



**CORPORATE GOVERNANCE AND OWNERSHIP
STRUCTURE REPORT**

YEAR 2018

**IN ACCORDANCE WITH ARTICLE 123-BIS OF THE CFA
AND 89-BIS OF THE CONSOB ISSUERS' REGULATION**

(traditional administration and control model)

Issuer: Avio S.p.A.

Website: www.avio.com

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Glossary

The main terms used in the Report are presented below. These terms, except where otherwise specified, are defined as follows:

Shareholders' Meeting	The Shareholders' Meeting of the Issuer
Borsa Italiana	Borsa Italiana S.p.A., a <i>London Stock Exchange</i> Group company, with registered office at Piazza degli Affari No. 6, Milan.
Civil Code	Legislative Decree No. 262 of March 16, 1942 - XX and subsequent amendments and supplements.
Code or Self-Governance Code	The Self-Governance Code prepared by the Corporate Governance Committee for listed companies, set up by Borsa Italiana and promoted by Borsa Italiana, ABI, Ania, Assogestioni, Assonime and Confindustria, latterly amended on July 9, 2015.
Board of Statutory Auditors	The Board of Statutory Auditors of the Issuer.
Control, Risks and Sustainability Committee	Internal committee to the Board of Directors set up in accordance with Article 7 of the Self-Governance Code.
Appointments and Remuneration Committee	Internal committee to the Board of Directors set up in accordance with Article 5 & 6 of the Self-Governance Code.
Board or Board of Directors	The Board of Directors of the Issuer.
Consob	The National Commission for Companies and the Stock Exchange, with registered office in Rome, Via G.B. Martini No. 3.
Effective Merger Date	April 10, 2017.
Listing Date	The commencement date of trading of ordinary shares and warrants of Space2 on the MIV professional segment, i.e. July 31, 2015.
Issuer, Avio or Company	The company resulting from the Merger, called Avio S.p.A., with registered office at via Leonida Bissolati No. 76, No. 27 Rome, Rome Companies Registration and Tax No. 09105940960.
DPCM 24/11/2016	Prime Ministerial Decree of November 24, 2016 on the exercise of special powers for the defence and national security system with respect to the significant transaction regarding the merger between Space2 and Avio, approved by Space2's Shareholders' Meeting on December 1, 2016.
Merger	The merger by incorporation of the Incorporated Company into Space2, approved by the Extraordinary Shareholders'

	Meeting of Space2 and that of the Incorporated Company on December 1, 2016, and completed on the Effective Merger Date.
Avio Group or Group	Collectively, Avio S.p.A. and its subsidiaries pursuant to Article 2359 of the Civil Code and Article 93 of the Consolidated Finance Act and IFRS 10 – Consolidated Financial Statements.
In Orbit	In Orbit S.p.A., with registered office at via Latina SP 600 Ariana Km 5.2 SNC, Colleferro (Rome), Rome Companies Registration Office No. 14029441004.
Stock Exchange Instruction Regulation	The Instructions to the Regulation for Markets organised and managed by Borsa Italiana, in force at the reporting date.
Leonardo	Leonardo S.p.A., a joint-stock company governed by Italian law, with registered office at Piazza Monte Grappa No. 4, Rome.
MTA	The Italian Stock Exchange organized and managed by Borsa Italiana.
Golden Power Regulations or Legs. Decree 21/2012	Legislative Decree No. 21 of March 15, 2012, transposed into Italian Law No. 56 of May 11, 2012 setting forth “ <i>Provisions on special powers concerning the ownership structure of companies in the defence and national security sectors, as well as strategic activities in the energy, transport and communications sector</i> ” and relative implementing provisions.
Transaction	The significant transaction approved by Space2's Shareholders' Meeting on December 1, 2016, principally the Merger.
Shareholders' Agreement	The Shareholders' Agreement between Space2 and Leonardo of March 31, 2017.
SME's	Small and medium-sized issuers of listed shares pursuant to Article 1, paragraph 1, letter <i>w-quater</i>), of the CFA.
RPT Policy	The Related Parties Transactions Policy adopted by the Issuer in compliance with the provisions of Article 2391- <i>bis</i> of the Civil Code and the Related Parties Regulation.
Stock Exchange Regulation	The Regulation of Markets organised and managed by Borsa Italiana, approved by the Borsa Italiana Board of Directors, in force at the reporting date.
Issuers' Regulation	The enacting regulation of the CFA concerning the governance of issuers, adopted by Consob with motion No. 11971 of May 14, 1999 and subsequent amendments and supplements.
MAR Regulation	Regulation (EC) No. 596/2014 of the European Parliament and Council of April 16, 2014 on market abuse which nullifies Directive 2003/6/EC of the European Parliament and Council and Directives 2003/124/EC, 2003/125/EC and 2004/72/EC

	of the Commission.
Consob Market Regulation	The Market Regulations issued by Consob Motion No. 20249 of 2017.
RPT Regulation	The regulation incorporates the related party transactions provisions adopted by Consob Motion No. 17221 of March 12, 2010 (as subsequently amended and supplemented).
Report	The present Corporate Governance and Ownership Structure Report, prepared in accordance with Article 123- <i>bis</i> of the CFA.
Subsidiary Companies	The companies directly or indirectly controlled by the company pursuant to Article 93 of the CFA. “ Control ” and “ to control ” have the corresponding meanings.
Independent Audit Firm	The independent audit firm listed in the special register of independent auditors managed by the Ministry of Economy and Finance, pursuant to Legislative Decree No. 39 of January 27 2010, tasked with the independent audit of the Issuers' accounts.
Incorporated Company	Avio S.p.A., with registered office at via No. Leonida Bissolati No. 76, Rome, operating office at SP Ariana Km 5.2, Colleferro (RM), Tax, VAT and Rome Companies Office Registration No. 05515080967, REA No. 1177979.
Space2	Space2 S.p.A., with registered office in Milan, Via Mauro Macchi, No. 27, Milan Companies Registration Office and Tax No. 09105940960.
Space Holding S.r.l.	Space Holding S.r.l., with registered office at Piazza Cavour No. 1, Milan, the company establishing Space2 as sole shareholder on May 28, 2015, promoting its listing on the MIV.
By-Laws	The By-Laws of the company in force at the reporting date.
CFA	The “Consolidated Finance Act”, adopted under Legislative Decree No. 58 of February 24, 1998, as subsequently amended and supplemented.

Introduction

This Report, approved by the Board of Directors on March 14, 2019, provides a comprehensive overview on the Issuer's corporate governance and ownership structure at March 14, 2019, pursuant to Article 123-*bis* of the CFA and in light of the Code's provisions, as well as the “*Format for the report on corporate governance and ownership structure*” document (VIII Edition, January 2019) prepared by Borsa Italiana.

On April 10, 2017, the Merger became effective - i.e. the merger by incorporation of the Incorporated Company into Space2 (now Avio S.p.A.), as a result of which Space2 (now Avio S.p.A.), assumed all rights and obligations of the Incorporated Company and was renamed “Avio S.p.A.”. The definitions “Company”, “Avio” and “Issuer” refer in this Report to the company resulting from the Merger.

On March 29, 2017, Borsa Italiana approved, effective as of April 10, 2017, the listing of ordinary Avio shares on the MTA (“Mercato Telematico Azionario”) market, STAR segment, with the simultaneous discontinuation of trading on the MIV market.

* * *

1. Profile of the Issuer

The Avio Group is the leader in the manufacturing and development of solid and liquid propulsion systems for launchers, acting as sub-contractor and prime contractor for the Ariane and Vega space programmes, both funded by the ESA. These space programs seek to develop and manufacture launchers to position useful loads in geostationary and low orbit respectively.

Pursuant to the provisions of Article 1, paragraph 1, letter *w-quater*.1) of the CFA and Article 2-*ter* of the Issuers' Regulation, the company was an SME from the year 2005 to-date.

The existence of the requisites to qualify as an SME, as required by the CFA, are confirmed on the basis of:

- the unweighted average of the daily capitalisations calculated with reference to the official price, and recorded during the financial year; and
- the turnover in the same year's consolidated financial statements calculated in compliance with the criteria envisaged in the Annex, paragraph 1.1, of the Regulation on Sanctions Procedures adopted by Consob with Resolution No. 18750 of December 19, 2013 and subsequent amendments.

It should be noted that at the approval date of the Report for the company:

- the average capitalisation value amounted to (i) Euro 279,899,571 in the year 2015; (ii) Euro 281,005,185 in the year 2016; and (iii) Euro 330,788,938 in the year 2017; and
- the turnover value amounted to Euro 329,657,734 in 2017. The components which determined the turnover value are (i) revenues for sales and supply of services amounting to Euro 325,331,684; (ii) the change in inventories of finished products, work-in-progress and semi-finished products amounting to Euro 201,741; and (iii) other operating revenues: Euro 4,527,791.

Pursuant to Article 2-*ter*, paragraph 5 of the Issuers' Regulation, these data will be published on the website of Consob which will also publish the list of SMI issuers of listed shares.

Avio's corporate governance system is structured according to a traditional management and control model and consists of the following bodies:

- the Shareholders' Meeting;
- the Board of Directors;
- the Board of Statutory Auditors.

Avio's governance also consists of the following committees of the Board of Directors of Avio: (i) the Control, Risks and Sustainability Committee; (ii) the Appointments and Remuneration Committee; (iii) the investments committee (the "**Investments Committee**"); and (iv) the committee for strategic activities pursuant to the Golden Power Regulation (the "**Strategic Activities Committee**").

Accounting control is required, as per the applicable regulations, by an audit firm enrolled in Consob's special register. In accordance with Legislative Decree No. 231/2001, a Supervisory Board was also appointed to oversee the correct functioning of the company's Organisation, Management and Control Model, pursuant to Legislative Decree No. 231/2001 and

subsequent amendments and supplements. The Supervisory Board is also responsible for the Model's updating.

Avio implements and complies with the Self-Governance Code for listed companies as per the latest version of July 2018, with the supplements and adjustments for Groups with the features indicated in this report (available on Borsa Italiana's website: <http://www.borsaitaliana.it>).

2.1 Share capital structure (as per Article 123-*bis*, paragraph 1, letter a) CFA

At the Report's approval date, Avio's share capital amounted to Euro 90,964,212.90, consisting of 26,359,346 ordinary shares without par value. The shares are listed on the STAR segment of the MTA organised and managed by Borsa Italiana.

CLASS OF SHARES	NO. OF SHARES
Ordinary shares	26,359,346
Multi-votes shares	-
Shares with limited voting rights	-
Shares without voting rights	-
Other	-

At the Report's approval date, the following financial instruments that grant the right to subscribe newly issued Avio ordinary shares had been issued.

OTHER FINANCIAL INSTRUMENTS				
WARRANTS	MARKET LISTING	NO. OF INSTRUMENTS OUTSTANDING	CLASS OF SHARES FOR EXERCISE	NO. OF SHARES FOR EXERCISE
"Avio S.p.A. Market Warrants." ¹	Not admitted to trading	800,000	Ordinary shares	800,000

Avio S.p.A. shares and Sponsor Warrants are issued in de-materialised form pursuant to Articles 83-*bis* and subs. of the CFA.

2.2 RESTRICTIONS ON THE TRANSFER OF SHARES (AS PER ARTICLE 123-*BIS*, PARAGRAPH 1, LETTER B), CFA)

At the Report's Approval date, there were no restrictions to the free transfer of Avio ordinary shares imposed by statutory clauses or conditions of issue, subject to that outlined below.

¹ The Avio S.p.A. Sponsor Warrants may be exercised subsequently to the Effective Merger Date, within 10 years from such date, on condition that the official Avio post-Merger ordinary share price is equal or greater than Euro 13 on at least one open trading day.

Space Holding entered into a lock-up agreement with Space2 with respect to the ordinary shares resulting from the conversion of special shares, as follows: with regard to the ordinary shares resulting from the conversion of special shares upon occurrence of the other events indicated at Article 5 of the By-Laws, the lock-up agreement shall have a term of 6 months from the relative conversion, subject to the fact that, if the conversion takes place within 12 months from the Effective Merger Date, the lock-up agreement shall be considered as entered into until the latter between a) 12 months from the Effective Merger Date and b) 6 months from the relative conversion. As part of the agreements reached for the Transaction, In Orbit entered into a lock-up agreement with respect to the ordinary shares assigned to In Orbit in exchange as part of the Merger, for a period of 24 months from the Effective Merger Date.

As per the Shareholders' Agreement, Leonardo entered into a lock-up agreement for the ordinary shares assigned to Leonardo in exchange as part of the Merger, for a period of 24 months from the Effective Merger Date.

There are no limits to holding shares of the company, nor any clauses to restrict becoming a shareholder.

2.3 SIGNIFICANT HOLDINGS (AS PER ARTICLE 123-BIS, PARAGRAPH 1, LETTER C), CFA)

The ordinary shares of the Company are traded within the management system authorized pursuant to the CFA.

At the Report approval date, the company is an SME; therefore, pursuant to Article 120, paragraph 2 of the CFA, the significance threshold for the purposes of the communication obligations of significant shareholdings is equal to 5% of the voting share capital.

Based on the communications received as per Article 120 of the CFA and the internal company assessments concerning the effect of the dilution from the conversion of the special shares and market warrants of Avio, the shareholders who, at the Report approval date, have holdings of above 5% of the voting share capital of the Issuer, directly or indirectly, including through nominees, trusts and subsidiaries, are reported in the table below:

SIGNIFICANT SHAREHOLDINGS		
Shareholder	% of ordinary share capital	% of voting share capital
Leonardo S.p.A.	25.88	25.88
Space Holding S.p.A.	5.60	5.60
Amundi Asset Management	5.92	5.92

2.4 SPECIAL CONTROL RIGHTS (AS PER ARTICLE 123-BIS, PARAGRAPH 1, LETTER D), CFA)

The company has not issued shares which confer special controlling rights.

2.5 VOTING RIGHTS MECHANISM FOR ANY EMPLOYEE SHARE OWNERSHIP SYSTEM (AS PER ARTICLE 123-BIS, PARAGRAPH 1, LETTER E) OF THE CFA)

At the Report approval date, the company had not adopted any employee share ownership system.

2.6 VOTING RIGHTS RESTRICTIONS (AS PER ARTICLE 123-BIS, PARAGRAPH 1, LETTER F), CFA)

Each ordinary share attributes voting rights without limitations.

2.7 SHAREHOLDER AGREEMENTS (AS PER ARTICLE 123-BIS, PARAGRAPH 1, LETTER G), CFA)

As part of the transaction, on March 31, 2017 Space2 (now Avio S.p.A.) and Leonardo signed the Shareholders' Agreement, which entered into force on the Effective Merger Date and with a duration of 24 months.

The Shareholder Agreement concerns the equity interest in Avio that Leonardo shall hold on the Effective Merger Date, which equates to 28.29% of the share capital and 28.61% of voting rights.

Commitments pertaining to the establishment of Avio Board Committees

The Shareholders' Agreement contains provisions for the establishment of the committees of Avio's Board of Directors with effect from the Effective Merger Date.

In particular, pursuant to the provisions of the Shareholders' Agreement, starting from the Effective Merger Date, the following internal committees shall be established within the Board of Directors, which shall perform an advisory function with respect to the Board's activities and consist mainly of independent members, from whom a Chair shall be appointed:

- (i) the Appointments and Remuneration Committee, which shall perform an advisory role with respect to the appointment of Avio's top managers - including the Chair of the Board of Directors and the Chief Executive Officer - consisting of 3 members, 1 of whom appointed by Leonardo and 2 (one of whom shall act as the Chair) - shall be independent directors appointed by Space2 (now Avio S.p.A.);
- (ii) the Risk, Control and Sustainability Committee, whose chairperson shall be appointed by Leonardo;
- (iii) the Related Parties' Committee;
- (iv) The Investment Committee, which shall meet at least on a quarterly basis also in order to proceed with the so-called "business review" and shall perform an advisory role with respect to (a) the budget, (b) the business plan and (c) major corporate investments and investments and corporate transactions with such characteristics as to substantially change the activity and the business and shall be chaired by a member appointed by Leonardo and consist of the Chief Executive Officer and another independent member; and
- (v) the Golden Power Strategic Committee, which shall have an advisory role with respect to strategic activities that are relevant to national security and the management of Golden Power Regulation issues, and shall consist of a member appointed by Leonardo, the Chair of the Board of Directors or the Chief Executive Officer and an independent member.

Agreements pertaining to outstanding ordinary shares in exchange

In compliance with the Shareholders' Agreement, Leonardo entered into the aforementioned lock-up agreements.

Pursuant to Article 122 of CFA, on April 7, 2017 the content of the Shareholders' Agreement was published in an excerpt in the daily newspaper "Il Giornale", in compliance with Article 129 of the Issuers' Regulations, and key information about the Shareholders' Agreement was published in line with applicable legislation

2.8 CHANGE OF CONTROL CLAUSE (AS PER ARTICLE 123-BIS, PARAGRAPH 1, LETTER H), CFA) AND STATUTORY PROVISIONS CONCERNING PUBLIC PURCHASE OFFERS (ARTICLE 104, PARAGRAPH 1-TER AND 104-BIS, PARAGRAPH 1, CFA)

Change of control clauses

At the Report approval date, various agreements on the space programmes in which the Avio Group operates as sub-contractor and prime contractor were in place.

Some of the aforementioned agreements entered into by the Incorporated Company and other Avio Group companies with the European Space Agency, the Italian Space Agency and Arianespace S.A. and launcher market operators may entail, *inter alia*, clauses to govern the effects of a change in Avio's ownership structure (so-called "change of control" clauses), based on which (i) Avio may be required to notify a change in its ownership structure to its counterparties and (ii) contractual counterparties may be entitled to amend certain contractual rights and/or terminate the relevant agreements and/or request the transfer of specific know-how.

Statutory provisions in relation to Public Purchase Offers

Pursuant to Article 14 of the By-Laws, if Avio's shares are subject to a public purchase offer/change of control bid, the Board of Directors reserves the right to resolve, with no need for Shareholders' Meetings' authorisation, on (i) the performance of any action or transaction, including looking for higher and competitive bids and/or (ii) the implementation of decisions adopted before the publication of the notice pursuant to Article 102 of the CFA and not yet fully or partly implemented, also where the activities referred to under points (i) and (ii) above may hinder the objectives of the bid.

2.9 POWER TO INCREASE THE SHARE CAPITAL AND AUTHORISATION TO PURCHASE TREASURY SHARES (AS PER ARTICLE 123-BIS, PARAGRAPH 1, LETTER M), CFA)

2.9.1. Share capital increases

In compliance with Article 5 of the By-Laws, the Board of Directors was granted - pursuant to Article 2443, paragraph 1, of the Italian Civil Code - for the maximum period of five years from the date of registration of the By-Laws on the Companies' Registry, powers to increase the share capital in a non-divisible manner, against payment and with exclusion of the pre-emption right, in accordance with Article 2441, paragraph 4, clause one, of the Italian Civil Code, for a maximum amount of Euro 9,076,167, through the issue in one or more tranches of a maximum number of ordinary or preferential shares or, in any case, with rights other than those enshrined in already issued shares or shares and financial instruments provided for by Article 2349 of the Italian Civil Code, equal to 2,316,391, with rights, reserved, (i) in the case of hostile public bids or bids initiated by competitors of the Company, only to entities in which the Italian State directly or indirectly holds at least 20% of the share capital or (ii) in all other cases, to entities identified by the Board of Directors with the favourable vote of at least all directors in office less one. The unit price of the

aforementioned shares (including any premium) shall not be lower than the market value of the shares. The Board motions on the exercise of the power of attorney shall identify the entities to which the options to subscribe the share capital increase/s shall be assigned, shall set the subscription price based on the market value of the shares and a specific deadline for the subscription and shall provide, pursuant to Article 2439, second paragraph, of the Italian Civil Code, that, when the resolved increase is not subscribed by the deadline set, the share capital shall be increased by an amount (excluding any premium) equal to the subscriptions received up to such deadline.

At the Report approval date, the Board had not implemented this power, even partially.

2.9.2 Treasury shares

At the Reporting date, the Shareholders' Meeting of the company had not authorised any treasury share buyback programmes and the company did not have any treasury shares in portfolio.

[It should be noted that in its meeting of March 14, 2019, the Avio Board of Directors approved to request authorisation from the Shareholders' Meeting of April 29, 2019, to purchase treasury shares as per Article 2357 and subsequent of the Civil Code. More detailed information is available in the Board of Directors' Explanatory Report to the Ordinary Shareholders' Meeting. This report will be published, pursuant to Article 73 of the Issuers' Regulation, on the website www.avio.com, "*Corporate Governance*" section].

2.10 MANAGEMENT AND CO-ORDINATION (AS PER ARTICLE 2497 AND SUBSEQUENT AMENDMENTS OF THE CIVIL CODE)

At the Report approval date, the company was not subject to management and co-ordination.

At the Report approval date, the company was not controlled by any entity pursuant to Article 93 of TUF.

The information required by Article 123-*bis*, paragraph 1, letter i) of the CFA ("*the agreements between the company and directorswhich provide indemnity in the case of resignation or dismissal from office without just cause or termination of employment following a public purchase offer*") is illustrated in the Remuneration Report, published as per Article 123-*ter* of the CFA and Article 84-*quater* of the Issuers' Regulation.

The information required by Article 123-*bis*, paragraph 1, letter l) of the CFA) relating to the "*applicable regulations concerning the appointment and replacement of directors (.....), in addition to the amendment of the By-Laws if differing from applicable law and regulations*" is illustrated in the section of the Report concerning the Board of Directors (Section 4.1).

3. Compliance (as per Article 123-*bis*, paragraph 2, letter a), CFA)

Avio has formally adopted the Corporate Governance Code, which is accessible to the public on the website of the Corporate Governance Committee at <https://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/codice2018clean.pdf>. The company's Board of Directors adopted the principles contained in the Code, also aligning its governance system to regulatory provisions.

With respect to the non-adoption of one or more recommendations of the Code, see the detail of the various sections of this Report.

The Issuer and its strategic subsidiaries are not subject to non-Italian legal provisions that influence the Issuer's corporate governance structure.

4. Board of Directors

In accordance with current regulations for companies with listed shares on regulated markets and as per the recommendations of the Self-Governance Code, the Board of Directors is central to the governance system.

Article 14 of By-Laws establishes that the Board shall have the widest powers of ordinary and extraordinary administration of the company, with the power to carry out all acts it deems appropriate for attaining the corporate scope, with the sole exception of those attributed exclusively by law to the Shareholders' Meeting. The Board of Directors, in accordance with Article 2365, paragraph 2 of the Civil Code is also empowered to pass the following resolutions, without prejudice to the concurrent competence of the Shareholders' Meeting. (i) the opening and closing of secondary offices; (ii) the reduction of the share capital as a result of a return of shares; (iii) updating the by-laws in accordance with the law; (iv) transfer of the registered office within Italy; (v) the indication of which Directors may represent the Company. (vi) the indication of which Directors may represent the Company.

As per Article 11.1 of the By-Laws, the Board of Directors shall appoint a Chair from its membership, if the Ordinary Shareholders' Meeting has not already done so. The Board is also entitled to appoint a Secretary, who may also be external to the Company, upon a proposal from the individual chairing the meeting.

Under Article 12.2 of the By-Laws, the Board may delegate some of its powers to an Executive Committee, determining the limits of the mandate, as well as the number of members and the operating procedures. The Board may appoint one or more executive directors, granting them the relevant powers. Moreover, the Board of Directors may also establish one or more committees with advisory, investigating, proposing or control functions, vested with the powers set out by the Board of Directors. The Board of Directors may also appoint General Managers, defining their powers and granting power of attorney to third parties for certain acts or categories of acts.

Pursuant to Article 12.1 of the By-Laws, the matters and the activities on which the Italian Government has a right to object pursuant to the Golden Power Regulation applicable to the companies operating in the defence and national security sectors fall under the exclusive remit of the Board of Directors and may not be delegated.

4.1 APPOINTMENT AND REPLACEMENT (AS PER ARTICLE 123-BIS, PARAGRAPH 2, LETTER L), CFA)

As per Article 11 of the By-Laws, Avio is managed by a Board of Directors consisting of 9 (nine) members or 11 (eleven) members, as decided by the Shareholders' Meeting. The Directors remain in office for 3 (three) years, unless a lesser term is set out by the appointment motion, with the term concluding on the date of the Shareholders' Meeting called to approve the financial statements pertaining to the last financial year of their term, and may be reappointed.

All directors shall possess the eligibility and standing requirements provided for by law and other applicable provisions, as well as the integrity requirements provided for by Italian

Ministerial Decree No. 162 of March 30, 2000 and the applicable legislation in force. Pursuant to Article 147-ter, paragraph 4 of the CFA, at least two Directors must also possess the independence requirements set out therein.

As per applicable legislative and regulatory provisions for listed companies, Article 11 of the By-Laws establishes that the Shareholders' Meeting appoints the Board of Directors on the basis of slates presented by the shareholders, in accordance with the procedure outlined below, except where otherwise established by obligatory laws or regulations.

Shareholders can present a slate for the appointment of Directors, in addition to the departing Board of Directors, who, alone or together with other presenting shareholders, have a shareholding at least equal to that determined by Consob in accordance with applicable provisions and regulations. Ownership of the minimum shareholding is determined according to the shares that are registered in favour of the shareholder on the day in which the slates are filed with the issuer; certification can also be made subsequent to the filing provided that it is within the deadline for the publication of the slates.

The slates are filed at the registered office, and subsequently published, in accordance with the methods and the deadlines provided for by applicable law.

The slates provide for a number of candidates of no less than 2 (two) and not exceeding the number of directors to be appointed, each linked to a progressive number. Each slate shall contain and expressly indicate at least 2 (two) directors considered as per applicable laws and the Corporate Governance Code. The slates containing 3 (three) or more candidates may not be composed of candidates only from the same gender (male or female); these slates should include a number of candidates of the under-represented gender to guarantee the composition of the Board of Directors in accordance with legal and regulatory provisions in relation to gender equality (male or female) rules, rounded upwards.

Each slate must include as an attachment, at the risk of ineligibility: (i) the curriculum vitae of the candidates; (ii) a declaration in which all the candidates accept the candidature, and attest, under their own responsibility, that no grounds for ineligibility and incompatibility exist, as well as the existence of the requirements prescribed by applicable law and the By-Laws for the office of director of the Company and including the declaration on the possession of the independence requirements; (iii) the identity of the shareholders who have submitted the slates and the total percentage of shares held; (iv) any additional or differing declaration, information, and/or documents provided for by applicable law and regulations.

Each Shareholder may not - even through a nominee or a trust - submit, or contribute to submitting, more than one slate or vote upon different slates. Moreover, each candidate may be included only in one slate, under penalty of ineligibility.

At the end of the voting process, the candidates of the two slates that have obtained the highest number of votes shall be elected, on the basis of the following criteria: (i) from the slate obtaining the majority of votes cast (the "**Majority Slate**"), a number of directors equal to the total number of the members to be appointed less 3 (three) shall be taken; and (ii) from the slate obtaining the second highest number of votes cast (the "**Minority Slate**") and not linked even indirectly with the Shareholders that submitted or voted the slate that achieved the highest number of votes, 3 (three) directors shall be taken, including at least one independent director, according to the progressive order of the candidates on the slate.

If the Majority Slate, or the Minority Slate, depending on the case, does not contain a sufficient number of candidates in order to appoint the number of Directors required for each of them based on the aforementioned criteria, the remaining directors to be elected shall be taken from

the other slate, i.e. either the Minority or the Majority Slate depending on the case - in the progressive order in which they appear.

Consideration is not taken of the slates which have not obtained at least half of the votes required for the presentation of slates.

Should two slates receive the same number of votes, a second vote of the Shareholders' Meeting shall decide by considering only the slates receiving the same number of votes.

If, at the end of the vote, the legal and regulatory provisions applicable from time to time on (male and female) gender parity (including rounding up to the next whole number if the implementation of gender quotas does not result in a whole number), the replacement mechanisms detailed below shall apply.

A) The last of the candidates that would have been elected from the Majority Slate and belonging to the most represented gender shall be replaced with the first of the non-elected candidates taken from the same slate and belonging to the least represented gender;

B) Where the replacement under letter A) above does not allow the achievement of the minimum threshold set out by the legal and regulatory provisions applicable from time to time to gender parity (including rounding up to the next whole number if the implementation of gender quotas does not result in a whole number), the last of the candidates that would have been elected in the Minority Slate and belonging to the over-represented gender shall be replaced with the first non-elected candidate taken from the same slate belonging to the under-represented gender;

C) Where the replacements under letters A) and B) above do not allow the achievement of the minimum threshold set out by legal and statutory regulations applicable from time to time on gender parity (including rounding up to the next whole number if the application of gender quotas does not result in a whole number), the second-last candidate that would have been elected from the Majority Slate and belonging to the over-represented gender shall also be replaced, and so on, from the bottom of the ranking, considering only the candidates that would have been elected taken from the aforementioned slate.

Where, as a result of the mechanism detailed above, no independent director is appointed from the Majority Slate, the last non-independent candidate elected from the Majority Slate shall be replaced by the first independent candidate not elected from the aforementioned slate, in progressive order, without prejudice in any case to the compliance with the gender parity provided for by legal and/or regulatory provisions as applicable. If, based on the aforementioned mechanism, no independent director is appointed from the Minority Slate, the same procedure shall be followed, *mutatis mutandis*.

Where only one slate is presented, the Shareholders' Meeting will vote on that slate and, where this slate receives the majority of the votes, all the members of the Board of Directors will be taken from this slate in accordance with applicable law and regulations, including gender equality regulations (rounded upwards where resulting in a fraction).

In the absence of slates, or where only one slate is presented and this slate does not receive the majority of the votes, or where the number of directors elected based on the slates presented is below the number of members to be elected, or where the entire Board of Directors need not be re-elected, or where it is not possible for whatever reason to proceed with the nomination of the Board of Directors as per this article, the members of the Board of Directors will be appointed by the Shareholders' Meeting through ordinary majority, without application of the slate voting mechanism, subject to the obligation to maintain the minimum number of

independent directors established by law and in accordance with applicable law and regulations in relation to gender equality.

In the event that, for whatever reason, one or more directors are no longer sitting, the Board of Directors will proceed with co-option, where possible, from among the non-elected candidates from the slate from which the director leaving office had been elected, according to the progressive numbering of the slate, while maintaining the obligation of a minimum number of independent directors as established by law and these by-laws and in accordance with the applicable law and regulations on gender equality quotas.

In the event of termination of office, for any reason, of more than half of the directors elected by the Shareholders' Meeting, the entire Board shall be deemed to lapse with effect from the moment in which the Board of Directors has been renewed and the directors still in office will urgently call the shareholders' meeting for the election of the new Board of Directors.

* * *

On the Report approval date, the Board had not adopted a succession plan for executive Directors.

4.2 COMPOSITION (AS PER ARTICLE 123-BIS, PARAGRAPH 2, LETTER D) OF THE CFA)

4.2.1. Members of the Board of Directors

The Shareholders' Meeting of Space2 (now Avio S.p.A.) called on December 1, 2016 appointed the Board of Directors, with effect from the Effective Merger Date, having first resolved on the number of members, their term of office and remuneration. In particular, the Shareholders' Meeting of Space2 (now Avio S.p.A.) set the number of the members of the Board of Directors as 9, establishing their term in office as three financial years from the Effective Merger Date. Subsequently, by implementing the slate voting system provided for by Article 11 of the By-Laws, the Shareholders' Meeting appointed the Board of Directors of Avio with effect from the Effective Merger Date until the approval of the Financial Statements at December 31, 2019.

The members of Avio's Board of Directors in office on the Report approval date are listed in the table below.

Name	Place and date of birth	Date of appointment
Luigi Pasquali	Rome, October 2, 1957	December 1, 2016
Stefano Ratti	Uccle (Belgium), July 16, 1968	December 1, 2016
Monica Auteri (*)	Carbonia (CA), July 4, 1970	December 1, 2016
Giulio Ranzo	Rome, January 29, 1971	December 1, 2016
Roberto Italia	Rome, July 5, 1966	December 1, 2016
Vittorio Rabajoli	Milan, September 29, 1958	December 1, 2016

Giovanni Gorno Tempini (*)	Brescia, February 18, 1962	December 1, 2016
Donatella Sciuto (*)	Varese, January 5, 1962	December 1, 2016
Maria Rosaria Bonifacio (*)	Piano di Sorrento, March 2, 1962	December 1, 2016

(*) Independent Director pursuant to Article 148 of the CFA and Article 3 of the Corporate Governance Code

It should be noted that, based on the Shareholders' Agreement:

- (i) Mr. Roberto Italia holds the office of Chairman of the Board of the Issuer;
- (ii) Mr. Giulio Ranzo holds the office of Chief Executive Officer.

The members of Avio's Board of Directors declared themselves in possession of the standing requirements set out for control members with regulation of the Italian Ministry of Justice pursuant to Article 148, paragraph 4, of the CFA.

A short *curriculum vitae* of each Director of Avio, detailing the relevant business management skills and experience, is provided below.

Luigi Pasquali

Born in Rome in 1957, he graduated in Electronic Engineering from "La Sapienza" University in Rome in 1982 and thereafter attended Business Administration and Finance courses at the IRI Management School and the Business Management School of "Bocconi" University of Milan. In 1983, he served in the Italian Army as Engineer Corps Officer responsible for the testing of Defence telecommunications systems, as part of his national military service. In 1984, he joined Selenia as System Engineer for air traffic control systems and networks, managing projects in Europe, Australia and the United States, including the refurbishment and expansion of the network in Germany. In 1995, he joined STET/Telecom Italia, in the international strategy and development area, with responsibility for strategic planning projects for telecommunications services. During this period, he was involved in strategic alliance projects with international telecommunications operators (AT&T, DT). In 2000, he was appointed Business Development Director of Atlanet, a Telefonica de España company specialised in added-value services for companies and, in 2002, he was appointed Director of the Telecommunications Division of Alenia Spazio (currently Thales Alenia Space Italia), with development, marketing and management responsibilities for satellite telecommunication system programmes for Defence and Security, commercial applications

and broadband development. In 2005, he was appointed General Manager of Telespazio, becoming its Chief Executive Officer from February 2013. In June 2008, he was appointed Chairman and Chief Executive Officer of Thales Alenia Space Italia and became Deputy CEO of Thales Alenia Space. He is a member of the Board of Directors of Avio S.p.A. and Thales Alenia Space, as well as a member of the federation of Italian Aerospace, Defence and Security Companies (AIAD). He is enrolled in the registry of Engineers of the province of Rome.

Stefano Ratti

Born in Uccle (Brussels, Belgium) on July 16, 1968. He graduated magna cum laude with a degree in Business Administration at "La Sapienza" University in Rome in 1992. A Chartered Accountant and Auditor, he began his career at Archital Luxfer Ltd (Hampshire, UK), Istituto Bancario San Paolo (New York branch) and IMI Bank Lux SA (Luxembourg), performing Corporate Banking activities. In 1996, he returned to Italy, working for STET

S.p.A., where he was responsible for Telecom Italia's privatisation as Investor Relator and, subsequently, for Mergers and Acquisitions. In 2006, he moved to Finmeccanica, now Leonardo S.p.A., where he is still working in the Strategy and Business Development area, with specific responsibility for Mergers, Partnerships and Strategic Alliances. Stefano Ratti has been a member of the Board of Directors of Avio since 2014. In 2016 - 2017, he was the Chairman of FATA Logistic Systems S.p.A., a company specialised in industrial logistics for the Aerospace, Defence and Security sectors. He is a founding member of the Board of Auditors of the non-profit ALTEG.

Monica Auteri

Born in Carbonia (CI) on July 4, 1970, she graduated *magna cum laude* in Political Sciences at LUISS Guido Carli. She obtained a Ph.D. in Economics Analysis, Mathematics and Statistics of Social Phenomena at “La Sapienza” University in Rome and a Masters and a Ph. D. in Economics at the George Mason University of Fairfax, Virginia (USA), where she worked as a Graduate Research Assistant from 1998 to 2000. She was a researcher at ISAE (Institute for Studies and Economic Analysis) and obtained a research grant at the Economic Theory and Quantitative Methods Department of “La Sapienza” University. As a post-doc researcher, she has been part of the Political Sciences Department of Roma Tre University since 2007 and is currently Associate Professor of Finance Science.

She held various economic and statistical science teaching positions at both Italian and US universities, including Loyola University in Chicago, Duquesne University in Pittsburgh, the University of L’Aquila, the University of Tuscia, the University of Cagliari, “La Sapienza” University and LUISS Guido Carli. She has collaborated with various bodies and research institutes (including ISAE, the Institute for Finance and Local Economy (IFEL) and the Cittalia trust) as a scientific manager and/or as the author of research reports.

Between 2014 and May 2017, she was a Director of BusItalia - Sita Nord, a company of the Ferrovie dello Stato Italiane Group.

Giulio Ranzo

Born in Rome on January 29, 1971, he graduated in Civil Engineering from the La Sapienza University of Rome in 1995, while in 2000 completing a joint Research Doctorate with the University of California San Diego (USA), at which he was a Graduate Research Assistant between 1996 and

1999. He has been the Chief Executive Officer and General Manager of Avio since October 2, 2015. Previously, he was the Strategies, Marketing and Government Affairs Director at Avio Aero. He joined Avio in 2011, holding various positions such as Group Strategy Manager (2011-2013), Investor Relations Manager (2012) and Director (2013). He in addition managed Avio’s Stock Exchange listing process in 2011-2012, the disposal to General Electric Aviation in 2013 and the post-merger integration in 2014. From 2011 to 2013, he sat on the Board of Directors of Europropulsion, the space propulsion joint venture between Safran and Avio. Between 2007 and 2011, he was the Finance Director and General Co-Manager of Italian operations at Cementir Holding, the construction materials enterprise. He began his career at

Booz Allen Hamilton, a leading Aerospace and Defense strategic consultancy firm, acting as Associate, Senior Associate and Principal between 2000 and 2007. During these years, he developed strategic projects for leading European Groups operating in the Civil Aerospace and Military, Technologies and Space Launchers, Defense Electronics, Business Jets and General Aviation sectors.

Roberto Italia

Roberto Italia graduated in Economics and Commerce *magna cum laude* from the LUISS, Rome in 1990 and began working with the STET/Telecom Italia group. After achieving an MBA With Distinction in 1994 from INSEAD, Fontainebleau, he began working in the alternative equity sector, firstly with Warburg Pincus, thereafter with Henderson Private Capital and following that with the European group Cinven. After founding in 2013 Red Black Capital and Space Holding, he promotes and executes growth capital investments in private and listed companies in Continental Europe. He is a director at many Italian and overseas companies.

Vittorio Rabajoli

Born in Milan on September 29, 1958. He graduated in Business Administration from the University of Turin in 1983. In 1984 joined Fiat Avio in the Administration, Finance and Control division, undertaking executive roles in the Control area, until his appointment as CFO of what by then had become the Avio Group in 2003. In the subsequent years, he managed the delicate change of control of Avio, which, through major leverage buy-out transactions, exited the Fiat Group to join a private equity fund: Carlyle initially (between 2003 and 2007) and Cinven subsequently (between 2007 and 2013). In 2013, he was involved in the disposal of the Aviation business to General Electric and concluded his experience as CFO of the Avio Group. From 2014, he has been working with the current Avio as Senior Advisor to Top Management on specific projects, such as the restructuring of the former Avio Space Division into an independent company, some finance projects, the company's Stock Exchange floatation and the Cinven fund's divestment from Avio. In October 2016, he became the Chairman of the newly incorporated IN ORBIT S.p.A., held by Avio managers and which in March 2017 acquired the holding in Avio S.p.A. sold by Cinven. In April 2017 on Avio S.p.A.'s listing the MTA of Borsa Italiana, he was appointed to the Board of Directors of Avio S.p.A. Finally, from April 2017 to April 19, 2018, he was the Chairman of the Board of Directors of ELV S.p.A. (now Spacelab), held 70% by Avio and 30% by the Italian Space Agency, which develops, produces and distributes the Vega space vehicle.

Giovanni Gorno Tempini

He has been the Chair of Fondazione Fiera Milano since 2016. He is also a Board Member of IntesaSanPaolo Spa, Avio S.p.A.; Willis Tower Watson Spa, Università LUISS and FIRC (Italian Cancer Research Institute). He is also Industry Advisor for Italy for the Permira Private Equity Fund and, from September, has been an Advisor of Partners S.p.a. He is also a Member of the Scientific Committee of Fondazione Aristide Merloni, is on the Board of Assonime and a member of the General Council of AIFI (Italian Private Equity and Venture Capital Association).

Giovanni Gorno Tempini is a professor at the MBA Program of the SDA Bocconi School of Management and non-tenured professor of Finance at the L. Bocconi University of Milan and Ca' Foscari University in Venice.

Since January 2014, he has served as a member of the Scientific Committee of the Ca' Foscari. He was Chief Executive Officer of "Cassa depositi e prestiti" S.p.A. between May 2010 to July 2015.

He was Chair of the Italian Strategic Fund from August 2011 to July 2015 and Chief Executive Officer of CDP Reti Spa from December 2014 to July 2015. Apart from the duties associated with office, in both cases, he played a key role in opening the capital of the two companies to international institutional investors.

Previously, he was General Manager and Board Member of the Mittel Group between November 2007 and May 2010. During this time, he also held the office of Deputy Chair of Sorin S.p.A., Chair of Hopa Spa and Board Member of A2A S.p.a.

From 2001 to 2007 he worked for the Intesa Sanpaolo Group, as Head of Investment Banking and Structured Finance and Chief Executive Officer of Banca Caboto (currently Banca IMI) from 2001 to 2005. From 2006 to 2007 he managed the Group's Finance and Treasury departments.

He started his career at JP Morgan in 1987, in the Global Markets sector, holding various executive roles at JP Morgan in Milan and London, with responsibility for Italy and EMEA.

He was also Chairman of the "Technical Finance Commission" of ABI (Italian Banking Association) from 2006 to 2007, a Director of Borsa Italiana S.p.A. from 2001 to 2007, of MTS (European Bond Exchange) from 2001 to 2006, of EuroMTS from 2002 to 2006 and of ISDA (International Swaps and Derivatives Association) from 2006 to 2007, Director of AIFI (Italian Private Equity and Venture Capital Association) until May 2010.

He was non-tenured professor at LIUC University in Castellanza (Varese) from 2004 to 2010.

He was member of the Board of Directors of the Collegio San Carlo in Milan.

Giovanni Gorno Tempini graduated in Business Administration from the Luigi Bocconi University in Milan in 1987.

Donatella Sciuto

Donatella Sciuto is the Vice Chancellor of the Milan Polytechnic, in charge of research and international relations. She is the Ordinary Professor of Processing Systems at the Electronics, Information and Bioengineering Department. She was appointed IEEE Fellow for her scientific contribution in "embedded systems design".

She gained a degree in Electronic Engineering from Milan Polytechnic and a Ph.D. in Electrical and Computer Engineering from the University of Colorado, Boulder. She has received a Masters in Business and Administration from the Business Management School of Bocconi University.

Since 2013, she has been a member of the Superior Council of the Bank of Italy and Chairperson of the Supervisory Council of the Milan Branch. She is a member of the scientific council of the Training School of the Security Information System of the Italian Republic. Since 2017, she has been a member of the Board of Directors of AVIO S.p.A and Raiway S.p.A..

She was Vice President of the Finance Council on Electronic Design Automation of IEEE (the largest technological professional organisation in the world) from 2008 to 2010, then President Elect and thereafter President from 2011 to 2013.

Maria Rosaria Bonifacio

Rosaria Bonifacio was born in Piano Di Sorrento on March 2, 1962. She gained a degree in Political Sciences, then a Master in Business Administration at the Enrico Mattei Institute in 1986.

She began her career at Enichem in the HR department and then held a number of executive positions in the same area of various multinational companies. She has lived in the United States, Sweden and Finland. In 2001, she was appointed Human Resources Director of Ericsson Italia S.p.A., in 2006 Human Resources Director for South-East Europe at Ericsson. In 2008, she moved to Sweden, where she took over responsibility for human resources of the Global Service Business Unit, with a turnover of around Euro 10 billion and approx. 40,000 employees, and in 2014 transferred to Finland to join Nokia, becoming Human Resources Manager for the Mobile Broadband Business Unit, with approx. Euro 7 billion of revenues and 22,000 employees. Currently she works at Nokia, in charge of Human Resources for the Business Software Unit. In her various roles, she has been responsible for change management programmes, particularly in the area of mergers and acquisitions: the acquisition of the H3G business unit in Italy on behalf of Ericsson S.p.A., the in-sourcing of the Sprint operator in the USA with around 6,000 employees on behalf of Ericsson. She managed around 20 in-sourcings of network services into Ericsson at global level. As part of her most recent experience at Nokia, she oversaw the setting up of the Mobile Network Division after the merger with Alcatel Lucent.

The table below presents the structure of the Board of Directors and the Committees at the date of this Report.

STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors													Control, Risks and Sustainability Committee		Appointments and Remuneration Committee		Strategic Activities Committee (a)		Investments Committee (a)	
Office	Members	Year of birth	Date of first appointment *	In office from	In office until	Slate **	Exec.	Non Exec.	Ind. Code	Ind. CFA	No. other offices ***	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
Chairman	Roberto Italia	1966	1.12.2016	B.o.D. 10.04.2017	Approv. 2019 Accounts	U		X			11	5/5								
Chief Executive Officer ●	Giulio Ranzo	1971	1.12.2016	B.o.D. 10.04.2017	Approv. 2019 Accounts	U	X				3	5/5					1/1	C	2/2	M
Director	Luigi Pasquali	1957	1.12.2016	B.o.D. 10.04.2017	Approv. 2019 Accounts	U		X			6	5/5							2/2	C
Director	Vittorio Rabajoli	1959	1.12.2016	B.o.D. 10.04.2017	Approv. 2019 Accounts	U		X			2	5/5	8/8	M						
Director	Stefano Ratti	1968	1.12.2016	B.o.D. 10.04.2017	Approv. 2019 Accounts	U		X			-	5/5			4/4	M	1/1	M		
Director	Monica Auteri	1970	1.12.2016	B.o.D. 10.04.2017	Approv. 2019 Accounts	U			X	X	-	5/5	8/8	C						
Director	Maria Rosaria Bonifacio	1962	1.12.2016	B.o.D. 10.04.2017	Approv. 2019 Accounts	U			X	X	-	4/5			4/4	M				
Director	Donatella Sciuto	1962	1.12.2016	B.o.D. 10.04.2017	Approv. 2019 Accounts	U			X	X	3	5/5	8/8	M			1/1	M		
Director	Giovanni Gorno Tempini	1962	1.12.2016	B.o.D. 10.04.2017	Approv. 2019 Accounts	U			X	X	5	5/5			4/4	C			2/2	M
Number of meetings held in the year: 5				Risks Control and Sustainability Committee: 8				Appointments and Remuneration Committee: 4				Strategic Activities Committee (a): 1				Investments Committee (a): 2				

Quorum required for the presentation of slates by minority shareholders for the election of one or more members (as per Art. 147 CFA): 4.5%

The following symbols must be indicated in the "Office" column:

- This symbol indicates the Director in charge of the internal control and risk management system.

NOTE

◇ This symbol indicates the main person responsible for the Issuer's operative management (Chief Executive Officer or CEO).

* The first appointment of each Director refers to the date on which the Director was appointed for the first time to the Board of the Issuer.

** This column indicates the slate from which each Director originated ("M": majority slate; "m": minority slate; "BoD": slate presented by the BoD; "S": single slate).

*** This column indicates the number of offices a Director or Statutory Auditor holds in other companies listed on regulated markets, including foreign markets, in holding, banking, insurance or large enterprises. The report on corporate governance indicates all offices held.

(*) This column indicates the percentage of attendance of the Director in relation to the number of BoD and Committee meetings (indicates the number of meetings attended compared to the amount they could have attended).

(**) This column indicates the position of the Director on the Committee: "C": chairperson; "M": member;

(a) Committee created on a voluntary basis, considering the specific nature of the Issuer.

4.2.2. Diversity policies

In accordance with the provisions of Article 2.P.4 of the Self-Governance Code, Avio has applied diversity criteria, including gender criteria, to the composition of the Board of Directors, in line with the priority objective of ensuring sufficient skills and professionalism in its members.

Pursuant to Article 11.6 of the Avio By-Laws and in accordance with Application Criterion 1.C.1, letter i) (4) of the Self-Governance Code, slates containing 3 (three) or more candidates may not be composed of candidates only from the same gender (male or female); these slates should include a number of candidates of the under-represented gender to guarantee the composition of the Board of Directors in accordance with legal and regulatory provisions in relation to gender equality (male and female), provided that should the application of the gender equality quota not result in a full number, this should be rounded up to the next unit.

Moreover, in accordance with the provisions of Application Criterion 1.C.1, letter g) of the Self-Governance Code, the Avio Board of Directors carries out an evaluation, at least once a year, on the functioning of the Board and of its Committees, and also in relation to its size and composition, taking account also of the professional qualifications, experience - also of a managerial nature - and the gender balance of its members, in addition to their years of service, also in relation to the diversity criteria.

It should also be noted that, in order to implement the provisions of Article 123-*bis*, paragraph 2, letter d-*bis*) of the CFA, as supplemented by Article 10 of Legislative Decree 254/2016, which calls upon issuing companies to adopt policies in terms of diversity applied in relation to the composition of administrative and control bodies with regard to aspects such as age, gender composition and training and professional backgrounds, the Avio Board of Directors adopted the “Diversity Policies for Control Bodies” on March 15, 2018. These Policies were subsequently updated with the Board of Directors’ motion in the meeting of March 14, 2019.

In its Diversity Policy Avio recognises and welcomes the benefits from diversity in all forms, including gender, age, qualifications, expertise and training and professional background. In particular, Avio defines and formalises the criteria and tools adopted in the Diversity Policies to ensure a suitable level of diversity in its corporate boards with the aim, *inter alia*, of orienting applications put forward by the shareholders during the renewal of corporate boards and ensuring suitable consideration of the benefits that can be gained from a uniform composition, aligned to the various diversity criteria.

The Policies seek to (i) guarantee greater awareness with regards to the needs and requirements of the stakeholders, (ii) make the decision-making process more efficient and extensive; (iii) improve the quality of discussion among the Corporate Boards on the basis of general strategic or specific technical expertise; (iv) enable the members of the Corporate Boards to constructively discuss management’s decisions.

In any case it should be noted that Avio closely focuses on the issues of diversity and inclusion irrespective of that set out in the primary regulation.

Copies of the Codes are available on the website www.avio.com, “Corporate Governance” section.

4.2.3 MAXIMUM NUMBER OF OFFICES PERMITTED IN OTHER COMPANIES

At the Report approval date, the Board of Directors has not defined the general criteria relating to the maximum number of offices of administration and control in other companies that may be considered compatible with the proper carrying out of their duties as directors of Avio. This is as the Board was considered appropriate to leave it up to the individual Directors to assess such compatibility.

The Board’s self-assessment process for 2018 confirmed the positive assessment in terms of the functioning of the Board and its Committee, also with regards to this aspect.

The company intends to comply with the recommendations contained in Application Criterion 1.C.2 of the Self-Governance Code, relating to the obligation of the members of the Board of Directors to accept the office of director only when they believe they can dedicate the necessary time to diligently carry out their duties, also taking into account their work and professional commitments and offices held in financial, banking and insurance companies or companies of significant size listed on regulated markets (including abroad).

With respect to the offices held by the Issuer's directors who, on the Report approval date, held offices in companies listed on regulated markets (including overseas), in finance, banking, or insurance or large enterprises other than the Issuer, reference should be made to the table below.

Name	Company	Office in the company	Status
Luigi Pasquali	Telespazio S.p.A.	Chief Executive Officer	In office
	Thales Alenia Space S.a.s.	Board Member	In office
	Thales Alenia Space Italia S.p.A.	Director	In office
	AIAD	Director	In office
	ESOA (International Ass.)	Board Member	In office
	Eurospace (International Ass.)	Vice Chairman of Council	In office
Stefano Ratti	-	-	-
Monica Auteri	-	-	-
Giulio Ranzo	Europropulsion S.A. (*)	Director	In office
	Regulus S.A. (*)	Director	In office
	Arianespace S.A	Director	In office
Roberto Italia	Billy’s Sp. Zoo.	Chairman	In office

	Cinven Luxco 1 S.A.	Director	In office
	Cinven Luxco 2 S.A.	Director	In office
	FCP Manco S.a.r.l.	Director	In office
	Lastminute.com Group B.V.	Director	In office
	Red Black Capital S.A.	Director	In office
	Solar Investment Group B.V.	Director	In office
	Space Holding S.r.l.	Director	In office
	Cavotec S.A.	Director	In office
	Space Capital Ventures S.A.	Director	In office
	Vinum et Alia Internationalis S.A.	Director	In office
Vittorio Rabajoli	In Orbit S.p.A.	Chairman of the Board of Directors	In office
Giovanni Gorno Tempini	FIRC (Italian Cancer Research Institute)	Director	In office
	Fondazione Fiera Milano	Chair of the General Council and the Executive Committee	In office
	IntesaSanPaolo S.p.A.	Director	In office
	Willi Tower Watson S.p.A.	Director	In office
	LUISS university	Director	In office
Donatella Sciuto	Bank of Italy	Member of the Superior Council	In office
	Rayway S.p.A.	Independent Director	In office
Maria Rosaria Bonifacio	-	-	-

4.2.3 Induction Programme

The directors received an induction that enabled them to acquire adequate knowledge of the sector in which the Issuer operates, of corporate dynamics, of the principles of correct risk management, as well as of the regulatory and governance reference framework, in compliance with the 2.C.2 Implementation Criterion of the Corporate Governance Code.

4.3 ROLE OF THE BOARD OF DIRECTORS (AS PER ARTICLE 123-BIS, PARAGRAPH 2, LETTER D), OF THE CFA)

As per Article 13 of the By-Laws, the Board of Directors shall meet either at the company's registered office or at another location, as long as in Italy.

The Board of Directors is called by the Chair or, in his/her absence, by the Vice Chair if appointed, or whenever the Chief Executive Officer submits a relevant written request, detailing the issues on the agenda, with notice to be sent - by registered letter, telegram, fax or e-mail with acknowledgement of receipt - to the domicile of each Director and Standing Auditor at least 5 (five) days before the date set for the meeting; in the event of urgency, the Board of Directors can be called on the date prior to that set for the meeting. The meetings of the Board of Directors and its motions are valid, even without formal calling, where all the directors and statutory auditors in office are present. If the absence of the Chair, the meeting shall be chaired by the oldest Deputy Chair, if appointed, or, in his/her absence, by the oldest Chief Executive Officer, where appointed or, in his/her absence, by the director appointed by the majority of attendees.

Meetings of the Board of Directors may also be held by audio or video conference, provided that: (i) the Chairperson and the Secretary, if appointed, are present in the same location, who will write and sign the minutes, verifying that the meeting was held in that location; (ii) the Chairperson of the meeting is able to verify the identity of the participants, direct the course of the meeting and witness and announce the results of the vote; (iii) that the person taking the minutes is able to adequately observe the events of the meeting that is the subject of the minutes; and (iv) that participants are able to follow the discussion and the simultaneous voting on the matters on the agenda, as well as view, receive or transmit documents.

In addition to the powers expressly reserved to the Board of Directors pursuant to the law and the By-Laws, the regulation applicable on the Report approval date provides that the Board of Directors shall:

- a) examine and approve the strategic, industrial and financial plans of Avio and the Group to which it belongs, periodically monitoring their implementation;
- b) define Avio's corporate government system and the Group's structure;
- c) define the nature and level of risk compatible with the strategic objectives of the company, including in their assessments all risks considered significant with regard to the sustainability of the medium/long-term operations;
- d) evaluate the adequacy of the organisational, administration and accounting system of the company and of its subsidiaries having strategic importance, with particular reference to the internal control and risk management system.
- e) set out the timing, at least quarterly, with which the delegated bodies shall report to the Board on the activities performed in the exercise of their delegated powers;
- f) assess the general operational performance, taking into account, in particular, the information received from executives, as well as periodically comparing the results with the budgets;
- g) resolve on Avio's transactions and those of its subsidiaries when the aforementioned transactions have particular strategic, economic, asset or financial relevance for the company; to this end, lay down general criteria for the identification of significant

transactions;

- h) carry out, at least once a year, a board evaluation on its functioning and that of its Committees, and also in relation to its size and composition, taking account also of the professional qualifications, experience - also of a managerial nature - and the gender balance of its members, in addition to their years of service. If the Board relies on the services of external consultants for such self-assessment, the report on corporate governance shall provide information about the identity of the aforementioned consultants and the other services they provide to the company or to companies controlled by it;
- i) subject to the provisions of Article 11.3 of the By-Laws, with respect to the possibility of submitting a slate for the appointment of the members of the Board of Directors, taking into account the findings of the assessment under letter h) above, it may provide to the Shareholders, before the appointment of the new Board, guidelines about the managerial and professional profiles whose presence in the Board is deemed appropriate;
- j) in the corporate governance report, it provides information about: (i) its composition, indicating, for each member their relevant category (executive, non-executive, independent), the role performed within the Board, the key professional characteristics, as well as the length in service since first appointment; (ii) the implementation methods of Article 1 of the Corporate Governance Code and, in particular, on the number and average duration of the meetings of the Board, of the executive committee (if established) and of Board committees held during the financial year, as well as on the relevant attendance percentage for each director; (iii) the methods for carrying out the assessment process under letter h) above;
- k) in order to ensure the correct management of corporate information and in compliance with the provisions of Italian Prime Ministerial Decree of November 24, 2016, it shall adopt, upon proposal of the Chief Executive Officer or the Chair of the Board of Directors, a procedure for the internal management and the external communication of documents and information pertaining to Avio, with specific reference to inside information;
- l) provides guidelines on the maximum number of director or auditor positions held in other companies listed on regulated markets (including foreign ones) and banking, insurance, financial or large enterprises that may be considered compatible with the effective performance of the duty of director of Avio, considering the directors' participation at Board committees. General criteria are set out by the Board based on the commitment related to each role (executive director, non-executive or independent), also in relation to the nature and to the size of the companies as well as whether belonging to the Avio Group;
- m) where the Shareholders' Meeting, in order to meet requirements of an organisational nature, authorises a general and prior exception to the prohibition of competition as per article 2390 of the Civil Code, evaluates each situation and reports at the next Shareholders' Meeting. For this purpose, each director informs the board, on the

acceptance of the appointment, of any activities exercised in competition with the issuer and, subsequently, of any significant changes;

- n) assesses whether to implement a succession plan for Executive Directors;
- o) defines Avio's remuneration policy for directors and key executives, in compliance with the recommendations of the Corporate Governance Code;
- p) chooses from within its ranks one or more directors tasked with developing and maintaining an effective internal control and risk management system (“**ICRMS**”); it appoints, upon proposal of the director responsible for the ICRMS and with the prior favourable opinion of the Risk and Control Committee, having heard the Board of Statutory Auditors, the Internal Audit Function Manager; it defines the guidelines for the internal control and risk management system and performs all the other tasks that the Corporate Governance Code recommends to be attributed to the Board of Directors with respect to the ICRMS;
- q) adopts the organisation, management and control model and appoints the relevant Supervisory Board pursuant to Italian Legislative Decree No. 231/2001;
- r) in compliance with the provisions of the Stock Exchange Regulations, approves a calendar of the main corporate events each year, to be published without delay and at least within thirty days from the end of the previous financial year.

In implementation of the above and at the Reporting date, the Board of Directors has, *inter alia*:

- positively assessed the suitability of the organisational, administrative and general accounting structure of the company and of the subsidiaries with strategic importance (which have been identified by principally referring to dimensional criteria (turnover) or by considering the particularity of the market where the subsidiary operates, in Spacelab S.p.A. (formerly ELV S.p.A.), Regulus sa and Secosvim S.r.l., with particular reference to the internal control and risk management system; this assessment was carried out on the basis of information and evidence gathered with the support of the preliminary activity performed by the Control, Risks and Sustainability Committee and with the contribution of the company's management and the Internal Audit Manager;
- assessed the general operational performance, taking into account, in particular, the information received from the Chief Executive Officer, as well as periodically comparing the results with that budgeted;
- set out in a procedure the general criteria to identify transactions which have a significant strategic, economic, equity or financial impact for the company. The following are generally considered significant transactions

- (i) the approval of the budget and the strategic plan;
 - (ii) investments - not included in the budget or the strategic plan - of a value greater than (i) Euro 10 million for property, plant and equipment, and (ii) Euro 10 million for intangible fixed assets and up to Euro 15 million overall per year, as regards (i) property, plant and equipment and (ii) intangible fixed assets, including costs for participation in international collaboration programmes;
 - (iii) acts of disposal relating to holdings or other interests in companies, divisions, businesses or business units of a value greater than Euro 20 million, excluding, in any case, acts of disposal relating to businesses or business units operating in the defence sector and any holdings or other interests held by the company in subsidiaries, associates or investee companies operating in the same sector;
 - (iv) merger or spin-off transactions of the company or of any company under its control which, with reference to the individual merged or spun-off company, are of a value greater than Euro 30 million;
 - (v) the transfer of operational research and development centres abroad;
 - (vi) the transfer, sale, licensing or any other acts of disposal or restrictions on the disposal of production or technological processes, “know-how”, patents, industrial projects and any other intellectual property held by the company or the companies under its control of a value greater than Euro 15 million, provided that, in the defence sector, the company’s intangible assets are excluded regardless of their value;
 - (vii) the transfer, sale, conferment, lease, usufruct, any act of disposal, the creation of constraints and/or liens of any kind of a value greater than Euro 20 million, excluding, in any case, acts of disposal relating to businesses or business units operating in the defence sector and any holdings or other interests held by the company in subsidiaries, associates or investee companies operating in the same sector
 - (viii) the transfer, sale, conferment, lease, usufruct, any act of disposal, the establishment of constraints and/or liens of any kind of a value greater than Euro 20 million, excluding, in any case, acts of disposal relating to businesses or business units operating in the defence sector and any holdings or other interests held by the company in subsidiaries, associates or investee companies operating in the same sector;
- carry out an evaluation on the functioning of the Board and of its Committees, and also in relation to its size and composition, taking account also of the professional qualifications, experience - also of a managerial nature - and the gender balance of its members, in addition to their years of service, with the support of the Legal and Corporate Affairs Department of the company. This assessment was made, requesting each Directors to fill out a questionnaire drawn up by the Legal and Corporate Affairs Department of the company.

The results in this questionnaire were discussed at the [Appointments and Remuneration Committee] meeting of March 14, 2019, establishing that: (i) the size of the Board (9 members as per the By-Law provision permitting 9 to 11 members) appears appropriate, in view of its size and type of operations; (ii) the composition of the Board is equally adequate; (iii) the functioning of the Board and its Committees, outlined in the table above, appears consistent with the size and type of operations of the company and with the powers granted to the Chief Executive Officer.

Commencing from the approval date of the previous Report on March 15, 2018, the Board of Directors met 5 times during the year 2018, with meetings of an average duration of two hours, on the following dates: March 15, 2018, May 10, 2018, June 25, 2018, September 13, 2018 and November 8, 2018 with the participation of approximately 98% of the directors, on average. As regards the current financial year, 4 meetings are scheduled. Each director's participation at the meetings of the Board and its committees are presented in the table at the bottom of Table 4.2.2.

The timeliness and completeness of pre-meeting information is ensured by the Chairperson through the distribution to directors of documentation relating to items placed on the agenda in the days immediately prior to the date scheduled for the Board meeting and, in particular, generally at the same time as the call notice in accordance with the Board of Directors' Regulations. This term was generally respected (in the year 2018, documentation relating to the financial statements for the period was also sent with notice of an average of 5 days). On some occasions, for reasons of confidentiality and urgency, it was only possible to provide information on some items on the agenda during the Board meeting itself. On these occasions, the items were still discussed preliminarily within the spheres of responsibility of the committees established by the Board and in any case, the Chairperson ensured that adequate insights were provided during the Board sessions. The Board's self-assessment process for the financial year 2018 has confirmed the term's substantial appropriateness.

In order to provide appropriate insights on the items on the agenda, participants at Board meetings during 2018 included, among others: the Chief Financial Officer, the General Counsel, the Internal Audit Manager, the Communications and External Relations Manager, the Chairperson of the Supervisory Board as well as those Departments identified in the minutes of the Board's meetings with reference to specific items on the agenda.

4.4 EXECUTIVE BOARDS

As per Article 12.2 of the By-Laws, the Board may delegate part of its powers to an executive committee, determining the limits of the powers of attorney as well as the number of the members and the operating methods, appointing one or more Chief Executive Officers and granting relevant powers to them, without prejudice to the fact that the delegated bodies shall report to the Board of Directors and the Board of Statutory Auditors on a quarterly basis. Moreover, the Board of Directors may also establish one or more committees with advisory, investigating, proposing or control functions, vested with the powers set out by the Board of

Directors. In these cases, the Board of Directors also sets out the composition and the operating methods of the committees established. The Board of Directors may also appoint General Managers, defining their powers and granting power of attorney to third parties for certain acts or categories of acts.

As per Article 12.3 of the By-Laws and on the favourable opinion of the Strategic Activities Committee, the Board of Directors can appoint a manager responsible for strategic activities. The company's Chief Executive Officer, after consultation with the Appointments and Remuneration Committee, will be responsible for the appointment and revocation of executives who, according to the company's organisational structure, report directly to the Chief Executive Officer and for directors with executive powers in the company's subsidiaries.

As per Article 12.4 of the By-Laws, the Chair of the Board of Directors and the Vice Chair/s, if appointed, jointly and severally represent the Company before third parties and in legal proceedings (with the power to appoint lawyers and legal representatives in disputes). The company may also be represented by directors who have been granted powers by the Board of Directors, as well as by General Managers, proxies and lawyers within the limits of the powers granted to them.

4.4.1 Chief Executive Officer

On April 10, 2017, the Board of Directors appointed Mr. Giulio Ranzo as the Chief Executive Officer of the Issuer, assigning the powers indicated below, as modified by Board of Directors' motion of December 21, 2017.

The Chief Executive Officer is the main party responsible for the management of the Issuer.

Powers of the Chief Executive Officer

The Chief Executive Officer is granted the following system of powers and proxies, to be exercised severally, without prejudice to the limitations provided for by the Law, the By-Laws and this resolution:

1. to perform all acts that fall within the object of the company, save for the limitations provided for by law, the By-Laws and this motion;
2. to promote legal actions in the name of the company for debt collection, from anyone and for any reason and title claimed by the company; to file petitions for injunction and precautionary measures, even as a matter of urgency, in the name of the company; to promote and support legal actions in the name of the company, both as the plaintiff or the defendant in any judicial, civil, criminal, administrative, tax or arbitral court and at any stage, state and degree of judgment and, therefore, also before the higher courts and any other or special judiciary, as well as in judgments of revocation and third-party opposition, appeal, foreclosure and disposal at any stage and degree of execution, to file civil actions in criminal proceedings in which the company is the injured party, to appoint and revoke lawyers and defence lawyers including experts; to settle disputes and appoint arbitrators, including out-of-court mediators;

3. to represent the company, with the broadest powers at law and without any limitation, before Italian, foreign, international and supranational States, ministries, regions, provinces, municipalities, public authorities, organisations and institutions, and central and peripheral financial and tax authorities and offices, as well as before any natural and/or legal person;
4. to make, before any judicial authority and in any court, stage, state and degree of judgment, third-party garnishee and third-party seizure statements, fulfilling all applicable legal provisions, with special reference to the provisions of Article 547 of the Code Civil Procedure *et seq.*;
5. to raise protests and serve injunctions, proceed with conservatory and enforcement measures, intervene in bankruptcy proceedings, lodge claims in these bankruptcy proceedings, sign agreements, demand partial and full repayments, intervene in arrangements with creditors and approve or reject them;
6. to represent the company in relation to the labour inspectorate, employer and employee organisations and social security, social insurance, insurance and industrial accident institutions, for all labour relations;
7. up to the amount of Euro 20 million for each individual act and, up to the amount of Euro 20 million in relation to a series of acts carried out under the same transaction, to enter into and sign unilateral deeds and agreements, including of a real estate nature and content, for the fulfilment of any type of infrastructure expenses, in accordance with applicable town-planning and building laws and regulations in respect of the competent authorities, administrations and local authorities, to request and obtain building permits, concessions and authorisations for the construction, extension and renovation of corporate buildings, assuming any consequent obligation, including in relation to the determination, acceptance and payment of indemnities, fees and charges in general, for the purpose of implementing the building construction works in question;
8. up to the amount of Euro 20 million for each individual act, and up to the amount of Euro 20 million in relation to a series of acts carried out under the same transaction, to administer real estate owned by the company or granted to it under rent, lease or loan, with the right to order the execution of works, and enter into, extend and rescind deeds and agreements with any administration, authority and natural and/or legal person;
9. to agree to the reduction and cancellation of mortgages and, in general, of collateral and personal guarantees granted by third parties in the company's favour, even independently of the redemption of credit;

10. up to the amount of Euro 25 million for each individual act, and up to the amount of Euro 25 million in relation to a series of acts carried out under the same transaction, to obtain sureties, endorsements and guarantees in general, including collateral, and to issue or have issued financial guarantees and other guaranteed loans from institutions, credit companies and financial companies as regards the performance of the company's activities;
11. to set up joint ventures, and join and participate in consortia and temporary business associations having a value not exceeding Euro 20 million and to withdraw from them;
12. to acquire and/or carry out acts of disposal relating to corporate holdings or other interests held in companies, businesses or business units of a value not exceeding Euro 20 million, excluding, in any case, acts of disposal relating to businesses or business units operating in the defence sector and holdings or other interests possibly held by the company in subsidiaries, associates or investee companies operating in the same sector;
13. to make investments not already approved during the budget or strategic plan's approval, whose amount does not exceed Euro 10 million for each individual act, Euro 10 million in relation to a series of acts carried out under the same transaction and Euro 15 million overall per year, as regards (i) tangible fixed assets and (ii) intangible fixed assets, including costs for participation in international collaboration programmes;
14. to represent the company in the ordinary and extraordinary shareholders' meetings of subsidiary companies (by exercising relative rights including the right to vote), with the power of representation and authorisation, to this end, to establish legal and authorised representatives pursuant to law;
15. up to the amount of Euro 20 million for each individual act, and up to the amount of Euro 20 million in relation to a series of acts carried out under the same transaction, to purchase, sell and execute any instrument, for cash and futures, on Italian and foreign transferable securities, including shares, share capital assets and bonds and entering into the relative contracts;
16. up to the amount of Euro 20 million for each individual act, and up to the amount of Euro 20 million in relation to a series of acts carried out under the same transaction, to purchase, sell and execute any instrument on real estate, including rent receivable and payable, even if over nine years, with the right to grant and accept mortgages, agree to their reduction, cancellation and waiver and exonerate the conservators of real estate registers from any liability in this regard;
17. up to the amount of Euro 20 million for each individual act, and up to the amount of Euro 20 million in relation to a series of acts carried out under the same transaction, to purchase, sell and trade machinery, plant, equipment and any other movable asset, by entering into, renewing and rescinding contracts for this purpose, as well as to sign orders and any other deed and document, to provide for the execution of orders and deliveries and to assist with testing;

18. to purchase, sell and trade motor vehicles, sign authorisations to drive vehicles owned by the company both in Italy and abroad, deal with any associated customs procedures, and carry out any formalities at public automobile registries, prefectures, driver and vehicle licensing authorities and any other office and competent institution for matriculations, transfers, registrations, transcriptions and annotations;
19. within the company's core operations, to purchase and sell without any amount limits, raw materials, goods, semi-finished products and consumables, and, furthermore, to deal with water and energy supplies, with the right to sign orders and contracts before any entity, company or private individual;
20. within the company's core operations, to purchase and sell products and services without any amount limits and with the broadest negotiating and signatory power;
21. except as provided for in the preceding points 19 and 20, up to the amount of Euro 20 million for each individual act, and up to the amount of Euro 20 million in relation to a series of acts carried out under the same transaction, to enter into, renew, supersede, rescind and terminate contracts for advertising and services in general, collaboration, consultancy, rent, hire, gratuitous bailment, deposit, loan for use, utilities, procurement, supply and execution of works and services, fire insurance, transport, accidents and any other risk; in the event of a claim, to deal with all the associated procedures, including the filing of complaints and the appointment and removal of experts; to request, process, define and collect damage settlements;
22. up to the amount of Euro 20 million for each individual act, and up to the amount of Euro 20 million in relation to a series of acts carried out under the same transaction, to enter into, renew and rescind collaboration agreements with the right to validly engage the company, commission studies and - in any form – the execution of works by signing associated contracts and documents, to confer and revoke professional assignments, and enter into, renew and rescind contracts for intellectual property services;
23. to ask for patent certificates and patents for industrial inventions and utility models, extensions and supplements in Italy and abroad, and assert the company's rights in the field of intellectual property, as well as to request the registration of trademarks, however established in Italy and abroad, by carrying out any consequent requirement;
24. up to the amount of Euro 20 million for each individual act, and up to the amount of Euro 20 million in relation to a series of acts carried out under the same transaction, to purchase trademarks, patents and 'know-how';
25. up to the amount of Euro 15 million for each individual act, and up to the amount of Euro 15 million in relation to a series of acts carried out under the same transaction, to transfer, sell, grant under licence, create constraints and/or liens of any kind and to perform any other act of disposal concerning trademarks, patents, technological processes, 'know-how' and, in general, any intellectual property held by the company or any company under its control, provided that, in the defence sector, the company's intangible assets are excluded regardless of their value;

26. up to the amount of Euro 25 million for each individual act, and up to the amount of Euro 25 million in relation to a series of acts carried out under the same transaction, (i) to negotiate and define credit facilities and financing, usable in any form and currency, including credit facilities and financing usable in current accounts, for portfolio discount, credit facilities including in favour of third parties and in any other form, by signing the corresponding deeds, documents and contracts with banks and credit institutions and any other public or private, Italian, EU or foreign entity; (ii) to make waivers and discharges, as well as to give consent in accordance with the provisions of credit and bank loan contracts to which the company is a party;
27. up to the amount of Euro 25 million for each individual act, and up to the amount of Euro 25 million in relation to a series of acts carried out under the same transaction, to negotiate, obtain, refine and manage in all their phases – by acting on the banking and non-banking financial system, on special credit institutions as well as on the public administration, ministries and public and private, Italian, EU and foreign entities and institutions – medium/long-term financing transactions at an ordinary or subsidised rate, as well as an interest rate subsidy on capital and expense accounts and defining these transactions by entering into and signing the relative deeds; to provide or have provided guarantees, including collateral securities, for such transactions within the limits set out in points 10 and 31;
28. to open and close bank and post office current accounts, and operate on them, (i) in relation to the execution of contractual obligations assumed in accordance with the preceding and following points, without value limits and (ii) in any other case, up to the amount of Euro 20 million for each individual act, and up to the amount of Euro 20 million in relation to a series of acts carried out under the same transaction, also in overdraft, in Italy and abroad, and in any currency, with the right to arrange the granting and use of credit facilities, and to sign cheques, documents and receipts and order wire transfers;
29. to make payments on the company's current accounts with the right, to this end, *inter alia*, to negotiate and endorse collection bills (drafts and promissory notes), money orders, cheques, vouchers, warrants, credit instruments and any other title or effect of trade by signing the corresponding documents, endorsements and receipts;
30. to make payments, including in foreign currency and, in general, to perform any act of disposal of sums, values, credits, trade effects and currencies by obtaining a receipt (i) in relation to the execution of contractual obligations assumed in accordance with the preceding and following points, without value limits and (ii) in any other case, up to the amount of Euro 20 million for each individual act, and up to the amount of Euro 20 million in relation to a series of acts carried out under the same transaction;

31. up to the amount of Euro 25 million for each individual act, and up to the amount of Euro 25 million in relation to a series of acts carried out under the same transaction, to provide collateral securities, endorsements and sureties connected with the company's activity;
32. up to the amount of Euro 20 million for each individual act, and up to the amount of Euro 20 million in relation to a series of acts carried out under the same transaction, to assign receivables with and without recourse;
33. to demand receivables, collect sums and withdraw securities due to the company from anyone and for any reason;
34. to receive and set up, repay and withdraw deposits of sums, stocks, securities pledged as a deposit, as a guarantee, as a cautionary deposit, issuing and receiving discharges and receipts, to carry out any transaction in respect of customs offices, the administration of public debt, and with any office of the deposits and loans fund, for obligations and redemptions of stocks and securities;
35. to fulfil the obligations provided for by laws regulating the circulation of equities and the distribution of dividends, with the right to sign statements, communications and certification attestations;
36. to ensure compliance with all administrative and tax regulations and the requirements to which the company is bound, with the right, to this end, to sign - *inter alia* - statements, declarations, claims, certifications and any act;
37. to make statements to the Chambers of Commerce on resolutions and documents concerning the company;
38. to open and close the company's dependent branches and independent offices in Italy and abroad, and make the prescribed statements;
39. with the exclusion of the post of General Manager of the company, to hire, suspend, dismiss employees, including executives, determining their remuneration, fees and duties and to enter into, amend and terminate employment contracts. It is understood that the company's Chief Executive Officer, after consultation with the Appointments and Remuneration Committee, will be responsible for the appointment and revocation of executives who, according to the company's organisational structure, report directly to the Chief Executive Officer and for directors with executive powers in the company's subsidiaries; to transfer, assign and change duties, job titles, employee categories and grades, including executive grades;
40. to appoint and revoke senior managers and general and special attorneys-in-fact, and confer powers to them within the scope of their responsibilities;
41. to delegate, for all consequent legal purposes, the organisation's responsibility and the management of certain sectors of the business with all the necessary powers;

42. to sign the company's correspondence and documents within the scope and for the exercise of powers conferred;
43. up to the amount of Euro 50,000.00 for each individual act, and up to the amount of Euro 50,000.00 in relation to a series of acts carried out under the same transaction, to make charitable donations within the limits of the law.

The Chief Executive Officer, by virtue of his office, is vested with the broadest powers for the protection of health and safety at the workplace (Legislative Decree 81/2008), the environment, privacy protection and the processing of personal data (Legislative Decree 196/2003), permits, approvals, authorisations, concessions, licences and the like, necessary for the exercise of company activities and, therefore, to deal with the implementation of the resolutions adopted by the Board of Directors on the abovementioned matters, including by appointing special or general attorneys-in-fact.

He/she is vested with the title of "Employer" and "Principal" pursuant to and in accordance with the Consolidated Law on Safety (Legislative Decree No. 81/2008), with full and effective powers, including:

- (a) The right to identify and designate, taking into account the organisational structure and business operations, and with the objective of promoting efficiency and effectiveness in the management of issues relating to hygiene, and health and safety in the workplace,
 - (i) additional Employers of individual Production Units in accordance with Art. 2, paragraph 1, letter b) of the Consolidated Law on Safety, it being understood that in this case these latter shall be exclusively responsible for the production units within their scope, while the Chief Executive Officer will coordinate the Employers so appointed,
 - (ii) one or more delegates in accordance with Art. 16 of the Consolidated Law on Safety.
- (b) all powers of initiative and organisation, as well as spending autonomy in line with the annual budget approved by the Board of Directors, to be managed, at his/her sole discretion, to implement all the interventions deemed necessary, with the right to carry out urgent and non-deferable interventions to restore safety conditions in working environments, even beyond the limits of the abovementioned financial availability, and by immediately notifying the Board of Directors
- (c) the authority to freely exercise the powers of hierarchical superior with respect to any other employee of the company and with the right to assume, at any time, including without any prior consultation with the Board of Directors, any decision, even if not expressly provided for under this appointment, that is useful or necessary for the purposes of full compliance with the mandate.

The Chief Executive Officer is also assigned the following powers and responsibilities:

- a) all powers and responsibilities relating to environmental matters, to be exercised in full autonomy, also from a financial viewpoint, in terms of spending powers and budgeted amounts and any additional amounts that may be required,
- b) all powers and responsibilities corresponding to the formal and substantial role of “plant manager” as per Legislative Decree No. 105 of June 26, 2015 and subsequent amendments and supplements (“Seveso III”),

with the express power to reconcile and settle, and with the power to delegate and appoint attorneys-in-fact and representatives and, moreover, to identify as part of the “Plant Operators” Organisation as per Legislative Decree 105/2015 and subsequent amendments and additions, and to confer upon them all the necessary and suitable powers, including the power of expenditure.

The powers attributed to the Chief Executive Officer, in possession of the necessary legal requirements, also encompass the company’s representation in all the obligations envisaged by Law No. 185 of July 9, 1990 and subsequent amendments and additions, which regulates the import, export and transit of military equipment, and the implementing regulation referred to in Ministerial Decree No. 19 of January 7, 2013 including, *inter alia*, but not limited to, the right to sign the following documents:

- communications on the commencement of contractual negotiations referred to in Art. 9 of Law 185/1990 and subsequent amendments and additions;
- clearance requests according to the provisions of Art. 9, paragraph 5 of Law 185/1990 and subsequent amendments and additions;
- authorisation requests to import, export and transit the military equipment referred to in Art. 11 of Law 185/1990 and subsequent amendments and additions;
- deeds and documents provided for by Art. 3, paragraph 1, of the abovementioned Ministerial Decree No. 19 of January 7, 2013 and subsequent amendments and additions.

The abovementioned powers and rights, all in relation to Law No. 185 of July 9, 1990 and its implementing regulation are solely and exclusively attributed to the Chief Executive Officer, with the right to sub-delegate – through a notarial power of attorney - solely to persons residing in Italy and who are in possession of the necessary legal requirements.

The following matters do not fall within the powers as conferred above to the Chief Executive Officer:

- a. the approval of the budget and the strategic plan;
- b. investments - not included in the budget or the strategic plan - of a value greater than (i) Euro 10 million for property, plant and equipment, and (ii) Euro 10 million for intangible fixed assets and up to Euro 15 million overall per year, as regards (i) property, plant and equipment and (ii) intangible fixed assets, including costs for participation in international collaboration programmes;

- c. acts of disposal relating to holdings or other interests in companies, divisions, businesses or business units of a value greater than Euro 20 million, excluding, in any case, acts of disposal relating to businesses or business units operating in the defence sector and any holdings or other interests held by the company in subsidiaries, associates or investee companies operating in the same sector
- d. merger or spin-off transactions of the company or of any company under its control which, with reference to the individual merged or spun-off company, are of a value greater than Euro 30 million;
- e. the transfer of operational research and development centres abroad;
- f. the transfer, sale, licensing or any other acts of disposal or restrictions on the disposal of production or technological processes, “know-how”, patents, industrial projects and any other intellectual property held by the company or the companies under its control of a value greater than Euro 15 million, provided that, in the defence sector, the company’s intangible assets are excluded regardless of their value;
- g. the transfer, sale, conferment, lease, usufruct, any act of disposal, the creation of constraints and/or liens of any kind of a value greater than Euro 20 million, excluding, in any case, acts of disposal relating to businesses or business units operating in the defence sector and any holdings or other interests held by the company in subsidiaries, associates or investee companies operating in the same sector
- h. the transfer, sale, conferment, lease, usufruct, any act of disposal, the establishment of constraints and/or liens of any kind of a value greater than Euro 20 million, excluding, in any case, acts of disposal relating to businesses or business units operating in the defence sector and any holdings or other interests held by the company in subsidiaries, associates or investee companies operating in the same sector

The Chief Executive Officer of Avio is not in an interlocking directorate situation as per Application Criterion 2.C.6. of the Self-Governance Code.

4.4.2 Chairman of the Board of Directors

On April 10, 2017, the Board appointed Mr. Roberto Italia as the Chairman of Avio’s Board of Directors.

The Chairman of Avio's Board of Directors is not a controlling Shareholder of the Issuer.

4.4.3 Executive Committee

As per Article 12.2 of the By-Laws, the Board may delegate part of its powers to an executive committee, determining the limits of the powers of attorney as well as the number of the members and the operating methods, appointing one or more Chief Executive Offers and granting relevant powers to them, without prejudice to the fact that the delegated bodies shall report to the Board of Directors and the Board of Statutory Auditors on a quarterly basis.

As per Article 2389, paragraph 1 of the Civil Code, the remuneration of the Executive Committee members is to be decided by the Shareholders' Meeting.

At the Report approval date, an Executive Committee had not been established.

4.4.4. Reporting to the Board of Directors

The Chief Executive Officer reported to the Board at each board meeting, on the activities carried out in accordance with the powers conferred by the Board. In particular, the Chief Executive Officer at each Board meeting and regardless of the time period since the last meeting, briefed upon the activities carried out and the main operations executed by the company and its subsidiaries, even where not requiring prior approval by the Board of Directors.

4.5 OTHER EXECUTIVE DIRECTORS

At the Report approval date, there were no Executive Directors in addition to the Chief Executive Officer, as referred to in Application Criterion 2.C.1 of the Self-Governance Code. None of the Executive Directors therefore i) hold the office of chief executive officer or executive chairperson in a strategic subsidiary of the Issuer or ii) hold management positions at the Issuer, in a strategic subsidiary or in the parent company.

4.6 INDEPENDENT DIRECTORS

On December 1, 2016, the Shareholders' Meeting of Space2 (now Avio S.p.A) appointed with effect from the Effective Merger Date, 4 (four) directors considered independent as per Article 148, paragraph 3 of the CFA, in addition to Application Criterion 3.C.1 of the Self-Governance Code.

In accordance with this criterion, on April 10, 2017, as announced to the market on the same date, the Board assessed the independence as per Article 148, paragraph 3 of the CFA and Article 3 of the Self-Governance Code of the non-executive members of the Board of Directors.

Subsequently, this check was undertaken annually, on March 15, 2018 and, most recently, on March 14, 2019.

The Board of Statutory Auditors confirmed the correct application of the assessment criteria and procedures adopted by the Board to evaluate the independence of its members.

Avio's independent directors met by themselves in the absence of the other directors on January 24, 2019, to consider the following matters:

1. Adequacy of the number of independent directors;
2. Considerations on the contribution of the independent directors to the work of the Board of Directors.

4.7 LEAD INDEPENDENT DIRECTOR

At the Report approval date, the Board did not appoint any Independent Director as Lead Independent Director pursuant to Application Criterion 2.C.5 of the By-Laws, given that the circumstances that require his/her appointment pursuant to the Corporate Governance Code did not apply.

5. PROCESSING OF CORPORATE INFORMATION

The company has adopted the following policies: (i) Inside Information Processing Policy; and (ii) Internal Dealing Conduct Code, as latterly updated by the Board of Directors respectively on December 21, 2017 and January 24, 2019.

Copies of both codes are available on the website www.avio.com, “Corporate Governance” section.

The Inside Information Processing Policy governs, in compliance with the Regulation (EC) No. 596/2014 of the European Parliament and Council of April 16, 2014 concerning market abuse and the relative delegative and executive regulations (the **MAR Regulation**): (i) the management and handling of inside information, as well as the procedures to be complied with, both inside and outside the company, in order to disclose the aforementioned information; and (ii) the creation and management of the list of individuals who, due to their work or professional activities or duties performed, have access to inside information on an occasional or regular basis (“Insider Register”).

Moreover, this incorporates certain Consob recommendations concerning the processing of insider information contained in the Guidelines published by Consob on October 13, 2018 and Legislative Decree No. 10/2018 introduced by Legislative Decree No. 107 of August 10, 2018, enacting the “*National Regulation Adjustment Rules to the MAR Regulation provisions*”. The internal dealing code of conduct regulates disclosure obligations in respect of Consob, the Issuer and the public, and the rules of conduct connected to the execution of transactions involving financial instruments issued by the Issuer, by persons who exercise administrative, control or management functions at the Issuer and by persons closely connected to them (as defined by Art. 19 of the MAR Regulation).

The essential elements of the insider information processing policy and the internal dealing code of conduct, applicable at the Report’s date of approval, are briefly illustrated below.

Inside information processing policy

Definition of inside information

Insider Information, as per Article 7 of the MAR Regulation, is taken to mean information: (i) of a precise nature, namely that (a) such refers to a set of circumstances which exists or may reasonably be expected to come into existence or an event which has occurred or may reasonably be expected to occur, and (b) is specific enough to enable conclusions to be drawn on the possible effect of the set of circumstances or event referred to in subparagraph (a) on the prices of the financial instruments issued by the company (as identified by the applicable

regulation);(ii) that has not been made public; (iii) that directly or indirectly concerns the Issuer or the companies directly or indirectly controlled by the Issuer or the Financial Instruments of the Issuer; and (iv) that, if made public, may have a significant effect on the prices of the Financial Instruments of the Issuer or that a reasonable investor would use as one of the elements on which to base investment decisions.

In this regard, in the case of an extensive process undertaken to achieve, or which results in, a particular circumstance or a particular event, this future circumstance or future event, in addition to the interim steps taken as part of the process linked to the achievement or the occurrence of the circumstance or future event, may be considered as information of a precise nature;

Addressees of the Inside Information Processing Policy

Those required to comply with the procedures outlined in the Inside Information Processing Policy are: (i) the members of the administrative and control bodies, in addition to employees of the company and the subsidiaries (ii) any natural or legal persons who, because of their work or professional activities or duties, have access on a regular or occasional basis to significant and/or inside information concerning the company and its subsidiaries.

Processing of significant information and inside information

The Policy's addressees - as identified above - must maintain the complete confidentiality of the significant and/or inside information of which they are aware. All inside information must be processed with the necessary care to ensure that its circulation within the company does not threaten its confidential nature, unless such is announced to the market according to the means established by the Policy and the applicable regulation. The same obligation applies to the processing of significant information, until it is disclosed to the public according to the manner prescribed by the Policy and the applicable procedure (as becoming inside information or as considered by the competent bodies of the company as necessary or appropriate), or until it no longer may be considered as significant.

Subject to Article 184 and subsequent of the CFA, in addition to Articles 14 and 15 of the MAR Regulation, the addressees may not: (a) acquire, sell or otherwise execute operations on Financial Instruments issued by the company (including the cancellation or amendment of orders where the order has been sent before the interested party came into possession of Inside Information), on their own behalf or on behalf of third parties, directly or indirectly, utilizing Inside Information; (b) advise or induce others, on the basis of Inside Information, to carry out any operations at point (a); (c) communicate to third parties Inside Information outside of the normal exercise of their duties, profession, function or office; in particular it is absolutely prohibited to provide interviews to press organisations or declarations in general which contain inside information concerning the company and its subsidiaries, not yet communicated to the market as per the Policy. The communication to third parties of advice or inducements as per letter (b) is considered as unlawful communication of Inside Information where the person communicating the advice or inducement knows or should know that such is based on Inside Information.

The Board of Directors of Space2 (now Avio S.p.A.) on January 19, 2017 appointed as disclosure officer for the Inside Information Processing Policy, with effect from the Effective Merger Date, Mr. Giorgio Martellino. This appointment was confirmed by the Issuer's Board of Directors on April 10, 2017

The Board of Directors, in addition, established the Insider Register and the RIL, setting out the policy for the maintenance of these lists and appointing the Disclosure Officer as the person responsible for its maintenance and updating in order to ensure easy consultation and the simplified extraction of data.

The RIL is managed according to the means established for the Insider Register, with a number of adjustments (and remaining in the register until the significant information no longer qualifies as Confidential).

Internal Dealing Policy

In accordance with the provisions of the MAR Regulation and the CFA and the relative executive regulations, the Internal Dealing Policy imposes upon the “Managers” and the “Covered Persons” stringent communication obligations to the Issuer and Consob with regards to transactions concerning company shares (or other associated financial instruments (the “**Significant Transactions**”), carried out by, or on behalf of, such persons and/or closely related persons, excluding transactions whose overall amount does not reach Euro 20,000 by year-end (the “**Relevant Amount**”). In particular, once the Relevant Amount is exceeded:

- with regards to Managers and closely related persons thereto, all of the transactions subsequently carried out by year-end should be communicated;
- with regards to Covered Persons and closely related persons thereto, transactions whose total value does not exceed Euro 20,000 by year-end need not be disclosed.

As per the Internal Dealing Policy:

- “**Managers**” are:
 - (a) the members of the Board of Directors and of the Board of Statutory Auditors of the Issuer;
 - (b) all senior executives of the company who, although not belonging to the bodies at letter (a) above, have regular access to inside information concerning directly or indirectly the company and have the power to adopt management decisions which affect the future development and prospects of the company;

- “**Covered Persons**” are: any persons with a holding, calculated as per Article 118 of the Issuers’ Regulation, of at least 10% of the company’s voting share capital, in addition to any other person with a controlling position at the company;

The Managers and the closely related persons are required to communicate to Consob the Significant Transactions carried out by them or on their behalf within 3 working days from the execution of such transactions. The Covered Persons communicate to Consob and publish the information concerning Significant Transactions carried out by them or closely related persons thereto by the end of the fifteenth day of the month subsequent to the transaction’s execution.

Where the Managers and the Covered Persons intend to utilise the company to communicate to Consob the Significant Transactions, they should inform the company of such, respectively, within 2 working days from the execution date of the transaction and by the end of the tenth day subsequent to the transaction’s execution. The company communicates to the public the Significant Transactions communicated to them, respectively, by 3 working days from the transaction’s execution and by the end of the open trading day subsequent to that in which they received the information from the Covered Persons.

Finally, the Internal Dealing Policy prohibits Managers from executing - on their own behalf or on behalf of third parties, directly or indirectly, transactions on Avio financial instruments and associated financial instruments in the 30 calendar days before the announcement (“black-out period): (i) of the preliminary results (or, where the company does not approve the preliminary results, the statutory financial statements and the consolidated financial statements); (ii) the half-year report; (iii) additional periodic financial disclosure to the annual and half-year financial report.

The Board of Directors approved the appointment of General Counsel Mr. Giorgio Martellino as the Internal Dealing Policy contact person.

6. INTERNAL COMMITTEES TO THE BOARD OF DIRECTORS

In accordance with the Self-Governance Code, which recommends that listed companies appoint internal committees to the Board of Directors, with expertise regarding specific matters, Article 12.2 of the By-Laws assigns the Board of Directors the option to set up internal committees with consultation, proposal or control functions, in accordance with the applicable legislative and regulatory provisions.

At the Report approval date, a Control, Risks and Sustainability Committee set up by the Issuer was in office as per Article 7 of the Self-Governance Code, whose functioning is governed by the regulation adopted with Board of Directors motion of May 11, 2017 and latterly amended by Board of Directors motion of September 13, 2017, in order to assign to the Committee oversight in addition with regards to non-financial activities.

Complying with the recommendations of the Self-Governance Code in terms of its composition and as per the Internal Committee regulation, at the Report approval date, the Control, Risks and Sustainability Committee of the Issuer comprises the following independent directors: Monica Auteri (Chairperson), Donatella Sciuto and Vittorio Rabajoli.

In addition, after assessing the company's organisational requirements, the operating methods and the size of its Board of Directors, the company deemed it appropriate to establish the Appointments and Remuneration Committee, with effect from the Effective Merger Date, as well as, on a voluntary basis, the Investments Committee and the Strategic Activities Committee.

The Board of Directors meeting of April 10, 2017 resolved:

- to appoint as members of the Appointments and Remuneration Committee until the approval of the 2019 Annual Accounts, Messrs. Maria Rosaria Bonifacio and Giovanni Gorno Tempini, both independent directors, in addition to Mr. Stefano Ratti, appointing Mr. Gorno Tempini as chairman;
- to set up the Investments Committee. The Board of Directors on September 13, 2017 appointed to the Investments Committee the Chief Executive Officer, Giulio Ranzo, the Director Luigi Pasquali (also Chairman) and the Independent Director Giovanni Gorno Tempini;
- to appoint Giulio Ranzo, Chief Executive Officer, Donatella Sciuto, independent director, and Stefano Ratti, to the Strategic Activities Committee until the approval of the 2019 Annual Accounts, appointing Mr. Giulio Ranzo as Chairman;

Regulations for internal committees to the Board of Directors provide that meetings are to be minuted, that the committee's chairperson is to provide information to the next appropriate Board meeting and that, in addition to the Board of Statutory Auditors, other external parties including other members of the Board of Directors or of the Avio structure, may participate in meetings by invitation and for individual items on the agenda.

At the Report approval date, none of the functions of one or more committees provided for by the Code had been reserved to the Board as a whole, under the co-ordination of the Chair (Application Criterion 4.C.2 of the Code).

The main features of the committees comprising Avio's governance structure at the Report approval date are described below.

7. APPOINTMENTS AND REMUNERATION COMMITTEE

On January 19, 2017, the Space2 (now Avio S.p.A.) Board of Directors, as per the recommendations of the Self-Governance Code, resolved, with effect from the Effective Merger, to establish an Appointments and Remuneration Committee, incorporating it into the Remuneration Committee. The decision to merge the two committees was taken for

organisational reasons internal to the company and at the point in time at which the functions performed by the Appointments Committee did not justify the establishment of an *ad hoc* committee given that, to-date, no difficulties had been encountered or envisaged by shareholders to propose suitable candidates to ensure that the Board's composition conforms to the Code's recommendations.

In 2018, the Appointments and Remuneration Committee met on four occasions (average meeting duration of approx. 1 hour and 40 minutes). During the year, the Committee met twice. The meeting attendance percentage of Committee members is reported in the table at the bottom of Section 4.2.1 of this Report.

The Chairperson of the Board of Statutory Auditors, the Chief Executive Officer, the General Counsel, in addition to consultants supporting the company on specific projects reviewed by the Committee, usually attended the Appointments and Remuneration Committee meetings, on its invitation.

The Appointments and Remuneration Committee, therefore, was assigned both the duties and functions provided for by Article 5 of the Self-Governance Code with respect to the appointment of directors, and the duties and functions pursuant to Article 6 of the Self-Governance Code with respect to their remuneration.

In accordance with the regulation governing the functioning of the Appointments and Remuneration Committee, it comprises three non-executive directors, the majority of whom independent as per the applicable regulation and the Self-Governance Code, from among whom the Chairperson is selected.

The following appointment duties are assigned to the Appointments and Remuneration Committee:

- a) draws up opinions for the Board of Directors in relation to the size and composition of the Board and expresses recommendations on the managerial and professional roles whose presence on the Board of Directors is considered beneficial;
- b) assists the Board of Directors with the annual self-assessment process of the Board and its committees, pursuant to the Self-Governance Code;
- c) taking into consideration the results of this self-assessment, assists the Board of Directors in providing guidelines to the Shareholders - before the appointment of the new Board of Directors - on the managerial and professional profiles whose presence is considered beneficial;
- d) formulate opinions to the Board of Directors in relation to (i) guidelines on the maximum number of offices in administrative or control bodies of other companies listed on regulated markets, in holding, banking, insurance or large enterprises that can be considered to be compatible with an effective performance of the office of director of the company, taking into account board members' participation in committees established within the Board, and (ii) any problematic cases related to the application of competition restrictions envisaged for directors by Art. 2390 of the Civil Code, if the shareholders' meeting has authorised any

general and pre-emptive departure from the competition restrictions to meet organisational needs;

- e) Where it is necessary to replace the Chairperson of the Board of Directors or the Chief Executive Officer, and submit proposals and evaluations to the Board of Directors (to this end, by also making use of external consultants), so that the latter can take the necessary decisions in this regard provided, however, that any opinions expressed by the Committee in relation to the identification of a candidate to hold office as Chief Executive Officer must be in compliance with the provisions set out in Prime Minister's Decree of 24/11/2016;
- f) in the case of co-opting, where it is necessary to replace Independent Directors, proposes candidates for the position of Independent Director to the Board of Directors;
- g) supports the Board of Directors with necessary investigation activities to establish a plan for the succession of executive directors;
- h) subject to the provisions of letters (e), (f) and (g) above, supports the Board of Directors if the latter, in compliance with applicable legislation and the provisions of the By-Laws, intends to submit a slate for the renewal of the Board;
- i) as per Article 12.3 of the By-Laws and subject to the remit of the Strategic Activities Committee for the appointment of a manager responsible for strategic activities (the "Strategic Activities Manager"), draws up for the Chief Executive Officer opinions on the appointment and revocation of the company's managers that report directly to the Chief Executive Officer and the chief executive officers of Group companies.
- j) performs any additional tasks assigned to it by the Self-Governance Code.

The Appointments and Remuneration Committee also carries out the following remuneration related duties:

- a) draws up for the Board of Directors proposals upon the remuneration policy of Senior Directors and Executives;
- b) periodically evaluates the adequacy, the overall consistency and the concrete application of the remuneration policy of senior directors and executives of the company, utilising for this latter the information provided by the Chief Executive Officer and draws up for the Board of Directors related proposals;
- c) presents proposals or expresses opinions to the Board of Directors on the remuneration of executive directors and other senior directors in office, as well as establishing the performance objectives related to the variable component of this remuneration and monitors the application of the decisions adopted by the Board verifying, in particular, the achievement of the performance objectives;
- d) reviews in advance the annual remuneration report to be made available to the public as per the applicable regulation;

- e) reports to the Shareholders' Meeting called to approve the financial statements - through the Chair of the Committee or another member appointed by the latter - upon the means to perform their duties, with respect to remuneration-related tasks attributed to the Committee.

The Appointments and Remuneration Committee may access all information and departments necessary for the undertaking of its duties and may also utilise external consultants within the limits of the budget established by the Board of Directors, except in the case where it acts as the Related Party Transactions Committee and must express itself on a "significant transaction" (as defined in accordance with the RPT Policy). In this case, no expenditure limits are applicable pursuant to the applicable regulations and the RPT Policy.

In line with the recommendations of Article 6.C.6 of the Self-Governance Code, no director participates in meetings of the Appointments and Remuneration Committee in which proposals are formulated to the Board of Directors concerning directors' remuneration.

The Committee is also attributed, with respect to remuneration issues only, the duties allocated to the committee responsible for related party transactions pursuant to the RPT Policy. For transactions with significant related parties, where the committee does not include at least three independent directors, the controls at Article 14 of the RPT Policy apply.

8. CONTROL, RISKS AND SUSTAINABILITY COMMITTEE

In accordance with the Control, Risks and Sustainability Committee regulation, the Control, Risks and Sustainability Committee comprises at least three non-executive directors, the majority of whom independent as per the Self-Governance Code; the Chairperson of the Committee is chosen from among these latter members. Furthermore, at least one member of the Control, Risks and Sustainability Committee must have adequate accounting and financial experience, to be evaluated by the Board of Directors on appointment.

In 2018, the Control, Risks and Sustainability Committee met on eight occasions (average duration of 2 hours). During the year, the Committee met twice. The meeting attendance percentage of Committee members is reported in the table at the bottom of Section 4.2 of this Report.

The entire Board of Statutory Auditors is consistently invited to attend the business of the Risk, Control and Sustainability Committee.

On the invitation of the Committee's Chairperson, non-members participated in certain meetings for individual items on the agenda, in particular, the Internal Audit Manager, the Director in charge of the Internal Control and Risk Management System, the CFO, representatives of the Independent Audit Firm, the General Counsel, also in his capacity of Risk Manager, the Chairperson of the Supervisory Board, representatives of the Legal and Corporate Affairs Department and the consultants called into the various meetings for a process of interaction and dialogue.

In accordance with the Control, Risks and Sustainability Committee regulation, the Committee supports the Board of Directors, with appropriate investigative activity, in their assessments and decisions concerning the internal control and risks management system, and with regards to the approval of the periodic financial reports.

In particular, the Control, Risks and Sustainability Committee in accordance with the Self-Governance Code, in assisting the Board of Directors:

- a) evaluates, together with the executive officer for financial reporting and having consulted the independent audit firm and the Board of Statutory Auditors, the correct application of the accounting standards and their uniformity for the preparation of the consolidated financial statements;
- b) expresses opinions on specific aspects concerning the identification of the main corporate risks;
- c) examines the periodic reports, concerning the assessment of the internal control and risk management system, and those of particular importance, prepared by the Internal Audit Department;
- d) monitors the independence, adequacy, efficacy and efficiency of the Internal Audit department;
- e) may request the Internal Audit Manager to carry out verifications on specific operational areas, simultaneously communicating such to the Chairperson of the Board of Statutory Auditors; for co-ordination purposes, communicates to the Chairperson of the Board of Directors and to the Director in charge of the internal control and risk management system, except where these verifications specifically refer to the activities of these parties;
- f) reports, at least every six months, on the approval of the annual and half-year accounts, to the Board of Directors on the work carried out and on the adequacy of the internal control and risk management system;
- g) supports, with appropriate investigative activities, the evaluations and decisions of the Board of Directors concerning the management of risks from events which the Board of Directors becomes aware of;
- h) examines and evaluates (i) sustainability policies aimed at ensuring the creation of value over time for the collectivity of shareholders and for all stakeholders over a medium-long term period in accordance with the principle of sustainable development; (ii) the guidelines, objectives and consequent processes of sustainability and sustainability reporting submitted annually to the Board of Directors;
- i) monitors international initiatives on sustainability and the company's participation in them, aimed at consolidating the business' reputation internationally;

- j) monitors the company's positioning with financial markets on sustainability issues, with particular reference to the company's positioning in the ethical sustainability indices;
- k) examines the company's profit and non-profit strategies
- l) expresses an opinion on other sustainability issues at the Board's request.
- m) performs any additional tasks assigned to it by the Self-Governance Code or by the Board of Directors.

The Control, Risks and Sustainability Committee in addition issues a prior opinion to the Board of Directors:

- (i) for the definition of the guidelines of the internal control and risk management system, so that the main risks connected to the company and its subsidiaries are correctly identified, as well as adequately measured, managed and monitored, in addition to determining the criteria of compatibility of these risks in line with the strategic objectives of the company, taking account also of risks that may become material in terms of the company's medium/long-term sustainability.
- (ii) for the evaluation at least annually, the compliance of the internal control and risk management system with the particular characteristics of the company and the risk profile assumed, as well as its efficacy;
- (iii) for the approval, at least annually, of the work plan prepared by the Internal Audit Manager, subject to the Board of Directors' need to also consult the Board of Statutory Auditors and the director in charge of the Internal Control and Risk Management System;
- (iv) for the description, in the corporate governance report, of the main characteristics of the internal control and risk management system and the manner of co-ordination between parties involved, expressing its assessment on the overall adequacy;
- (v) for the assessment of the results of the independent audit firm's letter of recommendations and of the report on fundamental questions established during the audit of the accounts, subject to the need for the Board of Directors to consult also the Board of Statutory Auditors;
- (vi) on the proposal for the appointment, revocation and establishment, in line with company policies, of the remuneration of the internal audit manager, and with regard to the adequacy of the resources granted to this latter for the execution of their duties.

In addition to that stated above, the Control, Risks and Sustainability Committee is also assigned the duties allocated to the competent Related Parties Transactions Committee as per the RPT Policy, except with regards to remuneration related matters. Equivalent controls are applied, as provided for by Art. 14 of the RPT Policy, in the case of significant transactions with related parties where the Control, Risks and Sustainability Committee is not composed of at least three directors considered independent as per the CFA and the Self-Governance Code.

In executing its functions, the Control, Risks and Sustainability Committee may access all information and departments necessary for the undertaking of its duties and may also utilise external consultants at Avio's expense, within the limits of the budget approved by the Board of Directors, except in the case where it acts as the Related Party Transactions Committee in transactions with related parties defined as "Significant Transactions" by the RPT Policy. In this case, no expenditure limits are applicable pursuant to the applicable regulations and the RPT Policy.

The Control, Risks and Sustainability Committee promptly exchanges information that is relevant for implementing its duties with other bodies and functions of the company performing important tasks concerning internal control and risk management.

Subject to the provision of the preceding paragraph (f), The Chairperson of The Control, Risk, and Sustainability committee reports to the next appropriate Board of Directors' meeting on the meetings held by this control, risk and sustainability committee and on the proposal and guidelines formulated in the most appropriate manner.

9. INVESTMENTS COMMITTEE

In accordance with regulation for the functioning of the Investment Committee, applicable as of the Effective Merger Date, this committee is composed of the Issuer's Chief Executive Officer, a Board member considered independent as per applicable legislation and the Self Governance Code and a third board member, who is assigned the role of Chairperson of the committee.

The Investments Committee in particular performs an advisory role in terms of the Board of Directors' decisions on the following matters: (i) approval of or change to the annual budget and to the multi-year strategic, financial and business plans of Avio and the Group; (ii) approval of major and corporate investments (not established in the budgets or strategic plans), or major and corporate investments which may substantially change Avio's operations and the business.

The Committee's investigation activities on the items on the agenda are managed by the Chief Executive Officer.

Avio and Group executives may attend Committee meetings.

During 2018, the Investments Committee met twice (average duration of one hour). During the current year, the Committee did not meet. The meeting attendance percentage of Committee members is reported in the table at the bottom of Section 4.2 of this Report.

10. STRATEGIC ACTIVITIES COMMITTEE

As per the regulation governing the operation of the Strategic Activities Committee, entering into force at the Effective Merger Date, the committee comprises the Chairperson of the Board of Directors or the Chief Executive Officer and two further directors, one of whom independent as per the applicable regulation. The role of Chair of the Committee is attributed to the Chair of the Board of Directors or to the Chief Executive Officer.

Subject to the executive competence of the Board of Directors pursuant to Art. 12.1 of the By-Laws with regard to matters and activities in which the Italian Government has the right to object in accordance with the Golden Power Regulation, the Committee is attributed with the following advisory duties:

- (a) to assist the Board of Directors and oversee compliance with the conditions and obligations provided for by the Golden Power Regulation and by the Prime Minister's Decree of 24/11/2016;
- (b) to assist the Board of Directors in managing issues howsoever relating to the Golden Power Regulation;
- (c) to express its opinion on the possible appointment of an Executive for Strategic Activities by the Board of Directors;
- (d) to undertake any additional activities assigned to it by the Board of Directors.

Preliminary activities of the Committee for Strategic Activities on items on the agenda are handled by the Chairperson and the Executive for Strategic Activities who participates in committee meetings together with other members, the board of directors or representatives of corporate departments or third parties, whose presence may be of assistance in the discussion of items on the agenda.

During 2018, the Strategic Activities Committee met once (duration of one hour and 5 minutes). The meeting attendance percentage of Committee members is reported in the table at the bottom of Section 4.2 of this Report.

On January, 19, 2017, the Space2 (now Avio S.p.A.) Board of Directors appointed Manrico Mastria as Executive for Strategic Activities, with effect from the Effective Merger Date. This appointment was confirmed by the Board with the motion of April 10, 2017. The Strategic Activities Committee at the meeting of November 9, 2017 also expressed a favourable opinion.

11 DIRECTORS REMUNERATION

With regards to the information concerning this section, reference should be made to the relevant parts of the Remuneration Report published in accordance with Article 123-ter of the CFA on the website www.avio.com, “Corporate Governance” section.

12. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Board of Directors, having consulted the Risks and Control Committee:

- defined, in drafting the strategic, industrial and financial plans, the nature and level of risk compatible with the strategic objectives of the issuer, including in their assessments all risks considered significant with regard to the sustainability of the medium/long-term operations of the Issuer;
- defined the guidelines of the internal control and risk management system, so that the main risks connected to the Issuer and its subsidiaries are correctly identified, as well as adequately measured, managed and monitored, in addition to determining the criteria of compatibility of these risks in line with the strategic objectives of the company;
- evaluated, at least annually, the compliance of the internal control and risk management system with the particular characteristics of the company and the risk profile assumed, as well as its efficacy.

For the purposes of the above evaluations, in the year 2018 the Control and Risks Committee has particularly examined:

- the results of risk assessment activities performed by the Risk Management office;
- the outcomes of audit activities carried out by the internal audit office, based on a previously-examined audit plan, after consultation with the Board of Statutory Auditors and the Director in charge of the internal control and risk management system;
- the results of meetings with the independent audit firm;
- the Supervisory Board’s reports on the Organisation, Management and Control Model in relation to the profiles as per Legislative Decree 231/2001.

In 2018, Avio began the redefinition of its integrated risk management system to provide management, the Board of Directors and corporate bodies in general with a better identification, classification, measurement, management and monitoring of corporate risks. The Board of Directors approved the Enterprise Risk Management Plan in the meeting of January 24, 2019, following the positive assessment of the Control, Risks and Sustainability Committee and after having consulted the Board of Statutory Auditors.

The internal control and risk management system of the Avio Group concerns the set of rules, procedures and organisational structures which enable the identification, measurement, management and monitoring of the principal risks. This system is integrated into the more general organisational and corporate governance structures adopted by the issuer and gives due consideration to benchmark models and existing best practices at national and international level. The internal control and risk management system contributes to conducting business in line with the objectives defined by the Board of Directors, favouring the undertaking of fully knowledgeable decisions. This ensures the safeguarding of company assets, the efficiency and efficacy of the corporate processes, in addition to the reliability of disclosure to the corporate boards and the market and compliance with law and regulations, in addition to the By-Laws and the internal procedures.

In creating its internal control and risk management system, the Avio Group focused extensively on best practice and in particular the “Enterprise Risk Management-Integrated Framework” (“ERM Integrated Framework”) international standard, drawn up and updated by the US “Committee of Sponsoring Organizations of the Treadway Commission” (COSO) body; this framework is known also as the “COSO Report” or “COSO ERM”.

The structural elements of the internal control and risk management environment are the Ethics Code, which sets out the key values and principles of the company’s ethical approach, in addition to the conduct rules; the system of powers and duties through general and special powers of attorney, as per the assigned responsibilities; the company operating procedures; the IT systems supporting both operating and production activities and the accounting and financial processes. In terms of compliance, the company has adopted an Organisational Model as per Legislative Decree 231/2001, which has been continuously updated, and a control system as per Law 262/2005 for financial disclosure (for further details, reference should be made to that outlined in terms of the “Principal characteristics of the risk management and internal control system in relation to the financial disclosure process”).

Principal characteristics of the risk management and internal control system in place in relation to financial disclosure (as per Article 123-bis, paragraph 2, letter b) of the CFA)

The internal control and risk management system of the company on financial reporting is defined as the set of activities to identify and evaluate actions or events whose occurrence or absence could partially or totally compromise the achievement of the financial information’s objectives of integrity, accuracy, reliability and timeliness. It forms part of the overall internal control and risk management system.

This system aims to guarantee that the administrative – accounting procedures adopted and their application are adequate to ensure a process capable of producing timely and reliable accounting and financial information, in accordance with applicable accounting standards.

The internal control and risk management system on financial disclosure is created in line with the frameworks, as commonly accepted and issued by the *Committee of Sponsoring Organizations of the Treadway Commission* – COSO Report, integrated in terms of the IT aspects by the *Control Objectives for Information Technology* – COBIT, and is periodically assessed and reviewed in terms of the controls put in place to minimise risks to the company.

The administrative-accounting procedures take into account that in the analysis of risk errors occur, whether intentional or not, in the processes for the drafting of financial disclosure. Therefore, for the creation of this system the risk areas which could arise in terms of compromising the reliability of the financial disclosure are identified and assessed.

On the basis of the identification and the assessment of the risk areas, the components of the internal control system with regards to financial disclosure were analysed through:

- an analysis at the level of the main Group companies in particular in terms of the control elements with regards to the reliability of financial disclosure;
- an analysis for each operating process, of the processes concerning the significant financial statement accounts for financial disclosure purposes, through a correlation matrix considering the objectives identified regarding the process activities and the associated controls.

In accordance with the applicable regulation, the features of the system adopted, with particular regard to (a) the risk management and internal control phases in relation to the financial disclosure process and (b) the roles and functions involved and the means for coordinating the relative parties, are outlined below.

Phases of risk management and internal control in relation to Financial Disclosure

The internal control system is divided into the following macro-phases:

- a) identification and assessment of risks on financial reporting;
- b) identification of the control of identified risks;
- c) verification of the operability of the control and risk management system;
- d) monitoring and development of the control system.

The breakdown of individual macro-phases is shown below:

a) Identification and assessment of risks on financial reporting:

Risks are identified with regards to the financial statement declarations (existence and occurrence, completeness, rights and obligations, correctness, valuations and recording, presentation and disclosure) and other control objectives, such as - for example - compliance with the authorisation limits, the segregation of incompatible duties, controls on physical safety and the existence of assets, the controls on security; documentation and traceability of transactions. The identification of risks includes also the risk of fraudulent activities, i.e. intentional acts undertaken to falsely represent the economic-equity-financial situation at financial statement level or to misappropriate company assets.

b) Identification of the control of identified risks

On the basis of the risk assessment, specific control activities were identified to mitigate risk, broken down into the following macro-categories:

- controls applicable to the entire organisation (Group/company) which, as common and applicable across the entire organisation subject to assessment, are structural elements of the internal control system on financial disclosure (“Entity Level Controls”);
- specific process level controls (“Process Level Control”);
- controls on the functioning, management and security of the IT systems (“IT General Control”).

c) Check on the functioning of the internal control and risk management system

In order to verify and guarantee the operability of the internal control system on financial disclosure, specific monitoring activities on the operation of controls are in place, both by the “process owners” and by third parties independent of the operability of the processes (Internal Audit). Fraud prevention controls are among the controls monitored.

d) Monitoring and development of the control system

In order to ensure adequate monitoring of the system, the “design” of its components are subject to systematic assessment and, in any case, on the occurrence of significant events. The operability of the controls indicated by the administrative-accounting system procedures is assessed half-yearly through specific tests.

Any deficiencies both in the design and operability of the controls are reported to the process owners and to the Executive Officer for financial reporting to plan remedy actions - whose effective implementation is verified.

The Executive Officer for financial reporting, together with the Chief Executive Officer, issues the declaration required by Article 154-*bis*, paragraph 5 of the CFA.

Roles and Functions involved

The internal control and risk management system involves, each for their specific remit:

- 1) The Board of Directors, which directs and assesses the System’s adequacy, and has identified:

- (i) the director in charge of the creation and maintenance of an effective Internal Control and Risk Management System (the Director in charge of the Internal Control and Risks Management System), and
 - (ii) the Control, Risks and Sustainability Committee, with the duty to support, with appropriate investigative activities, the evaluations and decisions of the Board of Directors concerning the Internal Control and Risk Management System, in addition to those concerning the approval of the relative periodic financial reports;
- 2) the internal audit manager, appointed to verify if the internal control and risk management system is functional and adequate;
 - 3) Other roles and corporate functions with specific tasks in terms of internal control and risk management;
 - 4) the Board of Statutory Auditors, which oversees the efficacy of the internal control and risk management system.

Article 154-*bis* of the CFA envisages the introduction of the “executive officer for financial reporting” within the corporate organisation of companies with listed shares. Appointed by the Board of Directors in agreement with the Chief Executive Officer, he is responsible for designing, implementing, and approving the Accounting and Administrative Control Model, as well as for assessing its application by issuing a statement concerning the interim, annual and consolidated financial statements.

The Executive Officer is also responsible for drawing up suitable administrative and accounting procedures for the preparation of the annual and consolidated financial statements and for providing subsidiaries, considered as relevant for the preparation of the Group’s consolidated report, with instructions for performing appropriate assessments of their own accounting control systems.

12.1 EXECUTIVE DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In order to ensure compliance with the recommendation at Principle 7.P.3 of the Self-Governance Code, the Board of Directors appointed on January 19, 2017, with effect from the Effective Merger Date, Giulio Ranzo as the director in charge of the creation and maintenance of an effective internal control and risk management system (the “**Director in charge**”). This appointment was confirmed by Avio's Board of Directors on April 10, 2017

The Director in charge, as per Application Criterion 7.C.4 of the Self-Governance Code:

- identified, with the support of the Internal Audit Manager, the main business risks, taking into account the characteristics of the activities undertaken by the company and its subsidiaries, periodically presenting them for examination to the Board of Directors;

- has implemented the guidelines defined by the Board of Directors by dealing, with the assistance of the internal audit manager and other competent corporate functions, with the design, implementation and management of the internal control and risk management system, and by constantly verifying its suitability and effectiveness;
- adapted, also with the support of the Internal Audit Manager and other competent functions, the system to the dynamics of the operating conditions and legal and regulatory framework;
- requests the internal audit function to undertake verifications on specific operational areas and on the compliance of internal procedures and rules in the execution of business operations, simultaneously communicating such to the Chairperson of the Board of Directors, the Chairperson of the Control, Risks and Sustainability Committee and the Chairman of the Board of Statutory Auditors;
- has reported promptly to the Control, Risk and Sustainability Committee (or to the Board of Directors) on problems and critical issues that emerged in the performance of his duties or on those which he became aware of, to enable the Control, Risks and Sustainability Committee (or the Board) to take the appropriate initiatives.

12.2 INTERNAL AUDIT DEPARTMENT MANAGER

On June 25, 2018, the Avio S.p.A. Board of Directors appointed Alessandro Cencioni, Managing Director of Protiviti S.r.l., as Internal Audit Manager with effect from July 1, 2018. Replacing Francesco Libri, Dr. Cencioni performs the activities referred to in application criterion 7.C.5 of the Self-Governance Code, simultaneously entrusting the Internal Audit functions in outsourcing to Protiviti S.r.l.

The internal audit function is not connected to any operational area and reports hierarchically to the Board of Directors, and functionally to the Control, Risks and Sustainability Committee.

The duties of the internal audit manager are the following:

- verifies, on an ongoing basis and in relation to specific needs and in compliance with international standards, the operation and suitability of the internal control and risks management system, through an audit plan, approved by the Board of Directors, based on a structured analysis process and prioritisation of the principal risks;
- prepares periodic reports containing sufficient information on activities, on the manner in which risk management is carried out, as well as compliance with the plans for their containment. The periodic reports contain an evaluation of the suitability of the internal control and risks management system;
- prepares in a timely manner reports on significant events;

- sends periodic reports to the Chairmen of the Board of Statutory Auditors, the Control and Risks Committee and the Board of Directors, as well as to the Director in charge of the internal control and risk management system;
- verifies in the audit plan the reliability of the IT accounting systems, including the accounting systems.

For these purposes, the Internal Audit Manager has direct access to all information useful for the execution of office.

In particular, during the year 2018 and at the Board of Directors' meeting already held in 2019, the Internal Audit Manager:

- Illustrated his office's work plan and organisational structure to the Control, Risks and Sustainability Committee and to the Board of Directors;
- had direct access to all the necessary information to carry out his duties;
- carried out nine direct and specific control activities, in line with the annual work plan;
- developed the 2019-2021 Three-Year Audit Plan which was forwarded to the Control, Risks and Sustainability Committee and submitted for the Board of Directors' approval;
- reported on his work and on the results of activities performed to the Control, Risks and Sustainability Committee, to the company's Board of Statutory Auditors, the director in charge of the Internal Control System and the Chairperson of the Board of Directors of the company.

12.3. ORGANISATIONAL MODEL AS PER LEGISLATIVE DECREE 231 OF 2001

At the Report approval date:

- Space2 adopted on November 9, 2015 an organisation, management and control model as per Legislative Decree No. 231/2001 ("**231 Model**");
- the Board of Directors of the Issuer on April 10, 2017 appointed, for three financial years from that in which the Merger becomes effective, Messrs. Alessandro De Nicola, Raoul Francesco Vitulo and Giorgio Martellino as the company's Supervisory Board, in accordance with the first paragraph, letter b) and the fourth paragraph of Article 6 of Legislative Decree No. 231/2001, assigning them the duties, lines of reporting and powers indicated in the 231 Model adopted by the company;
- the Italian subsidiaries of Avio, ELV S.p.A. (now Spacelab S.p.A.) and SE.CO.SV.IM. adopted, respectively, on November 25, 2008 and April 11, 2008, the first version of its organisation, management and control model, subsequently both updating to the "*October 2015 3rd version*" adopted by motion of their Corporate Boards respectively on March 15,

2016 and January 28, 2016. The supervisory boards are represented by (i) a single-member supervisory board in the person of Cinthia Pinotti for ELV S.p.A (now Spacelab S.p.A) and (ii) a Supervisory board composed of Giuseppe Pedrizzi and Letizia Macri for SE.CO.SV.IM. S.r.l.;

- with regards to the overseas subsidiaries of Avio, the Board of Directors of the incorporated company approved at the meeting of September 23, 2008 adoption of the “*231 Guidelines for the Group overseas companies*”, subsequently updated to its 2nd Version of April 2015 with motion of October 2, 2015, recommending to them adoption and application of these guidelines.
- The 231 Model was subsequently updated on June 28, 2017 and most recently with the resolution of November 8, 2018, in order to incorporate, among other things, the new regulations introduced by Law No. 179 of November 30, 2017, implementing “*Provisions for the protection of whistleblowers reporting offences or irregularities that become known to them within the bounds of a private or public employment contract*”.

The updating activity was mainly divided into two main macro-phases:

- a) risk analysis and suggestions (as is analysis and gap analysis);
- b) review and updating of the General Section of the 231 Model and the Special Section No. 1 relating to offences in relations with Government Departments, crimes against the administration of justice and organised crime; No. 6 relating to crimes of manslaughter or serious personal injury or grievous bodily harm committed in violation of the rules on occupational health and safety and No. 11 relating to administrative market abuse offences and illicit acts.

The result of the analysis described was followed by:

- the updating of the Gap Analysis document in view of the results of the risk assessment performed, as well as the updating of the document in which the company’s sensitive activities are mapped out (“Risk Mapping”), which was carried out in collaboration with BDO Italia S.p.A.;
- the review of the Model’s General Section in order to adapt it to the changes introduced by Law No. 179 of November 30, 2017 with the consequent establishment of a policy, defined as the “**Whistleblowing Policy**” for the handling of reports through which company employees can report possible fraud, an offence, an unlawful act or any irregular conduct committed by other persons belonging to the company. The aim of the reporting is to enable the company to address the reported problem as soon as possible, disclosing risky or harmful situations and contributing toward preventing and counteracting any unlawful acts.

- the review of Special Section No. 1 relating to offences in relations with Government Departments, crimes against the administration of justice and organised crime;
 - the review and updating of Special Section No. 6 relating to crimes of manslaughter or serious personal injury or grievous bodily harm committed in violation of the rules on occupational health and safety;
 - the review of Special Section 11 concerning administrative market abuse crimes and offences.
-
- the inclusion in each Special Section of a brief description of offences mentioned in each;

The new 231 Model and its annexes were approved by the Supervisory Board that met on September 12, 2018 and subsequently liaised with the Board of Statutory Auditors which took note of the work performed without raising any objections.

The 231 Model comprises a General Section and 12 Special Sections.

The General Section essentially concerns the Supervisory Board and the communication of information to this latter, in addition to the reporting of the Supervisory Board to the corporate boards; the training of personnel, circulation of the 231 Model within and outside the company and the system governing non-compliance with the model's provisions.

The Special sections relating to a similar number of offences envisaged in the decree and abstractly applicable to the corporate environment are: "Offences in relations with Government Departments, Crimes against the Administration of Justice and Organised Crime"; "Corporate Offences"; "Corruption between private parties", "Crimes for the Purpose of Terrorism or the Subversion of the Democratic Order"; "Crimes against Individuals and Crimes relating to Immigration and Alien Status"; "Transnational Offences"; "Crimes of Manslaughter or Serious Personal Injury or Grievous Bodily Harm committed in violation of the rules on occupational health and safety"; Environmental Offences"; "Crimes against Industry and Commerce and Copyright Infringement Offences"; "Computer Crimes and Unlawful Processing of Data"; "Self-laundering Crimes" and "Administrative market abuse offences and illicit acts".

A presentation on the 231 Model adopted by the company may be viewed on the company's website: www.avio.com, Corporate Governance section.

12.4 INDEPENDENT AUDIT FIRM

On June 15, 2017, the Shareholders' Meeting of the company appointed, for financial years 2017-2025, the Independent Audit Firm Deloitte & Touche S.p.A..

On January 14, 2019, the company appointed the independent audit firm Deloitte & Touche S.p.A. for the *limited assurance engagement* for financial years 2018-2020.

Following a tender, the consultancy company KPMG S.p.A. was selected to support the Issuer in preparing the Consolidated Non-Financial Report.

12.5. EXECUTIVE OFFICER FOR FINANCIAL REPORTING

In accordance with Article 16 of the By-Laws, the Board of Directors appoints, upon obligatory approval of the Board of Statutory Auditors, the Executive Officer for Financial Reporting pursuant to Article 154-*bis* of the CFA, providing him/her with adequate means and powers to carry out the role. The Executive Officer for Financial Reporting must be of a professional standard such as to have qualified experience of at least 3 (three) years in the exercise of administration and control activities, or in executive or consultancy functions, with listed companies and/or relative groups of companies, or companies, entities and enterprises of large and significant size, including the preparation and control of accounting and corporate documents. The Executive Officer must also meet the requirements of good standing as provided for auditors by the applicable legal provisions.

On January 19, 2017, the Board of Directors of Space2 (now Avio S.p.A.) appointed Alessandro Agosti as the executive officer for financial reporting in accordance with Article 154-*bis* of the CFA, with effect from the Effective Merger Date. This appointment, having verified the above-stated professional standing requirements, was confirmed by the Board of Directors of the Issuer on April 10, 2017, having received the opinion of the Board of Statutory Auditors.

As per Article 154-*bis* of the CFA, the Executive Officer is required to: (i) declare that the deeds and communications of the company communicated to the market and concerning accounting disclosure (including interim) of the company corresponds to the underlying accounting records and entries; (ii) prepare appropriate administrative and accounting policies for the drafting of the statutory and consolidated financial statements, in addition to any other communications of a financial nature; and (iii) jointly with the Chief Executive Officer declare through a specific report attached to the statutory financial statements, the condensed half-year financial statements and the consolidated financial statements, among others, the adequacy and effective application of the procedures at point (ii), during the period to which the documents refer and declare, in addition, the correspondence of such to the accounting records and entries and their suitability to provide a true and fair view of the company financial statements and any companies included in the consolidation, assigning for this purpose the following powers:

- (a) Full access to all information considered relevant for the execution of duties, both at the company and at any parent companies;
- (b) attend the meetings of the Board of Directors concerning matters within their scope;

- (c) faculty for dialogue with all administrative and control boards of the company and the subsidiaries;
- (d) faculty to approve company policies with an impact on the financial statements, on the consolidated financial statements or on other documents requiring certification;
- (e) involvement in the design of IT systems impacting the company financial statements;
- (f) the possibility to utilise IT systems.

In order to permit the Board of Directors to properly execute its supervisory powers, the Executive Responsible should, in addition, report at least quarterly to the Board with regards to activities carried out, in addition to any emerging critical issues.

* * *

At the Report approval date, in addition to the Control, Risks and Sustainability Committee, the Director in charge of the Internal Control and Risk Management System and the Internal Audit Manager, no other roles or functions with specific internal control and risk management duties have been set up.

12.6 COORDINATION OF THE PARTIES INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The company specified in detail, in the Avio and Group Internal Control and Risk Management Guidelines, the roles and duties of those involved in the internal control and risk management system, in addition to the means for the coordination of those involved.

In this regard, it should be noted that the company promotes meetings between these different parties for the coordination and exchange of information. In particular, the entire Board of Statutory Auditors is consistently invited to participate at the Control, Risks and Sustainability meetings, and moreover, the Director in charge of the Internal Control and Risk Management System, the Internal Audit Manager, the CFO, representatives of the Independent Audit Firm and members of the Legal and Corporate Affairs Department participated at some meetings for individual items on the agenda, on the invitation of the Committee's Chairperson.

With the same purpose of coordination on matters of common interest, the company's Board of Statutory Auditors, the Risks Control and Sustainability Committee and the Supervisory Board, as per Legislative Decree 231/01, organised and held joint meetings during the financial year.

Finally, the Board of Statutory Auditors periodically meets with the Executive Officer for financial reporting, the Independent Audit Firm and the various company functions affected by the processes and procedures that must be specifically audited by the Board of Statutory Auditors, including those relating to the internal control and risk management system.

13. DIRECTORS INTERESTS AND RELATED PARTY TRANSACTIONS

At the Report approval date, the Issuer has put in place a Related Parties Transactions Policy, in compliance with Article 2391-*bis* of the Civil Code and the RPT Regulation, adopted by the Board of Directors on January 19, 2017, subsequently updated with Board of Directors' motion of September 13, 2017, having received the favourable opinion of the Control, Risks and Sustainability Committee with regards to the consistency of the text with the new RPT Regulation entering into force on April 6, 2017.

The Related Parties Policy, the full text of which may be viewed on the company's website www.avio.com in the "Corporate Governance" section, defines the guidelines and criteria for identifying Related Party Transactions and outlines roles, responsibilities and operating procedures aimed to ensure suitable reporting transparency and relative procedural and substantive correctness for these transactions.

In particular, the RPT Policy:

- governs transactions executed by Avio directly, or through subsidiaries, with counterparties defined as "Related Parties" in accordance with the RPT Regulation;
- defines "Related Party Transactions" as those involving the transfer of resources, services or obligations between Avio (or its subsidiaries) and Related Parties, regardless of whether a price is charged. This includes for example: (i) mergers, spin-offs for incorporation or non-proportional spin-offs, where carried out with Related Parties; (ii) all decisions relating to the allocation of remuneration or benefits, in any form, to members of the corporate boards and Senior Executives; and (iii) company share capital increases excluding the option right;
- distinguishes between "Minor Transactions", "Significant Transactions", "Less Significant Transactions" and "Ordinary Transactions" as follows:
 - (a) "Minor Transactions": Related Party Transactions with a maximum amount to be borne by the Issuer of not in excess, for each transaction, (i) Euro 100,000 where the Related Party is a physical person; or (ii) Euro 500,000 where the Related Party is a legal entity;
 - (b) "Significant Transactions": Transactions where at least one of the thresholds indicated at Annex 3 of the Related Parties Policy, applicable according to the specific Transaction, is exceeded by more than 5%. Where Avio is controlled by a listed company, the above limit of 5% is reduced to 2.5% for transactions undertaken with a listed parent company or with related parties of this latter which in turn are related to Avio;

- (c) “Less Significant Transactions”: Related Party Transactions other than Significant Transactions and Minor Transactions.
- (d) “Ordinary Transactions”: Related Party Transactions which: (i) are part of the ordinary operations or the related financial activities of the Issuer and/or of its subsidiaries; and (ii) are concluded at conditions in line with those usually applied to unrelated parties for transactions of a similar nature, size and risk or based on regulated tariffs or prices, or corresponding to those undertaken with parties with which Avio and/or its subsidiaries are obliged by law to contract at a set price.

Article 13 of the RPT Policy establishes that it does not apply in the cases of the exemptions established under the RPT Regulation, subject to the conditions set out therein, and, in particular: (i) to the Shareholders' motions referred to in the first paragraph of Article 2389 of the Civil Code, concerning the remuneration of the members of the Board of Directors, or any decisions on the remuneration of the senior directors included in the total amount previously determined by Avio's Shareholders' Meeting pursuant to Article 2389, third paragraph, of the Civil Code; (ii) to the Shareholders' motions referred to in Article 2402 of the Civil Code pertaining to the remuneration payable to members of the company's Board of Statutory Auditors; (iii) to Minor Transactions. In addition, subject to the disclosure obligations under the RPT Regulation and the relative circumstances, the Policy does not apply to (a) financial instrument-based remuneration plans approved by the Shareholders' Meeting of the company in accordance with Article 114-*bis* of the CFA and the relative executory operations; (b) motions, other than those at paragraph (i) above considering the remuneration of Senior Directors, in addition to other Senior Executives (at the conditions established by the RPT Policy), (c) Ordinary Transactions concluded at Market or Standard conditions; and (d) Transactions with or between Subsidiaries, even jointly-held, by the company, in addition to Transactions with associates of the company, where other related parties of the company do not have a significant interest (as defined by the RPT Policy) in the subsidiaries or associates acting as counterparties in the transaction.

With specific regards to the means for the approval and execution of individual categories of Related Party Transactions, the RPT Policy makes a distinction between:

- (a) Significant Transactions, in relation to which the RPT Policy establishes, among other issues, that: (i) the approval of these transactions lies within the exclusive competence of the Board of Directors; (ii) the Chief Executive Officer ensures the involvement during negotiations and investigations of a Committee comprising at least 3 independent directors, possibly with the same membership of the Control, Risks and Sustainability Committee or the Appointments and Remuneration Committee, according to the type of Related Party Transaction; (iii) the Board of Directors considers the transaction having received a prior favourable reasoned opinion from the above Committee with regards to the interest of the Issuer in completion of the transaction, in addition to the benefit and substantial correctness of the relative conditions, subject to the option for the Board of Directors to approve the Significant Transaction also in the presence of a contrary opinion of the above-stated Committee,

on condition that its completion is authorised by the Shareholders' Meeting through the "whitewash" mechanism set out in the RPT Policy; and

- (b) Minor Transactions, in relation to which the RPT Policy establishes, among other issues, that (i) the Board of Directors or the Executive Bodies, depending on the case, approve these transactions following receipt of the reasoned and non-binding opinion of a Committee comprising Directors, the majority of whom independent (possibly with the same membership as the Control, Risks and Sustainability Committee or the Appointments and Remuneration Committee, according to the type of Related Party Transaction); and (ii) the Chief Executive Officer ensures that there is an adequate flow of information to this Committee.

Where, with regards to a certain transaction, the Control, Risks and Sustainability Committee (or, depending on the case, the Appointments and Remuneration Committee) does not satisfy the composition requirements under the RPT Regulation, the equivalent controls under the RPT Policy in line with the RPT Regulation are applied, including the replacement, on the basis of age, with other directors on the Board and in possession of these requirements.

In accordance with Article 10, paragraph 1 of the RPT Procedure, during the period between the Effective Merger Date and the approval of the financial statements for the second year subsequent to that in which the Merger becomes effective, Avio may apply to Significant Transactions the policy established for Minor Transactions, subject to the obligation to publish a disclosure document in accordance with Article 5 of the RPT Regulation.

With regards to related party transactions carried out in 2018, reference should be made to the company's financial statements.

14. APPOINTMENT OF STATUTORY AUDITORS

As per Article 17 of the By-Laws, the Board of Statutory Auditors is composed of 3 (three) statutory auditors and 2 (two) alternate auditors, elected by the shareholders' meeting on the basis of slates presented by shareholders, in accordance with the procedures set out below, subject to any differing and additional provisions provided for by mandatory laws or regulations.

Slates for the election of statutory auditors may be presented by shareholders who, at the time of presentation of the slate, hold - alone or together with other shareholders - a shareholding that is at least equal to that determined by Consob in accordance with applicable laws and regulations (equal, at the Report approval date, to 4.5% of Avio's share capital).

Ownership of the minimum shareholding is determined according to the shares that are registered in favour of the shareholder on the day in which the slates are filed with the issuer; certification can also be presented subsequent to the filing provided that it is within the deadline for the publication of the slates.

The slates are filed at the registered office and subsequently published in accordance with the methods and the deadlines provided for by applicable law.

The slates must include the names of one or more candidates for the position of auditor and one or more candidates for the position of alternate auditor. The names of the candidates are divided between each section (statutory auditors section, alternate auditors section) by progressive numbering and in any event with a number not exceeding the board members to be elected. The slates, if they contain, in both sections, a number of candidates equal to or greater than 3 (three), must contain a number of candidates in both sections to ensure that the composition of the Board of Statutory Auditors, both for statutory auditors and alternate auditors, complies with the legal and regulatory provisions that are in force in relation to gender equality (male and female), provided that if the application of the criterion for the gender equality quota does not result in a full number, this should be rounded up to the next unit.

The following documents must be attached to each slate, at the risk of ineligibility: (i) information on the identity of shareholders who have presented them, with an indication of the total percentage of shares held; (ii) a declaration by shareholders other than those who hold, even jointly, a controlling or majority shareholding, attesting to the absence of any relationship with these latter in accordance with applicable law; (iii) detailed information about the personal and professional characteristics of the candidates, as well as a declaration by the candidates certifying that they meet the statutory requirements, and acceptance of the candidature, accompanied by a list of administrative and control positions held with other companies; (iv) any additional or differing declaration, information, and/or documents provided for by applicable law and regulations.

Individual Shareholders, shareholders belonging to the same group or members of a shareholder agreement pursuant to Article 122 of the CFA, may not present or be involved in the presentation, even through nominees or trust companies, of more than one slate or vote on other slates; in addition, each candidate may only be present on one slate, at the risk of being declared ineligible.

In the case where only one slate is filed at the expiry date of the term for presentation of the slates, or slates are only presented by related shareholders pursuant to the applicable directives, slates can be presented up to the third day subsequent to such date. In this case, the percentage threshold established for the presentation of the slate is reduced by half.

The procedure for electing statutory auditors is as follows: (i) from the slate that obtained the largest number of votes (“**Majority Slate**”) taken in the progressive order in which they appear in the slate, 2 (two) statutory auditors and one alternate auditor; (ii) from the slate that obtained the second largest number of votes and are not connected, even indirectly, with the shareholders who presented or voted for the Majority Slate in accordance with the applicable provisions and taken in the progressive order in which they appear on the slate, the third

statutory auditor will be chosen (“**Minority Statutory Auditor**”), who will chair the Board of Statutory Auditors, and the second alternate auditor (“**Minority Alternate Auditor**”).

In the case of an equal number of votes between one or more slates from which the Board of Statutory Auditors is elected, a fresh ballot shall take place, considering only the slates receiving the same number of votes and, in any case, ensuring compliance with the gender parity regulation (including rounding up to the next full number where application of the gender parity rule does not produce a full number).

Where the result of voting does not satisfy the applicable gender equality law and regulations that are in force (including the rounding up to the next unit if the application of the criterion for the gender equality quota does not result in a full number), the candidate for the office of standing or alternate auditor from the most represented gender elected as last in progressive order from the Majority Slate will be excluded and will be replaced by the next candidate for the office of standing or alternate auditor from the same slate belonging to the other gender.

Where only one slate is presented, the Shareholders’ Meeting will vote on that slate and, where this slate receives the majority of the votes, 3 (three) statutory auditors and 2 (two) alternate auditors will be taken from this slate in accordance with applicable law and regulations, including gender parity regulations, which includes rounding up where necessary in relation to the under-represented gender.

They are appointed for a period of (3) three years (and may be re-elected), which concludes on the date of the Shareholders’ Meeting called for the approval of the financial statements relating to the final year in office.

Subject to compliance with the applicable law and regulations in force in relation to gender equality, in cases where, for whatever reason, (i) a statutory auditor from the Majority Slate leaves office, the alternate auditor elected from the Majority Slate will take their place, (ii) a Minority Statutory Auditor leaves office, they will be replaced by the Minority Alternate Auditor who will assume the Chair. Where the replacements made pursuant to this Article do not permit the formation of a Board of Statutory Auditors that complies with the applicable regulations on gender parity, he/she shall be replaced by the alternate auditor from the other slate, where this enables a composition in line with applicable gender parity regulations, provided that the Minority Statutory Auditor may only be replaced by the Minority Alternate Auditor.

In the absence of slates, or where it is not possible for whatever reason to appoint the Board of Statutory Auditors with the procedures provided for in this Article, the three standing auditors and the two alternate auditors will be appointed by the shareholders’ meeting through the majority provided for by law, in accordance with the laws and regulations in force also in relation to the gender equality quota (including the rounding up to the next unit if the application of the criterion for the gender equality quota does not result in a full number).

15. Composition and functioning of the Board of Statutory Auditors

As per Article 17 of the By-Laws, the Board of Statutory Auditors is composed of 3 (three) statutory auditors and 2 (two) alternate auditors, elected by the shareholders' meeting on the basis of slates presented by shareholders, in accordance with the procedures set out in the By-Laws, subject to any differing and additional provisions provided for by mandatory laws or regulations.

The Space2 (now Avio S.p.A.) Shareholders' Meeting of December 1, 2016 appointed the Board of Statutory Auditors and established the relative remuneration, with effect from the Effective Merger Date and until the Shareholders' Meeting to be called to approve the 2019 Annual Accounts.

The members of Avio's Board of Directors in office at the Report approval date are listed in the table below.

Name	Office	Place and date of birth	Date of appointment	
Riccardo Raul Bauer	Chairman	Milan, January 12, 1951	December 2016	1,
Claudia Mezzabotta	Statutory Auditor	Fano (PU), February 3, 1970	December 2016	1,
Maurizio Salom	Statutory Auditor	Milan, April 9, 1954	December 2016	1,
Virginia Marini	Alternate Auditor	Milan, May 23, 1980	December 2016	1,
Maurizio De Magistris	Alternate Auditor	Naples, April 19, 1958	December 2016	1,

As per Article 144-*novies* of the Issuers' Regulation and the Self-Governance Code (as amended in July 2018), the fulfilment of the above requirements by the members of the Board of Statutory Auditors was assessed, with the outcomes communicated to the Board of Directors who, following appointment, communicate such in a press release and, subsequently, on an annual basis, in the corporate governance report.

The Board of Statutory Auditors after appointment conducted an internal check on the independence of its members. This check indicated that all members of the Board of Statutory Auditors in office were considered independent in accordance with Article 148 of the CFA, in addition to the Code. This assessment was positively renewed on March 15, 2018 and, more recently, on February 22, 2019.

A brief *curriculum vitae* of each member of the Board of Statutory Auditors in office at the Report approval date outlining their business management expertise and experience is presented below.

Riccardo Raul Bauer

He gained 28 years' experience with a leading audit firm - Price Waterhouse (now PWC), with experience in multinational companies operating in public procurement contracts and long-term contracting. Owner of the professional firm OMNIA, he has been a long-standing visiting professor for the daytime and evening Bachelor degree programme – Auditing Tenure at the Catholic University of the Sacred Heart since 1984 and was an adjunct professor for eight years at the L. Bocconi University - Quantitative Business Methodologies Programme. He has held, and holds, the following offices in listed companies: for eight years he held the role of Chairman of the Board of Statutory Auditors of Leonardo S.p.A and is currently the Chairman of the Board of Statutory Auditors of Avio S.p.A. He is also the Chairman of the Board of Statutory Auditors of Fiera Milano, of the “Ospedale Israelitico” and a member of the Board of Statutory Auditors of the Hebrew Museum of Judaism and of the Holocaust of Ferrara. Author of over thirty books on topics relating to the Chartered Accountant and Auditor profession, national and international accounting principles and auditing. He has published the Bauer Code and the Bauer Tax Code for sixteen years. And finally, he is a Accountant and Auditor enrolled in the Professional Register, as well as a lecturer in numerous courses, conferences and seminars in Italy and abroad on audits, forensic audits, national and international accounting standards and Corporate Governance.

Claudia Mezzabotta

Claudia Mezzabotta is a graduate in Business Economics from the “L. Bocconi” University of Milan since 1993, an accountant since 1994 and a statutory auditor since 1999. She is a "Financial Accounting" visiting professor at the Catholic University of Milan. In 2010, after more than ten years' experience as a consultant in the Technical Standards Office of Mazars S.p.A., she opened her own professional firm in Milan. She holds offices in several companies operating in the industrial sector as a member of the board of statutory auditors and also as chairperson.

Maurizio Salom

Born in Milan on 9 April 1954, he has a degree in Business Administration from Luigi Bocconi University of Milan. From 1980 to 1983 he worked at Peat, Marwick, Mitchell & Co (currently KPMG). He has been enrolled in the Register of Accountants of Milan (number 1352) since October 1986 and has been a founding partner of Studio Riccardi-Salom-Tedeschi of Milan since January 1984. He is an auditor and has been enrolled in the Register of Auditors since April 1995 in view of Ministerial Decree of April 12, 1995, published on the Official Journal 31-bis of April 21, 1995. He is also enrolled in the List of Technical Experts of the Civil and Criminal Court of Milan. His professional activity has mainly been focused on consultancy and assistance for some of the leading Italian private equity funds (Banca Intesa Private Equity, Neuberger, Alpha and The Carlyle Group) for which he provides taxation, legal and accounting consultancy services on LBO and on large Italian private equity transactions.

Offices held at the date of the Report may be viewed in the table shown in this paragraph below.

Maurizio De Magistris

He graduated with an honours degree in Economics and Commerce from the University of Rome. He is enrolled in the Register of Chartered Accountants of Rome, the Register of Technical Consultants of the Judge of the Court of Rome and the Register of Independent Auditors. He is a founding member of Studio Bonifacio - De Magistris, through which he carries out consultancy services on corporate and tax matters, in the field of economic assessments and in the "non-profit" sector. He has held and still holds several offices as Chairman or member of Boards of Statutory Auditors of leading companies and business groups, the most prominent of which include the Bulgari Group (Bulgari S.p.A. and all the Italian investee companies), the Leonardo/Finmeccanica Group (Leonardo Global Services S.p.A. and Ansaldo Breda S.p.A. and in the past, some of the Group's main strategic companies such as Thales Alenia Space and Selex Electronic Systems), as well as others related to specific significant companies.

Virginia Marini

Virginia Marini graduated in Economics and Commerce from the Catholica University of Milan in 2004. She immediately began working with Deloitte and Touche, first as an auditor and thereafter as a tax and corporate consultant. In 2001, she joined the firm M&M Associati.

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors									
Office	Members	Year of birth	Date of first appointment *	In office from	In office until	Slate **	Ind. Code	Attendance at Board meetings	No. other offices ****
Chairman	Riccardo Raul Bauer	1951	1.12.2016	April 10, 2017	Approv. 2019 Accounts	U	X	8/9	2
Statutory Auditor	Claudia Mezzabotta	1970	1.12.2016	April 10, 2017	Approv. 2019 Accounts	U	X	9/9	12
Statutory Auditor	Maurizio Salom	1954	1.12.2016	April 10, 2017	Approv. 2019 Accounts	U	X	9/9	76
Alternate Auditor	Maurizio De Magistris	1958	1.12.2016	April 10, 2017	Approv. 2019 Accounts	U	X	N/A	23
Alternate Auditor	Virginia Marini	1980	28.5.2015	April 10, 2017	Approv. 2019 Accounts	U	X	N/A	3
Number of meetings held in the Year: 9									
Quorum required for the presentation of slates by minority shareholders for the election of one or more members (as per Art. 148 CFA): 4.5%									

NOTE

* The first appointment of each Statutory Auditor refers to the date on which the Statutory Auditor was appointed for the first time to the Board of Statutory Auditors of the Issuer.

** This column indicates the slate from which each Statutory Auditor originated (“M”: majority slate; “m”: minority slate; “O”: only slate).

*** This column indicates the percentage of attendance of the Statutory Auditors in relation to the number of meetings of the Board of Statutory Auditors (indicates the number of meetings attended compared to the amount they could have attended).

**** This column indicates the number of offices of director or statutory auditor in accordance with Article 148 bis of the CFA and the relative enacting provisions in the Consob Issuer Regulations. The complete list of offices held is published by Consob on its website pursuant to Article 144- quinquiesdecies of the Consob Issuers’ Regulations.

The remuneration of the statutory auditors was established by the Shareholders' Meeting on appointment.

The remuneration of the Board of Statutory Auditors in office was established by the Shareholders' Meeting of December 1, 2016, with effect from the Effective Merger Date, setting annual remuneration of Euro 50,000 for the Chairperson of the Board of Statutory Auditors and of Euro 35,000 for each Statutory Auditor, gross of tax withholdings.

The remuneration matured in 2018 is however detailed in the Remuneration Report.

In 2018, the Board of Statutory Auditors met on 10 occasions, with an average meeting duration of approx. 2 hours.

As regards the current financial year, 11 meetings are scheduled. The attendance of the Statutory Auditors at the meetings in 2018 is shown in the table above.

In accordance with the recommendations of the Self-Governance Code, the Board of Statutory Auditors oversees the financial disclosure and auditing process, in particular with regards to the provision of non-audit services.

The Board of Statutory Auditors, in executing its activities, coordinated with the Internal Audit Manager and with the Control, Risks and Sustainability Committee through continuous attendance of the Committee's meetings, at which the Internal Audit Manager usually also attended. In addition, the Chairperson of the Board of Statutory Auditors, or a differing Statutory Auditor in his place, participated at all meetings of the Committees set up within the Board of Directors.

In addition, it worked with the Supervisory Board appointed in accordance with Legislative Decree 231/2001. The Board of Statutory Auditors liaised with the director in charge of the internal control and risk management system. The Board of Statutory Auditors, finally, attended the Appointments and Remuneration Committee meetings.

The Board of Statutory Auditors, as part of the supervision of implementation of the corporate governance rules, verified the correct application of the assessment criteria and procedures adopted by the Board to evaluate the independence of its members. The outcome of these controls was communicated to the market.

Diversity policies

In accordance with the provisions of Article 8.P.2 of the Self-Governance Code, Avio applied diversity criteria, including gender criteria, to the composition of the Board of Statutory Auditors, in line with the priority objective of ensuring sufficient skills and levels of professionalism in its members.

In fact, as per Article 17.4 of the By-Laws of Avio and in accordance with Application Criterion 8.C.3 of the Self-Governance Code, the slates for the appointment of Statutory Auditors must contain, in both sections, a number of candidates equal to or greater than 3 (three) to ensure that the composition of the Board of Statutory Auditors, both for statutory

auditors and alternate auditors, complies with the legal and regulatory provisions that are in force in relation to gender equality (male and female), provided that if the application of the criterion for the gender equality quota does not result in a full number, this should be rounded up to the next unit.

Moreover, the Board of Statutory Auditors, in accordance with the provisions of Article 144-*novies*, paragraph 1-*bis* of the Issuers' Regulation and the Application Criterion 8.C.1, checked the independence of its members and forwarded the outcome of these checks to the Board of Directors' meeting held most recently on March 14, 2019.

With regards to the Diversity Policy applied to the Board of Statutory Auditors, reference should be made to paragraph 4.2.2.

* * *

The statutory auditors received an induction that enabled them to acquire adequate knowledge of the sector in which the Issuer operates, of corporate dynamics, of the principles of correct risk management, as well as of the regulatory and governance reference framework, in compliance with the 2.C.2 Implementation Criterion of the Corporate Governance Code.

16. Relations with shareholders

The company, in accordance with Principle 9.P.1 of the Code, considers the Shareholders' Meeting as an important opportunity for the interfacing of shareholders and directors and, consequently, adopts measures supporting participation at the Shareholders' Meeting and the exercise of voting rights by shareholders. In this regard, Article 8 of the By-Laws (in accordance with Article 2369 of the Civil Code) establishes, except for other indications within the notice, that the Shareholders' Meetings are held in single call and Article 10.4 (in accordance with Article 135-*undecies* of the CFA) establishes that the company may appoint, for each Shareholders' Meeting, through appropriate indication in the call notice, a party ("designated representative of the company") to whom shareholders can confer proxy, with voting instructions on all or any proposals on the Agenda, in accordance with the legally established terms and means.

The company has created a specific "Investors" section of its website, which is easily identifiable and accessible and makes available information concerning the company of importance to its shareholders, allowing them to knowledgeably exercise their rights. The company has also created a section in the website dedicated to "corporate governance", containing an array of documentation, including this Report and its previous versions.

In accordance with Application Criteria 9.C.1 of the Self-Governance Code, relations with institutional investors are however managed by the Investor Relator.

The duty of the Investor Relator is to constantly ensure that senior management are updated on the financial market disclosure obligations and, in particular, those concerning investors.

The Investor Relator represents, therefore, the point of contact between the Issuer and the market and has the duty to liaise with company structures to maintain and incentivise

compliance with corporate disclosure regulations. Investor relation activities are shared with and supported by management.

The Board of Directors of Space2 (now Avio S.p.A.) on January 19, 2017 appointed, in line with the recommendations at application criterion 9.C.1 of the Self-Governance Code, Alessandro Agosti as the investor relator, with effect from the Effective Merger Date. This appointment was confirmed on April 10, 2017 by the Board of Directors of the Issuer.

17. SHAREHOLDERS' MEETINGS

As per Article 8 of the By-Laws, the Shareholders' Meeting deliberates upon matters reserved to it by law and the By-Laws. Shareholders' Meeting motions, taken in accordance with law and the By-Laws, are binding on all shareholders. The Shareholders' Meeting meets in single call and is constituted and passes motions by statutory majority, except where otherwise indicated in the call notice.

[As per Article 8.3 of the By-Laws, the Related Party Transactions Policy of the company may establish (i) that the Board of Directors approves the "significant transactions", as defined by the RPT regulation, despite an opinion to the contrary issued by the Independent Directors Committee responsible for issuing an opinion on the above-mentioned transactions, provided that the execution of such transactions are authorised by the Shareholders' Meeting in accordance with Art. 2364, paragraph 1, No. 5 of the Civil Code. In this case, the Shareholders' Meeting decides by statutory majority, providing, where the unrelated shareholders attending the Shareholders' Meeting represent at least 10% of the share capital with voting rights, the majority of unrelated shareholders voting at the Shareholders' Meeting are not in opposition; and (ii) that the Board of Directors or the executive bodies may consider, availing of the exemptions under the policy and in compliance with the conditions stated therein, execution by the company, directly or through its subsidiaries, of urgent related party transactions which are not within the scope of the Shareholders' Meeting, nor require the latter's authorisation.

As per Article 10 of the By-Laws, those with voting rights have a right to attend the Shareholders' Meeting. The right to attend the Shareholders' Meeting and the right to vote is verified by a notice to the company, made by the authorised intermediary in accordance with law, based on the accounting records at the end of the seventh trading day prior to the date fixed for the Shareholders' Meeting in single call, and submitted to the company in accordance with law.

Those with Shareholders' Meeting voting rights may be represented by a proxy appointed in writing or by means of an electronic document signed in compliance with the applicable regulation. The proxy notification to the company may be sent by Registered Letter or electronically by means of a message addressed to the certified email address indicated in the notice itself or by using the appropriate section of the company's website, according to that indicated in the call notice.

For each Shareholders' Meeting, the company may designate, through notification in the call notice, a person to whom shareholders can confer proxy, with voting instructions on all or some of the proposals on the agenda, in the terms and manner provided by law.

The Shareholders' Meeting is chaired by the Chairperson of the Board of Directors, or, in his/her absence or impediment, the eldest Vice Chairperson where appointed or, in his/her absence or impediment, the eldest Chief Executive Officer present, where appointed, or, in his/her absence or impediment, an individual appointed by the Shareholders' Meeting. The Chairperson shall be assisted by a Secretary, even a non-director and/or non-shareholder, elected on his proposal by a majority of those present. In the Extraordinary Shareholders' Meeting and, in any case, when the Chairperson considers it appropriate, the functions of the Secretary shall be carried out by a Notary appointed by the Chairperson.

The Shareholders' Meeting may be held in several locations, via audio/video link, on the condition that a collective approach is taken and the principles of good faith and of equal treatment of shareholders are upheld and, in particular, provided that: (a) the Chairperson of the Shareholders' Meeting may (i) ascertain the identity and right to attend of all present, (ii) govern the business of the meeting, in addition to (iii) verify and declare the voting results; (b) the minutes-taker is able to adequately note all the matters pertaining to the Shareholders' Meeting; (c) attendees may participate in the discussions and vote simultaneously on the matters on the Agenda; (d) this method is contained in the call notice of the Shareholders' Meeting which also indicates the locations. The meeting shall be considered to have been held in the place where there are, simultaneously, the Chairperson and the person taking the minutes.

On June 17, 2015, in compliance with the recommendations of application criterion 9.C.3. of the Self-Governance Code, the Shareholders' Meeting of Space2 (now Avio S.p.A.) approved the adoption of a Shareholders' Meeting regulation governing the Shareholders' Meeting's business and permitting an orderly and efficient hosting of such meetings, guaranteeing at the same time each shareholder the right to take the floor on matters under discussion, as suggested by the Self-Governance Code. This Shareholders' Meeting regulation shall remain in force also subsequently to the Effective Merger Date.

The Shareholders' Meeting regulation, among other matters, establishes that:

- (i) the chairperson may adopt any measure considered necessary to guarantee the correct execution of Shareholders' Meeting's business and the exercise of voting rights by attendees;
- (ii) in the discussion of such matters and proposals, the Chairperson, where a majority of the share capital is not in opposition, may follow a different order of consideration from that stated in the formal notice of the meeting and may call for some or all of the matters on the agenda to be discussed together;
- (iii) the chairperson conducts the discussion, giving the floor to directors, to statutory auditors and any parties so requesting. The chairperson, prior to initiating the discussion, outlines for each point any questions received before the Shareholders' Meeting and any responses provided. Those holding the right to vote and the bondholders' joint

representative may request the floor on only one occasion for each matter on the agenda, making observations and requesting information. Those persons entitled to vote may also draw up proposals. Requests to contribute may be made from the constitution of the shareholders' meeting until the time at which the chairperson has not declared the discussion of the matter closed. In order to ensure the orderly conduct of the meeting, the Chairperson has the power to determine, at the opening of or during the discussion of individual matters, a deadline for the submission of requests to contribute. The chairperson establishes the manner in which contribution requests are made and the order in which they are heard. The Chairperson and, on his invitation, those assisting him/her respond to speakers at the end of all contributions under discussion, or after each contribution, taking account also of any questions drawn up by shareholders before the Shareholders' Meeting, which have not been responded to by the company. Those who have requested the floor have the right to a brief reply;

- (iv) before voting commences, the chairperson readmits to the Shareholders' Meeting any persons excluded during the discussion in accordance with the regulation;
- (v) the Chairperson shall decide the order in which the proposals on the individual matters on the agenda are put to the vote, generally giving priority to those formulated by the Board of Directors.

In 2018, the Shareholders' Meeting met on April 24, 2018, in single call, with the attendance of approx. 45.91% of the share capital, approving the 2017 Annual Accounts. The Shareholders' Meeting also expressed its consultative vote on the first section of the Remuneration Report as per Article 123-*ter* of the CFA.

The Board of Directors, through the Chairperson, at the above Shareholders' Meeting (at which, in addition the Chairperson, the following Directors were present: Messrs. Giulio Ranzo, Donatella Sciuto, Vittorio Rabajoli, Giovanni Gorno Tempini, Maria Rosaria Bonifacio and Monica Auteri and Statutory Auditors, Riccardo Raul Bauer, Chairman, Claudia Mezzabotta and Maurizio Salom, Statutory Auditors) reported on the activities carried out and scheduled, also following the submission of questions by a number of shareholders. The document containing the statutory financial statements and consolidated financial statements, together with the accompanying reports, in addition to the reports of the Directors on the matters on the agenda, were provided on entry in order to ensure Shareholders of adequate disclosure with regards to the matters necessary to take into consideration, with due consideration, for the decisions to be taken. This documentation, together with the results of voting, was also made available and may be accessed on the company website www.avio.com, Investors Section, Shareholders' Meetings, 2018.

The Appointments and Remuneration Committee decided not to report to the Shareholders' Meeting upon the means of exercise of its functions, considering that this information has already been outlined in the Remuneration Report made available to the shareholders before the Shareholders' Meeting.

In 2018, there were no significant changes in the market capitalisation of the shares of the company or in the composition of its shareholders, such as to consider it necessary to assess

the possibility to propose to the Shareholders' Meeting changes to the By-Laws in relation to the percentages established for the exercise of the shares and to the protection of minority shareholders.

18. FURTHER CORPORATE GOVERNANCE ACTIVITIES

It should be noted that, as already discussed in paragraph 12.3 with reference to the internal control and risk management system, the company has adopted a specific Whistleblowing Policy.

This policy incorporates legal provisions contained in Law No. 179 of November 30, 2017, implementing the "Provisions for the protection of whistleblowers reporting offences or irregularities that become known to them within the bounds of a private or public employment contract".

Specifically, the policy is included within the application of the company's 231 Model and focuses on the handling of reports through which company employees can report possible fraud, an offence, an unlawful act or any irregular conduct committed by other persons belonging to the company. The aim of the reporting is to enable the company to address the reported problem as soon as possible, disclosing risky or harmful situations and contributing toward preventing and counteracting any unlawful acts.

The Company also announces that it has adopted an Anti-corruption Code with the Board of Directors' motion of March 14, 2019 to counter corruption and prevent the risks of illegal practices at any working level and in any geographic area, both through the dissemination and promotion of ethical values and principles and through the effective provision of rules of conduct and the implementation of control processes, in line with the requirements established by applicable laws and international best practices.

19. CHANGES SUBSEQUENT TO THE YEAR-END

There were no additional changes to the corporate governance structure since year-end further to those reported above.

20. CONSIDERATIONS ON THE LETTER OF DECEMBER 21, 2018 OF THE CHAIRPERSON OF THE CORPORATE GOVERNANCE COMMITTEE

The recommendations contained in the letter of December 21, 2018 of the Chairperson of the Corporate Governance Committee concerning the issue of corporate governance were brought to the attention of the Board of Directors at the meeting of March 14, 2019 and, therefore, on reviewing the results of the self-assessment which was carried out in February 2019. On this occasion, the Board of Directors, taking account of the recommendations, decided that almost all recommendations had been implemented by Avio and will not undertake further initiatives to those already implemented or underway, since it is compliant with these and, for the moment, will not undertake specific actions for the reasons indicated in the corresponding paragraphs of the Corporate Governance and Ownership Structure Report and of the Remuneration Report.