manager
Giulio Ranzo

Statement on the Separate Financial Statement and the Consolidated Financial Statement pursuant to art. 81-ter of Consob's Regulation n. 11971 of May 14, 1999 as amended

1. The undersigned Giulio Ranzo and Alessandro Agosti, respectively Chief Executive Officer and Officer in charge of Financial Reporting for Avio S.p.A., certify, in accordance with Article 154-bis, paragraphs 3 and 4 of Legislative Decree 58 of February 24, 1998:

    - The appropriateness of the financial statements with regard to the nature of the business and also the nature and the effects of the Corporate transaction by which the controlled company ELV S.p.A. (now Spacelab S.p.A.) sold to the parent company Avio S.p.A. the business unit active in the development, production and commercialization of launchers occurred on March 1 2018, and:
    - The effective application of administrative and accounting procedures in preparing the separate and consolidated financial statements during the period from January 1, 2018 to December 31, 2018.

2. In this respect the following significant matters arose:

    - it was performed the evaluation of internal control;
    - the evaluation was performed in accordance to the criteria defined in "Internal Controls – Integrated Framework" model;
    - based on the evaluation of internal control no significant matters arose.

3. It is also certified that:

3.1 The separate financial statements and the consolidated financial statements:

a) were prepared in accordance with International Financial Reporting Standards endorsed by the European Community pursuant to EC regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) correspond to the entries in the books and accounting records;

c) they provide a true and fair view of the financial position and results of operations of the issuer and of the entities included within the scope of consolidation.

3.2 The Report on Operations includes a reliable analysis of the performance and the operating result, as well as the position of the issuer and of the entities included within the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

Date: March 28, 2019

Giulio Ranzo	Alessandro Agosti
(Chief Executive Officer)	(Officer in charge of financial reporting)

Deloitte.

Deloitte & Touche S.p.A.
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Italia

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

**To the Shareholders of
Avio S.p.A.**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Avio S.p.A. (the "Company"), which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

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

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Evaluation of contract work in progress and related income effects

Description of the key audit matter	The financial statements for the year ended December 31, 2018 include assets and liabilities respectively of Euro 103.2 thousand and Euro 177.0 thousand relating to the execution of contract work in progress and related advances. These contract work in progress are attributable to development and production activities of space sector, whose revenues and related margin are recognized to income statement based on the progress of orders according to the percentage of completion method determined on the basis of the ratio between the costs incurred and the total estimated costs of the entire work. The Company has also booked in the financial statements as at December 31, 2018 a tax credit related to research and development costs to be sold to clients and therefore included in the evaluation of contract work in progress, accounted in consistency to the progress of the related orders. The methods for evaluation those contract work in progress and the revenue recognitions are based on complex assumptions which by their nature imply recourse to the opinion of the Management with particular reference to the estimated costs to complete the entire work including the estimate of contractual risks. In consideration of the significance of these activities with respect to the overall business profile of the Company and the complexity of the assumptions used for forecasting the costs to complete the related contracts, also influenced by the engineering complexity of the mentioned contracts, we consider that this topic represents a key audit matter of the financial statements of Avio S.p.A. as at December 31, 2018. Disclosures related to this matter are reported in the explanatory notes of the financial statements and in particular in note 2.4 "Accounting policies", note 2.6 "Use of estimates" and note 3.9 "Contract work-in-progress".

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Evaluation of contracts work in progress and related income effects

Audit procedures performed

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

- understanding of the accounting approach adopted by Avio S.p.A. for the evaluation of the contract work in progress and the revenue recognition criteria and related margin;
- analysis of the procedure carried out and the design and implementation of relevant controls put in place by Management to verify the evaluation of the contract work in progress;
- analysis of the transferred contract work in progress balances from the subsidiary ELV S.p.A. (now Spacelab S.p.A.) with reference to the sale of its business unit to Avio S.p.A. on March 1, 2018;
- sample analysis of existing contracts with the customers and the related change contract clauses;
- review of the accuracy of the calculation of the completion percentage and related revenue recognition;
- comparative analysis of the main changes in contract results with respect to the original and previous year estimations;
- analysis of the assumptions that required significant judgement from Management and in particular with the method for determining estimates of costs to complete the entire work including foreseeable contractual risks as well as the subsequent events to the closing date;
- analysis of contract reporting and inquiry with project managers with particular reference to the contractual changes occurred during the year and the effects of these variation on the determination of costs to complete the entire work included any foreseeable losses;
- analysis of the accounting of the tax credit on research and development activities incurred in 2017 and 2018 financial statements and development tax credit and the effects recognized in the income statement based on the on the progress of orders according to the percentage of completion of these development activities;
- sample verification of contract costs with reference to the various cost components and physical inspection of a sample contract work in progress as of December 31, 2018;
- analysis of the new IFRS 15 effects;
- review of the adequacy of disclosures provided by Avio S.p.A. and the compliance with the related accounting standards.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The Directors of Avio S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Avio S.p.A. as at December 31, 2018, including their consistency with the related financial statements and their compliance with the law.

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

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

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

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

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

DELOITTE & TOUCHE S.p.A.

Signed by
Franco Chiavazza
Partner

Turin, Italy
March 28, 2019

BOARD OF STATUTORY AUDITORS' REPORT
in accordance with Article 153-*bis* of Legislative Decree No. 58/98

Dear Shareholders,

this report, drawn up as per Article 153 of Legislative Decree No. 58/1998 ("TUF") refers to the activities carried out by the Board of Statutory Auditors of Avio S.p.A. ("Avio" or also the "Company") in the year ending December 31, 2018, in compliance with the applicable regulation, taking account also of the conduct rules for the Board of Statutory Auditors, recommended by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili).

1. Appointment and activities of the Board of Statutory Auditors

The current Board of Statutory Auditors will remain in office until the approval of the 2019 Annual Accounts. During the year, the Board of Statutory Auditors held 10 meetings to undertake its activities; it in addition attended the following meetings: five meetings of the Board of Directors, eight meetings of the Control, Risks and Sustainability Committee, four meetings of the Appointments and Remuneration Committee, two meetings of the Investments Committee and one Strategic Activities Committee meeting.

2. Statutory and by-law oversight activities

The Board of Statutory Auditors periodically received from the Directors, also through attending the meetings of the Board of Directors and of the internal board committees, information on the activities carried out and on the main economic, financial and equity transactions approved and executed in the year, carried out by the company and by the Group companies, also as per Article 150 of the TUF, paragraph 1. Based on the information available, the Board can reasonably state that these operations were in compliance with law and the corporate objectives and were not imprudent, reckless; contrary to resolutions of the Shareholders' Meetings or such as to compromise the integrity of the company's assets. In addition, the transactions potentially presenting a conflict of interests were approved in compliance with legal and regulatory provisions and the by-baws.

The main events in the year, reported in the 2018 Annual Financial Report, which the Board of Statutory Auditors highlights in view of their significance, include:

- acquisition from the subsidiary ELV S.p.A. (now Spacelab S.p.A.) of the launcher development, production and distribution business unit;
- incorporation of the company Avio Guyana S.A.S.;

Among the subsequent events, the Board of Statutory Auditors highlights in consideration of its significance the additional loan contracted of Euro 10 million with the European Investment Bank (EIB).

3. Oversight upon compliance with the principles of correct administration and on the adequacy of the organisational structure

The Board of Statutory Auditors obtained information and verified the adequacy of the organisational structure, the compliance with correct administrative principles, the adequacy of the Company's instructions to its subsidiaries in accordance with Article 114, paragraph 2 of the TUF, through the obtaining of information from the persons responsible for various departments and meetings with the auditing firm for reciprocal exchange of data and relevant information.

During the year, the company introduced various provisions to implement measures introduced by Regulations, the Oversight Authorities, the Self-Governance Code and the Group Regulation.
In particular, the Board of Directors approved the Whistleblowing procedure, appointed a Data Protection Officer, outsourced the Internal Audit Function and also approved the amendment of the new privacy regulation in light of the European Regulation and approved the new version of the Inside Information processing policy following the regulatory update.
In addition, the Board of Directors, among other matters, expressed its approval of the sale of the launchers development, production and commercialisation business unit of ELV S.p.A. (now Spacelab S.p.A.) to the parent Avio S.p.A, as described in the Disclosure Document on related party transactions and in the Financial Report, approving the Group restructuring and the changes and supplements to the remuneration policy.

In accordance with Rule Q.1.1 of the Conduct Rules for Boards of Statutory Auditors of listed companies, the Board of Statutory Auditors assessed its composition, size and functioning, with the findings presented at the Board of Directors meeting of March 14, 2019. With regards to the requirements and personal and collective expertise, it emerged that:
- all statutory auditors, in addition to satisfying the standing and professionalism requirements and not finding themselves in situations of incompatibility as established by the applicable regulation, satisfy also the independence requirements of the Self-Governance Code;
- the Board of Statutory Auditors guarantees gender and generational diversity among its membership;
- each statutory auditor has a good level of knowledge and experience in a range of fields;
- overall, the Board of Statutory Auditors presents adequate expertise.

The size, functioning and information flows are adequate and do not present gaps or critical areas.

The Board of Statutory Auditors attended the meeting of March 14, 2019 at which the Board of Directors examined the findings of the internally conducted Board Review. The means to carry out the Board Review and the positive findings are described in Avio's Corporate Governance Report, as required by the "Recommendations of the Committee for 2019", drawn up by the Corporate Governance Committee of Borsa Italiana.

In 2018, following the above-mentioned sale of the business unit by the subsidiary ELV S.p.A. (now Spacelab S.p.A.) to the parent company Avio S.p.A., the Organisational structure of the company was consequently amended and is now considered adequate in relation to the size of the company and the type of activities carried out.

A review of the annual financial statement reports issued by the Board of Statutory Auditors of the subsidiaries does not indicate critical issues. Similarly, no criticalities emerged during the meetings held with the members of the Board of Statutory Auditors of the subsidiaries.

The Directors' Report, the information received during the meetings of the Board of Directors and that received from the Chief Executive Officer, senior management, the Boards of Statutory Auditors of the subsidiaries and the investees and from the independent audit firm do not indicate the existence of atypical and/or unusual transactions with Group companies, with third parties or with related parties.

Finally, the Board of Statutory Auditors verified the company processes resulting in the establishment of the remuneration policies of the company, with particular regard to the remuneration criteria of the Chief Executive Officer, the Senior Executives and the control department manager.

4. Oversight of the internal control and risk management system

The Board of Statutory Auditors monitored the adequacy of the internal control and risk management systems through:

- meetings with the Chairman and the Chief Executive Officer of Avio to review the internal control and risk management system;
- periodic meetings with the Internal Audit function and the Compliance function in order to assess the methods of work planning, based on the identification and assessment of the main risks involved in the processes and in the organisational units;
- meetings with the Risk Manager to analyse the strategic risks of Avio and of the Group;
- meetings with all senior positions regarding the organisational and operating impacts of Avio S.p.A.'s activities;
- review of the periodic Reports of the Control Function, in coordination with the Control, Risks and Sustainability Committee of the company;
- meetings with the Executive Officer;
- periodic meetings with the control bodies of the subsidiaries and investees in accordance with paragraphs 1 and 2 of Article 151 of the TUF, during which the Board of Statutory Auditors acquired information on the most significant event involving the Group companies and the internal control system;
- joint meetings with the Control, Risks and Sustainability Committee and the company's Supervisory Board;
- the discussion of the results of the work of the independent audit firm;
- regular attendance at the meetings of the Control, Risks and Sustainability Committee, of the Appointments and Remuneration Committee, of the Investments Committee and of the Strategic Activities Committee and where required, joint consideration of matters with the respective committees.

In undertaking its control activities, the Board of Statutory Auditors maintained continual contact with the Internal Audit and Risk Management functions.

The Internal Audit function of the company operates on the bases of the yearly plan and of three-year plan, which set out the activities and processes subject to verification, undertaking a risk- based approach. The plan is approved annually by the Board of Directors, following the approval of the Sustainability Committee.

The activities carried out by the function during the year covered the scheduled scope of activities. These activities did not indicate significant criticalities, although highlighting areas for improvement in the near future.

The Board of Statutory Auditors notes that the annual Internal Audit report concludes with a favourable opinion upon the internal controls structure.

On the basis of the activities carried out, the information acquired and the content of the Control Function's report, the Board of Statutory Auditors considers that no criticalities exists which may affect the control and risk management systems structure.

It was therefore not necessary to prepare a specific amendment plan.

5. Oversight on the administrative-accounting system and on the financial disclosure process

The Board of Statutory Auditors, as the Internal Control and Audit Committee, monitored the process and controlled the efficacy of the internal control and risk management systems as regarding financial disclosure.

The Board of Statutory Auditors periodically met the executive officer to exchange information on the administrative-accounting system, while also considering the reliability of this latter to correctly present operating events.
In 2018, the activities focused on maintaining the mapping of Avio Group processes continued. The Group accounting standards and policies were revised and updated and finally approved by the Board of Directors of Avio S.p.A..
The Board of Statutory Auditors also reviewed the declarations of the Chief Executive Officer and of the Executive Officer, in accordance with the provisions of Article 154-*bis* of the TUF.

The Board of Statutory Auditors did not highlight any deficiencies which may affect the opinion of adequacy and effective application of the administrative-accounting procedures.

The Independent Audit Firm managers, in the periodic meetings with the Board of Statutory Auditors, did not indicate critical situations which may affect the internal control system in terms of administrative and accounting procedures.

6. Oversight on related party transactions

The inter-company and related party transactions are indicated in Note 6 Related Party Transactions, broken down by transactions with the parent company Avio and with the subsidiaries.

The Board of Statutory Auditors oversaw the compliance and correct application of the RPT Procedure.

7. Method for the concrete application of the Corporate Governance rules

In exercising its functions, the Board of Statutory Auditors, as required by Article 2403 of the Civil Code and Article 149 of the TUF, oversaw the methods for the concrete implementation of the corporate governance rules set out in the conduct codes with which Avio complies. The company

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complies with the Self-Governance Code of Borsa Italiana S.p.A. and has prepared in accordance with Article 123-*bis* of the TUF the annual "Corporate Governance and Ownership Structure Report", in which information is provided upon:

i. the effectively applied corporate governance practices;
ii. the main characteristics of the risk management and internal control systems;
iii. the mechanisms for the functioning of the Shareholders' Meetings, its main powers, the rights of Shareholders and the operating rules;
iv. the composition and functioning of the administration and control boards and of the internal committees, in addition to the other information required by Article 123-*bis* of the TUF.

The Board of Directors approved the "Corporate Governance and Ownership Structure Report" on March 14, 2019.

The Board of Statutory Auditors also verified the correct application of the criteria and procedures adopted by the Board of Directors to assess the independence of its members.

8. Oversight of the auditing of accounts

In accordance of Article 19 of Legislative Decree 39/2010, the Board of Statutory Auditors is identified as the Internal Control and Audit Committee and carried out the required oversight activities upon the legally required audit of the statutory annual accounts and of the consolidated accounts.

The Board of Statutory Auditors periodically met with the independent audit firm Deloitte & Touche ("DT"), also as per Article 150, paragraph 3, of the TUF for the exchange of reciprocal information. At these meetings, the independent audit firm did not indicate any facts or events requiring indication or irregularities requiring specific reporting as per Article 155, paragraph 2 of the TUF.

For its supervision of the 2018 financial statements, the Board of Statutory Auditors periodically met with the independent audit firm to review the results from the auditing of the proper maintenance of accounting records, to review the *Avio and Group Audit Plan 2018* and for the state of advancement of the 2018 Audit Plan.

The statutory financial statements at December 31, 2018, accompanied by the Directors' Report prepared by the Directors, in addition to the statement of the Chief Executive Officer and of the Executive Officer, were approved by the Board of Directors at the meeting of March 14, 2019 and simultaneously made available to the Board of Statutory Auditors in view of the Shareholders' Meeting called for April 29, 2019.

On March 14, 2019, the Board of Directors of Avio approved the draft statutory financial statements and the consolidated financial statements.

On March 28, 2019, the Independent Audit Firm issued in accordance with Article 14 of Legislative Decree 39/2010 and Article 10 of Regulation (EC) No. 537/2014, the Auditor's Report on the statutory financial statements of Avio and the Group consolidated financial statements at December 31, 2018.

With regards to the opinions and statements, the independent audit firm in the Auditor's Report:

- issued an opinion indicating that the statutory financial statements of Avio and the consolidated financial statements of the Avio Group provide a true and fair view of the financial situation of the company and of the Group at December 31, 2018, of the result for the year and of the cash flows for the year ending at that date, in compliance with the International Financial Reporting Standards, adopted by the European Union, in addition to the implementation provisions of Article 9 of Legislative Decree 38/2005 and Article 43 of Legislative Decree 136/2015;

- issued an opinion on the consistency of the Directors' Report with the statutory and consolidated financial statements at December 31, 2018 and the information in the Corporate Governance and Ownership Structure Report indicated in Article 123 *bis*, paragraph 4 of the TUF, whose responsibility lies with the directors of Avio S.p.A., and are consistent with the documentation of the financial statements and are legally compliant;

- declared, with regards to any significant errors in the Directors' Report, on the basis of its knowledge and understanding of the company and of the relative context acquired during the audit activities, to not having any matters to report.

- verified the approval by the directors of the Consolidated Non-Financial Report.

On March 28, 2019, the independent audit firm also presented to the Board of Statutory Auditors the additional report required by Article 11 of Regulation EC No. 537/2014, whose content was outlined in advance at the meeting of March 21, 2019 and which did not indicate significant deficiencies in the internal control system with regards to the financial disclosure process requiring the attention of the officers in charge of governance activities.

The independent audit firm presented to the Board of Statutory Auditors the statement regarding its independence, as required by Article 6 of Regulation (EC) 537/2014, indicating no situations which may compromise such independence.

The independent audit firm in 2018 and in the first months of 2019 received the following appointments, whose fees, reported also as an annex to the financial statements as required by Article 149 *duodecies* of the Issuer's Regulation, were recognised to the income statement:

Type of service	Description of Services	Amount in € thousands
Audit Services	Consolidated Non-Financial Report	25
Audit Services	Activities undertaken in relation to the acquisition of the business unit ELV	28
Certification work	Research costs audit	58
Total Services		111

9. Remuneration Policies

The Board of Statutory Auditors verified the company processes undertaken to establish the remuneration policies of the company, with particular regards to the remuneration criteria of the Chief Executive Officer and of the Senior Executives.

10. Omissions or reportable events, opinions provided and initiatives undertaken

In 2018, the Board of Statutory Auditors did not receive any notices as per Article 2408 of the Civil Code, nor received petitions from third parties.

The Board of Statutory Auditors issued the opinions required by the applicable regulation, in particular expressing a favourable opinion on the proposal for the outside appointment of the Internal Audit Manager on June 25, 2018.

In the course of the activities carried out and based on the information obtained, no significant omissions, matters, irregularities or circumstances that would require reporting to the Supervisory Authority or mention in the present report were noted.

11. Consolidated Non-Financial Report

The Board of Statutory Auditors, in undertaking its duties, oversaw compliance with the provisions of Legislative Decree No. 254 of December 30, 2016 and of the Consob Regulation implementing the Decree adopted with motion No. 20267 of January 18, 2018, with particular regard to the preparation processing content of the Consolidated Non-Financial Report ("NFR") prepared by Avio S.p.A.

The NFR was approved by the Board of Directors on March 14, 2019, as a separate document to the Directors' Report to the consolidated financial statements at December 31, 2018.

The independent audit firm appointed to carry out a limited review of the NFR in accordance with Article 3, paragraph 10 of Legislative Decree 254/2016, in its report issued on March 28, 2019 did not indicate any matters suggesting that the NFR of the Avio Group for the year ended December 31, 2018 had not been prepared, with regards to all significant aspects, in compliance with Articles 3 and 4 of Legislative Decree 254/2016 and with the "Global Reporting Initiative Sustainability Reporting Standards"

The Board of Statutory Auditors is not aware of any violations of the relative regulatory provisions.

12. Conclusions

Taking account of that outlined above, the Board of Statutory Auditors, considering the content of the reports prepared by the independent audit firm, noting the statements issued jointly by the Chief Executive Officer and by the Executive Officer, expresses a clean opinion on the approval of the statutory financial statements of Avio at December 31, 2018 and on the proposal to allocate the net profit for the year of Euro 23,344 thousand, drawn up by the Board of Directors, as follows:

- Euro 11,598 thousand as dividend
- Euro 11,746 thousand as retained earnings

Finally, the Board of Statutory Auditors, in concluding this report wishes to thank the Board of Directors, Senior Management and Company and Group personnel for their steadfast commitment and ongoing and close collaboration which has always been a feature of their work.

Milan, March 28, 2019

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Board of Statutory Auditors' Report
to the Shareholders' Meeting of April 29, 2019

The Board of Statutory Auditors

Dr. Prof. Riccardo Bauer (Chairman)

Prof. Claudia Mezzabotta (Statutory Auditors)

Dr. Maurizio Salom (Statutory Auditor)