



REMUNERATION REPORT

in accordance with Article 123-*ter* of the CFA and 84-*quater* of the Consob
Issuers' Regulation

Issuer: Avio S.p.A.

Website: www.avio.com

Approved by the Board of Directors on March 14, 2019

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GLOSSARY

For the purposes of this document, the following definitions are used:

Executive Directors: Directors of the company assigned operational or managerial powers or to whom the Board of Directors confers specific roles. At the Reporting date, the Executive Director of the company was the Chief Executive Officer Giulio Ranzo.

Shareholders' Meeting: the collective decision-making body of the company. All shareholders with voting rights (directly or by proxy) are represented at the meeting. Its powers are assigned by law and the By-Laws: these mainly include the approval of the Financial Statements, the appointment and revocation of the Directors, the Board of Statutory Auditors and its Chairman. Under the Remuneration Policy, it expresses a non-binding opinion on Section I of the Remuneration Report.

Avio pre-Merger: Avio S.p.A., incorporated into Space 2 through the Merger, with registered office at via Antonio Salandra No. 18, Rome, operating office at SP Ariana Km 5.2, Colleferro (RM), Tax, VAT and Rome Companies Office Registration No. 05515080967, REA No. 1177979.

Civil Code: Legislative Decree No. 262 of March 16, 1942 - XX and subsequent amendments and supplements.

Self-Governance Code: the "Self-Governance Code of listed companies concerning Corporate Governance" approved in July 2015 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, ANIA, Assogestioni, Assonime and Confindustria.

Appointments and Remuneration Committee: established within the Board of Directors and with the duty, among other matters, of presenting to the Board of Directors a proposal on the General Policy for the remuneration of Executive Directors, Senior Directors and Senior Executives.

Board of Directors: the collective body entrusted with the company's management. Avio's Board of Directors has 9 members: Roberto Italia, Giulio Ranzo, Luigi Pasquali, Vittorio Rabajoli, Stefano Ratti, Monica Auteri, Maria Rosaria Bonifacio, Donatella Sciuto, Giovanni Gorno Tempini. It is responsible for approving the Remuneration Policy proposed by the Appointments and Remuneration Committee.

Effective Merger Date: April 10, 2017

Senior Executives: those with the authority and responsibility, directly or indirectly, for planning, directing and controlling the company's activities. At the Reporting date, in addition to the Chief Executive Officer and the General Manager, Giulio Ranzo and an additional 4 executives were identified as Senior Executives.

Merger: the merger by incorporation of Avio pre-Merger into Space2, approved by the Extraordinary Shareholders' Meeting of Space2 and that of Avio pre-Merger on December 1, 2016, and completed on the Effective Merger Date.

Group: collectively Avio and its subsidiaries pursuant to Article 2359 of the Civil Code and Article 93 of the CFA.

Industrial Plan: the Group Industrial Plan.

Policy or Remuneration Policy: the remuneration policy applicable to Directors and Senior Executives for Financial Year 2018, as specified in Section I of the Report.

Issuers' Regulation: the Regulation issued by CONSOB with motion No. 11971 of May 14, 1999 (and subsequent amendments) concerning issuers.

Report: this Remuneration Report of the Avio Group prepared in accordance with Article 123-*ter* and Article 84-*quater* of the Issuers' Regulation.

Company or Avio: Avio S.p.A., the company resulting from the Merger, with registered office at via Leonida Bissolati No.76, No. 27 Rome, Rome Companies Registration and Tax No. 09105940960.

Space 2: Space2 S.p.A. until the Effective Merger Date, with registered office in Milan, Via Mauro Macchi 27, VAT, Tax and Milan Companies Registration Office No. 09105940960.

CFA: Legislative Decree No. 58 of February 24, 1998 (Consolidated Finance Act) and subsequent amendments.

INTRODUCTION

This Report was prepared by Avio in accordance with Article 123-*ter* of the CFA, Article 84-*quater* of the Issuers' Regulation, in addition to, on the basis of self-regulation, Article 6 of the Self-Governance Code, of which Avio complies with the majority of its provisions.

The Report comprises, according to Article 123-*ter* of the CFA, two sections.

Section I outlines the Remuneration Policy adopted by the company for Financial Year 2019, with regards to the following parties:

- (i) Members of the Board of Directors of the company, distinguishing between executive and non-executive directors.
- (ii) Group Senior Executives.

Section I of the Report also outlines the procedures utilised for the preparation and adoption of the Remuneration Policy, in addition to the bodies and parties responsible for the Policy's correct implementation.

The Remuneration Policy was approved by the Board of Directors of the company on March 14, 2019, on the proposal of the Appointments and Remuneration Committee. It may be updated by the Board of Directors, on the proposal of the Appointments and Remuneration Committee, which has the duty to periodically assess its overall consistency and concrete application. Section I is therefore submitted for the non-binding vote of the Shareholders' Meeting called to approve the 2018 Annual Accounts.

In addition, the Remuneration Policy was prepared also in accordance with the Related Party Transactions Policy adopted by the company.

The drafting of the Remuneration Policy was supported by the Korn Ferry Hay Group, a leading human resources development and organization consultancy firm, with reference made to the remuneration policies of Italian and European companies which overall are comparable with Avio.

Section II of the Report outlines, with regards to 2018, each of the items comprising the remuneration of the individuals listed at points i) and ii), including the members of the Board of Statutory Auditors, in addition to an analysis (in a specific table) of the remuneration paid to these parties, in any regard and in any form by the company or by its subsidiaries in 2018, in addition to remuneration not yet paid at the Report approval date, although relating to 2018.

A relative table, as per Article 84-*quater*, paragraph 4 of the Issuers' Regulation, presents holdings in the company or its subsidiaries by these parties (and by parties related to them).

This Report is sent to Borsa Italiana and is made available to the public at the registered office of Avio (via Leonida Bissolati 76, Rome) and on the company's website www.avio.com "Corporate Governance" section, by the twenty-first day preceding the Shareholders' Meeting.

EXECUTIVE SUMMARY

Avio's Remuneration Policy for Executive Directors and Senior Executives is based on the following principles and criteria:

- this policy seeks to attract, retain and motivate individuals of high professional standing, with particular regard to key positions for the development and management of the business;
- a link with company performance, but also with the risk profile;
- the alignment of the interests of company management with the pursuit of the objective to create value for shareholders over the medium/long-term.

The following table outlines the key elements regarding the remuneration of Executives Directors and Senior Executives explored subsequently in the Report.

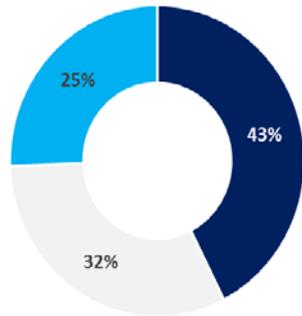
Member	Characteristics
Fixed remuneration component.	The continuative component, established taking account of the breadth and strategic nature of the role, its characteristics and expertise required and market practice for comparable positions.
Short-term variable component	<p>The payment of a monetary bonus on the reaching of the pre-set annual objectives.</p> <p><u>Beneficiaries:</u> The Chief Executive Officer, Senior Executives, Managers and key professionals.</p> <p><u>Amount:</u> the target bonus is based on the level of responsibility of the role; a maximum amount is set for the achievement of performance objectives in excess of the target.</p> <p><u>Performance objectives:</u> the issue of the bonus is linked to company performance indicators in terms of Adjusted EBITDA and the Net Financial Position of the Group. The bonus is not issued where the minimum performance objective is not met.</p> <p>For the Chief Executive Officer, the bonus is exclusively linked on the objectives set in terms of Adjusted EBITDA and the Net Financial Position; for Senior Executives, the bonus is issued also on the basis of department/function objectives, principally of a quantitative, economic-financial and operating nature.</p>
Medium/long-term variable component	<p>Reference should be made to the three-year monetary plan cycle launched in 2017, which establishes three cycles (2017-2019; 2018-2020; 2019-2021).</p> <p><u>Beneficiaries:</u> the Chief Executive Officer, the Senior Executives and a limited number of other Managers executing important roles within the company.</p> <p><u>Performance objectives:</u> the monetary bonus, assigned to beneficiaries at the beginning of each performance cycle, maturing on the achievement of the cumulative three-year objectives. For the cycle (2017-2019) these objectives were cumulative three-year Adjusted EBITDA (2017-2019) and the cumulative three-year (2017-2019) Operating Free Cash Flow, each with a weighting of 50%; for the second (2018-2020) cycle, these objectives are cumulative three-year (2018-2020) Reported EBITDA and cumulative three-year (2018-2020) Operating Free Cash Flow. The objectives are broken down over a</p>

	number of performance levels (minimum, target and maximum), to which the amount of the effectively issued bonus is connected.
<i>Claw-back</i>	The Long-Term Plan stipulates a claw-back clause. The extension of the claw-back mechanism also to the short-term component is currently under discussion for its introduction from the next assignment.
<i>Benefits</i>	Non-monetary benefits supplementing social security plans and the minimum contractual conditions, such as a company car.

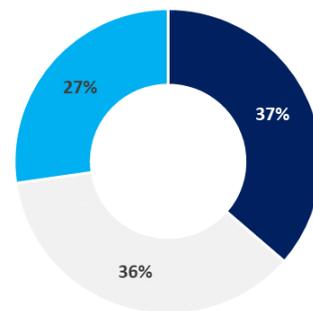
The make-up of the remuneration package of the Chief Executive Officer and the Senior Executives, in the case of achieving the target and maximum performance levels, is as follows:

Chief Executive Officer

Pay-mix - performance target



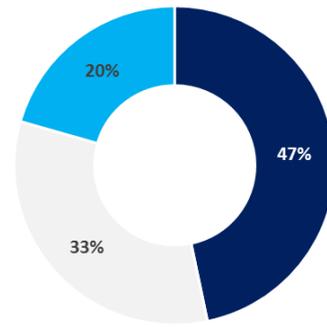
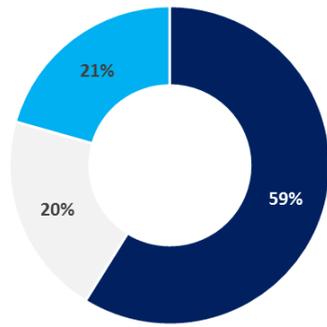
Pay-mix, maximum performance



Senior Executives

Pay-mix - performance target

Pay-mix, maximum performance



SECTION I

The Remuneration Policy defines the principles and guidelines adopted by Avio for the remuneration of the members of the Board of Directors and Senior Executives.

1. GOVERNANCE - PROCEDURES FOR THE ADOPTION AND IMPLEMENTATION OF THE REMUNERATION POLICY

1.1. Parties involved in the preparation, approval and implementation of the Remuneration Policy

The principal parties and bodies involved in the preparation and approval of the Remuneration Policy are the Shareholders' Meeting, the Board of Directors, the Appointments and Remuneration Committee and the Board of Statutory Auditors. The Board of Directors, the Board of Statutory Auditors and the Appointments and Remuneration Committee are also responsible for the correct implementation of the Remuneration policy and oversee its correct implementation. A brief description of the duties, which in accordance with the applicable regulation and the company By-Laws are required of these Boards with regards to the remuneration of the directors, is provided below.

Shareholders' Meeting

The Shareholders' Meeting:

- (i) establishes the total remuneration of the members of the Board of Directors in accordance with Article 2364, paragraph 1, No. 3) of the Civil Code, also in accordance with Article 2389, paragraph 3 of the Civil Code and Article 15 of the By-Laws;
- (ii) in accordance with Article 123-ter, paragraph 6 of the CFA, decides in favour or against section I of the Report (in accordance with the above-stated regulation; this Shareholders' Meeting decision is not binding);
- (iii) establishes any remuneration plans based on shares or other financial instruments for directors, employees or collaborators, including Senior Executives, where existing, in accordance with Article 114-bis of the CFA.

Board of Directors

The Board of Directors:

- (i) establishes internally an Appointments and Remuneration Committee;
- (ii) establishes the remuneration of the Executive Directors on the proposal of the Appointments and Remuneration Committee (and, where established, of the Related Parties Committee), with prior opinion from the Board of Statutory Auditors, within any remuneration established by the Shareholders' Meeting in accordance with Article 2389, paragraph 3 of the Civil Code and breaks down the fixed annual remuneration for execution of office, established in totality by the Shareholders' Meeting for Non-Executive Directors, as set out by Article 15 of the By-Laws;
- (iii) defines, on the proposal of the Appointments and Remuneration Committee, the Remuneration Policy;
- (iv) approves the Report in accordance with Articles 123-ter of the CFA and 84-quater of the Issuers' Regulation;
- (v) prepares any remuneration plans based on shares or other financial instruments for directors, employees and collaborators, including Senior Executives, where existing, submitting such for the approval of the Shareholders' Meeting in accordance with Article 114-bis of the CFA and oversees

their implementation.

Appointments and Remuneration Committee

The Appointments and Remuneration Committee provides consultation and proposals, and in terms of remuneration:

- 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 Committee is also assigned, with respect to remuneration issues alone, the duties allocated to the committee responsible for related party transactions as per the Related Party Transactions Policy adopted by the company. For transactions with significant related parties, where the committee does not include at least three independent directors, the controls at Article 14 of the stated Policy apply.

This committee guarantees the broadest scope of information and transparency on the remuneration of the Executive Directors, as well as the manner for determining their remuneration. In any case, as per Article 2389, paragraph 3 of the Civil Code, the Appointments and Remuneration Committee has solely the function of presenting proposals, while the power of determining the remuneration of Executive Directors remains with the Board of Directors, having consulted with the Board of Statutory Auditors and in any case with the abstention of the interested directors regarding decisions upon their own remuneration.

The Appointments and Remuneration Committee consists of three non-executive directors, the majority of whom independent, appointed by Board of Directors' motion of April 10, 2017, namely:

- Giovanni Gorno Tempini (Chairman);
- Maria Rosaria Bonifacio;
- Stefano Ratti.

Upon appointment and, most recently, on March 14, 2019, the Board of Directors considered the independent director Giovanni Gorno Tempini to possess the financial field expertise required and the independent director Maria Rosaria Bonifacio to have sufficient remuneration policy experience.

The composition, tasks and procedures of the Appointments and Remuneration Committee are governed by the Self-Governance Code and the regulation adopted by the Committee.

The meetings of the Appointments and Remuneration Committee are chaired by the Chairperson or, in his/her

absence or impediment, the eldest member of the Committee. The meetings are held as a collective and are appropriately minuted.

The Directors do not take part in meetings of the Appointments and Remuneration Committee at which proposals upon their specific remuneration of the Board of Directors are drawn up.

Meetings of the Appointments and Remuneration Committee are attended by the Chairman of the Board of Statutory and, on invitation, by representatives of company departments and independent experts and/or other parties, whose participation is considered beneficial for the discussion of the matters at issue.

Where considered necessary or beneficial for the execution of its duties, the Appointments and Remuneration Committee may utilise outside remuneration policy consultants.

In 2018, the Appointments and Remuneration Committee met on four occasions. The meeting attendance of Committee members is reported in the table at the bottom of Section 4.2.1 of the Corporate Governance and Ownership Structure Report, available on the company website www.avio.com, "Corporate Governance" section.

The Chairman of the Board of Statutory Auditors, the Chief Executive Officer, the Human Resources Director, the General Counsel, the Legal Department collaborators, 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 Chief Executive Officer did not take part in the Committee's discussions concerning decisions upon his remuneration or which would put him in a conflict of interest situation.

In 2018 the Committee business principally concerned:

- the assessment and the monitoring of the adequacy, overall consistency and concrete application of the remuneration policy for Senior Executives, with reference to 2018;
- the assessment regarding the degree of annual performance objective achievement under the incentive system for 2017 and the setting of the objectives for 2019;
- the setting of the performance objectives for the second cycle of the long-term incentive plan;
- the adjustment of the performance objectives for the variable component of the short-term remuneration to the criteria indicated in the Industrial Plan;
- the self-assessment process of the Board, carried out in-house;
- the diversity policies;
- the updating by Management on the amendments to the company's organisational structure, on the key remuneration activities, on the main HR initiatives;
- the drawing up of the proposal to the Board with regards to the 2019 Remuneration Policy.

Executive Director

The Executive Director is tasked with:

- providing the Appointments and Remuneration Committee, with the support of the Group Human Resources Department, with any useful information for this latter to assess the adequacy and concrete implementation of the Policy, with specific regard to the remuneration of Senior Executives;
- submitting to the Appointments and Remuneration Committee the draft share-based incentive plans,

stock option plans, stock ownership plans and incentive and loyalty plans established for the management of Group companies or, where appropriate, assists the Committee in drafting such, also with the support of the Group Human Resources Department;

- implementing the Remuneration Policy of the company in accordance with this document.

Board of Statutory Auditors

The Board of Statutory Auditors expresses an opinion upon the remuneration proposals of the Executive Directors, in accordance with Article 2389, paragraph 3 of the Civil Code, verifying the consistency of such with the Remuneration Policy adopted by the company.

2. INDEPENDENT EXPERTS INVOLVED IN PREPARING THE REMUNERATION POLICY

In preparing the Remuneration Policy the company was assisted for salary benchmarking by the independent expert Korn Ferry Hay Group, a major human resources development and organization consultancy firm.

3. REMUNERATION POLICY

3.1. OBJECTIVES AND PRINCIPLES OF THE REMUNERATION POLICY

Avio's Remuneration Policy is based on the following key principles and is defined according to the following criteria:

- This policy seeks to attract, retain and motivate individuals of high professional standing, with particular regard to key positions for the development and management of the business, through a remuneration structure which recognises the value of the individual and their contribution to company growth.
- Link with performance: the remuneration recognises the achievement of the performance objectives, both individual and company, principally referring to qualitative economic-financial indicators and, to a lesser extent, operating indicators. They are pre-set and measurable, fixing bonus levels according to the relative achievement of objectives.
- The alignment of the interests of company management with the pursuit of the objective to create value for the shareholders of Avio over the long-term through an appropriately balanced system of fixed and variable components, on the basis of the strategic objectives and the risk management policy of the company, and the setting of limits for the variable components which also reward results which exceed the assigned targets.

In line with the above principles, the company shall propose to the Shareholders' Meeting of April 29, 2019 approval of this document.

3.2. OUTLINE OF THE REMUNERATION POLICY

The Remuneration Policy provides that the fixed and variable components (this latter in turn split between short and medium/long-term) are established on the basis of principles and processes according to the beneficiary category.

In this regard, on June 28, 2017, the Board of Directors of the company, on the proposal of the Appointments and Remuneration Committee, identified - in light of the positions and respective roles held within the Group - the Senior Executives.

The company in any case considered it appropriate to create a remuneration system based on the executive / managerial responsibilities of the parties concerned and therefore independently set the criteria for

determining the remuneration of:

- (i) Directors, and more specifically:
 - (a) Non-executive directors; and
 - (b) Executive Director;
- (ii) Senior Executives.

(i) DIRECTORS

All directors receive a fixed remuneration which appropriately compensates the work and commitment provided by the Directors to the company.

The Shareholders' Meeting of December 1, 2016, with regards to the setting of the Directors' remuneration, assigned to the Board of Directors to remain in office for the three years following that in which the Merger becomes effective, remuneration of, as per Article 2389 of the Civil Code, Euro 500,000 annually, to be divided among its members in accordance with the motions to be taken by the Board of Directors, subject to any additional remuneration for senior directors, as may be established by the Board of Directors pursuant to Article 2389, third paragraph of the Civil Code.

In fulfilment of that stated above, the Board of Directors of April 10, 2017 decided to recognise to each Director, with the exception of the sole Executive Director (the Chief Executive Officer), gross annual remuneration of Euro 35,000.00, while proposing to recognise gross annual remuneration of Euro 120,000.00 to the Chairman of the Board of Directors.

The above Board of Directors proposed, in addition, to allocate to the Internal Board Committees (Appointments and Remuneration Committee, Control, Risks and Sustainability Committee and Strategic Activities Committee), with the exclusion of the only Executive Director (the Chief Executive Officer), remuneration for the Chairpersons of Euro 15,000.00 each and for the other members of Euro 10,000.00 each.

As of the date of this Report reversibility agreements are in place for the remuneration of some Directors. Specifically:

- Mr. Roberto Italia, Chairman of the Board of Directors of Avio S.p.A., and the company Space Holding S.r.l. signed a reversibility agreement, under which the remuneration matured for the office held by him is paid to the company Space Holding S.r.l.. In relation to that indicated above, at December 31, 2018 the payable of the company to Space Holding S.r.l. amounts to Euro 120,000.00;
- Mr. Stefano Ratti - member (i) of the Board of Directors; (ii) of the Appointments and Remuneration Committee and (iii) of the Strategic Activities Committee of Avio S.p.A. - and the company Leonardo Finmeccanica S.p.A. signed a reversibility agreement, under which the remuneration matured for the offices held by him is paid to the company Leonardo Finmeccanica S.p.A.;
- Mr. Luigi Pasquali - member (i) of the Board of Directors and Chairman of the Investment Committees of Avio S.p.A. - and the company Leonardo Finmeccanica S.p.A. signed a reversibility agreement, under which the remuneration matured for the offices held by him is paid to the company Leonardo Finmeccanica S.p.A..

(a) NON-EXECUTIVE DIRECTORS

The non-executive directors (whether independent or not) are granted a fixed remuneration, the overall amount of which is established by the Shareholders' Meeting, allocated on an individual basis by the Board of Directors pursuant to Article 2389 of the Civil Code.

The remuneration of these directors is not based on any financial results or specific objectives of the company and is commensurate with the commitment required, also in relation to participation on Board Committees, for which specific remuneration is allocated.

(b) EXECUTIVE DIRECTORS

The remuneration of the Chief Executive Officer (Executive Director or General Manager) is adequately balanced between short-term development objectives and the sustainable creation of value for Shareholders over the medium/long-term period.

Specifically, the Executive Director's remuneration structure is made up of:

- a fixed component: this component takes into account the breadth and strategic relevance of the role played and the distinctive subjective characteristics and strategic skills of the managers assigned to the role. The amount is sufficient to remunerate the service also in the case of the non-reaching of the performance objectives upon which the variable remuneration component is based, and therefore - among other issues - discourages the undertaking of conduct not consistent with the risk propensity of the company. More specifically, the fixed component is calculated according to the size of the managed business, the various areas of responsibility covered, the Avio Group's complex corporate structure, including internationally, taking account also of market practice for similar positions at industrial sector companies; in addition, the Chief Executive Officer receives an accommodation indemnity of Euro 48,000 gross;
- a short-term variable component: the purpose of this component is to encourage management to work towards the achievement of annual targets that maximize the Avio Group's value, in line with shareholders' interests. This component is conditional upon reaching a minimum performance threshold with respect to the annual targets set by the Board of Directors, upon proposal by the Appointments and Remuneration Committee. The indicators used to define the annual business performance targets (and to calculate the actual amount of the short-term variable component) are the Group's financial and earning parameters.

The value of the annual variable component for the Chief Executive Officer of Avio is 75% of the fixed remuneration on achievement of the target, with a maximum of 100% of the fixed remuneration;

- a medium/long-term variable component: the medium/long-term variable component seeks to incentivise Senior Executives to maximise the value of the Group and to align their interests with those of the shareholders. The payment of this remuneration may be deferred to the conclusion of a three-year timeframe, subject to the achievement of the performance conditions measured over a multi-year period.

The value of the target bonus, with regards to the 2018-2020 cycle, for the Chief Executive Officer, 54% of fixed remuneration. The value of the target assigned for the first cycle was however 72% of fixed remuneration: the Board of Directors in fact established that this value was higher than the bonuses concerning the subsequent cycles in order to put more emphasis on the initial stage of the long-term incentive plan;

- fringe benefits: fringe benefits concern the supply of goods and/or services assigned in accordance with market practice and as per applicable legislation. In particular, the Chief Executive Officer of Avio, in addition to the benefits under the Industry Executives Collective Bargaining Agreement, is assigned two company cars and supplementary life and total and permanent invalidity accident insurance.

For a description of the short-term variable component and of the medium-long term component of the remuneration of the Chief Executive Officer, reference should be made to Paragraph 3.3.

For the three-year period 2017-2019, the only Executive Director (i.e. the Chief Executive Officer) will not receive any additional remuneration for the position taken on the Board of Directors and its internal Committees, as already receiving a remuneration for the position of General Manager.

(ii) SENIOR EXECUTIVES

The remuneration of Senior Executives is structured so as to focus management on company results and the creation of value.

The remuneration of Senior Executives is composed of:

- a fixed component: this component takes into account the breadth and strategic relevance of the role played and the distinctive subjective characteristics and strategic skills of the beneficiary, in addition to market practice for comparable positions. The amount is sufficient to remunerate the service also in the case of the non-reaching of the performance objectives upon which the variable remuneration component is based;
- a short-term variable component: the purpose of this component is to encourage management to work towards the achievement of annual targets that maximize the Avio Group's value, in line with shareholders' interests. This component is conditional upon reaching a minimum performance threshold with respect to the annual targets set by the Board of Directors, upon proposal by the Appointments and Remuneration Committee. The indicators used to define the annual business performance targets (and to calculate the actual amount of the short-term variable component) are the Group's financial and earning parameters. Each Executive is also assigned individual objectives specifically related to specific areas of responsibility, measured according to predominantly quantitative, financial and earnings indicators, or operating indicators. In determining the short-term variable component, the achievement of business results and individual/area/function results are therefore combined.

The (average) value of the annual variable component for the Senior Executives of Avio is 35% of the fixed remuneration on achievement of the target, with a maximum of 58% of the fixed remuneration, which in the case of a particularly strong Group performance may reach 70% through application of a multiplier.

No discretionary variable remuneration is generally provided for. Only in exceptional cases and in view of particularly worthy performances producing tangible economic results for the company, may, on the provision of a favourable opinion by the Appointments and Remuneration Committee and the Board's approval, a one-off bonus be assigned. The Chief Executive Officer is not included in any case among the possible beneficiaries of any assignment of this bonus.

- a medium/long-term variable component: the medium/long-term variable component seeks to incentivise Senior Executives to maximise the value of the Group and to align their interests with those of the shareholders. The payment of this remuneration may be deferred to the conclusion of a three-year timeframe, subject to the achievement of the multi-year performance conditions.

The value of the target bonus, with regards to the 2018-2020 cycle, for the Senior Executives is 31.5% of fixed remuneration. The value of the target assigned for the first cycle was however 42% of fixed remuneration: the Board of Directors in fact established that this value was higher than the bonuses concerning the subsequent cycles in order to put more emphasis on the initial stage of the plan;

- fringe benefits: fringe benefits concern the supply of goods and/or services assigned in accordance with market practice and as per applicable legislation. In particular, the Senior Executives of Avio, in addition to the benefits under the Industry Executives Collective Bargaining Agreement, are assigned a company car and supplementary life and total and permanent invalidity accident insurance.

For the description of the short-term variable component and the medium/long-term variable component for Senior Executives, reference should be made to Paragraph 3.3.

3.3. VARIABLE REMUNERATION COMPONENT

The variable remuneration system of Avio includes a short-term variable component and a medium/long-term variable component.

3.3.1 SHORT-TERM VARIABLE COMPONENT

The annual incentive system provides for the payment of a monetary bonus on the reaching of the pre-set annual objectives. This system is reviewed every year by the Appointments and Remuneration Committee, which proposes to the Board of Directors the objectives for the Chief Executive Officer and the Senior Executives, identifying the metrics.

The beneficiaries of the system are, in addition to the Chief Executive Officer and the Senior Executives, Avio's managers and professionals. The value of the target bonus is based also on the level of responsibility of the role, according to pre-set "brackets"; each beneficiary, depending on their bracket, is assigned a variable target bonus expressed as a percentage of the fixed remuneration on achieving the pre-set targets; a maximum amount is established where the objectives are exceeded.

The right to receive a variable bonus is conditional upon achieving a minimum performance threshold with respect to the company's predetermined objectives. The business performance indicators used are the Group's Adjusted EBITDA and Net Financial Position, each equally weighted. For both of these parameters, business objectives are set with respect to the Industrial Plan approved by the Board of Directors.

For the Chief Executive Officer, the bonus is exclusively linked to company objectives in terms of Adjusted EBITDA and Net Financial Position, establishing:

- a minimum performance level (threshold) of 95% of the target value for Adjusted EBITDA and 85% for the Group Net Financial Position parameter, on achievement of which 40% of the bonus is issued; no bonus is recognised under the threshold level;
- a target performance level, on the achievement of which the target bonus of 75% of the fixed remuneration is recognised;
- a maximum performance level of 104% of the target value for Adjusted EBITDA and 121% for the Group Net Financial Position parameter, on achievement of which the maximum value of the relative bonus (cap) is recognised, equal to 100% of the fixed remuneration.

For Senior Executives, the bonus is linked for 50% to company objectives (Adjusted EBITDA, Net Financial Position) and for 50% to individual objectives: between four and five specific management objectives, to which economic-financial indicators are linked, or rather annual operating indicators. In determining the overall individual performance, each objective is assigned a differing weight. Generally, for the performance assessment there is only one qualitative objective.

The annual average theoretical bonus for the Senior Executives is 35% of the fixed remuneration on achieving the target objectives; the maximum value is 58%.

On achieving particularly challenging objectives and particularly strong results, in any case above the maximum performance level indicated above, the Board may establish a (de)multiplier which may increase or reduce the value of the final bonus issued; the minimum value of the demultiplier is 75%, while the maximum of the multiplier may not exceed in any case 120%.

3.3.2 LONG-TERM VARIABLE COMPONENT

On June 28, 2017, the Board of Directors approved the establishment of a monetary long-term incentive plan. The plan comprises three cycles, respectively beginning 2017, 2018 and 2019 and establishes, for each cycle, the awarding to each beneficiary of a monetary bonus which shall mature on achieving the performance objectives measurable over a three-year period; the bonus is issued only at the end of the three-year cycle.

The beneficiaries of the first cycle of 2017-2019 long-term incentive plan numbered thirteen, including the Chief Executive Officer and four Senior Executives.

The beneficiaries of the second cycle of the 2018-2020 long-term incentive plan are the Chief Executive Officer, four Senior Executives and a further ten Managers with strategic impact roles.

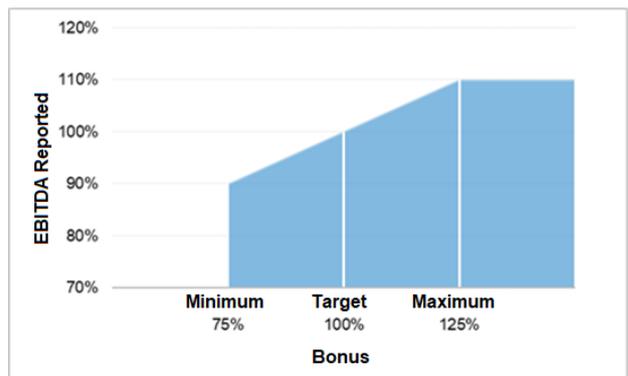
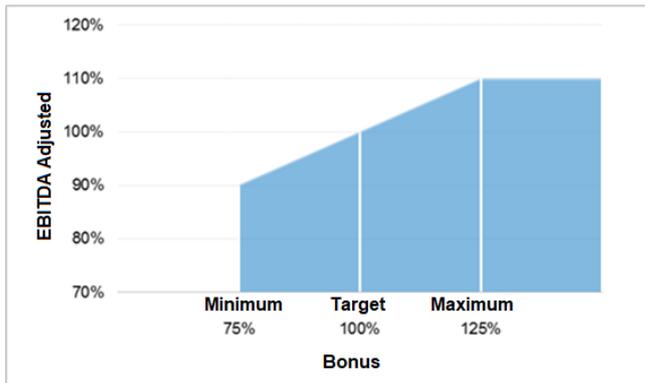
The long-term incentive plan is linked to two cumulative three-year indicators of the Industrial plan. For the first cycle (2017-2019), these indicators are cumulative Adjusted EBITDA and Operating Free Cash Flow, each with a weighting of 50%. For the second cycle, 2018-2020, the indicators are cumulative three-year Reported EBITDA and the cumulative three-year Operating Free Cash Flow, each with a weighting of 50%.¹ With regards to the performance levels linked to the highlighted indicators, it was decided to utilise the cumulative three-year target of the Industrial Plan.

For each of the two indicators selected, the following is established:

- a minimum performance level (threshold) of 90% of the target value for cumulative three-year Reported Ebitda and 85% for cumulative Operating Free Cash Flow, on achievement of which 75% of the bonus is issued; no bonus is recognised under the threshold level;
- a target performance level, on the achievement of which the target bonus (100%) is recognised for each of the two indicators considered;
- a maximum performance level, equal to 110% of the target value for cumulative three-year Reported EBITDA and 115% for the cumulative three-year Operating Free Cash Flow, on achievement of which the maximum value of the relative bonus (cap) is recognised, equal to 125% of the target bonus.

On achieving the interim performance levels, the bonus value is calculated for the linear interpolation. The following graphs outline the bonus-performance link, in relation to the two types of indicators considered:

¹ With regards to the third assessment cycle (2019-2021), the objectives shall be defined by the end of May 2019. It is however expected that, in continuity with the second assignment cycle, the same indicators as those mentioned above shall be applied for the 2019-2021 third assignment cycle.



The performance levels are in line with that established by the Group's Industrial Plan.

The long-term incentive plan includes a claw-back clause which permits the recovery of amounts issued on the basis of manifestly erroneous or false data in the 5 years subsequent to issue.

In the case of a change of control, the long-term incentive plan establishes an accelerated bonus assignment, with *pro rata temporis* reduction and on the basis of the degree to which the objectives linked to the maturation of the bonus are achieved.

The value of the target bonus, with regards to the 2017-2019 cycle, is:

- for the Chief Executive Officer, 72% of the fixed remuneration;
- for the Senior Executives, 42% of the fixed remuneration.

This amount is higher than for subsequent cycles in order to strengthen the incentive at the beginning of the plan. The value of the target bonus, for the subsequent cycles (2018-2020), is:

- for the Chief Executive Officer, 54% of the fixed remuneration;
- for the Senior Executives, 32% of the fixed remuneration.

4. POLICY UPON BENEFITS ON CONCLUSION OF OFFICE

For the Chief Executive Officer alone, in the case of resolution of contract by the company or dismissal for just cause, the payment of an all-inclusive indemnity equal to 2/3 of the global remuneration is established². These values include any component concerning obligatory contractual provisions, which shall not be paid in the case of resolution of contract by the company or dismissal for just cause.

Similar agreements governing *ex-ante* the financial aspects in the case of conclusion of office, or with regards to any early resolution of contract initiated by the company or by the interested party, are not in place for Senior Executives.

The company in addition reserves the right to sign non-competition agreements involving specific roles requiring strategic knowledge, for whom this restriction is necessary in compliance with the statutory provisions and limitations. Currently, a non-competition agreement with the Chief Executive Officer and the General Manager is applicable.

5. INSURANCE, SOCIAL SECURITY AND PENSION COVERAGE

Directors are not assigned non-monetary benefits, except for insurance coverage for liability arising from the performance of their duties (D&O insurance coverage).

In addition, the Executive Directors and General Manager, in addition to the Senior Executives, are covered by a temporary one-year single premium constant capital life and total and permanent invalidity insurance contract for industrial company executives.

² The overall remuneration of the Chief Executive Officer is equal to a gross all-inclusive amount equal to 230% of the sum of annual fixed remuneration and of the variable bonus (usually calculated as 100% of the annual fixed remuneration).

SECTION II

PART 1

The first part of Section II of this Report provides an adequate outline of each of the items comprising the remuneration matured for FY 2018 by:

- (i) the members of the Board of Directors;
- (ii) the members of the Board of Statutory Auditors;
- (iii) the other Senior Executives (information provided at aggregate level).

On December 1, 2016, the Shareholders' Meeting of Avio approved fixed remuneration in favour of the Board of Directors (Euro 500,000.00 annually) and the Board of Statutory Auditors (Euro 50,000.00 for the Chairman and Euro 35,000.00 for each statutory auditor), who will remain in office for the three years from the year in which the Merger becomes effective.

The Board of Directors of April 10, 2017 decided to recognise to each Director, with the exception of the sole Executive Director (the Chief Executive Officer), gross annual remuneration of Euro 35,000.00, while proposing to recognise gross annual remuneration of Euro 120,000.00 to the Chairman of the Board of Directors.

On April 10, 2017, the Board of Directors in addition approved the remuneration of the Control, Risks and Sustainability Committee, of the Appointments and Remuneration Committee and of the Strategic Activities Committee, while on September 13, 2017 the remuneration of the members of the Investments Committee.

As of the date of this Report reversibility agreements are in place for the remuneration of some Directors. Specifically:

- Mr. Roberto Italia, Chairman of the Board of Directors of Avio S.p.A., and the company Space Holding S.r.l. signed a reversibility agreement, under which the remuneration matured for the office held by him is paid to the company Space Holding S.r.l..
- Mr. Stefano Ratti - member (i) of the Board of Directors; (ii) of the Appointments and Remuneration Committee and (iii) of the Strategic Activities Committee of Avio S.p.A. - and the company Leonardo Finmeccanica S.p.A. signed a reversibility agreement, under which the remuneration matured for the offices held by him is paid to the company Leonardo Finmeccanica S.p.A.;
- Mr. Luigi Pasquali - member (i) of the Board of Directors and Chairman of the Investment Committees of Avio S.p.A. - and the company Leonardo Finmeccanica S.p.A. signed a reversibility agreement, under which the remuneration matured for the offices held by him is paid to the company Leonardo Finmeccanica S.p.A..

For the three-year period 2017-2019, the only Executive Director (i.e. the Chief Executive Officer) will not receive any additional remuneration for the positions taken on the Board of Directors and its internal Committees, as already receiving remuneration for the position of General Manager.

Finally, the Board of Directors of the company in 2017 identified, further to the Executive Director of the company, an additional 4 Senior Executives.

1. Items comprising 2018 remuneration

Members of the Board of Directors

- Roberto Italia (Chairman): (i) reversed the remuneration for the position to the company Space Holding S.r.l..

- Giulio Ranzo (Chief Executive Officer and General Manager): (i) fixed remuneration as executive of the company; (ii) variable remuneration for 2017 - for the company objectives on which the annual bonus is based the maximum performance level was achieved; (iii) non-monetary benefit. In addition, Giulio Ranzo is covered by a non-competition agreement which establishes, against a restriction lasting 12 months from resolution of contract, the payment of 50% of the fixed remuneration. In the case of resolution of contract by the company or dismissal for just cause, the payment of an all-inclusive indemnity equal to 2.3 of the global remuneration is also established. These values include any component concerning obligatory contractual provisions, which shall not be paid in the case of resolution of contract by the company or dismissal for just cause.
- Luigi Pasquali (Director): reversed (i) the fixed remuneration as director and (ii) the remuneration as Chairman of the Investments Committee of Avio S.p.A. to the company Leonardo Finmeccanica S.p.A.;
- Vittorio Rabajoli (Director): (i) fixed remuneration as Avio director; (ii) remuneration as member of the Control, Risks and Sustainability Committee; (iii) remuneration as Chairman of the Board of Directors of an Avio subsidiary; (iv) remuneration for consultancy in favour of the company (“other remuneration”);
- Stefano Ratti (Director): reversed (i) the fixed remuneration as director; (ii) the remuneration as member of the Appointments and Remuneration Committee; and (iii) the remuneration as member of the Strategic Activities Committee of Avio S.p.A. to the company Leonardo Finmeccanica S.p.A.;
- Monica Auteri (Director): (i) fixed remuneration as Avio director; (ii) remuneration as Chairman of the Risks Control and Sustainability Committee;
- Maria Rosaria Bonifacio (Director): (i) fixed remuneration as Avio director; (ii) remuneration as member of Appointments and Remuneration Committee;
- Donatella Sciuto (Director): (i) fixed remuneration as Avio director; (ii) remuneration as member of Control, Risks and Sustainability Committee; (iii) remuneration as member of Strategic Activities Committee;
- Giovanni Gorno Tempini (Director): (i) fixed remuneration as Avio director; (ii) remuneration as Chairman of Appointments and Remuneration Committee; (iii) remuneration as member of Investments Committee;

Members of the Board of Statutory Auditors

- Riccardo Bauer (Chairman): remuneration as Statutory Auditor of Avio, set by the Shareholders’ Meeting on appointment;
- Claudia Mezzabotta (Statutory Auditor): remuneration as Statutory Auditor of Avio, set by the Shareholders’ Meeting on appointment;
- Maurizio Salom (Statutory Auditor): remuneration as Statutory Auditor of Avio, set by the Shareholders’ Meeting on appointment.

Other Senior Executives

- 4 Company Senior Executives: (i) fixed remuneration as executives; (ii) variable remuneration for 2017 - the amount of the bonus to be issued for 2017 had not yet been finalised at the Report publication date; in 2018 an exceptional bonus was issued to one of the Executives in view of a particularly worthy performance which produced tangible results for the company; (iii) other non-monetary benefits.

* * *

The remuneration policy in 2018, as verified by the Appointments and Remuneration Committee through the periodic assessment under the Self-Governance Code, was implemented in line with the general standards approved by the Board of Directors and shared by the Appointments and Remuneration Committee.

PART 2 - TABLES

TABLE 1: REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT AUDIT COMMITTEE, GENERAL MANAGERS AND SENIOR MANAGEMENT

(A)	Description of office			Remuneration								
	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name	Office	Period of office	Concl. of office	Fixed Remuneration €	Remuneration for committee participation €	Non-equity variable remuneration €		Non-monetary benefits €	Other remuneration €	Total (*) €	Fair Value of equity remuneration €	Post-employment benefits €
						Bonuses and other incentives	Profit sharing					
Remuneration at AVIO S.p.A.												
Roberto Italia	Chairman	1/1/2018 - 31/12/2018	Approval 2019 Accounts	(1) 120,000	0							
Giulio Ranzo	CEO and General Manager	1/1/2018 - 31/12/2018	Approval 2019 Accounts	(ii) 448,000		(H) 400,000		(I) 13.777		861,777		
Luigi Pasquali	Director	1/1/2018 - 31/12/2018	Approval 2019 Accounts	(i) (2) 35.000	(f) (3) 15.000					50,000		
Vittorio Rabajoli	Director	1/1/2018 - 31/12/2018	Approval 2019 Accounts	(i) 35,000	(d) 10,000					45,000		
Stefano Ratti	Director	1/1/2018 - 31/12/2018	Approval 2019 Accounts	(i) (4) 35.000	(b) (5) 10.000 (e) (6) 10.000					55,000		

Monica Auteri	Director	1/1/2018 - 31/12/2018	Approval 2019 Accounts	(i) 35,000	(c) 15,000					50,000		
Maria Rosaria Bonifacio	Director	1/1/2018 - 31/12/2018	Approval 2019 Accounts	(i) 35,000	(b) 10,000					45,000		
Donatella Sciuto	Director	1/1/2018 - 31/12/2018	Approval 2019 Accounts	(i) 35,000	(d) 10,000 (e) 10,000					55,000		
Giovanni Gorno Tempini	Director	1/1/2018 - 31/12/2018	Approval 2019 Accounts	(i) 35,000	(a) 15,000 (g) 10,000					60,000		
Remuneration at subsidiaries & associates												
Vittorio Rabajoli				(m) 103,521				(n) 2,741		106,262		
Total												
Vittorio Rabajoli										151,262		

(* *) Column (6) "Total" aggregates accounts (1) to (5).

KEY

FIXED REMUNERATION

(i) Emoluments within the remit of the Shareholders' Meeting.

(ii) Fixed employee remuneration (gross of tax and social security charges borne by employee, excluding employer social security charges) for the period considered; the fixed annual remuneration of the Chief Executive Officer is Euro 400,000, in addition to an accommodation indemnity of Euro 48,000/year.

REMUNERATION FOR COMMITTEE PARTICIPATION

(a) As Chairman of the Appointments and Remuneration Committee.

(b) As member of the Appointments and Remuneration Committee.

(c) As Chairman of the Control, Risks and Sustainability Committee.

(d) As member of the Control, Risks and Sustainability Committee.

(e) As member of the Strategic Activities Committee.

(f) As Chairman of the Investments Committee.

(g) As member of the Investments Committee.

NON-EQUITY VARIABLE REMUNERATION

(H) annual bonus value for the period considered (2018 short-term incentive plan)

NON-MONETARY BENEFITS

(l) Car benefit, life and invalidity insurance

(n) Company cars

OTHER REMUNERATION

(m) For the position of Chairman of the Board of Directors of Spacelab for the period from 1/1/2018 to 8/5/2018 and for a consultancy contract with the company for the period from 1/5/2018 to 31/12/2018 for consultancy activities.

FURTHER INFORMATION

(1) remuneration reversed to the company Space Holding S.r.l.

(2) remuneration reversed to the company Leonardo Finmeccanica S.p.A

(3) remuneration reversed to the company Leonardo Finmeccanica S.p.A

(4) remuneration reversed to the company Leonardo Finmeccanica S.p.A

(5) remuneration reversed to the company Leonardo Finmeccanica S.p.A

(6) remuneration reversed to the company Leonardo Finmeccanica S.p.A

Board of Statutory Auditors	Description of office			Remuneration									
	(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
	Name	Office	Period of office	Concl. of office	Fixed Remuneration €	Remuneration for committee participation €	Non-equity variable remuneration €	Bonuses and other incentives	Profit sharing	Non-monetary benefits €	Other remuneration €	Total €	Fair Value of equity remuneration €
Remuneration at AVIO S.p.A.													
Riccardo Raul Bauer	Chairperson	1/1/2018 - 31/12/2018	Approval 2019 Accounts	50,000							50,000		
Claudia Mezzabotta	Standing Auditor	1/1/2018 - 31/12/2018	Approval 2019 Accounts	35,000							35,000		
Maurizio Salom	Standing Auditor	1/1/2018 - 31/12/2018	Approval 2019 Accounts	35,000							35,000		
Remuneration at Subsidiaries & associates													
Maurizio Salom				(m) 4,068							4,068		
Total													
Maurizio Salom											39,068		

(m) For the position of Statutory Auditor of Spacelab for the period between 1/1/2018 and 9/4/2018

Other Senior Executives	Fees								
(A)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
	Fixed Remuneration €	Remuneration for committee participation €	Non-equity variable remuneration €		Non- monetary benefits €	Other remunerati on €	Total (**) €	Fair Value of equity remuneration €	Post- employment benefits €
			Bonuses and other incentive s	Profit sharing					
4 Senior Executives (*)	(ii) 591,486		(H) 65,000		(I) 39,659		696,145		

(*) At December 31, 2018, further to the Chief Executive Officer and General Manager, an additional 4 Senior Executive employees of the company and no other senior executives of the subsidiaries were in office.

(***) Column (6) "Total" aggregates accounts (1) to (5).

KEY

FIXED REMUNERATION

(ii) Fixed employee remuneration (gross of tax and social security charges borne by employee, excluding employer social security charges) with regard to 1/1/2018 – 31/12/2018 period.

NON-EQUITY VARIABLE REMUNERATION

(H) the amount of the bonus related to the annual incentive system to be issued in relation to the pre-set objectives for 2018 has not yet been finalised at the publication date of this Report; the value indicated refers to an exceptional bonus issued for particularly worthy performances which produce tangible results from an economic viewpoint for the company, issued to one of the Senior Executives

NON-MONETARY BENEFITS

(I) Car benefit, life and invalidity insurance

MONETARY INCENTIVE FOR DIRECTORS, GENERAL MANAGERS AND OTHER SENIOR EXECUTIVES

Board of Directors									
(A)	(B)	(1)	(2)			(3)			(4)
Name	Office held at 31 December 2018	Incentive plans	2018 Bonus			Prior year bonuses			Other Bonuses
			(A)	(B)	(C)	(A)	(B)	(C)	
			Issuable/Issued	Deferred	Period of deferment	No longer issuable	Issuable/Issued	Still deferred	
Remuneration at AVIO S.p.A.									
Giulio Ranzo	CEO and General Manager	Short-term variable incentive plan	400,000						
		Long-term variable incentive plan		216,000	1/1/2018-31/12/2020			288,000	

Other Senior Executives								
Name	Plan	2018 Bonus			Prior year bonuses			Other Bonuses
		(A)	(B)	(C)	(A)	(B)	(C)	
		Issuable/Issued	Deferred	Period of deferment	No longer issuable	Issuable/Issued	Still deferred	
Remuneration at AVIO S.p.A.								
4 Senior Executives (*)	Short-term variable incentive plan	(H)						65,000
	Long-term variable incentive plan		185,789	1/1/2018-31/12/2020			247,719	

(*) At December 31, 2018, further to the Chief Executive Officer and General Manager, an additional 4 Senior Executive employees of the company and no other senior executives of the subsidiaries were in office.

(H) the amount of the bonus to be issued in relation to the pre-set objectives for 2018 has not yet been finalised at the publication date of this Report.

TABLE 4: HOLDINGS OF DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS AND OTHER SENIOR EXECUTIVES

Board of Directors	Office	Investee Avio/Subsidiaries	Number of shares held at 31.12.2017	No. of shares acquired in 2018	No. of shares sold in 2018	Number of shares held at 31.12.2018
Roberto Italia	Chairperson	-	-	-	-	-
Giulio Ranzo	CEO and General Manager	-	-	-	-	-
Luigi Pasquali	Director	-	-	-	-	-
Vittorio Rabajoli	Director	-	-	-	-	-
Stefano Ratti	Director	-	-	-	-	-
Monica Auteri	Director	-	-	-	-	-
Maria Rosaria Bonifacio	Director	-	-	-	-	-
Donatella Sciuto	Director	-	-	-	-	-
Giovanni Gorno Tempini	Director	-	-	-	-	-

Board of Statutory Auditors	Office	Investee Avio/Subsidiaries	Number of shares held at 31.12.2017	No. of shares acquired in 2018	No. of shares sold in 2018	Number of shares held at 31.12.2018
Riccardo Raul Bauer	Chairperson	-	-	-	-	-
Claudia Mezzabotta	Standing Auditor	-	-	-	-	-
Maurizio Salom	Standing Auditor	-	-	-	-	-

Other Senior Executives	Investee Avio/Subsidiaries	Number of shares held at 31.12.2017	No. of shares acquired in 2018	No. of shares sold in 2018	Number of shares held at 31.12.2018
4 Senior Executives (*)	-	-	-	-	-

(*) At December 31, 2018, further to the Chief Executive Officer and General Manager, an additional 4 Senior Executive employees of the company and no other senior executives of the subsidiaries were in office.